



Technical Assistance Consultant's Report

Project Number: 39063

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TA 4762-INO: Pro-poor Planning and Budgeting Project (Financed by the Asian Development Bank and Government of the United Kingdom)

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For Asian Development Bank

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Asian Development Bank

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WORKING PAPERS:

- Working Paper 1.** Poverty Reduction through Developing Micro, Small and Medium Enterprises
- Working Paper 2** Towards a National Poverty Reduction Action Plan
- Working Paper 3.** Reviews and Evaluations of Pro-Poor Programs in Indonesia: A Summary Overview
- Working Paper 4** Improving Local Government Planning for Enhanced Poverty Reduction
- Working Paper 5** Program Keluarga Harapan - PKH - Two Case Studies on Implementation
- Working Paper 6** Pro-Poor Planning & Budgeting: Case Studies from Three Provinces
- Working Paper 7** Planning and Budgeting for Improved Family Welfare

Other Products of the Project available on the Pro-Poor Planning and Budgeting Web Domain maintained on the BAPPENAS Website at <http://p3b.bappenas.go.id>:

- ❖ "Handbook on Pro-Poor Planning and Budgeting" published by BAPPENAS in August, 2008
- ❖ Kumpulan Bahan Latihan Pemantauan dan Evaluasi Program-Program Pengetasan Kemiskinan (Resource Book of Training Materials for Monitoring and Evaluation of Poverty Reduction Programs)
- ❖ MDGs Scorecards for District Governments (11 were produced in collaboration with 11 district governments)
- ❖ Pro-Poor Planning and Budgeting Newsletters (Volumes 1 – 3)
- ❖ Pelaksanaan Program Keluarga Harapan, 2007 – Studi Kasus (Implementation of the Family Hope Program, 2007 – A Case Study), BAPPENAS – Department of Social Affairs

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Acronyms

ADB	Asian Development Bank
APBD	<i>Anggaran Pendapatan dan Belanja Daerah/</i> Regional Budget Allocations
BAPPEDA	<i>Badan Perencanaan Pembangunan Daerah/</i> Regional Development Planning Agency
BAPPENAS	<i>Badan Perencanaan Pembangunan Nasional/</i> National Development Planning Agency
BPS	<i>Badan Pusat Statistik/</i> Central Bureau of Statistics
Bupati	Regent
CCT	Conditional Cash Transfers
CIDA	Canadian International Development Agency
CSO	Civil Society Organization
DAK	<i>Dana Alokasi Khusus/</i> Special Allocation Fund
DAU	<i>Dana Alokasi Umum/</i> General Allocation Fund
DEKON	<i>Dana Dekonsentrasi/</i> De-concentration Funding Assistance
Dinas	Operational unit of the autonomous regional government
DPRD	<i>Dewan Perwakilan Rakyat Daerah/</i> Regional People's Representative Assemblies
ILGR	Initiative for Local Government Reform (WB-supported project)
Kabupaten	Regency/ District
KPK	<i>Komite Penanggulangan Kemiskinan/</i> the National Poverty Reduction Committee
KPKD	<i>Komite Penanggulangan Kemiskinan Daerah/</i> Regional Poverty Reduction Committee
LGSP	Local Government Support Project
MDGs	Millennium Development Goals
MenkoKesra	Coordinating Ministry for People's Welfare
M&E	Monitoring and Evaluation
MOF	Ministry of Finance
MOH	Ministry of Health
MOHA	Ministry of Home Affairs
MSS	Minimum Service Standards
MUSRENBANG	<i>Musyawarah Rencana Pembangunan/</i> the process of discussions on development plans held at all levels of government in Indonesia
NGO	Non Governmental Organization
NTT	<i>Nusa Tenggara Timur/</i> East Nusa Tenggara Province
PEM	Public Expenditure Management System
PERMEN	<i>Peraturan Menteri/</i> Ministerial Regulation
PERDA	<i>Peraturan Daerah/</i> Regional Regulations
PNPM	<i>Program Nasional Pemberdayaan Masyarakat/</i> The National Community Empowerment Program
PP	<i>Peraturan Permerintah/</i> Government Regulation
PRMAP	Poverty Reduction and MDG Acceleration Program
PRS	Poverty Reduction Strategy

RAPBD	<i>Rancangan Anggaran Pendapatan dan Belanja Daerah/ Draft Regional Budget</i>
RKP	<i>Rencana Kerja Pembangunan/ Annual Work Plan</i>
RPJM	<i>Rencana Pembangunan Jangka Menengah/ Medium Term Development Plan</i>
RPJMD	<i>Rencana Pembangunan Jangka Menengah Daerah/ Regional Medium Term Development Plan</i>
SEKDA	<i>Sekretariat Daerah/ Regional Secretariat</i>
SPKD	<i>Strategi Pengentasan Kemiskinan Daerah/ Local Government Poverty Reduction Strategy</i>
SUSENAS	<i>Survei Sosio-Ekonomi Nasional/ the Household Consumption Survey conducted by the National Bureau of Statistics</i>
TA	Technical Assistance
TOR	Terms of Reference
UCT	Unconditional Cash Transfer
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WB	World Bank

Knowledge Summary

Since 1999 the Government of Indonesia has instituted reforms to decentralize responsibility for delivery of public services to the district level. Central government transfers to district governments have been increased by ten fold during this period. District governments in Indonesia now plan and budget for 30% of all public expenditures and are well positioned to improve the delivery of public services.

In 2007 the Government launched a conditional cash transfer program – *Program Keluarga Harapan* (PKH or “Family of Hope Program”) – on a pilot basis in 40 districts in seven provinces. It is envisaged that the program will be gradually expanded nationwide to benefit some 6.5 million of Indonesia’s poorest households.

The Pro-Poor Planning and Budgeting Project was formulated to contribute to improvement of access of the poor to quality social services and infrastructure. The Project provided technical support to the National Development Planning Agency (BAPPENAS) and local stakeholders in a sample of 11 districts to produce outputs for three components: 1. Pro-poor Planning and Budgeting; 2. Capacity Development; and 3. the Conditional Cash Transfer Program (CCT).

The Project successfully demonstrated that progress can be achieved service delivery and poverty reduction at the district level through the introduction of planning tools to mainstream the Millennium Development Goals (MDGs) in district development planning and budgeting. Technical assistance also enabled BAPPENAS to successfully complete a rapid assessment of the pilot PKH and to complete two case studies of the pilot phase of the program. The next steps recommended to follow up on the lessons learned of the Project are the following:

- ✓ **MDG Road Map** - The Project supports the Government’s commitment to prepare a Road Map to Achieve the MDGs and to use the Road Map as an input into the formulation of the next National Medium Term Development Plan (2010-2014).
- ✓ **Expansion of Pro-Poor Planning and Budgeting Initiatives** – The Project supports the Government’s intention to expand pro-poor planning and budgeting assistance to the regions and to promote mainstreaming of the MDGs in district planning and budgeting.
- ✓ **Information on the MDGs** – The Project has demonstrated that use of tools for analysis of empirical data (District MDG Score Cards and District Poverty Maps) can improve programming to improve service delivery and reduce poverty. There is a need to improve capacity for data collection, processing, analysis and dissemination of information on poverty through the local media to better inform public discussions on the MDGs.
- ✓ **Coordination among Levels of Government to Reduce Poverty** – Coordination of service delivery and poverty reduction can be improved through improvement in the sharing of information on poverty reduction plans, programs and budgets among the central, provincial and district levels of government.
- ✓ **Improving the Program Keluarga Harapan (PKH)** - The proposed improvements to the PKH relate to the beneficiary selection process, inter-agency coordination, program socialization, the monitoring and verification mechanism, field-level facilitation (*pendampings*), the management information system and the payment

mechanism. With these adjustments, the potential for up-scaling of the program to become a national program will be increased.

1. Introduction/ Overview

This is the Final Report of the Pro-Poor Planning and Budgeting Project (“the Project”). The National Development Planning Agency (BAPPENAS) has been the Executing Agency for the Project on behalf of the Government of Indonesia and the Asian Development Bank (ADB) has provided grant funding, technical support and management guidance during implementation. The Project was launched on September 1, 2006 and was completed on August 31, 2008.

The Project was formulated to contribute to improvement of access of the poor to quality social services and infrastructure. The expected outcomes were: “(i.) local poverty reduction strategies that are operationalized, linked to a pro-poor and participatory budget process; and (ii.) a nationwide Conditional Cash Transfers (CCT) program that provides income support to the poor while building human capital.”¹

In accordance with the Terms of Reference for the Project, the Technical Assistance (TA) Team provided technical support to BAPPENAS, local government counterparts and other stakeholders to achieve specific outputs for three components: 1. Pro-poor Planning and Budgeting; 2. Capacity Development; and 3. the Conditional Cash Transfer Program (CCT). The TA was originally scheduled to be implemented during 18 months, but implementation was rescheduled to 24 months to optimize use of the technical assistance in collaborating with district governments and to ensure that adequate time was provided to assess progress of the CCT program.

The TA produced most of the outputs specified in the Terms of Reference while also producing some outputs that were not specified but which will contribute to achievement of the expected outcomes of the Project. The major findings and recommendations as well as the outputs produced for each of the three component of the TA are summarized as follows:

Component 1: Pro-Poor Planning and Budgeting

The TA Team collaborated with BAPPENAS to review national priorities for poverty reduction and current macroeconomic conditions and policies. Evaluations of the major national poverty reduction programs implemented since the economic crisis were reviewed to identify common challenges and lessons learned. This work was used to prepare an approach to formulate a National Poverty Reduction Action Plan. Although the Project did not result in the adoption of a National Poverty Reduction Action Plan by BAPPENAS, the lessons learned will be used as a reference in drafting a Road Map to Accelerate Achievement of the Millennium Development Goals (MDGs)². This work will in turn be used as a reference in formulating the components of the next Medium

¹ ADB, 2005, Proposed Technical Assistance Republic of Indonesia: Pro-Poor Planning and Budgeting, Manila, TA 39063.

² This is a policy action to be achieved by March 2009 under the Poverty Reduction and MDG Acceleration Program (PRMAP), a program loan executed by BAPPENAS and funded by the ADB.

Term Development Plan (2010 – 2014) on poverty reduction and strengthening the delivery of social services.

Since 1999 the Government of Indonesia has decentralized responsibility for delivery of public services to the district level while instituting a range of democratic reforms to increase citizen participation in development. The Government has also increased central government transfers to district governments by almost ten fold during the same period (from Rupiah 27,2 trillion in 1999 to Rupiah 230,3 trillion in 2007³). District governments in Indonesia now plan and budget for about 30% of all public expenditures and are well positioned to play a critical role in improving the delivery of public services and in reducing poverty with citizen participation.

The TA Team selected a sample of 11 districts in three provinces (East Nusa Tenggara, Central Java and South Sumatra) using criteria related to the incidence of poverty, the status of achievement of the MDGs and the fiscal capacity of the districts. In reviewing the situation in the 11 districts, the TA Team found that district medium term development plans generally contain limited content directly related to poverty reduction, rarely identify the causes of poverty, and reveal little evidence of input from poor segments of society in planning processes. District medium term and annual plans also do not usually specify targets, outputs, expected outcomes and expected impacts, and generally are not integrated across sectors, nor routinely coordinated with plans of other levels of government. Intended beneficiaries of programs are not well-identified in planning and budgeting documents, thus leading to difficulties in targeting the poor during implementation. At the same time the leaders of some districts are making significant progress in formulating innovative approaches to improve service delivery and reduce poverty. There is evidence to suggest that some programs which provide enhanced information, support participatory planning processes and provide facilitation and funding at the village level are yielding substantive benefits to the poor.

The TA Team was successful in collaborating with local stakeholders in the 11 districts to prepare: Poverty Reduction Action Plans (3 districts), Annual Work Plans (11 districts), annual budget documents for 2008 (11 districts with average annual budgets of USD 78.5 million/ district) and a district monitoring and evaluation system (1 district). Lessons-learned from this process were presented in district and national forums, project reports, the project newsletter and the project website.

Based on the experience gained in working with stakeholders in the 11 districts, the TA Team collaborated with counterparts at the Directorate for Poverty Reduction at BAPPENAS to prepare a Handbook on Pro-Poor Planning and Budgeting. The Handbook was published (2,000 copies) and launched by the Minister (BAPPENAS) who urged that all district governments utilize the Handbook as a reference to improve local programming to reduce poverty and achieve the MDGs. The Handbook will also be distributed to regional universities and donor-assisted projects as a basic reference for building local capacity to reduce poverty. Pro-Poor Planning and Budgeting will also become a component of the TARGET MDGs Project (UNDP), the National Poverty

³ P. 161, Spending for Development – Making the Most of Indonesia’s New Opportunities, World Bank, 2007.

Empowerment Program (PNPM), The Better Approaches to Service Provision through Increased Capacities in Sulawesi (BASICS - CIDA), and the People-Centered Development Project (PDP - UNDP).

Component 2: Capacity Development

A program was implemented by the TA Team to build institutional capacity at BAPPENAS as well as among stakeholders in the 11 districts for pro-poor planning, budgeting, monitoring and evaluation. Capacity building was carried out through provision of support for 30 short-term training events and workshops which benefited a total of 1,390 participants. The training events and workshops addressed the challenges experienced by counterparts at BAPPENAS and in the 11 districts in building awareness on poverty reduction and the MDGs, formulating and operationalizing plans and budgets to reduce poverty and building effective monitoring and evaluation systems.

In implementing the capacity development program, the TA Team compiled a large set of training materials. All these materials have been placed on DVDs which are now being distributed to all districts in Indonesia with the Handbook on Pro-Poor Planning and Budgeting. They are also presented on the BAPPENAS website. The Project also prepared a Resource Book on Monitoring and Evaluation of Poverty Reduction Programs which was published (1,000 copies) and distributed by BAPPENAS to regional universities and district governments throughout Indonesia.

Among the main findings and recommendations of the TA Team resulting from implementation of Components 1 and 2 of the Project are the following:

- i. **Mainstreaming the MDGs in National and Local Planning** – The Government of Indonesia is committed to mainstreaming the MDGs to achieve national and regional development objectives on poverty reduction. It has been agreed that the findings of the Project will be used as an input to improve the next Medium Term Development Plans at the national level and that the Handbook on Pro-poor Planning and Budgeting will be used to guide the districts on mainstreaming the MDGs in preparation of their medium term/ annual plans and annual budgets.
- ii. **Building Capacity for Pro-Poor Planning and Budgeting** should be given a high priority in the future to improve use of all resources to achieve the MDGs. Medium Term Development plans and Poverty Reduction Strategies are frequently prepared as general statements of thematic priorities, including poverty reduction. Often these documents contain a long list of priorities without establishing realistic targets and expected outputs related to poverty reduction or provision of health and educational services to the poor. Annual district budgets often do not translate medium term development plans or the aspirations of the poor into realistic programs to address the needs of the poor or into Annual Work Plans. Most districts still spend a large percentage of district annual budgets (60%) to pay for the routine costs of local government and development budgets are often not pro-poor nor gender responsive.' Indonesia's new public expenditure management system holds promise for strengthening the linkage from priorities through plans and budgets to expenditures. This system has yet to be fully developed. Future efforts at promoting pro-poor planning and budgeting should be aligned with this system.
- iii. **Coordination among Levels of Government to Reduce Poverty** - Central government agencies should improve the provision of information to district

- governments on national programming, including information on the channeling of fiscal resources (DAU, DAK and DEKON funding) to support better alignment of national and district annual planning and budgeting of programs to reduce poverty.
- iv. **Special Assistance for Districts with a High Incidence of Poverty and Low Fiscal Capacity** - There is a need for the central government to expand the provision of assistance to the poorest districts and scale up efforts to accelerate reduction of poverty and achievement of the MDGs in these districts.

Component 3: Conditional Cash Transfers (CCT)

In mid-2007, the Government of Indonesia launched a conditional cash transfer program – *Program Keluarga Harapan* (PKH or “Family of Hope Program”) – on a pilot basis 40 districts in seven provinces.⁴ Some 500,000 households are currently beneficiaries of the program. It is envisaged that the program will be gradually expanded nationwide and benefit some 6.5 million of the poorest households in Indonesia.

The TA Team assisted the BAPPENAS CCT Team to monitor the PKH pilot development activities in close cooperation with the concerned officials at the Department of Social Affairs. Technical assistance was provided to complete a rapid assessment of the pilot PKH delivery and impacts. The TA Team also collaborated with counterparts at BAPPENAS and the Ministry of Social Affairs to complete two case studies of the pilot phase of the program in the districts of West Sumba (East Nusa Tenggara) and Kediri (East Java). The issues and recommendations arising from the rapid assessments and case studies that should be addressed in scaling up the pilot CCT are summarized as follows:

- i. **Beneficiary Selection:** There is a need to introduce transparency into the selection process by making it participatory;
- ii. **Inter-agency Coordination:** Detailed agreements should be adopted concerning the responsibilities and commitments of participating administrations;
- iii. **Socialization**⁵: Socialization strategies should be strengthened based on feedback from local authorities, other stakeholders and the general public during the pilot phase; and
- iv. **Monitoring and Evaluation:** It is important to ensure that service providers for monitoring and evaluation are adequately resourced and ready to undertake verification and reporting prior to launching activities.

Structure of the Report

This Final Report presents an overview of the activities implemented during the 24 month implementation period and describes the major achievements, outputs and recommendations of the Project. **Section 2** describes the composition of the Team, the schedule of implementation, and the partnerships developed during the implementation process. **Section 3** describes progress in the work plan, the outputs achieved and the main

⁴ The seven provinces are West Sumatra, the Special Region of Jakarta, West Java, East Java, North Sulawesi, Gorontalo and East Nusa Tenggara.

⁵ “Socialization” is defined here as the provision of information about the program to coordinating and implementing agencies, other public and private stakeholders, and the general public.

findings and recommendations of the three components of the TA. **Section 4** briefly summarizes the proposed next steps.

Details on the process of implementation and the Project outputs have been presented in the Inception Report and the Monthly Progress Reports, the Working Papers, the Pro-Poor Planning and Budgeting Newsletter (3 editions) and other publications prepared under the Project, including the “Handbook on Pro-Poor Planning and Budgeting”, MDG Score Cards for 11 Districts and the “Resource Book of Training Materials for Monitoring and Evaluation of Poverty Reduction Programs”. For additional details on the Project, the reader is referred to the “The Pro-Poor Planning and Budgeting Web Domain” maintained on the BAPPENAS Website at <http://p3b.bappenas.go.id>.

2. Implementation of the Technical Assistance

Grant funding to support implementation of the TA was provided by the ADB's Technical Assistance Special Fund (USD 1,800,000) and the United Kingdom (USD 300,000) "to promote achievement of sustainable economic, inclusive social development and capacity development in Indonesia." The national and district government counterparts provided in-kind support through provision of office space, meeting rooms and funding of travel costs associated with training and workshop events.

The Hickling Corporation was contracted by the ADB in August 2006 to provide consulting services to support implementation of the TA. In accordance with the contract document, the maximum contract payment for the TA is USD 2,055,000 for provision of consulting services and support for training seminars and conferences, studies and surveys and procurement of office equipment.

As per the schedule of the work on the three Components presented in the Inception Report, the Team met the major schedule commitments to start the work. However, the rate of progress on and the completion of various tasks were delayed due to three reasons:

- a) the launching and implementation of the new Conditional Cash Transfer Program (PKH) experienced delays;
- b) logistical and communication challenges in managing a centrally based TA Team working in target areas in 11 districts in three provinces; and
- c) changes in personnel within counterpart agencies and changes in work priorities.

Despite all of the above, the major performance targets were met over the revised 24 month implementation period of the TA.

2.1. Composition of the Team

A total of 145.5 person months of expertise were fielded during the implementation period of which 51.25 person months were international specialists and 94.25 person months were national specialists. A total of 14 specialists contributed to achievement of the expected outputs of the Project. The 14 specialists were as follows:

- i. Alan Prouty - Poverty Reduction Specialist/ Team Leader
- ii. Nick Mulder – Pro-Poor Budgeting Specialist
- iii. Tim Babcock – Local Government Capacity Development Specialist
- iv. Hjalte Sederlof – Social Safety Net Specialist
- v. Dean Boulding – Institutional Development Specialist
- vi. Setiawan Noviarso - Local Government Budget Expert/ Deputy Team Leader
- vii. Angel Manembu - Poverty Reduction Planning Specialist
- viii. Godril Yuwono - Social Assistance/ Social Protection Specialist
- ix. Suahasil Nazara - Poverty Economist
- x. Edward Lubis – Local Government Finance Specialist
- xi. Deddi Nordiawan – Pro-Poor/Participatory Budgeting Specialist

- xii. Ridwan Yunus - Data Analyst/ IT Specialist
- xiii. Ma'mun Sarma - Agricultural Specialist
- xiv. Herien Puspitawati - Family Welfare Specialist

Three Regional Facilitators, one based in each of the targeted provinces of East Nusa Tenggara, Central Java and South Sumatra, provided liaison with local government authorities and supported the activities of the Team in the regions. The Regional Facilitators were:

- i. Pati Patrisius da Gomez (Facilitator – East Nusa Tenggara)
- ii. Nur Ahmadi (Facilitator - South Sumatra)
- iii. Muhamad Chehafudin (Facilitator - Central Java)

The support staff based at the project office in Jakarta were:

- i. Putri Rinanti (until December 07) and then Dini Handayani - Project Secretary
- ii. Deddy Rahmansyah - Administrative Support Specialist

The TA Team was based in office space provided by BAPPENAS. The TA Team procured the main components of the equipment list contained in the Consultant's contract and transferred all equipment to BAPPENAS at the conclusion of the TA.

The TA was originally scheduled to be completed during 18 months but the implementation period was extended to 24 months based on agreements reached with all concerned parties. The schedule of use of personnel on the Project is presented in **Annex 1- Contracted and Actual Personnel Schedule of the TA Team through August 31, 2008**.

2.2. Partnerships in the Implementation Process:

The Project benefited from the active participation, collaboration and cooperation with many individuals representing government, local legislative assemblies, local Civil Society Organizations (CSOs) and other donor-assisted projects. A wide range of initiatives are working productively to reduce poverty in Indonesia. The TA Team worked in an inclusive way to maintain positive collaborative relationships with many partners and counterparts.

BAPPENAS, and especially the staff of the Directorate for Poverty Reduction and the Directorate for Social Protection, provided strong professional and management support to the TA Team and were actively engaged as partners in the implementation of all components of the TA. Counterpart staff from these Directorates collaborated in supporting workshops and training events and in drafting and reviewing all reports and publications of the Project.

The TA Team also acknowledges the strong technical and administrative support provided by the ADB throughout the implementation of the Project. ADB staff conducted periodic review missions and provided constructive comments and guidance on the direction of the work and the reports of the TA Team. Administrative issues were addressed by the ADB in a timely and effective manner.

The work of the TA Team also met with a very positive response from counterparts within the concerned provincial and district governments as well as members of the District Assemblies (Dewan Perwakilan Daerah or DPRD) in the 11 districts selected to participate in the Project. Prior to launching of the TA, the Team had been advised that local governments would not be interested in the Project because it was not directly linked to supplemental investment funding for district governments. This proved not to be the case and the TA Team found that there is considerable demand among stakeholders at the district level for planning tools to promote sustainable and equitable development. This demand is driven by practices of democratic governance that are emerging across Indonesia and the resulting needs for local institutions to respond to the demands of their constituents for provision of public services.

The TA Team was also encouraged by a positive response from local CSOs and the local media in the 11 districts targeted for assistance. There is great potential to improve public awareness on issues related to poverty reduction through local radio and print media.

The TA Team collaborated closely with two other donor assisted projects that are based in the Directorate for Poverty Reduction at BAPPENAS and supported by UNDP: the TARGET MDGs Project and the People-Centered Development Project. In addition, the project benefited from the experience gained in building capacity at the district level of the Local Governance Support Project (LGSP, funded by USAID) and the work being supported on monitoring and evaluation by the Decentralized Support Facility (DSF) Team and the World Bank.

3. Achievements, Issues and Recommendations by Component

3.1 Component 1: Pro-Poor Planning and Budgeting

Performance Targets for Component 1 of the TA were defined by the TOR as follows:

- a) BAPPENAS finalizes a National Poverty Reduction Action Plan;
- b) District Poverty Reduction Action Plans are prepared and discussed in 11 districts;
- c) Analysis of the poverty implications of macro policy and sectoral programs is undertaken and disseminated; and
- d) Detailed case studies of the 2008 district planning and budgeting process are prepared for 2-3 districts.

3.1.1 Towards a National Poverty Reduction Action Plan

The Terms of Reference for the TA required the consultants to “undertake a summary of the main national poverty reduction priorities and work with BAPPENAS on a Poverty Reduction Action Plan for 2007-2010 for key sectors”.

The National Poverty Reduction Strategy (PRS) was finalized in late 2004 and incorporated in the National Medium Term Development Plan (RPJM) for 2005-2009. The PRS and the RPJM have been the cornerstones for the preparation of annual budgets plans and for programming to reduce poverty. Nevertheless, despite increased economic growth and poverty reduction spending, poverty has not been reduced as a percentage of the total population and the number of poor households has increased on a national basis. The PRS and RPJM target to reduce poverty to 8.3 % by 2009 will not be achieved. Therefore the Deputy for Poverty Reduction, Manpower and SMEs in Bappenas proposed in 2006 that a National Poverty Reduction Action Plan be prepared to focus more on pro-poor growth and to improve programming to reduce poverty.

In mid-September 2006, work commenced with BAPPENAS to prepare a National Poverty Reduction Action Plan and agreement was reached in October on the main steps in undertaking this task. As a start the TA Team reviewed and summarized the main conclusions and recommendations from about 50 source documents that deal with poverty reduction in Indonesia.

From these source documents, the TA Team prepared a consolidated list of about 75 current or possible future poverty reduction initiatives and worked with BAPPENAS through a matrix rating system to arrive at a shorter list of about 50 priorities using the following criteria:

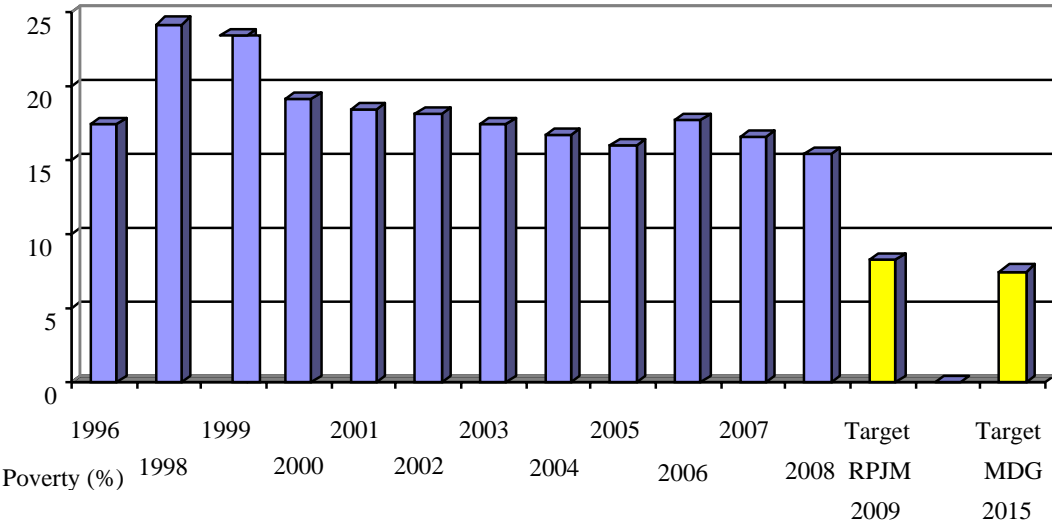
- a) Direct and indirect impact on poverty groups;
- b) Ease of implementation;
- c) Current degree of effort by the Government; and
- d) Achievable by the end of 2009.

In September 2007 BAPPENAS requested that the TA Team draft a framework for a focused National Action Plan (NAP) with about 15-20 key priorities. The draft framework was prepared incorporating the main conclusions of the policy papers by the TA Team on the assessment of macro-economic policies related to poverty reduction and on the role of micro, small and medium enterprises (MSMEs).

Working Paper 1: Poverty Reduction through Developing Micro, Small & Medium Enterprises concluded that MSMEs hold a strategic position in the Indonesian economy. They include 98% of all business units in Indonesia and their output reached almost 58% of the total Gross Domestic Product (GDP). MSMEs absorb 82% of the total workers - more than 73 million people and most of them in the informal sector. The presence and prosperity of MSMEs are very important for a still mainly rural and agrarian country such as Indonesia.

The draft framework for the National Poverty Reduction Action Plan is presented in **Working Paper 2: Towards a National Poverty Reduction Action Plan**. It recognizes that progress has been made: growth is improving with more investment and new jobs; more funds are being allocated for health and education; and the new PKH and PNPM are yielding direct benefits to the poor. However, poverty is not being reduced (see the **Figure 1** below) to meet the nation’s development targets, and poverty may increase given rising fuel, food and other commodity prices.

Figure 1. The Incidence of Poverty in Indonesia from 1996 to 2008 as Measured by the Central Bureau of Statistics and Targets for Poverty Reduction Set in the Current Medium Term Development Plan (2009) and the Indonesian MDG Report.



Year	1996	1998	1999	2000	2001	2002	2003
Poverty (%)	17.47	24.23	23.43	19.14	18.41	18.20	17.42
Year	2004	2005	2006	2007	2008	Target RPJM 2009	Target MDG 2015
Poverty(%)	16.66	15.97	17.75	16.58	15.42	8.3	7.5

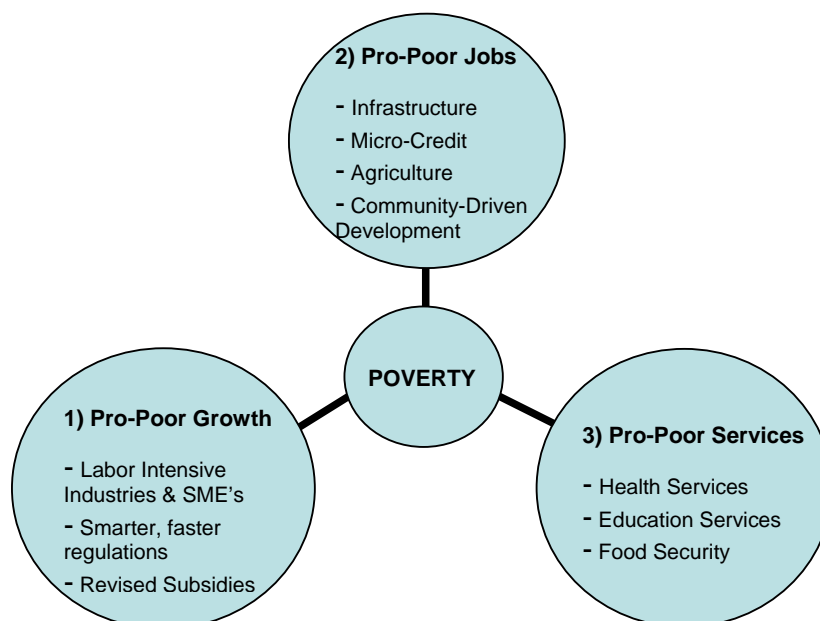
Sources: Central Bureau of Statistics (BPS). 2008 and Government of Indonesia Reports on the Medium Term Development Plan and Progress in Achieving MDGs.

Currently in Indonesia:

- 35-40 million are poor and many are near poor (about 50% of Indonesians live on less than \$2 per day) and there are large regional disparities
- Most of the poor are in rural areas and in agriculture and have a high dependence for employment and income from SME/Micro firms and the informal sector;
- There is high unemployment and underemployment and there is not enough pro-poor growth so that most of the poor do not benefit enough in the new job and income opportunities
- Social deprivation continues such as lack of access to clean water and good health services
- Progress is being made for some MDGs (primary education) but not enough in others (maternal health)
- Inequality of income is slowly increasing with the poor spending a lot on basic necessities (now worse due to higher prices of essentials).

Therefore, the recommendations on the formulation of a National Poverty Reduction Action Plan focused on 11 policy and program priorities grouped under three main goals: pro-poor growth, pro-poor jobs and pro-poor services.

Figure 1. National Goals and Priorities to Reduce Poverty.

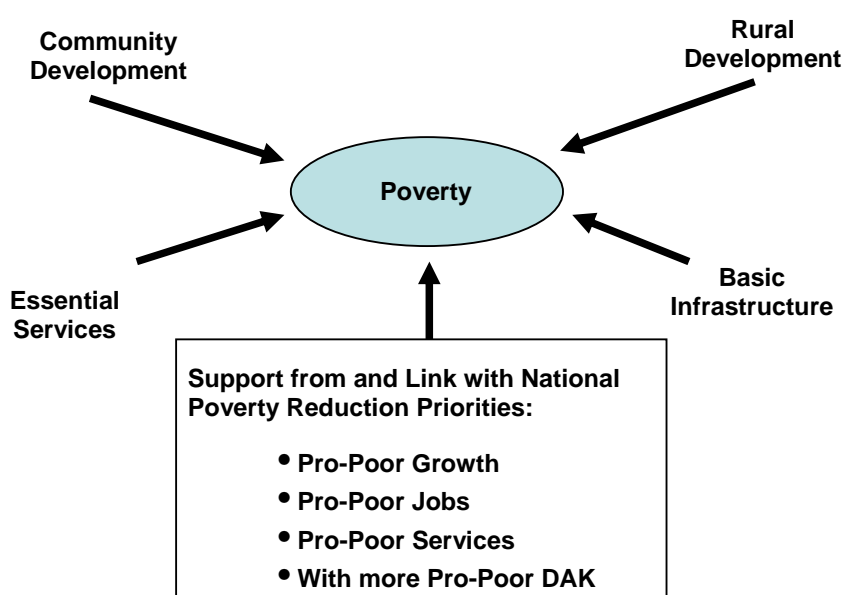


The draft NAP framework recommends that for each of the eleven priorities there should be only a limited number of main elements. For example, for pro-poor growth there are only three priorities of which one is more support for labor intensive industries with two major initiatives:

- an improved support program for trade, technology, quality, marketing, management for that sector; and
- enhanced coordination and consolidation of programs for SME/Micro firms

In addition the draft NAP includes a section on regional poverty reduction priorities. Through decentralization the districts now have the lead role in many of the activities essential for reducing poverty such as local infrastructure, health and education. With this major role, each district should have a focused poverty reduction plan with a few major priorities and more effective links with and support from related programs and funding transfers from the central government

Figure 2. Regional Poverty Reduction Priorities



The draft NAP framework concludes with a section on Implementation Issues:

- Governments working together through improved top down and bottom up links, joint programming, more grants for the districts (DAU and DAK) and more assistance for capacity building for pro-poor planning and budgeting, data improvements and M&E;
- Major information and communication program to inform the poor on such issues as healthy living and the availability of assistance programs;
- Funding and resource re-allocation through increases for some (e.g., agriculture, health, a more pro-poor DAK), better use of other pro-poor programs such as the school operational support program and rice subsidies (BOS and RASKIN) and further reductions in subsidies (fuel and electricity) to make them more pro-poor.
- Monitoring and evaluation with regular, transparent, independent monitoring and evaluation and changes in programs as a result of evaluation.

The work on the draft NAP framework also incorporated the work by the TA Team with 11 districts in East Nusa Tenggara, Central Java and in South Sumatra to improve pro-poor planning and budgeting. The main issues identified by the districts to reduce poverty were the need to: (a) focus on achieving the MDGs at the local level; (b) improve programming and funding for rural and agricultural development as well as for basic infrastructure and for health and education services; and (c) change DAK and DEKON funding to support local priorities more effectively.

In meetings and seminars with BAPPENAS and others on the draft NAP framework and associated policy papers prepared by the Team there was broad agreement that:

- a. Poverty has not been reduced significantly over the past five years;
- b. A more focused, improved and coordinated set of initiatives should be considered, nationally and regionally;
- c. Many of the existing programs need improvements, better implementation and resource re-allocation; and
- d. Better top-down and bottom-up pro-poor linkages among all levels of governments.

The primary points raised in these discussions were as follows:

- Poverty is not homogeneous – there are many different types of poor such as the near poor who move in and out of poverty and the “hard core” poor such as the severely disabled, the landless and homeless, and the illiterate; many have special problems that need special solutions.
- The importance of better targeting, program formulation and community empowerment and whether there is too much reliance on community development programs as the main means of reducing poverty.
- With decentralization, a new framework and approach is required. Macro-national policies may have difficulty in meeting local needs. Regions need better plans and more effective links with national programs.
- The importance in any plan of the informal sector, micro-credit and micro-finance, and rural infrastructure but also whether new programs are needed or whether improvement of existing ones should be the priority.
- Whether the Action Plan should be part of a more comprehensive strategy with a focus on pro-poor growth and services but also linked to efforts to ensure a safe, united and well governed country and improved economic and fiscal stability.
- The difficult and politically sensitive process of arriving at major decisions on program and subsidy changes and funding re-allocations plus the complexity of coordination and cooperation among the many key players involved in poverty reduction.

Issues: The Government has mainstreamed the MDGs into its national medium term development plan and linked this plan to annual planning and budgeting processes at the national level. Progress is being achieved for some MDGs (education and gender) on a national basis, but the number of Indonesians living below the poverty line is greater now than it was in 1990 and major challenges exist for Indonesia to achieve the MDGs related to income, nutrition, health, water supply and sanitation.

Recommendations on National Poverty Reduction Planning: The TA found that not enough attention has been given by the national government to job and income creation for the poor. To accelerate achievement of national development objectives on poverty there is a need to adequately fund measures to support pro-poor growth in labor intensive enterprises, especially in agriculture and MSMEs, to create more jobs and income opportunities for the poor in combination with improved services for a healthier and better educated labor force among the poor. This can only be done if BAPPENAS and other key decision makers decide on: (a) priority pro-poor growth measures; (b) changes in economic measures to generate more jobs and income opportunities that will benefit more of the poor; (c) support this by changing current subsidies to free up funds for pro-poor programs, both economic and social; and (d) assist the poorer districts by changing criteria for the allocation of DAU and DAK grants. The TA findings support

the GoI's commitment to prepare a Road Map to Achieve the MDGs and to use it and the draft framework for the National Poverty Reduction Action Plan as inputs into the formulation of the next National Medium Term Development Plan (2010-2014).

3.1.2 Work on the District Poverty Reduction Action Plans:

Selection of 11 Districts and the Key Agencies to Be Involved in Substantive Pro-Poor Planning and Budgeting:

Targeting of special programs is frequently a concern in Indonesia due to the great diversity of social and physical environments in the country. To achieve maximum national impact from the work of the TA at the district level, the Team initially identified several provinces to represent the main geographical regions of Indonesia, i.e. Sumatra; Java-Bali; Sulawesi; Kalimantan; and eastern Indonesia. The team then utilized poverty indicators to select one or two provinces in each of the five regions. The criteria applied in this process were as follows:

- **Incidence of Poverty** - The ranking of the provinces according to the incidence (%) of poverty as measured by National Bureau of Statistics (BPS) through the national household consumption survey (SUSENAS) was adopted. Application of these criteria places the provinces of eastern Indonesia as the lowest ranking.
- **Poverty Head Count** - The ranking of the provinces in the head count of those living below the poverty line was applied. BPS/ SUSENAS data provided the basis for the rankings. The provinces of Java are those where the greatest number of the poor are found and were ranked as the lowest in the scoring systems applied.
- **Indicators of the MDGs** - The indicators for MDGs applied were for health, education and water supply. The indicators used were births attended by skilled health personnel, enrolment ratio in primary education and percentage of households with access to clean water.
- **Fiscal Capacity** - The ranking of the fiscal capacity of the provinces/ districts were used as measured by the Ministry of Finance.

Application of these criteria to the main regions of Indonesia produced a ranking of the provinces within each major geographical region. The analysis revealed that the provinces of Kalimantan ranked significantly lower than those of other regions of the nation for the criteria used, and consequently it was decided not to short-list any of the provinces of Kalimantan for further consideration. After short-listing the provinces of the other regions, the team then applied the same criteria for selection of districts within each of the short-listed provinces. In finalizing the district short-list, the TA team also gave priority to selection of clusters of districts in order to maximize efficiency of operations in each district during the implementation of the Project.

Consultations with the leaders of the provincial governments and the short-listed districts determined the final selection based on willingness to participate, local leadership capacity and participation in other development projects. BAPPENAS also requested that priority be given to selection of districts in at least one province where the pilot CCT activities were to be implemented to facilitate future monitoring and evaluation under Component 3. It was also agreed to give consideration to inclusion of one urban area in each province to increase the diversity of conditions in the targeted districts. The TA

Team also consulted with other donors and projects to ensure that the selection of districts complemented the work of other special projects.

The list of 11 districts that were selected represents a diverse group with a variety of challenges in the preparation of pro-poor plans and budgets. In nine of the districts, the majority of the poor are located in the rural areas and are dependent upon the agricultural sector for their incomes and sustenance, but resource conditions vary considerably among these districts. Two of the districts (Semarang and Palembang) are urban areas where the high rate of rural-urban migration has resulted in pockets of poverty. **Table 1** presents the key indicators reviewed for each district and presents a comparison of the statistics for each indicator for each district with the provincial and national statistics for these indicators. These statistics indicate the relative disparity in these indicators of poverty between those targeted for assistance and the provincial and national norms.

Table 1. Indicators of Poverty, Fiscal Capacity, and the MDGs for the 11 Districts Targeted by the TA.

	POVERTY LINE BPS data, 2004	FISCAL CAPACITY MoF Data, 2005	MDG INDICATORS			NUMBER OF POOR BPS, 2004 (000)
			Health*	Education **	Water***	
NATIONAL	16,66		71.52	93,96	42,55	36.146
Provinces/Districts						
NTT	27,86	0,1332	46,11	93,23	42,08	1.152,10
Sumba Timur	42,04	0,3346	29,03	84,94	45,18	80,30
Sumba Barat	40,03	0,1613	26,89	90,6	9	164,3
Manggarai	31,31	0,1592	36,66	95,81	36,36	151,5
Kupang	32,68	0,2576	20,47	94,72	33,00	109,1
South Sumatra	20,92	0,3119	70,89	92,2	39,39	1.600,60
Ogan Komering Ilir	22,02	0,2297	61,59	96,36	35,01	218,90
Ogan Ilir	22,02	0,2297	61,59	96,36	35,01	218,90
Palembang	9,57	0,4160	85,48	99,05	70,85	124,1
Central Java	21,1	0,1533	78,70	94,5	60,64	7.308,33
Wonosobo	33,15	0,1459	48,69	95,74	62,10	254,7
Banjarnegara	26,91	0,1526	48,35	97,40	44,13	240,3
Purbalingga	31,20	0,1340	49,08	97,18	45,49	266,5
Semarang	13,86	0,7280	94,29	98,91	58,07	121,3

Notes/ Sources:

* Proportion of births attended by skilled health personnel. Source: BPS, 2004

** Net enrolment ratio in primary education. Source: BPS, 2004

*** Percentage of households with access to clean water. Source: BPS, 2004

The TA Team cooperated with the leadership of the 11 district governments while also establishing a network of contacts with a broad spectrum of local stakeholders involved in planning and budgeting processes. With the help of the local facilitators in each province the TA Team identified these key individuals to be:

- ✓ The Bupati, the Head of the executive branch of local government, now directly elected by the voters of each district;
- ✓ The Head of the BAPPEDA, the District Development Planning Agency, which is responsible for preparation of Medium Term Development Plans, other strategic development plans and the Annual Development Plan (RKP) as well as for compiling and consolidating annual budget documents,

- ✓ The Head of the technical agencies of the district government (Dinas) involved in working to achieve the MDG (Agriculture, Community Development, Health, Education, Public Works and Social Affairs),
- ✓ The Members of the district elected assembly (DPRD) who review and approve district annual budgets documents;
- ✓ Staff of local NGOs involved in poverty reduction initiatives and advocacy for good governance; and
- ✓ Local media representatives including those from local radio stations and newspapers.

The TA Team supported an inclusive process to promote effective pro-poor planning and budgeting. The process included provision of support for national and district stakeholder forums for inclusive discussions of key issues based on analyses of empirical information. The TA Team worked to inform the key partners regarding the status of poverty reduction in the district and progress and challenges in achievement of the MDG and to promote discussions among key stakeholders on how to achieve the MDG locally based on empirical analyses of local conditions.

The TA Team also collaborated with other donor-assisted projects. At the national level the TA Team cooperated with the TARGET MDGs Project (UNDP), the People-Centered Development Project (PDP-UNDP) and the Local Governance Support Project (LGSP – USAID). Cooperation with other projects included exchanges of information and ideas as well as collaboration on training and workshop events. This approach increased the working efficiency of the team while also providing a more dynamic environment to achieve the expected outputs of the TA.

District Poverty Reduction Action Plans and Budgets:

The following presents a summary of the actual steps taken by the TA Team during the implementation period:

Step 1: Established a Planning and Budgeting Network in Each District

- a. Met with the District Head, the Secretary of the District, the Head of the District Development Planning Agency (BAPPEDA) and other senior officials of the targeted district government, the leadership of the district legislature, leaders of local CSOs and local media to explain goals, objectives and activities of the Project.
- b. Set up an informal network of stakeholders on Pro-Poor Planning and Budgeting in each district
- c. Consulted with members of the network to determine local priorities to collaborate with the TA team to carry out Steps 2 – 8. The TA work plan for each district was made to respond to local priorities. There was considerable variation in local conditions, not only in terms of the physical and social environment, but also in terms of the capacity of local stakeholders to collaborate effectively on planning and budgeting.

Step 2: Reviewed Planning and Budgeting Systems and Procedures

- a. Reviewed current instructions and guidelines from central government departments on planning and budgeting systems and procedures.

- b. Reviewed current planning and budgeting practices with regard to efficiency, effectiveness, level of public participation, level of participation of the poor and level of transparency, especially in the bottom-up planning process
- c. Completed a special review of the consultative process to reach a consensus on the planning process (MUSRENBANG) and prepared **Working Paper 4: Improving Local Government Planning for Enhanced Poverty Reduction**
- d. Identified the roles, responsibilities and practices of the institutions of the district governments and the leadership of civil society organizations in these processes.
- e. Assessed the capacity building needs of the personnel of the institutions to promote pro-poor planning and budgeting, reviewed options with local stakeholders and prepared the capacity development program to respond to district conditions and priorities.

Step 3: Collaborated with District Stakeholders to Define a Baseline in Each District on Poverty Indicators and to Prepare MDG Score Cards

- a. Reviewed the data on indicators of poverty in each district, with special attention to the indicators of the MDG and other poverty indicators used by the local government authorities.
- b. Compared the information on the indicators of poverty in each district with current levels for these indicators at the provincial and national levels.
- c. Reviewed historical trends in poverty reduction as measured by the indicators.
- d. Compared current trends with future targets for the MDG
- e. Conducted assessments of conditions and trends relating to poverty groups in a sample of communities in each district to review conditions of poverty groups and the work of key district institutions (Step 1) at the community level
- f. Drafted MDG Score Cards for each of the 11 districts
- g. Collaborated with district BAPPEDA to prepare district poverty maps.
- h. Presented MDG Score Cards and Poverty Maps in district forums with DPRD members, district officials, staff of local CSOs and local media to increase awareness of challenges of reducing poverty

Step 4: Reviewed Existing Plans and Budget Documents

- a. Reviewed the following planning documents and identified pro-poor elements:
 - District Long and Medium Term Development Plans
 - District Poverty Reduction Strategies
 - District Spatial Plans
 - Other District Plans
- b. Identified gaps in plans in supporting achievement of the targets specified and the MDGs.
- c. Reviewed budget documents for 2006 and draft of 2007 to evaluate link between plans and budget documents.

Step 5: Identified Current Best Practices in Pro-Poor Planning and Budgeting as Well as Gaps to Be Addressed

- a. Presented and reviewed the analyses and results from Step 1, 2 and 3 with local stakeholders.
- b. Identified with the local stakeholder the best practices in pro-poor planning and budgeting as well as gaps in local capacity and practices that should be addressed.

- c. Identified Pro-Poor priorities for the future with special emphasis on income generation, health, education, social infrastructure.
- d. With local stakeholders, identified gaps in institutional capacity as well as needs to strengthen staff capacities to improve pro-poor planning and budgeting.
- e. Implemented capacity building activities as described under **Component 2**.

Step 6: Supported District Initiatives to Prepare District Poverty Reduction Action Plans, Revise District Medium Term Development Plans, Prepare District Annual Work Plans and District Monitoring and Evaluation Systems

- a. Provided support to draft a District Poverty Reduction Action Plan or to revise the Medium Term Development Plan or to prepare District Annual Work Plans or to prepare Monitoring and Evaluation Systems.
- b. Conducted applied field research on the bottom-up planning process (Musrenbang) and disseminated results to local stakeholders.
- c. Reviewed the draft of proposed planning, monitoring and evaluation instruments with local stakeholders.

Step 7: Supported the Preparation and Processing of District Budget Documents for 2007, 2008 and 2009

- a. Provided orientation for key local stakeholders (staff of BAPPEDA, SEKDA and technical agencies involved in MDG achievement as well as members of the district elected assembly (DPRD), staff of local civil society organizations (CSOs) and local media on MDGs and pro-poor planning and budgeting techniques.
- b. Supported reviews of the draft district budget by local stakeholders and the local media
- c. Supported preparation of the draft final pro-poor budget document (November)

Step 8: Identified Lessons Learned from the Process and Priorities for Capacity Development in the Districts

Held three national workshops to review challenges and identify priorities and best practices pro-poor planning and budgeting with district leaders, CSOs, other related donor assisted projects and BAPPENAS staff

The main outputs of the work outlined above are summarized in **Table 2**. The TA Team was successful in collaborating with all of the 11 districts in preparing District Scorecards for the MDGs and District Poverty Maps. These outputs were then presented in local forums to increase awareness among local stakeholders on poverty issues. The scorecards and poverty maps were also used to identify gaps and to re-examine local priorities for poverty reduction based on empirical analyses. The leadership of each district then prioritized work on planning instruments and the TA Team responded to requests for assistance to best support achievement of their objectives. Only three districts finalized locally-driven, three-year Action Plans to Reduce Poverty. The leaders of one district (Semarang) revised their Medium Term Development Plan and also a local regulation on the planning process. However, the project had greater success in improving Annual Work Plans to include a greater emphasis on poverty reduction and nine districts improved their Annual Work Plans. These Annual Work Plans provide an operational reference for the preparation of the annual district budgets during the local MUSRENBANG processes and thus are essential in operationalizing plans at the local level.

There was a general tendency among the districts to give greater attention to improvement of legally required planning and budgeting instruments such as the District Medium Term Development Plan (RPJMD) and the District Annual Work Plan (RKPD) rather than initiatives such as the District Poverty Reduction Action Plans. The central government has encouraged all districts to prepare these local poverty reduction action plans and about 25% of districts have actually completed them. However, they are considered to be supplemental to the legally mandated planning and budgeting process.

Table 2. Outputs from the Pro-Poor Planning Process in the 11 Targeted Districts.

Province/ District	Improved District Planning Documents:	Improved Annual Work Plans for 2007 and 2008	District Scorecard for MDGs Completed	District Poverty Map Completed
South Sumatra:				
Palembang	A Master Plan for Poverty Reduction in the City of Palembang finalized.	Yes	Yes	Yes
Ogan Komerling Ilir (OKI)	Poverty Reduction Action Plan not yet finalized.	Yes	Yes	Yes
Ogan Ilir (OI)	Poverty Reduction Action Plan not yet finalized.	Yes	Yes	Yes
Central Java:				
Semarang	District Medium Term Development Plan revised and local regulation on planning finalized	No	Yes	Yes
Wonosobo	Poverty Reduction Action Plan finalized..	Yes	Yes	Yes
Banjarnegara	Poverty Reduction Action Plan finalized.	Yes	Yes	Yes
Purbalingga	District Monitoring and Evaluation System finalized.	No	Yes	Yes
Nusa Tenggara Timur:				
Manggarai	No	Yes	Yes	Yes
Sumba Barat	No	Yes	Yes	Yes
Sumba Timur	No	Yes	Yes	Yes
Kupang	No	Yes	Yes	Yes

Results for District Annual Budgeting:

Government regulations governing the management of public funding by districts have been strengthened in recent years to provide a basis for performance based budgeting by local governments. However, although medium term development plans and annual development plans increasingly define quantitative targets and expected outcomes, many local governments are not yet able to effectively apply the systems defined by these regulations and to link planning and budgeting outcomes. Most district government budgets present budget allocations according to thematic development area, agency, program and type of expenditure rather than by development objective and expected outcomes, outputs or locations of activities.

The TA Team advised and assisted local counterparts on approaches to link MDG related targets from district planning documents to the preparation of budget documents. The capacity building program of the TA reinforced this work and also built awareness on planning and budgeting issues among local members of the elected assemblies and CSOs.

The complexity of the required budget documents provides a challenge in promoting local budget literacy and multi-stakeholder, participatory reviews. Typically a district budget document is presented in several volumes totaling several hundred pages so that interpretation by stakeholders from outside of government is difficult and building budget literacy among the public is a major challenge.

As presented in **Table 3**, the average funding presented in the annual district budgets in the 11 district in 2007 was Rp 620 billion per district (or about USD 67.5 million). This level increased to Rp 722 billion (or about USD 78.5 million) in 2008, an increase of 16% as compared to the previous year. There was a large range in size of the annual district budgets in the 11 districts with a large urban center such as Semarang allocating funding totaling more than Rp 1,35 trillion (USD 146 million) in 2008 while districts with low density rural populations such as Sumba Timur budgeted district funding of about Rp 456 billion

A large component of district budgets is allocated to pay for salaries and allowances of local civil servants. In the 11 districts, this type of expenditure accounted for 46% of total district budgets in 2007 and this percentage was reduced to 42 % in 2008. Many counterparts in the regions considered this decline in the percentage of funding for civil servants to be an indicator of progress in reforming local government and increasing the availability of local government funding for development purposes. At the same time, these figures include the salaries of service providers (including teachers and health workers) which are important elements of poverty reduction programs.

The review of the district budgets for 2007 and 2008 revealed that a large percentage of the funding has been allocated in support of those district agencies that focus on activities related to achievement of the MDGs. In 2007 these budget allocations amounted to some 69% of the total budget allocations in the 11 districts while in 2008 funding allocated for the same agencies was increased to 72% of the total budgets. The increases for these sectors totaled Rp. 9 billion (USD 989,000) per district. The rate of increase for MDG sector allocations (19%) was greater than the general rate of increase of the district budgets (16%) reflecting increased attention by the districts to poverty reduction and achievement of the MDG.

Budget allocations for education in the 11 districts in 2008 comprised 32 % of average total budget allocations, the largest allocation for any single sector. Public Works and Housing received an average of 17 % of district budgets while Health received an average of 9 %. Of special interest is that in 2008 district government planners and local elected councils decided to increase funding to stimulate economic growth at a higher rate (+42%) than they increased funding for education (+14%), health (+17%) or public works and housing (+20%). As shown in **Table 4**, the funding allocations within the category of Economic Affairs were significantly increased for pro-poor sectors including: livestock (130%), Community Empowerment (114%), Investment Promotion (55%), Social Affairs (44%), Manpower (28%), and Cooperatives and SMEs (+25%). These

increases are in part the result of increased awareness among local decision-makers on priorities for poverty reduction in their districts.

The major impact of the Project on budget allocations will likely be realized during 2009 and beyond as the results of pro-poor planning and capacity building work continue to be applied by local stakeholders. The impact of the project will not only be realized in the total budget allocations to support achievement of the MDG, but perhaps more importantly in the quality of programming to reduce poverty and to improve service delivery. Much of the work of the TA Team focused on transfer of planning tools to increase the efficiency of targeting to reduce poverty and increase the effectiveness of programming to accelerate achievement of the MDGs. Some examples of improved programming that can increase the effectiveness of the use of funding are the following:

- a) In the cities of Palembang and Semarang, the application of poverty maps enabled the city government to better identify those neighborhoods where incomes and levels of welfare were lowest and then to better coordinate city and national programming of assistance and services to those neighborhoods.
- b) In the district of Ogan Komering Ilir, Kupang and Sumba Timur, the district governments appointed and trained Village Facilitators to support planning and implementation of village development activities. At the same time, these districts have allocated increased funding for village grants, giving priority to poor villages.
- c) In Ogan Ilir and Kupang, the district governments allocated funding from their district annual budgets to pay for special allowances and incentives to service providers (teachers and health workers) to work in poor and remote villages.
- d) In Sumba Timur, the members of DPRD requested clarification from the district government leadership on the level of proposed funding in the 2008 budget that would be allocated for poverty reduction.
- e) In the district of Purbalingga in Central Java, the district government has instituted a monitoring and evaluation systems that will allow the district government to systematically identify achievements and delays in implementation of programming. It is expected that this pioneer system will improve the efficiency of implementation of district programming for poverty reduction and service delivery.

Working Paper Number 6, “Pro-Poor Planning and Budgeting: Case Studies from Three Provinces” presents in further detail the experience of the TA Team in collaborating with partners in the districts of Kabupaten Ogan Komering Ilir in South Sumatra, Semarang in Central Java and East Sumba in East Nusa Tenggara. **Working Paper Number 7**, “Planning and Budgeting for Improved Family Welfare” also presents a view of planning and budgeting systems for the perspective of the poor, especially poor women, on government programming to reduce poverty.

Table 3. Total District Budget Allocations in the 11 Targeted Districts during 2007 and 2008 and Percentages of Total Budget Allocated for MDG Sectors and Civil Service Sectors related to MDGs.

No.	Name of District/City	APBD 2007 in billion Rp	APBD 2008 in billion Rp	% MDGs Sectors of Total APBD 2007	% MDGs Sectors of Total APBD 2008	% Employee Exp. to Total APBD 2007	% Employee Exp. to Total APBD 2008
1	Banjarnegara	621	707	69%	73%	53%	51%
2	Semarang	1.238	1.352	58%	61%	44%	44%
3	Purbalingga	544	715	80%	80%	55%	47%
4	Wonosobo	522	607	68%	73%	60%	52%
5	Manggarai	476	530	76%	77%	36%	43%
6	Kupang	492	627	65%	66%	56%	40%
7	Sumba Timur	341	457	70%	70%	36%	38%
8	Sumba Barat	308	202	38%	71%	48%	34%
9	Ogan Ilir	507	880	83%	70%	39%	29%
10	Ogan Komering Ilir	743	805	78%	79%	34%	37%
11	Palembang	1.038	1.070	73%	73%	40%	42%
Total		6.830	7.952				
Average 11 Districts/Cities		621	723	69%	72%	46%	42%
			16%		19%		8%

Table 4. Average Budget Allocations for MDGs-Related Sectors in the 11 Districts for 2007 - 2008 and the % Change for Each Sector

Name of MDGs-Related Sector	Average 2007 in Billion Rp	Average 2008 in Billion Rp	% Change of 2007-2008
Education	203	231	14%
Public Works and Housing	105	125	20%
Health	59	69	17%
Economic Affairs	53	76	42%
Communications	6	7	12%
Manpower	4	5	28%
Industry	4	5	19%
Agriculture	10	13	32%
Plantation	4	3	-22%
Fisheries	7	7	-7%
Cooperatives and SMEs	2	2	25%
Community Empowerment	12	27	114%
Forestry	2	2	25%
Food Security	3	2	-33%
Social	1	2	44%
Investment Promotion	0	0	55%
LifeStock	1	1	130%
Energy and Mining	1	1	58%
Transmigration	1	0	-32%
Woman Empowerment	1	1	151%
Environment	11	12	12%
Total MDGs Sectors	431	515	19%

The Handbook on Pro-Poor Planning and Budgeting

Based on a request from counterparts at BAPPENAS, priority was given during 2008 to the preparation of a **Handbook on Pro-Poor Planning and Budgeting**. This request was welcomed because it allowed the Team to review and document the lessons learned in collaborating with district stakeholders during the implementation of the TA and to share elements of this experience with a larger audience of those concerned with poverty reduction across Indonesia.

The Handbook presents ways and means on how districts can prepare plans and budgets that are focused on reducing poverty. Local governments for example often ask what exactly is a pro-poor plan or a pro-poor budget? How can they be produced? What are the specific steps? Where can we learn more or get assistance on how to do it? This Handbook was designed to answer these questions for the districts.

District governments not only have a major responsibility for poverty reduction through the provision of economic and social services, but funding support is also increased to support the improvement of those services. This requires that districts plan, budget and implement poverty reduction programs so that resources are utilized both effectively and efficiently.

The Handbook presents practices and tools to:

- Increase the understanding of local leaders and main stakeholders on how to formulate pro-poor plans and budgets;
- Improve the process and skills of government staff and leaders in planning and budgeting to accelerate poverty reduction; and
- Enhance the effectiveness of poverty programs through better targeting and delivery of public services for the poor.

The Handbook illustrates and provides examples of how poverty reduction priorities can be incorporated into the district planning and budgeting process by

- 1) Reviewing the existing poverty situation to determine or undertake the assembly of a poverty data base, the identification and characteristics of the poor in the district, root causes and the quality of existing local plans and poverty reduction programs;
- 2) Consulting with local stakeholders on the challenges and priorities for poverty reduction through the involvement of NGOs, universities, parliamentarians and community groups;
- 3) Preparing pro-poor plans with decisions on the main poverty reduction priorities through the Musrenbang process, the District Medium Term Development Plans (RPJMD) and the District Annual Work Plans (RKP);
- 4) Preparing an annual pro-poor budget (APBD) with the main pro-poor priorities, goals, outcomes and outputs and implementation processes;
- 5) Formulating and implementing pro-poor programs with effective co-ordination and delivery, the involvement of the local groups, and good feedback and complaint systems; and
- 6) Monitoring and evaluating of pro-poor programs through the use of realistic target setting, good reporting and monitoring, and regular independent evaluations.

The Handbook was finalized through collaboration with counterparts at the Directorate for Poverty Reduction and the BAPPEDAs in the 11 districts. The Minister of BAPPENAS and the Deputy Minister for Poverty Reduction provided introductory remarks for the Handbook which was published by BAPPENAS with assistance from the Project. The Handbook was launched in August at a ceremony held in Jakarta. Representatives from a diverse sample of districts to attended this event. A total of 2,000 copies of the Handbook were produced and four copies will be distributed by BAPPENAS to the leadership of all districts in the nation.

The main findings and recommendations of the TA Team stemming from work carried out under Component 1 of the Project are as follows:

- i. **Mainstreaming the MDGs in National and Local Planning** – The Government of Indonesia is committed to mainstreaming the MDGs to achieve national and regional development objectives on poverty reduction. The Project demonstrated that the application of tools for MDG-based planning, including analysis of empirical data to identify gaps (MDG Score Cards and Poverty Mapping), promotion of participatory planning techniques (PPA, multi-stakeholder forums for discussion of approaches to goal based planning) and monitoring/evaluation of poverty reduction programs offers potential to improve the responsiveness of programming to the needs of poverty groups. Further work is required by BAPPENAS to complete a Roadmap for Achievement of the MDGs and to mainstream the MDGs in the next national Medium Term Development Plan and Annual Work Plans. BAPPENAS also should continue to provide guidance and support to regional governments to align their plans and budgets with the MDGs. Further work is also required to help ensure that poverty mainstreaming is carried out within the context of the new local government public expenditure management system as the system design is finalized and implemented.
- ii. **National Poverty Reduction Planning:** The TA found that not enough attention has been given by the national government to job and income creation for the poor. To accelerate achievement of national development objectives on poverty there is a need to adequately fund measures to support pro-poor growth in labor intensive enterprises, especially in agriculture and MSMEs, to create more jobs and income opportunities for the poor in combination with improved services for a healthier and better educated labor force among the poor.
- iii. **Coordination among Levels of Government to Reduce Poverty** - It was found that central government agencies should improve the provision of information to district governments on national programming to improve delivery of public services and reduce poverty, including on the provision of fiscal resources (DAU, DAK and DEKON funding). There is considerable scope to better align national and district annual planning and budgeting of programs to reduce poverty. BAPPENAS at the national level and BAPPEDA at the local level can play a larger role in the coordination of poverty programming in support of the National and Regional Poverty Reduction Committee (KPK and KPKD).
- iv. **Special Assistance for Districts with a High Incidence of Poverty and Low Fiscal Capacity** - There is a need for the central government to expand the provision of technical assistance to the poorest districts and scale up efforts to accelerate reduction of poverty and achievement of the MDGs in these districts. There is a need to focus special assistance in the poorest regions of Indonesia in order to accelerate reduction of poverty and achievement of the MDGs. More than 50 % of

the poor are located in only six of the nation's 33 provinces and these are also the regions with low per capita levels of public and private investment.

- v. **Collection and Analysis of Data on the MDGs** – The collection and analysis of data on the MDGs by the Central Bureau of Statistics is improving, but there is a need to further expand sampling in order to improve statistical validity for all districts and sub-districts. Special attention should be given to disaggregation of select indicators by sex. Use of practical tools for analysis of empirical data (District MDG Score Cards and District Poverty Maps) can support improved programming and targeting of poverty reduction programs, but there is a need to improve capacity for data collection, processing and analysis at the district level, especially among the staff of the District Development Planning Agencies (BAPPEDA).
- v. **Pro-Poor Planning Tools** - The TA demonstrated that progress can be achieved during a relatively short implementation period (24 months) to build awareness of the MDG and capacity for pro-poor planning and budgeting in 11 districts. Introduction of practical tools for analysis of empirical data (MDG Score Cards and Poverty Mapping) and promotion of participatory planning techniques (PPA, multi-stakeholder forums) can lead to improved local planning and budgeting. Benefits are derived from improved allocation and usage of district funding through improved targeting, through broad involvement of local stakeholders in the planning process and through application of improved annual planning and budgeting practices. The TA Team supports the decision of BAPPENAS to distribute the “Handbook on Pro-Poor Planning and Budgeting” to stakeholders involved in the planning process at the district level and to expand assistance to the regions in the future to complement other major national poverty reduction programs such as PNPM and PKH. It is recommended that the Handbook be considered a living document and updated based on future experience and also to reflect the formulation of the local government public expenditure management system as this new system is implemented.
- vi. **Monitoring and Evaluation** - It is recommended that the experience of monitoring and evaluation by district governments be evaluated by BAPPENAS with a view to establishing a system that could be applied by districts throughout Indonesia.
- vi. **Coordination among Levels of Government to Reduce Poverty** - It is recommended that national efforts to reduce poverty be better linked with district poverty reduction priorities and community initiatives to achieve optimum results. Programming and implementation of poverty reduction programs is frequently carried out by departments of the central government and local government agencies with less than adequate exchange of information with districts or consultations with the poor. Information on program implementation is highly compartmentalized by sector and funding sources, and vertical coordination is not always successful due to the inadequacy of management information systems to support effective coordination. Local governments frequently are not aware of where program activities funded from the national budget will be implemented in their districts until implementation has been launched and they are constrained in allocating resources to effectively complement centrally funded initiatives.

3.2 Component 2: Capacity Development

Performance Targets for Component 2 of the TA:

- a) BAPPENAS approves a Capacity Development Program for pro-poor planning and budgeting;
- b) National and district government officials have improved capacity to prepare plans and budgets that address poverty issues (especially MDGs deficits);
- c) District parliament (DPRD) member have improved budget literacy and a better understanding of poverty and MDGs issues;
- d) Civil society groups have improved budget literacy and a better understanding of poverty and MDGs issues, and enhanced advocacy skills; and
- e) Stakeholders have enhanced monitoring and evaluation skills.

3.2.1 Central Government

BAPPENAS approved the Capacity Development proposed by the TA Team and agreed that priority be given to building capacity at the central government level for monitoring and evaluation of poverty reduction programs. In May 2007 the first capacity development program focusing on this theme was implemented at the national level with 25 participants from BAPPENAS, the Coordinating Ministry for People’s Welfare (MenkoKesra), sector departments and the 11 districts learning through presentations and discussions more about:

- How to undertake policy planning to deal with major poverty problems, including deciding on policy options, goals and expected outcomes;
- How to use and select targets, indicators, and associated outputs; and the
- Main elements and requirements of effective monitoring and evaluation;⁶

The TA also provided support for three BAPPENAS counterparts to attend two week courses offered in Canada (June 2007) and in Jakarta (January 2008) by the World Bank’s International Program for Development Evaluation Training (IPDET). The World Bank provided support for an additional four staff from BAPPENAS to attend the same training courses. The “Group of Seven” was sent in order to establish a critical mass of staff at BAPPENAS with the latest skills on monitoring and evaluation (M&E).

Subsequently in late February 2008, the TA Team supported a two-day seminar on “Using Monitoring & Evaluation Results: How to Improve Pro-Poor Programs” (see **Working Paper #3**), which was attended by 40 people from the central and district government agencies, The purpose of this Workshop was to enhance the capacity of planners to utilize the results and recommendations from about 20 recent reviews and evaluations of poverty reduction programs to improve: (a) existing poverty reduction programs; and (b) the planning of new programs by not repeating the errors and poor results of previous efforts.⁷

The main results of the capacity development activities at the central level on pro-poor policy planning, monitoring and evaluation are as follows:

- a. There is more awareness about the importance of M&E of poverty reduction programs.

⁶ Papers from this Workshop are available through the P3B publication and Website on: “Resource Book on Monitoring and Evaluation of Poverty Reduction Programs”, ADB TA P3B, January 2008

⁷ Background papers for this Workshop are also available through the P3B Team or the website.

- b. There is also more understanding that poverty reduction programs are difficult to monitor and evaluate unless the plans for and designs of pro-poor programs have sound goals, indicators and targets and effective implementation plans, including those for M&E.
- c. The M&E skills of about 60 -75 staff of central and district government agencies have been upgraded.
- d. A new reference book (“Resource Book of Training Materials for Monitoring and Evaluation of Poverty Reduction Programs”) was prepared for use by other pro-poor program planners and evaluators and for future training effort.
- e. There is a consensus that recent evaluations and reviews of poverty reduction programs show that most of them can and should be improved through changes either in their formulation and design and/or through more effective socialization and implementation.

3.2.2 District Capacity Development

The Government’s policy to decentralize responsibility for development to the district level has the potential to contribute to the achievement of the expected outcome of this TA, the improvement of access of the poor to quality social services and infrastructure. However, capacity within many district governments to plan, budget and implement poverty reduction program is limited and one of the nation’s main development priorities is to strengthen capacity for these functions within district governments.⁸

In working to assist district governments to produce “local poverty reduction strategies that are operationalized, linked to a pro-poor and participatory budget process”, the TA Team engaged counterparts within local governments, members of local elected councils, representatives of local media (radio and print media) and representatives of local NGOs to identify priorities for capacity development activities to be supported by the Project. The TA Team also completed diagnostic reviews of district planning documents (Medium Term Development Plans, Annual Development Plans and Poverty Reduction Strategies), local planning processes (MUSRENBANG) and district budget documents as a basis for prioritizing training activities.

The TA Team prepared a capacity development program to address weaknesses among key stakeholders for pro-poor planning and budgeting at the district level identified in four main thematic areas:

1. Improving awareness, knowledge and skills of pro-poor planning and budgeting;
2. Improving integration between local Five-Year Plans, Annual Plans and Annual Budgets;
3. Enhancing public participation in the planning and budgeting processes (including monitoring of implementation and results); and
4. Enhancing communication concerning pro-poor planning and budgeting among all parties.

⁸ P. 112, Ibid.

The capacity development program was implemented by the TA Team to target key stakeholders in the local planning and budgeting process including district government planners (staff of BAPPEDA), members of DPRD, staff of local NGOs and representatives of the local media. Training activities were formulated to respond to local priorities and whenever possible local institutions were involved in hosting training events and were asked to share in funding.. This demand-driven approach is considered to be one of the key elements in the capacity development program of the TA that contributed to the success of the training initiatives.

A total of 30 training events and workshops were supported by the TA during the implementation period. A total of 1,375 participants from national and local counterpart institutions benefited from the capacity development events during the implementation period of the TA. Most of the participants in the events sponsored by the Project were from the 11 districts.

Some important points and “lessons learned” from the implementation of the capacity building program with district stakeholders are the following:

- The Project noted **significant demand among district stakeholders for capacity building assistance**. This clearly is an excellent sign of the awareness of capacity building that goes along with increased decentralization of government services, resources and responsibilities to the district/municipal level. It also provides very fertile ground both for international as well as national capacity building assistance -- as long as this is provided in effective ways.
- Contributing to this local demand is much **frustration felt at the local level with the frequent, complex, rapidly changing, sometimes contradictory regulations** emanating from different parts of the central government. The TA activities that have been designed to promote discussions among district and national officials working on common issues have helped in alleviating this problem.
- The TA’s capacity building activities while working within an overall framework towards common goals, attempted to tailor-make its activities in each district/municipality to meet locally-expressed needs, interests and opportunities. Not only was it **proven effective to work in this responsive manner** --- given the huge diversity of conditions in this country ---- but it **encouraged experimentation with different approaches**. Many of the effective approaches have been packaged into the “Handbook on Pro-Poor Planning and Budgeting” for wider use throughout the country.
- Focusing on “enriching” or **enhancing selected elements of the current national development planning and delivery system**, rather than on developing independent (and theoretically more effective) approaches, has made the work of the Project easier and more easily accepted.
- The use of the **MDG framework** to clearly focus the work of the Project was helpful in preventing the dispersal of Project resources in too many different directions and in grounding discussions on a common framework and set of development outcomes on poverty.
- The widespread attempt to locate and **make use of currently-existing capacity development resources** (e.g. training packages, NGOs with training capacity), rather than attempt to develop a range of new materials from scratch, is something that should be emulated on all such projects. There are increasing quantities of good quality Indonesian-language materials available, and increasingly accessible through

the Internet, unlike in previous times when much energy was necessary to search them out and photocopy them.

- The Project's capacity development program implemented a range of short training activities that were embedded in a much larger web of activities that mutually reinforced each other. Training activities were generally closely related to specific, well-defined and "routine" elements of the planning cycle/system. **Post-training coaching was provided in various cases to ensure that learning was effective and applied.**
- In many cases perhaps one of the most useful achievements of the Project was the bringing together of a wide range of different actors (executive and legislative, CSOs, local communities) in situations where good communication could take place and new understandings and working relations achieved. **Sharing of experiences and good practices**, via joint workshops or visits to each other's districts ("peer learning"), was another tried and tested element of the Project's modus operandi. The involvement of national-level counterparts in this effort was invaluable.

The TA Team commissioned rapid assessments and quantitative surveys in the three participating provinces to establish a better understanding of the nature, challenges and potentials of the current development planning and delivery system as mandated by national government regulations and to identify future priorities for capacity development. The results of this research are presented in detail in **Working Paper 3 – Improving Local Government Planning for Enhanced Poverty Reduction**. This research was complemented by additional work carried out by the Family Welfare Specialist and the Agricultural Specialist who reviewed planning processes at the local level⁹ in terms of responsive to the needs and aspirations of local communities, in particular the poor. Many weaknesses were identified, and while project proposals emanating from the village level were found to be much more successful in obtaining approval and funding than had been anticipated, there is little indication that poorer communities are obtaining special attention under the conventional planning system. On the other hand, with decentralization there is much room for local experimentation with improved processes and practices. In particular, there is evidence to suggest that programs which provide enhanced information, support improved planning processes and provide facilitation and funding at the village level are producing better results.

The research identified several common issues or weaknesses in the *substance* of local-level planning documents: The main issues identified are the following:

Issue 1: District plans generally exhibit little explicitly pro-poor content. Where general pro-poor policies are enunciated, these are often not clearly translated into concrete programs and projects. In part, this derives from a limited understanding of the nature of poverty. Government agencies exhibit a tendency to plan and implement their standard suite of activities rather than innovate and work together with other agencies to tackle root causes of poverty. Plans, therefore, show little evidence of intersectoral or thematic integration, or even spatial integration. There is generally limited if any description of expected outcomes and impacts, with the focus mainly on inputs and

⁹ See Working Paper 6 – Kajian Kesejahteraan Keluarga dan Pemberdayaan Gender di Provinsi Nusa Tenggara Timur, Jawa Tengah dan Sumatera Selatan and Working Paper 7.....

occasionally outputs, thus making the evaluation of achievement difficult. Nevertheless, evidence of experimentation with new approaches was noted in several places.

Issue 2: Beneficiaries of programs are poorly defined, if at all. Even where the poor are intended to benefit, no sociological or locational definitions of beneficiaries are routinely provided.

Issue 3: There is little evidence of substantial input originating from poor and otherwise marginal people in planning documents. Poor villages in general seem not to enjoy proportionally more benefits from the bottom-up planning system than relatively better-off villages. However, where local Poverty Reduction Strategies have been prepared (sometimes with donor assistance) the “voices of the poor” are generally incorporated, though we cannot yet document the impact this has on subsequent development action in those areas.

Issue 4: There is little evidence that annual development plans consistently reflect the guidelines and priorities of district mid-term planning documents (RPJMD) or even general annual policies.

Issue 5: District-level annual development plans are generally not well integrated with national and provincial programs and projects since district governments generally do not have timely access to detailed information about these activities. These matters of substance are closely related to, and indeed often caused by, common (and long-standing) issues related to *processes* of planning --- whether because the processes themselves are inappropriate or because they are poorly implemented.

Issue 6: Little useful policy, program and project information from higher levels of government is provided to sub-districts and villages in time to be used as reference points in annual planning activities at those levels. One result of this is that proposals emanating from those levels are frequently rejected at the district/municipal level on the grounds that they are somehow not appropriate.

Issue 7: Commonly there is a lack of effective processes in place to facilitate and document thorough, structured discussion, modification and decision-making concerning proposed development activities. Professional facilitation skills are not widely applied, and the “rules of the game” concerning what types of decisions may be taken at each level of the planning system, and how binding these decisions are, are generally not specified. Frequently, adequate time is not made available for these processes to take place in anything other than a pro forma manner. However, a number of districts involved in P3B are now experimenting with different forms of facilitation and coaching at the village level, which should lead to improved results for the poor.

Issue 8: Planning processes are not always transparent and rarely inclusive of disadvantaged and marginal elements of communities. While *musrenbang* are defined by government regulations as vehicles for public participation, public participation often occurs only in a rudimentary fashion. In some cases, however, NGOs/CSOs are becoming more involved, whether as facilitators or as proponents of pro-poor policies and programs.

Issue 9: Women’s participation in planning and budgeting at the local level is generally low. The TA Team found that the participation of women in the planning and budgeting process at the community level was limited except for some special projects being implemented as part of the PNPM.

Issue 10: Little attention is given to planning for agricultural development at the local level although a large percentage of the poor are dependent upon the agricultural sector for their incomes and sustenance.

Detailed recommendations concerning these issues are presented in the Working Papers; many of them will be obvious from the description of the issues themselves. **Building Capacity for Pro-Poor Planning and Budgeting** at the district level is considered to be a national priority to improve utilization of local resources to improve delivery of public services and accelerate achievement of the MDGs. The main findings and recommendations to build capacity are as follow:

- i. **Develop and implement a national strategy for capacity building to reduce poverty.** There is a need to develop a comprehensive strategy for capacity building for national, regional and local institutions that have a mandate to carry out planning, budgeting, monitoring and evaluation of poverty reduction programs. The role of the national government should be to continue to provide relevant materials, to provide support for capacity development initiatives and to carry out random quality control and evaluation activities. What is needed is the institutionalization of approaches developed under this and other projects and initiatives to promote their use, further development and application at the local level. The content of the capacity building strategy should be a mix of “technical” analytical and planning skills, managerial skills and “soft” or “people” skills (and attitudes) related to participatory planning. In particular, there is a need to develop communication skills that enable planners and implementers to deal with the poor on their own terms, to treat them respectfully and to assist them in their efforts to make use of government services. This to a large extent involves working to change the mind-set of local civil servants --- and certainly is part of the overall process of democratization of society. It will also assist local governments to better respond to increasing, and increasingly organized, demands for improved services on the part of communities. The content of the Handbook on Pro-Poor Planning and Budgeting can constitute the “core material” for this “grand strategy”.
- ii. **Plan and implement a broader research program to support capacity building and planning system reform.** The studies reported on in the Musrenbang Working Paper only begin to scratch the surface in terms of understanding the realities, constraints and potentials of the current development planning and delivery system as it operates in the “real world”. Due to time constraints and capacity limitations, the raw data from the Phase II surveys has not been adequately mined for useful information, and an effort to further analyze it would be well rewarded. Second, a much broader survey of the responsiveness of the current system (both in its conventional form and as improved under various enhanced approaches such as PNPM and local initiatives including special ADD funding, would be extremely useful, both in providing input into national policy as well as supporting improvements to systems at the local level.
- iii. **Cross-District Learning** - One of the most useful achievements of the Project was the bringing together of a wide range of different actors (executive and legislative,

CSOs, local communities) in situations where exchanges of experiences and good practices could take place and new understandings and working relations achieved. **Sharing of experiences and good practices in joint workshops** (“peer learning”), was an element of the Project’s approach that proved to be effective. It is recommended that future capacity building programs should utilize and expand upon this approach.

- iv. **Align Pro-poor Planning and Budgeting with the new Local Government Public Expenditure Management System.** As the new PEM system design is finalized and implementation moves forward, effort will be needed to ensure that poverty mainstreaming procedures are aligned with the new system. While the new system design is primarily the responsibility of MoHA as is the development of training programs for tens of thousands of local government officials who will be responsible for system implementation, BAPPENAS can play a role in helping to ensure that these training programs for local governments include material on poverty mainstreaming within the framework of the new system.

3.3. Component 3: Conditional Cash Transfers

The Performance Targets for Component 3 of the TA are as follows:

- 1) BAPPENAS adopts recommendations for improvements to the CCT program based on the rapid assessment of the CCT pilot in 7 provinces;
- 2) Program manuals for the national expansion of the CCT program reflect policy advice;
- 3) Analysis of the baseline survey data set is undertaken and disseminated; and
- 4) Detailed case studies of the 2007 CCT pilot implementation are documented in 2- 3 districts.

In 2007 the Government of Indonesia launched a conditional cash transfer program – *Program Keluarga Harapan, PKH*¹⁰ - on a pilot basis in seven provinces. The findings of the TA Team on this component are based on analyzes of the implementation of the pilot in the districts of Sumba Barat in East Nusa Tenggara and Kendiri in East Java. It also draws on the findings of a number of rapid assessments that preceded these two case studies. The case studies were undertaken as a collaborative effort among representatives of BAPPENAS, the Department of Social Affairs and the Pro-Poor Planning and Budgeting Project. Representatives of local governments in the two districts where the two case studies are based also participated.¹¹

Conditional cash transfer programs are relatively complex systems that consist of numerous interdependent elements where disruptions in any one element usually have significant repercussions on the system as a whole. The case studies were undertaken to examine the field-level implementation of the main elements of the program in some detail and draw lessons for future expansion of the program. They focused on the

¹⁰ Family of Hope Program

¹¹ The case studies and earlier rapid assessments were financed by the ADB P3B program (ADB TA 4762 INO)

beneficiary selection process, inter-agency coordination, program socialization¹², the monitoring and verification mechanism, field-level facilitation (*pendampings*), the management information system and the payment mechanism.

One proviso should be made regarding the case studies. They occurred at a very early stage of program implementation. Some of the issues of implementation that did arise may have been overcome with time, as field-level agencies found ways to adapt to the situation. However, that said, the fact remains that those issues of implementation might have been avoided altogether with more rigorous implementation planning and execution.

Issues and Recommendations:

The issues and recommendations arising from the case studies are set down below and have been presented in the **Working Paper 5. Program Keluarga Harapan – PKH – Two Case Studies on Implementation at the Local Level**. They deal with targeting and perception problems in selection; the implications of insufficient socialization on program performance and broader concerns of acceptance in the beneficiary community, among stakeholders and the community at large; and the slow start to compliance monitoring. While the main data base is in place and actively managed, the larger management information system to monitor activity, output and outcome indicators is still being built. Field-level facilitation is functioning; and payments are being made, albeit with some, presumably temporary issues of accuracy and timing.

The main recommendations of the TA Team on PKH can be summarized as follows:

- **Beneficiary selection:** Greater transparency should be introduced into the selection process by making it participatory;
- **Inter-agency coordination:** Detailed agreements should be formalized concerning the responsibilities and commitments of participating administrations ;
- **Socialization:** There is a need to strengthen socialization strategies based on feedback from local authorities, other stakeholders and the general public during the pilots;
- **Monitoring and evaluation:** It is essential to ensure that service providers are adequately resourced and ready to undertake verification and reporting prior to launching a program; and
- **Pendamping:** The facilitators need additional training, their employment contracts should be regularized; and the ratio of facilitators to beneficiaries should be re-evaluated.

The detailed recommendations are as follows:

a) **Beneficiary Selection**

Issues: there is concern about (i) targeting errors; and (ii) the transparency of the selection process.

Recommendations: (i) with a cash constrained program, errors of exclusion are likely to be high, irrespective of method used; instead, the focus is more usefully placed on

¹² “Socialization” here is defined as the provision of information about the program to coordinating and implementing agencies; other public and private stakeholders; and the general public.

reducing errors of inclusion, and here a well-performed field level validation system should give rise to few errors of inclusion; (ii) the validation process requires stronger supervision of field-level enumerators and also can significantly benefit from community review; and (iii) transparency (and validation) of the selection process can and should be improved by publicizing selection criteria; opening the validation process to public scrutiny (for instance by means of community committees); and providing public listing of beneficiary households.

b) Inter-agency Coordination

Issues: (i) fiscal-financial arrangements are inadequately defined to ensure availability of on-time resources at sub-national levels; and (ii) program coordination at the local level (who does what, how) is not sufficiently specified and adversely impacted by discontinuities in information flows (in socialization, inter-agency vertical and horizontal communications, insufficient availability and distribution of written materials).

Recommendations: (i) develop a detailed Memorandum of Understanding to agree on the distribution of responsibilities between the center, the provincial and district levels; (ii) allow enough time for socialization and the putting into place of coordination mechanisms – never rush to implementation; (iii) emphasize the need for a close working relationship between the main field-level agencies – BAPPEDA and Dinas Sosial – this is key to strong field-level coordination and to maintaining momentum in implementation; (iv) revisit the role of the provincial level, perhaps in providing technical support and training, a depository of information and a mechanism for exchange of experiences between districts about PKH implementation; (v) draw on NGOs as an additional resource in encouraging compliance, publicizing the program and promoting asset creation among beneficiaries with the opportunities that benefit moneys create; and (vi) as the program expands, develop mechanisms that address administrative constraints and principal-agent situations.

c) Socialization

Issues: (i) socialization has been too rushed to meet its main aims of facilitating program implementation for participating entities, and raising awareness of and mobilizing support for the PKH in the community; in particular, it has largely bypassed service providers, political entities, the media, grassroots organizations, the general public; and it has failed to sufficiently support the *pendampings* in their socialization role.

Recommendations: (i) provide sufficient time for socialization prior to program start-up; (ii) apply the socialization strategy that has been designed, and reinforce it with tracer studies to determine impact on different target groups; and (iii) maintain socialization as a continuous information and education mechanism about PKH progress, targeted at the general public.

d) Monitoring (Verification) and Compliance

Issues: (i) monitoring of compliance does not yet work, reflecting weak socialization of and insufficient coordination with service providers - whatever monitoring is taking place, is done *ad hoc* by supportive providers, and by *pendampings*; (ii) no needs assessments or assessments of supply and demand barriers have been made, which potentially may cause supply bottlenecks and unduly penalize eligible households later on as the program progresses.

Recommendations: (i) undertake a concerted effort to enroll service providers in the program, by means of workshops that focus on verification and reporting logistics; and

(ii) as the program expands, include assessments of potential supply constraints – physical access, quality - and non-financial demand barriers to participation.

e) **Local Facilitators (Pendampings)**

Issues: (i) *Pendampings* need additional, in fact continuous, training; (ii) contractual arrangements are still not orderly; and, in some instances, (iii) the number of families covered by a *pendamping* may be too high, especially in areas where beneficiary families don't live in close proximity of one another.

Recommendations: (i) provide *pendampings* with planned work programs, put in place performance management and feedback arrangements, in-house training and workshops on special issues; (ii) resolve contractual and salary issues – these appear to relate to temporary issues at the national level; (iii) adapt coverage to geographic realities – this is being recognized by Depsos; and, as the program matures (iv) broaden the role of *pendampings* towards household and community empowerment roles.

f) **Payment Mechanisms**

Issues: (i) payments have been irregular and of varying amounts, which generate welfare costs to beneficiaries; and (ii) revisions to beneficiary lists occur with a lag, leading to errors in payment.

Recommendations: (i) maintain the regular payment schedule that was originally set; this should be possible, and a priority, now that the immediate APBN issues are over; (ii) consider decentralizing the approval of the tri-monthly beneficiary lists to district levels, and introduce implementation audits instead.

g) **Graduation**

Issues: (i) it is unlikely that household/consumption levels will exceed the cut-off point at graduation in very many instances;

Recommendation: (i) encourage families to invest at least part of their benefits in productive activities); and (ii) link exiting families to other social assistance schemes and care services; and/or into employment related services that can raise productivity and income of household members.

4. Next Steps

The Project has been completed, but many challenges remain for the Government to achieve the overall objective of the Project (“the improvement of access of the poor to quality social services and infrastructure”) and the expected outcomes: “(i.) local poverty reduction strategies that are operationalized, linked to a pro-poor and participatory budget processes; and (ii.) a nationwide Conditional Cash Transfers (CCT) program that provides income support to the poor while building human capital.”¹³ The following are recommended next steps for BAPPENAS to utilize the findings and recommendations to broaden the impact of the Project.

4.1 Component 1: Pro-Poor Planning and Budgeting

a.) National Pro-Poor Programming

- ✓ **MDG Road Map** - The TA findings support the Government’s commitment to prepare a Road Map to Achieve the MDGs and to use the Road Map as an input into the formulation of the next National Medium Term Development Plan (2010-2014) and subsequent Annual Work Plans and budget documents. BAPPENAS is taking the lead in preparation of both these documents with technical assistance from the TARGET MDGs Project and the PRMAP TA. A goals-based approach is being used. It will be important to involve the concerned technical departments in this exercise (Ministry of Health, Ministry of National Education, Ministry of Religious Affairs and others). There is also a need to review the system of the fiscal grants to the poorer districts (DAU, DAK and DEKON funding) to make them more pro-poor and to improve the exchanges of information with local governments to maximize the positive impacts of poverty reduction funding and programming.

b.) District Pro-Poor Planning and Budgeting

- ✓ **Guidelines to Districts on Mainstreaming the MDGs** - The TA Team supports the decision of BAPPENAS to publish and distribute the “Handbook on Pro-Poor Planning and Budgeting” to district governments to provide them with guidelines to mainstream the MDGs within their poverty reduction strategies as well as their medium-term and annual development plans and budget documents. The Road Map to Achieve the MDGs should also be widely distributed to the districts to be used by as a reference for preparation of district plans in the future.
- ✓ **Expansion of Pro-Poor Planning and Budgeting Initiatives** - The TA also supports the decision by BAPPENAS to expand pro-poor planning and budgeting assistance to the regions during 2008 through the National Community Empowerment Program (PNPM) as well other donor assisted projects such as BASICS, TARGET MDGs and PDP. It is recommended that priority be given in the allocation of special assistance to those provinces and districts with a high population of poor households and weak

¹³ ADB, 2005, Proposed Technical Assistance Republic of Indonesia: Pro-Poor Planning and Budgeting, Manila, TA 39063.

fiscal capacity. It is also recommended that the Handbook on Pro-Poor Planning and Budgeting be considered to be a “living document” that should be up-dated and expanded to reflect the experience and lessons learned of districts throughout Indonesia and the impact of the new PEM system as it takes root.

- ✓ **Information on the MDGs** - It is recommended that BAPPENAS continue to cooperate with the Central Bureau of Statistics (BPS) and the district governments to improve the statistical validity of information on the MDG indicators for all districts, including the disaggregation of indicators by sex. Use of practical tools for analysis of empirical data (District MDG Score Cards and District Poverty Maps) can support improved programming and targeting of poverty reduction programs, but there is a need to improve capacity for data collection, processing and analysis. There is also a need to improve dissemination of information on poverty through the local media to better inform public discussions on issues related to poverty reduction and the MDGs.
- ✓ **Monitoring and Evaluation** – A new Deputy for Monitoring and Evaluation has been created at BAPPENAS. It is recommended that the experience of monitoring and evaluation from this and other projects will be used to formulate a common approach or system for monitoring and evaluation that could be applied by districts throughout Indonesia.
- ✓ **Coordination among Levels of Government to Reduce Poverty** – It is recommended that BAPPENAS provide support to the National Poverty Reduction Committee (KPK) to assist to improve the flow of information on poverty reduction plans, programs and budgets between central government agencies and district governments. At the district level there is also a need to strengthen the flow of this information among the agencies of the local government. It is suggested that BAPPEDA be given a more central role within the District Poverty Reduction Committee (KPKD) and establish a district based information system on poverty reduction and the MDGs.

4.2 Component 2: Capacity Development

- ✓ **Expanding Capacity Building for Pro-Poor Planning and Budgeting** - The TA found that there is significant demand among district stakeholders for assistance to build capacity for planning, monitoring and evaluation. Many of the effective approaches tested through the Project have been packaged into the “Handbook on Pro-Poor Planning and Budgeting”. There is a need for BAPPENAS to formulate a national strategy to build capacity at the district level to utilize resources most effectively. The TA Team supports the initiative of BAPPENAS to expand the Pro-Poor Planning and Budgeting initiative to build capacity among: District Government Planners; members of District Assemblies (DPRD); representatives of local Civil Society Organizations; and members of the local media. It is hoped that donor funding could be mobilized to support expansion of this important work.
- ✓ **Cross-District Learning** - One of the most useful activities of the Project was to bring together a wide range of actors (representatives of executive and legislative branches of district governments, civil society organizations, and local communities) in situations where exchanges of experiences and good practices on poverty reduction

could take place. These exchanges often resulted in new understandings of challenges and opportunities to approaches to reduce poverty. It is recommended that BAPPENAS continue to provide leadership and support for these events through other projects and programs.

4.3 Component 3: Conditional Cash Transfers

- ✓ **Improving the Program Keluarga Harapan (PKH)** - Rapid assessments and two case studies of implementation of the pilot phase of the PKH have provided a basis for identification of key problems to be addressed to improve performance of the program. The proposed improvements to the PKH relate to the beneficiary selection process, inter-agency coordination, program socialization, the monitoring and verification mechanism, field-level facilitation (*pendampings*), the management information system and the payment mechanism. With these adjustments, the potential for up-scaling of the program to become a national program will be increased. However, it is recommended that consideration be given to completion of additional case studies in the final quarter of 2008 and annually thereafter to review implementation at the local level and identify critical constraints to improving performance of the program.

ANNEX 1. ACTUAL PERSONNEL SCHEDULE OF THE P3B TA TEAM THROUGH AUGUST 30, 2008

Name	Position	Months																								Total Months
		S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	
International:																										
Alan Prouty	Poverty Reduction Specialist/ Team Leader	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	18.75
Nick Mulder	Pro-Poor Budgeting Specialist	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	13.5
Hjalte Sederlof **	Social Safety Net Specialist																									5.5
Timothy Babcock	Local Government Capacity Development Specialist																									7.75
Dean Boulding	Institutional Development Specialist	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	3
Mai-Britt Ljungbeck																										2.75
	Sub Total																									51.25
Domestic:																										
Setiawan Noviarso	Local Government Budget Expert/ Deputy Team Leader	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	24
Angel Manembu	Poverty Reduction Planning Specialist	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	20.5
Godril Yuwono	Social Assistance/ Social Protection Specialist	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	19.5
Salmun Prawiradinata	Decentralization/ Governance Specialist (canceled)																									0
Edward Lubis	Local Government Finance Specialist		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	4
Deddi Nordiawan *	Pro-Poor/ Participatory Budgeting Specialist	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	2.25
	District Capacity Development Specialist (canceled)																									0
Suahasil Nazara *	Poverty Economist (part-time)																									2.5
Ridwan Yunus	Data Analyst/ IT Specialist (additional)																									13.5
Desyrianti Azharie	Monitoring and Evaluation Specialist (canceled)																									0
Ma'mun Sarma *	Agricultural Specialist																									4
Herien Puspitawati *	Gender Specialist																									4
	Sub Total																									94.25
	Total																									145.5

Annex 2. Summary of Training Activities Supported by TA 4762-INO: Pro-Poor Planning and Budgeting

	Activity	Location	Participants	Number of Participants
1	Capacity Building Workshop	Magelang, Central Java	Bappeda/Dinas-dinas from Semarang, Wonosobo, Banjarnegara & Purbalingga	34
2	District Leaders Meeting	Jakarta	Bupati & Head of Bappeda from 11 Districts, Directorate of Poverty Reduction	40
3	Seminar: International Poverty Reduction Center	China	Director of Poverty Reduction, Bappenas	1
4	National Monitoring & Evaluation Workshop	Bogor	Bappenas, MenkoKesra, PMD-MoHA, 3 districts (Manggarai, OKI & Purbalingga)	23
5	International Program for Development Evaluation Training	Ottawa, Canada	Staff of Bappenas from Directorate of Poverty Reduction and Directorate MONEV	3
6	Workshops in 4 Districts	NTT	Bappeda/Dinas-dinas from Sumba Timur, Sumba Barat, Manggarai & Bappeda/Dinas-dinas from Palembang, Ogan Ilir, Ogan Komering Ilir	136
7	District Workshops in 3 Districts	South Sumatera	Bappeda/Dinas-dinas & CSO's from Semarang, Wonosobo & Banjarnegara **	59
8	District Workshops with CSOs in Central Java	Central Java	Bappeda from 11 Districts, Directorate of Poverty Reduction and SKPD from Manggarai.	59
9	National Workshop: "Towards Poverty Reduction Action Plans"	Manggarai, NTT	Bappeda, Dinas-dinas and SKPD	39
10	Poverty Participatory Assessment Training	Banjarnegara	Bappeda from Purbalingga, Staf Ahli Bupati, DPRD, NGOs and SKPD	20
11	Monitoring & Evaluation Workshop in Purbalingga	Purbalingga	Bappenas, Papua Development Project, Target MDGs,	27
12	Evening Meeting with Bappenas and Other Program under Poverty Reduction Directorate	Jakarta	Papua Development Project, Head of Bappeda OKI, Wakil Bupati Kab. Wonosobo, Head of Bappeda Kab. Manggarai	3
13	Workshops (2) in Papua	Jayapura & Manokwari	Bappeda	70
14	Workshop on RPJMD Revision	Semarang	Bappeda and Legislator (budget Committee)	60
15	Training on Poverty Analysis with DPRD	South Sumatera	Public, Media, NGO, and women's organization	15 (direct)
16	Radio Program on MDGs & Pro-Poor Planning and Budgeting	NTT	Bappeda and Legislator	30
17	Training on Pro Poor Awareness with DPRD	Central Java	Bappeda from 11 Districts, Directorate of Poverty Reduction, Legislators, Academicians and Sectors.	80
18	National Workshop: "Responding to the MDGs Challenges"	Wonosobo, Central Java	11 Districts - Bappeda	14
19	National IPDET - M & E Training	Jakarta	Sub-district Heads and Village Development Heads	56
20	Sub District Heads Training	West Sumba & East Sumba, NTT		

Annex 2. Summary of Training Activities Supported by TA 4762-INO: Pro-Poor Planning and Budgeting

Activity	Location	Participants	Number of Participants
21 National MONEV Training "Using M & E Results to Improve Pro-Poor Programs"	Jakarta	Bappenas, MenkoKesra, MOHA, Bappeda 11 districts	40
22 Training on Civic Report Card for CSOs	Banjarnegara, Central Java	Local Government and CSOs	25
23 Poverty Mapping Training	Semarang	Bappeda Kota Semarang	22
24 Poverty Mapping Training	Manggarai, NTT	Bappeda Kab. Manggarai and Local Government	
25 Regional Consultancy "Pro-Poor Policy Formulation Dialogue and Implementation at The Country Level"	Bangkok, Thailand	Bappenas - Vivi Yulaswati	1
26 Meeting Draft Handbook	Bogor	Bappenas and P3B	8
27 Halfday Meeting	Intercontinental Hotel, Jakarta	ADB, Bappenas	15
28 The 3rd National Workshop	Palembang	Local Government, Bappenas, Bappeda, LSM	125
29 Workshop NGOs and Media	Kupang, NTT	Media and CSOs	30
30 P3B Handbook Finalization Discussion	Hotel Aston Rasuna, Jakarta	Head of Bappeda and Bappenas	12
31 Launching P3B Handbook	Main Hall Bappenas, Jakarta	Local Government, Bappenas, Bappeda, LSM and Media	260
Totals			1375

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2. The Role of Civic Engagement and Social Accountability in the Governance Equation
<http://topics.developmentgateway.org/civilsociety/rc/ItemDetail.do?itemId=1072910>
This concept note outlines the fundamental tensions behind the governance equation, examines the strategic approaches that governments and civil society take toward each other, describes how civic engagement contributes to improving the legitimacy of government.
3. Enabling Environments for Civic Engagement in PRSP Countries
<http://topics.developmentgateway.org/civilsociety/rc/ItemDetail.do?itemId=1072915>
The Social Development Note (SDN) describes the World Bank's conceptual framework for analyzing the enabling environment for civic engagement.