



Australian Government
AusAID



Proposal for Additional Funding for Social Assistance

Indonesia

2013

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GLOSSARY

ASEAN	Association of Southeast Asian Nations
AusAID	Australian Agency for International Development
Bappenas	Badan Perencanaan dan Pembangunan Nasional (National Development and Planning Agency)
BLT	Bantuan Langsung Tunai (Unconditional Cash Transfer)
BSM	Beasiswa untuk Siswa Miskin (Scholarships for Poor Students)
GIZ	The Deutsche Gesellschaft für Internationale Zusammenarbeit (German aid agency_
GoI	The Government of Indonesia
Jamkesmas	Jaminan Kesehatan Masyarakat (Health Insurance for the Poor)
KemenkoKesra	Kementerian Koordinator Bidang Kesejahteraan Rakyat (the Coordinating Ministry for People's Welfare)
KUR	Kredit Usaha Rakyat (People's Business Credit)
LSM/NGO	Lembaga Swadaya Masyarakat/ Non-Governmental Organization
M&E	Monitoring & Evaluation
MSMEs	Micro, Small and Medium Enterprises
NTT	Nusa Tenggara Timur/East Nusa Tenggara province
PKH	Program Keluarga Harapan (the Conditional Cash Transfer program)
PNPM	Program Nasional Pemberdayaan Masyarakat (The National Program for Community Empowerment)
PPLS	Pendataan Program Perlindungan Sosial (Data Collection of Social Protection Programs)
PRSF	Poverty Reduction Support Facility
Raskin	Beras untuk keluarga Miskin (subsidized rice for the poor program)
TNP2K	Tim Nasional Percepatan Penanggulangan Kemiskinan (National Team for Accelerating Poverty Reduction)
USAID	United States Agency for International Development
WB	World Bank

I. PROPOSAL

AusAID is proposing to scale up its social assistance expenditure from its current commitment of \$73 million between 2009-10 and 2014-15 to an annual expenditure of around \$118 million by 2016-17. Total expenditure over 2012-13 to 2016-17 would reach around \$314 million. Apart from \$25.4 million to deepen our social protection engagement with the World Bank¹, the rest of these funds will go through an existing AusAID-managed vehicle.

Approval for this funding has been split into two phases. The first phase will see an increase of \$89 million in spending to Australia's social assistance programs, in addition to previously committed funds. Programs will be reviewed in 2015 and further funds sought to scale up successful programs after that time.

This proposal fits within a broader plan to scale up total social protection expenditure, which will be split between social assistance and support to the Indonesian Government's National Program for Community Empowerment (PNPM). This proposal covers the social assistance component of the scale up as well as some limited additional support to financial inclusion work. The increases to PNPM support are covered by a separate proposal.

Box 1: Snapshot of Social Assistance Scale Up

Proposed new Expenditure: \$314.4 million (2012-13 to 2016-17)	
Actual Commitment: \$162 million (\$89 million 2013-2015 recently added to previous commitments of \$73 million since 2010)	
Goal:	To increase the rate of poverty reduction in Indonesia and reduce the impact of shocks and stresses on the poor and vulnerable.
Philosophy:	To bear the risk of innovation and provide the government with the flexibility to improve existing national social assistance programs and create new ones where required.
Activities:	Pilot programs, evaluations, studies, poverty analytics, co-funding
Number of potential beneficiaries: 80 million	
Vehicles:	AusAID-managed Poverty Reduction Support Facility (\$255.6 million) World Bank Partnership for Knowledge-Based Poverty Reduction Trust Fund (\$25.4 million) These totals are for a full four year program, which will be implemented in two phases – the first is 2013-14 to 2014-15, and the second is 2015-16 to 2016-17.

¹ The World Bank support was designed separately but was peer reviewed as part of the package of AusAID's scaled up support for social protection.

II. BACKGROUND

In February 2010, the President issued Presidential Instruction no. 3/2010 to form the National Team for Accelerating Poverty Reduction (henceforth TNP2K). This inter-ministerial body is mandated to assist the Government of Indonesia (GoI) in developing policy and strategy, identifying gaps in the current suite of GoI poverty programs which cover almost 80 million people, and consolidating fragmented programs. AusAID was asked by the Vice President's office to support the establishment of TNP2K's working groups that would drive the policy and strategy development across GoI's three clusters of poverty reduction programs: Cluster 1—social assistance; Cluster 2—community-driven development; and Cluster 3—micro, small and medium enterprises. At the time, AusAID had been conducting analysis in this area and was looking for potential opportunities to engage more deeply in the social protection sector. Supporting TNP2K offered AusAID a valuable opportunity to pursue high level policy engagement in Indonesia.

The Vice President's office informed AusAID at the outset that it could not take funds directly and manage them itself; and budget support to undertake this work was thus not an option. The GoI, the World Bank, and AusAID also decided that the funds should not go through the World Bank, which was stretched with managing the PNPM Support Facility. It was decided that a facility managed by AusAID would meet the government's and AusAID's needs. It would provide the government with the flexible funding vehicle required and it would allow AusAID to engage at a high level on the direction of Indonesia's social protection system.

The Poverty Reduction Support Facility (PRSF) became operational in July 2011, providing funding and support for activities that allow the policy formulation working groups to undertake research, evaluations, and pilots. The same year, social protection was identified as a priority growth sector for the Indonesia program. An issues and options paper ([Attachment A](#)) was produced to describe activities planned under the proposed scale up in social protection. Two key areas for scale up were identified: social assistance and PNPM. For the social assistance and complementary measures, a design was not required as the funding vehicle to support these areas, the PRSF, already existed. Moreover, at the Vice President's request, PRSF was set up as a multi-donor facility; so while the approval for this facility was originally for \$57 million², it was always envisaged that the facility could be of significantly higher value. This flexibility was built into the original design. This document sets out what the additional funding to be channelled through PRSF will support.

III. RATIONALE FOR ADDITIONAL SUPPORT

There is strong rationale for expanding Australia's support for social assistance: 1) the activities under TNP2K supported by AusAID are already showing good progress; 2) support to these large government poverty programs allows us to leverage our relatively small contribution; 3) the original budget for activities is very small and

² Including \$7.5 million for the support for the World Bank managed Partnership for Knowledge-based Poverty Reduction program.

does not allow for extensive analysis; 4) the work aligns closely with AusAID's strategy in the sector and GoI's priorities; and 5) AusAID has a comparative advantage in this sector, bringing a different perspective than other donors in this area. Each of these reasons is expanded on below.

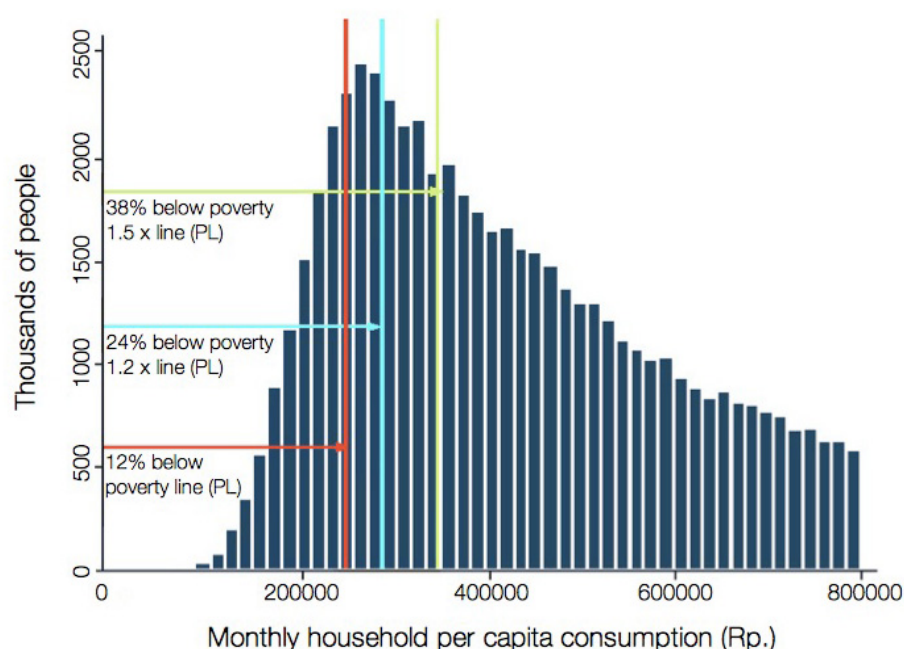
AusAID should build on the achievements and lessons learned from the existing support

Some of TNP2K's achievements to date include:

a) **Establishing a Unified Database for better targeting of poor households.** Although poverty levels in Indonesia are relatively low, much of the population lives clustered just above the poverty line. In 2011, 12.5 percent of households lived below the national poverty line of Rp 233,700 per person per month. In 2012, 11.9 per cent of households lived below the (updated) national poverty line of Rp 248,707. However, as **Figure 1** illustrates, much of the Indonesian population is clustered just above this line, with around 24 percent below 1.2x the poverty line, 38 percent below 1.5x the poverty line, and nearly 60 percent below 2x the poverty line. This means around half the population of Indonesia (120 million) is living on less than US\$2/day.

Living standards remain low for many Indonesians, and relatively small shocks to their income and consumption can send them into poverty: typically half of poor households in a given year were not poor the year before, and 80 percent of next year's poor will come from the bottom 40 percent of households.

Figure 1: Percent of poor and near poor



Source: World Bank 2012

With limited social spending budgets, not all households can be covered by social assistance and protection programs. An effective means of targeting can increase the likelihood that the poorest 40 percent of Indonesian households who remain highly vulnerable will receive public assistance.

TNP2K has made major progress in their first priority reform: establishing the national targeting system. During July-August 2011, Statistics Indonesia compiled the primary data source for the system by surveying 25 million households (under the Database for Social Protection Programs 2011 or PPLS11)—just over 40 percent of the poorest Indonesian households. Households assessed were identified using a mix of census-based pre-listed households, community referrals, and updating of existing lists.

TNP2K played a crucial role in coordinating different parties for PPLS11 and ensuring the quality of the resulting data. During the preparation stages, TNP2K compiled inputs from ministries overseeing different social protection programs and assisted the construction of PPLS11 survey design and instruments. TNP2K also worked in close partnership with Statistics Indonesia to clean and prepare existing data of pre-listed households. As PPLS11 reached its final stages, TNP2K coordinated a team of experts from Statistics Indonesia, the National Development Planning Agency (Bappenas), and the World Bank to analyse the data, estimate household consumption using Proxy Means Test statistical models, and assess poverty levels. In January 2012, the TNP2K Secretariat formally delivered the registry to the Vice President. Software is being developed to generate lists of households/families for each region and to assess eligibility criteria for different social protection programs. TNP2K will also lead the effort to build a secure system to transfer the data to different ministries based on program-specific needs and timelines and will develop a grievance system.

b) **Development of national social assistance strategy.** As a first step to forming a coherent social assistance strategy and addressing the gaps in social assistance in Indonesia, TNP2K has commissioned research in a number of areas, including transfers for the elderly, transfers for the disabled, improvement of *Raskin* (the subsidized rice for the poor program), and the development of a well-functioning grievance system for social protection programs.

c) **Strategic directions set for the conditional cash transfer program (Program Keluarga Harapan (PKH)).** A 2010 evaluation found that PKH has led to significant increases in health-seeking behaviour and “healthier” expenditure patterns for PKH beneficiaries. That is, PKH families spent a greater portion of their household budgets on healthcare and food, especially proteins, than before entering the program and more than non-PKH beneficiaries. GoI is scaling up PKH and through a series of TNP2K ministerial, high-level, and technical staff meetings, there has been interagency agreement on the program’s strategic directions. Instead of being merely a program of Ministry of Social Affairs (*Kementerian Sosial*), PKH has evolved into a national program where each ministry has tasks and responsibilities. PKH’s expansion to three million households by 2014 has been agreed, and plans laid out for the achievement of strategic directions. PKH is also set to use the unified database for its expansion to 2014.

d) **Development of a Financial Inclusion Strategy.** TNP2K has prepared the Financial Inclusion Strategy as an important pillar for Cluster 3 of the GoI’s poverty alleviation programs (micro, small and medium enterprises). The strategy aims to enhance the prospects of the poor to engage in Indonesia’s financial system, including

access to credit, savings accounts, insurance, and payment services. The document outlining the strategy has been finalised and has been used as policy inputs in the last ASEAN Summit meeting. Steps are needed to put this strategy into strategic action plans and activities.

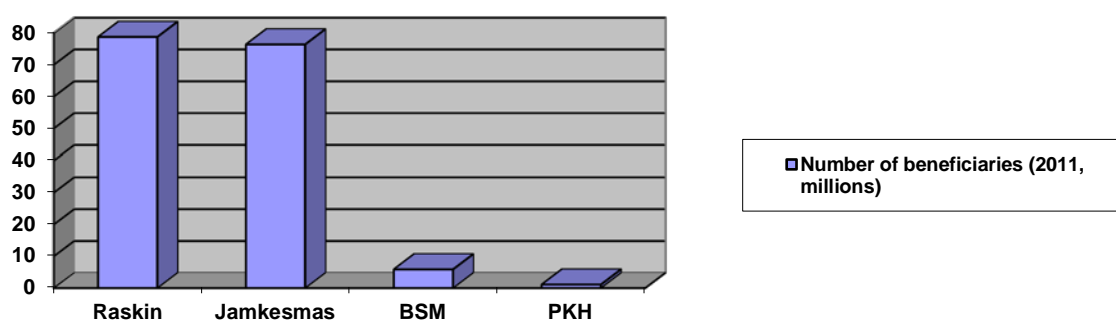
e) **Lessons Learned.** AusAID has been supporting TNP2K since mid-2010 and has learned from early mistakes. The first key lesson has been on staffing. It has become clear over the last two years that it is very difficult to get suitably qualified staff in Indonesia for certain fields for such a high level policy think tank. This problem was initially underestimated and the PRSF has had to develop alternative arrangements when trying to source new staff members for TNP2K, such as pairing short and long-term international experts with national staff.

The second main lesson has been on the importance of clear lines of responsibility. The problem has been predominantly experienced in Cluster 2 (community-driven development), with blurred division of roles between the Coordinating Ministry for People's Welfare (*Menko Kesra*) and TNP2K resulting in uncertainty over responsibility for the Cluster 2 roadmap development and implementation. It is also a good lesson for other clusters and highlights the need for developing a clear division of responsibility at an early stage and regular and pro-active engagement with PRSF management.

AusAID can leverage a relatively small investment

The social protection programs AusAID is working on through TNP2K are national programs in the fourth most populous nation on earth. *Raskin* and *Jamkesmas* (health insurance for the poor) both have almost 80 million beneficiaries, and the scholarship program for poor children (BSM) will increase to cover 14 million students this year. Government investment in these programs was \$3.4 billion in 2010, reaching 0.5 percent of GDP. The scale of these programs allows AusAID to significantly leverage its comparatively small investment of \$314.4 million over four years to have effective poverty reduction impacts across the country.

Figure 2: Number of beneficiaries in GoI's major social assistance programs (2011, millions)



AusAID will also be supporting, through TNP2K, the development of other programs to fill existing gaps, such as cash transfers for the elderly and the disabled.

Two current examples of our ability to leverage our support is the work on *Bantuan Langsung Sementara Masyarakat* (BLSM) and *Kredit Usaha Rakyat* (KUR):

BLSM, unconditional cash transfers for poor households, may be rolled out to 18.5 million households, based on TNP2K's unified database, in response to a fuel price subsidy decrease. It has been rolled out in the past (as *Bantuan Langsung Tunai* (BLT)) to compensate for other shocks, but the design has never previously been based on rigorous analysis nor its rollout been systematically monitored. Targeting, for instance, was identified by policymakers as a key problem in BLT; using the international standard poverty threshold of \$2 per day, the World Bank estimates that 45 percent of the funds were mis-targeted to non-poor households and 47 percent of the poor were excluded from the program in 2005-2006. Citizens voiced substantial dissatisfaction with the beneficiary lists. Protests led some village leaders to resign rather than defend the beneficiary lists to their constituents. Over 2,000 village officials refused to participate in the program for this reason.

AusAID's support through TNP2K and the World Bank has allowed further analysis on BLT's targeting accuracy, its impact on households during income shocks, and its effect on social cohesion within communities. These informed the design of survey modules used in PPLS11, which became the basis of the unified database; they also built the evidence base TNP2K used to lobby for BLSM as a part of the compensation package, as well as design changes such as the use of coupons to shorten lines at the post office (where most people claim their benefit). These changes will ensure that BLSM and future cash transfer programs are of better quality.

KUR, the government's microcredit and collateral guarantee program for microbusinesses, now lends to 5.7 million borrowers through 19 banks and is the largest of such programs in the world. TNP2K is designing a rigorous randomised evaluation of this program. The evaluation will look at issues such as the impact of the program on poverty and whether it expands the reach of microloans to poorer borrowers. The evaluation is likely to lead to modifications which will improve the effectiveness of not only the KUR program but also other financial inclusion interventions by other institutions.

Continuing AusAID's existing scope of support, but including a broader range of analysis and a greater number of pilots, while maintaining a strategic focus on the medium to longer term, will position AusAID well for the period after 2014 when key reforms are in place and GoI's focus has turned to improving effectiveness of implementation of social protection programs. AusAID will continue to promote a more comprehensive and more inclusive vision of social protection in Indonesia by helping to pilot new approaches to social protection and reaching an increasing number of poor people. This will be based on the principles enshrined in the Indonesian constitution, that "Every person shall have the right to social security in order to develop oneself fully as a dignified human being" (Article 28H), and "The state shall develop a system of social security for all of the people" (Article 34).

AusAID should expand support to allow for more extensive analysis

The proposed increase in scale will not increase the scope of potential activities – the boundaries of the social assistance work will remain the same. We propose, however, to do more – more research, analysis, and pilots – within those boundaries. The size of the increased scale-up is based on an estimate of the scale and scope of activities

needed to meaningfully influence national policies for poverty reduction and social protection.

The PRSF was designed before we knew that the Indonesia program would likely increase significantly in the period to 2016-17. It has a modest budget; one which allows TNP2K to do some of the things they would like to but not all. The initial design allowed only \$3.8 million per year for activities such as research, evaluations and pilots.³ Had we only had that budget available to us last financial year, we would have had to make some very difficult decisions. Additional funds in 2010-11 allowed us to fund essential analytical work (see [Attachment B](#) for list of activities funded to date). The TNP2K Steering Committee (on which AusAID sits) will still need to make some difficult decisions as not all potential pilots will be able to be funded. The Steering Committee will be guided by TNP2K's new social assistance strategy in making these decisions.

Honing in more on the question of why focus on this particular area within this sector—why focus on improving these large GoI programs? The answer for social assistance is that these programs make up the entirety of the sector. There are areas around this sector, outside of the large GoI programs, such as civil society engagement and traditional coping strategies; but to work at scale and with the resources we have, working to improve the suite of GoI social assistance programs which impact on almost 80 million poor and vulnerable people is the obvious space for engagement. Working at the strategic level on these programs is also appropriate. Alternatives, such as improving the capacity of the Ministry of Social Affairs to deliver social assistance programs, would deliver poor results if the programs themselves are not improved. TNP2K does not have responsibility for program implementation but its role does stretch to identifying implementation problems and, if TNP2K does identify bottlenecks, AusAID has the flexibility under the PRSF to address them (as it is currently doing with PKH, the conditional cash transfer program).

It is also important to note that while much work will be devoted to improving existing programs there is also a strong focus on filling the gaps; that is, making the social protection system more inclusive. At the moment large segments of the population miss out on existing social protection support, for example the elderly and the disabled. Increasing AusAID funding allows for a focus on these important areas and support for research and pilots to test policies and mechanisms that the government can adopt. One example is an unconditional cash transfer pilot program for the elderly and disabled.

³ Funds from other donors could have increased this activity budget but they were never actively sought because as soon as the PRSF was operational AusAID decided to scale up in this sector and it is unlikely, at least at the present time, that had we tried to raise funds we would have been successful. No donor has a comparable focus on social protection in Indonesia. Only one other donor so far has shown interest in contributing to the PRSF; USAID has contributed US\$700,000 for work on mobile money.

Box 2: Pilot Program for Unconditional Cash Transfers for the Elderly and Disabled

The lack of any national program of social assistance for the elderly and the disabled is a gap in Indonesia's social protection system. Some social insurance measures exist and the Ministry of Social Affairs is piloting two small programs for these groups, but in isolation and not linked to other social assistance programs that they would also benefit from inclusion in, such as *Raskin* and *Jamkesmas*. The design of pilot programs for these groups requires significant research and will draw on results of existing pilots, impacts of the of the national unconditional cash transfer program (BLT) and the experience of international pension experts. The pilots will have strong linkages with other social assistance programs and benefit levels will be set taking these other programs into account.

The answer to that same question (i.e. why focus on improving these large GoI programs?) for AusAID's support to micro and small enterprises and financial inclusion (through Cluster 3) is slightly different. The key reason for some scale up of this work is that it is one of TNP2K's mandated priorities and it would be impossible to have a very large increase in social assistance without some increase in Cluster 3. There are more options to support financial inclusion and micro and small enterprises outside of large government programs than there are for social assistance. That said, the GoI programs are still a significant part of this sector and a valid focus for support given the well established relationships. There are extremely useful things we can be doing in this area. As mentioned earlier, TNP2K is about to embark on an evaluation of the KUR program which could lead to substantial improvements in that and other financial inclusion programs.

The engagement in social protection aligns with AusAID's strategy in this sector and with GoI's priorities

AusAID's overall strategy for social protection aligns well with AusAID's engagement in social protection in Indonesia. The strategy outlines four principles to guide social protection programming. AusAID's engagement in social protection in Indonesia aligns well with these principles, as briefly explained below.

1. *Social protection is a means to an end and complements other approaches to reduce poverty and vulnerability and improve human development outcomes.*

AusAID's engagement in social protection does not form the whole agency's approach to poverty reduction in Indonesia; it is one component.

2. *Support for social protection programming will start with government priorities and be underpinned by a better understanding of political economy.*

Accelerating the rate of poverty reduction through improved, consolidated and new poverty reduction programs is the government's priority and TNP2K was established to take forward this mandate. The work of TNP2K—accelerating the rate of poverty reduction through government programs—remains a key priority for the GoI, and TNP2K continues to have the weight of the Vice President's office behind it. Even under a new administration, if TNP2K did not sit under the Vice President, it is highly likely that poverty reduction would remain a priority. These government programs are popular with a large proportion of the population and, while a new administration may rebadge them, they are unlikely to unwind

them. If TNP2K is successful in its long-term objective of having parliament legislate for improved programs, their continuity will be guaranteed. Supporting TNP2K thus tightly aligns AusAID with the government's priorities.

3. *Social protection programming will be context-appropriate.*

Indonesia is known for being innovative but it has also taken some instruments off the shelf. An example would be the PKH, the conditional cash transfer program which has been very much modelled on *Oportunidades*, a similar cash transfers program in Mexico. TNP2K is assisting the GoI in making this program more context appropriate by reviewing aspects such as the verification procedures, general use of conditionalities, and exit strategies.

4. *Decisions about social protection programming will be informed by a rigorous assessment of alternatives and trade-offs.*

AusAID's social protection engagement in Indonesia has been based on solid analysis. AusAID undertook some initial analysis on the social protection sector in Indonesia in 2009 and has been closely engaged with the sector since, including support provided to the World Bank to undertake a range of analytical work on different aspects of Indonesia's social protection system, and the evaluations of PKH and PNPM *Generasi*, a program that provides block grants to communities to help them achieve better health and education outcomes

The existing opportunity to work with TNP2K—the highest level for social assistance policy formulation—means that an in depth analysis of other options for funding social assistance would not offer value for money. Social protection experts who work in other regions such as Africa and South Asia have recognised our engagement with TNP2K as a very valuable opportunity that is rarely available to donors. The normal situation is that donors struggle to find a way in the door to be able to sit with government and engage in social protection policy discussions. In Indonesia, we are already in the door with a comfortable seat at the table. Focusing our efforts on making best use of that seat is the current priority for AusAID's social protection team.

AusAID should maximise Australia's comparative advantage

AusAID has growing expertise in social protection and access to a diverse range of international experts, and brings a different viewpoint than those the GoI would receive from the other major donor in social protection in Indonesia: the World Bank. The Bank has specific views about a number of issues in social assistance, such as conditions and targeting, which are widely accepted in Indonesia. This is not a criticism of the World Bank – all institutions have their own biases. AusAID, alternatively, by virtue of being a relative newcomer in this field, does not have predefined approaches to social protection, allowing us to focus on building evidence, assess options and present alternative viewpoints. AusAID is well positioned to play that role to ensure that ideas that may conflict with those of the Bank still make their way to the policy table to be discussed.

AusAID's funding, though very small when compared to Indonesia's own investment in social assistance, is highly valued by GoI as it allows them to undertake innovative activities that would not otherwise be possible due to their budgetary rigidities. It is an appropriate role for a donor to take in a middle income country like Indonesia. Australia's capacity to make a difference depends on our ability to leverage Indonesia's own substantial resources. In practice this means: helping to trial new approaches that will enable the Indonesian government to make policy choices based on evidence; building local capacities within government as well as strengthening communities' ability to hold governments to account; to help the Indonesian Government to reach the marginalised and chronically poor; and to complement and enhance the work of other major donors such as the World Bank and Asian Development Bank.

Once pilots are completed and GoI agrees to scale up certain programs across the country, AusAID can assist GoI in rolling these out faster into areas of greatest need. An example of this is PNPM *Generasi*, a pilot of incentivised block grants, which expanded coverage twofold from 1,605 villages in 2007 to 3,693 villages in 2012 with AusAID's support. AusAID could assist a similar level of scale up in the social assistance area if pilots such as the unconditional cash transfer for the elderly worked well. It often takes time for the political will to catch up with evidence, but TNP2K will ensure relevant stakeholders are involved throughout the process so the evidence will not be presented out of the blue. The stakeholders will be well aware of the pilots and will have provided significant input. However, we cannot assume that the GoI budget will immediately follow its political will. AusAID could have a key role in filling in the funding gap while government funds come on stream.

IV. CHANGES FROM THE ORIGINAL SCOPE OF SUPPORT

The design for the PRSF was written and peer reviewed in 2010 (see [Attachment C](#)). It was mobilised less than a year ago and there have been no significant changes to the original scope of support.

The biggest change is in the amount: AusAID will be putting approximately \$255.6 million into the PRSF instead of \$46 million. The increase means we will be able to deepen the analysis and undertake more of it. Instead of very small pilots, the increased funding will allow TNP2K to undertake a number of large pilots that have higher possibility of national scale up. The overall scale of the budget is based on an estimate of what is needed to reform programs and support innovative new ones that address gaps in the current social protection system, at a sufficient scale and scope to meaningfully influence national policy and meet AusAID spending imperatives.

The policy formulation working groups are already undertaking significant research and will soon be in a position to begin a number of evidence-based pilots. The identification of these pilots was based on analytical work undertaken by TNP2K and the World Bank on the coverage and quality of Indonesia's social protection programs, to develop what is needed for a more comprehensive and higher quality social protection system. They include trialling of key program improvements to existing programs—such as the introduction of grievance mechanisms or information and communication technology (ICT) across programs, or testing entirely new

programs such as non-contributory old-age pensions or youth employment guarantee. These likely pilots and a rough estimate of their costs are outlined in the issues and options paper ([Attachment A](#)) and will be developed in detail during implementation of the scale-up, although preliminary work is already proceeding under PRSF.

Without the scale up funds, only a few of those options would be able to be tested, and much harder decisions over relative priorities would have to be made. Not rigorously piloting changes to national programs can have huge costs if they are not tested in advance of being rolled out across the country. Problems are not picked up early and it is difficult to make changes once a program is implemented at a significant scale. The pilots supported by AusAID will allow GoI to identify these problems early and then provide GoI with confidence in the success of modified or new programs.

Some other small differences from the original design are outlined in [Attachment D](#) which includes work taken forward on monitoring and evaluation.

PRSF has also developed a gender strategy which is at [Attachment E](#). The gender strategy will commit PRSF to providing analysis of key gender issues relevant to the goals and focus of PRSF and TNP2K's priorities, and guidance on specific actions that PRSF, and in time TNP2K, can undertake to contribute to gender equality and sustainable poverty reduction. Its three objectives are:

- PRSF and TNP2K have increased access to information regarding the gender dimensions of poverty and gendered constraints to poverty reduction in Indonesia;
- PRSF and TNP2K have increased understanding of gender issues and increased capacity and commitment to incorporating gender strategies in policies and projects; and
- PRSF is supporting activities in selected provinces which are promoting gender equality in end user's access to and decision making about a range of poverty reduction tools available to them.

V. EXPECTED OUTCOMES

The goals, objectives and the expected outcomes were described as follows in the original design:

Goals and Objectives

Long Term Goal: To increase the rate of poverty reduction in Indonesia and reduce the impact of shocks and stresses on the poor and vulnerable.

Medium term goal: Improve the quality of policy advice for poverty programs.

Objectives: Given the Facility's central role in supporting the National Team for Accelerating Poverty Reduction, its key objectives align with those of the National Team which are to:

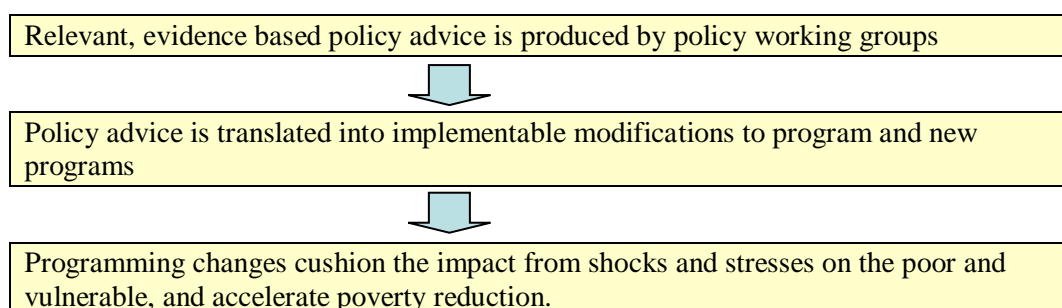
- i. design and oversee a large-scale program of social assistance and poverty reduction;

- ii. consolidate, simplify, and improve the efficiency of existing programs; and
- iii. identify important but troubled social assistance programs and resolve their implementation problems.

The AusAID-specific objective of supporting the Facility is to play an active role to contribute to the direction of poverty (particularly social assistance) programs.

These goals and objectives are consistent with the overarching goal of sustainable poverty alleviation within the 2008-2013 Country Strategy under the Australia Indonesia Partnership.

Expected Outcomes - The Facility will support the formulation of policy advice for GoI poverty programs with the expectation that this will lead to an improved social protection system and ultimately increased poverty reduction. This expectation follows the following logic:



The expected outcomes of the support to the National Team for Accelerating Poverty Reduction will be achieved over different time horizons. Longer term and interim outcomes are outlined below.

Longer term outcomes (3 years +)

- Implementation of policy advice improves the effectiveness of social assistance and poverty reduction programs.
- Social assistance programs are more effective in reaching the poor.
- Poor families eligible for social assistance programs have reliable access to these programs.
- Greater appetite within the diverse implementing agencies of GoI to implement integrated poverty programs.

Interim outcomes

- Policy working groups produce policy advice that directly influences program decisions.
- Policy advice is realistic and implementable.
- Evaluations and pilot programs provide evidence base for policy formulation.
- Gaps in social assistance coverage are identified and actioned.
- AusAID participates in key policy discussions, in technical committees and influences decision making.

The above remains valid and is already occurring. While it is too soon to expect to see any noticeable impacts on poverty reduction, PRSF's support to TNP2K has resulted

in several key policy outcomes. For example: in the relatively short time that the PRSF has been operating it has helped TNP2K develop a universal database that is being utilised in *Raskin* and BSM and is planned for use in several other programs; designed a compensation package for fuel price increases; and provided key inputs for the design of national health insurance coverage for the poor. Translating policy into implementation will remain a challenge, but being able to undertake a significantly expanded program of work with increased AusAID funding will allow for a more comprehensive handling of the key priorities. There will be much greater scope for robust analysis, piloting, and evaluating. There will be greater evidence base with which to influence policy.

Consultations to date on the social assistance scale up have raised the potential need for different approaches to address the needs of the two key beneficiary groups: the poor and the vulnerable. All poor people are vulnerable but not all vulnerable people are poor; constraints related to poverty and vulnerability call for different analysis and interventions. TNP2K well recognises this distinction and work is already being undertaken to build a more nuanced suite of programs instead of the current reasonably blunt mechanisms. With *Raskin*, for example, a number of different benefit packages will be trialled for different groups. This approach departs from the current one where each poor or near poor household receives the same allocation of rice regardless of the number of people in the household and the severity of poverty.

VI. KEY RISKS AND RISK MANAGEMENT STRATEGIES

As part of the monitoring and evaluation plan a number of key risks to the program are monitored regularly to assess their impact on the PRSF. Two categories of risks were detailed in the original design document and remain relevant:⁴

- a) Risks associated with the broader Facility objectives (Political Risks)
- b) Risks associated with AusAID's technical support to the Facility (Operational Risks).

Political Risks. These relate to the tensions between Indonesian Ministries as their priorities and investments in long-standing but underperforming social protection programs are tested and changed during program reforms. AusAID is not in a position to do more than marginally mitigate these risks but nevertheless will undertake a range of mitigation measures, including ensuring Bappenas and line ministries are involved in each activity, and robust and participatory discussions are held with the incoming Indonesian Government.

The following table summarises the most salient political risks which the PRSF will need to measure regularly and assess the implication of for PRSF (and National Team):

Table 1: Political Risks

Risk	Mitigation Measure	Rating	Comment
Ministers do not close bad programs and resources are wasted on ineffective poverty reduction measures.	Bappenas oversight of budget increases the likelihood that funds will not be spent on programs that are ineffective. TNP2K and AusAID work with Bappenas to ensure they are across program issues.	H	Bappenas is strong but closing programs will be a slow process
Political interference by parliament stops evidence-based policy reforms.	Briefings and workshops to build parliamentarians and their staff's knowledge on social assistance by the World Bank, TNP2K, and AusAID.	M	There is still a lot of work to do with the parliament on their concerns about dependency and the benefits of social assistance.
Policy disagreements between VP and line ministries paralyse program reforms and successful pilot programs are not scaled up.	TNP2K ensures strong involvement from Bappenas and line ministries in all work from the outset. AusAID oversight to make linkages.	H	Line ministries will have a greater chance of implementing reformed programs if they understand and agree with the reforms. Bappenas can ensure appropriate resourcing. Further explanation below.

⁴ Note that some risks within each category were mentioned in the design document but are no longer included here because they have been proved not to be a cause of concern based on PRSF's performance in the past year.

Risk	Mitigation Measure	Rating	Comment
Uncertainty of the status of TNP2K after the new administration takes office in 2014 (the next election).	TNP2K ensures strong involvement from Bappenas and line ministries in all work from the outset. AusAID oversight to make linkages. TNP2K ensures robust and participatory discussions on the transition are undertaken.	M	TNP2K's value in the GoI will be better appreciated with successful reforms. Line ministries and Bappenas will have a greater chance of taking up TNP2K's functions with strong involvement. Further explanation below.
Corruption undermines safety net programs and resources are wasted.	Collaboration with enforcement agencies; use of web-based transparency; audits by TNP2K, Bappenas, and AusAID.	H	This is already a problem. Good oversight will reduce it; lax oversight will open the doors. Further explanation below.

Three key risks of most concern are: 1) that the successful pilots are not taken up by the government; 2) that TNP2K is phased out in 2014; and 3) that corruption undermines safety net programs. These are expanded on below.

The first of these risks - that the **successful pilots are not taken up** by the government - is a key concern because the taking up of these pilots is the rationale of AusAID's program of support. There are likely to be a number of technical and political reasons that pilots may not be taken up, such as: the relevant parts of the government have not been adequately involved in the development, monitoring and evaluation of the pilots; they have not been able to build capacity in the relevant ministries to manage the programs and secure the required funding; or their interests and incentives are not sufficiently lined up with implementation needs. As a mitigation measure, AusAID will be closely engaged in this issue and incorporate analysis of the political economy of the pilots PRSF supports, including their political feasibility, understanding who are the potential "winners" and "losers" from reforms, and identifying constraints and opportunities to inform strategies that can enhance uptake.

To date we have been very focused on managing our engagements with TNP2K and the World Bank, getting the vehicles up and running and ensuring that they are producing useful outputs. But a focus of this next stage of our support to social assistance will be the broader political landscape (Bappenas, the Ministry of Finance, the Parliament, etc.) and intervening as appropriate. AusAID will undertake a more detailed stakeholder mapping exercise to ensure we are focusing on the right ministries/institutions and individuals within them. All activity proposals from TNP2K are also asked to contain a clear strategy of how they will engage with the relevant line ministries and other key stakeholders.

Similar to the first risk is that TNP2K is phased out in 2014. TNP2K is an ad hoc body formed by a Presidential Decree, which means its mandate may not be renewed or it will be changed when the current President leaves office in 2014. Whether TNP2K will cease to exist is a political decision beyond AusAID's control, but AusAID will be closely engaged in ensuring that, if necessary, its functions and

accumulated knowledge will be appropriately transferred to more permanent governmental bodies.

Our risk mitigation strategy for this has several key elements. The first is that any co-financing that involves major program support is back-ended and will not start until a new government is in place and has indicated its support. By 2014 it is planned that the TNP2K outputs will have been presented to parliament to be issued as budgetary instructions and we will know which programs have a future. A second mitigation measure is maintaining close and on-going relationships with Bappenas and relevant ministries to ensure their engagement in TNP2K's activities. Their buy-in increases the probability of successful pilots being taken up, and with each reform, TNP2K's value in the GoI will be better appreciated. Already, ministries are recognising the value in having a unified database for social assistance programs by ceasing most of their individual targeting activities and requesting names and addresses from TNP2K instead. Today, the unified database's continued existence seems to be widely accepted, even though its institutional home post-2014 has not been decided yet. AusAID can ensure that TNP2K's pilots involve the appropriate ministries in all stages so that more reforms will take the path of the unified database and recommendations are adopted on their merit regardless of TNP2K's continued existence. AusAID also works with other parties, such as the World Bank and GIZ, to ensure that there is intensive capacity building in the key ministries (such as the Ministry of Social Affairs and the National Statistical Bureau) that are interested in taking up TNP2K's recommendations.

A third mitigation measure is ensuring that discussions regarding future plans and transition process will be robust and consultative. To date, AusAID has been involved in all key negotiations regarding TNP2K's activities and can expect to be involved in discussions regarding TNP2K's future existence. Based on the stakeholder mapping and political economy analysis previously mentioned, AusAID can ensure that these negotiations are inclusive, all appropriate parties are consulted, and conjectures made are evidence-based. Another strong reason to scale up the Social Protection engagement and extend it to 2016-17 is to ensure that AusAID can assist its current partners through the transition process as appropriate. Finally, annual and mid-point reviews provide an extra check and opportunities to adjust course.

The third key area of concern is **corruption**. Indonesia is a high risk corruption environment. Corruption risk assessments carried out by specialist agencies such as the World Bank and Transparency International report a similar range of problems. Oversight systems are weak, courts are ineffective at imposing sanctions, and corruption has become deeply ingrained in government programs.

For the purposes of this program, there are three major classes of corruption risk. First, there are risks of high level policy capture. Certain aspects of social assistance policies potentially lend themselves to favouring vested interests, such as policies that require compulsory purchases from favoured suppliers. Second, the large sums of money involved in social assistance programs can be diverted from their intended uses through various mechanisms such as hidden charges, delayed releases, or straightforward embezzlement by well-placed individuals. Finally, the potential for corruption in the normal course of operations from poor financial management and the abuse of official authority is also high.

AusAID's approach to corruption in social assistance builds on the zero tolerance policy. It distinguishes between how its support can reduce corruption in social assistance programs and how the program will safeguard AusAID's own funds. For the former, improving Indonesia's systems for controlling corruption risks through new technology, better design, more public and professional oversight, and strengthening their financial management will be a central focus of the program. The potential for such improvements is high. The mobile money work being supported through the PRSF, for example, could revolutionize in a positive way how money gets transferred to end users because if it is combined with the unified targeting database it would end the current reliance on intermediaries for financial transfers, which is where there is greatest potential for operational corruption. AusAID in the past has played a useful role for TNP2K by highlighting the need to promote transparency in government social assistance programs and to involve civil society organisations in oversight, a role that we will continue to play in the next round of support.

AusAID support to TNP2K is channelled through a managing contractor hired by AusAID. None of its funds enter the government. The two areas where this program potentially poses direct risks to AusAID funds are in the subset of pilot operations that are embedded within government programs and the possible cases of co-financing. In these cases, AusAID will require *ex ante* fiduciary design and capacity assessments that meet AusAID quality criteria. *Ex post* evaluations and audits will review expenditures under terms of reference acceptable to AusAID. Should AusAID be approached for co-financing operations that have high potential impacts on poverty, AusAID will explore options for reimbursing government expenditure rather than transferring funds directly to government budgets. This approach, already in use for PNPM, provides an extra firewall to help ensure that funds get used for the right purposes.

In addition AusAID will draw on the many years of experience that PNPM has accumulated in addressing corruption and promoting good governance. PNPM has developed a set of good practices to strengthen governance for combatting corruption embodied in its "Better Governance Action Plan," and is the first World Bank project to implement such plan. This covers a wide range of proven approaches that AusAID will adapt to its support for TNP2K, including:

- Local control of funds
- Competitive and transparent tendering
- Internal controls
- Audits
- Village-level social controls
- Press and NGO monitoring
- Consultant Code of Ethics
- Complaints handling
- Sanctions
- Enhancing institutional capacity and renewing management
- Strengthening the Management Information System
- Strengthening Complaints Handling Systems.
- Enforcing existing fiduciary controls

- Improving the quality and deployment of human resources.

AusAID will incorporate these practices where relevant in its support to TNP2K and build them into pilot programs that PRSF funds.

Operational Risks. AusAID has more control over the risks associated with its support for the PRSF. Risk assessments will be an essential component of the activities funded through PRSF. The key operational risks are as follows:

Table 2: Operational Risks

Risk	Mitigation Action	Rating	Comment
GoI revises PRSF structure making the program difficult to manage.	AusAID design provisions only specify broad categories and allow for periodic re-organization. The Steering Committee has to approve major changes.	M	Steering Committee minutes should record discussion on possible changes, noting that the PRSF design is flexible and can be adapted to GoI restructuring with AusAID agreement.
AusAID advice not accepted and non-evidence-based decisions are made.	The Steering Committee to raise points of policy disagreement every six months over the life of the program.	M	GoI must weigh political rather than just technical issues. AusAID retains option of not funding programs.
AusAID core team and PRSF overstretched and unable to manage the program effectively.	Semi-annual review of staffing between social protection unit and country management. Use of Social Protection Hub and expert panel resources.	M	Critical issue will be coordination with AusAID sectors to increase effectiveness of the program.

AusAID's Exit Strategy - While most risks described above can be mitigated, there is always the chance that political and other factors beyond AusAID's or the Facility's control adversely affect the likelihood of success. Should that happen, AusAID will need to have a defined strategy for exit – this is why monitoring the key risks, which could be those listed above, is so important so that as part of the monitoring and evaluation system, clear criteria can be put in place around what the situation would look like to trigger AusAID to exit.

This design has several review points built the structure that allow for periodic assessments and high-level dialogue with GoI. They include:

- semi-annual meetings of the TNP2K Steering Committee
- annual high level Australia-Indonesia program reviews
- the PRSF's annual independent assessments
- ad hoc high level meetings with deputies
- contractual termination clauses with the managing contractor.

The main vehicle for exit, should one be necessary, would be through the annual high level program review. Should the finding be that further continuation of the PRSF is not warranted, follow-up dialogue with the Office of the Vice President would agree on a path for termination, including any re-allocation of resources and personnel.

The exit strategy will be further developed during the inception period (see below).

VII. AUSAID MANAGEMENT IMPLICATIONS

Staffing

The nature of the AusAID's work on the program of support to TNP2K is changing and would do so with or without the scale up. We have moved away from design and mobilisation work to implementation, analysis, and policy dialogue. We will retain this focus into the scale up. The social protection team that will be managing the work described in this document has five core staff including an A-based social protection unit manager and a dedicated Social Protection Advisor who started in mid-2012. The team receives support from an extra resource in Canberra and they now share an administrative assistant with PNPM. The Social Development Advisor is very involved in key program decisions within the unit. The new Health Advisor is actively engaged in the health insurance component of the social protection support and the Lead Economist is engaged in the work of Cluster 3 on micro, small and medium enterprises.

From July 2012, the Asia Social Protection Hub⁵ has also been involved in the Indonesia program's social assistance work. The Hub anchor, based in Canberra, will travel to Indonesia regularly and provide support on some of the pilot programs. A Jakarta-based social protection specialist, who will be predominantly focused on the research agenda of the Hub and supporting other AusAID social protection programs in Asia, will also provide some support to the Indonesian program.

The team will continue to work closely with the AusAID social protection expert panel and has formally engaged one of these panel members to review the scale up plans and to play an ongoing advisory role throughout the scale up.

Managing Contractor

The role of the managing contractor is detailed in Attachment C, but in brief it is responsible for:

⁵ The Asia Social Protection Hub will be a unit within AusAID comprising social protection specialists, based in Canberra and Jakarta, who will focus on adding value to AusAID's social protection programs in Asia. The Hub will facilitate AusAID staff and government counterpart development in social protection through a variety of means including valuable learning-by-doing opportunities within AusAID funded social protection pilot programs in Indonesia. It will thus provide a pipeline of qualified AusAID staff to take forward AusAID's growing engagement in the sector. The Hub will have an important role facilitating South-South linkages in social protection.

- recruitment and management of facility staff and staff to support the National Team
- personnel management and salary services
- facility office management
- support for joint management committee and technical committee meetings
- work-plan and activity implementation
- monitoring and evaluation
- recruiting specialist technical expertise
- organising training and workshops
- printing and dissemination.

These activities may be modified or revised during the inception phase (see below).

Inception Phase

Although the overall scope of the work has not changed and it was always anticipated from the tender onwards that the funding size of the facility could increase significantly, we recognise that the significant increase proposed here poses management challenges. The increased funding will also put greater stress on the weaker points of TNP2K, such as coordination and communication with other agencies, business processes across clusters, working groups and the secretariat, and the availability nationally of the right human resources. While PRSF has been able to manage these so far, and is currently developing activities to address each area, these challenges may become more difficult with a much larger budget.

For this reason, when PRSF is approved for scale-up in 2012-13, AusAID will organise a short inception activity that will address managing the scale-up in consultation with TNP2K management and key stakeholders. PRSF has completed management reviews of TNP2K and its secretariat and these will provide important inputs in to the process. The output of the inception period will be a delivery strategy for PRSF that will include among others the following:

- an implementation strategy that includes prioritisation and sequencing of major activities
- a detailed human resource plan for PRSF that will include staffing numbers, required skill sets and a strategy to address skill shortages⁶
- a stakeholder map of the relationships between all the parties and engagement strategy including how potential overlaps will be managed
- a detailed schedule of what the managing contractor is responsible for and where it can add greater value
- a description of the quality assurance processes during each stage of the activity cycle
- an updated performance and risk management framework and description of exit strategies.

The inception period will run for two months. The team will include AusAID social protection expert panel members, national and international experts plus AusAID's

⁶In parallel AusAID will assess its own human resourcing needs and employ the tools developed for the new rural development and social protection sector stream AusAID's food security policy area has designed for this.

Jakarta-based social protection adviser. At the end of the inception period a meeting of the Steering Committee will be called to review the inception delivery strategy. The managing contractor will ensure the inception process is properly resourced with administrative support to avoid delays and distractions to PRSF's current ongoing work program.

VIII. REVIEW MECHANISMS

The monitoring and evaluation framework for our social assistance support has been developed as part of the existing PRSF support and will be able to capture the expanded work program (see Attachment D for more details). Given the scale of the support, and the importance of this support to AusAID's program in Indonesia, an additional review mechanism will be introduced to ensure our support is on track and is supporting our ultimate goal which is poverty reduction in Indonesia.

In addition to the social protection expert panel member who AusAID has engaged to play an ongoing advisory role throughout the scale up for the social assistance component, AusAID will engage a small group of experienced development professionals (two to three people) who will assess the program of work and its outputs and outcomes. This will occur semi-annually at least in the first two years and can be scaled back to annual assessments, and one at the end of the scale up period. It will bring an independent perspective to the work and will be a particularly valuable contribution to our assessments of the post-2014 arrangements.

The review mechanisms will also be strengthened for the specific proposals before their development. Currently, AusAID and the GoI jointly decide through the Steering Committee meeting which pieces of work are to be funded. This will continue but the process will be tightened based on lessons from previous meetings. Going forward, given the number of activities being proposed to the Steering Committee, the AusAID social protection team will work more closely with the PRSF to really highlight those proposals which are outside the core mandate of TNP2K, or have other complexities, to ensure that there is more discussion of these by the Steering Committee.

IX. BUDGET

*Table 3: Budget**

Description	Budget		Executed by
	Breakdown	Sub-total	
TNP2K pilot and reform programs:		\$54m	TNP2K MC
<i>Rice for the poor program (Raskin)</i>	<i>\$6m</i>		
<i>Scholarships for the poor students (BSM)</i>	<i>\$7.2m</i>		
<i>CCT for Health and Education (PKH)</i>	<i>\$8.5m</i>		
<i>Health fee waiver for the poor (Jamkesmas)</i>	<i>\$3.4m</i>		
<i>Unified Database</i>	<i>\$1m</i>		
<i>Food Security and Nutrition</i>	<i>\$14m</i>		
<i>Elderly Pension</i>	<i>\$7.5m</i>		
<i>People with Disability</i>	<i>\$2.6m</i>		
<i>Employment Guarantee</i>	<i>\$3.8m</i>		
TNP2K Research Projects		\$25m	TNP2K MC
TNP2K Operational Cost & Management		\$34m	TNP2K MC
Poverty analytics		\$25.4m	World Bank
Co-funding programs		\$126.6m	Other Line Ministries
AusAID activities**		\$16m	AusAID
Total		\$281m	

* This covers the period of FY13/14 – FY16/17

**Includes AusAID initiated activities, M+E costs, Social Protection Hub

The budget above assumes six pilots programs. However, until the preparatory analysis is completed, there is no certainty about which of the above will be fully developed into pilot programs. It will be then the responsibility of the Steering Committee to choose the pilot programs that will be moving forward. The costs associated with Cluster 3 have been rolled into the line item on “Research Projects and small pilots”.

The Issues and Options paper provides more details on the potential pilot programs. New pilots not listed in this paper could still be proposed. For example, analysis is currently being undertaken on the links or potential links between the government’s social assistance programs and food security. If a pilot is proposed for this issue, potentially modifying PKH, then the Steering Committee would have to determine its relative importance and whether it can be funded.