

Strategy for Support to Indonesia's National Program for Community Empowerment (PNPM)

Introduction and Overview of PNPM

1. This document presents a strategy for AusAID support to Indonesia's National Program for Community Empowerment ("PNPM"). Already reaching more than 60,000 rural and urban villages across Indonesia, PNPM is the largest community development program operating in Southeast Asia.
2. AusAID support to PNPM will provide a big push towards achieving the goals laid out by the Australian-Indonesia Partnership Country Strategy for 2008-2013. More than any other donor-assisted investment project, PNPM uses government budgetary mechanisms, albeit supplemented with a broad range of fiduciary controls and monitoring systems. PNPM also provides a major framework for improving Indonesia's performance on a number of MDG targets since it promotes demand-side pushes from poor communities and supply-side responses by health and education service providers affiliated with the program. Finally, PNPM already plays a key role in social stability across Indonesia through its ability to provide large-scale responses in post-disaster and post-conflict contexts and to provide a nationwide mechanism to transfer resources during economic shocks.
3. **Government Strategy** - Despite impressive macro-economic growth rates over the past several years, poverty remains high in Indonesia with 36 million people or 16.7 percent below the national poverty line (US\$1.55/day) and almost half the population (49 percent) below US\$2/day (2007). To accelerate the Government's efforts to reduce poverty and ensure equity and inclusiveness, on August 16, 2006 President Yudhoyono of Indonesia announced PNPM as the policy and operational umbrella for all community empowerment programs in the country.
4. PNPM builds upon the previous ten years of successful experience with the Kecamatan Development Program and Urban Poverty Program, previous block grant transfer programs that built economic infrastructure in poor communities. The Government expects that PNPM will be the 'umbrella' for all community empowerment activities at the village level, and per Bappenas' PNPM roadmap letter of January 9, 2008, the Government is currently exploring ways to harmonize interventions from some 60 community-based projects executed by 22 sectoral ministries as well as activities from non-governmental organizations.
5. PNPM is part of a broader government strategy to reduce poverty and mitigate impacts from economic crises. The strategy has been summarized in several Bappenas presentations and will be guiding the forthcoming Medium Term Expenditure Framework. Stated briefly, the government classifies three types of programs within its poverty framework. First are projects providing **individual benefits** such as the conditional cash transfer program, health cards, and schools scholarships. Second are

the **community empowerment programs**, such as PNPM and BOS-KITA. Third are **programs to provide credit** to community enterprises and SMEs. These safety net programs complement the macro-level growth agenda; as growth returns and stabilizes, the government will evaluate the current basket of programs to begin designing a stable long-term safety-net system.

6. PNPM carries with it a strong policy agenda intended to normalize PNPM within the government's routine administrative and budgeting system. Its main elements cover:
 - clarifications to the laws and regulations on kecamatan and village government;
 - aligning PNPM with the formal government planning process (*"musrenbang"*);
 - improvements to the fiduciary tools to supporting PNPM through the budget; and
 - clarification of the long-term revenue basis for the PNPM program.

PNPM's policy roadmap is clearly not for the short term; nevertheless several of the key actions are already well-advanced and the overall policy program is largely on track or even ahead of schedule.

7. ***Donor Support to PNPM*** - A PNPM Support Facility (PSF) was established in December 2007 with founding contributions from Australia, Denmark, and the Netherlands. Total contributions come to \$37 million. All activities funded through this support facility must be registered in Bappenas's blue books, which then record them in the budget. Approximately \$15 million in new contributions are being finalized now from UK's Department for International Development (DFID) and the European Community. JICA has also recently confirmed its interest in joining this facility, with a planned contribution of approx. US\$5.0 million.
8. The PNPM Support Facility is chaired by the Coordinating Minister for Social Welfare, who is also the chairperson for the Cabinet level interministerial team for poverty reduction (*"TKPK"*). Technical backup is provided by Bappenas, through the Deputy for Poverty Trust Fund, and the World Bank, which administers the trust fund and co-chairs (with Bappenas) the technical secretariat that provides coordination for poverty analysis and PNPM's high-level evaluations.
9. Under the PNPM Support Facility, all contributions to the multidonor trust fund are un-earmarked, and contributions do not allow for separate reports or accounting. Proposals to spend from the common pot must be approved by the management committee (AusAID is a member), which then creates individual child accounts that describe program goals, outputs, performance indicators, and budgets. All proposals must enter the government's project digest, which gets registered in the budget even if not all disbursements get released through the treasury system itself. More technical sub-proposals are discussed in sectoral working groups that are formed by the Bappenas

director for poverty. These technical working groups involve the sectoral agency, donors, and specialists.

10. Approximately 40% of PNPM's budget comes from multilateral loans. At present the World Bank lends approximately \$400 million/yr on IBRD terms; JICA supports a \$220 million multi-year loan program; IFAD is providing \$70 million in concessional finance; ADB provides approx. \$50 million and is planning to increase its contribution; and the Islamic Development Bank recently approved an \$80 million loan for the 2009-2010 period. All loans are executed by the government. However, the oversight committee for the loans is the same as the management group for the PSF.

Rationale for AusAID Support

11. The over-riding objective of AusAID support to PNPM is to identify critical areas within the program's architecture where additional assistance could improve Indonesia's ability to sustain project effectiveness. It will 1) reinforce the government's management systems for the national scale-up of PNPM so that the larger poverty program will succeed; and 2) promote the scale-up of two large pilot programs within PNPM that will reinforce and complement the block grant transfers that lie at the heart of the program for more effective poverty reduction.
12. AusAID's approach to PNPM is consistent with the recently approved Australia Indonesia Partnership Country Strategy (AIPCS) for FY2008-13, which emphasizes *engagements* with government counterparts and other stakeholders. This grant to PNPM supports both the overall approach suggested under the AIPCS as well as AIPCS themes of (i) inclusive growth; (ii) transparency and accountability in governance; (iii) MDG achievement; and (iv) sustainable resource management.
13. Support for PNPM fits in well with AusAID's overall engagement strategy for subnational governance reform. While a more detailed paper is being prepared, the general outline is already quite clear. Following Indonesia's "big bang" decentralization and the consolidation of competitive elections for provincial and district governments, strengthening core governance systems and promoting more transparent and effective financial management forms the first leg of AusAID's strategy. The second leg improves service delivery, particularly but not only by line agency suppliers and with a special emphasis on services that reduce poverty. By providing the means for articulating end-user demand and oversight for government development services, PNPM provides the country program with the third vehicle needed to complete the operational framework for the country strategy.
14. AusAID's AIPCS does not deal directly with safety nets because it was written prior to the onset of the global crisis, but an expansion of PNPM forms one of the two mainstays of the government's response to possible poverty fallouts from economic volatility (the other will be unconditional cash transfer programs to individuals).

15. Specific modalities for executing the AusAID contribution will be discussed in the detailed review of activities. Initially, the general principle is that the majority of AusAID grant funds will follow the rules and procedures of the PNPM Support Facility and be executed by the PSF itself. In later years a portion of the funds will be executed directly by GoI (community grants) with the remaining executed either by AusAID directly or through arrangements proposed by the PSF management committee.
16. ***PNPM's Objectives and Design*** - PNPM's overall objective is to reduce poverty by promoting community participation in development planning and management. The project uses a community-based approach to make productive investments in economic and social infrastructure. These objectives are being achieved through: (a) building community capacity for the formation and institutionalization of elected representative organizations that are accountable to communities; (b) provision of grants to communities directly and transparently to finance an open menu of poverty alleviation activities; and (c) enhancing the capacity of central government and local governments to partner with community organizations in service provision.¹
17. In addition to the core sub district planning and block grant scheme, PNPM-Rural includes five major operational pilots funded through loan and trust fund grants. All of the pilots build upon the main PNPM platform and principles of community participatory engagement. These include: (i) the PNPM Generasi community conditional transfer (CCT) pilot in 178 sub districts in five provinces across the country to achieve education and health outcomes; (ii) Green KDP to support natural resource management and micro-hydro initiatives; (iii) support for agricultural development initiatives (SADI) to provide technical assistance and financial resources for poor farmers; (iv) Papua RESPEK which supports Papua and West Papua's customized approach to adapting PNPM to the distinct conditions of those two provinces²; and (v) Creative Communities pilot in 30 sub districts aimed at cultivating a cultural approach to poverty reduction.
18. ***PNPM Performance to Date*** - Past KDP and PNPM-Rural projects have performed well, as confirmed by a broad range of supervision and evaluation reports. A full list of evaluation reports is attached at Annex 2. For the existing PNPM, almost all of the key performance targets are on track or exceeded, especially in terms of sub district coverage, participation rates, agreed work plan completions, and mobilization of consultants for the 2008 cycle. However, preparations for 2009 expansion are behind schedule, especially the procurement of technical assistance packages.
19. Concrete outcomes from the program thus far have been highly positive³:
- a) ***Poverty reduction***: A recent impact evaluation of KDP2 (PNPM's rural predecessor) showed that real per capita consumption gains were 11 percentage points higher among poor households in KDP areas compared with control areas.

¹ For an easily accessible summary of PNPM's design, see "PNPM in brief" World Bank, 2006.

² Aceh recently announced a similar and even larger adaptation for FY2009.

³ See Annex 2 for a list of the major evaluations.

Also, the proportion of households moving out of poverty in poor sub districts was 9.2 percent higher in KDP2 areas compared with controls. Vulnerable households near the poverty line were less at risk of falling into poverty as a result of KDP participation. An impact evaluation of KDP Phase 1 shows that KDP had a significant impact on rural household expenditure. Also, the longer a sub district received KDP, the greater the estimated impact on rural household expenditure.⁴

- b) **Employment generation:** KDP2 reduced unemployment by 1.5 percent in comparison with control areas. Some 72 million workdays have been created as of December 2007 from KDP/PNPM Rural.⁵
- c) **Physical economic infrastructure:** At the end of 2007, over 40,000 kms of roads, 10,500 clean water supply units, 11,000 irrigation schemes, 3,800 village health posts and 6,700 new schools have been built or rehabilitated, along with 23,000 other types of economically productive infrastructure since KDP1 began. Economic productive infrastructure built by KDP has resulted in new local businesses. Economic rates of return on sample infrastructure have ranged from 39 to 68 percent.⁶
- d) **Quality, cost-effective infrastructure:** Independent technical evaluations of infrastructure works have been ranked as good to very good. Also, village infrastructure built through KDP/PNPM methods costs significantly less – on average 56 percent less – than equivalent works built through government contracts.⁷
- e) **Participation rates:** Community participation is high. Participation of women in KDP/PNPM meetings range from 31 to 46 percent. Nearly 60 percent of those who attend KDP planning meetings are from the poorer sections of the community. The recent impact evaluation and gender review did find however, that PNPM could do much more to promote participation of women and vulnerable groups.⁸
- f) **Education and health benefits** – PNPM-Rural and its *Generasi* CCT pilot have led to greater enrollment and attendance rates at elementary and junior secondary levels; school facility improvements; and lessening of school costs for poor

⁴ See John Voss “Impact Evaluation of the Second Phase of the Kecamatan Development Program in Indonesia”, The World Bank, Jakarta, 2008.

⁵ See Gustav Papanek, “The Employment and Poverty Impact of PNPM” The World Bank, Jakarta, 2007.

⁶ See Ministry of Home Affairs, “Final Report: Evaluation of KDP Infrastructure, Cycle V” Ministry of Home Affairs, Jakarta, 2005; Anthony Torrens, “Economic Impact Analysis of KDP Infrastructure Programs”, Ministry of Home Affairs, Jakarta 2005.

⁷ Ibid, Torrens 2005; Geoffrey Dent, “Economic Review of KDP I”, The World Bank, Jakarta, 2002.

⁸ See Ministry of Home Affairs “Annual Reports”; K. McLaughlin et. al. Al “Qualitative Impact Evaluation of the Kecamatan Development Program,” The World Bank, Jakarta, 2007; The World Bank, “Gender in Community Driven Development Projects: Implications for the PNPM Strategy,” The World Bank, Jakarta, 2007.

families; for health, higher attendance at village and community health centers, nutritional feeding, and increased child and maternal healthcare.⁹

20. **Sustainability** - The Government has stated that it will continue PNPM until 2015. The current phase is the scale up to full national coverage of all 80,000 rural and urban villages by 2010. After the scale-up, PNPM moves into a sustaining mode, whereby local governments will take on greater responsibility for financing. Over time, smaller poverty reduction initiatives will be folded into PNPM in order to make programming at the community level more streamlined, coordinated, and responsive to community needs. The program will be supported through funds from the national and district level budgets, community contributions and other international donors.
21. **Project Implementation Arrangements** - The Coordinating Ministry of People's Welfare chairs the PNPM Program Policy Steering Committee (an inter-ministerial coordination committee), which consists of representatives from the Ministries of Public Works, Finance, Home Affairs, People's Welfare, Cooperation and Small Medium Enterprises, and Industry and Trade, etc. The Coordinating Ministry of People's Welfare also chairs the Government's National Poverty Reduction Coordination Committee.
22. PNPM's apex management group is an inter-ministerial team called the Tim Pengendali. In theory Tim Pengendali includes 11 core ministries, but in practice the active ministries are the Coordinating Ministry for Social Welfare and Poverty Reduction (Kesra), Bappenas, Home Affairs, Public Works, and Social Development. Menko Kesra provides overall policy guidance and keeps the cabinet briefed on PNPM's progress. Bappenas provides technical coordination: they prepare each year's budget submission, sign-off on foreign loans to PNPM, and they also coordinate technical relationships between PNPM and relevant line agencies such as health, education, public works, and so on.
23. Operational project oversight is the responsibility of the Ministry of Home Affairs (rural) or the ministry of Public Works (urban). Day-to-day coordination is undertaken by a Project Management Unit (PMU) inside the line agency, assisted by administrative units (Satker) with budget authority who sit at the central, provincial, and local government levels.
24. **Fiduciary Oversight** – Indonesia is a high risk fiduciary environment, with generally weak fiduciary oversight. PNPM's fiduciary structure has been the subject of several World Bank appraisals, evaluations, and specialized analyses. Their findings are reflected in programs to strengthen PNPM's oversight capacity through both internal reforms and by involving external oversight. The Bank's overall assessment is that fiduciary performance has been good; the project was highlighted by the World Bank in its 2008 fiduciary and governance week in Washington. Independent audits by Ernst

⁹ Ministry of Home Affairs, "Kecamatan Development Program Phase 2 Results," Ministry of Home Affairs, Jakarta 2006; Results from the *Generasi* Pilot are in draft and will be available by June, 2009.

and Young, Price Waterhouse, and Moores Rowland reinforce the World Bank's generally positive findings.

25. PNPM was the World Bank's first program to design an anti-corruption action program, which in current appraisal reports is called the "Better Governance Action Program." The approach highlights external oversight, a publicly accessible complaints database and tracking system, and an agreed system for imposing sanctions. As of 2008, the complaints database recorded a total of approximately US\$2.0 million in missing funds, which amounts to less than 1% of the total funds disbursed over the same period. Approximately 40% of the missing funds have been returned or adjudicated; other cases are still ongoing.
26. ***Environmental and Social Impacts*** - A 2006 operational review of 200 subprojects in KDP (PNPM's predecessor) found no significant unresolved environmental, social or other safeguard problems. The Project Operational Manual defines the guidelines and procedures for addressing social and environmental safeguards in project activities. AusAID and World Bank supervision missions have identified site-specific violations of these guidelines, but their causes have almost always been caused by gaps in oversight staffing or failure to supervise.¹⁰
27. **Gender** – PNPM has benefited over the years from a strong affirmative action program for women. Specific activities have included special training programs to promote women's participation; a reserved, funded, planning channel for women's groups; operational requirements for women's participation in planning and decision-making; and various evaluations and assessments of the effectiveness of PNPM's gender programs. Not surprisingly, these have varied in their efficacy, with high variance across Indonesia's culturally diverse regions. A multidonor review of Indonesian community development programs scored PNPM positively – it ranked second in the review – and recommendations from that review are now being incorporated into the gender action plan for PNPM's 2009 cycle.

Operational Challenges for PNPM

28. In addition to the higher-level policy reform agenda discussed previously, PNPM's scale-up and sustainability will require overcoming a number of managerial challenges, some of which have hobbled the program previously and others that will emerge as the program scales up to nationwide coverage¹¹. To keep the discussion succinct, this summary will concentrate on the management and technical issues most closely tied to the AusAID support being proposed here:

- i. Strategic Management of PNPM – "Tim Pengendali" – the apex management committee that includes Menko Kesra and Bappenas –

¹⁰ See *Ibid*, Ministry of Home Affairs 2005; World Bank, Staff Appraisal Report for "National Program for Community Empowerment in Rural Areas", Washington, D.C. 2008 (Annex 10).

¹¹ See, World Bank "Appraisal Summary for the Third Kecamatan Development Project Additional Financing." *Memo*, December 12, 2006.

has good leadership but it is badly understaffed and unable to provide much leverage on line agencies outside the immediate PNPM umbrella.

- ii. Monitoring and Evaluation—M&E capacities have slowly improved over time and there's a broad recognition within the PNPM management groups that much more effective program monitoring is needed at all levels of the system. At present, most evaluation is being carried out by the World Bank team within the technical secretariat.¹²
- iii. Line Agency Management Capacity—All three of the main line agencies that execute PNPM have severe limitations, although each agency is deficient in its own way. The Ministry of Home Affairs, which executes some 65% of PNPM, is constrained primarily by fractured lines of authority within the ministry that lead to long delays in budgets, procurement, and training. Public Works is more familiar with large scale program management, but it has bigger problems of quality control and it also cannot implement the policy reforms to planning regulations that Home Affairs can. KPDT (the ministry for "backward areas") is highly politicized and the least effective agency of all.
- iv. Quality of Implementation - PNPM rises or falls on the quality of the consultant facilitators brought into the project. PNPM's technical training program has improved substantially over time, with some of the biggest improvements recorded in some of the poorest areas, such as Papua. However, training for the social facilitators and for village government is not well thought through or executed. Internal reporting and information management have also been recurrent problems and without a corrective action program in place, these can be expected to worsen as the program gets larger.
- v. Long-term sustainability – PNPM's long-term sustainability will come from two sources; (a) links into local government budgeting; and (b) better linkages between community planning and line agency service deliver. Progress on both (they are linked) is moving slowly. Village level planning procedures ("*musrenbang*") are not well linked into district budget decision making and overall line agency service quality oversight is seriously deficient.

29. Technical reviews of PNPM have highlighted several areas where PNPM's poverty effectiveness could be improved either through better designs or through improvements to implementation oversight:

¹² See S. Wong, "Indonesia's Kecamatan Development Project: Building a Monitoring and Evaluation System for a Large-Scale Community Development Program," Washington D.C.: The World Bank: 2003.

- vi. Poverty targeting – In general, PNPM does a good job on spatial targeting but it does not deal with intra-village poverty (i.e. female-headed households or landless groups). PNPM facilitator training and procedures do not do a good job at filling in the gaps. PNPM in the past has sponsored a variety of substantial pilot programs to overcome these challenges, such as the 9 province program for poor female-headed households and the community-based cash transfer program, but systemic solutions are still hard to pin down.¹³
- vii. Gender – A 2007 multidonor gender review of community development programs found that PNPM did an acceptable job on promoting gender inclusiveness but there was considerable scope for improvement.¹⁴ The action plan from that review is being implemented but quality is mixed, partly because of delays in recruiting the appropriate expertise.
- viii. Productive investment – PNPM initially allowed for revolving funds but repayment rates were below sustainability. This was partially due to a flawed design but also because the program was started at the height of the East Asian crisis, when interest rates passed 100%. Nevertheless, reviews by GTZ, WB, MICRA and other specialists have documented failures in providing financial services to poor people. A successful program run on sound principles for microfinance would allow many more people to take advantage of the economic opportunities created by PNPM investments.
- ix. Supply-demand linkages – Although PNPM can build highly cost-effective infrastructure, the corresponding line agency delivery of technical supplies remains inadequate. This is particularly true for health and education. PNPM schools and clinics cost half or less than the infrastructure built by the education and health ministries, but PNPM alone cannot provide the teachers, nurses, or medicines needed to maintain them. Several programs are trying to improve this linkage but inter-agency coordination on the whole is not very good.
- x. Fiduciary and technical oversight – PNPM has a robust anti-corruption action plan. Nevertheless, most of the structural institutions that

¹³ See Alatas, V. “Targeting in the Kecamatan Development Project,” unpublished study, The World Bank 2006. Ongoing studies managed by Bappenas, GOI, and MIT are testing PNPM’s community based targeting versus traditional proxy means test using randomized evaluation mechanisms. For reviews of the programs for female-headed households, see their website at www.pekka.org.

¹⁴ See *Ibid*, “Gender Review and PNPM Strategy Formulation” The World Bank. PNPM and its predecessor KDP have maintained a strong focus on gender; see, for example, E. Hasanah et. al. al. al. “Enhancing Women’s Participation: Learning from Field Experience” and the program’s various training modules. Interestingly, a quantitative review of whether increasing the number of women facilitators would improve the quality of participation by poor women found little difference. See S. Wong, “Do Women Make Any Difference,” *unpublished review*, Ministry of Home Affairs, Jakarta, 2002.

promote accountability such as an effective justice sector, local government audit systems, and representative NGOs, are largely missing or inaccessible to poor villages. Quantitative estimates of loss ratios from all sources range from about 2.5% to 21%. To date, efforts to use formal mechanisms to recover missing funds such as the courts, have had mixed results at best; the project continues to rely primarily on project specific oversight and follow-up.

AusAID Strategy for Support to PNPM

30. ***Current AusAID Support to PNPM*** - AusAID currently provides A\$6.5 million in direct support to PNPM through the PNPM Support Facility (PSF). These funds have been assigned to programs that promote better coastal community fisheries management, micro-hydro development, training for PNPM's engineers, and the new "Dialogue" program for local governments. AusAID has also just recently approved A\$ 2.5m for technical assistance to the Team Pengendali. This supports sub program one of the strategy to strengthen overall management of PNPM.
31. AusAID is also supporting a number of programs that either provide indirect support or could constructively join the PNPM program in one capacity or another. AusAID is a key supporter of the Papuan US\$ 55 million/yr. **Respek** program, which is a localized adaptation of PNPM for Papua and Papua Barat using autonomy funds for the block grants but PNPM core funds for the technical support systems. (Aceh's provincial government is also intending to provide approx. US\$100 million/yr. to a PNPM variant under similar arrangements).
32. **SADI's** Subprogram 3 links PNPM's community-based planning system to better agricultural technology and improved marketing. The **Justice for the Poor** program often works closely with PNPM to pilot access to justice and local dispute resolution initiatives. **ANTARA** cooperates closely with PNPM on issues such as migrant workers, widows, and gender awareness. The Multidonor gender review suggested that **ACCESS** could constructively improve PNPM's cooperation with civil society and overall approach to governance. Discussions are also underway with AusAID programs in **rural development** and **water supply and sanitation** to expand the scope reached by AusAID-financed sectoral programs by using the PNPM infrastructure and delivery systems.
33. A strategic approach to link our support at the district level through existing or planned activities (including initiatives supporting service delivery and local governance) to PNPM will be developed.
34. ***Proposed Scale-Up of AusAID Support to PNPM*** – AusAID's Country Strategy provides an overall commitment to scaling up Australia's engagement with PNPM. This plan considers three organizing questions for designing an expanded support program. First, within the overall framework of government and donor support to PNPM, what are the top priorities where additional assistance is needed? Second,

among those priorities, what are the domains where AusAID has an identifiable comparative advantage? Third, the proposal assesses options for delivery: through the World Bank-managed trust fund; directly executed by AusAID; or through co-financing of PNPM activities.

35. This strategy provides a unified contribution (totaling A\$ 215m over five years) to PNPM where support will be divided flexibly among several areas where additional grant assistance would strengthen the overall program. Discussions with key stakeholders in PNPM as well as a review of PNPM supervision and evaluation reports identifies five broad areas where a large-scale, sustained AusAID contribution could significantly improve PNPM's performance. These areas include:

- i) **Strengthening Program Management** – The scale, complexity, and accelerated scale-up of PNPM pose severe challenges to the government's management capacities, particularly given Indonesia's overall environment of high fiduciary risk. Over time, PNPM must efficiently coordinate and oversee not just PNPM's core block grant transfer programs, but also line agency and local government delivery.

The government's inter-ministerial steering committee ("*Tim Pengendali*") has asked donors to improve the government's ability to manage the program effectively. Improvements to information management are already underway. However, oversight of key fiduciary areas remains constrained by lack of skilled staff that can help the *Tim Pengendali* monitor and coordinate PNPM sub-programs. Technical assistance is also needed to strengthen line agency capacities. Technical assistance to the *Tim Pengendali* will help the government improve PNPM's procurement, fiduciary oversight, targeting, and budget preparation.

- ii) **Monitoring and Evaluation** – PNPM relies heavily on feeding field results back into short and long-term programming decisions. Annex 1 summarizes PNPM's overall approach to monitoring and evaluation and the large library of PNPM evaluation reports is being transferred to AusAID project files. A baseline survey panel using 2,250 households will allow for detailed tracking of the program's impacts on:

- Household welfare
- Poverty status
- Use of outpatient health services
- Unemployment rates
- Primary and secondary school enrollment
- Community participation in village activities and governance;
- Trust and social capital;
- Access to information;
- Collective action.¹⁵

AusAID's support will help GOI through three specific activities (a) short and long-term training grants and scholarships to improve the government's M&E capacity; (b)

¹⁵ See J. Voss, "PNPM-Rural Baseline Report", Jakarta, The World Bank, 2008.

evaluation surveys to assess both process and outcomes from the PNPM program; and (c) support to universities and research NGOs evaluating PNPM performance.

iii) **District Capacity Development** – PNPM’s long-term strategy calls for increasing financing and management by district governments, with most functions being fully decentralized by 2012/2013. The ability of district governments to manage the program varies greatly, and on balance a great deal of work to increase their capacity is needed between now and 2013. AusAID support for PNPM’s sub national capacity work will in principle take three forms that correspond to priority requests from the government, though these will evolve as the program develops:

- a. Indonesia’s Ministry of Home Affairs will require support to improve the regulations that define village and sub district government, including proposed improvements to the *musrenbang* process. MOHA is proposing a series of technical assessments and operational pilots coordinated by the PNPM Secretariat for AusAID support that would feed into revisions to the 1979 village government law
- b. Bappenas has requested assistance to provide hands-on technical assistance in pro-poor budgeting and evaluations.
- c. PNPM facilitators will require specialized training to increase their capacity in areas of special interest to AusAID, such as women’s leadership, disabilities, post-conflict management, and so on. In these areas, AusAID funds will be used to contract top quality trainers and to improve training modules on local participation in development planning, with first priority going to active AusAID programs such as Logica, Antara, Sofei, and ACCESS.

iv) **Community MDG performance**¹⁶ – PNPM is currently undertaking a unique pilot community-based conditional cash transfer program that uses the community planning process to improve MDG performance. Called “*PNPM Generasi*” this \$110 million pilot program will be reviewed by Indonesia’s parliament in 2009 for a possible nationwide scale-up.

Under **PNPM Generasi**, PNPM writes a contract with participating villages to transfer resources in exchange for improvements in a subset of 12 MDG health and education indicators. While PNPM already allows for education and health activities, the Community CCT pilot places a stronger emphasis on such activities, emphasizing investments in certain lagging health and education outcomes. Examples of community investments include but are not limited to: paying transportation costs for midwives and nurses to provide outreach services, improving *posyandu* organization and management to ensure that immunization, vitamin A and weighing services are efficiently carried out; contracting private providers or NGOs to provide services in

¹⁶ The detailed design report is on file. Baseline surveys were carried out by SMERU and the World Bank.

villages; and assisting with transportation costs and education materials for primary and junior secondary schooling.

Preliminary results show dramatic improvements in demand for health and education services, with demand for services in poor rising by 30% in a single year. This proposal suggests that AusAID co-finance this program to promote coverage of poor provinces in Eastern Indonesia, particularly NTT, NTB, Sulawesi, and Maluku. AusAID should also take the lead (through the PSF) by financing evaluation surveys and impact assessments¹⁷.

The proposed A\$25 million/year grant for *Generasi* should be provided on matching terms with Indonesian government funds. Unlike the current pilot, which runs as an either/or program (i.e. either villages get the “regular” PNPM or they get *Generasi*), the grant should be provided on top of normal PNPM sub district grants (this will avoid current trade-offs between infrastructure and poverty services). *Generasi* grants can be targeted on priority provinces across eastern Indonesian, which have the highest poverty incidence and where returns to a community-based CCT approach will be highest.

- v) **Developing Microfinance** – GOI has for decades had a strong interest in supporting microfinance for the poor, but until recently it could not break free of government-run subsidized credit, none of which was sustainable. However, under PNPM, the government has worked with microfinance specialists to develop a new model that would restructure and professionalize community-level microfinance. The model meets both AusAID and CGAP guidelines for working with financial services for the poor: it builds on best-practice foundation principles; it uses market-based principles; and it will provide a framework for large-scale coverage through a range of financial services, not just small loans. The proposal includes dedicated support for a full-time project manager to be provided by CGAP to PNPM through the World Bank.

The microfinance action program consists of the following main steps:

- (i) Consolidate and restructure the existing microfinance funds operating within PNPM;
- (ii) Build regional mid-tier oversight and support institution that provides training, supervision, audit, and a mandatory MIS;
- (iii) Provide management in exchange for cost recovery plus ownership and profit sharing;
- (iv) Build in link to formal financial sector to bring in new products, services, and funds;
- (v) Provide a legal status for local-level microfinance groups;
- (vi) Subsidize restructuring through grants but require self-financing expansion.

¹⁷ Baseline surveys were carried out by SMERU and the World Bank. Both are available on the World Bank website at <http://www.worldbank.org/id/kdp>.

Initial scoping and a design framework were completed in 2008.¹⁸ A more detailed design document would be prepared prior to the release of financing. Estimated costs for the action plan are US\$7.0 million/year, which would be sufficient to restructure 5 provinces and which are anticipated to leverage private sector funds on a 2:1 ratio, though of course the validity of this projection will depend on how the global crisis plays itself out in Indonesia over the next few years. An additional \$1.0 million/yr. should be provided for international technical assistance to ensure that final designs reflect global best practices, and for periodic reviews.

36. ***PNPM and other AusAID funded programs*** – This proposal has primary objectives of strengthening GOI’s ability to manage the PNPM poverty reduction initiative. Other existing AusAID funded programs will undoubtedly want to cooperate with PNPM, even if they are not directly discussed in this proposal. There will also continue to be need for new specialized community development programs to deal with the many challenges that PNPM cannot address.
37. PNPM encourages such cooperation and has established a mechanism to promote it. The overall PNPM management committee that hosts the PSF can review any cooperating program and help provide an official home so that local governments and field facilitators know which programs have official sanction. Donor programs that work with PNPM are expected to follow the general principles of community planning and transparency¹⁹, but within that there is plenty of scope for training, technical sophistication, and specialized activities. PNPM is also forming local poverty coordination bodies in each province and district that will be managed through the Bappeda; they will also be able to support new donor programs.
38. For the longer term, AusAID support for PNPM will promote corporate management goals of consolidating activities into larger, higher impact programs. New proposals will pass through a PNPM filter to ensure that, where this is relevant, they complement existing systems. For a number of specialized programs, such as work with civil society, MDG service delivery; or rural marketing, consolidation of the core planning and management will allow them to cover larger areas since they’ll be able to work with the existing PNPM structure rather than supervise their own facilitators and community planning systems.
39. ***Risks and Contingencies*** - This strategy does not assess macro risks, which must be assessed through AusAID’s overall country risk assessment, particularly given recent global macroeconomic trends. PNPM also brings with it a political risk: to the extent that it is the president’s flagship poverty program, a political change of regime would have significant implications for a program so closely identified with an outgoing government.

¹⁸ Documents include MICRA, “Micro-credit strategy formulation mission for the National Community Empowerment Program” Jakarta, 2008; Detlev Holloh, “Review of the Microcredit Approach of the Kecamatan Development Project, consultancy report prepared for the World Bank, 2001.

¹⁹ GOI has issued a very general *Pedoman Umum* that summarizes the overall approach.

40. The overall risk assessment proposed by the team for PNPM itself is “medium”. PNPM’s fiduciary oversight mechanisms have been reviewed by the World Bank and independent professional reviewers such as Grant Thornton, Ernst and Young, Price Waterhouse, and other audit agencies, as well as by bilateral donors such as the Netherlands and DFID that already provide on-budget co-financing to PNPM. Overall, given its generally solid fiduciary track record, PNPM provides a good, measurable test case for AusAID to provide on-budget support to a nationwide, Government of Indonesia program.
41. Project specific risks revolve primarily around three issues: (a) lack of clarity on the overall financing plan for the PNPM; (b) insufficiently strong institutional leadership, which will lead to program fragmentation and inter-agency conflicts; and (c) fiduciary risks associated with the likelihood of GOI promoting crash programs to respond to the global slowdown. Each of these will be discussed below:
- **Lack of clarity on long-term financing** – Although GOI has made a long-term commitment to support PNPM through 2015, there are already signs of disagreement over “what counts” as GOI contributions. For the longer-term, it is likely that a rising share of PNPM will be provided through line agency service delivery rather than through the block grant transfers, particularly if responsibility for the block grants moves to sub national governments. However, the central government itself does not yet have a clear roadmap on how to manage these adjustments. One function of the proposed technical assistance to the apex management team is to help the government improve its strategic planning and long term financing strategy for PNPM.
 - **Institutional Coordination and Leadership** – At present, PNPM is managed through an *ad hoc* secretariat created by presidential instruction, the *Tim Pengendali*, which reports to the inter-ministerial poverty commission. However, it is still not clear who will provide long-term management after 2009, when the presidential instruction expires. Without strong leadership, incipient tensions between the participating agencies could quickly cause PNPM to revert to standard sectoral programs, with insufficient oversight or coordination between them.
 - **Crash program overlaps** - Past experience shows that corruption levels in community development projects are relatively low. However, past experience also shows that corruption levels in crash national poverty programs are high. Corruption risks are heightened in national priority programs because of the rush to disburse and because the risks of sanctions being applied are imperceptible. Crash programs also create problems of duplication and local-level confusion. Donors have often contributed to this chaos by creating boutique operations. The key to preventing this from happening will be a harmonized donor response through the PNPM Support Facility.
 - **Changes to targeting criteria** – PNPM-Perdesaan builds on the Kecamatan Development Project. KDP was a poverty targeted program that in essence funded the

30% poorest *kecamatan*²⁰ in each province. PNPM's scale-up in 2007 eliminated the need for spatial targeting. However, within government there is a controversy over how to phase out *kecamatan*s. One faction wants to retain the poverty criterion; the other wants to use age in program. AusAID and the WB strongly support the former since using the latter criterion would imply that the poorest *kecamatan*s are the first to exit.

42. Indonesia remains a volatile environment for development agencies, even if in recent years the country is considerably more stable than it was in the decade following the fall of the New Order. For PNPM, the chief contingencies are twofold. First, the 2009 elections may bring in a new government that either for political or for developmental reasons is less committed to direct transfer programs such as PNPM. This is considered to be a relatively low probability development. Even if a new regime comes to power in the election, support for a re-named transfer program designed on lines similar to PNPM is almost certain to continue.
43. The other contingency lies at the opposite end of the spectrum. Since PNPM will soon cover all rural and urban communities across the country, policy makers will be tempted to use it as part of any expansionary fiscal policy program that tries to build safety nets for the poor as the country rides out a global recession. PNPM is pre-positioned for such an eventuality since little would be needed other than an increase in the size of its block grants. However, GOI is likely to request additional emergency assistance from international partners to manage and monitor such a scaled-up program. In such an event, rapid AusAID assistance will be critical to providing adequate management capacity for dealing with the safety net program.
44. **Funding Breakdown** – The proposed budget for AusAID Support to PNPM is a total of A\$ 215m over a five year period. The breakdown among the five activity areas is as follows:

Table 1: Proposed AusAID Support to PNPM (AUD)

	2009/10	2010/11	2011/12	2012/13	2013/14	TOTAL
Apex management	2	2	2	2	2	10
M&E	3	3	3	3	3	15
Capacity	5	5	5	5	5	25
Generasi	25	25	25	25	25	125
Microfinance	8	8	8	8	8	40
	43	43	43	43	43	215

²⁰ Rural poverty in Indonesia is spatially distributed. Statistical analysis shows that targeting 20% of the poorest *kecamatan*s would capture 45% of Indonesia's poor. Of course simply covering the poorest *kecamatan*s still does not guarantee that the poorest households are the beneficiaries, but it does suggest high levels of efficiency can be gained by using spatial targeting criteria.

45. **Project Implementation** – AusAID is contributing to an already designed and operational national GoI program. This document presents a single strategic initiative that uses different instruments to support the PNPM program. Explanations for the proposed arrangements are in order. General considerations refer to risk, efficiency, and management costs.
46. *The PNPM support facility (“PSF”)* - PNPM is supported by a World Bank managed multi donor trust fund, which supports the inter-ministerial coordination team and is co-chaired by GOI and the World Bank. Donors contributing more than US\$1 million sit on the PSF management committee, which meets quarterly or as needed. Pooling funds through the PSF will avoid duplication and also allow AusAID to share oversight costs and responsibilities with other agencies.
47. PSF Funds are utilized through four functional “windows” (Chart 1), which are:
- Through APBN/APBD co-financing channels (direct support to the PNPM block grant programs).
 - Through APBN to support national coordination and supervision.
 - On-granting to intermediary NGOs and philanthropies that then on-grant to grassroots organizations working on poverty.
 - Technical assistance to PNPM by donors, such as special reviews, advice and programs commissioned by the Steering Committee and administered by the PSF.

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48. The World Bank provides technical support to the PSF through its social development and poverty (PREM) teams. At present the government members of the PSF are also requesting the World Bank to manage all PSF procurement. The Bank charges its costs to a child fund carved out from the PSF. AusAID will supervise World Bank oversight for PNPM and its present findings and recommendations as part of AusAID-World Bank dialogue.
49. AusAID funds for M&E, Tim Pengendali and, initially, the PNPM Generasi and micro finance grants would be transferred to the PNPM Support Facility. Contributions to the PSF cannot be earmarked but the Management Committee can assign them to pre-agreed activities. The above activities are already in GoI’s published “priority needs” list for PNPM and they would be formally approved by the management committee before AusAID’s contribution agreements are signed. The PSF would be responsible for the implementation of the activities, with AusAID oversight.
50. For funds transferred to the PSF, AusAID would retain the right to join the PSF twice yearly supervision missions. In addition, it is recommended that AusAID’s contribution agreements to the PSF specify that all technical information produced through the partial or full use of AusAID funds should be distributed to the PSF management

committee. AusAID will supervise World Bank oversight for the PSF and present its findings and recommendations as part of AusAID-World Bank dialogue (other PSF contributors have expressed interest in joining such an annual review).

51. Supporting PNPM through the PNPM Support Facility poses a number of challenges and options that should be discussed during the review of this proposal. Contributions to the Support Facility cannot be earmarked. All specific uses of funds from the general budget must be approved by PNPM's management committee, which is co-chaired by GOI, and then reflected in the PNPM Project Digest. Only when GOI signs off on the final digest does detailed design begin.
52. This Strategy recommends that AusAID follow this procedure. There are a number of strong arguments in favor of this approach. First, GOI's track record on the PNPM Support Facility is very good. Decision-making has been open and transparent, and by consensus. As a core member of the Facility, AusAID would retain oversight and veto power. Second, the approach allows the government to work from an integrated strategy that combines inputs from many donors rather than dealing with one donor project at a time. It is likely, for example, that other donors will want to join some of the bigger activities such as Generasi or the work in Papua. A structure that pools funds will allow the government to apportion project sites in an integrated way and then just report on incremental outputs. Finally, working through the PNPM system will reduce substantially the direct costs to AusAID itself.
53. AusAID is a founding contributor to the PSF and therefore a member of its management committee. AusAID would retain the right to join the PSF/WB semi-annual supervision missions. In addition, it is recommended that contribution agreements to the PSF specify that all technical information produced through AusAID funds should be distributed to the PSF management committee. Annex 1 includes the complete set of PNPM monitoring indicators and reporting instruments. AusAID's technical review in Jakarta concluded that they provide a fully adequate basis for AusAID to meet its internal reporting requirements, but AusAID management review of this document should confirm that no additional information would be required.
54. *Direct execution by AusAID* - is confined to a limited amount of technical assistance where more control is needed; and for selected studies, reviews, and workshops of special interest to AusAID. Examples of such studies would include reviews and cross-visits to other AusAID programs; discussion of issues such as child protection and improving designs for disabled people within PNPM.
55. Approval has already been given and a procurement contractor engaged (Charles & Kendall - PASP period offer) for the recruitment and management (financial and administrative arrangements) of seven TA positions to assist the Team Pengendali. Additional TA required that was not being contracted by the PSF could also potentially be engaged and managed by this contractor.

56. AusAID-supported programs such as LOGICA, ACCESS, ANTARA, etc potentially offer useful training for PNPM participants. Where GOI and AusAID identify such opportunities, AusAID would manage these initiatives directly (through the relevant program) or through the PSF if deemed more appropriate.
57. *Direct transfers to GOI* –This particular model would not be utilised until at the earliest year two of the program, due to the significant lead up time needed to ensure all partner arrangements (including disbursement agreements) are in place. Experience with the development of BEPs project and activity loan agreement for ‘on granting’ suggests a 12 month lead up time is needed to ensure all relevant administrative and oversight mechanisms are in place. Support for PNPM Generasi and the microfinance grants will be allocated through the PSF initially.
58. Once AusAID and GoI agree that appropriate mechanisms are in place (including signed granting agreements) AusAID would transfer funds for PNPM *Generasi* and the village microfinance programs directly to PNPM’s Special Account in the Ministry of Finance. Financial management and audit procedures for this account would be the same as those used for the World Bank share of PNPM. Funds would be disbursed through GoI’s DIPA process and would be in line with the current procedures for the disbursement of funds using this mechanism. Original receipts are retained in the sub district financial management units but monthly summaries are returned to Jakarta for aggregation, review, and audit Accounting would follow normal AusAID-GOI project reporting. This model is similar to that used by the Basic Education Program to fund school construction.
59. GoI procures PNPM technical assistance by following World Bank procurement guidelines and Kepress80/2001, primarily through quality and cost-based selection. Reviews carried out by the national audit agency (BPKP) are provided to the Tim Pengendali and will be available for AusAID supervision.
60. To date, direct co-financing to GOI for the block grant transfers has proven to be low-risk and efficient, with the standard caveats about GOI’s perennially delayed budget releases and the need for donor field oversight. The key challenge is how to ensure that funds transferred directly to GOI receive adequate supervision. GOI’s own fiduciary oversight systems are improving but they remain weak. Independent as well as national fiduciary assessments confirm that Indonesia is a high-risk environment. The program will work with the GoI to strengthen the current system and from year two onward transfer funds directly to the GoI to support PNPM Generasi.
61. **Quality Control and Performance Indicators** – Except for the contracts executed directly by AusAID, quality control will be by the executing partners. AusAID will join routine supervision missions and it will also conduct occasional reviews of the executing partners to ensure that they are applying proper oversight. PNPM’s performance indicators are described in Annex 1. Except, again, for the contract directly executed by AusAID, no new key performance indicators or reporting requirements are required beyond the routine quarterly and annual reports prepared by the MDTF/WB and the government.

62. **AusAID Reviews** –PNPM’s performance will also be reviewed semi-annually by AusAID’s Indonesia country management team. Specific performance indicators and a relevant framework will be developed for any technical assistance that is directly managed by GoI and AusAID. AusAID will also monitor performance of the PSF (i.e. World Bank oversight of field execution) through annual assessments that will constructively feed into AusAID’s policy dialogue with the Bank.
63. AusAID internal evaluations will concentrate on two areas: (a) assessing the efficacy of the technical assistance provided by AusAID; and (b) assessing progress on the sub national strategy, as defined early in this proposal. For the former, the primary indicator is whether budgets and contracts are prepared properly and executed more rapidly than at present. For the latter, while evaluation will have to be developed in concert with the other two legs of the program, the long-term evaluation will build on a subset of PNPM’s representative household expenditure panel (i.e. do AusAID’s governance reform and service delivery programs cumulatively translate into reduced household poverty).
64. **Measuring Results** – PNPM has a sophisticated system for monitoring and evaluation. More than 20 studies have already been completed and both the studies and annual reports, including fiduciary reviews, are posted on publicly accessible websites. It is proposed that AusAID’s internal results framework report only on activities executed directly, with all other reporting remaining in the government’s annual, mid-term and completion reports. PNPM’s overall results framework is provided in Annex 1.
65. **AusAID Visibility** – AusAID support to PNPM is already highly visible, but there are a number of options for providing a more general picture of how AusAID is helping to reduce poverty through PNPM. As the lead donor for Generasi, GOI would promote heightened visibility for AusAID’s contribution to this program across all AusAID priority provinces. Having existing AusAID programs such as Antara, Logica, and Access cooperate more closely with PNPM will also highlight the overall support that we are providing. Finally, PNPM’s information working group, which operates under the Ministry of information, could already arranges for journalist briefings and site visits to PNPM sites and undoubtedly could arrange a series of cooperative visits for the Australian media.

Attachments

Annex 1	PNPM Framework for Monitoring and Evaluation
Annex 2	PNPM Documents Reviewed

Annex 1

Results Framework and Monitoring for PNPM ²¹

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Villagers in PNPM locations benefit from improved socio-economic and local governance conditions	<p>Improved HH expenditure rates and improved access to economic and social services in a minimum of 2,500 poor sub districts in 2008; min. of 4,000 sub districts in 2009.</p> <p>Through the CCT pilot, improved health and education indicators in 130 kecamatan in 5 provinces:</p> <ul style="list-style-type: none"> ▪ <u>Health</u>: immunization coverage for 12-23 month olds increases by 10% points from 38% in 2005 to 48% in 2010; Prenatal care visits increase by 10% points from 56% in 2005 to 66% in 2010. Deliveries assisted by trained professionals increase by 10% points from 40% in 2005 to 50% in 2010. ▪ <u>Education</u>: increased primary school enrollment rates from 96.5% in 2005 to 97% in 2010. Increased junior high school enrollment rates from avg. of 57% in 2006 to 72% in 2010.²² <p>EIRRs >30% for major rural infrastructure types</p> <p>>80% satisfaction levels from beneficiaries regarding improved services and local level governance</p>	<p>Determine if PNPM is having its desired effects on socio-economic welfare.</p> <p>Determine if the CCT pilot is having an impact on specific education and health conditionalities.</p>

²¹ Seventeen results indicators are listed in the World Bank's Results Framework (2008 PAD). Thirteen of the 17 indicators are taken from the Government of Indonesia's Operational Guidelines for M&E for PNPM. The other four indicators are project-specific and unique to management issues facing MoHA and PNPM-Rural.

²² Health and education statistics are estimated from Susenas data. In the future, the CCT program will have figures from baseline (2007) and impact (2009) survey data collection to inform the point estimates.

Intermediate Results One per Component	Results Indicators for Each Component	Use of Results Monitoring
Component One: Kecamatan Grants Villagers participate in a process to plan, select and manage basic social and economic infrastructure provided through block grants.	Component One: Min. 40% participation rate of women and poorest community members in planning and decision-making meetings 85% of agreed work plans completed each year. #/type of infrastructure works, economic, and education and health subprojects/ activities completed in 4,000 sub districts by 2009. >70% of infrastructure works are evaluated as of high quality. O&M arrangements are in place and functioning for >80% of infrastructure works.	Component One: Assess if sub-district sites are benefiting from KDP financing and assistance. Assess if planning and inclusion procedures and policies need adjustment to encourage greater participation. Determine if program needs to increase its inspection and supervision of technical works and O&M arrangements.
Component Two: Developing Local Government Capacities for Successful Community Development Local government councils use their new skills to fulfill their local community development functions.	Component Two : By end of 2009, >70% of local government councils are actively involved in PNPM management and oversight.	Component Two: Review if training and capacity building plans need adjustment and if learning interventions meet the needs of the councils to perform satisfactorily their new duties.
Component Three: Technical Assistance Consultants at the national, provincial and district levels are providing assistance to communities and local governments to implement PNPM.	Component Three: >70% of planned consultant positions are filled and consultants are trained by the time the project begins its annual socialization and planning cycle.	Component Three: Determine if technical assistance is in place and operating.
Component Four: Monitoring, Evaluation and Audits Project stakeholders use results of M&E activities and studies to improve project performance.	Component Four: >70% of study and evaluation findings used to improve the project. By 2009, kecamatan audit sample size increases to 15% of all kecamatan and audit results are made public.	Component Four: Findings from M&E and studies will allow the project to adjust and improve its operations and procedures. By announcing audits and their findings to the public, the program expects to reduce corruption.

<p>Component Five: Preparing for Scale-Up PNPM is ready for start-up by early 2009.</p>	<p>Component Five:</p> <p>>70% of planned consultant positions are filled and consultants are trained by the time the project begins its 2009 socialization and planning cycle.</p> <p>>70% of sampled villages receive socialization material packages for PNPM in early 2009.</p> <p>>40% of local district government bodies (1 rep) undertake cross-visits to observe PNPM in other sites by 2009.</p>	<p>Assess whether or not the program is ready for national implementation in 2009.</p>
<p>Component Six: Incremental Operational Costs PNPM managers use their skills and additional office resources to improve the program.</p>	<p>Component Six:</p> <p>By 2009, a minimum of 15 Government PNPM managers use their new skills in management, fiduciary controls and evaluation for the betterment of the program.</p>	<p>Evaluate whether or not training PNPM government officials has any impact upon performance and overall management of the program.</p>

Attachment 1a
Arrangements for Results Monitoring

Outcome Indicators	Baseline	Target Values			Data Collection and Reporting		
		YR1 2008	YR2 2009	YR3 2010	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Improved HH expenditure rates & improved access to economic and social services in a min. 2,500 poor sub districts in 2008, 4,000 in 2009.	Baseline & subsequent values depend upon area. Values will be taken from baseline survey in 2007.			Most targets will be reached by 2009, with final reporting and evaluation results in 2010.	2007 baseline impact survey completed by end of 2007. Will be repeated in 2009	2007 baseline surveys and 2009 impact surveys.	National Coordination Team, Bappenas, and WB. Surveys will be commissioned to independent survey firm.
Through the CCT pilot, improved health and education indicators in 130 kecamatan in 5 provinces	CCT baseline (using randomized approach) in 2007. Will repeat in 2009.		See education and health targets in Results Framework	Most targets will be reached by 2009, with final reporting and evaluation results in 2010.	2007 baseline impact survey completed by end of 2007. Will be repeated in 2009	Randomized surveys	National Coordination Team, Bappenas, and WB. Surveys will be commissioned to independent survey firm.
EIRRs >30% for major infrastructure types	Infrastructure is not yet built under this phase so EIRRs are 0 (previous weighted avg of 53% for KDP2)		>30%		EIRRs were recently calculated in 2004. Exercise will be repeated again in 2010	Economic analyses study in 2009	External consultant team
>80% satisfaction levels from beneficiaries regarding improved services	Infrastructure & services not yet provided so baseline is 0 (previous satisfaction levels 80% & above for KDP2)		>80%		Monthly field reports, surveys and field reports at end of each project cycle, bi-annual technical evaluations.	Monthly field reports from consultants, government and NGOs, field surveys, supervision mission reports, technical evaluations	Consultants, Government.

Results Indicators for Each Component	Baseline	Target Values			Data Collection and Reporting		
		YR1 2008	YR2 2009	YR3 2010	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Component One : Kecamatan Grants Min. 40% participation rate of women and poorest community members in planning and decision-making meetings	Baseline = 0. Mtgs have not yet taken place (In 2005, 48% part. rate)	40%	40%	40%	Monthly and annual project cycle reporting thru facilitators.	Project monthly reporting. MIS	MoHA
85% of agreed work plans completed.	In 2006, 95% completed	85%	85%		Monthly and annual project cycle reporting	Monthly and annual project cycle reporting	MoHA
#/type of infrastructure works, economic, education and health subprojects/activities completed in 2,600 kecamatan	In 2007, KDP is in 2,050 kecs.	2,600 kecs	4,000 kecs	4,000 kecs	Monthly and annual project cycle reporting	Monthly and annual project cycle reporting	MoHA
70% of infrastructure works are evaluated as high quality	KDP2 evaluation in 2005 showed 70% evaluated as high quality	70%		70%	Technical reviews every 2 years, field reports, WB supervision missions	Technical reviews every 2 years, field reports, WB supervision missions	MoHA, WB
Components Two: Developing Local Government Capacities for Comm Dev. By 2010, 70% of local government bodies are actively involved in PNPM management and oversight.		40%		70%	NMC monthly and annual reports, PNPM Governance Study in 2008 & 2010	Field reports, PNPM Governance Study	MoHA
Results Indicators for Each Component	Baseline	Target Values			Data Collection and Reporting		
		YR1 2008	YR2 2009	YR3 2010	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Component Three: Technical Assistance >70% of planned consultant positions are filled and trained by the time the project begins its annual socialization and planning cycle.	By beg. of 2008, 0 because consult contract packages need to be rebid.	>70%	>70%		HR database	Monthly reports and HR database	MoHA

Component Four: Monitoring, Evaluation and Audits >70% of study and evaluation findings used to improve the project.	Currently at @ 70%	>70%	>70%		Monitoring occurs continuously, Evaluations and studies occur periodically	Project MIS, field and supervision mission reports, audits, evaluations, commissioned studies	MoHA, Bappenas, WB, National Coordination Team
By 2009, kecamatan audit sample size increases to 15% of all kecamatan and audit results are made public	4% of all kecamatan in 2007 by BPKP	10%	15%		Annual BPKP audit reports and WB audits	Annual BPKP audit reports and WB audits	BPK, MoHA, WB
Component Five: Preparing for Scale-Up >70% of planned consultants and facilitators mobilized, recruited and trained in time for project launch in early 2009.	0 by beg. of 2009 because contracts need to be renewed		>70%		HR database	Personnel contracts and HR database	MoHA
>70% of sampled villages receive socialization material packages for PNPM in early 2009.	0 by beg. of 2009 because new PNPM socialization materials need to be sent out.		>70%		Field reports	Field reports	MoHA, Depkoinfo
>40% of local district governments (1 representative per entity) undertake cross-visits to observe PNPM in other sites by 2009		20%	40%		Monthly Field reports, 2008 PNPM Governance Study	Field reports, 2008 PNPM Governance Study	MoHA, NMC
Component Six: Incremental Operational Costs By 2009, 15 Government PNPM managers use their new skills in management, fiduciary controls and evaluation for the betterment of the program.	0 in 2007. New activity	8	15		Reports as trainings happen. Monthly management reports	Back-to-office reports	MoHA

Attachment 1b

OVERALL MONITORING AND EVALUATION FRAMEWORK FOR PNPM

1. Introduction

The proposed Monitoring and Evaluation (M&E) framework for PNPM builds upon the last ten years of M&E work on Community-Driven Development (CDD) in Indonesia and other similar programs in the world. This framework employs both quantitative and qualitative methodologies, as well as a mix of internal and outsourced evaluations. What have we learned from this experience which is relevant for PNPM in the next few years?

- **Effective M&E systems for CDD programs in Indonesia** are difficult to establish but with sufficient support and technical guidance, it can work. The system requires a mixture of strong supervision and quality checks through internal project channels as well as external monitoring and evaluation from a variety of actors.
- **Diversity of CDD programs** - CDD programs such as PNPM differ from other programs due to their multi-sectoral nature and diversity. PNPM promotes an open menu whereby villagers engage in a participatory planning and decision-making process to allocate resources for their self-defined development needs and priorities. Subprojects can range from a wide variety of small infrastructure works, to local economic development activities, to education and health. The investments are not pre-determined. PNPM also aims to improve local good governance, thus less easily quantifiable goals of empowerment, accountability, and active participation must be measured and monitored. The multi-sectoral nature of these programs makes it a challenge to report upon as well as to evaluate.
- **Scale of Operations** - The large scale of operations raises extreme challenges. KDP began in 1997 as a pilot in 26 villages. Ten years later and now called PNPM; it operates in every province and has covered almost half the villages in Indonesia, approximately 35,000 villages. Thousands of government officials, over 3,500 consultants and some 70,000 village-level facilitators are involved in PNPM. Ensuring the regular and accurate flow of information both vertically and horizontally in this reporting chain has been extremely difficult, and the reporting and MIS systems need to improve if PNPM succeeds in its aim to cover all 70,000 villages of the country by 2009.
- **Diverse Funding Base for Evaluations and Studies** - Trust funds which complement loan budget allocations for M&E are critical to implementing specific studies and evaluations. Because trust funds tend to be more quick-disbursing than loan funds, they allow flexibility in carrying out baseline surveys prior to project implementation - when the loan is not yet effective - and in launching studies more quickly as a response to issues arising during field implementation. In the past, this diverse funding base has allowed KDP to act in a timely manner and commission numerous independent evaluations and studies designed to inform its day-to-day operations and improve its effectiveness.
- **Limited Supply of Independent, High Quality Research Institutions in Indonesia** - Due to a weak education system and lack of demand for top quality research and independent evaluations under the Suharto regime, the supply of organizations to conduct independent, rigorous evaluations is extremely limited in Indonesia. The supply of such firms does not keep up with the

development community's demand. Where there are a handful of excellent researchers in one institution, oftentimes the "bench is not very deep", and the most senior researchers are often committed to other university or consultancy tasks. Quality control over research and evaluation products is also severely lacking. The supply of qualified researchers and evaluators is slowly growing but a great deal of capacity building on rigorous research techniques, M&E, and organizational development is still necessary in the future.

- **Linking Empirical Findings to Improved Operations** - There must be a close link between study findings and actual operations. The purpose of these evaluations and studies is to build an empirical basis to inform policy and operational decisions. Thus the commitment must exist within the government and development agencies to accept findings – good and bad – from the evaluations to better inform future program design and implementation. Also, best practices, and the underlying factors which contribute to those cases, should be fully documented and shared with other project actors. Without such links from studies to operations, these evaluations remain academic, isolated exercises.
- **Importance of Mixed Methods** - The use of quantitative and qualitative methodologies for CDD program evaluation is essential. Measuring empowerment amongst women and marginalized, vulnerable groups is quite different than analyzing the rates of return for a rural road. Thus, the data collection tools must vary. A mix of quantitative field surveys and economic analyses should be complemented with more qualitative methods to better understand processes, behaviors and conditions as they are perceived by communities or other stakeholders. Qualitative studies allow the program to probe deeper and answer the "why" questions from quantitative surveys. Past qualitative studies have been particularly informative to KDP to shed light on issues of local governance, changes in behavior, poverty perceptions, sociological and cultural trends, and inclusion issues.

2. Objectives of the PNPM M&E System

The objective of the PNPM M&E system is to provide stakeholders with timely and empirical information to improve the program. Monitoring of PNPM is defined as the periodic and timely collection of information to determine if program activities are being implemented as planned. It focuses primarily upon inputs and output levels. It is an ongoing process that continues throughout the project cycle, from training and socialization, to planning, implementation, and maintenance. Results from monitoring are used to improve the quality of implementation and to adjust planning

Evaluation is the assessment of results periodically to see if the project is meeting its main objectives. It focuses upon whether or not objectives and outcomes are being met. For PNPM, evaluations include a number of different types of studies, both quantitative and qualitative in nature. An important element of the M&E system is to document carefully the program experience and lessons learned.

In July 2007, the Government with technical assistance from the World Bank developed its own "Operational Guidelines for Monitoring and Evaluation of PNPM". These draft Guidelines have been shared with the national parliament and government agencies to ensure that there is coherence in approach for those projects included under the umbrella of PNPM. The Guidelines outline the objectives of PNPM M&E, who is responsible, what will be monitored and the overall M&E framework. The Guidelines will be finalized by early 2008. The plan outlined in this Annex Three is consistent with those Guidelines. Both PNPM and its urban sister, PNPM-UPP follow the Government's draft Guidelines, and, in most cases, share similar performance indicators. The two programs will also undertake several joint evaluations and studies, and the PNPM impact evaluation scheduled for 2009 will be jointly managed. Where there are differences in indicators and M&E approaches, those differences are primarily due to

urban versus rural differences as well as management issues relevant only to the specific implementing agency.

In addition to the Guidelines, the Government has established two M&E working groups. There is a working group for Management Information Systems and one for reviewing and finalizing performance indicators for PNPM. For the MIS, the National PNPM Steering Committee and the various projects falling under the PNPM umbrella have agreed to operate an integrated, shared MIS and website, with a set of common performance indicators to be reported upon by all projects.

3. What Will Be Monitored and Evaluated

As mentioned earlier, PNPM has certain overall development objectives and outputs. Based upon the project objectives and key outputs, performance indicators are developed for the project and are tracked over time. These indicators are then reported upon through the field reporting system or through other monitoring and evaluation activities such as case studies, surveys, sectoral evaluations, and supervision missions. The project MIS also plays a critical role in capturing and recording important information regarding results on a monthly basis.

The key performance indicators for PNPM are listed in Annex 3: Results Framework of this PAD.

4. Findings from Past M&E Work

In the past, using a variety of tools and methodologies, PNPM-KDP's M&E system has demonstrated the following **positive results and impacts**:

- KDP has had a significant impact on rural household expenditure. The longer a kecamatan has received KDP and now PNPM, the greater the estimated impact on rural household expenditure (Alatas, 2005).
- Poverty targeting to the sub district level is successful (Alatas, 2005).
- PNPM and KDP increased access to vital services including roads, markets, education and health facilities and clean water. Over 190,000 subproject activities have been funded through KDP since 1998 (MIS).
- Rural infrastructure works built by PNPM/KDP have high economic returns, ranging from 39 to 68 percent (Dent, 2001; Torrens, 2005; Alatas, 2005).
- Infrastructure quality is good to very good (Ekart et al, 2004; Torrens, 2005; MoHA 2005)
- Village infrastructure built through PNPM methods costs significantly less – on average 56 percent less – than equivalent works built through government contracts (Torrens, 2005).
- There have been no significant safeguard issues in randomly selected subprojects (Ekart et al, 2004; MoHA 2005).
- Corruption rates are low, less than one percent of total program costs (Price Waterhouse, Moore's Rowland, BPKP, MIS).

- Community participation is high. Participation of women in PNPM-KDP meetings and activities ranges from 31 to 46 percent. Nearly 60 percent of those who attend planning meetings are from the poorest sections of the community. Approximately 70 percent of the labor force on PNPM-KDP physical work projects comes from the poorest members of the community (MIS). Significantly more women and marginalized groups come to village meetings in KDP areas than in control sites (Barron et al, 2006).
- PNPM-KDP promotes local economic growth. Over 62 million work days of short-term employment have been generated. Economic productive infrastructure build by KDP, such as roads, bridges, jetties, and markets have resulted in new local businesses. More than 1.3 million villagers have established or expanded their small businesses through KDP's micro-credit window. (MIS). If PNPM covers the entire country by 2009 and increases its block grant allocation to Rp. 3 billion (US\$330,000) per kecamatan, then poverty reduction and employment generation impacts will be sizeable. By 2009, PNPM can benefit roughly 24 million workers and their families, increasing their income by 10 to 14 percent for 60 days of work (Papanek, 2007).
- PNPM-KDP for help to reduce conflict (Barron et al, 2006).
- PNPM supports nascent or existing practices of good governance or community empowerment in ways that most other projects do not. PNPM mechanisms do a better job than other similar programs at emphasizing participation, transparency and accountability. The program also builds community capacity in project planning and management (McLaughlin et al, 2007; NMC UPK annual reviews).

Since KDP Phase One, monitoring and evaluation activities have also revealed a number of weaknesses in program design and implementation. These shortcomings have been used to adjust KDP and PNPM's future operations. A few of the **major areas of weakness** identified through M&E activities are listed below:

- KDP Phase One micro-credit operations and mechanisms were unsustainable and accountability channels were not well established (Dent, 2001; MIS). As a result, KDP redesigned its micro-credit operations under Phase Two which led to significant improvements in micro-credit management and repayment rates. A strategy formulation mission will also be launched in Dec 2007 to provide recommendations for the future micro-finance wing of PNPM.
- While KDP has achieved some significant progress in terms of women's participation, more can be done through PNPM to improve the overall active participation and empowerment of women. (Gender Review in Community-Driven Development Projects, 2007) Among the review mission's recommendations were: more attention to recruiting facilitators with knowledge and understanding of gender; recruiting more women into the project and ensuring that they are considered for promotion; and reviewing the micro-credit component of KDP to augment the benefits for women from these activities.
- Operations and maintenance (O&M) of KDP infrastructure remain a serious concern. Three studies raised issues regarding the inactiveness of O&M groups and the spottiness of O&M plans for KDP rural works (Ekhardt et al, 2004, NMC 2005, Torrens 2005). As a result of these findings, O&M will be emphasized in facilitator trainings and closely checked during field supervisions. In addition, the World Bank has launched a Village Financing Study to explore the possibility of village self-financing for future maintenance costs.

- Training for consultants and facilitators has deteriorated over the last several years and needs to be re-prioritized (WB supervision missions, NMC field visits). Poor training plays out in poor communication and socialization activities to communities; increased chances of corruption and misuse of funds; and decreased levels of transparency and accountability. The World Bank has advised the Ministry of Home Affairs to strengthen their training plans by including more days for upfront training as well as budgeting and planning for refresher and in-service training for consultants and facilitators throughout the year.

The following sections describe the components of the PNPM M&E system. The system combines internal and external (independent) monitoring, with periodic evaluations and thematic studies. KDP employs a mixture of quantitative and qualitative techniques.

5. Monitoring of PNPM

Monitoring is the regular checking of project progress through the routine and systematic collection of information. The purpose of monitoring is to assess if the program is proceeding according to plan. Regular monitoring is also important to check whether the program is operating in compliance with its principles, rules and regulations. This includes checks on governance and community empowerment principles, community participation in the different phases of the project cycle, technical quality of infrastructures, use of funds, and compliance with environmental and social safeguards.

PNPM undertakes different forms of monitoring:

a) Community Participatory Monitoring

Community Monitoring involves community groups or members to monitor and oversee program activities. In KDP, there are community groups elected or assigned to oversee various stages of the program, be it planning, decision-making, implementation, financial book-keeping, or operations and maintenance. For community monitoring to be effective, certain activities are needed:

- **Information Accessibility and Transparency - Project** information must be available and accessible for community members to check and verify. Transparency of information is critical. Information regarding the project activities and budgets should be posted on information boards and project sites, and all project financial records are available for inspection.
- **Open Public Meetings** – As part of PNPM's principles of community participation, transparency and accountability, all project meetings should be open to the public and community members are invited to participate and monitor proceedings. During project implementation, villages hold regular accountability meetings to report upon project progress and finances.
- **Complaints Handling and Grievance Procedures** – PNPM includes a complaints handling mechanism whereby community members and the general public can channel complaints or inquiries. Contact information for complaints handling via PO Box, text messaging, or communication with local government officials and facilitators should be publicized. In 2006, KDP handled some 1,425 cases, 799 cases (56 percent) were carry-over cases from 2005, and 626 cases (43 percent) were new for that year. By the end of 2006, 617 or 43 percent of the caseload has been resolved while the rest were still being processed. (See KDP 2006 Annual Report for more detailed breakdowns). Complaints and inquiries through hand phone text messaging have grown exponentially in recent years. In 2009, PNPM will computerize the phone text messaging complaints mechanism so that complaints are more systematically recorded and answered.

Secondly, complaints will be posted on the website so that case processing is more transparent. Third, there will be dedicated staff at the provincial level to handle complaints.

- **Cross-Village Visits** - PNPM encourages cross-village visits amongst community organizations and members. In the past, these visits have been organized and used quite successfully as a peer-learning experience as well as an effective monitoring mechanism to compare what is occurring across villages. Villagers undertake inter-village monitoring and auditing.

In the past, Kecamatan and Village Facilitators were not facilitating the community monitoring activities very actively. Starting in 2008, PNPM is reemphasizing the Community Monitoring Teams and train facilitators to mentor and guide the teams.

b) Government Monitoring

PNPM is a Government of Indonesia program. Government officials at the national, regional, provincial, district, kecamatan/city and village levels are responsible for monitoring the program and ensuring that its objectives and principles are met. They must check to see if project activities are proceeding according to plan and if principles and procedures are being followed. As in the past, there will be regular supervision missions and field visits of government officials to project sites. The PNPM national Policy Working Group (*Tim Pengendali*) is also expected to play a more active role in monitoring and supervising the program, and raising policy and management issues to MoHA. In 2008, the Government also intends to increase the capabilities and roles of local governments in program management and oversight as PNPM rolls out. The national government is increasingly emphasizing the role of local governments in pro-poor budgeting and planning for programs such as PNPM.

c) Monitoring by Consultants and Facilitators

Monitoring project activities is also the shared responsibility of project consultants and facilitators at the national, provincial, district, kecamatan and village levels. Over 3,500 consultants and approximately 70,000 village facilitators implement and monitor the program. Consultants will regularly visit project sites throughout the project cycle and report monthly, quarterly and annually regarding performance. Over the last two to three years, monitoring by district-level technical and social consultants has been a serious concern in terms of quality and regularity, and this level of supervision at the district level must be strengthened for the PNPM expansion.

d) Management Information Systems (MIS)

Project information related to process, outputs and outcomes will be entered and organized in a computerized Management Information System (MIS). It will contain information related to basic project information (e.g., project locations, status and type of subproject activity, investment information, etc.), project staff, financial information and complaints.

The MIS has faced several difficulties in the last few years. First, the computer hardware at the national, provincial and district levels needs upgrading. The majority of computers is over three years old, and needs to be replaced or upgraded. Second, the project has not invested sufficiently in human resources to make the MIS more effective. Salaries for MIS staff have not been competitive, making recruitment difficult especially at the national level and in remote areas such as Papua. Training of consultants for monthly reporting and for data entry operators at the district level is insufficient. Also, district consultants must play a stronger, more pro-active role in quality control with regard to kecamatan and village level reporting. Lastly, the project has not allocated enough time and resources to improving the MIS technology to make it web-based with GIS capabilities. Upgrading the system will allow for greater

transparency in reporting, and improved accessibility for users. PNPM will be addressing the above priority problems in 2008/9 and will be outsourcing portions of its MIS. The PNPM and UPP' MIS will feed into the overall PNPM MIS and website which will report upon key shared performance indicators.

e) Reporting

Reporting regularly on PNPM progress and results is vital to the success of the program. To be useful, data from reporting must be accurate, reliable, and timely. All projects under the PNPM umbrella will report upon a core set of indicators specified in the PNPM M&E Operational Guidelines. Other indicators specific to the project will also be reported. Reporting for PNPM at various levels will be monthly, quarterly, and annually. Regular, accurate reporting will allow the Government to share information widely amongst various government departments, parliament and the general public. Information will also be posted on the PNPM websites. As the Government's flagship poverty reduction program, it is important that information regarding progress and results is disseminated widely.

f) NGO Independent Monitoring

KDP invites civil society groups to monitor independently the program. Currently, 17 provincial NGOs are contracted through a competitive selection process to provide independent monitoring of KDP activities and to build the capacity of community monitoring groups at the village level. Civil society groups such as associations (*yayasan*s) or NGOs play an important citizen's "watchdog" function in ensuring that PNPM is proceeding according to its principles and objectives, and that funds are being used for its stated purposes.

While the NGO monitoring activity helps to uncover various cases of improprieties and quality issues, there are several weaknesses as well. Due to weak capacities of many provincial NGOs, especially in analysis and report writing, MoHA will be looking at alternative mechanisms for improving the NGO capacities in 2009. One possibility is to hire an apex NGO organization to mentor and build the capacities of NGOs in independent monitoring and reporting.

g) Financial Reviews and Audits

Government official auditors such as BPKP are responsible for auditing KDP's finances annually. Beginning in 2008, PNPM expects to increase the audit sample size of kecamatan. Following up on the findings from a KDP corruption experiment (Olken, 2005), BPKP will announce in advance that randomized audits will be conducted and the audit findings will be announced and discussed in village meetings.

In 2008/9, PNPM will strengthen its internal financial oversight role by strengthening the national financial management unit in Jakarta and adding a financial management consultant in every province. These financial consultants will provide training and mentoring to consultants and kecamatan financial units on basic financial management and book-keeping, and also spot-check financial records.

Lastly, the World Bank also contracts external independent auditors to conduct audits of its Bank projects, including PNPM.

h) World Bank Supervision Missions

The World Bank, together with MoHA and NMC consultants, undertakes supervision missions at least twice a year. These missions help to identify management issues as well as field implementation

problems. In the past, these missions have been useful to cross-check mission field findings with what is being reported in monthly reports.

6. Evaluation

Evaluation focuses upon the project's impact and whether or not the project's stated objectives have been achieved. The purpose of evaluation is to assess if the program has reached its objectives. Normally evaluations are conducted mid-way through the program or after the program is completed in order to assess if objectives are being or have been met.

PNPM's evaluation system focuses upon providing the empirical basis for seven main hypotheses:

1. PNPM will **improve household welfare**, especially for the poorer segments of the population.
2. It will have a positive impact on **local economic growth**, through high rates of return and short and long-term employment benefits.
3. It **improves access to key services**, e.g., markets, town centers, education and health facilities.
4. It **provides high quality, cost-effective small-scale infrastructure**. PNPM has **low levels of corruption and leakage**.
5. Its operations for infrastructure and economic activities are **sustainable**.
6. It **builds the capacity of local communities and local governments** to manage poverty reduction programs.
7. It **improves governance** through community participation, satisfaction with results, and accountability. It also promotes conflict resolution and increases social capital.

The results from earlier evaluations on these themes are described in Section Four of this Annex.

Evaluations and Studies Planned for PNPM in 2008-2010

The following evaluations and studies have been discussed with Government and other stakeholders. The list is only illustrative. Where appropriate and feasible, the studies employ quantitative and qualitative techniques.

(a) PNPM Impact Evaluation

Two evaluation surveys are designed to evaluate the core priorities of the Government of Indonesia for PNPM: poverty reduction; access to services; employment generation; and social capital/good governance. The first survey, the PNPM Impact Evaluation 2007 Survey will be completed in early October 2007. It will serve as both a baseline for PNPM and a post-completion survey for KDP2. A second survey, the follow up for PNPM, is likely to be conducted in 2009. Both surveys will use a sample of identified households selected from the 2002 SUSENAS national household survey with the goal of creating a household panel by surveying the same households again in 2007 and 2009. The SUSENAS core will be the primary instrument. In addition, the survey will employ a short module focusing on social capital and governance. Each survey round will cover approximately 10,000 households in 456 sub-districts and 17 provinces across Indonesia. A qualitative component accompanies each survey round and will be used to probe deeper into issues of community perception, local governance, and social capital.

Table 1.1: Summary of Evaluation Studies for PNPM

	Hypotheses	Previous Studies (1998-2007) from KDP	Proposed PNPM Studies, 2008-2009
1	PNPM will improve household welfare , especially for the poorer segments of the population.	<ul style="list-style-type: none"> Welfare and targeting (Alatas, 2005) Impact evaluation ongoing for panel 2002, 2007. Quantitative and Qualitative 	<ul style="list-style-type: none"> Will repeat 2007 impact evaluation in 2009. Quantitative and qualitative (KDP and UPP) 100 Sentinel Kecamatan Study in 2008
2	PNPM will have a positive impact on local economic growth , through high rates of return and short and long-term employment benefits.	<ul style="list-style-type: none"> Economic multiplier, EIRR studies (Torrens, 2005), Employment generation (Papanek 2007), MIS on employment info 	<ul style="list-style-type: none"> Will repeat employment and EIRR studies in 2009.
3	PNPM improves access to key services , e.g., markets, town centers, education and health facilities.	<ul style="list-style-type: none"> Impact evaluation ongoing for panel 2002, 2007. Quantitative and Qualitative MIS 	<ul style="list-style-type: none"> Will repeat 2007 impact evaluation in 2009. Quantitative and qualitative (KDP and UPP) 100 Sentinel Kecamatan Study
4	PNPM provides high quality, cost-effective small-scale infrastructure . PNPM has low levels of corruption and leakage .	<ul style="list-style-type: none"> NMC Infra Reviews, 2002 and 2005 Cost-effectiveness study (Torrens, 2005), Infrastructure quality (Ekhardt et al 2004) Corruption (Olken, 2005) Annual audits (BPKP, Price Waterhouse, Moores Rowland) 	<ul style="list-style-type: none"> Repeat NMC Infra Review in 2008. Facilitation Study Repeat corruption study in 2009/2010 Annual audits by BPKP and WB auditors
5	PNPM operations for infrastructure and economic activities are sustainable .	<ul style="list-style-type: none"> NMC 2005 Infra Review Village Financing Study – ongoing. KDP Microcredit Study (Dent, 2001) 	<ul style="list-style-type: none"> Will repeat NMC Infra review on PNPM and VIP infrastructure in 2008. Village Financing Study 2007-2008. Microcredit Strategy Formulation (2007-2008)
6	PNPM builds the capacity of local communities and local governments to manage poverty reduction programs.	<ul style="list-style-type: none"> Economic review (Torrens, 2005), KDP Qualitative Study 2007 UPK annual assessments 	<ul style="list-style-type: none"> Governance study for PNPM, 2008. Supply side responses to PNPM, 2008. UPK annual audits 100 Sentinel Kecamatan Study
	Hypotheses	Previous Studies (1998-2007) from KDP	Proposed PNPM Studies, 2008-2009
7	PNPM improves local governance through community participation, satisfaction with results, and accountability. It also promotes conflict resolution and increases social capital	<ul style="list-style-type: none"> MIS data on participation, local contributions KDP conflict study 2005 CDD Gender Review 2007 KDP Impact Evaluation ongoing 	<ul style="list-style-type: none"> MIS data on participation, local contributions. Repeat KDP Impact Evaluation, quant & qualitative in 2009. Governance Study of PNPM Vulnerability & marginalized groups study Conflict study 100 Sentinel Kecamatan Study

(b) Economic Analyses Studies

From 2005 to 2007, KDP carried out several studies to calculate:

- Economic internal rates of returns
- Cost effectiveness as compared to other similar programs
- Economic multiplier effects
- Employment and poverty impact

These studies for economic impact and employment will be repeated in 2010.

(c) Infrastructure Evaluations

In the past, KDP has supported four separate studies evaluating the quality of rural infrastructure and also reviewing the supervision and documentation related to infrastructure works. These studies focused upon: technical quality; maintenance plans; usage of facilities; employment generation; community perceptions of, and satisfaction with infrastructure; cost efficiency; proper documentation of designs; unit costs; safeguards; and inspections.

For PNPM, the program plans to conduct another village infrastructure review similar to the studies from 2005. The review will look specifically at issues raised in earlier reviews, especially technical supervision and inspection, technical documentation, and operations and maintenance arrangements. Planned for 2010/2011, they will provide a 10 year review of sustainability.

(d) Facilitation Study

Traditionally, KDP has spent approximately 15 to 20 percent of its budget for external consultants, both social and technical. This arrangement developed with the understanding that Government should outsource such services and that the quality of technical input would be higher. However, dissenting opinions believe that Government officials should be performing these services and that TA costs are too high and are not value for the money.

This Facilitation Study scheduled for 2009 will look at examples of government programs, including KDP, where funds have been utilized without technical consultants present. Occasionally this has occurred due to difficulties filling positions or breaks in contract. There are also several government infrastructure programs where there are no technical consultants. This Study will compare situations where facilitators have been present vs. those where no facilitator is recruited and/or local government officials themselves serve as the project social and technical advisors.

(e) Village Financing Study

This Village Financing Study aims to understand the ability and willingness of villagers in poor villages to provide the resources to maintain the infrastructure in their villages. To do so, the Study will obtain a profile of total net incomes of a set of poor villages throughout one year and perform an infrastructure-maintenance cost-modeling exercise. In particular, this Study seeks answers to the following research questions:

- Do villagers in poor villages have the resources to maintain their priority infrastructure on their own?

- If they do, to what extent are villagers willing to use their resources for infrastructure maintenance?
- How do seasonal conditions and villagers' (as well as villages') characteristics affect resource availability and their willingness to pay for infrastructure?

There are two types of respondents: households and village officials. For the household survey, the total sample size is 3,840 households. This represents an average of 120 households in each of 32 selected villages. For the village officials' survey, an estimated of three to five village officials will be interviewed in each village. The Study will also include a technical inventory of major infrastructure works in the village, including roads, bridges, irrigation and water sources. The 32 villages were selected from Sumatra, Java, Kalimantan, Sulawesi and "Other" Eastern Islands. Results are expected in 2010.

(f) Microcredit Strategy Formulation Mission

This follow-on Microcredit Strategy Formulation Mission will recommend ways of developing a complementary program to support the program's kecamatan microcredit units. The main objective of this mission will be to design a national micro-credit program that will be separate but complementary to PNPM. The micro-credit component will form one wing of the Government's overall national poverty reduction strategy to address issues of access to finance for the poor and for private sector development.

(g) PNPM Governance Study

The launching of PNPM in 2007 opens up the opportunity to document carefully how this flagship program develops and what impacts it has. This study will document the life history of PNPM by interviewing various leaders and elites at the national and local levels. The study will explore key stakeholders' perspectives regarding the program, what they hope will be achieved, and their aspirations. It will also examine governance changes and challenges occurring because of PNPM, and the engagement of sub national and local governments in PNPM. This includes interviews with Coordination Team members at the national level, Governors, District Governors and legislatures, Kecamatan Heads, Village Heads and Village Councils, kecamatan financial management units, village implementation teams, community group leaders, and project facilitators and consultants.

A second component of the governance study will examine capacity building efforts to strengthen the performance of local governments for pro-poor planning and support for PNPM. This includes an analysis of how local government funds are used for pro-poor programs and their involvement with PNPM.

(h) Conditional Cash Transfer Evaluations

The CCT component under KDP began its pilot phase in 2007. Three rounds of surveys are planned to evaluate rigorously the impact on health and education indicators, consumption and targeting of the two CCT approaches, household and community. The evaluation uses a randomized approach. The University of Gadjah Mada, Center for Population and Policy Studies, has recently completed the data collection for the first round CCT baseline survey. The 2007 baseline survey covered some 680 sub-districts in the six provinces of East Java, Jakarta, West Java, North Sulawesi, Gorontalo and NTT. The baseline survey visited approximately 26,720 households, 5,340 village heads, 670 health centers, 2,670 health providers (midwives), 2,000 junior secondary schools, and undertook anthropometric measurements for 15,000 children under-three, and math and Indonesian language tests for 20,000 school-aged children. The survey was fielded in June 2007 and the report will be forthcoming in January 2008. Qualitative studies in 24 villages accompany the quantitative field work. The studies will examine changes in education and health outcomes as a result of the CCT interventions.

(i) Supply Side Responses to PNPM

PNPM is intended as the umbrella for poverty reduction programming in Indonesia for the next few years. The Government intends to focus these programs upon reducing poverty in PNPM areas. This study will look at how the ministries of education, health, and agriculture have coordinated under the PNPM programming umbrella to bring services to the poor. This study will focus on KDP/PNPM in several districts and community CCT areas.

(j) Vulnerability and Marginalized Groups Study

This study uses ethnographic qualitative research methods to examine who participates and who doesn't in the PNPM programs. Who benefits from the project activities, who makes the decisions, and who is not touched by the process? One of the aims of PNPM is to ensure that marginalized and the poorest groups do participate in the program's benefits. Is that happening and what factors contribute to failures or successes? Project locations will be chosen across geographically diverse areas, selecting sites from Sumatra, Java, and eastern Indonesia (currently being proposed is Kalimantan and Papua). In these places, the study will examine how ethnic minority groups are involved in PNPM and development planning.

(k) Evaluation of Government National Poverty Programs

Over the course of the next few years, the Government will enhance its evaluation capabilities and carry out evaluations of community poverty projects to assess the effectiveness of these programs and whether or not they should be included under the PNPM umbrella. The Government is particularly interested in whether or not the projects reached their stated objectives, how projects were executed, and are communities benefiting from the projects in a sustainable manner. The Government, through Bappenas, began these assessments in 2007 with eleven major projects in micro-credit, village infrastructure, water and sanitation, and rice subsidy. Lessons from these projects, for example the micro-credit evaluations, are being incorporated into future PNPM design. The Government plans to expand the evaluation of these programs in 2008 and beyond.

Annex 2

Documents Consulted

KDP/PNPM-Rural, Published Studies 2005 – 2008

No	Title	Brief Description
2005		
1	Economic Impact Analysis of KDP Infrastructure Projects (Jan 2005)	An independent study to conduct a post-construction economic impact analysis on 113 KDP rural infrastructure projects to determine the overall economic benefits that have accrued to the villages that planned and built infrastructure facilities according to the KDP Community Driven Development approach.
2	An Analysis of Efforts to Replicate Kecamatan Development Program (April 2005)	A study to examine in greater depth ten KDP replication schemes and to assess the extent to which they adopt certain principles and programmatic features of KDP. This study is important as an initial step to gain insight into how KDP's principles and procedures may be influencing other government development projects especially in the areas of improved governance, community capacity building, and service delivery.
3	Evaluation of Infrastructure Quality of KDP (September 2005)	A study to evaluate the quality of infrastructure built on a sample of villages that had completed building infrastructure in the first year of the Kecamatan Development Program Phase II. Topics of the evaluation included technical quality, but it also included other performance indicators, including project management, the role of the community, maintenance, and the opinions of the community about KDP.
2006		
1	Local Conflict and Community Development in Indonesia: Assessing the Impact of the Kecamatan Development Program (Feb 2006)	A study to examine questions relating to the nexus between development projects and different forms of local conflict by examining how the Kecamatan Development Project (KDP) interacts with social tensions and local conflict, and how it affects the nature and extent of local conflict management.
2	Gender in Community Driven Development Project: Implications for PNPM Strategy (September 2006)	A review to look at how gender and women's issues had been addressed CDD projects to understand about what worked, and why in order to help influence the PNPM design. Specific objectives of the review were to review the role of women in the entire project cycle and their longer-term sustainable impact (socialization, planning, decision-making, implementation, monitoring and maintenance); and to recommend ways forward for future gender programming in CDD-type programs.
3	2006 Village Survey in Aceh: An Assessment of Village Infrastructure and Social Conditions (September 2006, report published in April 2007)	A survey to provide an accurate overview of the condition of Acehese villages 2 years after the tsunami and one year after the signing of the Helsinki Peace Agreement. The data collected through this assessment are aimed to serve as a resource for development practitioners, academics, government officials and the people in Aceh in order to guide the planning and resource allocation of future initiatives throughout the province.
2007		
1	Kecamatan Development Program Qualitative Impact Evaluation (April 2007)	An evaluation to determine whether KDP had an impact on governance practices and community empowerment. Specifically, it examined whether KDP was able to change government practices and whether it increased villager capacity to more adequately identify and solve community

		development needs, or generally assert themselves in economic, political and social decisions that affect their lives. In addition, the study examined KDP's impact on community institutions, women's ability to meet their development needs and poverty reduction.
2	Independent Evaluations of Government Community Development Operations (October 2007)	A series of independent evaluations to examine the effectiveness of ongoing government poverty reduction programs, focusing on the community level. 13 large community development programs implemented by ten different ministries were evaluated in 2007. The purpose of these evaluations is to assess the effectiveness of these poverty reduction programs at meeting their stated objectives, and having a positive impact on communities.
3	Poverty and Employment Generation Impacts for KDP/PNPM	A study examining various scenarios for raising the subdistrict community block grant amount and the potential impacts on poverty reduction and employment generation in PNPM areas.
2008		
1	KDP/ PNPM Impact Evaluation and Baseline (June 2008)	Impact evaluation using panel SUSENAS survey of approx. 10,000 HHs. Purpose is to measure impact of KDP2 and PNPM on poverty, social capital and governance. Includes qualitative study component also. Study found 11% increase in poorest family expenditures directly attributable to KDP PNPM.
2	Conditional Cash Transfer Impact Evaluations (June 2008 baseline)	Comm-CCT is pilot under the KDP AF and new PNPM loan. AAA includes several rounds of randomized surveys for 42,000 respondents across 5 provinces for HH and Comm CCT. Includes qualitative component.
3	Microcredit Strategy Formulation Mission (October 2008)	This mission report provides recommendations for an operationally grounded strategy for microcredit for PNPM and UPP/KDP in the future. A complementary component on microfinance options for migrant workers is also included in this mission.

Websites

<http://www.kdp.or.id>

<http://www.worldbank.org/id/kdp>

World Bank Reviews

1. 1998	Kecamatan Development	Appraisal report
2. 2001	Second Kecamatan Development	Appraisal report
3. 2004	Third Kecamatan Development	Appraisal report
4. 2005	Third Kecamatan Development, 2 nd phase	Appraisal report
5. 2005	Community Recovery Project for Aceh and Nias	Appraisal report
6. 2007	Procurement Post and Financial Review	Audit
7. 2008	AusAID Finance Kecamatan Recovery Program for Aceh Besar	Completion Report
8. 2008	ICM, 2 nd Kecamatan Development Proj.	Completion Report
9. 2008	National Program for Community Empowerment in Rural Areas (PNPM)	Appraisal report

Additional technical documents available from the Bank include procurement and financial management capacity assessments; audit TOR and findings; and supervision reports.