



PSF SINGLE DONOR
TRUST FUND

Annual *Progress* Report

2016

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ACKNOWLEDGEMENT

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PSF
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Trust Fund

2016 ANNUAL PROGRESS REPORT

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Introduction

1.1 Overview of the PSF

For over 16 years, the World Bank has supported community and village development in Indonesia. The PNPM Support Facility (PSF), a multi-donor trust fund (MDTF) managed by the World Bank's Global Practice on Social, Urban, Rural and Resilience (GSURR), has financed technical assistance, analytical and advisory activities, as well as operations that support the implementation of the Government of Indonesia's ("the Government") community-based poverty alleviation platform, including its flagship National Program for Community Empowerment (PNPM Rural).

Through this platform and its associated programs, the Government has invested in the capacity of communities to identify development priorities and manage resources equitably and accountably. With support from the PSF USAID Trust Fund, the World Bank has leveraged US\$2 billion in loans and trust funds from 2010 to 2016 and disbursed \$1.9 billion for PNPM Rural activities including disaster management and the post-financial crisis¹. The USAID Trust Fund has also leveraged US\$291 million in PNPM Urban loans and trust funds, and disbursed US\$268 million to support the Government's efforts on PNPM Urban in Aceh (Urban), including \$4 million from the Trust Fund in 2016, its final year of operation.

1.2 Background on Urban in Aceh

Urban helps Indonesia cope with its rapid pace of urbanization, which is among the fastest in the East Asia

Pacific region. The project assists the Government to ensure that the urban poor benefit from improved local governance and living conditions at the urban ward (kelurahan) level in two main ways. First, it supports the Government to sustain the community institutions, planning, and monitoring systems that have been developed under Urban. Second, it supports the Government's commitment to the ambitious targets of eliminating slums and achieving universal access to safe water and sanitation by 2019.

Since 2015, the transition from PNPM to Village Law implementation has introduced the potential for immense gains in reducing poverty and increasing equality. Through the Village Law, the Government has provided a significant increase in fiscal transfers (from US\$4 billion in 2015 to an estimated US\$12 billion in 2018) to 74,954 villages across the country. The Village Law also required the transformation of all kelurahan administrations in the Aceh Province into "customary villages" and consequently, compliance with the law's policies and regulations. Given the new policy environment, Urban supported the planning and budgeting process in 426 customary villages in Aceh to align with the Village Law. In a parallel effort to reduce urban poverty and inequality, the Government, through the Ministry of Public Works and Housing (MPWH), launched the National Slum Upgrading Program (NSUP, or *Kota Tanpa Kumuh*), building and capitalizing on the Urban project's structure and mechanisms.

The PSF, through Urban, supported Village Law implementation in urban Aceh and the NSUP using three key mechanisms:

¹ For more information on these activities, please refer to the 2015 PSF Annual Progress report.

- (i) Community Boards of Trustees (BKM) as democratically elected community organizations in urban areas;
- (ii) A participatory approach to village-and-city-level planning in terms of neighborhood or settlement development; and
- (iii) A web-based Management Information System (MIS) monitoring mechanism.

Through the first two mechanisms, community involvement in the design, selection of materials, construction, and quality supervision resulted in increased efficiency in infrastructure development, especially at the neighborhood level for tertiary infrastructure. Nearly 100 percent of the infrastructure subprojects were rated as 'good quality' by public works standards, and approximately 98 percent of the infrastructure built was 20 percent less expensive than projects built using non community driven development (CDD) approaches. In addition, mistargeting of beneficiaries was reduced by utilizing data from community surveys.

The third mechanism, the MIS, uses an automated complaint-handling system to inform decision makers at the national, city, and kelurahan levels. In 2016, the MIS helped the executing agency manage project implementation covering approximately 11,000 urban wards and 269 cities across Indonesia, including 426 wards

and 12 cities in Aceh. To ensure the reliability of information and an accurate monitoring system, consultants and facilitators updated the data on a monthly basis.

Finally, while the grant support to Urban was completed on December 31, 2016, Urban's efforts on sustainability and scale-up of learning at the national level will continue needing support beyond 2016. This includes dissemination, application, and learning, such as mainstreaming the gender agenda. In addition, this would involve linking community planning with city-level planning at the national scale under the National Slum Upgrading Program, which addresses the poor living condition of slum dwellers across 269 cities in the country.

1.3 Theory of Change

In 2016, the PSF developed a Theory of Change framework that illustrates the program's scope of activities and measures the extent to which it is achieving its main objectives of reducing poverty and inequality (see Figure 1). PSF began updating its monitoring and evaluation framework in November 2016 to assess its performance against both (i) high-level indicators linked to Government strategies and donor performance assessment frameworks and (ii) project-level indicators that align with the three primary outcomes (see Figure 2). This report describes PSF's progress against the three primary outcomes from January to December 2016.



FIGURE 1:
Theory of Change

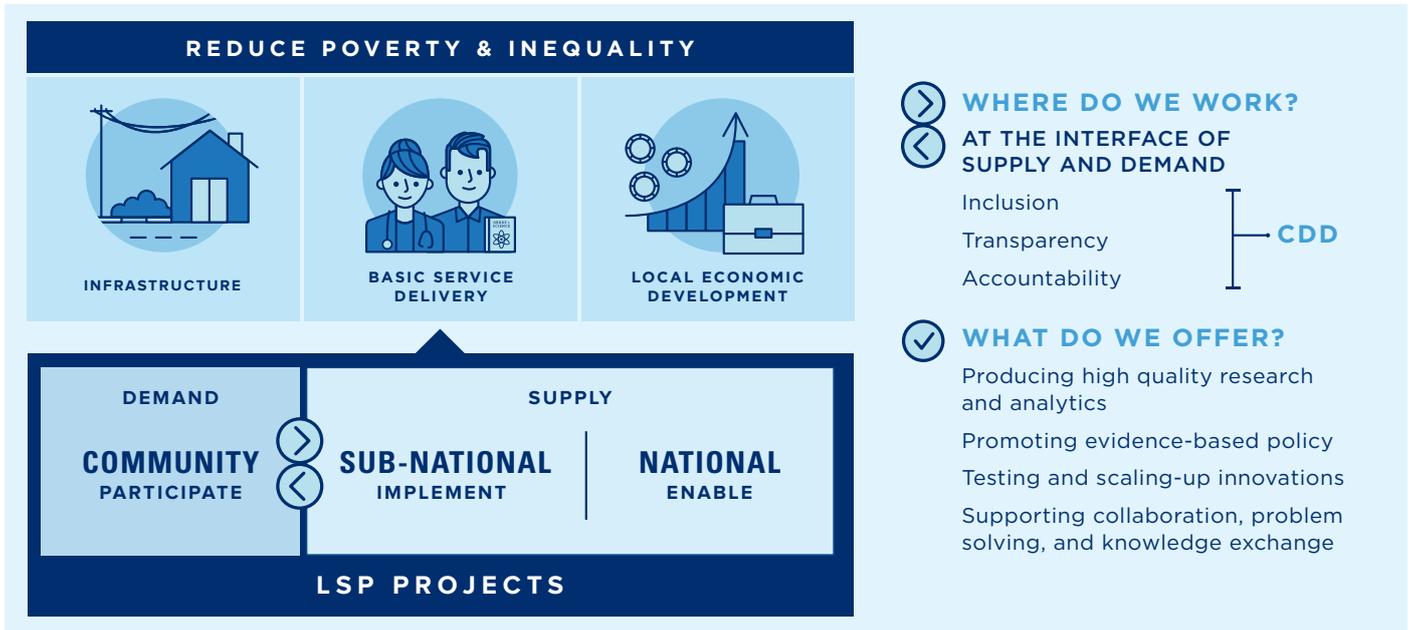


FIGURE 2:
Key Outcomes

Outcome 1:
Community Participation in Reducing Poverty and Inequality

Improve communities' capacities to participate in local service delivery to reduce poverty and inequality.

- Building knowledge and capacity on neighborhood development; and
- Building knowledge and capacity on planning and budgeting.

Outcome 2:
Sub-national Governance and Capability: Ability to Plan and Implement in Reducing Poverty and Inequality

Strengthen sub-national governance and capability to plan and implement development activities at the local level to reduce poverty and inequality.

- Building village government capacity to plan, implement, monitor, and report on development needs, taking into account community priorities throughout the process;
- Building better performance incentives and accountability mechanisms at the district and village levels;
- Improving the skills of service providers and the quality of services; and
- Improving institutional capacities to address frontline service needs.

Outcome 3:
National Systems and Enabling Environment – Ability to Guide, Encourage, and Support in Reducing Poverty and Inequality

Improve the enabling environment and national systems to guide, encourage, and support local service delivery solutions that reduce poverty and inequality.

- Increasing the availability and quality of data and analytics;
- Increasing the availability and quality of Village Law implementation support structures;
- Improving the legal and regulatory framework for participatory, inclusive, and effective village development and local service delivery; and
- Improving the allocation, targeting, and flow of funds for village development and local service delivery.

2

Progress Towards Outcomes

2.1. Community Participation

Over the past 16 years, CDD results in Indonesia have shown that development initiatives tend to be more relevant and effective, and produce higher-quality outcomes, when the community views its contribution as meaningful and is empowered with a sense of ownership. Therefore, the PSF provides support to the Government in the form of operations and knowledge projects to ensure that communities have the relevant capabilities, technical skills, and knowledge to participate in planning, implementing, and monitoring development priorities that affect them.

In 2016, Urban continued to foster the significant participation of women and the poorest, most vulnerable groups in planning and decision-making meetings. Through its support, Urban achieved cumulative scores of 65 percent of women and 48 percent of the poorest and most vulnerable groups, exceeding the 40 percent target. The project reached a total of more than 740,000 beneficiaries, of which 53 percent were women (compared to the 40 percent target).

Urban has strengthened the planning and budgeting process in 426 villages in Aceh as part of efforts to implement the Village Law. Elected by the community, the BKMs worked with the village governments to implement the Urban activities at the village level. In alignment with the Government's Medium Term Development Plan (RPJM), Urban helped the BKMs and community volunteers participate in the village planning

and budgeting process, and helped integrate the Community Development Plans into the RPJM.

Additionally, Urban supported the Government to pilot female empowerment activities through the gender empowerment program (SELARAS), which aim to improve women's involvement in the community planning process. These pilots have produced a planning process that is more responsive to the needs of women and disabled people. For example, women are progressing from holding standard administrative positions to becoming more involved in the planning process with increased decision-making authority. Additional results include: (i) embankments that include access for mothers to reach the river; (ii) public toilets with high wall coverings for women; (iii) thermal bath facilities that now include areas for women; and (iv) water tanks that have a special area for women to wash.

Urban helped communities accommodate settlement issues into village planning processes through Neighborhood Development (ND) pilot activities. ND pilot activities reached 15 *kelurahans* across five cities in Aceh. This included training communities to conduct a baseline survey to collect data on seven slum indicators: clean water, sanitation, solid waste, road access, drainage, building code, and fire protection. The communities used this baseline data to prepare their Community Settlement Plans (CSPs), which were integrated into the village development plans.

Under the SELARAS program, communities identified sub-projects for neighborhood infrastructure

development.² Eighty-five percent of these sub-project investments are funded by *kelurahan* grants, and the remaining 15 percent by local and community contributions. An MPWH evaluation concluded that improvements were made in access to infrastructure and social and economic services in 92.2 percent of *kelurahans*.

2.2. Sub-national Governance & Capability

With the substantial increase in the funds allocated to villages over the past two years, the Government is increasingly emphasizing interventions to improve villages' capacities to effectively spend these funds to improve development outcomes. A critical element of this capacity building involves ensuring that village governments are equipped to engage with the community to improve local service delivery, and that they are doing so in practice.

In 2016, Urban supported communities to work with village- and city-level governments to prepare CSPs and link community planning with city-level planning and budgeting. In five cities, the baseline data were utilized to prepare five-year city-level Slum Improvement Action Plans. In some cities, a technical team was assigned to facilitate consultations between the communities and local governments. To support the technical teams, Urban consultants conducted workshops with intensive facilitation to relevant agencies such as local planning, public works, community empowerment, and women and child protection agencies.

2.3. National Systems & Enabling Environment

The effective implementation of the Village Law has required support

from national systems to enable effective spending and improved local service delivery. The NSUP started in 2016 as part of a much larger national government slum alleviation program that sought to improve the living conditions of 29 million Indonesians living in slums, leveraging approximately US\$3 billion from Government resources, communities and development partners, including the Islamic Development Bank, the Asian Development Bank, the Asian Infrastructure Investment Bank (AIIB), the Australian Government Department of Foreign Affairs, and the World Bank (WB). At the national level, NSUP leveraged Urban's experience to provide a national platform for multi-agency collaboration targeted to reduce 38,431 hectares of slums by 2019. The program covers 269 cities and more than 11,000 urban wards. Within this larger program, the project cost of the NSUP is US\$1.74 billion, including US\$1.3 billion from various sources and \$216.5 million each from WB and AIIB in the form of co-financing. The program period is 2016–22.

The NSUP incorporated lessons learned from Urban and global experience with settlement improvement projects, which show that a strong commitment from, and coordination among, government agencies is critical to program success. The projects stress putting local governments in the driver's seat, while maximizing community participation.

The Urban MIS has also provided timely and accurate information from the village and city levels, up to the national database. This MIS has informed evidence-based policy making, particularly at the village and local levels. All relevant information has been shared through the website, including project manuals, training materi-

als, organizational structures and personnel contacts, procurement results, achievement of key performance indicators, spot-check reports, financial reports, etc. Most of this data is publicly accessible. The slum database and profiles at the village level have been completed and are available on the project website. The inclusion of the web-based MIS and reporting system improves monitoring and accountability mechanisms at the village and district levels, as well as quality assurance and overall program efficiency.

Finally, to foster collaboration among stakeholders, a Working Group for Settlement, Housing and Universal Access to Clean Water and Sanitation was established at the national, provincial, and city levels. The program developed a set of indicators to measure the group's functioning, such as having an organizational structure, annual work plan, monitoring structure and schedule, regular meetings, and operational costs.

THE PROGRAM COVERS

269

CITIES

— AND MORE THAN —

11,000

URBAN WARDS

² Investments mostly went to roads, drainage, livestock and/or economic facilities.

3

Thematic Contributions

3.1. Gender equality

The SELARAS gender empowerment approach was introduced into Urban between 2013 and 2016. A 2016 evaluation carried out by MPWH concluded that the program had improved access to infrastructure, and that 92.2 percent of participating *kelurahans* had social and economic services (above the target of 80 percent).

The SELARAS approach helps mainstream more balanced female-male participation in community projects; increases women's decision making by facilitating all-women meetings; provides stimulant grants for activities agreed by both male and female citizens; and addresses meeting invitations directly to women. Due to these efforts, the MPWH study found that female participation in Urban processes has reached 52 percent. Female participation is highest in the selection of implementation committees at the sub-village level (82 percent), and lowest in the preparation of proposals (49 percent); infrastructure maintenance involves 77 percent of women.

3.2. Sustainability

The PSF's combination of analysis, operational support, and rigorous impact evaluation is increasingly directed at sustainable reforms of government policies and systems. The PSF helps the Government test participatory urban development, assess the effectiveness of these approaches using rigorous impact evaluation tools, and feed the results of this analysis back into long-term policy reforms and urban development improvements.

The Government, through the MPWH, launched the NSUP in 2016 with support from the Urban project's structure and mechanisms. The Government continues to use the CDD approach to strengthen the program's implementation at the city level, which contributes to the development of a collaborative platform in the NSUP characterized by the active participation of multi-sectoral and multi-level government agencies, communities, and non-government actors in slum alleviation efforts.



52%

FEMALE PARTICIPATION IN URBAN PROCESSES



77%

FEMALE PARTICIPATION IN INFRASTRUCTURE MAINTENANCE

4

Key Challenges



In 2016, the Urban program encountered several key challenges and lessons learned. First, the introduction of the Village Law in Aceh has posed some challenges. After the project has ended, community institutions developed under the program should work with village governments and other community organizations during the village planning and budgeting process.

Second, maintaining a balanced female-to-male participation ratio in the village decision-making process has been a challenge. There-

fore, the gender empowerment approach should be continued and mainstreamed in the program.

Finally, aligning the BKM sectoral programs (i.e., settlement and slum infrastructure) with the regular local government planning and budgeting processes continued to pose significant challenges. Seven out of twelve cities in Aceh aligned CSPs with the RPJM. Formal channels, such as the *Musrenbang*,³ were used, but informal communication between the community and the local government's technical team was more

effective. In response, Urban developed and extensively utilized the project MIS, which was expanded to record activities in village planning up to 2016. Urban supported each BKM to be equipped with personal computers to store baseline data and all relevant documents, and to be regularly updated. However, village and local governments should be further encouraged to use this web-based MIS.

³ Musrenbang is an annual process during which the community meets to discuss local development issues and decide on solutions.³³

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Financial Overview

Pledges and Contributions

As of December 31, 2016, USAID has pledged and paid US\$ 94,361,259 to the Trust Fund.

TABLE 1
USAID Pledges and Contributions, 2010–16

YEAR	CUMULATIVE PLEDGE (US\$)	CUMULATIVE PAID IN (US\$)
2010	64,700,000	64,700,000
2011	89,508,605	89,508,605
2012	89,508,605	89,508,605
2013	94,361,259	94,361,259
2014	94,361,259	94,361,259
2015	94,361,259	94,361,259
2016	94,361,259	94,361,259

Execution

The funds are executed by the Government, Non-Governmental Organizations (NGOs), and the World Bank, with the majority of the funds (91 percent) executed by the Government, followed by the World Bank and NGOs.

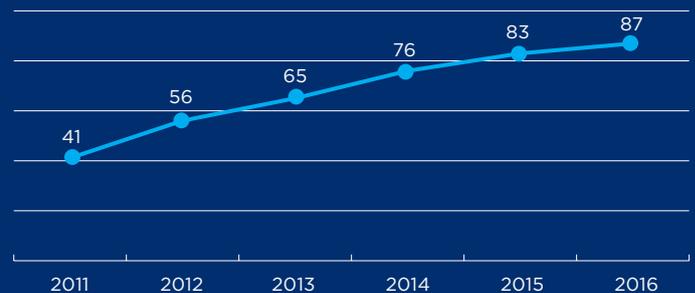
FIGURE 3
Share of Funds Contributed to the SDTF, 2016



Disbursement

As of the end of 2016, the SDTF had disbursed a total of US\$87 million⁴ since the beginning of the Trust Fund. In 2016, the Trust Fund disbursed approximately US\$4 million.

FIGURE 4:
Disbursement History, 2011–16



⁴ This amount excludes the administration fee of 1 percent, which was deducted by the World Bank headquarters from the donor's paid-in contribution. As of December 31, 2016, the total administration fee was US\$943,612.

TABLE 2:
Program Expenditures by Project Activity (US\$)

1. PNPM Urban in Aceh

TF No.	Activity Name	Closing Date	Status ⁵	Executed by	Grant Amount	Disbursement 2016 ⁶	Cumulative Disbursement as of Dec. 31, 2016
TF012192	National Community Empowerment Program in Urban Areas for 2012-2014	December 15, 2016	Closing	Government	\$23,500,000	\$3,180,000	\$23,480,000 ⁷
TF013728	National Community Empowerment Program In Urban Areas For 2012-2014 Supervision	February 15, 2020	Active	WB	\$1,858,605	\$670,280	\$1,549,585
TF012423	National Community Empowerment Program In Urban Areas For 2012-2014 BETF for Technical Assistance	December 31, 2014	Closed	WB	\$(48)	\$-	\$(48)
TOTAL					\$25,358,557	\$3,850,280	\$25,029,536

2. Creative Communities

TF No.	Activity Name	Closing Date	Status ⁵	Executed by	Grant Amount	Disbursement 2016 ⁶	Cumulative Disbursement as of Dec. 31, 2016
TF014687	Creative Communities II Phase 1	March 31, 2015	Closed	NGO	\$1,586,145	\$-	\$1,586,145
TF013186	Creative Communities II - Preparation and Pilot (BETF)	February 29, 2016	Closed	WB	\$343,890	\$5,308	\$343,890
TOTAL					\$1,930,035	\$5,308	\$1,930,035

3. Disaster Management Support

TF No.	Activity Name	Closing Date	Status ⁵	Executed by	Grant Amount	Disbursement 2016 ⁶	Cumulative Disbursement as of Dec. 31, 2016
TF098819	PNPM Rural III - Disaster Recovery Support	November 30, 2014	Closed	Government	\$13,878,202	\$-	\$13,878,202
TF098869	Settlement Rehabilitation And Reconstruction Project (Re-kompak)	December 31, 2013	Closed	Government	\$11,054,183	\$-	\$11,054,183
TOTAL					\$24,932,385	\$-	\$24,932,385

⁵ Active - implementation is ongoing; closing - trust fund accounts is in the process of closing; closed - trust fund accounts are legally closed.

⁶ For recipient (it can be the Government or NGO) executed activity, disbursement represents a transfer of funds from the World Bank account to the account of the recipient executed agency. For the World Bank executed activity, disbursement represent actual cost.

⁷ There is remaining \$2,542,693 from this trust fund, at the request of Ministry of Public Works and Public Housing, this remaining will be utilized through the existing World Bank executed activity (TF013728).

4. PNPM Community Facilitator Development Program

TF No.	Activity Name	Closing Date	Status ⁵	Executed by	Grant Amount	Disbursement 2016 ⁶	Cumulative Disbursement as of Dec. 31, 2016
TF012270	PNPM Community Facilitators Development Program (CFDP)	December 31, 2014	Closed	NGO	\$1,192,975	\$-	\$1,192,975

5. Post Crisis Support

TF No.	Activity Name	Closing Date	Status ⁵	Executed by	Grant Amount	Disbursement 2016 ⁶	Cumulative Disbursement as of Dec. 31, 2016
TF099616	Third National Program for Community Empowerment in Rural Areas (PNPM-Rural III) Additional Financing	December 31, 2012	Closed	Government	\$30,842,934	\$-	\$30,842,934

6. Technical Assistance to KPDT

TF No.	Activity Name	Closing Date	Status ⁵	Executed by	Grant Amount	Disbursement 2016 ⁶	Cumulative Disbursement as of Dec. 31, 2016
TF012784	Technical Assistance to Kementerian Pembangunan Daerah Tertinggal (KPDT)	December 31, 2014	Closed	WB	\$100,849	\$-	\$100,849

7. Program Management and Administration

TF No.	Activity Name	Closing Date	Status ⁵	Executed by	Grant Amount	Disbursement 2016 ⁶	Cumulative Disbursement as of Dec. 31, 2016
TF010256	USAID Support for the National Program for Community Empowerment (PNPM) - Program Management and Administration	March 31, 2017	Active	WB	\$3,037,416	\$64,274	\$3,037,411

