

**PROJECT INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

Report No.: AB6468

<b>Project Name</b>	PNPM Rural IV
<b>Region</b>	EAST ASIA AND PACIFIC
<b>Sector</b>	Water supply (20%);Irrigation and drainage (20%);Roads and highways (20%);Primary education (20%);Sub-national government administration (20%)
<b>Project ID</b>	P122810
<b>Borrower(s)</b>	REPUBLIC OF INDONESIA
<b>Implementing Agency</b>	
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<b>Environment Category</b>	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
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**1. Key development issues and rationale for Bank involvement**

Indonesia is the world's fourth most populous state, its largest Muslim-majority nation, a country rich in natural resources and one recently transformed from a centralized authoritarian state into a relatively stable, democratic and decentralized one. With its recently demonstrated economic resilience, it is also emerging as a significant player in the region and globally, now chairing the G20 working group on development.

Despite the most recent downturn, Indonesia's economy has continued to strengthen throughout 2010, with growth ending the year above pre-crisis levels. Poverty rates have fallen from 17.4 percent of the population in 2004 to 13.3 percent in 2010. Economic growth is forecast at 6 percent in 2011 with scope to average 7 percent by mid-decade despite the weaker global outlook. The challenge, however, is how is to maintain this momentum into the medium term – as Indonesia's demographic shifts and the population ages - and how to ensure that economic growth leads to improved living standards for all Indonesians.

It is striking that, despite the achievements of the past decade, 31 million Indonesians still live below the national poverty line of US\$22 per month and half of *all* households live clustered around the poverty line, remaining vulnerable to falling below it. Of the total population living in poverty, 65 % of these are in rural areas – where two thirds of the population reside and where income and employment opportunities and delivery of basic services, are seriously constrained, and additionally characterized by regional disparities. Non-income poverty – as reflected in health and education access and outcomes – remains a serious problem.

While recent history has shown a positive trend in economic and political achievements, this still remains an incomplete transition. The challenge for policy makers now is to both make the investment effort and tackle the policy and institutional impediments that limit effectiveness of Indonesia's institutions in delivering services and accountability to the populace and also those that constrain the poorest from benefiting more fully from growth and poverty reduction efforts. The WB Indonesia is providing financial and technical assistance to the Government of Indonesia (GoI) in implementing its flagship National Program for Community Empowerment in Rural Areas, or *Program Nasional Pemberdayaan Masyarakat (PNPM-Rural)*. This is one of the world's largest community-based poverty reduction programs, now implemented nationwide in over 60,000 villages<sup>1</sup>. As the government's flagship community-based poverty alleviation program, PNPM uses a community-driven development (CDD) approach, providing direct block grant financing to local communities at the *kecamatan* (sub-district) level to finance an open menu of local development priorities – typically small scale social/economic infrastructure, education and health activities, and micro-loans to women's savings groups – implemented with mechanisms to ensure broad-based participation and transparency.

Embedded within Indonesia's Medium Term Expenditure Plan, GoI's poverty alleviation strategy comprises of three clusters, whose purpose is to stabilize incomes through targeted poverty and social protection programs at the household level; promote community level development and empowerment (e.g., PNPM); and stimulate micro-level growth through programs that target micro-finance and support to small and medium enterprises.

PNPM, under "Cluster 2" is seen as the operational umbrella to the large number of poverty programs using a community-driven approach. PNPM's design and objectives are emblematic of the new relationship between state and community that was fostered by the 1998 political transition and subsequent decentralization reforms. KDP and PNPM's design have been consistent with the prevailing 'new' paradigm of local knowledge and autonomy: aiming at responsive local-level institutions that have altered the approach to rural development in Indonesia and, in sharp contrast to the New Order period of top-down planning and control, allow villagers to be at the forefront of the local development process, exercising their rights over matters of public interest. Today, PNPM has nationwide coverage in all rural villages (and urban wards) in Indonesia<sup>2</sup>. The program's participatory and transparent framework has helped improve local governance by directly involving communities in decision-making and has been

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<sup>1</sup> The program was scaled up significantly from 2006, doubling targeted *kecamatans* from approximately 1100 in 2006 to 2000 in 2007, and from 2400 in 2008 to 4375 in 2009, based on the successful experience of the Bank-funded Kecamatan Development Program (KDP), which began in 1998.

<sup>2</sup> Note that Bank financing for the two domains of PNPM – rural and urban – are provided through separate loans, thus PNPM Rural IV will only cover rural villages/*kecamatans*.

successful in increasing the poor's (including women's) access to tertiary socio-economic infrastructure and other basic services.

While a Vice Presidential instruction has confirmed that the program will continue at full coverage until the end of 2014, the Bank has been supporting consultations on PNPM Rural's future strategic direction, to better articulate key policy questions for the future, including those of 'integration' of community-based programs within Cluster 2 and also how to strengthen the "handshake" between PNPM Rural and sector service delivery at the local level. This policy dialogue will continue with Government and be complemented under the proposed fourth phase of PNPM financing by special programs/pilots (e.g. PNPM Generasi) and associated analytic work. Other strategic policy questions which the team will continue to engage on include: (i) adjustment of the core PNPM model to different kinds of poverty across Indonesia's diverse regions (e.g., targeting poorest *kecamatans*; or trying to reach poorest in richer areas); (ii) bringing the social capital created through PNPM to bear to strengthen the downward accountability of local government; and (iii) utility/scope of PNPM as an instrument to address the needs of the most marginalized and vulnerable peoples.

While these are critical medium-term questions for PNPM, the most pressing issues facing the task team during preparation of PNPM Rural IV are those of overall implementation and management quality, ensuring that the program design and implementing arrangements are robust enough to manage a national scale, decentralized program of this nature.

## **2. Proposed objective(s)**

As under the ongoing PNPM Rural III operation, the Project Development Objective would remain for villagers in PNPM-Rural locations to benefit from improved socio-economic and local governance conditions.

## **3. Preliminary description**

PNPM Rural IV is a 'repeater' operation, channelling additional resources to a well-established community-driven development operation in Indonesia that has evolved from a smaller-scale Bank-financed project, to a national-scale Government program. To date, since 1998 and starting with the KDP project, the Bank has provided financing totalling \$2.2 billion to KDP/PNPM. Under this fourth phase of support to the scaled-up national program, there will be no substantial change to the program's overarching objectives or components.

The objective of rural villagers benefiting from improved socio-economic and local governance conditions will continue to be achieved through: (i) provision of direct grants to communities in a transparent manner to finance an open menu of basic socio-economic infrastructure and revolving funds for women's saving and loans groups; (ii) support to communities participation in an open and inclusive planning process; (iii) enhancing the capacity of central and local governments to partner with community organisations in service provision.

The design also proposes that PNPM-Rural IV to continue to include provision for quick post-disaster response and crisis recovery, utilising PNPM's existing financial and institutional

platforms as a flexible and strategic instrument for governmental response; and will maintain support to operational pilots and special programs that again build upon the main PNPM platforms, testing operational hypotheses for greater impact and to inform longer-term policy and design questions (e.g., PNPM Generasi; Papua RESPEK, etc).

Project components will remain similar to the ongoing operation. Financing figures are estimates, based on past experience and the Government's annual budget, and would be finalised during the preparation process:

- i. **Component 1:** Kecamatan Grants (\$575m). Direct grants to sub-districts to support community-driven planning and investment in social and economic infrastructure, health and education; and revolving funds for women's savings and loan groups
- ii. **Component 2:** Facilitation Support (\$75m). Development of community capacity for planning, project and resource management through training, technical advice and support for local level facilitators (technical and social, at *kecamatan* and *kabupaten*, or district, levels)
- iii. **Component 3:** Implementation support and Technical Assistance (\$35m). Implementation support, training and technical assistance at the national, provincial and district levels to manage and oversee the program and strengthen capacity of local governments.
- iv. **Component 4:** Project Management Support (\$15m). Assisting overall coordination, implementation and monitoring of the program from central level, including measures to strengthen governance and fiduciary arrangements<sup>3</sup>. PNPM's special programs/pilots place additional demands on normal government budgeting. While, most of these operational costs will be covered by Government through their national (APBN) and local (ABPD) budgets; a minimal amount is financed from the loan.

#### 4. Safeguard policies that might apply

Safeguard Polices: The proposed program, as in the original project, has been classified at Category B. It will trigger the safeguard policy on Environmental Assessment (OP/BP 4.01) and National Habitats (OP/BP 4.04). A general Environmental Management Framework and associated guidelines have been established and implemented under the PNPM Rural Operational Manual (PTO). The same framework, subject to improvements/updates made during preparation, will be applied for this project.

The policies on Indigenous People (OP/BP 4.10) and on Involuntary Resettlement (OP 4.12) will also be triggered. PNPM's operational manual includes a planning and verification framework to ensure that any land acquisition is well-documented both in terms of its voluntary nature and the lack of any significant economic impact on villagers. Actions taken by PNPM-Rural to mitigate social safeguard issues associated with inclusion of indigenous people include: recruitment and tailored training for facilitators from the same ethnic groups; local language translation; independent reviews by cultural specialists; and modifications to the planning process to reflect more closely traditional social units. Experience has shown that incorporating considerations for the indigenous peoples in the planning processes of the Project Manual is key

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<sup>3</sup> Including recommendations arising out of the planned Governance/ACAP Review.

to implementation progress and mitigating adverse impacts. The project will prepare a new Indigenous Peoples Planning Framework (IPPF) based on the previous experiences to accommodate lessons learned.

**5. Tentative financing - tbc**

Source:		(\$m.)
Borrower		0
International Bank for Reconstruction and Development		700
	Total	700

**6. Contact point**

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