

# PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC470

<b>Project Name</b>	NATIONAL PROGRAM FOR COMMUNITY EMPOWERMENT IN RURAL AREA (PNPM RURAL 2012-2014) (P128832)
<b>Region</b>	EAST ASIA AND PACIFIC
<b>Country</b>	Indonesia
<b>Sector(s)</b>	Water supply (20%), Irrigation and drainage (20%), Rural and Inter-Urban Roads and Highways (20%), Pre-primary education (20%), Sub- national government administration (20%)
<b>Lending Instrument</b>	Specific Investment Loan
<b>Project ID</b>	P128832
<b>Borrower(s)</b>	Government of Indonesia
<b>Implementing Agency</b>	Directorate General of Village Community Empowerment (PMD) Ministry of Home Affairs
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared</b>	20-Jun-2012
<b>Estimated Date of Appraisal Completion</b>	27-Aug-2012
<b>Estimated Date of Board Approval</b>	27-Nov-2012
<b>Concept Review Decision</b>	Track II - The review did authorize the preparation to continue

## I. Introduction and Context

### Country Context

Indonesia is the world's fourth most populous state and third most populous democracy, the world's largest archipelagic state, and home to the world's largest Muslim population. During the global financial crisis, Indonesia outperformed its regional neighbors and joined China and India as the only G20 members posting growth in 2009. Indonesia grew an estimated 6.1 percent and 6.5 percent in 2010 and 2011, respectively, and poverty rates have fallen from 17.4 percent in 2004 to 12.5 percent in 2011.

Despite these achievements 32.5 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 percent of these are in rural areas – where approximately half of the population reside and where income and employment opportunities and delivery of basic services, remain seriously constrained, and additionally are characterized by regional disparities. Non-income poverty – as reflected in health and education access and outcomes – continues to be a serious problem.

Service provision and effective local governance are lagging. The reforms coming out of the 1997 Asian financial crisis and the move from a centralized to decentralized form of government in 1998 were driven by a desire to achieve higher economic growth and sustainable development, as well as poverty reduction. The reforms were expected to lead to better service provision and more effective local governance. While recent history has shown a positive trend in economic and political achievements, this still remains an incomplete transition and the reform process has started to slow. Many of the country's institutions and local governments are not effective in delivering services and accountability. These shortcomings particularly affect the poorest from benefiting more fully from growth and poverty reduction efforts.

Indonesia is heading into an election period and the next presidential election is scheduled for 2014. This might lead to a further slowdown in institutional reforms and an increase in political activism and potential interference in development programs for political gain.

### **Sectoral and Institutional Context**

A nationwide CDD program. In 2007, the Government of Indonesia (GoI) launched the National Program for Community Empowerment (PNPM). PNPM is the umbrella program that seeks to bring together all community-driven development (CDD) initiatives in Indonesia so that the poor can benefit from improved socioeconomic and governance conditions. PNPM provides direct financial and technical support to rural communities to improve basic infrastructure and social services. Its focus is on empowering communities to make decisions about their investment needs and priorities. PNPM is the largest CDD program in the world, covering all rural villages (PNPM-Rural) and urban wards (PNPM-Urban) in Indonesia. PNPM is the flagship program and constitutes the pillar of "Cluster 2" of GoI's 3 clustered poverty reduction strategy. [Cluster 1 focuses on social protection through targeted poverty and social protection programs at the household level; (b) Cluster 2 promotes community level development and empowerment; and (c) Cluster 3 stimulates micro-level growth through programs that target micro-finance and support to small and medium enterprises, micro-finance and support to SMEs.]

A long-term partnership with GOI. The Kecamatan Development Project (KDP), PNPM-Rural's predecessor, began in 1998 at a time of economic and political upheaval as a means of channeling development resources directly to communities, strengthening local government and community institutions, and improving local governance. In 2007 President Yudhoyono became concerned about the potential effects of the global financial crisis on rural areas and decided that KDP could have a mitigating effect if implemented nationally. The program rapidly scaled up from about 1,000 kecamatan (sub-districts) in 2006, to over 4,000 sub-districts in 2009. The driving force for GoI's policy transition from KDP to PNPM was the aim to institutionalize the proven track record in bottom-up participatory planning into a single CDD-based poverty reduction program and to expand it to national scale. The Bank has supported and partnered with the Government since the inception of the KDP program. The program now has nationwide coverage; in rural areas it covers 63,000 villages in over 5,000 kecamatan and has more than 34 million beneficiaries. Including the proposed loan, total Bank lending would increase to \$3.6 billion. Since the first KDP, the program has financed over 109,000 km of small roads, 17,000 small bridges, 40,000 clean water systems, rehabilitation or building of 43,100 schools and health facilities, and supported over 301,000 business activities for women.

PNPM-Rural Impact Evaluation. An Impact Evaluation of PNPM-Rural has been conducted, with

the ending survey fielded in 2010, and is being finalized . The evaluation found that, as a result of participation in the program, real per capita consumption gains were 9.1 percentage points higher among poor households in PNPM areas compared with control households. PNPM has a stronger impact on poor households. For the first quintile of households, there is an 11.8 percentage point difference in the growth rate of real per capita consumption between PNPM and control households. PNPM impacts also extend to the near poor as there are significant impacts for the 2nd and 3rd quintiles for PNPM. While these quintiles do not represent poor households, they do represent households which are vulnerable to shocks”, given that over half of all Indonesian households are clustered around the national poverty as of early 2010. The evaluation also found that the proportion of households moving out of poverty in poor kecamatan was 2.1 percent higher in PNPM areas compared with control areas. A qualitative survey showed that the PNPM is perceived to benefit the community at large and is not seen as a poverty reduction program. The evaluation also confirmed that disadvantaged groups, other than the poor, are less likely to benefit from the program.

Strong rationale for continued Bank involvement. A Vice Presidential instruction has confirmed that PNPM will continue at full coverage until the end of 2014. Consultations on the PNPM Roadmap are underway to better articulate key policy questions for the future, including those of ensuring that community-based programs in Cluster 2 follow PNPM’s principles and also to strengthen the formal and informal arrangements between PNPM and sector service delivery at the local level. There are multiple reasons for continued Bank involvement in PNPM and Government has particularly highlighted three: (a) fiduciary oversight; (b) expertise in evaluations; and (c) access to global knowledge on CDD, e.g., Brazil, India, Mexico, Mongolia, and the Philippines. In addition there is the capacity to assist GoI in synergizing the participation of development partners supporting PNPM. Through the multi-donor funded PNPM Support Facility (PSF), the Bank is uniquely placed to support GoI to develop and institutionalize the PNPM framework and the development of its long-term poverty reduction strategy.

### **Relationship to CAS**

The project is consistent with the FY2009-12 Country Partnership Strategy (CPS) for Indonesia, Investing in Indonesia’s Institutions for Inclusive and Sustainable Development, which emphasizes engagement with government counterparts (including at the sub-national level) and other stakeholders to address critical governance and institutional challenges. In addition to its cross-cutting engagements to strengthen central and sub-national government institutions and systems, the CPS identifies five thematic areas, which form the core of the Bank’s engagement: (a) Private Sector Development; (b) Infrastructure; (c) Community Development and Social Protection; (d) Education; and (e) Environmental Sustainability and Disaster Mitigation. The project’s CDD approach aims to have spill-over effects into other government programs, strengthen institutions, and improve the links between different levels of government. The proposed project provides continued support to PNPM-Rural, the Government’s flagship poverty alleviation program, to whose development the Bank has made a significant contribution.

## **II. Proposed Development Objective(s)**

### **Proposed Development Objective(s) (From PCN)**

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

### **Key Results (From PCN)**

Key performance indicators for the PDO include:

(a) Improved household expenditure rates and improved access to economic and social services in a minimum of 5,000 sub-districts (impacts taken from representative sample).

(b) Economic Internal Rate of Returns (EIRRs) greater than 30 percent for main rural infrastructure categories.

(c) Increased percentage of beneficiaries who feel that project investments reflected their needs.

### **III. Preliminary Description**

#### **Concept Description**

The proposed PNPM 2012-2014 project would channel additional resources to PNPM-Rural. Since 1998 and starting with the KDP project, the Bank has committed financing totaling \$2.8 billion to KDP/PNPM.

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

The basic architecture of the program will remain the same but Government has indicated the need to (a) customize PNPM-Rural to respond to the different needs and conditions across Indonesia's diverse regions (e.g., technical facilitators supporting a cluster of kecamatan, meeting frequency adjusted to remoteness, facilitator allowances adapted to travel cost to remote areas, appropriate inclusion mechanisms for Indigenous Peoples); (b) emphasize the empowerment and social accountability aspects of the program (e.g., focus on governance and accountability mechanisms, knowledge sharing between communities); and (c) rethink the Revolving Loan Fund (RLF) sub-component and prepare a new design to better support rural livelihoods (e.g., strengthen governance and management arrangements to reduce the risk of corruption, focus on group solidarity and benefits, and design capacity building for livelihoods).

PNPM 2012-2014 would also continue to provide for quick post-disaster response and crisis recovery, utilizing PNPM's existing financial and institutional platforms as a flexible and strategic instrument for governmental response; and would maintain support to operational pilots and special programs that build upon the main PNPM platforms, testing operational hypotheses for greater impact and informing longer-term policy and design questions.

Project components, with the exception of the RLF, will remain similar to the ongoing operation. Financing amounts for each component would be based on past experience and the Government's annual budget, and would be finalized during the preparation process:

Component 1: Kecamatan Grants. This component would focus on direct grants to sub-districts for funding of investment proposals developed by the communities for social and economic infrastructure. Interim results from an independent Technical Evaluation rate 65 percent of sub-projects high for functionality and utilization, 24 percent average, and 8 percent low with the

remaining 3 percent not rated.

**Component 2: Rural Livelihood Options.** This new component would finance the (a) development of long term strategy and implementation arrangements for economic empowerment of women's groups; (b) capacity building of existing groups; and (c) strengthening of fiduciary arrangements in the existing Revolving Loan Funds scheme. The actual RLF funds would be financed through Component 1 for Kecamatan Grants. The new rural livelihoods concept will draw on lessons from Indonesia's PEKKA program (Women-Headed Household Program) and global experience and will benefit poor rural women with a combined program of empowerment and livelihoods activities. The component will be supported by the PSF-funded RLF Capacity Building and Sustainability Pilot Project that supports the managerial capacity of UPKs in four provinces.

**Component 3: Facilitation Support.** This component would focus on (a) assistance for community-led planning, capacity for fiduciary management, and improvements to the technical quality of civil works from social and technical facilitators (community, sub-district and district levels); (b) use of knowledge sharing and social media platforms to strengthen transparency and accountability; and (c) provision of para-legals and lawyers linked to the Justice for the Poor Program. Facilitators are the most important asset of PNPM and will benefit from a strengthened training program, competitive salaries and allowances, and fewer administrative duties so that they can, in turn, ensure better inclusion of marginalized groups, stronger application of governance arrangements (e.g., women's participation on procurement committees) and broader community involvement.

**Component 4: Implementation Support and Technical Assistance.** This component would focus on implementation support, training and technical assistance at the national, provincial and district levels to manage and oversee the program and strengthen the capacity of local governments.

**Component 5: Project Management Support.** This component would focus on assisting overall coordination, implementation and monitoring of the program from the central level, including measures to strengthen governance and fiduciary arrangements. PNPM's special programs/pilots place additional demands on normal government budgeting. While most of these operational costs will be covered by the Government through national (APBN) and local (ABPD) budgets, a small amount is financed from the loan.

#### IV. Safeguard Policies that might apply

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>	<b>TBD</b>
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10	x		
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

**V. Tentative financing**

<b>Financing Source</b>	<b>Amount</b>
Borrower	3750.00
International Bank for Reconstruction and Develo	750.00
Total	4500.00

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