

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Indonesia	Project Title:	Inclusive Growth through Improved Connectivity Program, Subprogram 2
Lending/Financing Modality:	Program Based-Loan	Department/Division:	Southeast Asia Department/ Indonesia Resident Mission

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Targeting classification: general intervention

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

The National Medium-Term Development Plan, 2010–2014 focuses on reducing poverty through higher, sustainable, and inclusive economic growth; improving the quality of the public sector; fostering democratic development; and strengthening the rule of law. The plan aims to reduce the incidence of poverty from 14.1% in 2009 to 8%–10% in 2014. This hinges on three national priorities. The first is to create a sustained period of pro-poor growth by providing productive employment for the poor through a better business environment, budget support for infrastructure, and public investment in agriculture. The plan targets average economic growth of 6.3%–6.8% per annum, which would boost gross domestic product per capita from \$2,555 in 2010 to \$3,811 by the end of 2014.

The second priority is to break the cycle of poverty through affirmative action to (i) strengthen social services and social protection by expanding the national health security program (Jamkesmas), the conditional cash transfer program (Family Hope Program), and scholarships for the children from poor households; (ii) empower communities to escape from poverty by increasing support to the National Community Empowerment Program (PNPM Mandiri); and (iii) upgrade the capacity of micro, small, and medium-sized enterprises and cooperatives through an entrepreneurship and capacity-building program and by expanding the people-based Small Business Loan Program.

The third priority is to improve the effectiveness of poverty reduction programs through better coordination and targeting; upgrading of local capacity to undertake poverty reduction programs, especially in the provinces and districts with the highest incidence of poverty; and adjustments to fiscal policy instruments to support local governments' fight against poverty and their provision of community services.

The country poverty assessment and country partnership agreement consider macroeconomic stability to be fundamental to poverty reduction and call for expanding and improving such key basic services as health, education, and water supply and sanitation through public–private partnerships. They point to the need to expand the system of social protection. The country diagnostic study cites macroeconomic stability as prerequisite to poverty reduction and defines three critical constraints on inclusive growth: (i) inadequate and poor-quality infrastructure, (ii) weaknesses in governance and institutions, and (iii) unequal access to and poor quality of education.

The program supports the central government's measures to improve domestic and international connectivity anchored on enhanced coordination and regulation, which will help generate more and better jobs and contribute to sustainable poverty reduction.

B. Results from the Poverty and Social Analysis during PPTA or Due Diligence

1. Key poverty and social issues. Economic growth averaging about 6% since 2007 has helped lift 6.4 million people out of poverty. Yet 29 million Indonesians continue to live below the government's poverty line, and another 60 million would join them in the event of even a small reduction in their incomes. Of those employed, 60% work in the informal sector, where incomes are low. Further, income inequality as measured by the Gini coefficient has worsened from 0.35 in 2008 to 0.41 in 2012.

2. Beneficiaries. Reforms to improve domestic connectivity will help reduce poverty in the rural areas and in the eastern Indonesia. The national rural poverty rate of 14.3% is still much higher than the national urban poverty rate of 8.4%. Poverty rates in some provinces in eastern Indonesia are much higher than elsewhere in the country—e.g., 24.0% in Maluku and Papua. Alleviating the country's multidimensional poverty and income inequality will require not only accelerated economic growth but also a more inclusive growth process that provides rural areas and disadvantaged regions with greater economic opportunity.

3. Direct and indirect impact channels. Improving intransland connectivity between rural areas with regional growth poles will directly reduce rural poverty through lower transport costs and widen access to markets and services. Improving connectivity between the poorer eastern parts of Indonesia with markets in western areas through more efficient interisland transport systems will help reduce development gaps and poverty through increased domestic trade and larger economic opportunities in the eastern provinces. Finally, improving international connectivity to boost

the competitiveness of the country's tradable sector will help generate more productive jobs in the formal sector. Indirectly, these connectivity efforts are expected to have a key role in increasing access to and delivery of services, thereby enhancing economic productivity and social well-being, and reducing the overall poverty incidence

4. Other social and poverty issues. Poverty incidence is also caused by other factors such as lack of access to quality education and health services. These issues are addressed by separate government programs.

5. Design features. The program supports the central government's efforts to accelerate poverty reduction in rural and eastern Indonesia by implementing reform in four core areas: (i) strengthening national coordination and regulation on the connectivity agenda, (ii) improving intraisland connectivity, (iii) boosting interisland connectivity, and (iv) improving international connectivity.

C. Poverty Impact Analysis for Policy-Based Lending

Improving public infrastructure would make a significant contribution to reducing poverty and closing gaps in income inequality. Toward reducing poverty, better infrastructure, particularly for transportation and electricity generation, would support growth in manufacturing, which generates jobs in the formal sector. The performance of manufacturing has been lackluster since the late 1990s and started to improve only in the past 2 years. Toward closing income gaps, investment in infrastructure is also needed to reduce high poverty rates in rural areas, as development prospects are poor for rural areas that lack good connections with towns and markets. Finally, poverty in some eastern provinces is even higher in Maluku and Papua. The quality of access to shipping services partly explains the income gap within in the eastern part of Indonesia. The districts that have better access to shipping services tend to have higher per capita income. As a consequence, the progress in reducing poverty is mixed in the rural and eastern part of Indonesia. Weak infrastructure there hinders economic activity, the growth of employment, and access to services such as education and health care. Alleviating the country's multidimensional poverty and income inequality will require not only accelerated economic growth but also a more inclusive growth process that provides rural areas and disadvantaged regions with greater economic opportunity.

II. PARTICIPATION AND EMPOWERING THE POOR

1. Summarize the participatory approaches and the proposed project activities that strengthen inclusiveness and empowerment of the poor and vulnerable in project implementation. Accelerated economic growth alone is not enough to mitigate the country's multidimensional poverty; it will require growth that is more inclusive. In an archipelagic country like Indonesia, one key to making growth more inclusive is to connect growth centers with the rural and eastern areas where the poor reside. International experience suggests that inclusion is best achieved by developing economic links rather than by reducing economic concentration.

Infrastructure development within lagging regions will not in itself guarantee accelerated economic growth but will connect lagging regions to growth centers and so increase demand and promote agriculture, agro-processing, and labor-intensive manufacturing. In some areas, activities may eventually agglomerate, creating small growth poles in the lagging regions.

2. What forms of civil society organization participation is envisaged during project implementation?

- Information gathering and sharing Consultation Collaboration Partnership

3. Will a project level participation plan be prepared to strengthen participation of civil society as interest holders for affected persons particularly the poor and vulnerable?

- Yes. Describe key features, responsibilities and allocated resources No. The proposed program supports the government's consultation and participation process.

III. GENDER AND DEVELOPMENT

Gender mainstreaming category: no gender elements

A. Key issues. Not applicable

B. Key actions.

- 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. No impact

2. Strategy to address the impacts.

3. Plan or other Actions.

- Resettlement plan Combined resettlement and indigenous peoples plan
 Resettlement framework Combined resettlement framework and indigenous peoples planning framework
 Environmental and social management system arrangement Social impact matrix
 No action

B. Indigenous Peoples

Safeguard Category: A B C FI

1. Key impacts. No impact. Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
2. Strategy to address the impacts.
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. (L) <input type="checkbox"/> unemployment <input type="checkbox"/> underemployment <input type="checkbox"/> retrenchment <input type="checkbox"/> core labor standards
2. Labor market impact. The reforms supported under the Program will produce significant positive employment impact
B. Affordability Significant positive impact. Affordability for the poor should improve with better employment prospect generated by the program in in the rural areas and in the eastern part of Indonesia
C. Communicable Diseases and Other Social Risks
1. Indicate the respective risks, if any, and rate the impact as high (H), medium (M), low (L), or not applicable (NA): <input type="checkbox"/> Communicable diseases <input type="checkbox"/> Human trafficking <input checked="" type="checkbox"/> Others (please specify) NA
2. Describe the related risks of the project on people in project area. Not applicable
VI. MONITORING AND EVALUATION
1. Targets and indicators: not required for the proposed facility. 2. Required human resources: not required for the proposed facility. 3. Information in PAM: not required for the proposed facility. 4. Monitoring tools: not required for the proposed facility.