1. Country and Sector Background
The last decade in Indonesia has seen a return to strong economic growth, and the poverty rate has fallen from 23.4 percent in 1999 to 12.5% in 2011. During the global financial crisis, Indonesia outperformed its regional neighbors in terms of economic performance, joining China and India as the only G20 members recording growth in 2009. In 2011, 12.5 percent of households (32.5 million Indonesians) lived below the national poverty line of IDR 233,700 per person per month (around PPP$1.19 per day). However, much of the population is clustered just above this line, and earns about PPP$2.37 per day. Thus living standards remain low for many Indonesians, and relatively small shocks to income and consumption can send them into poverty.

Of the total population living in poverty, 65 percent are in rural areas – where approximately half of the population resides and where income and employment opportunities and delivery of basic services, remain seriously constrained, and additionally are characterized by regional disparities. Non-income poverty – as reflected in health and education access and outcomes – continues to be a serious problem. Many of the country’s institutions and local governments are not effective in delivering services in an accountable manner. These shortcomings often prevent the poorest from benefiting more fully from growth and poverty reduction efforts.

In 2007, the Government of Indonesia (GoI) launched the National Program for Community Empowerment (PNPM). PNPM is an umbrella program that seeks to bring together all community-driven development (CDD) initiatives in Indonesia so that the poor can benefit from improved socioeconomic and governance conditions. PNPM’s focus is on empowering communities to make decisions about their investment needs and priorities. PNPM-Rural provides direct financial and technical support to rural communities to improve basic infrastructure and social services and facilitates women’s access to saving and loans programs. The Bank has supported and partnered with the Government since the inception of the Kecamatan Development Program – the predecessor of PNPM. Today, PNPM is one of the largest community-driven development (CDD) programs in the world, covering all rural villages (PNPM-Rural) and urban wards (PNPM-Urban) in Indonesia. In rural areas it covers 63,000 villages in over 5,000 sub-districts and has more than 34 million beneficiaries.
Quality public participation is crucial in ensuring PNPM achieves its goals. PNPM uniqueness lies in its community empowerment approach which hands over control of decision-making and resources to communities, thereby empowering them to address local development needs. The Marginalized Groups in PNPM-Rural study has shown that the poor and marginalized groups have limited access to the decision-making of PNPM. Village meetings where decisions are made are often dominated by the local elites. Furthermore, 75 percent of the poor attending the meetings were passive participants. Cultural barriers such as class, ethnicity and gender norms further deter certain segments of the populace from speaking out. In relation to PNPM-Rural participation (or non-participation), the study found that there are generally four major groups: the elite, the activists, the majority, and marginalized groups. The marginalized groups can be characterized as having no (valuable) assets, living in outlying areas with limited basic infrastructure, having limited income with a large number of dependents, and originating from an ethnic/religious minority.

PNPM’s rapid scale-up to national scale since 2007 has caused strain on the quality of recruitment, performance management, oversight and training of facilitators. As a result, many facilitators do not have the capacity or time to ensure that diverse voices in a community are heard and more broadly the effectiveness of the empowerment process. In locations that have participated in PNPM for many years, villagers are displaying fatigue with the year after year cycle of communities forums from hamlet to sub-district level. A combination of these factors has contributed to decreased levels of enthusiasm and it is increasingly important to raise the quality of public participation.

The GoI recognizes that both the government and civil society organizations (CSOs) play equally important roles in community empowerment. Since its inception, PNPM has been envisaged as a broad-based program that requires multi stakeholder participation and support, including working together with CSOs to improve PNPM’s outcomes. CSOs have a comparative advantage in reaching the most marginalized groups at the grassroots level in a way that large government programs often are not able to, and filling in areas of expertise that are not provided by the government.

Creative Communities Fund (hereafter CC I) was one of the innovative initiatives taken by PSF to improve PNPM’s outcomes. Financed by the Japan Social Development Fund (JSDF) and implemented from 2008-2010, CC I provided small grants to villagers in 29 PNPM-Rural sub-districts in the provinces of West Sumatra, Central Java, and East Nusa Tenggara, to conduct cultural activities that enhanced the community empowerment process.

2. Objectives
The objective of the project is to improve the ability of villagers, especially poor and marginalized people, to participate actively in PNPM processes using cultural expressions in project locations.

3. Rationale for Bank Involvement
The project is consistent with the Bank Group’s FY2013-2015 Country Partnership Strategy (CPS) for Indonesia and is in line with the CPS’s pro-poor agenda. By strengthening PNPM’s
community-driven development process, this project aims to increase the ability of the poor to voice their needs and benefit from PNPM, as well as enhance broad-based participation, which is crucial to achieving PNPM’s poverty reduction and community empowerment outcome.

4. Description
The concept of Creative Communities was first introduced in 2008. Creative Communities I (CC I) was very successful in increasing public participation in PNPM and raising public’s interest in PNPM. Following the completion of CC I, PSF plans to develop a follow-up Creative Communities II (CC II) project.

The proposed CC II project consists of two phases: Phase 1: Operational Setup and Phase 2: Implementation. The project will carry out community-based activities to enhance public participation and increase voices of the poor and marginalized people in PNPM.

In Phase 1, the project design will be modified based on the lessons from CC I. It will also draw from the findings of an ongoing field assessment which aims to collect inputs for the design of CC II, identify existing community-based activities that can support community empowerment, and suggest potential local partners. Pilot activities will be carried out in 3 locations to test the design modifications. Together with PNPM stakeholders, project locations will be determined based on a set of agreed criteria.

Phase 2 will implement the tested project design in approximately 50 sub-districts that receive funds from the PNPM-Rural and PNPM-Generasi programs. The locations for CC II will be informed by the findings and consultations from Phase 1. CC II will establish partnership with CSOs to carry out community-based activities that will support PNPM’s aim of community empowerment. It will also build capacity of PNPM field consultants in using creative approaches to engage with target beneficiaries.

5. Financing Source: ($m.)

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<tr>
<td>Others: PSF Trust Fund</td>
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6. Implementation
The project will be implemented by Yayasan Kelola, which is hiring a full-time Project Manager to be responsible for the day-to-day operations. The manager will be supported by an Assistant Project Manager, two Project Officers, a Procurement and Financial Specialist. A Cultural Specialist and a Communications Specialist will provide substantive support for the project. Additional support is provided by Kelola’s existing Financial and Administrative Manager and Office Administrator. Kelola will ensure that there is clear task division between fiduciary staff. Kelola’s Executing Director provides overall oversight to the project.
The World Bank will also provide necessary fiduciary training and implementation support that can benefit Kelola during the project implementation and also for their overall capacity.

PSF will ensure close oversight and support for this project. It has already hired a full-time staff to supervise this project and develop ways to mainstream culture development in PNPM operations.

**7. Sustainability**
The concept of Creative Communities is well tested through the implementation of CC I. To ensure long-term sustainability, CC II will support the establishment of a network of Indonesian artists and creative workers committed to support community empowerment. As one of the leading arts organizations in Indonesia, Yayasan Kelola is well-positioned to bring together local arts and cultural groups in harnessing local creativity for the empowerment of poor and marginalized people. In addition, GoI and the Bank are working to integrate CC II’s key principles and activities into normal PNPM’s operations.

**8. Lessons Learned from Past Operations in the Country/Sector**
Types of cultural activities. In the previous grant, although communities were invited to propose cultural activities based on an open-menu approach, they tend to interpret the project narrowly to focus on preserving cultural traditions which were often dominated by men and older people. This project will provide a more restrictive menu of activities and pay attention to the characteristics of different cultural forms and the demographics they appeal to. Design modifications will be pilot tested before full implementation.

Coordination with PNPM. CC I faced challenges in coordinating activities with the PNPM field teams. CC I was often perceived by PNPM field staff as a separate rather than complementary project. They were also unclear about their role and responsibilities in relation to CC I. To address this issue, PNPM’s implementing agency PMD will formally inform its field consultants about CC II’s concept and operational arrangement, and request for coordination support for project activities. The proposed project will not add to PMD’s workload since it will not have financial and operational responsibilities.

Monitoring and evaluation. The qualitative evaluation study for the previous grant indicated some positive outcomes. But the measurement of impacts was undermined by a lack of data that was collected regularly and the absence of baseline data. This project will develop a monitoring and evaluation framework including a baseline study in Phase 1 and use a mixture of qualitative and quantitative methods to monitor and measure the impacts of the project.

**9. Safeguard Policies (including public consultation)**

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10. List of Factual Technical Documents
N/A

11. Contact point
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* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas