



1. Project Data:		Date Posted: 06/02/2016	
Country:	Indonesia		
Project ID:	P096921		
Project Name:	National Program For Community Empowerment In Urban Areas (PNPM Urban)	Project Costs (US\$M):	
		Appraisal	Actual
		304.2	489.3
L/C Number:		Loan/Credit (US\$M):	
		177.7	286.9
Sector Board:	Urban Development	Cofinancing (US\$M):	
Cofinanciers:		Board Approval Date:	05/20/2008
		Closing Date:	06/29/2011
Sector(s):	General education sector (27%); Health (27%); Urban Transport (27%); Other social services (13%); Sub-national government administration (6%)		
Theme(s):	Participation and civic engagement (50%); City-wide Infrastructure and Service Delivery (50%)		
Prepared by:	Reviewed by:	ICR Review Coordinator:	Group:
Fang Xu	George T. K. Pitman	Christopher David Nelson	IEGPS1

2. Project Objectives and Components:

a. Objectives:

Following the launching of Indonesia's 2007 National Program for Community Empowerment (*Program Nasional Pemberdayaan* or PNPM), the Bank assisted the government to consolidate the PNPM as a national program through this project. The project development objective in the Project Appraisal Document (PAD page 7) and the Financing Agreement (Schedule 1) was:

"to ensure that the urban poor in participating Kelurahan benefit from improved socio -economic and local governance conditions."

b. Were the project objectives/key associated outcome targets revised during implementation?

Yes

If yes, did the Board approve the revised objectives/key associated outcome targets?

Yes

Date of Board Approval: 05/01/2009

c. Components:

1: Community and Local Government Capacity Building (*estimated cost was US\$31.62 million and US\$76.1 million was added through additional financing in 2009. Actual cost was US\$105.26 million*). The community development and capacity building component aimed to achieve the following:

1. Develop an extended awareness raising or socialization process that will encourage about 7,800 communities (7,250 of which had been covered by predecessor projects) to discuss, through a series of focus group discussions, the nature of poverty in their *kelurahan* (ward), how it should be addressed, and what is required to deal adequately with poverty (in the form of individual commitment, organization,

- resources, skills, etc).
2. Assist the community to carry out a Community Self Survey (CSS) on poverty.
 3. The formation/confirmation of an elected body of representatives (*Badan Keswadayan Masyarakat* or BKM) that is accountable to the community at large and which will act on behalf of the community for poverty reduction.
 4. The formulation of a poverty -oriented Community Development Plan (CDP) for the *kelurahan* using a participatory process and based on the results of the CSS.
 5. Organizing and assisting community groups (*Kelompok Swadaya Masyarakat* or KSM) who will submit proposals to the BKM to utilize project resources and implement the programs identified in the CDP.
 6. Assistance to BKMs to form associations (BKM Forums at the *kecamatan* (Sub-district) and city level) and work collectively.
 7. Building local government capacity to work with BKMs and the BKM Forum.

This component was to fund the cost of facilitators to carry out social intermediation activities, training, workshops, communication activities, focus group discussions, and production of socialization materials and publications. It would also support the training and socialization of local government staff on PNPM.

At the time of additional financing, the project was scaled-up geographically and number of *kelurahan* was increased from 7,800 to 9,457. The year in which the target should be achieved was moved from 2009 to 2011 in line with the shift of the closing date.

2: Kelurahan Grants and Sub-loans (estimated cost: US\$248.92 million. Actual cost: US\$346.92 million). This component was to finance:

1. High-priority infrastructure investments;
2. Microcredit loans channeled through community-managed revolving loan funds (RLFs).
3. Social programs for the poorest and most vulnerable groups or individuals to pay for scholarships, health care, training and similar activities.

3: Implementation and Technical Assistance (estimated cost: US\$23.51 million, actual cost: US\$37.39 million). This component was to support the project implementation including the project's monitoring and evaluation, and the complaints handling system.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

Project cost: The actual cost was US\$489.3 million. An additional financing of US\$115 million was approved On May 1, 2009 to scale-up the project. The project development objectives remained unchanged. The additional financing supported an additional 1,575 *kelurahans*, provided supplemental block grants to the existing 4,593 *kelurahans*, financed community and local government capacity building, and provided implementation support to the investments in these additional 6,168 *kelurahans*.

Financing: The Bank initially provided an IDA Credit of US\$125.00 million and an IBRD Loan of US\$52.68 million. Additional financing through an IBRD Loan of US\$115.00 million was added in 2009. Out of the total amount of US\$292.70 million, some US\$286.88 million or 98% was disbursed and US\$0.72 million was cancelled.

The Islamic Development Bank provided parallel financing of US\$78.98 million equivalent for PNPM program and this was utilized in 14 Provinces that were not part of the Bank's project.

Borrower contribution: The borrower also increased the contribution by US\$74.6 million to the actual US\$201.1 million.

Dates: The project closing date was extended by 36 months to December 31, 2014.

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

High

The PNPM Urban was a continuation of Bank's support to the community empowerment in Indonesia (Urban Poverty Projects 1, 2 and 3) and it aimed to contribute to the government's development objective of expanding the community empowerment nation wide through its 2007 National Program for Community Empowerment.

The project development objective was fully consistent with the Bank's Country Assistance Strategy (CAS) for 2004-2007, which aimed at sustaining economic recovery, promoting broad-based growth, and delivering better public

services for the poor. In the Country Partnership Strategy (CPS) for Indonesia FY09-12, the “community development and social protection” was one of the five thematic areas that formed the core of the Bank’s engagement. The CPS for FY09-12 states (pages 26 and 27) that the Bank will “continue to support Government in the design and effective expansion of programs that promote more inclusive growth and social protection, and also enhance the accountability of elected officials and service providers.”

Project objectives remain relevant to the current CPS for 2013-2015 that identifies six thematic areas that form the core of the Bank’s engagement in Indonesia, three of which are directly relevant to PNPM Urban: (i) Promoting Communities, Protecting the Vulnerable and Improving Health Outcomes, (ii) Ensuring Sustainable Development and Improving Disaster Resilience, and (iii) Gender and Governance.

b. Relevance of Design:

Substantial

The designed activities were relevant to the achievement of development objectives. The causal chain from the project interventions to project outputs, and consequently the project outcomes, was clear. The capacity-building and implementation support activities in component 1 would help improve local governance and ensure that the economic and social services would be provided in a cost-effective and sustainable manner. The community driven approach used under this project to develop the Community Development Plans would allow the community members, including the poor, to participate in the decision-making process and benefit from the project intervention. The implementation of the Better Governance Action Plan also contributed to the improvement of local governance through identifying and mitigating corruption risks. Component 2 aiming at providing more infrastructure, economic and social services that would benefit the communities covered by the project.

As some of the activities such as the social program were directly targeting at the poorest and most vulnerable groups in these communities, the urban poor group was expected to benefit more than the community as a whole from the project intervention. The project, as the other projects under the PNPM, also provided block grants, micro-credit and revolving funds to finance high-priority infrastructure investment and to support the poorest and most vulnerable groups or individuals to pay for scholarships, health care, training and similar activities. The two programs supported by the project, the Neighborhood Development and Poverty Alleviation Partnership Grant targeted slum areas and provided larger and more concentrated investment than regular block grant amounts (ICR page 17). All these would contribute to the project objectives of benefiting the poor from the improved socio-economic conditions.

4. Achievement of Objectives (Efficacy):

The project development objectives are "to ensure that the urban poor in participating Kelurahan benefit from improved socio-economic and local governance conditions".

1. Achievement of the first objective of "ensuing the urban poor in participating Kelurahan benefit from improved socio-economic conditions": Substantial.

Main Outputs:

- 12,280 km of village roads, 3,452 km of drainage and 42,536 small bridges were built or improved;
- 57,598 units of houses were rehabilitated;
- 62,790 solid waste and communal sanitation facilities and 12,642 water supply facilities were built;
- 1,114 education facilities, 2,235 community health facilities and 338 public markets were built; and
- 22,914 electrification units were built.
- About 12% of all *kelurahan* grant funds were used for social program which provided social services to approximately 830,000 persons. The social services included training courses, aid to the elderly, health care, additional nutrition for children of poor, scholarships for young and disadvantaged students.
- About 10% of the *kelurahan* grant funds were used for the Revolving Loan Funds (RLFs) to provide small amount of loans to over 340,000 poor persons in 65,000 community groups. However, the usage of RLFs were less satisfactory than anticipated because the RLFs were often unable to comply with the financial management guidelines especially those related to safekeeping and the dissemination of financial reports.

Outcome:

- Through the project intervention, the access of the urban poor to the social and economic services improved. The project reached about 33.7 million poor beneficiaries through community level infrastructure service provision, exceeding the revised target of 22.3 million.
- Some 97% of the infrastructure built under the project were assessed as of good quality, exceeding the target of at least 70%. More specifically, about 619,000 households have access to clean water, about 822,000 households have access to sanitation, about 110,000 households have access to electricity and about 211,000

households have access to health clinics. 830,000 local people of which over 670,000 were poor received social services.

- The "Quantitative Evaluation the National Community Empowerment Program - Urban (NCEP-Urban)" study (2012) showed that about 35% of social program beneficiaries perceived the social program as very useful, and 61% as useful. While the improved access was the direct project benefit to the urban poor, the evidence is thin on the impact of the improved access, such as the health improvements or improved households' income.

2. Achievement of the second objective of "ensuing the urban poor in participating Kelurahan benefit from improved local governance conditions:" Substantial

Main Outputs:

- Board of Community Trustees (BKMs) were established in virtually all participating *kelurahans*.
- Training was delivered using a "training-of-trainers" model. The project trained 400 national trainers.
- At the community level, the project provided training to around 100,000 BKM members, 120,000 community volunteers and 70,000 community groups (KSM) per year.
- The project trained about 800 local government officials. mostly from planning and public works departments, and from local inspectorates.
- The Project Management Unit resolved 126,609 of 128,027 (99%) reported complaints, including 1,127 corruption complaints, and had recovered about US\$1.5 million (67%) of misused funds.

Outcome:

- At the community level, the urban poor increased their voice through the participation in the community organization (BKM) election process and in public decision-making (directly or indirectly through the community representatives). The 2012 study showed that on average about 33% of the adult population in *kelurahans* voted in BKM elections, higher than the targeted value of 30%. The study also showed that 75% respondents viewed the BKM election as transparent, participatory and fair.
- 97% of *kelurahans* had Community Development Plans (CDPs) completed. 35% of the poor and vulnerable community members participated in the community planning and decision-making meeting. The 35% achievement was lower than the target of at least 40% because the poor and vulnerable community members tended to rely on neighborhood representatives instead of participating in meetings themselves.
- At the local government level, the local governments increased their support to the communities. Over 90% of local governments covered by the project co-financed at least 20% of the project cost from their own resources in 80% of project *kelurahans*. The 2012 study estimated that 87% of project beneficiaries were satisfied (target 80%) with improved services and local governance, significantly above target.

At the Additional Financing stage, the target for outcome indicator "Improved households expenditure rates or improved access to economic and social services in 7,800 *kelurahans* (wards) in 2009" was revised to "Improved household expenditure rates or improved access to economic and social services in 80% of participating *kelurahans* (wards)". The AF paper explained that the 80% (or 7,500) target was more realistic than the original target of 100% set at appraisal. At the end of the project, 8,511 instead of 7,500 *Kelurahan*s were provided with economic and/or social services, which exceeded both the original and the revised targets. In such a case, though the target of the outcome indicator was revised, IEG has chosen not to undertake a split rating evaluation as the rating against both targets will be the same.

5. Efficiency:

Substantial

Economic and Financial Efficiency

At appraisal an economic analysis for the project was not made since the specific infrastructure activities were not known. However, an analysis of potential project benefits was conducted. It was expected that demand-driven public investments would be more cost effective and the public investment in urban services involving community in design and delivery would be efficient.

In 2009, a cost-effectiveness analysis of 28 small-scale infrastructure projects financed by this project in 12 *kelurahans* was conducted. The analysis estimated that the cost of infrastructure built by the community was on average 23% lower than the cost of equivalent works built by local government contractors. The GP subsequently

stated that "Quarterly spot checks undertaken by the NMC confirmed the cost-effectiveness of community-based infrastructure financed by the project. By the end of 2011, in 87% of all participating *kelurahans*, infrastructure built was at least 20% less expensive than infrastructure that was constructed using non-community based approaches, well above the target of 80%. The lower cost did not adversely affect quality, as over 95% of infra-structure works were rated as being of 'good quality'".

The ICR states that the nature of the infrastructure projects under the PNPM Rural and the PNPM Urban was similar, hence, the cost-saving information for PNPM Rural was a good reference for the cost-saving under the PNPM Urban. In 2012, a cost-effectiveness analysis on the small-scale infrastructure projects financed by the PNPM Rural project was carried out. The analysis showed that cost savings by using community-based approach were about 22%-33% for roads and bridges projects, 19%-28% for water supply projects and 20%-25% for irrigation projects. The GP subsequently stated they emphasize that although Annex 3 summarizes the results of studies undertaken for PNPM Rural, the project did not rely on these background studies to assess the efficiency of infrastructure subprojects. This was only used as a comparison to the existing data under PNPM Urban, as the types of infrastructure are similar. Out of 14 sub-project types used by PNPM urban, local roads, small bridges, public sanitation, public lighting, housing rehabilitation, sewerage, solid waste, community health clinic are comparable to PNPM rural."

The efficiency of the 10% total project investments in RLFs was measured by the indicator "Return on Investments". The results showed about 30% of kelurahans managed to achieve a Return of Investment of more than 10%, short of the target of 90% targeted Kelurahan.

Administrative and Operational Efficiency

The project's closing date was extended by 36 months mainly because of the increased scale of the project activities.

Overall project efficiency is assessed as Substantial.

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :

	Rate Available?	Point Value	Coverage/Scope*
Appraisal	No		
ICR estimate	No		

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

Project development objective was highly relevant to the country and the Bank's priorities in Indonesia. The designed activities were consistent with the development objectives and substantially relevant. Both project development objectives were substantially achieved. The project efficiency was substantial.

a. Outcome Rating: Satisfactory

7. Rationale for Risk to Development Outcome Rating:

The main risk to the development outcome is the maintenance of the community infrastructure built under the project. Though an Operation & Maintenance Committee was required at the neighborhood level, it is unclear whether the committees could provide sufficient funds for the infrastructure maintenance. The ICR (p28) indicates that in many cases it was unlikely that these committees will provide the commitment and resources needed.

a. Risk to Development Outcome Rating : Moderate

8. Assessment of Bank Performance:

a. Quality at entry:

Prior to this project, the Bank supported a series of Urban Poverty Projects (UPPs) in the country. The PNPM Urban was a continuation of Bank's support and engagement in community development in Indonesia. The project design followed the design of UPP2 and UPP3 but was modified to incorporate lessons learned from these projects such as increasing the local government's involvement and support to the community development. The project also used the information and communication technology (ICT) extensively to enhance the project's planning, implementation, monitoring and transparency.

The project's design, however, could have more specific activities on the local governance improvement and the results framework could have specific indicators to measure the outcomes of improved social and economic services such as the improved household income or health condition

Quality-at-Entry Rating: Satisfactory

b. Quality of supervision:

The project activities had wide geographical coverage which posed challenges to the Bank's supervision. The fact that all team members were based in the country and the extensive and frequent utilization of project's Management Information System enabled close and continuous project supervision. The Bank's team carried out two full-scale supervision missions annually supplemented with many shorter site visits to address specific problems. The Bank team together with the Government also established a teleconference supervision system to significantly expanded supervision coverage. This close supervision enabled the Bank team to address issues such as consultant hiring, safeguard policy compliance and other challenges in a timely manner. The Mid-term review was conducted in December 2010 (a year behind schedule) and led to a series of recommendations including measures to improve RLF performance. However, despite all these efforts, the performance of RLF did not improve and the project's financial management also encountered some issues (see section 11).

Quality of Supervision Rating : Satisfactory

Overall Bank Performance Rating : Satisfactory

9. Assessment of Borrower Performance:

a. Government Performance:

The project had very strong support and commitment from all levels of the government. The Government of Indonesia had a roadmap of developing nationwide PNPM by 2015, and the PNPM Urban was prepared according this roadmap. The former president issued a decree to make all planning, budgeting, implementation, management and funding mechanisms for PNPM projects subject to a single set of operational guidelines and a single overarching management structure to improve effectiveness and efficiency.

At local government level, all participating district governments were committed to co-finance the project cost but the financial capacity of the local governments was overestimated, resulting in the local governments' difficulties in providing the adequate and timely counterpart funding. This was exacerbated by weakness in the central government's budget planning (budget ceiling was routinely set too low at the beginning of the fiscal year and then was revised in the second half of the fiscal year), and thus the flow of the counterpart funding from the central government to the project was not as smooth as planned and affected smooth implementation of project activities. As some of the local governments did not have the capacity to provide the required 20% counterpart funding, the Ministry of Finance in 2012 revised the local government's cost sharing percentages to 20% and 5% respectively. After the revision, virtually all local governments were able to provide the minimum required cost sharing. The project team clarified that the resulting financing gap was closed by the project. However, the impact of these revisions on project outputs was not significant because the local government contribution was for block grants only, and these accounted for about 80% of the total project cost, and most project funds for block grants were already disbursed at the time the lower percentages started to apply.

Government Performance Rating Moderately Satisfactory

b. Implementing Agency Performance:

This project used the same implementation arrangement as the preceding UPPs. The Ministry of Public Works was the Executing Agency for this project, and a Project Management Unit was responsible for project's management, monitoring and evaluation. During implementation, the implementing agency streamlined the project management by integrating all the National Management Consultants into a single organization and decentralized operations to 19 provincial working units overseeing project implementation and managing *kelurahan* facilitators.

The implementing agency worked effectively to complete the project activities and to enhance the capacity of the community and local government level. Latterly, the implementation agency worked with the Bank to resolve the issues encountered such as delays in budget execution and revision, compliance with safeguard policies and modify the design in response to the changing circumstances. such as providing technical assistance to *kelurahans* covered by Urban Poverty Projects through the Additional Financing.

The implementing agency complied with the environmental and social safeguards requirements and the Bank's financial management requirements, but not without problems. The recording of potential social and environmental impacts was initially poor, especially with regards to voluntary land donations. The project also encountered problems such as delays in issuance of budget documents, and uneven capacity of the community and facilitators to manage and implement the project activities (see section 11).

Implementing Agency Performance Rating : Moderately Satisfactory

Overall Borrower Performance Rating : Moderately Satisfactory

10. M&E Design, Implementation, & Utilization:

a. M&E Design:

The project had three Key Performance Indicators and 14 intermediate outcome indicators to measure the results of the project intervention and a comprehensive Management Information System to track the progress, supplemented by a series of qualitative and quantitative surveys. A complaints handling system was established (complaints could be submitted via the project website, by phone, text message or in writing). However, the result framework did not have indicators to measure the impact of the improved access to economic and social service and the effect of the RLF program.

b. M&E Implementation:

The M&E was well implemented through the MIS, spot-checking, surveys and the complaints handling system. The data quality improved overtime. (ICR, page 22). However, the KPI of "improved household expenditure rates" was not being tracked.

c. M&E Utilization:

The data collected were used to identify and remedy issues, fine-tune the project activities and resources and ensure transparency. The Government of Indonesia is also using the MIS to monitor its nationwide Community Design Development program.

M&E Quality Rating: Substantial

11. Other Issues

a. Safeguards:

The project was categorized "B" under OP/BP 4.01 Environmental Assessment policy. In addition, OP/BP 4.10 Indigenous Peoples and OP/BP 4.12 Involuntary Resettlement were triggered. The project adopted the Environmental Guidelines, Land Acquisition and Resettlement Framework, and an Isolated Vulnerable Peoples (IVP) Policy Framework developed under the Urban Poverty Project 3 with some modifications to reflect the lessons learned from the previous projects. The Indigenous Peoples' Plan and the Resettlement Plan for the project were also developed and disclosed.

The ICR (page 23) reported that the adverse social and environmental impacts of the project activities were small or negligible given the small scale of individual project activities. However, there was no independent monitoring of compliance with safeguards, given the small, scattered nature of the interventions. The ICR (page 23) reported that the recording of the social and environmental impact was poor in the beginning but the quality of information improved overtime. The project did not finance land acquisition, but did receive voluntary land donations; however, by the end of 2014, only about 70% of sub-project proposals had complete information about voluntary land donations.

b. Fiduciary Compliance:

Procurement: Project procurement was rated by the Bank team as moderately satisfactory throughout the project period. Procurement experienced delays in the recruitment of consultants that in turn translated into implementation delays. To address the procurement issue, the Bank together with the Borrower, simplified the procurement procedures, minimized the rotation of facilitators and developed an online invoice monitoring system. Overall, the project procurement was in compliance with the World Bank's Guidelines(ICR, page 23)

Financial Management: The overall project Financial Management Risk was assessed as being Substantial at appraisal stage. To mitigate the risk, several mechanisms were put in place. A community-based control was applied which included the facilitator's review and certification of community reports, establishment of oversight consultants, display of financial reports in public areas, and an extensive complaints-handling system. Even so, the project encountered some problems with financial management, primarily on RLF management, delays in issuance of budget documents, and uneven capacity of the community and facilitators of managing and implementing the project activities. The project's financial management generally complied with the Bank's minimum requirements under OP/BP10.02 and the project's financial management was generally acceptable at closing (ICR, page 23).

The project extensively used the complaint handling system to improve the project governance, enhance transparency, and reduce opportunities for corruption and fraud. The system received 128,027 complaints during 2008-2014, the PMU resolved 126,609 (99%) of them, including 1,127 corruption complaints. The PMU recovered about US\$1.5 million (67%) of misused funds totaling an estimated US\$2.3 million equivalent.

Community group financial statements were audited annually by independent audit firms. The project received an unqualified opinion from an external auditor in all years from 2009 to 2013. Also, the local government auditors conducted audits which helped increase the total audit coverage from 16% in 2009 to 34% in 2010 in the 19 provinces covered by Bank financing, exceeding the target of 20% sample.

c. Unintended Impacts (positive or negative):

d. Other:

12. Ratings:	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Risk to Development Outcome:	Moderate	Moderate	
Bank Performance:	Satisfactory	Satisfactory	
Borrower Performance:	Moderately Satisfactory	Moderately Satisfactory	
Quality of ICR:		Satisfactory	

NOTES:

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

Seven lessons are given in the ICR and the three most important are:

1. 1. **Strong and sustainable support from the local government are important to urban CDD program** . Financial incentives, intensive socialization and training of local government officials and their consultants are effective means to create a sustained interest from the local governments in supporting small-scale infrastructure projects for

the communities.

2. **Local government's support together with larger concentrated investments , improve the impact and effectiveness of small -scale of block grants in improving the accessibility of the urban poor to economic and social services**

3. **The intensive use of ICT helps to maintain a high level of transparency in all aspects of the project cycle , and information disseminated effectively strengthened public confidence in the project's openness and fairness .**

IEG draws two additional lessons:

4. **Fundamental to the flourishing of Indonesia's urban CDD program has been the communities' strong ownership built through transparency and good governance .** The program's popularity is demonstrated by the peoples' willingness to participate in the planning allocation of small grants for community development priorities, provide voluntary labor for the projects, and in some instances to freely give up parcels of land for the communal good.

5. **Community participation is a necessary , but in itself an insufficient measure to ensure sustainability of improved infrastructure.** Greater attention is needed to strengthen the technical capacity of communities to enable them to operate and maintain the facilities established and to harmonize planned new investments with appropriate maintenance programs and budgets. The facilitators can play a stronger role in stressing the importance of maintenance when Community Development Plans are drawn up.

14. **Assessment Recommended?** Yes No

15. Comments on Quality of ICR:

The ICR provided sufficient information on the project design and implementation including the issues that the project faced. The ICR also reported the project's outputs and intermediate outcomes. The ICR was not able to provide information on the project impact even with the good MIS system and various surveys, which might be explained by the fact that at the PNPM Urban stage, the program become a nation-wide thus making it difficult to determine the project impact on increased household income or improve health situation, etc.

a.Quality of ICR Rating: Satisfactory