2010 PSF PROGRESS REPORT
The core business of the PNPM Support Facility (PSF) is reducing poverty by supporting the effective leadership and management of the Government of Indonesia's flagship poverty alleviation program, the National Program for Community Empowerment, PNPM, which is the largest community-based poverty reduction program in the world. Through the PSF, development partners provide high-quality coordinated technical assistance as well as policy and planning advice and targeted financial assistance to the GoI in support of PNPM.

KEY FINANCIAL INDICATORS | 2008–2010

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(front cover) Beneficiaries of the PSF–funded PNPM Generasi pilot, which supports Millennium Development Goals in health and education, reach children like these in over 2,000 poor villages.
ABBREVIATIONS AND ACRONYMS

ADBB Asian Development Bank
AIPD Australia Indonesia Partnership for Decentralization
AP Advisory Panel
APBN Anggaran Pendapatan dan Belanja Negara (National Government Budget)
APBD Anggaran Pendapatan dan Belanja Daerah (Regional Government Budget)
AusAID Australian Agency for International Development
Bappenas Badan Perencanaan Pembangunan Nasional (National Development Planning Agency)
Bappeda Badan Perencanaan Pembangunan Daerah (Regional Body for Planning and Development)
Bawasda Badan Pengawasan Daerah (Regional Supervision Agency)
BCG Bacille Calmette–Guérin (A vaccine against tuberculosis)
BKMB Badan Keswadayan Masyarakat (Self-help Community Organization)
BKPG Bantuan Keuangan Pembangunan Gampong (Fund for Village Welfare Assistance)
BLT Bantuan Langsung Tunai (Unconditional Cash Transfer)
BNPB Badan Nasional Penanggulangan Bencana (National Agency for Disaster Management)
BPKB Badan Pengawas Keuangan dan Pembangunan (Development and Finance Surveillance Agency)
BPS Badan Pusat Statistik (Central Bureau of Statistics)
CDD Community–Driven Development
CF Community Facilitator
CHU Complaint Handling Units
CIDA Canadian International Development Agency
CSO Civil Society Organization
DANIDA Danish International Development Agency
DDUB Dana Daerah untuk Urusan Bersama (Funding of Programs Common to Central and Local Governments for Poverty Reduction)
Dep sos Kementerian Sosial (Ministry of Social Affairs)
DFID Department for International Development
DG Directorate–General
DGHS Directorate General of Human Settlements (Direktorat Jenderal Cipta Karya–DJCK)
DIALOG Delivery Improvements and Local Governance Program
DIPA Daftar Isian Pelaksanaan Anggaran (Budget–Funded Project Proposal Lists)
DKI Jakarta Daerah Khusus Ibukota Jakarta (Special Capital District)
DPIU District Project Implementation Unit
DPT Diphtheria, Pertussis and Tetanus (Combination vaccines against three infectious diseases in humans: diphtheria, pertussis–whooping cough and tetanus)
EA Executing Agency
EU European Union
EO Executing Organization
FK Kecamatan Facilitator
GIZ The Deutsche Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)
Gol Government of Indonesia
HR Human Resources
IDB Islamic Development Bank
Inpres Instruksi Presiden (Presidential Instruction)
Jamkesmas Jamkesmas (National Public Health Insurance)
JIC Joint Implementation Committee
JICA Japan International Cooperation Agency
JMC Joint Management Committee
JP Y Japanese Yen
Juklak Petunjuk Pelaksanaan (Implementation Guidelines)
Juknis Petunjuk Teknis (Technical Guidelines)
Kemkominfo Kementerian Komunikasi dan Informasi (Ministry of Communication and Information)
KDP Kecamatan Development Program
KPDT Kementerian Pembangunan Daerah Tertinggal (State Ministry for Disadvantaged Areas)
KPP Kelompok Pengguna dan Pemelihara (Capacity of Community Groups)
kW kilo watts
LG Local Government
LGCD Local Government Capacity Development
LSP Lembaga Sertifikasi Profesi (Professional Certification Institution)
M–CRIL Micro–Credit Ratings International
M&E Monitoring and Evaluation
MDG Millennium Development Goal
Menko Kesra Menteri Koordinator bidang Kesejahteraan Rakyat (Coordinating Minister for People’s Welfare)
MIS Management Information Systems
MoHA Ministry of Home Affairs (Kementerian Dalam Negeri–Depdagri)
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>MOU</td>
<td>Memorandum of Understanding</td>
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<tr>
<td>MHP</td>
<td>Micro-Hydro Power</td>
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<td>MPW</td>
<td>Ministry of Public Works (Kementerian Pekerjaan Umum)</td>
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<td>MTs</td>
<td>Madrasah Tsanawiyah (Islamic Junior High School)</td>
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<tr>
<td>Musrenbang</td>
<td>Musyawarah Perencanaan Pembangunan (Multi Stakeholder Consultation Forum for Development Planning)</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
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<td>NMC</td>
<td>National Management Consultant</td>
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<td>NRM</td>
<td>Natural Resource Management</td>
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<td>NSS</td>
<td>National Social Security</td>
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<td>NTT</td>
<td>Nusa Tenggara Barat (West Nusa Tenggara)</td>
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<td>NTT</td>
<td>Nusa Tenggara Timur (East Nusa Tenggara)</td>
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<tr>
<td>NU</td>
<td>Nahdlatul Ulama</td>
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<tr>
<td>P2SPP</td>
<td>Program Pengembangan Sistem Pembangunan Partisipatif (Local Government Participatory Development Planning Program)</td>
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<td>P3B</td>
<td>Pro-Poor Planning and Budgeting</td>
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<td>PAPG</td>
<td>Poverty Alleviation Partnership Grant</td>
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<td>PEKKA</td>
<td>Pemberdaya Perempuan Kepala Keluarga (Women Headed Household Empowerment)</td>
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<tr>
<td>PKH</td>
<td>Program Keluarga Harapan (Hope Families Program)</td>
</tr>
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<td>PMD</td>
<td>Pemberdaya Masyarakat dan Desa (Directorate General of Village Community Empowerment)</td>
</tr>
<tr>
<td>PMK</td>
<td>Peraturan Menteri Keuangan (Ministry of Finance Decree)</td>
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<td>PMU</td>
<td>Project Management Unit</td>
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<td>PNPM</td>
<td>Program Nasional Pemberdaya Masyarakat (National Program for Community Empowerment)</td>
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<td>PODES</td>
<td>Potensi Desa (The Village Potential Statistics)</td>
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<td>Pokja</td>
<td>Kelompok Kerja (Working Group)</td>
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<tr>
<td>Posyandu</td>
<td>Pos Pelayanan Terpadu (village health post)</td>
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<tr>
<td>PPIU</td>
<td>Provincial Project Implementation Unit</td>
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<td>PREM</td>
<td>Poverty Reduction and Economic Management</td>
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<td>PSF</td>
<td>PNPM Support Facility</td>
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<tr>
<td>RASKIN</td>
<td>Rumah Tangga Miskin (poor household)</td>
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<tr>
<td>RE</td>
<td>Renewable Energy</td>
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<tr>
<td>Rekompak</td>
<td>Reabilitasi dan Rekonstruksi Masyarakat dan Perumkiman Berbasis Komunitas (Community-Based Settlements Rehabilitation and Reconstruction Project)</td>
</tr>
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<td>RESPEK</td>
<td>Rencana Strategis Pembangunan Kampung (Strategic Plan for Village Development-KDP scale-up, with locally funded Block grant in Papua &amp; West Papua Provinces)</td>
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<tr>
<td>RFP</td>
<td>Request for Proposal</td>
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<td>RLF</td>
<td>Revolving Loan Fund</td>
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<td>RIS</td>
<td>Rural Infrastructure Support to PNPM Mandiri</td>
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<td>RISE</td>
<td>Regional Infrastructure for Social and Economic Development</td>
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<tr>
<td>RPJM</td>
<td>Rencana Pembangunan Jangka Menengah (Medium-Term Development Plan)</td>
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<td>RPJMDes</td>
<td>Rencana Pembangunan Jangka Menengah Desa (Mid-Term Village Development Plans)</td>
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<td>RTSM</td>
<td>Rumah Tangga Sangat Miskin (very poor household)</td>
</tr>
<tr>
<td>Sakernas</td>
<td>Survei Angkatan Kerja Nasional (National Workforce Survey)</td>
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<td>Satker</td>
<td>Satuan Kerja (Central Work Unit)</td>
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<tr>
<td>SIMPADU</td>
<td>Sistem Informasi Manajemen Terpadu (PNPM Integrated MIS)</td>
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<tr>
<td>SIPINTER</td>
<td>Sistem Pengelolaan Informasi Terpadu (integrated information management system)</td>
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<tr>
<td>SPADA</td>
<td>Support for Poor and Disadvantaged Areas</td>
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<td>SPPN</td>
<td>Sistem Perencanaan Pembangunan Nasional (National Development Planning Mechanism)</td>
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<tr>
<td>STATCAP-CERDAS</td>
<td>Statistical Capacity Building–Change and Reform for the Development of Statistics</td>
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<tr>
<td>Susenas</td>
<td>Survei Sosial Ekonomi Nasional (National Social Economic Survey)</td>
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<td>TA</td>
<td>Technical Assistance</td>
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<tr>
<td>TC</td>
<td>Technical Committee</td>
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<tr>
<td>TPKD</td>
<td>Tim Pelaksana Kegiatan Desa (Village Implementation Team)</td>
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<tr>
<td>TNP2K</td>
<td>Tim Nasional Percepatan Penanggulangan Kemiskinan (The National Team for Accelerating Poverty Reduction)</td>
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<td>TS</td>
<td>Technical Secretariat</td>
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<td>TSG</td>
<td>Technical Support Group</td>
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<td>TSU</td>
<td>Technical Support Unit</td>
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<tr>
<td>UPK</td>
<td>Unit Pengelola Kegiatan (Activity Management Unit)</td>
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<td>Unit Pengelola Keuangan Desa (Village Financial Management Unit)</td>
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<td>UPM</td>
<td>Unit Pengaduan Masyarakat (Public Complaint Unit)</td>
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<td>UPP</td>
<td>Urban Poverty Program</td>
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<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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MESSAGE FROM THE CHAIR AND CO–CHAIR

We are pleased to introduce the 2010 PNPM Support Facility (PSF) Progress Report and the new PSF Website (www.pnpm-psf.ning.com). Together they attempt to capture the achievements of the world’s largest community empowerment program – the Indonesia National Program for Community Empowerment or PNPM Mandiri—the challenges it faces in its implementation and its future as the flagship poverty alleviation program in the world’s fourth most populous country.

The Government of Indonesia (GoI) has made poverty reduction one of its highest development priorities in the national medium–term development plan (Rencana Pembangunan Jangka Menengah Nasional/RPJMN 2010–2014). PNPM Mandiri is a key component of the GoI’s strategy to accelerate poverty reduction from 14.1 percent in 2009 to 8–10 percent by 2014.

Indonesia has been able to bring its community empowerment program to national scale within a shorter timeframe than any other country in the world. The PNPM Mandiri national scale–up has created basic infrastructure at the village and urban ward levels, promoted livelihoods through revolving loan funds and fostered local employment, benefitting millions of poor people throughout Indonesia. This is a remarkable achievement. At the same time, as is typical of program expansions of this size, it is not without implementation challenges. In 2011 a key area of focus will be strengthening PNPM Mandiri’s currently stretched implementation systems and capacity to ensure the program’s continued effectiveness.

The PSF had its third birthday at the end of 2010. Led by the GoI and drawing on the collective assets of its donor members, it enters its fourth year poised to leverage its experience and strengthened coordinating platform. In 2011, the PSF will continue to coordinate technical assistance and policy and planning advice, delivering over US$ 100 million in targeted financial assistance to the poor.

The PSF will also launch its civil society partnership program, PNPM Peduli, which provides grants to Indonesian civil society organizations working with the most marginalized among the poor.

Global and domestic economic trends, including price increases in food and energy as well as high inflation which significantly affect the poor, suggest a continued challenge to Government efforts to maintain and effectively implement its priority poverty reduction programs. Facilities such as the PSF not only provide additional financing to such programs, but also serve as a key catalyst to support and strengthen implementation. A key priority for 2011 will be to launch a strategic discussion, with all development partners, on options for ensuring the sustainability of continued support for the Government’s programs.

During 2010 donor members made cash contributions of over US$90million to the PSF. We would like to express our sincere appreciation to the Governments of the Netherlands, Denmark, Australia, United Kingdom, United States and the European Union. We would also like to extend a welcome to the United States and the European Union, who joined the PSF in 2010.

Ceppie Kurniadi Sumadilaga
Chair, Joint Management Committee
Deputy Minister for National Development Planning/National Development Planning Agency for Poverty, Labor and Small & Medium Enterprises

Stefan Koeberle
Co–Chair, Joint Management Committee
Country Director, World Bank, Jakarta
In 2010, PNPM–Rural supported almost 30,000 revolving loan activities for women. This woman, a member of a Women's Group Savings and Loan group supported by the program, prepares her goods for sale at a traditional market.
Indonesia has reached national coverage of its community development program at a faster pace than any other country. Rising from a baseline of 25,000 villages in 2006, when the Government of Indonesia (GOI) announced its intention to integrate a nationwide community empowerment program into its overall poverty strategy, PNPM–Rural now covers 61,000 villages in 4,791 sub–districts. Its sister core programs, PNPM–Urban, SPADA, RISE and RIS together cover an additional 1,523 sub–districts, ensuring national coverage of PNPM.

Research continues to demonstrate sustained impacts on poverty reduction, household welfare, service delivery, and social accountability/ transparency within the program. PNPM remains a cost–effective means of providing needed infrastructure of sufficient quality relative to other approaches. However, PNPM faces challenges in translating social accountability/transparency gains developed within the program into influence on development planning and service provision outside the program. Evidence also shows that PNPM is more effective in particular contexts (poor and remote, infrastructure deficient), which suggests that developing a more targeted approach could improve the overall impact for a range of indicators.

In 2010, the five GOI core PNPM programs disbursed over US$900million in block grant funds. Outputs delivered included:

- **PNPM–Rural:** Sub–projects benefited 34–35 million people: 18,279 km of farm/rural roads built; 2,147 bridges built; 3,447 irrigation systems built; 2,053 clean water systems built; 438,432 square meters of school buildings built or rehabilitated; 157,054 square meters of health facilities built or rehabilitated; 283 village electricity units built; 3,001 education activities supported; 1,601 health activities supported; 29,489 women revolving loan fund (RLF) activities supported.

- **PNPM–Urban:** The overall UPPs and PNPM–Urban programs financed construction of over 26,000 km of small roads, 7,100 km of drainage, 170,000 units of solid waste and sanitation facilities and 13,000 community health facilities, and rehabilitated 110,000 houses for the poor. They also financed 175,000 economic activities through RLF.

- **SPADA:** After a slow start in 2007 and 2008, SPADA had significantly increased disbursements and utilization rates in 2009 and 2010. A total of 1,888 sub–projects were completed in 2010: 946 infrastructure, 459 education, 338 health and 145 targeted to youth.

- **RIS:** All 1,724 villages have completed their works under RIS–PNPM I. Civil works under RIS–PNPM II started in late 2010 in 1,474 villages. Supervision suggests that implementation is progressing well with good quality standards.

- **RISE:** Community grants were disbursed for 2,355 villages in over 9,485 packages directly benefiting 142,275 households (711,375 persons).

Pilot projects under Window I also disbursed over US$17.8million in block grant funds in 2010. Outputs included:

- **Green PNPM:** 922 ‘green sub–projects’ are being financed through block grants disbursed in 2010 from the PSF Trust Fund (516 sub–projects) and CIDA Trust Fund (406 sub–projects), including: 500 sub–projects related to environmental conservation, disaster preparedness, and erosion control; 191 sub–projects related to capacity building training for stakeholders; 155 sub–projects related to the planning and management of forest and water resources and environmental services; 76 sub–projects related to utilization of energy from renewable sources.

- **Generasi:** In 2010, the PSF established a trust fund to support the scale up of the program into 48 new sub–districts in West Nusa Tenggara province. An impact evaluation of Generasi showed it had a statistically significant positive impact on the 12 indicators it was meant to address, and that making grants conditional upon performance improves program effectiveness in health.

Beyond implementation support and knowledge work, PSF resources are now used to provide additional support to communities that face particular challenges, such as communities hit by natural disasters or for marginalized groups. In 2010, the JMC approved nine new projects for US$52.5million (the Disaster Management Support Fund was not formally committed until March 2011 when three grants...
agreements with GoI were signed) and topped-up seven ongoing projects about $27.4 million (including US$18 million to expand the Green PNPM project). Official PSF project commitments more than doubled in 2010, increasing by almost US$50 million. Highlights include:

- **The PSF–finance Disaster Management Support Fund**, which will channel resources through the PNPM–Rural and Urban programs and the multi–donor funded Rekompak Project. The program will also utilize US$27 million of PSF funds to transfer resources directly to communities to finance disaster recovery activities in Merapi (Central Java and Yogyakarta) and Mentawai (West Sumatra), which were struck by natural disasters in 2010.

- Of particular interest was the design of PNPM Peduli, under the on–granting to civil society organizations (CSOs) funding Window of the PSF, which aims to leverage the impact of Cluster 2 programs to reach the most vulnerable through providing resources and tapping into the comparative advantage of CSOs. This is very much a learning experience for all involved. In January 2011 three Indonesian executing agencies to on–grant to CSOs at the grassroots level were identified and in March the GoI formally launched PNPM Peduli. PNPM Peduli is in its pilot phase; its platform allows for scale–up and based on performance, additional resources could be directed through the project in 2011 and beyond.

- Five new projects totaling about US$7.6 million and the topping–up of four existing projects to provide various forms of technical assistance, capacity building support and pilots were approved and include: (a) The PNPM Revolving Loan Fund (RLF) Capacity Building and Sustainability project to support the capacity building, restructuring and institutionalization of the PNPM RLF scheme and to strengthen the linkages between RLFs and the commercial microfinance sector; (b) Second Integrated Management Information Systems (SIMPADU II), which supports the integration of the RIS and RISE core programs, as well as PNPM support and pilot programs, into SIMPADU; (c) Local Government Capacity Building (LGCD) project to improve pro–poor planning and budgeting, and build better linkages between community planning and line agency service delivery; (d) Training of Local Auditors to improve fiduciary controls in PNPM in urban areas; (e) Urban Poverty Analysis to understand the PNPM–Urban approach in the context of urban poverty in Indonesia today, its strengths and weaknesses and links to other urban poverty programs; and (f) a study of the size and duration of block grants to explore and provide information to decision makers with poverty targeting and impact scenarios regarding the use of PNPM block grants. This study, financed through the M&E and Special Studies project, will be carried out by TNP2K, the coordination body for the GoI’s poverty strategy in the Office of the Vice President.

PSF projects disbursed about US$28 million in 2010 (for a total of US$36 million since 2008) out of an undisbursed amount of approximately US$32 million at the beginning of the year (87% disbursement ratio). Disbursements were strong across all four windows. The disbursement performance reflects the development cycles of the respective projects, many of which are close to three years old, as well as the linkages to the core PNPM projects, especially in the case of PNPM Generasi, which was approved and fully disbursed within the year.

While much of the work has been forward looking and focused on innovation, considerable attention went to the strengthening of the existing management systems in PNPM. This will remain an area of focus moving forward. Over the past two years, PNPM governance has come under strain for a number of reasons. First, PNPM systems struggled to cope with the scope and the pace of the national scale up. Second, the mainstreaming of PNPM at the executing agency level, especially in the case of PNPM–Rural, has resulted in a lack of dedicated managerial attention to the program. Third, the roles and responsibilities of project administrative units (satkers) and consultants at the national, regional and local levels have shifted over the years, which has resulted in an erosion of some of the core management and oversight systems such as field supervision, management information systems (MIS), complaints handling, training of staff at all levels, and human resource recruitment and evaluation. Considerable progress was made in 2010 with regard to (a) clarifying the roles and responsibilities of the various stakeholders; (b) decentralizing the contracts of district and
sub-district project managers; (c) increasing the salary scales of facilitators to avoid high turnover and to fill vacancies; (d) completing the design of a web-based complaint system; (e) restoring initial training requirements and allocating budgets accordingly; and (f) engaging IT specialists to address issues relating to the MIS. Sustained efforts will be needed in 2011 to see ongoing commitments through.

2010 has been a turning year for PSF; after initial teething problems, considerable progress was made in staffing and internal organization. PSF moved towards a "portfolio approach" to supervision and monitoring whereby the various programs and pilots are supervised in an integrated fashion. The benefit of this portfolio approach is that challenges with core systems such as the MIS, complaints handling system, performance management of staff, or relations between the management consultants and satkers, can be addressed in a comprehensive fashion rather than on a project-by-project basis. Vacancies in PSF's leadership have also now been filled. The challenge in 2011 will be to consolidate the staffing and to further attract and grow Indonesian talent to take over leadership positions in PSF.

The following priorities have been identified with the JMC to guide PSF's work moving forward:

- **Increasing poverty impacts and exploring how PNPM can serve as a platform to foster improvements in local governance and service delivery:** Four strategic issues emerge as priority items: (a) supporting the integration of community development programs as a strategic priority; (b) adjusting the core PNPM model to address different kinds of poverty across Indonesia; (c) using the social capital created through PNPM to strengthen the downward accountability of local government; (d) strengthening the "handshake" between PNPM and sector service delivery.

- **Stronger work with and through national institutions:** By partnering with national institutions such as think tanks, universities, and CSOs to carry out its analytical work program, PSF has undoubtedly contributed to the strengthening of these institutions, even though it is hard to quantify the impact of these contributions. Nevertheless, much more can happen in this area. In 2011, PSF will: (a) identify practical ways and means to ensure that certain functions which are currently carried out by PSF are implemented through national institutions; and (b) develop transition strategies to implement the hand-over while ensuring continuity in service delivery and quality of final products.

- **Sharing knowledge and information and fostering learning by doing of various stakeholders:** Now that PSF has completed its third year, a growing body of knowledge and information is available that cannot only inform policy making, but also be used for further research and analysis. In addition, the continuous field presence of PSF staff provides the organization with a unique perspective on success stories across the country where local leaders successfully address difficult development challenges. While this information is open to the public and accessible through the PSF library and staff, PSF can and should do a better job of actively disseminating and sharing this knowledge and information, as well as fostering "learning by doing" whereby various actors in the field can draw lessons from their own and from others' experiences. In 2011, PSF will: (a) make all the knowledge and information available in PSF more readily accessible to various stakeholders across the country; and (b) foster knowledge sharing and learning across leaders in various parts of the country, including through existing channels such as the PNPM Conference or on-site visits.

- **Continued attention on systemic implementation issues:** The Ministry of Home Affairs (MoHA) is in the process of developing benchmarks and dated milestones for each of the systemic issues that have affected program performance. The implementation of these benchmarks will be the priority for 2011. While this should reestablish the robustness of the management systems in PNPM, continued supervision from the GOI oversight bodies and implementation support from PSF will be critical.
Village meetings, like the one pictured here, are an essential part of the participatory process.
PSF OVERVIEW

Established in 2007, the role of the PSF is to support the management and technical implementation of GoI’s flagship community–based poverty alleviation program. PNPM is GoI’s operational umbrella for its Cluster II poverty reduction strategy, which uses community empowerment approaches to ensure the poor benefit from improved socio–economic and governance conditions. Through the PSF, development partners provide high–quality coordinated technical assistance as well as policy and planning advice and targeted financial assistance to the GoI in support of PNPM.

The overarching objective of the PSF is to assist the GoI in providing effective leadership and management of PNPM. Its specific objectives are to:

- Ensure better coordination across grants and amongst development partners supporting PNPM.
- Develop capacity at all levels to plan, manage, and improve poverty reduction programs.
- Reduce poverty through government and civil society partnerships.
- Support high quality monitoring and evaluation efforts.

PSF MANAGEMENT

The PSF consists of three integrated management and technical units: the Joint Management Committee (JMC), the Technical Committee (TC), and the Technical Secretariat (TS). An Advisory Panel (AP) that would support the JMC is under review.

TNP2K, the coordination body for the GoI’s poverty strategy in the Office of the Vice President, provides overall strategic guidance to the poverty program, including programs in Cluster II. Budgeting and financing decisions are coordinated by National Development Planning Agency (BAPPENAS) who co–chairs the PSF Joint Management Committee. Pokja Pengendali, which is chaired by the Coordinating Minister for People’s Welfare (Menko Kesra) and coordinates all the GoI agencies involved in PNPM, provides overall guidance to the implementation of the program.

JMC members are representatives of the GoI and donor members providing contributions of at least US$1 million to the PSF Trust Fund. GoI representatives on the JMC come from non–implementing agencies and include the BAPPENAS, the Ministry of Finance, and Menko Kesra. The JMC Chairman is the Deputy for Poverty, Labor and Small & Medium Enterprises, BAPPENAS. The Co–chair is a representative of the World Bank acting as the administrator of the PSF Trust Fund. As the PSF’s steering body, the JMC is responsible for providing overall policy and strategy guidance, promoting harmonization and coordination among Cluster II programs, and determining funding allocations for PSF program activities in support of PNPM programs.

The TC, chaired by BAPPENAS, is responsible for discussing technical issues and preparing related recommendations for the JMC’s consideration, updating the PSF operations manual, endorsing new PSF grant proposals prior to the JMC’s review, and reviewing progress towards achieving the PSF objectives. On an ad–hoc basis and dependent on the specific issues discussed, the TC may invite relevant specialists from the PSF and the NGO community to join the discussion and provide input to recommendations.

The TS consists of administrative and technical specialists. The unit supports the JMC and TC by: organizing and documenting meetings; administering grant agreements and monitoring PSF activities; providing operational and technical support to GoI and non–governmental organizations (NGOs) executing agencies managing PSF activities; preparing technical reviews; developing and conducting evaluations and analytical work; and preparing progress reports and financial reports for the JMC and TC.

1 GoI’s poverty reduction strategy is centered around three clusters. Cluster I focuses on household–based social assistance programs, Cluster II emphasizes community empowerment programs, and Cluster III seeks to expand economic opportunities for low–income households.
The JMC may also be supported by an Indonesian Advisory Panel. While the AP is still under review, it is envisioned that it would consist of local professionals selected by the JMC who are recognized for their expertise in poverty reduction and/or community empowerment issues. These professionals would not represent any organization/agency to which they may be affiliated; they would serve as individual advisors to the JMC. The terms of reference for the AP members would be developed by the TC together with the TS and subject to approval by the JMC.

Management Highlights in 2010. In addition to supporting PNPM Mandiri with its policy and strategic guidance, the JMC:

- Expanded its membership to include the European Union and USAID.
- Embarked on informal discussions and consultations with development partners that also support GoI’s Cluster II programs, but that are not formal members of the JMC and include: Canadian International Development Agency (CIDA), Islamic Development Bank (IDB), Asian Development Bank (ADB), and Japan International Cooperation Agency (JICA).
- Updated and approved a new PSF operations manual, which clarified and strengthened the policies and procedures that guide the functioning of the facility.
- Welcomed the new Chairmen from Bappenas for the JMC and for the TC.

RESOURCES AND DEPLOYMENT
PSF projects and activities are executed by GoI, PSF Secretariat/World Bank staff, and NGOs. By the end of 2010, GoI was the executing agency for three projects and activities totaling close to US$45 million. The PSF Secretariat/World Bank was responsible for the implementation of 15 projects and activities totaling approximately US$38 million, and NGOs for three projects totaling about US$7 million. As of 2010 GoI manages the largest share at 53 percent of approved project resources. Based on the current pipeline of project approvals,
in 2011 GoI will be implementing projects that account for 72 percent of PSF’s resources. In addition to the continued increase in the share of resources executed by national institutions, the number of projects is also expected to further increase. [See figure 2]

**Pledges and contributions to the PSF.** Pledges to PSF in 2010 reached over US$155million and receipt of cash contributions reached US$131million, with the addition of the European Union and USAID as new members who contributed US$3.3million and $64.7million respectively. Cash flow, if measured by the paid-in cash contributions plus investment income minus commitments (disbursed and undisbursed) and expenses, at the end of 2010 was about US$41million. The US$41million in addition to a new contribution from AusAID for US$32million and the remaining US$24million in donor pledges will be fully allocated to the 2011 project pipeline if approved by the JMC.

The amount of PSF committed resources more than doubled, from about US$40million in 2009 to about US$90million. These resources have been allocated to specific activities or projects to support PNPM and the GoI’s community empowerment poverty agenda. [See figure 3]
Deployment. PSF resources are channeled through four windows to achieve its objectives.

Just under half of the PSF’s resource commitments are being directed through Window 1 that provides for direct budget support/co-financing to PNPM’s pilot projects, including Green PNPM and PNPM Generasi, which are highlighted later in this progress report. Near the end of 2010 the JMC approved a GoI request for a PSF–financed Disaster Management Support Fund in response to three natural disasters that struck Indonesia within a month. The fund is being finalized and is expected in March 2011 to channel resources through the PNPM–Rural and Urban programs and the Community–Based Settlements Rehabilitation and Reconstruction Project (Rekompak), also a CDD project.

Window 2 supports PSF management and Oversight Body and increases their capacities for long-term management of PNPM. Typical activities under this window, which accounts for 24% percent of the approved resource, include specialized training, consultants to support community facilitators, dissemination and awareness raising activities, information
management programs and institutional strengthening. In 2010, the JMC approved 2 new projects for about US$ 1.3 million under this window.

In 2010 the design of **Window 3**, which is intended to reach the most marginalized groups not currently being reached through PNPM Mandiri, was completed. Bids for Indonesian executing agencies to PSF on-grant to CSOs at the grassroots level were sent out. In January 2011 three organizations were identified and in March the GoI launched Window 3, referred to as PNPM Peduli (PNPM Cares). Window 3 is in its pilot phase and accounts for 5 percent of the resources; however, its platform allows for scale-up and based on performance during the pilot, additional resources could be directed at this Window in 2011 and beyond.

**Window 4**, or technical assistance (TA), accounts for about 22% percent of the resources. Activities consist primarily of monitoring and evaluation, special studies, TA and comparative study tours. In 2010, the JMC approved 3 new projects for about US$ 6.3 million under this window.

**Disbursements.** PSF projects disbursed about US$28 million in 2010 out of an undisbursed amount of approximately US$32 million at the beginning of the year. Disbursements were strong across all four windows. PSF’s disbursement ratio (yearly disbursements/undisbursed amounts at the beginning of the year) for 2010 was 87% percent. The disbursement performance reflects the development cycles of the respective projects, many of which are close to three years old, as well as the linkages to the core PNPM Mandiri projects, especially in the case of PNPM Generasi which was approved and fully disbursed within the year. The outputs and results associated with these disbursements are highlighted in the PSF Project section of this report (See Figure 5).
## Financial Overview

Table 1
PSF FINANCIAL STATEMENT AT END 2010
MILLIONS OF US DOLLARS

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### Operational Summary (Cumulative)

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### Window 1: Direct Budget Support and Co-Financing

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12

2010 PSF PROGRESS REPORT
### Table 1

#### PSF FINANCIAL STATEMENT AT END 2010

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SYSTEMIC ISSUES

Staffing. There were a number of vacancies in the PSF management structure after the departure of the most senior staff in 2009 and 2010. These positions have now been filled. The challenge in 2011 will be to consolidate the staffing and to further attract and grow Indonesian talent to take over leadership positions in PSF.

Reporting. JMC members have provided feedback on the need for more pro-active and timely reporting. Moving forward, PSF will make key information on the program available on the internet and provide quarterly updates.

Knowledge sharing and reporting. Now that PSF has completed its third year, a growing body of knowledge and information is available that cannot only inform policy making, but also be used for further research and analysis. In addition, the continuous field presence of PSF staff provides the organization with a unique perspective on success stories across the country where local leaders successfully address difficult development challenges, or, similarly, on lessons learned from experiences that were less successful. While this information is open to the public and accessible through the PSF library and staff, PSF can and should do a better job of actively disseminating and sharing this knowledge and information, as well as fostering ‘learning by doing’ whereby various actors in the field can draw lessons from their own and from others’ experiences.

Moving forward the PSF will make the knowledge and information available in the PSF more readily accessible to various stakeholders across the country. It is also fostering knowledge sharing and learning across leaders in various parts of the country, including through existing channels such as the PNPM Conference or on-site visits.

Strengthening national institutions. By partnering with national institutions such as think tanks, universities, and CSOs to carry out its analytical work program, PSF has undoubtedly contributed over the yeast to the strengthening of these institutions, even though it is hard to quantify the impact of these contributions. Nevertheless, much more can happen in this area and the question should be raised to what extent functions that are currently carried out by PSF can be handed over entirely to national institutions.

Block grants supported the funding for villagers to build over 2,000 bridges in 2010.
In 2011 efforts will be made to identify practical ways and means to ensure that certain functions, which are currently carried out by PSF, are implemented through national institutions and transition strategies considered to implement hand–over while ensuring continuity in service delivery and quality of final products.

**STRATEGIC DIRECTIONS**

There are a number of areas that emerge as having strategic value, and that are suggested for careful consideration by the GoI and the JMC. While this list is not exhaustive, four strategic issues emerge as priority items.

**Supporting the integration of community development programs as a strategic priority.** The benefits and effectiveness of community–driven development (CDD), which transfers resources directly to communities to support them through the implementation of priority projects identified through inclusive structured participatory processes, is well documented. A challenge is managing the multitude of ongoing programs, which tend to have unique methodologies and implementing arrangements, thus stretching capacity and creating confusion from the village (desa) level up to the national level.

Advancing integration will require strategic and operational decisions at various levels. For example, at the desa and sub–district (kecamatan) levels, establishing appropriate participatory and facilitation processes and examining the composition and use of block grants; at the kecamatan level, the streamlining and strengthening of fiduciary and reporting arrangements; at the district (kabupaten) level, identifying oversight and coordination arrangements, including the role of auditors (bawasda); at the provincial level, identifying and deciding on the composition of a team to supervise Cluster II programs and consolidating systems to track and report on key performance indicators; and at the national level, establishing an appropriate structure with requisite staffing to ensure effective management of the program.

**Adjusting the core PNPM model to address different kinds of poverty across Indonesia to further reduce poverty.** PNPM impact evaluations demonstrate that, while
the program has a measurable poverty impact especially in poor areas, it has less impact on vulnerable groups, such as female–headed households. In addition, the impact of CDD is less measurable in richer areas where the binding constraints for poverty are less linked to economic infrastructure and more to access to jobs and social protection. Adapting the modus operandi of PNPM to match different socio-economic and geographic conditions will be an important aspect of integrating the various PNPM programs and is key to increase the effectiveness of PNPM as part of the GoI’s broader social protection arsenal. PNPM has already piloted a range of adaptations to such environments such as the Generasi program to test and scale up such modifications. Moving forward it will be important to determine the most appropriate combination of instruments for Indonesia’s poverty reduction strategy. In this respect, one set of questions relates to the optimal combination of Cluster I and Cluster II programs. For example, what are the potential synergies between social protection programs like Program Keluarga Harapan (PHK or Hope Families Program) and PNPM Generasi which focus on education and health outcomes at the household level and community level, and how, practically speaking, can these be achieved? In the same vein, it will be important to clarify to what extent and how programs that focus on the demand side should be coordinated with programs that focus on improvements in service delivery.

Using the social capital created through PNPM to strengthen the downward accountability of local government. In the past there have been strong pushes to decentralize PNPM’s management to the provinces and kabupaten. Full decentralization, however, has proven to be premature: while certain kabupaten have the leadership and capacity to successfully implement programs such as PNPM, they unfortunately remain a minority. In addition, the regulatory frameworks, including the accountability mechanisms for local governments, are still evolving. Without a more robust decentralization framework with stronger local government capacity, decentralizing the management of PNPM would mean a de facto end of the program. One of the reasons GoI established PNPM is to ensure a direct transfer of
resources to communities on a national scale, regardless of the institutional weaknesses that can exist at the local level. That said, decentralization of PNPM can and should proceed on the basis of readiness and performance records. PNPM will continue to increase its engagement with local governments. However, the tools and approaches needed to assess readiness and performance should be further developed.

While continued engagement with local governments is critical, it is beyond PNPM's remit to be responsible for the strengthening of the planning and budgeting processes at the local government level. Nevertheless, PNPM's processes of participatory planning, transparency, and local–level accountability still need to be embedded in Indonesia's laws and administrative procedures. Even more importantly, these processes need to become part of institutional practices.

There are two areas where PNPM can add value to local government practices. The first relates to participatory planning processes: while PNPM cannot be responsible for making the various local government planning processes more effective, it can and should serve as a testing ground for effective and inclusive planning and budgeting. This includes a systematic effort to capture and share lessons in this area. The second relates to mechanisms for downward accountability. PNPM creates social capital through its participatory planning processes, which in many cases empowers communities to seek better service delivery and hold local authorities accountable. While mechanisms for accountability towards beneficiaries are still embryonic at this point, they are a critical complement to the mechanisms that ensure upwards accountability through reporting and auditing, and to accountability through the media and civil society. PNPM is particularly well placed to test how the social capital it creates can be mobilized to create stronger incentives and accountability for more pro–poor local governments.

In summary, such PNPM–type processes, which help identify needs and provide effective community oversight over how development funds get spent, can help to improve what is presently an uneasy but evolving tension between traditional “top down,” supply–driven development programs and community demands for accountability.

**Strengthening the “handshake” between PNPM and sector service delivery.** In theory PNPM provides a useful platform for government line agencies to identify and aggregate community priorities from their sector, and it also provides an effective mechanism for communities to join activities that will improve sector governance and the effectiveness of delivery to poor villages. However, attempts to establish high–level sector coordination have not advanced very far. Barriers to cooperation come from both sides. Line ministries have their own programs for community level work, and see little benefit in involving other agencies. From the perspective of a GoI ministry, playing an active role in coordination comes at high cost (administrative agreements, dilution of facilitators’ responsibilities, red tape), and has few immediate advantages. Nevertheless, numerous cases of successful coordination across sectors exist at the local level, driven by inspired local leaders.

Moving forward, a strategy for PNPM could be to build on site–specific experiences where cross–sector cooperation has been effective. PNPM would enable more such efforts through better provincial and district socialization, including support for joint programming if proposed by sub–national PNPM teams. It would also explore ways to give beneficiaries some control over incentives for service providers.
An orange seller passes over a bridge built under the PNPM Disadvantaged Areas project (SPADA). SPADA builds the capacity of local governments to deliver basic services in especially poor and disadvantaged areas, including post-conflict areas.
This section discusses the five core programs that, together, ensure full national coverage of PNPM. For each of these programs, this section provides a short summary description, an overview of 2010 achievements, a discussion of systemic challenges that require attention, and highlights of the planned 2011 activities.

<table>
<thead>
<tr>
<th>Name of Project</th>
<th>Number of Kecamatan Covered</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. PNPM–Rural</td>
<td>4,791</td>
<td>76</td>
</tr>
<tr>
<td>Executing Agency: Directorate General of Village Community Empowerment (PMD), Ministry of Home Affairs (MoHA)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. PNPM–Urban</td>
<td>885</td>
<td>14</td>
</tr>
<tr>
<td>Executing Agency: Directorate General of Human Settlements (DGHS), Ministry of Public Works (MPW)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Regional Infrastructure for Social and Economic Development Project (RISE)</td>
<td>215</td>
<td>3</td>
</tr>
<tr>
<td>Executing Agency: Directorate General of Human Settlements (DGHS), Ministry of Public Works (MPW)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Rural Infrastructure Support to PNPM Mandiri (RIS–PNPM)</td>
<td>237</td>
<td>4</td>
</tr>
<tr>
<td>Executing Agency: Directorate General of Human Settlements (DGHS), Ministry of Public Works (MPW)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Support for Poor and Disadvantaged Areas (SPADA)</td>
<td>186</td>
<td>3</td>
</tr>
<tr>
<td>Executing Agency: State Ministry for Disadvantaged Areas (KPDT)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Sub–districts in Indonesia</td>
<td>6,314</td>
<td>100</td>
</tr>
</tbody>
</table>

**PNPM–RURAL**

**Scope:** National

2007: 33,300 desa/1971 kecamatan/343 kabupaten
2008: 34,405 desa/2,447 kecamatan/336 kabupaten
2009: 57,266 desa/4,371 kecamatan/379 kabupaten
2010: 61,000 desa/4,791 kecamatan/385 kabupaten
2011: 63,000 desa/5,020 kecamatan/393 kabupaten

**Summary:** Like its predecessor the Kecamatan Development Program (KDP) which began in 1998, PNPM–Rural’s overall objective is for villagers in its rural locations to benefit from improved socio-economic and local governance conditions, through the provision of investment resources to support productive proposals that have been developed by communities using a participatory planning process. The project helps efficiently fill Indonesia’s large tertiary infrastructure gap: PNPM projects cost 30–56 percent less than those executed by contractors, and 94 percent of PNPM projects are still fully functional after four years.

PNPM–Rural achieves its development objectives by providing block grants directly and transparently to communities to finance an open menu of poverty alleviation activities identified through a gender-inclusive community participatory planning process; and by enhancing the capacity of GoI and local governments to partner with community organizations to improve the delivery of basic services. The annually disbursed kecamatan block grants range in size from Rp750 million to Rp3 billion (approximately US$ 84,000 to US$ 330,000) per kecamatan. Block grant allocations depend on the level of a kecamatan’s population, poverty incidence, and remoteness.
Total funding for the first and second PNPM–Rural projects, which respectively began in 2008 and 2009 was approximately US$ 1.9 billion, inclusive of US$ 531 million in World Bank loans, US$ 1.2 billion of GoI funds, and about US$ 160 million in community contributions. On March 30, 2010, the World Bank approved a US$ 785 million loan to continue its support to PNPM–Rural (through PNPM–Rural III).

**2010 Progress:** Four hundred kecamatan and almost 3,000 villages were added in 2010 as a result of administrative redistricting. Block grant funds totaled approximately US$ 740 million, of which 99.8 percent was disbursed as of April 30, 2010. Roughly US$ 139 million of these block grant funds was contributed by kabupaten governments. 2010 outputs from block grant fund sub–projects included:

- 18,279 km of farm/rural roads built
- 2,147 bridges built
- 3,447 irrigation systems built
- 2,053 clean water systems built which benefit >1.4 million people
- 6,135 public toilets and washing facilities built
- 438,432 square meters of school buildings built or rehabilitated
- 157,054 square meters of health facilities built or rehabilitated
- 283 village electricity units built which benefit >127,000 people
- 3,001 education activities supported
- 1,601 health activities supported
- 29,489 women revolving loan fund activities supported

Annually, these sub–projects benefit 34–35 million people and provide approximately 9–10 paid working days each to some 3 million villagers, around 70 percent of whom were classified as being very poor by their own communities. Women continued to be highly involved in the planning aspects of sub–projects; they accounted for more than half of the participants in village and inter–village meetings. They also initiated about 60 percent of all the sub–projects funded.

**Systemic Issues:**

- The capacity of the executing agency, Directorate General for Community and Village Empowerment (PMD), within the Ministry of Home Affairs (MoHA), to manage the project and pilot activities across various agencies and levels of government has been severely stretched by the scale up to national coverage in 2009, and additionally hampered by the fact that the management of PNPM–Rural is only one of its responsibilities.

- Despite employing National Management Consultant (NMC) and Regional Management Consultant (RMC) firms to provide implementation support, PMD is not sufficiently benefiting from this support. A reason for this is the lack of clarity around the roles and responsibilities provided to the NMC and RMCs, which contributes to their sub–optimal performance.

- It is recognized that PNPM operates in an overall high–risk environment when it comes to issues of leakage, fraud and corruption. Corruption practices in Indonesia are prevalent and somewhat 'normalized,' where attitudes towards it are conditioned by one's own incentive structure. KDP had set out to challenge these norms and protect against potential risk weak spots in its design and implementation. The scale up to national coverage and the associated strain on management and monitoring has weakened some of these measures. For example, while substantive progress has been made in 2010 with regard to the strengthening of the complaints handling mechanism, further improvements are required, not least to ensure that fraud and corruption is detected if and when it occurs, and that appropriate actions are taken. In the past much of the attention has been on the robustness of the fiduciary systems at the field level. While this focus was appropriate given that is where the bulk of the resources are, it is important to also include the intermediate and central levels as part of the focus areas with regard to the strengthening of financial management in general, and of the complaints handling mechanism in particular.

- The existing MIS have not kept up with the scale up in multiple respects (e.g. software, hardware and management/use of data). Furthermore, there are challenges faced in transmitting and summarizing information collected in the field, which leads to considerable delays in providing standard data that should be routinely available and to the government and partners.
• PNPM–Rural now constitutes more than 80 percent of MoHA’s annual budget, creating considerable pressure to disburse before the end of fiscal year. This in turn causes decreased attention to good governance aspects, and reduces the quality of institutional building and participatory processes at the village and community level, all of which are disincentives to direct stakeholders to address and handle problems where they exist.

• Leadership and commitment by provincial governments to promote and enforce program principles (e.g., transparency, good governance, accountability, and inclusion) is uneven. In 2008, PMD decentralized the management of payroll and contracting of kabupaten and kecamatan facilitators (now more than 12,000 staff) to provincial satkers. Such decentralization contributed to the relatively smooth scale up in program coverage from 39 percent of rural kecamatan in 2007 to 100 percent in 2009. However, evidence suggests that the increase in decentralized management also increased program risks, including: collusion and nepotism in the selection, mobilization and evaluation of facilitators; and competing authority structures between government staff at the provincial level and RMCs.

A number of corrective actions were identified in response to these concerns, which GoI has successfully completed. Nonetheless, it is worth noting that while the core systemic problems hampering PNPM–Rural’s implementation performance have been identified and some critical steps taken to address these, the capacity of implementing units at all levels remain considerably challenged by the demands of managing a national scale program. Such capacity constraints may affect the ability of the PMD to sustain the necessary follow-up actions. Various aspects of program implementation will require continued close supervision and technical support, in particular with regard to project management, fiduciary aspects, handling of complaints and corruption, and building a good monitoring and reporting system. Continued implementation support to PNPM–Rural III and preparation for PNPM–Rural IV are therefore closely intertwined, as successful implementation of the latter is contingent on addressing key systemic issues in the ongoing program.

**2011 Plans and Activities:** In 2011, PNPM–Rural will allocate block grants from the central budget to 5,020 kecamatan, including 307 kecamatan which will receive additional block grants to support achievement of Millennium Development Goal (MDG) targets in health and education.
through its pilot program PNPM Generasi (described in the PSF Projects section of this report). The program will continue to focus on poverty reduction and expanding access to services and basic rural infrastructure to the poor in rural villages. The GoI and World Bank will prepare a loan for PNPM–Rural IV.

The program will also utilize US$ 14.1 million of PSF funds to transfer resources directly to communities through block grants to finance disaster recovery activities in Mentawai (West Sumatra) and Merapi (Central Java and Yogyakarta), who were respectively struck by a tsunami and volcanic eruptions in late October 2010. The program will provide US$ 32.7 million in supplemental financing from the PSF to increase the impact of the program in 433 of the poor kecamatan.

**PNPM–Urban**

**Scope:** National  
2008: 8,813 urban wards in 245 kota/kabupaten  
2009: 11,014 urban wards in 267 kota/kabupaten  
2010: 10,948 urban wards in 268 kota/kabupaten  
2011: 10,948 urban wards in 268 kota/kabupaten

**Summary:** PNPM–Urban works to ensure that the urban poor benefit from improved socio-economic and local governance conditions. This is achieved through:
- Forming and institutionalizing elected representative organizations that are accountable to communities
- Providing grants to communities directly and transparently to finance poverty alleviation activities, especially infrastructure services
- Enhancing the ability of central and local governments to partner with community organizations in the provision of services
- Increasing awareness of disaster risk mitigation and mainstreaming of measures for resilience and recovery

PNPM–Urban is designed to promote the development of community organizations (BKM) at the urban ward (kelurahan) level. The BKM are eligible for up to three block grants ranging from US$ 15,000 to US$ 40,000 per kelurahan to help meet the goals of the community development plan.

PNPM–Urban builds primarily on the World Bank–funded Urban Poverty Program (UPP1, UPP2/Additional Financing, and UPP3) that began in 1999. In 2008, the World Bank approved the first PNPM–Urban project and provided subsequent additional financing in 2009. PNPM–Urban III was approved in 2010. The total project cost is US$ 217.4 million, including a US$ 155 million loan from the World Bank (including co-financing of US$ 5 million from the Global Facility of Disaster Reduction and Recovery), US$ 36.9 million provided by GoI, and an estimated US$ 25.5 million from community contributions.

**2010 Progress:** In 2010, PNPM–Urban, with additional support from IDB covered 10,948 wards in 268 kota/kabupaten across 33 provinces. US$ 100 million of kelurahan grants was disbursed to wards, mostly for infrastructure (84 percent). The remainder of the grants went toward economic activities (6 percent) and social activities (10 percent).

As of December 31, 2010, the UPP and PNPM–Urban program have financed construction of approximately 26,000 km of small roads, 7,100 km of drainage, 170,000 units of solid waste and sanitation facilities and 13,000 community health facilities, and rehabilitated 110,000 houses for the poor. They also financed 175,000 economic activities through revolving funds.

Roughly 7,500 facilitators and coordinators are in place and 10,948 Board of Trustees have been formed. The key project performance indicators have generally been met, including those for women’s participation. More than 35 percent of the facilitators are women, and about 33 percent of the adult population in the urban wards participated in the election of the Board of Trustees, of which about 45 percent are women.

PNPM–Urban has also initiated several pilot programs, including the Poverty Alleviation Partnership Grant (PAPG) and the Neighborhood Development Program to enhance the effectiveness of the program. Both of these two new initiatives focus on strengthening local government’s role in PNPM. There were 117 kota/kabupaten participating in PAPG, and 273 kelurahan participated in the Neighborhood Development Program.

In 2010, PNPM–Urban supported some 185 kelurahan in West Sumatera for housing reconstruction and rehabilitation (5 houses per kelurahan) after an earthquake. The construction of all affected houses will be supported by BNPB (National Agency for Disaster Management). The objective was to provide good examples of house building. The project is planned to be completed in 2011.
Systemic Issues:

- Various studies have indicated that CDD has the highest impact on income poverty in the poorest areas with the highest deficit in tertiary infrastructure. This begs the question what the most effective ways and means are to address income poverty in urban areas, and what the comparative advantage of CDD is to either address other poverty dimensions in urban areas, or to leverage the impact of other programs such as social protection programs or programs that focus on improved governance. This is the subject of analytical work and is discussed below in the PSF Projects section of this report.

- As the program expands, so does the complexity of program management. The coordination capacity of the executing agency, Directorate General of Human Settlements (DGHS) within the Ministry of Public Works (MPW), needs significant strengthening. There are still problems in ensuring that rules and principles are applied uniformly regardless of the source of funding. For instance, there are cases in which different enforcement is being applied for Islamic Development Bank and the World Bank financing whereas the MIS, website, revolving loan fund (RLF) system and evaluation should be identical. Although DGHS has confirmed that the same policies are applied for PNPM–Urban under both donor agencies, it needs to enforce the consolidation and synchronization of systems, reporting and monitoring and evaluation.

- There is a systemic problem with overall consultant management, resulting in the potential for high turnover which will affect program continuity as well as program quality. Most of the consultant contracts will end soon, as the consultants — both NMC and outside consultants — have been contracted based on the timeframe of particular loans instead of the PNPM program timeframe, which is expected to conclude in 2015. Although World Bank and Indonesian procurement guidelines allow for multi-year contracts and extension of contracts for continuity purposes, DGHS has decided to carry out a new selection for all consultants instead of extending the existing contracts. To mitigate the resulting discontinuity, DGHS, within the parameters of its oversight structures, need to decide on consultant contracts and provide legal frameworks for ensuring continuity of services. The new selection of consultants should incorporate this new framework for continuity.

2011 Plans and Activities: For 2011, PNPM–Urban will continue covering at least 10,948 kelurahan in 268 kota/kabupaten across 33 provinces, which will be funded by available loans. In addition to core PNPM–Urban activities, the program will continue with its pilot activities.

A series of PSF-funded activities will examine the PNPM–Urban approach in the context of urban poverty in Indonesia today, its strengths and weaknesses, links to other
urban poverty programs, and bring in global experiences in urban CDD–based poverty interventions. The results of the activities will be used to support future project design and implementation. More details are included in the PSF Projects section of this report.

In 2011, the program will also manage approximately US$ 1.4 million of PSF funds that will be allocated for "cash for work" programs in 38 PNPM–Urban kelurahan as a response to the Mount Merapi volcanic eruption in Central Java.

PNPM SUPPORT FOR POOR AND DISADVANTAGED AREAS (SPADA)

Scope: SPADA comprises two projects: SPADA National which covers 186 kecamatan in 32 disadvantaged kabupaten in eight provinces; and Aceh–Nias which covers 19 tsunami, earthquake and conflict–affected kabupaten in Aceh and North Sumatra provinces.

Summary: PNPM–SPADA is designed to bring PNPM–Rural experiences in participatory development planning and implementation mechanisms to the kabupaten level, and to build the capacity of local governments to deliver basic services in disadvantaged and post–conflict areas of the country. SPADA provides block grants for local planning and investment at the kabupaten and kecamatan levels, with sub–projects determined through participatory planning processes involving communities and multi–stakeholder groups at the kabupaten level. The project provides intensive technical assistance and training to local governments and citizen groups to improve the local government planning process, specifically to increase accountability, transparency and community participation. SPADA operates with an "open menu" system for the use of the block grants, but at least 30 percent of the district block grants must fund health and education sub–projects, and at least 5 percent of kecamatan grants are targeted to youth. Both SPADA National and SPADA Aceh–Nias are implemented by the Ministry of Disadvantaged Areas.

The SPADA National project amounts to US$ 134 million, of which 78 percent is financed through a World Bank loan and credit, and 22 percent is financed from national and local government resources and community contributions. The SPADA Aceh–Nias amounts to US$ 51.6 million, of which 72 percent is donor financed through trust funds and 28 percent GoI financed.

2010 Results and Key Achievements: After a slow start in 2007 and 2008, SPADA has significantly increased disbursements and utilization rates in 2009 and 2010. In 2010, 99 percent of the block grants for investments were disbursed, in the amount of US$ 27.8 million. A total of 1,888 sub–projects were completed in 2010: 946 infrastructure, 459 education, 338 health and 145 targeted to youth. In addition, a total of US$ 4.25 million
in planning grants was disbursed for technical assistance for and training of more than 12,000 local governments and SPADA stakeholders.

Just as with other PNPM programs, the effectiveness of the program depends on intensive facilitation, technical assistance and supervision. The two SPADA projects have a team of 23 specialists in Jakarta and 58 specialists in 10 provinces. At the kabupaten level, SPADA has almost 300 professional staff members. Each participating kecamatan also has a resident, full–time, university–educated facilitator.

SPADA block grants are being used to complement local government resources for health, education, and basic infrastructure development, and to link community needs with local government priorities. In 2010, more than 800 health clinics and schools were rehabilitated or provided with improved access through roads and footpaths. As part of SPADA’s capacity development program, more than 57,000 teachers and health workers have been trained (over 40 percent women), as well as members of health and education committees, village facilitators and empowerment cadres. The training aims to improve school management and health techniques, business development applications, and sub–project preparation and implementation. Local governments are reporting that this has improved access to water, markets, and education, and improved the health of young children and mothers. Community proposals that because of fiscal restraints were not funded by SPADA, have in several jurisdictions been included in regular Musrenbang (planning process) development plans. SPADA block grants have also opened up access to previously isolated villages, improved opportunities to start small businesses, and improved access to health and education services in disadvantaged communities.

Local governments continued to provide administrative funds to support SPADA, participate in project oversight and monitoring, and assist in resolving fraud cases. During 2010, four additional kabupaten adopted local regulations to improve health services, education services, transparency, planning or public service management, for a total of 15 involved kabupaten governments over the project’s lifespan. Nevertheless, more efforts are needed to effectively link community plans with the kabupaten–level planning process and to integrate the SPADA into the local regular development process. A lack of local government planning responsiveness to community priorities continues to be a challenge for the PNPM family, including SPADA.

**Systemic Issues:** A major challenge in both 2009 and 2010 (a period in which disbursements rapidly increased) has been to ensure the quality of fiduciary systems and staff. Issues around MIS and quality of sub–projects have been identified and addressed through training, improved safeguards and capacity upgrading. During late 2010, the rapid disbursement of funds from the national treasury to individual community accounts raised concerns about financial risks; intensified efforts from the executing agency, State Ministry for Disadvantaged Areas and extra implementation support from the World Bank are being employed to ensure that funds are being properly utilized. The performance of government’s implementation units at the field level has improved, particularly related to issues around procurement procedures and preparation of financial reports. The handling of complaints has also improved in collaboration with relevant government agencies. As of December 2010, 96 percent of 1,899 cases reported since 2007 have been satisfactorily resolved.

**2011 Plans and Activities:** The two SPADA projects will end in December 2011. There are two issues directly related to this. First, SPADA will need to continue to collaborate with local governments to ensure the sustainability of project initiatives and practices. More operational clarity is needed before local governments will be willing to push participatory planning on a sustainable basis. Several impact assessments, result studies and lesson learned workshops are being planned for the first half of 2011. Second, to ensure proper project closure, particular emphasis will be placed on the final reporting of funds and complaints, and on the handover of SPADA sub–projects to local governments.

Discussions will also take place about the possibility for a follow up project, which however is not likely to be launched until 2012. During 2011, discussions will be held with GoI counterparts on the modalities for this new project, that is likely to focus more on the specificities of disadvantaged areas, such as access, human resource development, and economic growth.
RURAL INFRASTRUCTURE SUPPORT TO PNPM MANDIRI (RIS–PNPM)

Scope: RIS PNPM I: 1,724 villages in Jambi, Lampung, Riau, and South Sumatra provinces.

RIS PNPM II: 1,500 villages in Jambi, Lampung, Riau, and South Sumatra provinces

Summary: The project builds on the existing PNPM Mandiri platform and the Rural Infrastructure Support Project program that ended in 2008. RIS–PNPM I was approved in 2008 and has a total budget of US$ 62.5 million, comprising a US$ 50 million loan from the Asian Development Bank (ADB), US$ 6.7 million from the GoI, and an estimated US$ 5.8 million from community contributions. RIS–PNPM II was approved in November 2009, and has a total project cost of US$ 113.5 million, including a US$ 84.2 million loan from the ADB, US$ 21.8 million from government counterparts and US$ 7.5 million in community contributions.

The overarching objective of RIS–PNPM is to reduce poverty and improve local governance in rural communities by improving access to services for the poor, near poor, and women. To support this objective RIS–PNPM aims to: (a) strengthen capacity for community planning and development, which includes supporting and strengthening community participation, empowerment and the capacity to prioritize, design, implement, manage and monitor community–based projects; (b) improve village services and infrastructure through community development grants. Block grants are provided to villages to support investments in priority physical, social and economic infrastructure areas to meet the local needs that were identified in the village’s medium–term poverty reduction plans. Consistent with the PNPM guidelines, the menu of investment opportunities for communities is open, except for a short list of activities prohibited by the GoI or ADB policies. The selection of community investments is based on the guidelines prepared for RIS–PNPM. Block grants are transferred directly to community bank accounts specifically opened for the project and managed by the community implementation organizations; and (c) improve capacity for project implementation and monitoring and evaluation, which supports project management and implementation support at national, provincial, and kabupaten levels, including monitoring and evaluation.
**2010 Progress:** RIS–PNPM I has been progressing well. All 1,724 villages have completed their works. It is expected that the project completion report will be submitted by DGHS by June 30, 2011. Civil works under RIS–PNPM II started in late 2010, in 1,474 project villages. Based on observations during field visits and findings from monitoring reports, implementation of civil works is progressing well with good quality standards. Community implementation organizations have been established in all 1,500 project villages.

In May 2010, DGHS engaged 1,082 community facilitators (CFs) to continue supporting communities in project villages under RIS–PNPM II. 705 well-performing CFs were retained from RIS–PNPM. The selection was based on a comprehensive performance evaluation carried out by the EA in close consultation with provincial project implementation unit (PPIUs) and kabupaten project implementation units (DPIUs). Based on lessons learned from RIS–PNPM I, the CF teams were rearranged so that, on average, a team of two CFs (one to support community empowerment, financial management and reporting and one to provide assistance on technical matters) assists a cluster of three villages.

Prior to their assignments in project villages, all CFs received five-day pre-service training to improve their skills in (a) inclusive community mobilization, (b) preparing technical designs, (c) supervising the implementation of civil works, and (d) the formulation of operation and maintenance plans for infrastructure built and financed under the project. DPIUs are now more involved in monitoring and guiding CF teams. Regular meetings with CFs and kabupaten consultant teams take place at DPIU offices to discuss work plans and review progress in the respective kabupaten. DPIUs review and endorse monthly CF reports; payments from PPIUs to CFs are only released after the DPIU’s endorsement. In general, DPIUs, PPIUs and community members have expressed their satisfaction with CF teams working in the respective project villages.

**Systemic Issues:**
- In the early stages of the project, it was observed that the level of community participation in participating villages varied. While the empowerment process was successful in involving the entire community in the planning and decision making process in most villages, feedback from monitoring reports revealed that socialization activities in some communities were rushed; as a result, the poor and/or less educated community members were not fully engaged in planning and decision making. In these cases, village heads often appeared to be the actual decision maker. In other cases, it was obvious that a majority of women were not involved in the decision making process, or the project scope and its procedures were not fully understood by all community members.
In some villages the quality of infrastructure constructed under RIS–PNPM I was poor, often because the construction design of roads, bridges, or water supply and sanitation facilities did not follow technical construction codes or because the implementation of civil works did not follow the technical design specifications. To address this, technical support and supervision provided by CFs, kabupaten consultants and officers have been strengthened. Recent observations confirmed that newly built roads, footpaths, and sanitation and water supply facilities reviewed during field visits were generally well constructed, indicating that technical support for the design and implementation of civil works has been successfully reinforced.

Inclusive community mobilization remains a challenging task, particularly in villages with scattered households from different cultural backgrounds or with large income and educational disparities. DGHS and respective PPIUs and DPIUs are aware of these challenges and try to provide the best possible guidance to CFs and consultants. The performance of some CFs, particularly the technical CFs, needs improvement. CFs’ understanding of the project manuals (the Juklak and Juknis) needs to be further improved as well.

Some kabupaten are still not complying with the requirements to provide operational budgets for the DPIUs in the amount of at least 5 percent of the total block grant allocations. In these cases, the limited operational budget has prevented DPIUs from carrying out proper project monitoring and evaluations.

2011 Plans and Activities: RIS–PNPM I will conclude on June 30, 2011. RIS–PNPM II, now in its second year, will continue in 2011 to provide block grants in 1,500 villages, with expected disbursement of Rp375 billion.

Summary: Building on the existing PNPM–Rural platform, the program aims to accelerate social and economic infrastructure development by improving access of the poor to the following: transportation facilities; water supply and sanitation facilities; irrigation facilities; market facilities; health facilities and education facilities; and by introducing micro–credit services on a pilot basis. The project in this way contributes to: rural poverty alleviation efforts, the autonomous development of regional economies, the increasingly self–reliant capacity building of local communities, and strengthening the administrative capacity of local governments.

RISE is financed through a International Cooperation Agency (JICA) loan in the amount JPY23.5 billion or US$ 252.2 million.

2010 Progress: The project has provided community grants for 2,355 villages disbursing more than US$ 42 million over 9,485 packages. In 2010, these community grants directly benefited 142,275 households (711,375 persons).

Systemic Issues: In general, the RISE project has been well organized and implemented on schedule. However, in order to maximize development outcomes, it may be necessary to (a) strengthen the integrated planning and budgeting process through the National Development Planning Mechanism (SPPN), and (b) improve the operations and maintenance capacity of community groups.

2011 Plans and Activities: The program will continue to implement community grants. An in–depth, mid–term Impact Evaluation Study was launch at the beginning of 2011. Collaboration with JICA’s technical assistance project “Sulawesi Capacity Development Project” will be considered in order to strengthen the capacity of local government in integrated regional development planning (pilot base).
Green PNPM is assisting rural communities in identifying means to reduce household energy costs. Many participating communities use Green PNPM block grant to finance training in the production of active charcoal briquettes from coconut wastes.
The previous section provided an overview of the five core programs that, together, constitute the GoI’s National PNPM Program. This section discusses in more detail the activities of the PSF, which is a multi–donor Trust Fund financed by AusAID, DANIDA, DFID, the EU, the Netherlands, and USAID, and which is managed by the World Bank. PSF has four windows which are discussed below. Window One provides direct budget support/co–financing for community empowerment programs; Window Two provides support to the coordination and management of PNPM; Window Three provides assistance through Civil Society Organizations; and Window Four provides technical assistance and analytical support to Cluster 2 of the GoI’s poverty strategy.

**WINDOW ONE**

**Projects under Window One provide direct budget and co–financing support to community empowerment programs.** Window One projects are intended to leverage the existing CDD systems and structures. The two active projects, Green PNPM and PNPM Generasi, are pilot projects under the core PNPM–Rural project.

**Green PNPM**

**Scope:** 78 kecamatan and 27 kabupaten within 8 target provinces on Sulawesi and Sumatra Islands: North Sulawesi, South Sulawesi, Southeast Sulawesi, West Sulawesi, Aceh, Bengkulu, North Sumatra, and West Sumatra.

**Summary:** The development objective of Green PNPM is that rural communities in target locations benefit from improved natural resource management (NRM) practices and use of renewable energy (RE) technology. This objective is achieved through: (i) the disbursement of block grants earmarked for community investments in environmentally supportive ‘green sub–projects’; (ii) the mainstreaming of NRM and RE issues in the CDD planning process; and (iii) increasing environmental awareness and related NRM capacity of communities and government stakeholders. Operationally, Green PNPM follows the same mechanism as the national PNPM–Rural program, except that block grants are disbursed at the kabupaten level as well as the kecamatan level. Green PNPM places a particular emphasis on the financing of decentralized micro–hydro power (MHP) facilities. Such facilities are not only in demand by many rural communities, but are also dependent on a continued and protected water flow which is best ensured through communities’ effective management of surrounding water catchment areas.

Green PNPM target locations also have access to supplemental technical and operational assistance provided by GoI–contracted consultants and community facilitators. Additionally, Green PNPM finances four Grant Agreements with local and international CSOs to deliver environmental awareness raising and training activities, and to assist communities in making informed decisions regarding the types of ‘green sub–projects’in which they would like to invest. The World Bank–executed activities monitor the progress of Green PNPM’s various technical components, evaluate the environmental/socio/economic impact of activities, and assess the integration of environmental issues and sustainable NRM practices into the core operations of PNPM–Rural. Those communities opting to invest in MHP schemes also receive supplemental technical assistance from a MHP Technical Support Unit (TSU) managed by the German Agency for International Cooperation (GIZ). Although it provides integral technical assistance to participating communities, the
TSU’s activities are funded outside of Green PNPM’s budget, through a separate partnership between the Dutch and German governments. The Danish government, which funds activities promoting a wide range of RE technologies in which communities may choose to invest Green PNPM block grants, provides complementary assistance.

Since its inception, Green PNPM has disbursed a combined total US$20.8 million from both the CIDA and PSF Trust Funds to finance GoI, CSO, and World Bank technical assistance in target locations on Sulawesi and Sumatra Islands. The World Bank has assigned two full-time consultants to provide support to the GoI in its implementation of Green PNPM, and DANIDA has seconded a full-time NRM Specialist to provide further technical assistance. To date, communities in target locations have selected over 1,600 ‘green sub-projects’, which will be financed through US$15.5 million in Green PNPM block grants. Among these sub-projects are 83 MHP schemes that are projected to generate over 1,200 kW of power and provide electricity to over 20,000 rural households.

 Progress 2010: 922 ‘green sub-projects’ are being financed through block grants disbursed in 2010 from the PSF Trust Fund (516 sub-projects) and CIDA Trust Fund (406 sub-projects):
- 500 sub-projects related to environmental conservation, disaster preparedness, and erosion control (250 PSF financed).
- 191 sub-projects related to capacity building training for stakeholders in NRM, environmentally sound income generating activities, and in reducing household energy costs (142 PSF financed).
- 155 sub-projects related to the planning and management of forest and water resources and environmental services (73 PSF financed).
- 76 sub-projects related to utilization of energy from renewable sources (51 PSF financed). Of these sub-projects, 50 are MHP schemes financed through the PSF Trust Fund, which are projected to collectively: (i) generate 790 KW of renewable energy; (ii) provide electricity to more than 7,000 rural households.

 Systemic Issues: Within many of the new target locations in Sumatra, communities were unfamiliar with the types of activities that were eligible for funding through Green PNPM. Consequently, delays were experienced in the sub-project selection process and in the subsequent disbursement of block grant funds. Although by the end of 2010 all participating communities had formally selected the ‘green sub-projects’ which they would fund, only about 75 percent of the allocated block grant funding had been disbursed to local bank accounts; the remaining block grant funds were to be carried over and disbursed during the first quarter of 2011.

The GoI has experienced some difficulties in recruiting consultants/community facilitators in a timely manner and in monitoring their performance. As of December 2010, the GoI had filled 85 percent of the planned consultant/facilitator positions in Sumatra, and expected to recruit the remaining individuals during the first quarter of 2011. Once all positions are filled, the GoI and World Bank will deliver intensified refresher training to all consultants/community facilitators, emphasizing standard operational procedures in regards to: financial management, reporting, MIS maintenance, and promotion of the PNPM complaints handling mechanism.

The CSOs have demonstrated that they play an instrumental role in providing more in-depth technical assistance to beneficiary communities. However, in upcoming years it is expected that the CSOs will be more actively involved in verifying the environmental merits of sub-project proposals developed by communities. The three CSO Grant Agreements in Sulawesi are scheduled to conclude by the second quarter of 2011. Given that the GoI plans to continue disbursing Green PNPM block grants in Sulawesi for the next two years, the CSOs have been asked to prepare additional financing proposals for consideration to continue operations up through 2012. Proposals will build on their lessons learned to date and outline how interventions will be strengthened if operations are continued. The World Bank and PMD will evaluate the proposals and conduct appraisals of the CSOs’ performance, and if deemed satisfactory, proceed with allocating additional financing from the CIDA Trust Fund.

The sustained impact ‘green sub-projects’ can best be supported through greater collaboration with other related GoI programs active in Green PNPM target locations. It is essential that all pilot-projects within the PNPM portfolio are better coordinated to ensure resources are used in the most effective manner to forward the national poverty-reduction
agenda. Additionally, efforts will be intensified through the provision of capacity building training to local government officials to identify means in which the community selection of ‘green sub–projects’ can be better coordinated with sector agency–led environmental planning initiatives.

**Priorities for 2011:** For the next two years, the PSF Trust Fund will finance Green PNPM block grants disbursed in Sumatra as well as those disbursed in the Sulawesi target locations. Additionally, the GoI has budgeted for block grants to finance the construction of MHP facilities in Papua and West Papua provinces. Priorities for 2011 are as follow:

- The World Bank has begun a study evaluating the implementation quality of ‘green sub–projects’ selected by communities in November 2010. This evaluation will continue in the first quarter of 2011 and the deliverables produced will be incorporated into socialization and training materials for Green PNPM stakeholders.

- Concurrently, the TSU is currently conducting a social/economic impact evaluation of the MHP facilities financed through Green PNPM. Findings and recommendations from these studies will be used to improve field–monitoring tools, refine the Green PNPM Operations Manual/Guidelines, and contribute to strengthening the design of Green PNPM interventions for 2011 and 2012.

- In 2011, Green PNPM will also focus on further integrating its operations with the core PNPM–Rural program. This will entail (i) ensuring socialization activities and block grant disbursements for both programs are coordinated on the same schedule; (ii) consolidated provision of technical assistance to ensure Green PNPM and PNPM–Rural consultants/facilitators are operating under the same management structure; (iii) increased frequency of combined supervision missions so that common operational issues can be addressed in a timely manner; and (iv) improved MIS and complaints handling mechanisms so that progress made, financial disbursements, grievances and any allegations of misuse of funds filed can be tracked in a more systematic manner.

**PNPM Generasi**

**Scope:** 2,179 villages in 212 poor kecamatan across six provinces: East Nusa Tenggara (NTT), West Nusa Tenggara (NTB), West Java, East Java, North Sulawesi, Gorontalo.

**Summary:** PNPM Generasi is an incentivized block grant program targeting three Millennium Development Goals (MDGs) that are lagging in Indonesia: (1) achievement of universal basic education, (2) reduction in child mortality, and (3) improvement in maternal health. Under these three MDGs, PNPM Generasi uses community planning and block
grants to reach twelve health and education indicators. Communities work with facilitators and health and education service providers to identify locally appropriate solutions to increase access to and use of health and education services. Block grants can be used to address either supply or demand constraints, depending on where the need is the greatest. The program is accompanied by a robust mixed-methods impact evaluation, which utilized randomized assignment of treatment and controls. The quantitative impact evaluation was carried out in three waves, with the baseline survey delivered in 2007. The third and final survey was completed in January 2010.

Progress 2010: The final impact evaluation completed in 2010 provides strong evidence that Generasi is an effective instrument through which to improve priority health and education outcomes in rural villages. Major findings from the final impact evaluation include:

- Generasi had a statistically significant positive impact on the 12 indicators it was meant to address.
- The main long-term impact was decrease in malnutrition, with 2.2 percentage point decrease in child malnutrition, or a 10 percent reduction over control levels.
- Making grants conditional upon performance improves program effectiveness in health.
- Generasi had the greatest impact in areas with low baseline health and education indicators, and contributed strongly to increases in coverage of all types of maternal and child health services delivered through village health post (posyandu) activities.
- The program was shown to be effective at targeting assistance, in particular in-kind education subsidies, to the poorest households. However, the program’s overall contribution to improving education indicators is less pronounced, perhaps due to the already high levels of primary school enrollment in many locations. The program therefore plans to revise or replace current indicators with those that are more appropriate to communities.

Key goals of PNPM Generasi include improving basic education access and results and maternal well-being. Here, the program provides for a boat to transport children to school and take midwives to pregnant women and new mothers.

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Footnotes:

3 NTT province, for example, saw underweight and severe underweight rates fall by 20.4 and 34.1 percent respectively, relative to control areas.
4 Notable impacts include: 25 percent increase in number of children weighed; 47 percent increase in number of children receiving supplementary feeding; 20 percent increase in child immunization rates; 28 percent increase in number of pregnant mothers receiving antenatal care; 32 percent increase in number of pregnant mothers receiving iron pills; 25 percent increase in children receiving Vitamin A tablets.
Notable progress was also made toward the scale-up of the program in 2010:

- In 2010, 212 kecamatan participating in Generasi received the Generasi block grant on top of the PNPM. The Generasi block grant is equal to 60 percent (on Java) and 65 percent (off Java) of the PNPM–Rural grant. Generasi block grants totaled approximately US$32.6 million and were financed from two sources: the national government budget (APBN) for US$22.8 million and a grant from PSF to support Generasi expansion for US$9.8 million. As of December 2010, approximately US$26.9 million in block grants have been disbursed. The balance will be disbursed through the 2011 “carry over” budget (DIPA Luncuran) beginning in January.

- In 2010, the PSF established a trust fund to support the scale up of the program into new areas. Thus far US$10.2 million was channeled through this trust fund to support operations in 48 new kecamatan in West Nusa Tenggara province.

- PNPM Generasi has taken steps to integrate program operations within standard PNPM–Rural processes, thereby reducing the demands on communities and program facilitators.

In 2010, more than 800 health clinics and schools were rehabilitated or provided with improved access through roads and footpaths. These children walk to school on a newly improved road.
Systemic Issues: The program is addressing several systemic issues that affect Generasi’s ability to produce long-term improvements in basic health and education outcomes. The first is the need to elicit a supply-side response to address constraints to services delivery that are beyond the control and influence of communities, such as health and education policies, service delivery standards, and allocations of staffing and resources decided at the central and district levels. To this end, PMD and PSF are working with counterparts in the Ministries of Health, National Education, Public Works, Bappenas, and World Bank nutrition, early childhood development, and sanitation teams to design and deliver an integrated intervention that features supply-side improvements that interface with community demand for services stimulated by Generasi. The program also looks to link with ongoing government and donor-supported interventions that address supply-side constraints.

A second systemic issue that is a priority for PMD and PSF is Generasi’s relatively weak impact on education outcomes. Generasi’s education targets focus on primary and junior secondary school enrollment and attendance levels, whereas in many areas, particularly on-Java, enrollment rates are already high. PSF is therefore working with World Bank health and education teams to revise Generasi’s education indicators to, for example, place a greater emphasis on early childhood education and development outcomes.

A final issue that requires ongoing PSF support and engagement is adapting PNPM–Rural implementation arrangements to meet the increased demands of program expansion. In the short-term this requires better training and closer oversight of village and sub-district facilitators to ensure that ‘pokja’ accounts in which deposits of block grant funds used to support multi-year activities, such as scholarships, are used properly, as well as improvements to the program’s MIS. The long-term challenge is developing and putting in place simple, manageable implementation arrangements that allow for the efficient flow of block grant funds and provision of supplemental facilitation support in areas where health and education indicators are lacking. This could involve phasing-out separate Generasi block grants in favor of earmarking PNPM–Rural block grants for health and education targets.

Priorities for 2011: The GoI has requested further support from PSF to scale-up PNPM Generasi in 2011.

- Drawing from the impact evaluation findings, additional financing of around US$28.1 million will be provided to...
PNPM Support Facility Projects

expand the program in 90 kecamatan across four existing provinces (West Java, Gorontalo, North Sulawesi and East Nusa Tenggara) and two new provinces (Maluku and West Sulawesi) with low health and education coverage.

- PNPM Generasi will deepen its policy dialogue with the Secretariat of the National Team for the Acceleration of Poverty Reduction (Tim Nasional Percepatan Penanggulangan Kemiskinan, TNP2K) housed in the Office of the Vice President, around a shared strategy for conditional cash transfers (both community and household-based) to improve health and education MDGs. The strategy will likely cover geographic targeting, sequencing, and operational modalities of programs including Generasi and Program Keluarga Harapan (PKH), the government’s household conditional cash transfer program.

- Generasi will continue its collaboration with health, education, and water and sanitation programs with an aim to bring into operations an integrated approach to improving health, early childhood development, and sanitation outcomes. This approach will incorporate both demand and supply-side interventions. Demand-side interventions will build on Generasi’s success in incentivizing communities to access health and education services. Supply-side interventions will address deficiencies in the provision of priority services, such as early childhood education and activities to monitor child stunting.

- Consequently, Generasi will likely add indicators related to early childhood and child stunting on a pilot basis in areas overlapping with supply-side interventions to test the effectiveness of an integrated approach.

- Generasi also plans to provide enhanced technical assistance for program facilitators in the form of specialized training in facilitation techniques aimed at identifying creative, locally appropriate solutions to community health and education priorities.

WINDBOW TWO

Window Two projects form the core of the coordination and supervisory support to PSF management and PNPM Oversight Body in the implementation of PNPM Mandiri. The section below discusses the following activities: (1) PSF Secretariat; (2) PNPM Communications; (3) supervision and monitoring; (4) PNPM Integrated MIS (SIMPADU II); (5) Training of Local Auditors (Inspektorat Kota/Kabupaten) in PNPM Perkotaa; (6) PNPM Community Facilitator Development System.

Mother and child health activities at a Puskesmas (sub-district health clinic) through PNPM Generasi have led to a 25 percent increase in the number of children weighed, like the infant pictured here.
PSF Secretariat

**Scope:** National

**Summary:** The PSF Secretariat provides operational and administrative services to the PSF to sustain an effective framework for the implementation of PNPM Mandiri. In addition to supporting the management of the PSF and coordinating the JMC, the Secretariat provides fiduciary oversight and reporting for all PSF programs and supports the Technical Secretariat.

**2010 Progress:**
- Supported the approval process for 9 new projects with commitments just above US$52 million.
- Support PSF project disbursements of about US$28 million.
- Revised the PSF operations manual to more clearly explain the processes and procedures of the PSF and roles and responsibilities of PSF members.
- Processed new administrative agreements and contributions (US$68.1 million) for the European Union and USAID membership to the PSF.
- Facilitated and prepared two JMC meetings.

**Systemic Issues:** Recipient executed projects fiduciary and—depending on the operation social and environmental—safeguards reviews as well as the completion of financial management and procurement assessments.

Over the course of 2010, the PSF Secretariat has instituted an in-house pipeline monitoring system and put in place additional capacity to process new project activities, including a financial management specialist, procurement specialist, and two social and environmental specialists to assist recipients and expedite the time required for completing these assessments.
Priorities for 2011: In addition to supporting the management of the PSF, the Secretariat will place emphasis on:

- Supporting the decision making process for the future of the PSF beyond 2012.
- Improving the reporting of PSF–funded activities, including the introduction of quarterly reporting.
- Improving the quality of the portfolio, including: the preparation of proposals to ensure they meet the requirements presented in the PSF Operations Manual (e.g. results indicators), the timely processing of projects in the pipeline, and, in coordination with the supervision and monitoring team, ensure that project progress is being reported and captured in internal systems.
- Preparing a logical framework to better track results against PSF projects and against the PSF strategic objectives as a whole.
- Moving to and supporting quarterly JMC meetings.

PNPM Communications

Scope: National

Summary: The communications team has three main areas of focus: (i) to develop the capacity of key stakeholders, including media representatives and the Ministry of Communication and Information (Kemkominfo); (ii) enhance community–based monitoring; and (iii) disseminate information on PNPM and the PSF in different formats to different audiences. By working closely with communications consultants from various PNPM programs, the team also organizes activities to promote transparency and accountability and increase active participation from key PNPM stakeholders. The communications team partners with institutions at the national and local levels such as civil society organizations, community radio associations, institutions for marginalized people, news agencies, mass media networks and training institutes.

2010 Progress: Progress made in 2010 under the communication team’s three main areas of focus was as follows:

Community–based monitoring

- 149 community radio stations in 9 provinces were provided with training and funds to disseminate information on PNPM and encourage communities to voice their needs. The radio stations produced more than 5,900 audio outputs, including interactive talk shows and 160 locally printed stories. The radio program has furthered community–based monitoring and collaboration with PNPM implementers to ensure transparency and accountability. In addition, more than 50 radio stations have successfully facilitated the handling of complaints at the local level.
- 25 advertisements related to financial management issues were published by 6 local media outlets to report the settlement of cases as well as cost sharing provisions by local governments. These advertisements increased awareness of local governments and communities on financial issues and fostered their engagement in actively monitoring PNPM implementation in their areas.
- 5 national events were carried out to share best practices and lesson learned, discuss strategy, and raise awareness about some key issues such as marginalized people. The communications team also provided support to several programs for the organization of exhibitions and workshops.
Media outreach and capacity building

- 12 radio interactive talk shows—giving voice to program observers, beneficiaries, government officials—were produced and broadcasted through 141 radio stations all over Indonesia. The talk shows elicited more than 250 inquiries delivered through text messages and telephone calls.
- 62 local journalists and 61 government staff from 31 provinces were trained in media relations and in producing PNPM storylines. As a result, trainees produced 98 news features and 625 public service announcements that were broadcasted on TV and radio stations, 20 hours of radio and TV interactive phone-in programs, and 80 articles published in newspapers. The training also initiated partnerships between PNPM field staff and local journalists.
- 3 field visits were organized for groups of journalists to witness first-hand the impacts of Green PNPM, Aceh BKPG PNPM, and PNPM–Rural. These visits prompted major publications in leading national newspapers, magazines, and TV stations and fostered a better understanding about PNPM and its benefits for communities among journalists, donors, local governments and other key stakeholders.

Information dissemination and knowledge exchange

- A large assortment of PNPM–related materials such as brochures, books, newsletters and audio/audio visual materials was produced and printed. Best practices and lessons learned were communicated to key stakeholders in different formats. The PSF Library disseminated a variety of publications to PNPM stakeholders.
- 32 local and 17 national mass media were reviewed daily to monitor news, stories, opinions, complaints regarding PNPM activities. Weekly summaries and “news alerts” were provided to implementing agencies for follow-up.
- Visits from delegations from 4 countries (Mongolia, Kenya, Haiti and Timor Leste) were organized to provide opportunities to these delegations to learn in-depth about PNPM and to exchange knowledge on key topics.

Systemic issues: Despite progress in a number of areas, the Communications Program continues to face challenges in some key areas. First, its efforts to strengthen Kemkominfo so that it can take the lead on various activities of PNPM communications, especially related to media organizations and networks, have been hampered by the weak capacity in the relevant Directorates in the Ministry. Renewed efforts to
build this capacity will be made through training workshops as well as efforts to secure additional resources for the ministry so that it can be empowered to assume a leading role. In addition, the team has had difficulty in organizing and sharing some of the key knowledge resources of the PSF — in the form of data, lessons learned, best practices, etc. — and in response the focus will be increasingly on institutionalizing knowledge sharing practices.

**Priorities for 2011:** Key priorities include: developing enhanced data organization and display using interactive mapping and GIS applications; creating a “one-stop” shop of information in the form of a new PSF website, newsletter, and advisory service, as well as a website devoted to JMC members; assisting PSF teams responsible for project implementation support in the field, through innovative tools and approaches (e.g., communities of practice, web-based tools, learning activities); compiling best practices and lessons learned for various PNPM programs; organizing study visits for delegations from countries such as Afghanistan, India, and China; supporting other PSF teams in improving MIS systems; and continuing its media and information dissemination activities.

**Supervision and Monitoring**

**Scope:** National

**Summary:** This fund provides for incremental supervision and oversight for the various aspects of PNPM. Given the program’s nationwide coverage, the institutional capacity at various levels, the overall governance environment, and the size of its multiple funding sources from national and local governments and development partners, such incremental supervision is crucial. The main focus of the incremental supervision and monitoring efforts is to support the management of the program at the national and local levels in assessing the effectiveness of the various management systems, and to assist in the strengthening of these systems as needed. The rapid expansion of the program has put considerable strain on these systems, which makes the incremental supervision and monitoring particularly important.
2010 Progress:

- Field supervision and monitoring intensified in 2010, with missions fielded on an ongoing basis in 23 provinces, 141 kabupaten and 378 kecamatan. Specific attention focused on (a) improving fiduciary controls and oversight including ex-post community procurement reviews; (b) undertaking technical reviews of project implementation (e.g. quality of engineering and effectiveness of maintenance); (c) supporting management teams at national, provincial, and local levels in the supervision of the various aspects of the program; and (d) improving the quality and effectiveness of training.

- PSF moved towards a “portfolio approach” to supervision and monitoring whereby the various programs and pilots described above are supervised in an integrated fashion. The benefit of this portfolio approach is that challenges with core systems such as the MIS, complaints handling system, performance management of staff, or relations between the management consultants and satkers, can be addressed in a comprehensive fashion rather than on a project-by-project basis.

- Progress was made with regard to (a) clarifying the roles and responsibilities of the various stakeholders; (b) engaging a qualified team leader for the NMC team on an interim basis, while the competitive selection of the national management consulting firm is in process; (c) recentralizing the contracts of district and sub-district project managers in light of experience with decentralizing them to the provincial project managers; (d) increasing the salary scales of facilitators to avoid high turnover and to fill vacancies; (e) completing the design of a web-based complaint system, that mirrors the system used in PNPM-Urban; (e) restoring initial training requirements and allocating budgets accordingly; and (f) engaging IT specialists to address issues relating to the MIS. However, it is important to underline that on each of these issues, continued and sustained efforts are needed.

Systemic Issues: Over the last two years the management of the program has come under strain as a result of: (a) the rapid expansion of the program which tripled in size over the course of two years; (b) the mainstreaming of the PNPM projects into the normal functions of the executing agencies, whose managers and staff have other roles and responsibilities outside of PNPM, which has created a lack of dedicated managerial attention to the program; and (c) the roles and responsibilities of the satkers and the consultants at the national and local levels have shifted and not been well defined in the case of PNPM-Rural, which has caused an erosion in the robustness of some of the core management systems such as the field supervision of the program, the MIS, the complaints handling system, the training of staff, and the HR and performance management systems.
Priorities for 2011: There is a consensus among the various GoI bodies that have an oversight or coordination role for the Government’s Cluster 2 poverty programs that these issues require urgent attention. At the time of the writing of this report, MoHA is in the process of developing benchmarks and dated milestones for each of the challenges described above. The implementation of these benchmarks will be the priority for 2011. While this should reestablish the robustness of the management systems in PNPM, continued GoI supervision from and PSF implementation support will be critical.

PNPM Integrated MIS (SIMPADU II)

Scope: National

Summary: Bappenas launched the Integrated Management Information System (MIS), or SIMPADU, in 2009, to more effectively monitor and plan poverty reduction interventions throughout Indonesia. SIMPADU integrated the MIS of PNPM–Rural, PNPM–Urban, and SPADA. These three PNPM Mandiri core projects were best prepared to handle the MIS integration as they had existing (though less robust) information management systems in place and more readily available program data. The two remaining core programs, RIS and RISE, were still in the initial stages of developing MIS. The second phase of SIMPADU, SIMPADU II, now seeks to support the integration of these remaining two core programs, as well as PNPM support and pilot programs, into SIMPADU. SIMPADU II will also work to increase the involvement of local governments through piloting the development of MIS with selected local governments, encouraging the adoption of SIMPADU as a supporting management tool in their efforts to become more “pro-poor”.

2010 Progress: The project was processed and preparations for implementation in 2011 were made.

Systemic Issues: The current system is not optimal as a means of delivering needed information to decision-makers in the executing agencies and other government institutions. It is currently oriented toward providing complete and timely data from Kabupaten to national level on a set of 9 separate systems but with few checks on data quality and accuracy beyond the Kabupaten level. New applications/features/formats are not well integrated into existing systems and are not easily adopted by staff at the local level, particularly facilitators.
Priorities for 2011: In 2011, SIMPADU II will focus on strengthening MIS analytical capabilities and data accuracy. Concurrently, SIMPADU II will develop: applications for database usage and data warehousing, which are essential for establishing full integration across PNPM program sectors; and a PNPM MIS roadmap by preparing a needs assessment across levels of government and work plans, prior to integrating SIMPADU PNPM with other MIS at national and local government institutions.

Training of Local Auditors (Inspektorat Kota/Kabupaten) in PNPM Perkotaan
Scope: Training of local auditors from 268 kota/kabupaten across 33 provinces of PNPM Perkotaan.

Summary: This training program supports the PNPM–Urban projects, which currently operate in about 11,000 kelurahan (in 1,094 kecamatan and 268 kota/kabupaten). Its primary objective is to improve fiduciary controls in PNPM Perkotaan by building the capacity of local government auditors (Inspektorat Kota/Kabupaten). The training program will increase local auditors’ capacity to conduct transparent audits of PNPM activities and promote synergies among the Development and Finance Surveillance Agency (Badan Pengawas Keuangan dan Pembangunan, BPKP) and local government auditors.

2010 Progress:
- A Memorandum of Understanding (MOU) was signed in December 2010 by DGHS, the executing agency for PNPM–Urban, Inspectorate Generals of MPW and MoHA and the Deputy of BPKP stipulating commitments and roles of each Agency in support of capacity building as well as the involvement of local government auditors in block grant audits of PNPM–Urban.
- Training guidelines and materials were prepared in coordination with PMD, the executing agency for PNPM–Rural), BPKP, and Inspectorate General of MoHA and are available.
- The Inspectorate General of MPW has committed to provide Rp1.8billion (US$200,000) to support the implementation of audits in kota/kabupaten in 2011, which will be conducted by trained local government auditors with quality control from BPKP. This will help expand project audit coverage from 16 percent to 20 percent in 2011 and help reduce incidence of fraud and corruption within PNPM–Urban.

Systemic Issues: Not all local auditors will be capable of conducting rigorous audits of PNPM following their participation in the training. Continuous support and quality control from BPKP auditors to the local government auditors will be vital to ensure the quality and transparency of audits. To maximize the effectiveness and efficiency of the training program, 197 kota/kabupaten have been prioritized for the training in 2011 out of the 268 kota/kabupaten initially targeted. These kota/kabupaten present higher fiduciary risks based on the amount of kelurahan grants received.

Priorities for 2011: The project will hold Training of Trainers for provincial BPKP auditors and five–day training sessions for local government auditors from 197 kota/babupaten in early 2011. Following the training, local government auditors, under BPKP supervision, will conduct audits of the target sample of kelurahan, with financial support from the Inspectorate General (MPW).
PNPM Community Facilitator Development System

**Scope:** National

**Summary:** The Community Facilitator Development System seeks to improve the quality of community facilitation in PNPM through: (a) training master trainers (experienced management consultants and district facilitators) for more effective and continuous capacity building of kecamatan facilitators (FKs); (b) creating a database of experienced, trained community facilitators; (c) and supporting the development of a standardized, nationally recognized FK certification process.

**2010 Progress:** 660 master trainers were trained (vs. target of 600) as of project completion in November 2010. A database with detailed information on PNPM facilitators was established.

**Systemic Issues:** Facilitators are at the frontline of PNPM as they are responsible for ensuring that community beneficiaries understand the mechanisms through which PNPM operates, assisting the identification of development priorities, and creating viable project proposals for block grant funding. Currently there is no good system in place to track and manage facilitator performance, allow cross learning and innovation and develop a career path for the tens of thousands of young Indonesians supporting the program. Limited progress on the certification process was made in 2010 but the certification will be the focus of a proposed follow–on project.

**Priorities for 2011:** The JMC has requested a concept note for a follow–on project, with emphasis on a formal FK certification process and establishment of an institution for the certification of community facilitators (LSP). The PSF’s Technical Committee, in coordination with Menko Kesra and the executing agencies for PNPM, will prepare the concept for JMC consideration at its next meeting in mid–2011.
Window Three is intended to build on the strengths of CSOs and promote their involvement in PNPM Mandiri implementation. CSOs offer a comparative advantage in the provision of specialized technical support (women’s issues/gender equality, environmental protection, access to justice, etc.), and local targeting of more vulnerable or marginalized groups.

PNPM Peduli

Scope: PNPM Peduli will be active in 23 provinces: West, East and Central Java, DKI Jakarta, Banten, East Nusa Tenggara, West Nusa Tenggara, Jambi, West, East and Central Kalimantan, North and South Sumatra, Central and South Sulawesi, Nanggroe Aceh Darussalam, Yogyakarta, Lampung, Papua, West Papua, Maluku, Riau Islands and Bengkulu. The project will reach about 39,000 marginalized people across 28 marginalized groups.

Summary: PNPM Peduli ("PNPM cares") aims to fill gaps in government poverty reduction programs in reaching the most marginalized by capitalizing on the comparative advantage of local CSOs. PNPM Peduli will provide grants to intermediary CSOs (Executing Organizations—EOs) that will on–grant to local CSOs working with marginalized groups across Indonesia. There are two types of EO models: under model A, grant–making organizations will on–grant to local CSO partners, while under model B, mass–based organizations will channel funds to projects implemented by their local branches. PNPM Peduli seeks to tap into and learn from the innovative and inclusive poverty reduction practices of Indonesian CSOs, while strengthening their management capacity and sustainability. EOs will work with marginalized people across several thematic areas, including: economic development, agriculture and rural development, forestry, social empowerment, human rights, health, reproductive health, education, legal aid and policy advocacy.

As part of the PNPM Disadvantaged Areas (SPADA) project capacity development program, more than 57,000 teachers and health workers —over 40 percent of whom are women— have been trained. Pictured here, a teacher tells students how to write a formal letter to government authorities and other bodies.

PNPM Generasi works to ensure women’s and children’s access to health care. Here, a woman breastfeeds her son.
In the second phase of the project, PNPM Peduli will seek to promote synergies between these CSOs and GoI poverty reduction programs with the aim of improving the latter’s capacity to reach the most marginalized. An externally contracted Technical Support Group (TSG) will support the PSF in managing PNPM Peduli, including monitoring EO performance and coordinating capacity-building activities to EOs. PNPM Peduli will not only showcase a new business model for the PSF (and World Bank) to work with CSOs, but through its CSO partners, it will support innovative and inclusive models for poverty reduction to the most marginalized, filling an important void left by mainstream poverty reduction programs.

**2010 Progress:** In 2010, the design of PNPM Peduli was completed, with agreement on the basic implementation structure:

- Three EOs have been selected through a competitive process. Two are Indonesian grant-making organizations (Association for Community Empowerment–ACE, and Kemitraan) and one is Nahdlatul Ulama (NU). These EOs will work with 55 local CSO partners (of which 25 are local CSOs and 30 are NU branches) across 23 provinces.
- A Technical Support Group is also being procured to manage PNPM Peduli, and coordinate capacity-building activities.

**Systemic Issues:** The PSF increasingly works with CSOs, but CSO execution is not yet part of its mainstream engagement model. On-granting to Indonesian CSOs through PNPM Peduli will contribute to forging a new business model for the PSF (and World Bank). The model challenges World Bank systems and procedures utilized by the PSF, which are more geared for government projects. The challenge lies in adapting those systems to CSOs to ensure that they can deliver results on the ground, while not compromising the World Bank’s quality standards. This is a learning process for the PSF and the World Bank and lessons learned will be documented throughout implementation.

**Priorities for 2011:** In 2011, PNPM Peduli will initiate its first phase:

- PNPM Peduli will set up grant agreements with the three selected EOs, which will start to on-grant to their 25 local CSO partners and 30 branches. Selection and monitoring of CSO partners, branches and projects as well as disbursement and reporting systems will be based on the EOs’ existing systems as streamlined through a PNPM Peduli Operational Manual. The robustness of these systems will be tested during the pilot phase.
- The PNPM Peduli TSG will also start operating in 2011. It will develop and implement capacity-building plans with the EOs and establish reporting and monitoring systems to ensure the quality of interventions and appropriate management of PNPM Peduli funds.
WINDOW FOUR

Through Window Four, PSF supports a set of activities to strengthen the implementation of PNPM, either through enhanced monitoring and supervision or through efforts to strengthen and innovate specific aspects of the program. These include (1) Local Government Capacity Development Project; (2) Revolving Loan Fund Capacity Building Project; (3) Delivering Services to Poor Communities. This Window also supports analytical work to inform policy making and program design with regard to the Cluster 2 of the GoI’s poverty alleviation strategy including (4) Monitoring and Evaluation; (5) Poverty Engagement, Knowledge and Action; and (6) Indonesian Poverty Analysis and PNPM-Urban Evaluation. Each of these initiatives are discussed below.

Local Government Capacity Development Project

Scope: National

Summary: Formally established in late 2010, the Local Government (LG) Capacity Development project seeks to improve pro-oor planning and budgeting, and build better linkages between community planning and line agency service delivery. This includes providing guidance on how PNPM principles of community empowerment and participatory planning can be mainstreamed into existing planning and service delivery mechanisms at the local level. Organizationally, the LG Capacity Development project has, together with SPADA (with its focus on improving development planning at the district level), formed a Local Governance Team that will take the lead within PSF on issues related to local governance, including how to enhance local development processes through making planning and service delivery more pro-oor, responsive to community needs, and accountable. The underlying development assumption is that improved responsiveness to community level demand will strengthen local level governance and improve service delivery, resulting in services that are less expensive, of better quality, and more responsive to local needs and preferences.

2010 Progress:

- The PSF has initiated a stock-taking study focusing on best practices in improving participatory and sectoral planning, which will include an analysis of the regulatory framework for community driven development and capacity gaps of key community development and planning by stakeholders at the district level. This study, to be reported during the first half of 2011, will gather information from eight jurisdictions in seven provinces, and will serve as a first step to identifying the strengths and challenges in improving local government program delivery.

- The LG Capacity Development Project collaborated with BAPPENAS to conduct training-of-trainers of selected GoI officials at national and provincial level in pro-oor planning and budgeting (P3B). A cohort of 25 central government officials was trained for two weeks in November 2010, with the result that several local governments have asked to be provided intensive training in the P3B toolkit. This scale-up will take place in 2011, and include deploying the trainees and developing further training packages for GoI staff.

Systemic Issues: The lack of responsiveness to community priorities among local government agencies is a main concern for the ability to mainstream and sustain PNPM and other community-driven approaches to poverty reduction. The government’s Musrenbang (development planning) process does not result in a large proportion of community-level priorities being funded through district
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the village, sub–district and district levels. These activities will lead to Phase Two of the project, which is projected to include policy reforms, the scaling–up of best practices, and addressing skill gaps and context gaps identified during Phase One. Altogether, these activities will promote improved responsiveness to community level demand for better service delivery.

PNPM Revolving Loan Fund (RLF) Capacity–Building and Sustainability Project

Scope: The four provinces of Central Java, DI Yogyakarta, West Sumatra and East Tenggara (NTT).

Summary: The objective of the PNPM Revolving Loan Fund (RLF) Capacity–Building and Sustainability Project is to support the capacity building, restructuring and institutionalization of the PNPM RLF scheme and to strengthen the linkages between RLFs and the commercial microfinance sector. By scaling–up sustainable access to financial services to a larger underserved population and the development of micro–enterprises, the project contributes to poverty reduction initiatives and improves livelihoods in PNPM target communities. The project will be implemented in three phases. Phase One began in 2010 and Phase Three will conclude in 2014.

Priorities for 2011: Following the stock–taking study carried out in 2010, the impact on planning and service delivery of SPADA and Local Government Participatory Development Planning Program (P2SPP) will be evaluated in early 2011. Based on the study and evaluation, the LG team will produce a series of policy notes to alert policy–makers to simple changes that can be made to improve and integrate participatory planning and service delivery at

budgets. Village needs have largely failed to shape or inform district budgets or poverty reduction strategies, which result in only a small percentage of village priorities incorporated into district level development plans. The LG Capacity Development program has been established to help address this systemic issue through identifying the key strengths as well as challenges and limitations to improved program delivery and for an improved participatory planning process from communities up to the district level, with focus to improve pro–poor planning and budgeting and build better linkages between community planning and line agency service delivery. As a first crucial step to identify the strengths and challenges to improve local government program delivery, LGCD has initiated a stock–taking study, which focuses on improving participatory and sector planning, documenting and analyzing best practices and capacity gaps.

As a first crucial step to identify the strengths and challenges to improve local government program delivery, LGCD has initiated a stock–taking study, which focuses on improving participatory and sector planning, documenting and analyzing best practices and capacity gaps.
2010 Progress:

- Project preparations were completed, including the formation of the project core team and a series of meetings with relevant institutional counterparts to discuss project work plans.
- Implementation commenced in May 2010 with a series of socialization workshops attended by stakeholders of PNPM. Workshops were held in Semarang, Purwokerto, Solo and Yogyakarta and provided important initial inputs to identify and address implementation challenges, including insights on challenges faced by stakeholders in regard to the sustainability of revolving loan fund operations and concerns on legal aspects and capacity to operate the RLF.
- An in-depth assessment was completed of a representative sample of RLFs (in total 507 RLFs in four provinces), which led to a better understanding of the operations, development potential and capacity building needs of RLFs.
- A leading consulting firm (M-CRIL) was contracted to undertake the first phase of assessments in November 2010. Preliminary findings were presented to PNPM stakeholders in a half-day workshop in December 2010, during which the assessment methodology was also discussed and refined.
- A working group was established among GoI and development partners to share good practices and discuss relevant issues for RLFs.
- A second major assessment was launched, aimed at clarifying the ownership of the RLF capital and determining the appropriate legal structure for RLFs based on a menu of institutional options for RLF in PNPM Mandiri. A request for proposals (RFP) for legal review was posted in December 2010, and the firm is currently being selected.

Systemic Issues: There is strong disagreement among stakeholders concerning realistic objectives and measurement of objectives in the three-year timeframe of the pilot with respect to the short term goal of sustainable micro financing and the longer term goal of poverty reduction. There is also resistance from various stakeholders to create a legal status for UPKs (the sub-district financial management units established under PNPM) to expand and institutionalize their integration with private sector and micro finance institutions.

Priorities for 2011:

- The needs assessment of RLF operations in the core PNPM-Rural project in Central Java and Yogyakarta will be completed in 2011. This assessment will be rolled out to two off-Java provinces. In addition, an assessment
will also be conducted for PNPM–Urban within the same four provinces. It is expected that all RLF operation assessments will be completed by the end of October 2011.

RLF socialization workshops involving relevant stakeholders will be held for PNPM–Urban in those areas. These workshops will include inputs on the challenges faced in the RLF operations of PNPM–Urban.

In parallel, following the preparatory phase in 2010, the legal and regulatory aspects of RLFs will be reviewed and the preliminary results will be presented in dedicated workshops. These workshops are expected to take place within the first half of 2011.

To measure the impact of the program throughout the implementation period, the project team will work with the PSF’s M&E team to develop impact assessment indicators and also improve MIS related to RLFs.

Following the results of the needs assessments, the project will develop and conduct a customized program of capacity building in the two Java provinces, in order to restructure and improve performance of current RLF operations. In a second stage the activities will be rolled out to off-Java provinces and PNPM–Urban RLFs. Implementation of these activities is expected to begin in April 2011.

Delivering Services to Poor Communities

Scope: National, with focus on Gorontalo province (Gorontalo City, Gorontalo Kabupaten and Pohuwato Kabupaten) and Papua province (Jayapura City, Jayapura Kabupaten and Biak Kabupaten).

Summary: The program is designed to improve the quality of public service delivery and financial management at the local government level through piloting a performance based incentive system that will improve local government’s ability to deliver poverty services and operationalize their monitoring and evaluation systems. The program also supports the Delivery Improvements and Local Governance (DIALOG) Program, which assists six participating local governments in preparing medium term strategies to improve public services delivery. The expected medium–term impact of DIALOG is to improve education and health services.

2010 Progress:

- Provision of technical assistance to the six participating local governments in identifying problems and issues in delivering public services and discussing realistic strategies to improve these services.
- Formulation of medium term strategies to improve public service delivery, particularly in health and education. LG participants agreed upon these strategies during a series of workshops held in May and June 2010. Individual strategies for each kabupaten have been created and currently are in the process of final editing. The full report on health and education is being completed.
- Gender reviews in Gorontalo and Papua established that girls’ enrollment rates (both gross and net) in primary education are similar to boys’. However, they are lower in junior secondary education in all six kabupaten/kota. Boys appear to get preference to access higher education. The gender review will be continued as a study in December 2011.
As a follow–on to the above point, DIALOG promoted better data collection and monitoring systems, and campaigns for (i) education for boys and girls; and (ii) childbirth delivery by skilled health professionals, together with performance–based incentives to improve services.

Close coordination was established with AusAID for the implementation of the Australia Indonesia Partnership for Decentralization (AIPD) activities, which will provide further assistance to LGs to implement their medium term strategies for public services improvement in line with this project’s aim.

This engagement with LGs in Gorontalo and Papua, particularly with the Education and Health sector, has helped to: improve LGs’ understanding of selected key challenges in the health and education sectors, and development of realistic strategies to overcome the challenges; increase LGs’ awareness of the need for regular monitoring and evaluation and collecting quality key indicators, which can be used to improve performance; enhance LG capacity to analyze the data and use them for policy making; expand the role of the province in monitoring, evaluation, and capacity building.

Systemic Issues: LGs have limited capacity to implement the medium–term strategies. Ensuring LG buy-in and engagement as well as increased assistance and facilitation, particularly on the data management and performance–based incentives, is vital to help LGs prepare for the implementation of the medium term strategies.

Priorities for 2011:

- The program will provide technical assistance to LGs to implement the activities identified in medium term strategies. For a smooth transition between DIALOG and AIPD, this work will be done in collaboration with AusAID.
- The program will also conduct a study on the effectiveness of budgets allocated for public services by recruiting three short–term consultants. The study will pilot in four LGs (Surabaya, Solo, Bulukumba, and Pahuwanto) and will examine how much budget is allocated for public services and to what extent it reaches beneficiaries. The overall objective is to have a clearer picture on budget planning in LGs as well as the amounts and proportions of budget allocated for public services, and to review its effectiveness. The analysis will review LGs’ overall budget system including types of revenue sources and how LGs allocate their revenue for expenditure per sector.
- The program will also finance a governance and accountability study on LG to identify downward channels of accountability that would enable the public to encourage the government to be responsive in providing basic services. The study will examine cases in which (i) the services directly affect the beneficiaries (for water, roads, maternal health care, primary and junior secondary schools); (ii) the types of services in each sector are clearly defined, and the benefits as well as cost and time of accessing such services have clearly been communicated/disseminated to the public; and (iii) incentives exist for providers to deliver good services. Finally, the program will conduct a gender study in Papua and Gorontalo as a follow–up to the gender review abovementioned. This study will be conducted in 6 kabupaten/cities in Papua and Gorontalo.
Monitoring and Evaluation

Scope: National

Summary: Monitoring and evaluation (M&E) activities provide stakeholders with empirical data regarding the results and impact of PNPM Mandiri, and with more in-depth research on special topics of concern to PNPM. Such activities also enhance the ability of Indonesian social science research organizations to conduct M&E and special studies.

2010 Progress:
- PNPM Impact Evaluation: completed data collection activities and final reports for quantitative and qualitative components estimating the impact of the project on household welfare, poverty, employment access to services, social dynamics and governance.
- PNPM Generasi Impact Evaluation: completed data collection and final reports for quantitative and qualitative components assessing the impact of incentivized and non-incentivized community cash transfer on twelve key health and education indicators.

![Figure 19: MONITORING AND EVALUATION
MILLIONS OF US DOLLARS](image)
PNPM Governance Study: completed data collection and final report on the experience and impact of PNPM on local government at various levels.

PNPM Facilitation Study: completed data collection and final report on issues facing facilitation under PNPM.

PNPM Disadvantaged and Marginalized Groups Study: completed final report detailing how and why marginalized and disadvantaged groups are included/excluded with respect to participation and benefits within PNPM.

Village Resources and Rural Infrastructure Study: completed final report assessing villagers’ capacity and willingness to pay to maintain community infrastructure.

Completed needs assessment and review of capacity of Indonesia Research Institutions to conduct impact evaluation work (in preparation for capacity building strategy).

Systemic Issues: Capacity to conduct highly technical studies using Indonesian research organizations is limited and insufficient to meet the demand for knowledge and information from research and impact evaluations. While international expertise is an option in some cases, it is too expensive to be mobilized for all activities and, more importantly, has little impact on the building of capacity in Indonesia. Moving forward, PSF is shifting its approach to research and impact evaluation to work with and through national research institutes and, by doing so, foster capacity in these organizations. It is important to acknowledge that PSF is just one among many actors in this area. Therefore, particular attention will go to working closely together with various initiatives to strengthen the knowledge sector in Indonesia, in particular the efforts that are supported by AusAID.

Priorities for 2011: The following studies and activities will be conducted in 2011:

- Infrastructure Census: development of a user-friendly database and summary report on the existence and quality of main roads, bridges, water supply, schools and health facilities for every village in Indonesia. This will be done in coordination with BPS during PODES 2011. The census will demonstrate the remaining infrastructure deficit at the national, regional and local levels, the financing gap in addressing the deficit, and the progress in reducing the deficit over time.
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- **PEKKA Impact Evaluation Baseline**: implementation of a baseline survey for the planned impact evaluation of the PEKKA assistance to poor widows program.
- **Revolving Loan Fund Impact Evaluation**: implementation of a baseline survey for the planned impact evaluation of the Revolving Loan Fund pilot.
- **Incidence of Benefit Study**: completion of data collection and final report on the incidence of household welfare benefits at the village level under PNPM, in collaboration with the World Bank Jakarta Poverty Team (PREM).
- **Development of a research design for the SPADA I and SPADA II impact evaluation** and implementation of the baseline survey (carried over from 2010 in order to accommodate the SPADA II baseline).
- **Conduct of a series of evaluations for PNPM RESPEK**, a special PNPM–Rural program for Papua and West Papua, to determine the quality and cost effectiveness of infrastructure and community capacity building.
- **Preparation and delivery of reviews of PNPM Mandiri’s economic internal rates of returns, cost effectiveness, and the economic multiplier effects on employment and poverty** (carried over from 2010 due to a lack of qualified researchers to conduct the study).
- **Development of research designs for two qualitative studies looking at (i) barriers to flow of information and downward accountability between communities and kabupaten government development planning and (ii) community management of development portfolio at the village level.**
- **Development of a strategy and mechanism for capacity–building grants to Indonesian research organisations to improve their ability to conduct impact evaluation work, including research design, analysis and report writing.**

**Poverty Engagement, Knowledge and Action**

**Scope**: National

**Summary**: This four–year program aims to support the Government of Indonesia’s efforts to reduce poverty, promote pro–poor growth and improve social protection for vulnerable groups. The program consists of four platforms of activities designed to: (a) strengthen poverty and social protection programs; (b) deepen analysis of poverty and vulnerability; (c) build technical capacity and “know–how,” and (d) stimulate policy dialogue and provide inputs to policy–makers. The program places emphasis on enhancing the capacity of government agencies and local think tanks to use poverty analysis as a basis for action in promoting equitable growth, through “stand–alone” projects as well as integrated approaches across all platform activities.

**2010 Progress:**

- **Components of the Social Assistance Public Expenditure Review** have been completed, including an assessment of each major household–based social assistance program in terms of coverage and incidence, and an empirical assessment of the conditional cash transfer program (**Bantuan Langsung Tunai**, BLT). Report findings will be used by the government to develop an integrated family–centered social assistance system, which is a priority in the government medium–term development plan.
- **An impact evaluation of the pilot conditional cash transfer program, Program Keluarga Harapan (PKH)** was drafted and is scheduled for completion in early 2011, alongside reviews of each major social assistance program implemented in Indonesia. A spot check report prepared by the Center for Health Research (University of Indonesia) in cooperation with local universities across the country was delivered to the Department of Social Affairs (Depkos), Bappenas and other government agencies, assessing the implementation performance of the PKH pilot. These report findings, alongside a reform roadmap that was prepared with government partners during a social protection training in Washington, DC informed the Presidential Instruction (Inpres No. 3/2010) for PKH reform.
- **A report assessing the targeting effectiveness of current social assistance programs** was completed and submitted to government partner agencies. The report found considerable variations across programs, with the BLT conditional cash transfer program demonstrating the best performance, but with much room for improvement. These findings are informing the design of a national
targeting system, which has been identified by the government as a key reform goal. Inputs were provided for the development of an action plan to develop the targeting system, which will be housed in TNP2K.

- The flagship *Indonesia Jobs Report* was completed and widely distributed to government agencies, civil society organizations, research institutes, and development partners. The report provides the most comprehensive, empirical analysis of Indonesian’s labor market in the past 20 years. The report highlights three core strategies that can help spur job creation, especially in the preferred formal and non-agricultural sectors, to support sustained poverty alleviation: i) negotiate a “Grand Bargain” of lowered severance rates in exchange for greater unemployment benefits; ii) expand training programs that enhance market-relevant skills in the workforce, especially among poor and informal workers; and iii) design an integrated welfare program that can provide an effective social safety net for workers vulnerable to wage and employment shocks.

- In cooperation with Bappenas, the localized dashboard data analysis system (based on the ADePT software developed by the World Bank) was customized to incorporate policymakers’ needs. Datasets, based on retrospective and current national socio-economic survey data (Susenas) and national labor survey data (Sakernas), were prepared and distributed. Partners from government departments and universities were trained in the use of the software and are now able to use the dashboard on their own computers to instantly generate complex analytical results that are accurate and based on the most up-to-date data available. Trainings were also provided on how to use the findings for policy analysis in the poverty and social assistance sectors.

- Technical assistance was provided to Statistics Indonesia (*Badan Pusat Statistik*, BPS) in scoping and designing the implementation plan for its institutional reform process: 2011–2014 STATCAP-CERDAS. Technical support was also provided from other National Statistics Offices including the Australian Bureau of Statistics (ABS), US Department of Agriculture–National Agricultural Statistics Service and Statistics Netherlands. An assessment of how to improve Susenas and its management was completed. The findings will support survey reform, including a shift towards continuous enumeration that will allow the survey to be released more frequently.

**Systemic Issues:** The production of quantitative analysis of poverty and vulnerability depends on the quality and accessibility of national data. While Indonesia is a rich source of survey data—including the Susenas and Sakernas—many local research agencies and universities cannot afford to buy the data to carryout research. Therefore, in addition to providing training to these groups on data analysis, the project has also been successful in helping to negotiate a preliminary agreement between BPS and the Ministry of National Education that guarantees free usage of national survey data by all Indonesia universities. The formal memorandum of understanding is expected to be signed in 2011. In addition to improving accessibility, the project is also supporting BPS to improve the quality of data it produces by providing support for STATCAP-CERDAS.

**Priorities for 2011:** In 2011 the project will focus on: (a) completing the *Social Assistance Public Expenditure Review*,

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**Figure 20**

**POVERTY ENGAGEMENT, KNOWLEDGE AND ACTION**

**MILLIONS OF US DOLLARS**

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Executing Agency: World Bank
Indonesia Urban Poverty Analysis, Program Review and PNPM–Urban Evaluation

Scope: Urban areas nationwide

Summary: The project seeks to understand the PNPM–Urban approach in the context of urban poverty in Indonesia today, its strengths and weaknesses and links to other urban poverty programs, and bring in global experiences in urban CDD–based poverty interventions. It consists of three core inter-related components: (a) an Urban Poverty Profile to understand the characteristics and dynamics of urban poverty in Indonesia today and help identify the needs of the urban poor; (b) a Review of Urban Poverty Programs. This review will compile a master list of government programs aimed at poverty alleviation in urban areas, conduct a comparative review of PNPM–Urban and up to four of these programs that focus on housing and infrastructure service provision and assess whether these programs (supply) match the needs of the urban poor (demand) and the comparative advantage of CDD in the context of overall urban poverty alleviation programs; and (c) a Process Evaluation of the PNPM–Urban Program aimed at identifying strengths and weaknesses of the program especially in terms of governance and access to services, documenting good practices, and distilling lessons learned for program evolution going forward.

2010 Progress: The disbursing fund for this grant was created in September 2010. Since then the following progress has been made:
- Wide consultation and completion of the terms of reference;
- Issuance and evaluation of competitive tenders for the assignment;
- Recruitment of the project team.

Priorities for 2011: In January 2011, the initial contract was signed and the work officially started. An inception report on the urban poverty and programs review side was completed in February. A formal World Bank Project Concept Note review meeting will be held in March. A launch workshop is also scheduled in March in Jakarta and will be co–hosted by Bappenas and the World Bank, with representation from the Ministry of Public Works and TKPD. The objective of the workshop is to present initial analysis and the strategy for field work, and to obtain guidance from the government, donors, and experts on key issues to take into account in undertaking the analysis, including the selection of communities for the qualitative field work and selection of urban poverty programs for review. Based on the workshop, a mid–term report will be prepared in April, followed by fieldwork in May and June. The draft study report will be available in August, a draft final report will be completed in September, and the final report will be available toward the end of the year. At the various stages of this exercise, particular attention will go to wide discussion and consultation to ensure that the study can benefit from the guidance from various stakeholders.
Twelve radio shows were conducted in 2010 on a monthly basis on PNPM Mandiri, generating hundreds of inquiries. The host of a community radio program responds to a short text message sent by a listener.
A new website at http://pnpm-psf.ning.com was launched in early 2011 to provide a “one stop shop” for all the knowledge and information available in and through the PNPM Support Facility. The website contains information and quarterly updates on the main programs in Cluster 2 as well as on each of the programs that were approved by the Joint Management Committee and discussed in this annual update. In addition, the website provides access to all the research carried out through PSF as well as an Advisory Service (“Ask Us”) where anybody interested can ask questions related to the programs and research supported by PSF.

Moving forward, the website will be further amplified with links to various actors and stakeholders in community development in Indonesia, a calendar function where activities and field visits will be advertised to facilitate participation of interested stakeholders, as well as a space where various stakeholders can find resumes and curriculum vitae of young Indonesian professionals who seek employment in community empowerment and social development.
PNPM Disadvantaged Areas (SPADA) project, allows for 5 percent of its funds to be targeted toward youth. This local firefighters’ group was established for youth in West Kalimantan.
Background
The PNPM Governance Study sought to better understand the perceived influence of PNPM’s two longest running arms, PNPM–Rural and PNPM–Urban, on local governance. With the approach of the 2014 target for increased local government responsibility for the PNPM program, the Governance Study examined how implementation of and experience with PNPM’s key principles (i.e. community participation, transparency, and accountability) has impacted local governance. Also examined were sub-national government leaders’ perspectives regarding PNPM, their feelings of ownership, and their views on its sustainability.

Methodology
A team of researchers drawn from Indonesia’s premier NGOs working on governance visited villages in 28 kecamatan selected from 14 kabupaten across 7 provinces: East and Central Java, West Sumatra, West Kalimantan, South Sulawesi, West Nusa Tenggara, and Papua. Research locations were selected to meet the following criteria: geographically representative of Indonesia, and a minimum 3 years in KDP/UPP/PNPM. Within each kabupaten, one well-performing and one moderate to low performing kecamatan/kelurahan were selected. Researchers conducted in-depth interviews and focus group discussions with provincial, kabupaten, kecamatan and village government leaders and bureaucrats, PNPM staff from the provincial to village levels, as well as village community members. Study respondents totaled 410.

Key Findings
- For the most part, the PNPM principles (participation, transparency, and accountability) have not been adopted into the organizational culture of local government and bureaucracies. Individual champions do exist but the extent to which they will change institutional culture is a question for further study.
- Of the PNPM principles, participation has been the most widely adopted, but failure to deliver on locally-initiated development projects keeps enthusiasm for the musrenbang process low. Little shift is seen toward increased transparency and accountability, as evidenced by bureaucrats and government leaders who continue to keep planning processes internal and documents, such as the APBD, remaining privileged information.
- Support is high, but ownership low. Support of PNPM is high at all levels of sub-national government but this does not translate into feelings of ownership. While communities and some kecamatan and village officials often feel a sense of ownership, this feeling is not shared by many in district or provincial governments, as demonstrated through a lack of coordination with PNPM and failure to support PNPM infrastructure projects, which are approved by the appropriate government agencies during the project proposal phase.
- Cost-sharing remains a contentious issue, but most see it as the best mechanism possible. Many bureaucrats and elected officials alike feel cost sharing is a burden, especially for poorer kabupaten, and does not reflect local priorities. Nevertheless there are champions who fully support PNPM and cost-sharing. Both champions and critics of cost-sharing agreed it was the best mechanism possible. Some local government resentment may stem from the consistently late arrival of cost-sharing information from the national government, which frequently arrives toward the end of APBD discussions with local parliaments thereby complicating local government budgeting processes.
- Coordination is strong at the village level but decreases in higher levels of regional government. The number and complexity of poverty programs, including those under the PNPM umbrella, inhibits coordination. Efforts to coordinate are hampered by strong sectoral egotism and frequent rotation of government staff. The perception exists that coordination efforts are conducted in a pro forma manner, and only when there is funding.

PNPM GOVERNANCE STUDY

These technical annexes include executive summaries for major analytical works completed in 2010, as well as highlights for PNPM’s Oversight Body, Pokja Pengendali.
Policy Recommendations

- With the capacity of many local governments is still evolving and there evidence of low levels of ownership at the sub-national level, many PNPM supporters, including several Bupati, want the current program model to continue: a national program coordinated with local governments implemented by communities.
- To decrease resentment and frustration on cost sharing, greater transparency is needed on the assignment of regional fiscal capacity and district governments should be included in the process. As an immediate step, information on cost sharing to be provided to district governments in the early stages of their budgeting process.

PNPM–RURAL IMPACT EVALUATION

Background

The PNPM–rural Impact evaluation was designed in concert with the evaluation for its predecessor KDP to ensure comparability and continuity of impacts and indicators over the lifetime of the program. Following on the evaluation of KDP conducted in 2008, the PNPM impact evaluation was designed to evaluate whether similar impacts were occurring given the scale up of the program nationwide as well as look at social capital and governance indicators which were unavailable for the previous study. In addition, a qualitative component was included to develop a deeper understanding of impacts and factors related to social capital and governance, poverty perception and poverty targeting and community empowerment.

Research questions and design

- Does PNPM–Rural increase household welfare (measured as real per capita consumption)?
- Does PNPM–Rural move households out of poverty and how well does PNPM–Rural target the poor?
- Do individuals in PNPM–Rural kecamatan experience increased access to education and health care services, and employment opportunities?
- What is the impact for these indicators for poor and disadvantaged groups?
- How does PNPM–Rural impact governance, transparency and participation in community development activities?
- Does PNPM–Rural impact social capital in the community and the quality of local governance?
- Has PNPM–Rural increased the ability of communities to manage their own development needs and priorities?

Quantitative: A longitudinal household panel was established via surveys in 2007 and 2009/2010 consisting of 6250 households in seventeen provinces and 300 kecamatan. The sample was divided into treatment and control groups using a propensity score matching method in which kecamatan beginning participation in PNPM–Rural in 2007 were designated as the treatment group and kecamatan beginning participation in PNPM–Rural in 2009/2010 as control. The survey instrument consisted of household consumption, education, use of health services, employment, social capital and governance. A difference–in–differences matching estimator was used to determine impact.

Qualitative: Key informant interviews, including project and village leaders, households (including poor and non–poor) as well as focus group discussions were conducted in 18 villages across three provinces selected from the quantitative sample and including treatment and control, and poor/non–poor villages.

Key findings

Quantitative

- Positive impact on consumption and poverty reduction: Impacts on a similar scale to that found in the previous KDP evaluation were found for changes in real per capita consumption and transition out of poverty. Impacts were stronger among poor households and in poor and remote areas. In contrast with the previous evaluation, impacts were seen for the entire sample rather than limited to poor households and households in poor areas.
- Access to services and employment: PNPM saw strong impacts on access to health care similar to those found for the KDP evaluation. Although the impact on transition out of unemployment was positive and significant, the magnitude was much weaker compared with the previous evaluation. No significant impacts were found on access to education including school enrollment.
Limited impacts on marginalized groups: As was found with the previous KDP study, the impacts noted above did not extend to disadvantaged and marginalized groups.

Limited impact on social capital, governance: Impacts on social capital and governance indicators were limited with no pattern of significant impacts.

Qualitative

Participation, transparency and accountability built up within program do not spillover to other development and governance activities: Key PNPM core values were present within program processes as participation among the poor, women and disadvantaged groups was high, and access to information concerning planning and implementation was significant. However, PNPM approach/procedures do not spill over into planning and implementation of other village and local government development activities.

Existing power structures are not impacted significantly by the program: A key factor in the lack of spillover is that the program was unable to change the existing power structure which controls decision-making at the community level, including government and sometimes religious/traditional elites. These structures were accommodating and frequently supportive of the PNPM system but do not have the will or incentives to adapt PNPM procedures in other development projects or programs.

Communities do not perceive PNPM as a poverty reduction program: In contrast to household-targeted programs (BLT, RASKIN, etc.) PNPM–Rural is not viewed as a poverty program, but one designed for the entire community. Thus, projects selected by the community are not always in line with needs of poor households, particularly in areas with good existing infrastructure. In these communities, needs identified by the poor are not always in line with needs of poor households, particularly in areas with good existing infrastructure. These needs identified by the poor often include training and capacity building, access to credit and other income/employment generating activities do not become approved proposals because they are viewed as targeted toward particular groups. PNPM is likely most effective in areas where existing infrastructure is inadequate, leading to closer alignment between interests of the poor and the overall community.

Policy recommendations

Large remaining infrastructure gap and positive poverty impacts means program should continue, particularly in areas with significant infrastructure deficits: PNPM and its predecessor KDP have demonstrated consistently positive impacts on
household welfare and poverty reduction, with stronger impacts in poor and remote areas where infrastructure gaps are large and thus the interests of the community and the needs of the poor are clearly aligned. In these types of locations, infrastructure deficits are the primary factor limiting transition out of poverty. Given the large infrastructure gaps that remain, the program should continue as a cost–effective approach to delivering needed infrastructure and positively impacting household welfare.

- **Adapt the program where infrastructure deficits are not large or additional infrastructure is not an efficient solution to poverty reduction:** In many locations, existing infrastructure is adequate and additional PNPM sub–projects and proposals geared toward additional infrastructure improvements viewed as “for the community” will not have a significant impact on the local economy in ways that will reduce poverty. Alternative approaches need to be developed that can create outcomes which more directly impact the poor (capacity building/training, access to credit, income/employment generation).

- **Additional research is needed to determine how the program can leverage the largest impacts by diversifying the approach to project implementation in different contexts.** Currently, the program uses a standard approach with only variable being the size of the block grant allocation as adjusted for population and poverty status. New research is needed on appropriate block grant size, duration of participation in the program, facilitation/socialization and other project design features for different contexts including not only poverty and population but other criteria such as infrastructure deficit, and capacity of local government and communities.

- **The program should address the lack of PNPM impact on planning and implementation for other local government and community development activities.** Constraints to spillover of PNPM core values to create stronger downward social accountability need to be identified and options for changes to project design to overcome them considered.
VILLAGE RESOURCES AND RURAL INFRASTRUCTURE

Background
Inadequate rural infrastructure creates constraints to economic growth in these areas by limiting productive growth and impeding the development of human capital. Recognition of the rural-poverty-alleviation role of infrastructure development motivated the central government, as well as donor agencies, to direct a significant amount of aid into supporting such projects. Naturally, the poverty-targeting criterion plays an important part in deciding on the location of project activities. As priorities for infrastructure projects are usually given to poorer regions and villages, a problem arises. Currently, infrastructure is often provided under the implicit assumption that local people are able to pay the full maintenance. However, there is no systematic evidence that this assumption is justified.

Research questions and design
1. Do villagers in poor villages have the resources to maintain their priority infrastructure on their own?
2. If they do, to what extent are villagers willing to use their resources for infrastructure maintenance?
3. How do village characteristics affect resource availability and their willingness to pay for infrastructure maintenance?

A sample of 32 poor villages was selected across five provinces in Java, Sumatra, Kalimantan, Sulawesi, and East Nusa Tenggara. In each village, infrastructure engineers determined the maintenance costs necessary to ensure the long term sustainability of three types of village infrastructure: roads, bridges, and piped water systems. To estimate the inflow of resources, detailed information was collected on households’ income and consumption. To account for possible income and consumption fluctuations between seasons, four waves of data on the same households were collected during the survey period at three-month intervals. Using the contingent valuation method, households were asked to state their willingness to pay to maintain infrastructure individually and as a bundle. These data were used to estimate resources that would be available under different ways to collect contributions from households. Household data were collected between July 2008 and August 2009.

Key findings
- The cost of maintaining infrastructure was up to 2.8% of household’s total consumption. Although appearing to be small, this “local tax” for infrastructure is likely to be burdensome, given the low income of many community members. Since income and consumption are not easily observable, it may be difficult to create a mechanism to collect contributions based on household income or consumption share in these villages.
- Villager-stated willingness to pay does not cover all infrastructure maintenance needs. Only 21% (without unpaid labor contribution) and 63% (with unpaid labor contribution) of villages would be able to meet the cost of infrastructure maintenance.
- User fee schemes would further reduce capacity to pay for infrastructure maintenance. When user-fees are established via a voting procedure in the village based on existing willingness to pay, the percentage of villages able to cover maintenance expenses drops to between 10% and 20%.
- Willingness to pay is strongly influenced by direct impact on individual households and institutional responsiveness. Household who face reduced consumption/income due to failed infrastructure show greater willingness to pay. In addition, satisfactory responses to complaints regarding road problems from village institutions increased willingness to pay.

Policy recommendations
- Institutionalize infrastructure maintenance with clearly defined roles and responsibilities for the different levels of administration. The study finds that there is a significant willingness on the part of villagers to contribute towards routine infrastructure maintenance which is less costly and within most villages’ financial means. However, villagers may need significant financial support to ensure that more costly periodic maintenance is conducted properly, indicating the need for a stronger role for district governments and outside agencies.
- Newly constructed infrastructure needs to be accompanied by a clear maintenance plan that states clearly the resources necessary to implement it. The data show that the maintenance costs vary much more
than the villagers’ willingness to pay. These variations are driven, among others, by local conditions as well as the volume and design of the infrastructure. Accounting for the maintenance costs long after the fact—which may be necessary in order to estimate the resource gap that will need to be plugged—can be cumbersome, costly, and may not be particularly accurate. On the other hand, these variations are likely to be better understood by the initial implementers of the infrastructure. It is therefore crucial that new projects be accompanied with plans for sustainable maintenance that can be used and understood by the various agencies that may need to be involved in plugging the resource gap.

- **At the village level, there needs to be a designated institution responsible for maintenance.** The data suggest that villages do implement routine maintenance on their own. However maintenance can be implemented more efficiently if they are implemented at the correct time. Moreover, these activities will require villagers contributions and we find that villagers’ willingness to contribute are positively and significantly correlated with the responsiveness of an institution in immediately addressing reported infrastructure problems. This designated institution or person can therefore act to coordinate maintenance efforts as well as respond to potential problems. Having an institution responsible for maintenance—this could well come from an existing village institution—will be instrumental in ensuring the sustainability of the maintenance efforts.

- **The assignment of maintenance activities to villagers needs to take into account the possibly unequal distribution of burdens towards poorer households.** The data show that maintenance costs can be reduced significantly when villagers are expected to contribute all of the unskilled labor. However having villages supply all unskilled labor may amount to a regressive “informal tax”,

The PSF–supported “Invisible Peoples” book launch depicts the faces and stories of marginalized Indonesians.

PNPM Mandiri, is the world’s largest community empowerment program. Here, a road built through PNPM–Rural enables villagers to access the market and other places.
where poorer households “pay” more (in the form of labor) for public goods.\(^5\) It is important to address this potential issue in the process of institutionalizing maintenance activities at the village level.

**MARGINALIZED AND DISADVANTAGED GROUPS**

**Background**

Previous studies on both PNPM–Rural and its predecessor the Kecamatan Development Project (KDP) indicate that majority groups and the less poor dominate the decision-making within the project at the community level. Marginalized groups, including female heads of households and heads with no primary education, attend meetings but do not participate actively. Moreover, evidence has shown that despite the poor in general seeing household welfare gains from PNPM/KDP, the impact on marginalized groups has been limited.

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\(^5\) For a discussion of this “informal tax”, see Olken and Singhal (2009).

**Research Questions and Methodology**

- Who participates in PNPM–Rural and who does not?
- Why do these groups not participate? What are the obstacles to participation?
- What can be improved in poverty programs such as PNPM or other targeted programs to reach these groups?

The study examines the socio-economic and political factors in determining extent of participation for marginalized groups. Data were collected through interviews with key informants and selected focus group discussions. Fieldwork was done in 24 villages in 12 kecamatan in six provinces (West Sumatra, West Java, West Kalimantan, West Nusa Tenggara, South Sulawesi and Papua) from October to December 2009. Within each kecamatan, one village was selected randomly and another one considered poorest.

*PNPM* Peduli, which provides grants to Indonesian civil society organizations, aims to reach the most marginalized among the poor, like these street children.
Key Findings

● Marginalized Groups have limited participation in the decision making process in PNPM. Village government officials and activists who lead interest groups within the village have the largest influence in project decision-making with other elites, including the wealthy and traditional and religious leaders who show more involvement when potential decisions could benefit their interests. Procedures designed to bring marginalized groups into the process such as the requirement of proposals from women's groups are effective at generating attendance but decision-making is controlled by those with elite status.

● Project implementation issues including facilitation, scale up and slow disbursement have reduced the effectiveness of empowerment of marginalized groups. Administrative burden, lack of proper training and skills and high turnover are key factors in reducing the impact of facilitation on inclusion of marginalized groups in the project process. Similarly, slow disbursement of funds from the center has cut the project process short which limit opportunities for participation on the part of marginalized groups. Finally, in many locations the scale up has led to a “routine” approach to empowerment within communities where meetings and decision-making activities become pro-forma rather than consultative, and a time and resource burden, further limiting inclusion of marginalized groups.

Policy Recommendation

Specific facilitation for Marginalized Groups outside the PNPM-Rural process. Community empowerment is less effective on a large scale because of the intensive facilitation needed to reach non-elite groups, and as common approaches are standardized to cover disparate groups with varying needs. PNPM should not utilize already over-burdened facilitators in a specific effort to increase inclusion among Marginalized Groups. Rather, a separate project outside of PNPM-Rural or separate from the main project should provide intensive facilitation to strengthen marginalized groups’ capacity to participate more actively in decision making in village activities, including organizing capacity, negotiation skills, networking and access to information enable them to voice their needs effectively.

UNCONDITIONAL CASH TRANSFER (BANTUAN LANGSUNG TUNAI, BLT) PROGRAM REVIEW

Background

The program review is part of the Social Assistance Public Expenditure Review, which consists of a series of policy notes summarizing current issues in the major household-targeted social assistance interventions offered by the Government of Indonesia. Design, implementation, coverage, impacts, budgetary demands, cost effectiveness, and stakeholder perceptions will be examined through qualitative and quantitative analyses for the conditional cash transfers program. Evidence-based appraisals will assist policymakers in evaluating programs and deciding whether and how they are achieving Indonesian social protection goals. Concluding notes will offer advice for integrating the emerging social assistance sector and household risks currently not covered by the sector.

Key Findings & Recommendations

● BLT provided just-in-time cash assistance to households affected by an economic shock. BLT added approximately 15 percent of regular expenditures to a household’s budget. Amounts were more than enough to cover increased expenditure on fuels. Benefits continued for one year as shocks from government policy reverberated through the rest of the macroeconomy, allowing beneficiaries time to readjust spending patterns to new relative prices.

● BLT had positive effects for households and communities. Household expenditure was protected for BLT households especially in the weakest environments. There is a small spillover effect of BLT on non-BLT household expenditure. Child labor and school participation rates improved more for BLT households. Health service utilization increased especially for those with insurance. Both nutrition and consumption of harmful goods were unaffected by BLT. BLT households found new work at increased rates and did not leave their jobs more frequently or work fewer hours than non-BLT households.

● BLT implementation and operations—from targeting through to complaint resolution—were weak and need improvement. Compressed delivery schedules,
insufficient guidelines and incentives, a lack of clear accountability between BLT agencies and operational bodies, poor technology, and a difficult and varied poverty environment combined to make all non-delivery operations problematic. Targeting of BLT to poor households was no more than moderately successful; failed socialization led to protest activity and delivery disruption as well as worse targeting outcomes; the lack of either a complaint monitoring, information management, or audit system prevented any improvements to implementation in real time or between 2005 and 2008.

- Disruptions to BLT delivery have decreased, but travel costs have risen. The protest activity, elevated tension, and long queue times of the inaugural 2005 BLT were much less frequent during the 2008–09 BLT; likewise beneficiaries have more recently reported fewer complaints with such issues. However, despite PT Pos efforts to arrange less costly access to BLT disbursement locations, travel times and costs have increased.
- Deductions of BLT benefits increased markedly between 2005 and 2008. It is unknown in most cases whether these deductions are petty corruption or whether they produce community-desired outcomes. Regardless, they are not recorded, monitored, or evaluated. Neither BLT guidelines nor program officials are equipped manage or stop such re-distribution, and a lack of socialization kept beneficiary households from interrupting, reporting, or acting on these modifications to the program.
- BLT serves a clear objective modestly well, but it is not a social assistance or poverty reduction system. BLT provided protection to poor households in a manner that was more progressive than the subsidies it was replacing. Moderately-sized benefits were delivered at the right time, for the right duration, and with a very lean administrative apparatus. However, for long-term poverty reduction goals, BLT is not appropriate. Continuing investments in health, education, and business, which can help disrupt the intergenerational transmission of poverty, are better served by programs like conditional cash transfers, free health insurance, secondary and university scholarships, and micro loans for entrepreneurs.

**CONDITIONAL CASH TRANSFER (PROGRAM KELUARGA HARAPAN, PKH) SPOT CHECK REPORT**

**Background**
The goal of the spot check is to assess the program process as one component of the monitoring and evaluation of Keluarga Harapan (literally means “Family of Hope”; it is a Conditional
Cash Transfer) Program. The foci of the spot check are primarily on the program components: payment mechanism, compliance of participants to requirements, education and health service delivery, data validation and updates, system for accepting and resolving complaints, dissemination, training and coordination, and relevant actors’ understanding of rules and procedures. The spot check was under the Auspices of the National Development Planning Agency (Bappenas), funded by the World Bank, and implemented in collaboration with the Center for Health Research, University of Indonesia.

**Key Findings & Recommendations**

- In some villages, facilitator’s and community reports showed intentional mistargeting or unsuitable listing of a poor household (RTSM). A facilitators’ group discussion in one province revealed that some PKH participants in some villages were village staff or relatives of village staff who were not qualified as RTSM. This could happen because the particular village staff was the data collectors for a BPS survey in 2005 to identify RTSM. There were many complaints from the community who felt poorer than the participants but were not listed as PKH participants. In the concept, PKH participants deserved benefits from other poverty alleviation programs, but spot check revealed that only 69% of them had Jamkesmas card and only 18% of them received scholarships for the poor.

- In the PKH guideline, participant database should be updated in line with the household demographic changes timely. However, not all households reported demographic changes. Out of all participants with demographic changes, only 54% of 2007 PKH participants and 76% of 2008 PKH participants admitted that they signed the update form. Scarcity of update forms was among the barrier for not reporting demographic changes. Despite availability of updated form, database was not automatically updated. Six of nine district/city operators inputed changes three times in 2009, while the guideline requires updates once a month. In some districts, the change was entered only if there was a plan for payment.

- The amount of payment should be based on household composition of pregnant, lactating mothers, school age children, or under–16 or 18–year old children who have not completed Junior High Schools/MTs. Based on composition household data, the spot check survey found that 75% of participants received appropriate payments, 8% received less and 17% received more than they should. Payment schedule and frequency in some districts/cities did not follow a predetermined schedule. The guideline indicates that payments should be made 4 (four) times a year, but in many subdistricts payments were made 3 (three) times and even in some others only 2 (two) times a year. The central level contributed to the irregular payments and affected the readiness of district/city management to proceed the payments. Irregularities of payment schedule and frequency made participants to utilize the money for their basic needs. Rounding of payment also caused differences in the amount of money a participant received with the receipt he/she signed.

- Many beneficiaries in this spot check did not comply with conditionality to utilize basic health and education services. Only 84% of beneficiaries of PKH 2007 and 75% of PKH 2008 reported that their childbirths were attended by a health a personnel. Only 82% infants of PKH 2007 and 69% infants of PKH 2008 were weighed in the last three months before the survey was taken. Immunization coverage for children age one year old or above were only 71% for BCG, 29% for polio (1 initial and 2 booster), 24% for DPT (1 initial and 2 boosters), 68% for measles, and 19% for hepatitis (1 initial and 2 booster). Overall immunization coverage of 2008 PKH (outside Java) were lower than that of 2007 PKH (Java). For compliance to education, only 2.2% of school age children did not attend the relevant school because they did not want to go or had no money.

- Complaint and resolution system has been already in place, but there were rooms for improvements. Percentage of beneficiaries who had been informed on how to submit complaints in West Java, East Java and South Kalimantan, varied between 20% and 30%, whereas in DKI Jakarta and West Nusa Tenggara the proportion reached 50% and 60%. But, only 10% of beneficiaries in PKH 2007 and 17% of beneficiaries in PKH 2008 knew the existence of Public Complaint Unit (Unit Pengaduan Masyarakat, UPM). Additionally, the verbal culture made written complaints were not submitted and or recorded in any form in the database. Only 7% of beneficiaries have not completed Junior High Schools/MTs.

*Complaint-handling units (CHUs) are mandated under PNPM Mandiri. Here, a sign provides information on complaints to ensure transparency and accountability.*
in PKH 2007 and 3% beneficiaries of PKH 2008 had submitted written complaints. Out of those complainants, two-thirds received the solutions and only two-thirds of those who received solution considered that they were ‘satisfied’ to the solutions given.

**TARGETING EFFECTIVENESS OF CURRENT SOCIAL ASSISTANCE PROGRAMS REPORT**

**Background**

Given the magnitude of targeted expenditures in Indonesia today, improving targeting systems is critical to maximizing the benefit to target populations, minimizing the cost of delivering needed support, and increasing the rate of poverty reduction. The objective of the Targeting in Indonesia Policy Paper Series is to develop examine all elements of a national targeting system in Indonesia, which will involve assessing the effectiveness of different targeting methods, mapping the most effective method to different targeting objectives, assessing the institutional, fiscal, political, social and capacity constraints facing targeting in Indonesia, and recommending implementation strategies. The study will analyze targeting in both Indonesia and overseas to develop its conclusions and recommendations. The first policy paper in the series involves assessing the effectiveness of different targeting methods.

**Key Findings & Recommendations**

- Each major household social assistance program uses a different targeting approach and databases, meaning less than a third of poor households receive all three programs. One reason for varied targeting performance is that programs use different targeting approaches and rely on separate recipient databases. This leads to duplication of efforts, inconsistency in application and dampened program impact. In combination with different definitions of poverty sometimes being used by each program, this means that despite having the same target population, less than a third of households receive all three programs, and a quarter two. One quarter of households receive only one program, and the last 16 percent none at all.
- Targeting in Indonesia is pro-poor, but all programs suffer from targeting deficiencies, with a large proportion of the poor excluded from programs while many non-poor are included. While Raskin is received by 70 to 80 percent of the target deciles, 44 to 65 percent of the fourth to eighth deciles also participate, and even 25 percent of

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6 See Annex 3 for a detailed overview of targeting in Indonesia, the key challenges, a description of major targeted programmes and their targeting performance.
the ninth decile, indicative of a costly inclusion error. BLT 2005–06’s coverage of the first three deciles ranged from 38 to 55 percent, lower than Raskin, but with considerably lower inclusion of non-target deciles, at 4 to 33 percent. BLT also includes more of the less wealthy non-poor (deciles 4 to 7), and fewer of the richest two deciles. BLT 2008–09 reached a similar proportion of the first three deciles compared with 2005–06, but with reduced inclusion of the non-poor. Jamkesmas has similar if slightly lower coverage of target deciles, at 38 to 50 percent, and similar if slightly higher coverage of non-target deciles, especially amongst the richest. However, usage of Jamkesmas is considerably less progressive, with most of the top three deciles reporting being covered also using receiving subsidized health care under the program, whereas only half of the bottom three deciles do the same.

- Of the three major programs, BLT has had the most accurate targeting, but informal benefit deductions in 2008–09 reduce its effectiveness, and its performance is lower than similar programs overseas. By the key targeting measures, BLT has been the most successfully targeted program, being more effective than random targeting by 19 percent. Raskin is only 11 percent better than random targeting, with recipients receiving considerably lower levels of benefits than intended due to community-level sharing of benefits by non-target households. Jamkesmas targeting coverage was 14 percent better than random, but its usage only 9 percent better. If informal deductions to the level benefit received by BLT beneficiaries are accounted for, BLT targeting is no longer clearly better than Raskin and Jamkesmas. Moreover, its share of transfers to the poorest households is lower than similar programs overseas have achieved, indicating significant room for improvement.

- An assessment of the targeting procedures for the three main programs identified a number of common problems, in particular poor socialization and inconsistent application of official procedures at the local level. Poor program socialization means there is often confusion as to who the program is for, which leads to the wrong households being targeted, or to sharing of benefits amongst the whole community, diluting those received by the poor. Targeting procedures were also implemented inconsistently at the local level, with consultative community meetings only sometimes being held to verify beneficiaries, and local implementers not always using the official indicators of poverty.
There are three main recommendations for improving targeting procedures in Indonesia. First, a unified database of potential beneficiaries should be established that is used in common by all targeted programs. Second, better socialization of program objectives and intended beneficiaries would increase community buy-in and reduce deviation from official procedures. Finally, the development of a national targeting system based on the unified database with strong mechanisms for monitoring and oversight would mean targeting procedures applied more consistently across programs and locations.

**INDONESIA JOBS REPORT**

**Background**

Today's policy makers in Indonesia face a strategic challenge in identifying which policies and programs will spur the creation of good jobs while, at the same time, ensuring that workers are better protected from risks threatening their income security. Decisions about labor policies are particularly difficult because they can directly affect the well-being of workers, both inside and outside the formal jobs market, and the firms that are the main engines of job growth. Differences between these competing interests have contributed to the current stalemate position that leaves both workers and firms in a “lose-lose” situation. Sound empirical data can help guide the debate around labor reform. The Indonesia Jobs Report, prepared by the World Bank in cooperation with the Government of Indonesia and local research partners, is the most comprehensive assessment of the country's labor market that has been carried out in the last decade. The report uses the most up-to-date data available to examine the performance of the labor market, changes in the supply of workers, and the effects of labor policies. The findings will help inform future policy directions and contribute towards evidence-based decision making.

**Key Findings & Recommendations**

- Labor is one of the few assets of the poor. If provided with a good job, they have a chance to earn their way out of poverty. Indonesia, however, experienced significant jobless growth from 1999 until 2003, which contributed to the current situation where the majority of the Indonesia's working population of 104.5 million is concentrated in the agricultural and informal sectors. Despite sustained economic growth, the rate of poverty reduction is slower than hoped, partly because there are not enough opportunities for poor workers to move into better jobs in the formal and non-agricultural sectors. Economic shocks can also dampen the pace of job creation and, if serious enough, can threaten to push Indonesia back into jobless growth.

- Indonesia's hiring and firing regulations were tightened in 2003 with the passage of the Manpower Law (No. 13/2003), which aimed to improve workers' protection. These policies benefit neither employers nor the majority of workers, trapping both in a lose-lose situation. Rigid regulations hamper job creation, by discouraging investment and productivity, and restrain the ability of employers to downsize in order to stay viable during economic downturns. Contrary to the intention of the law, however, these regulations provide little actual protection for formal, contracted workers. The most vulnerable employees—low wage earners and female workers—are the least likely to benefit from current regulations. Of equal concern, current policies exclude the majority of “outsider” workers, consisting of employees who work without a contract and those employed in the informal sector. They are left entirely unprotected by the current regulations and face dim prospects of finding better jobs. At the same time, there are few active labor programs that are designed to promote job creation and provide opportunities for informal and unemployed workers.

- The current stalemate on severance reform is undermining the competitiveness of Indonesia's labor market and offers scant protection for most workers. Work towards a win-win solution by simplifying and decreasing excessively high severance rates while, at the same time, offering unemployment benefits to protect formal workers more effectively. An employment benefit system is a core component of the future National Social Security (NSS) system, which is a key institution in other middle-income countries.

- It is not enough to simply rely on labor regulations to protect workers. Regulations are largely irrelevant for informal workers who make up the majority of the...
workforce. The government can assist more workers by adopting both formal and informal strategies for skills development. In the formal approach, lifting the freeze on general senior secondary schools will help meet demand. Vocational senior secondary education expansion, in turn, should respond to actual labor market demand rather than quotas. Improve the quality of vocational education to meet the strong demand for educated workers. At the same time, introduce a complementary non–formal skills training strategy to target the majority of the workers in Indonesia who are unable to access formal education.

- Workers often face the brunt of the shocks, as they did during 1997 financial crisis. In the absence of safety nets, workers typically resort to finding work in the informal and agricultural sectors. The threat of the recent global financial crisis has highlighted the need for Indonesia to better prepare for future shocks. Take advantage of the current stable situation to prepare for future employment and wage shocks by introducing labor safety net programs to protect the most vulnerable workers. Begin with public works, which are an essential safety net that can be effectively used to target poor and low–wage workers.

- Many debates concerning labor market policies and programs are not based on empirical evidence. There is a need to improve the quality and depth of labor policy research to assist the new government in embarking on a reform agenda that is analytically sound and supported by strong evidence. Local think tanks, research facilities and the Central Bureau of Statistics all play key roles in generating data and carrying out quality labor research to meet the needs of policy makers.

2010 POKJA PENGENDALI HIGHLIGHTS

PNPM’s national–level oversight body Pokja Pengendali undertook the following activities in 2010.

Region 2 Socialization of Minister of Finance Decree No. 168/PMK.07/2009 regarding guidelines for funding of programs common to central and local government for poverty reduction (PMK DDUB).

The Minister of Finance Decree No. 168/2009 is the legal basis for local government to share the costs for PNPM–Rural and PNPM–Urban.
Objectives of the socialization were:
a. To introduce and explain the content of the new Decree (PMK No. 168/2009) to local governments and local parliaments.
b. To explain the formula and criteria to be used in determining allocation of block grants from national APBD budget using the new Decree.
c. To explain requirements for the information supply, reporting and monitoring entailing the implementation of the new Decree.
d. To enhance local government and local parliament support to PNPM Mandiri, in particular for PNPM–Rural and PNPM–Urban.

The socialization was conducted in Jakarta, targeting 883 participants as follows: all Bupati/Walikota (425 persons); all chairmen of kabupaten/kota local parliaments (425), and all heads of provincial Bappeda (33 persons).

Outputs of the socialization:
● The new Decree was disseminated and the content understood by local governments and local parliaments from 33 provinces and 495 kabupaten/kota.
● Accounting and reporting requirements were understood by local governments towards ensuring good administration of the DDUB.
● Support from local governments and local parliaments for PNPM Mandiri will be enhanced as they become more committed.

PNPM Mandiri Third Temu Nasional (PNPM Congress)
The PNPM Mandiri Congress, held annually by Pokja Pengendali, is a forum where (i) local and national PNPM stakeholders and other community-based empowerment programs for poverty reduction can meet, share, and discuss various relevant and important issues to improving the effectiveness and sustainability of the programs, as well as network; (ii) certificates of award are given out to the best PNPM facilitators, and to the best community organizations and beneficiaries across PNPM programs in appreciation and recognition of their commitment and achievements; such recognition will boost their spirit and commitment to make PNPM a success in their home areas; (iii) products from community economic empowerment activities may be introduced and promoted through a community empowerment expo.

The Third PNPM Mandiri Congress, which had the theme “PNPM Mandiri Sustainability”, consisted of:
a. A community empowerment expose, with participation from 95 community empowerment programs supported by PNPM Mandiri, CSOs, non-governmental organizations (NGOs), and local governments.
b. Seminars with the theme “Sustainability of PNPM Mandiri”, attended by around national and regional 170 participants.
c. Awards for the 32 best PNPM facilitators, best community organizations, best beneficiaries, and winners of a photo contest.

Participation: The event was attended by approximately 170 participants as follows: (i) 110 regional participants from 33 provinces comprised of PNPM Mandiri beneficiary representatives, (ii) representatives of community organizations assisted by PNPM Mandiri, and village/kecamatan facilitators; and (iii) 85 national participants from PNPM programs, central government, donors, NGOs, and the private sector.

Outputs of the seminars:
The following recommendations for improving PNPM effectiveness and sustainability were made:
a. Decentralization of PNPM Mandiri;
b. Integration of CDD programs, RPJMDes (Rencana Pembangunan Jangka Menengah Desa (Mid-Term Village Development Plans) and regular Musrenbang (development planning discussions); Increasing the sustainability of empowerment and governance outcomes, community organizations and operations and maintenance of infrastructures built by PNPM.
c. Increasing effectiveness of targeting;
d. Increasing access to capital—through kredit usaha rakyat/community business credit and corporate social responsibility programs, etc.—for micro/small businesses after “graduation” from PNPM.

Annually, PNPM–Rural sub-projects provide approximately 9–10 paid working days each to some 3 million villagers, around 70 percent of whom were classified as being very poor by their own communities. Shown here are villagers who built a bridge, fostering more economic activity in the village.
PNPM Mandiri Workshop on Integrating Mechanisms and Systems for Complaint Handling Units (CHU).

Integration of all CHUs is mandated under PNPM Mandiri, as stated in the GoI Letter to the World Bank as part of the negotiation process for new loans in 2010. Therefore, it is necessary to strengthen and integrate the PNPM Mandiri CHU in order to consolidate the potential and resources between programs, and to mitigate the weaknesses of each PNPM Mandiri CHU in the future.

Objectives of the workshop were:

a. To improve and strengthen the effectiveness of all PNPM Mandiri CHU;
b. To discuss and formulate data integration and the mechanisms to do so for all PNPM Mandiri CHU;
c. To discuss some problems regarding program implementation of PNPM Mandiri and achieving the solutions (cross learning among the projects);
d. To formulate agreements regarding integration of PNPM Mandiri CHUs, for example, working mechanisms of CHU at programs and at Pokja Pengendali, data integration, and fraud case handling for PNPM Mandiri.

Participation: The workshop was conducted in Bogor and attended by 43 participants comprising 15 CHU specialists from 5 PNPM Mandiri programs (15 persons) and 28 other participants/consultants from secretariats of all programs.

Outputs of the workshop:

a. An action plan to strengthen and integrate PNPM Mandiri CHU that is based on root cause analysis of problems;
b. Agreements regarding integrated complaint handling mechanisms and data base systems for PNPM Mandiri CHU, such as:
   - Agreements on three important PNPM Mandiri CHU working mechanisms and interactions;
   - A data integration system, SIPINTER (Sistem Informasi PPM Terintegrasi Berbasis WEB), will be developed by Pokja Pengendali;
   - Routine data submission deadlines for each PNPM Mandiri CHU to Pokja Pengendali.
c. An agreed schedule for routine CHU coordination meetings.
**Pre–public consultation workshop for the PNPM Road Map.**

Gol President Susilo Bambang Yudhoyono has committed to continuing PNPM Mandiri until 2014. In response to questions on PNPM Mandiri’s future and its sustainability, in 2008, the Gol presented an initial PNPM road map/ grand strategy. However, it was agreed that this initial road map was not conclusive. A meeting of senior officials from the PNPM Oversight Team and the PNPM executing team on January 13, 2010 decided that there was a need to begin discussions on the road map/grand strategy of PNPM within Gol and among stakeholders.

It was felt by the PNPM Oversight Team that a Public Consultation would be the ideal way to elicit inputs for the PNPM Road Map. Through such Public Consultation, the general public and PNPM stakeholders will be engaged, and their voices heard and incorporated into the decision-making process. The Public Consultation can also be used as a tool to strengthen public awareness of PNPM Mandiri and building up stakeholders’ ownership of this national program.

To start the Public Consultation focusing on PNPM integration for the PNPM Road Map, the PNPM Oversight Team, led by Menko Kesra, decided to begin with the best practices and lesson learned from domestic and well as foreign cases. This can also be seen as a capacity building effort for stakeholders involved in PNPM communication and policy. This activity was a joint effort between the PNPM communication teams and Gol led by Menko Kesra.

**Objectives:**

1. To exchange knowledge on effective public consultations based on best practices conducted in other countries as comparative models;
2. To discuss what a public consultation should and should not be in seeking public/stakeholders inputs to the policy making/decision-making process;
3. To discuss the communication strategy and the use of media as potential resources for an effective public consultation;
4. To decide the public consultation objectives, policies requiring consultation, the consultation period, clarify success criteria, map obstacles and determine other technical aspects related to the preparation of an effective public consultation;
5. To discuss the general structure of the PNPM Mandiri public consultation executing team
6. To draft the action plan for the public consultation for PNPM road map focusing on two issues: PNPM decentralization and PNPM integration

**Participants:** Approximately 60 participants consisting of experts (5), NGOs (3), PNPM Mandiri and TKPK Consultants at the Secretariats (25), PSF Communication Team (3), TNP2K (3), Gol Officers from Ministries which have PNPM Programs (14), Depkominfo (3) and Donors (4).

**Output:** The expected output of this pre–public consultation workshop was a public consultation action plan for the PNPM Mandiri Road Map.