

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:	Republic of Indonesia	Project Title:	Additional Financing of State Accountability Revitalization Project
Lending/Financing Modality:	Loan	Department/Division:	Southeast Asia Department/ Indonesia Resident Mission

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 Government of Indonesia's National Medium-Term Development Plan (RPJMN), 2015–2019 aimed for economic growth of 6%–8% annually, and a reduction in the poverty rate to 7%–8% by 2019; actual growth was about 5% during 2015–2017 and 5.3% in 2018, and the actual poverty rate declined from 11.2% in 2015 to 9.8% in 2018.^a The RPJMN's focus on inclusive growth was expected to be reflected in an improved Gini coefficient (which improved from 0.397 in 2015 to 0.381 in 2017), and an increasing share of the population with access to health insurance and social security programs. A key focus of the RPJMN was infrastructure development, for which the government proposed to spend an estimated \$430 billion, or 9% of gross domestic product, per year. The RPJMN education reform program was also extensive, including the planned introduction of a compulsory 12-year education program to improve basic education quality. Improving public financial management (PFM) and public service delivery, and expanding spending on education, infrastructure, health, and social protection were seen as keys to achieving the ambitious growth and poverty reduction objectives. The RPJMN also sought to promote good governance, transparency, and accountability of government institutions.

The Asian Development Bank (ADB) country partnership strategy (CPS) for Indonesia, 2016–2019 was closely aligned with the RPJMN.^b The goal of the CPS was to help Indonesia reduce poverty by supporting inclusive and environmentally sustainable growth. ADB resources were to be used primarily for (i) accelerating infrastructure development, (ii) promoting better economic governance, and (iii) enhancing human resource development. The CPS strategy, which focused on countrywide reforms and the design and funding of large strategic government programs, was expected to have a transformative effect on the economy. The State Accountability Revitalization Project, including the proposed additional financing, is fully aligned with the RPJMN and the CPS. It aims to support public expenditure management and service delivery to make growth more inclusive.^c

The technocratic draft of the RPJMN, 2020–2024 proposes to promote growth with equity, with target growth ranging from 5.5% to 6.5% annually, and a reduced poverty rate ranging from 6.5% to 7%. The RPJMN, 2020–2024 envisions an independent, developed, fair, and prosperous Indonesian society.^d This vision aligns with ADB's proposed country partnership strategy, 2020–2024, which aims to (i) boost competitiveness of the economy, (ii) improve the well-being of Indonesians, and, (iii) strengthen resilience to safeguard developmental gains. Addressing governance issues, which include subnational level capacity, policy coordination, and regional cooperation and integration, will be essential for removing the impediments to inclusive and sustainable growth. The country operations business plan, 2019–2021 focuses on three interrelated priority areas to help achieve inclusive growth by (i) accelerating infrastructure and long-term investments, (ii) promoting local economic development, and (iii) investing in people.^e The additional financing will contribute to achieve the COBP focuses by enhancing PFM management and the capacity of PFM officials.

The additional financing will help the government improve the skills of its public internal auditors and finance officers, as well as establish improved financial management information systems, which together will improve accountability and transparency of public institutions nationwide for the delivery of public services. To achieve its economic growth and poverty reduction targets, it is essential that Indonesia strengthens its PFM system, as this plays a vital role in poverty reduction and inclusivity.

<p>B. Results from the Poverty and Social Analysis during Project Preparatory Technical Assistance or Due Diligence</p> <p>1. Key poverty and social issues. Both poverty and inequality have declined steadily in Indonesia, with the poverty rate declining to single digits (9.8%) for the first time in 2018. Inequality, as measured by the Gini coefficient, declined to 0.381 in 2017 (the most recent data), indicating steady progress toward the goals outlined in the RPJMN. However, poverty remains high for a lower-middle-income country, and reducing rural poverty and reversing high inequality remain key challenges.</p> <p>2. Beneficiaries. The direct beneficiaries will be public institutions at the central and local government levels and their internal auditors and finance officers (under the project, just over 40% of those participating in training, both degree and nondegree, have been women). This relatively small group of public servants plays a disproportionate role in budget preparation and execution, and in ensuring the PFM system delivers the results expected from it. One of the features of the project is that it is improving performance across Indonesia's decentralized system of government, thereby helping address regional disparities in poverty and improve access to, and the quality of, public services in poorly served areas. Indonesian people will ultimately benefit as public services improve as a result of improved PFM performance.</p> <p>3. Impact channels. The project has built the skills and competency of about 20,000 participant internal auditors and public finance officers to improve accountability for public service delivery across 80 ministries/departments at the central level, and for poverty reduction in all 34 provinces and 534 cities/regencies. Internal auditors are located in 668 inspectorates general and local Inspectorates. Building the capacity of Indonesia's decentralized system of government is a key feature of the project. A proportion of the additional financing will be directed to establishing a new-generation local government financial information system, which will improve data quality, timeliness of reporting, and ability to share data at the local government level. Ultimately, success will be determined by a greater proportion of public funds being expended for the purposes intended, and improved quality of public services.</p> <p>4. Other social and poverty issues. None.</p> <p>5. Design features. The project will have training and certification components to improve internal auditor and finance officer competency and job performance. The project will bring in innovation, particularly in support of the recently introduced e-government system, and it will introduce web-based financial management information systems, particularly for local governments, where multiple systems are currently in use that are neither standardized nor compatible with each other. Improved data sharing and aggregation are essential for timely and accurate reporting, which is the basis for the improved management of public finances.</p>
<p align="center">II. PARTICIPATION AND EMPOWERING THE POOR</p> <p>1. Participatory approaches and project activities. The immediate stakeholders are government institutions at the central and local levels. At the central level, the consultation process involved the National Development Planning Agency, the Ministry of Home Affairs, the Ministry of Finance, the Central Government Internal Auditor, universities, and inspectorates in provinces and districts. The main contribution of the project to inclusiveness is through its support to greater accountability for public expenditure and the results flowing from this by building the capacity of 628 inspectorates general and 328 local inspectorates.</p> <p>2. Civil society organizations. Not applicable.</p> <p>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):</p> <p><input type="checkbox"/> Information gathering and sharing NA Consultation <input type="checkbox"/> Collaboration <input type="checkbox"/> Partnership</p> <p>Transparency International, in addition to issuing the Corruption Perceptions Index country ranking, produces an assessment called the Global Corruption Barometer. This information is gathered by the project as a broader check on progress (it is not included in the design and monitoring framework, as movements in the level of corruption cannot be attributed directly to the project).</p> <p>4. Participation plan. <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No.</p> <p>The project will not include land acquisition, and there are no impacts on the environment and indigenous peoples; therefore, no direct civil society participation is envisaged. The project has established memorandums of understanding with eight leading universities conducting studies and delivering training for internal auditors and public finance officers.</p>
<p align="center">III. GENDER AND DEVELOPMENT</p> <p>Gender mainstreaming category: some gender elements</p> <p>A. Key issues. There are fewer female than male internal auditors in the country because of prior unequal access to education and training by women. On average during 2012–2019, female internal auditors have comprised only 40% of the total number of auditors nationwide.</p> <p>B. Key actions. <input type="checkbox"/> Gender action plan <input checked="" type="checkbox"/> Other actions or measures <input type="checkbox"/> No action or measure</p>

<p>The additional financing will provide numerous capacity building opportunities for central and local government civil servants. The current project targeted 30% participation by women in training. Under the additional financing, the target is 40% women participants in aggregate, given that the baseline for female internal auditors during 2012–2019 has averaged 40%. The overall project will include sex-disaggregated data in the monitoring and evaluation system to ensure the women representation target is achieved at project completion.</p>	
IV. ADDRESSING SOCIAL SAFEGUARD ISSUES	
A. Involuntary Resettlement	Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
<p>1. Key impacts. The project will have no direct impacts related to involuntary resettlement.</p> <p>2. Strategy to address the impacts. Not applicable.</p> <p>3. Plan or other actions. <input checked="" type="checkbox"/> No action</p>	
B. Indigenous Peoples	Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI
<p>1. Key impacts. The project will have no direct impacts related to indigenous peoples.</p> <p>Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Strategy to address the impacts. Not applicable</p> <p>3. Plan or other actions. <input checked="" type="checkbox"/> No action</p>	
V. ADDRESSING OTHER SOCIAL RISKS	
A. Risks in the Labor Market	<p>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).</p> <p><input type="checkbox"/> unemployment <input type="checkbox"/> underemployment <input type="checkbox"/> retrenchment <input type="checkbox"/> core labor standards</p> <p>2. Labor market impact. The project loan will have no direct impacts on the labor market.</p>
B. Affordability	<p>The project will have no direct impacts on the exclusion of the poor because of pricing issues.</p>
VI. MONITORING AND EVALUATION	
<p>1. Targets and indicators. The project does not have dedicated poverty reduction and inclusive social development targets and indicators.</p> <p>2. Required human resources. There will be no specific expert recruited for social and poverty reductions indicators as the project loan will not have a direct impact on social and poverty reduction aspects.</p> <p>3. Information in the project administration manual. The project administration manual details the project's procedures on monitoring, evaluation, reporting, and stakeholder communication. There are no specific monitoring and evaluation tools to be reflected in the project administration manual as the project does not have specific poverty reduction and inclusive social development target and indicators.</p> <p>4. Monitoring tools. Monitoring tools for poverty and social dimensions are not required as the project does not have specific poverty reduction and inclusive social development target and indicators.</p>	

^a Government of Indonesia, National Development Planning Agency. 2014. *National Medium-Term Development Plan, 2015–2019*. Jakarta.

^b ADB. 2016. *Country Partnership Strategy: Indonesia, 2016–2019—Towards a Higher, More Inclusive, and Sustainable Growth Path*. Manila.

^c Asian Development Bank (ADB). 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Indonesia for the State Accountability Revitalization Project*. Manila.

^d Government of Indonesia, National Development Planning Agency. 2019. *Technocratic Draft of the Medium-Term Development Plan, 2020–2024*. Jakarta.

^e ADB. 2019. *Country Operations Business Plan: Indonesia, 2019–2021*. Manila.

Source: ADB.