

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Indonesia	Project Title:	Fiscal and Public Expenditure Management Program, Subprogram 2
Lending/Financing Modality:	Policy-based loan	Department/ Division:	Southeast Asia Department Public Management, Financial Sector, and Trade Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Poverty targeting: General intervention

A. Links to the National Poverty Reduction and Inclusive Growth Strategy and Country Partnership Strategy

The National Medium-Term Development Plan (RPJMN), 2015–2019 of the Government of Indonesia aims to attain economic growth of 6%–8% annually, and to reduce the poverty rate to 7%–8% by 2019. In addition, to foster inclusive growth, the RPJMN seeks to reduce its Gini coefficient, and increase the share of the population with access to health insurance and social security programs. The RPJMN also seeks to improve education attainment, literacy levels, access to electricity and sanitation, and access to finance. A key focus of the RPJMN is infrastructure development, for which the government proposes to spend an estimated \$430 billion, or 9% of gross domestic product, per year. The RPJMN education reform program is also extensive, including the introduction of a compulsory 12-year education program to improve basic education quality. To achieve its economic growth and poverty reduction targets, the government needs to improve public expenditure management and public service delivery, while expanding spending on education, infrastructure, health, and social protection. The country partnership strategy (CPS) for Indonesia, 2016–2019 of the Asian Development Bank (ADB) is closely aligned with the RPJMN.^a The CPS goal is to assist Indonesia in reducing poverty by supporting inclusive and environmentally sustainable growth. ADB resources will be used primarily for (i) accelerating infrastructure development, (ii) enhancing human resource development, and (iii) developing inclusive growth policies. Lending for energy infrastructure, rural infrastructure, education, and inclusive growth policies accounts for 90% of the proposed lending program. The CPS strategy focuses on countrywide reforms, and the design and funding of large strategic government programs that will have a transformative effect on the economy. The proposed program is an overarching intervention that is fully aligned with the RPJMN and the CPS. It aims to boost critical public spending while supporting public expenditure management and service delivery—all of which are designed to make growth more inclusive, in line with Sustainable Development Goal (SDG) 4 (quality education), SDG 3 (good health and well-being), SDG 8 (decent work and economic growth), and SDG 10 (reduced inequalities).

B. Results from the Poverty and Social Analysis during Project Preparatory Technical Assistance or Due Diligence

1. **Key poverty and social issues.** Indonesia's economic growth is expected to grow to 5.3% in 2018 compared to an average of 5.0% from 2015–2017, as investment and external trade strengthened while private consumption remained robust. During 2016 and 2017, the government unveiled a series of 16 economic policy packages aiming to boost investment and budget reforms to improve government spending efficiency. This has resulted in an increase in foreign and domestic direct investment, and coincides with the expansion of employment, reduction of unemployment, and improvements in some social indicators. Both poverty and inequality have been declining, albeit at a moderate pace. Inequality, as measured through the Gini ratio, reached 0.391 in September 2017, while 10.1% of the population fell below the national poverty line. Output 1 of the program seeks to align medium-term expenditure with the SDG targets. In line with this, the government has introduced several reforms to increase budget allocations for education, health, infrastructure, and social assistance. For example, the coverage of noncash social assistance programs (through the use of smart cards) increased to 1.4 million households in 2017 and the conditional cash transfer program is expected to increase to 10 million beneficiary families in 2018. The expansion of social assistance programs had a significant impact in reducing the Gini coefficient from 0.41 in 2014 to 0.39 in 2016. Further efforts, particularly those that target vulnerable groups such as youth and women, are needed to accelerate inequality reduction and lower the percentage of the population below the national poverty line below 10%.

2. **Beneficiaries.** Since the proposed program provides support for better-targeted spending on public infrastructure and the social sector, the direct beneficiaries include national and local governments. These actors face constraints associated with weak public expenditure management capacities and sustaining spending in critical areas. Monitoring and evaluation systems need strengthening. As such, the program performance indicators seek to increase the proportion of targeted national and subnational government's spending toward critical sectors. The indirect beneficiaries of the program include enterprises, workers, consumers, and poor and vulnerable households. All stakeholders face constraints from lack of investment in infrastructure and social services. Sustained investment in infrastructure will increase competitiveness and reduce logistics costs for enterprises, and spending on education will improve the quality of labor supply. Workers will benefit through infrastructure investments that support the expansion of productive employment, and through improvements to education access as well as social security and social assistance programs. Consumers will gain from greater domestic competition and sustained service delivery associated with reductions in logistics costs from infrastructure investments, as well as improvements in the supply

of health care and other social programs, and the coverage of people under these programs. Poor and vulnerable households will become more resilient to shocks as the government improves the efficiency of its social assistance programs.

3. **Impact channels.** By supporting better-targeted social sector and infrastructure spending, the economy should be able to overcome many of its infrastructure and human capital deficits and begin an upward growth trend. The program will help address many of the drivers of poverty and inequality in Indonesia through sustained infrastructure investments that will directly and indirectly create more productive jobs and support enterprise sustainability. Consumers and vulnerable households will benefit from reduced logistics costs and ensuing lower consumer prices, and through expanded and sustained access to social assistance and social security programs.

4. **Other social and poverty issues.** Not applicable.

5. **Design features.** The program contributes to poverty reduction and economic growth in the medium term by sustaining critical spending on infrastructure and the social sector. This will help create productive jobs and improve enterprise sustainability, while the efficiency of government spending and service delivery also improves.

C. Poverty Impact Analysis for Policy-Based Lending

1. **Impact channels of the policy reform(s).** The key impact channels that will be felt through direct measures among national and local governments are as follows: (i) stronger public expenditure management capacity through better monitoring and evaluation systems; and (ii) more reliability of spending allocated to critical areas, which will send positive signals to markets and support poverty reduction. The key impact channels that will be felt through indirect measures among enterprises, workers, consumers, and poor and vulnerable households are as follows: (i) more certainty in infrastructure and social spending that will support business sustainability, create employment, and improve access to services for consumers; (ii) greater economic competitiveness through investments in infrastructure; and (iii) improved human development thanks to sustained investments in education, health, and social assistance.

2. **Impacts of policy reform(s) on vulnerable groups.** No adverse impacts are expected.

3. **Systemic changes expected from policy reform(s).** The government has reformed its budget by reducing fuel subsidies and reallocating spending toward the social sector and infrastructure. The government has improved the coverage and targeting of social assistance programs by expanding the number of beneficiary households and using a database with information on the poorest 40% of the population. The government has also commenced reforms that will gradually reduce price subsidies for rice, using these savings to increase noncash social assistance programs that use smart cards. Community health care and family allocations have doubled between 2016 and 2018 and the government is targeting a reduction in the fertility rate from 2.36 in 2016 to 2.31 in 2018. A presidential regulation on the implementation of the SDGs provides a framework for moving forward planning, monitoring, and reporting on progress in the country. These measures support inequality reduction, with analysis showing that maintaining critical spending has contributed to the reduction of the Gini coefficient during the time period of this program (2015–2018).

II. PARTICIPATION AND EMPOWERING THE POOR

1. **Participatory approaches and project activities.** As part of the program preparation process, consultations were held with the government, and the program used the government's consultation and participation processes to engage with a wide range of stakeholders.

2. **Civil society organizations.** The program uses government processes to engage with a range of civil society stakeholders, such as the private sector, civil society, and other nongovernment organizations.

3. The following forms of civil society organization participation are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA): ☒ Information sharing (L) ☒ Consultation (L) ☐ Collaboration (NA) ☐ Partnership (NA).

4. **Participation plan.** ☐ Yes ☒ No: The program supports government consultation and participation processes.

III. GENDER AND DEVELOPMENT

Gender mainstreaming category: Subprogram 1 was categorized as having no gender elements. Subprogram 2 is categorized as effective gender mainstreaming and subprogram 3 will maintain this categorization. Efforts were made during subprogram 2 preparation to identify potential areas where positive impacts could be optimized for women. Output 1 of the program supports the government to adopt strategic policies to align budget planning with SDG targets and seeks to increase expenditures and improve targeting in critical social sectors. Three actions under output 1 have some gender features: (i) expanding the number of beneficiary households of the conditional cash transfer program from 3.5 million in 2016 to 10 million in 2018 and using a database with information on the poorest 40% of the population to better target the program, including targeting those with pregnant mothers, children aged 5 years and under, school-age children, the elderly, and persons with disabilities; (ii) doubling allocations for community health care and family planning from 2016 to 2018 and targeting a reduction in the fertility rate from 2.36 in 2016 to 2.31 in 2018; and (iii) commencing reforms to gradually reduce price subsidies for rice and using these savings to increase noncash social assistance programs that use smart cards.

A. Key issues. The key gender issues for the program include women's economic empowerment related to access to employment and access to services such as education, health, and social assistance. In terms of employment and education, the share of the female population with some secondary education is 39.9%, compared with 49.2%

for males. Women's labor force participation remained low at 50.9% against 82.5% for men in 2017, and one in four women work at home.^b Women are often in unpaid or low-paid occupations, and have precarious work arrangements and limited opportunities for re-skilling. Inadequate infrastructure is an important constraint on women's participation in the workforce. With many women working at home, there is a need for reliable household electrification and quality transport systems. Empowering women requires access to health care services and related social assistance. Indonesia has achieved the RPJMN target for maternal mortality ratio of 306 per 100,000 live births, but still faces significant challenges in meeting the SDG target of 70 per 100,000 live births.^c The main causes of maternal mortality are hypertension in pregnancy and postpartum bleeding, which can be minimized if the quality of antenatal care is improved. This is a significant concern for public health and national productivity. In supporting better public expenditure management and service delivery, and sustained medium-term spending growth in critical sectors—i.e., infrastructure, education, health, and social assistance—the program will help narrow gender disparities by improving access to opportunities and services that are essential women.

B. Key actions. The program focuses on public expenditure management and service delivery and includes some gender elements in output 1, but the overall program does not meet effective gender mainstreaming requirements.

☐ Gender action plan ☒ Other actions or measures ☐ No action or measure

IV. ADDRESSING SOCIAL SAFEGUARD ISSUES

A. Involuntary Resettlement

Safeguard Category: ☐ A ☐ B ☒ C ☐ FI

1. **Key impacts.** Based on an assessment of the proposed policy actions, the program will not entail involuntary land acquisition resulting in physical or economic displacement of people.

2. **Strategy to address the impacts.** Not applicable.

3. Plan or other Actions.

- | | |
|---------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Resettlement plan | <input type="checkbox"/> Combined resettlement and indigenous peoples plan |
| <input type="checkbox"/> Resettlement framework | <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework |
| <input type="checkbox"/> Environmental and social management system arrangement | <input type="checkbox"/> Social impact matrix |
| <input checked="" type="checkbox"/> No action | |

B. Indigenous Peoples

Safeguard Category: ☐ A ☐ B ☒ C ☐ FI

1. **Key impacts.** Based on an assessment of the proposed policy actions, the program will not impact indigenous peoples.

Is broad community support triggered? ☐ Yes ☒ No

2. **Strategy to address the impacts.** Not applicable.

3. Plan or other actions.

- | | |
|---------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Indigenous peoples plan | <input type="checkbox"/> Combined resettlement plan and indigenous peoples plan |
| <input type="checkbox"/> Indigenous peoples planning framework | <input type="checkbox"/> Combined resettlement framework and indigenous peoples planning framework |
| <input type="checkbox"/> Environmental and social management system arrangement | <input type="checkbox"/> Indigenous peoples plan elements integrated in project with a summary |
| <input type="checkbox"/> Social impact matrix | |
| <input checked="" type="checkbox"/> No action | |

V. ADDRESSING OTHER SOCIAL RISKS

A. Risks in the Labor Market

1. Relevance of the project for the country's or region's or sector's labor market, indicated as high (H), medium (M), and low or not significant (L): ☒ unemployment (L) ☒ underemployment (L) ☒ retrenchment (L) ☒ core labor standards (L)

2. **Labor market impact.** No such risks are envisaged.

B. Affordability

Not applicable.

C. Communicable Diseases and Other Social Risks

1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA): ☐ Communicable diseases (NA) ☐ Human trafficking (NA) ☐ Others (NA)

2. **Risks to people in project area.** Not applicable.

VI. MONITORING AND EVALUATION

1. **Targets and indicators.** Based on the design and monitoring framework.

2. **Required human resources.** The program team will be comprised of ADB staff, with no external consultants.

3. **Information in the project administration manual.** A project administration manual is not required for this program as no project is included.

4. **Monitoring tools.** Based on the design and monitoring framework.

^a ADB. 2016. *Country Partnership Strategy: Indonesia, 2016–2019*. Manila.

^b Statistics Indonesia. 2017. *Labor Force Situation in Indonesia*. Jakarta.

^c Statistics Indonesia. 2017. *Welfare Indicators*. Jakarta.