### Project Context

#### Country Context

1. The Indonesian economy has experienced positive economic growth and the poverty rate has fallen from 23.4 percent in 1999 to 12.0 percent in 2011. Nonetheless, 32.5 million Indonesians lived below the national poverty line of IDR 233,700 per person per month (around PPP$1.19 per day) in 2011. 40 percent of the population was clustered just above this line, and earned 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 back into poverty. Of the poor, 65% lived in rural areas.

2. Despite strong macroeconomic fundamentals, modest gains have been observed in health and
education relative to other East Asian countries. In 2012, Indonesia’s maternal mortality ratio was measured at 369 per 100,000 live births, a ratio that is worse than Haiti’s (350 per 100,000 live births). Under-five and infant mortality rates per 1000 births have fallen from 56 to 39 and from 40 to 30 respectively (between 2000 and 2009), but those figures remain far above the 2009 average of 26 and 21 respectively for developing countries in EAP. Rates of immunization, the number of births attended by skilled health staff, and access to improved sanitation facilities also remain behind the EAP developing country average.

3. Within Indonesia, substantial variation in poverty, health and education outcomes exists across regions, with rural areas lagging. The poverty rate in Maluku province in 2011, for example, was 27.4 percent, being more than double the national average of 12.0 percent. The prevalence of underweight children under five is 27.8 percent and 33.6 percent in Maluku and Nusa Tenggara Timur (NTT) provinces respectively, rates that are well above the national average of 18.4 percent. The seven provinces of eastern Indonesia account for 8.1 percent of children aged 7-15, yet these provinces’ share of out-of-school children is 12.1 percent. In Maluku province, only 50.8 percent of one-year-old children are immunized against measles, a key preventative measure against child, infant, and neonatal mortality. In Bali and Yogyakarta, fewer than 25 children out of 1,000 die before reaching their fifth birthday as compared to close to 100 in the province of Gorontalo in Sulawesi. Only 42 percent of births are assisted by a skilled provider in Maluku.

**Sectoral and institutional Context**

4. Indonesia has made great strides in improving key human development indicators over the past several decades. However, infant mortality, child malnutrition, maternal mortality, junior secondary school enrollment, and educational learning quality continue to lag, and regional disparities reveal poorer outcomes in rural and remote areas relative to urban areas. The Government’s 2012-2025 Master Plan for Accelerating Poverty Reduction (MP3KI), which is currently being drafted, identifies improved access to basic quality health and education services for the poor and vulnerable as a key pillar of an overall poverty reduction strategy. PNPM Generasi contributes directly to this pillar of the poverty reduction strategy by targeting demand-side financing to improve access to basic services in rural, underserved areas.

5. Stunting, or low height for age, affects nearly 36% of Indonesian children under five years of age, a rate equal to that of many Sub-Saharan countries. Until recently, there have been a limited number of interventions in Indonesia that specifically target improvements in child stunting. Incidence of stunting exists in even greater numbers in rural areas such as NTT where 54% of under-fives experience stunting. According to the 2007 Indonesian Family Life Survey 27% of all urban households had stunted children, compared with 42% of rural households. The problem of childhood stunting largely begins through deficiencies during pregnancy caused by poor maternal nutrition (growth faltering, maternal anemia), inadequate pre-natal care and sub-standard sanitation conditions. The cumulative effects of these shortages during pregnancy potentially result in fetal intra-uterine growth retardation, a key predictor of low birth weight and early stunting. Once a child is born, other factors play a significant role in determining child growth, such as poor breastfeeding and weaning practices, poor quality diets and low income, sub-standard sanitation and hygiene practices, and inadequate micronutrient intake.

6. The Government of Indonesia (GoI) has identified childhood stunting as a key issue affecting human capital and constraining economic productivity and growth in Indonesia and has
requested support from donor partners to accelerate improvements in maternal and child nutrition. In 2013 the President issued regulation Number 42 which established the National Movement to Accelerate Nutrition Improvement. Improvements in maternal health, reductions in malnutrition and stunting are priority areas in the Medium-Term Development Plan (RPJMN) for 2010-2014. The GoI has also recently signed up as a partner country in the Scaling Up Nutrition (SUN) movement. SUN is a United Nations-led multi-sectoral partnership for global action and investment to improve maternal and child nutrition through activities focused on the first 1,000 days between a woman’s pregnancy and her child’s second birthday. Poor nutrition during this period leads to irreversible consequences such as stunted growth, impaired cognitive development and thus addressing this issue is a precondition to achieving goals of eradicating poverty and hunger, reducing child mortality, improving maternal health and combating disease. Under SUN, the government aims to achieve the following by 2015, in-line with its MDG targets:

- Reduce the prevalence of stunting by 40 percent among children under-five
- Reduce the prevalence of wasting by 5 percent among children under-five
- Reduce the prevalence of low birth weight by 30 percent
- Reduce the prevalence of anemia by 50 percent among women of reproductive-age
- Increase the rate of exclusive breastfeeding to 50 percent among children below six months

II. Proposed Development Objectives

A. Current Project Development Objectives – Parent
The PDO is to empower local communities in poor, rural sub-districts in the project provinces to increase utilization of health and education services and foster accountability in local service delivery.

B. Proposed Project Development Objectives – Additional Financing (AF)

III. Project Description

Component Name
Kecamatan Grants
Comments (optional)
USD111.1 million in additional financing.

Component Name
Community Empower and Facilitation Support
Comments (optional)
USD 20 million in additional financing.

Component Name
Implementation Support and Technical Assistance
Comments (optional)
USD 20.6 million in additional financing.

IV. Financing (in USD Million)

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<th>Total Bank Financing:</th>
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<td>Financing Gap:</td>
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For Loans/Credits/Others | Amount
---|---
Borrower | 114.90
Indonesia - Program for Community Empowerment | 151.70
Total | 266.60

V. Implementation
Institutional and implementation arrangements for PNPM-Generasi build on the successful elements of the existing structure of PNPM Rural. Responsibility for PNPM Generasi implementation will remain with the Directorate for Empowerment of Community Social and Cultural Institutions in PMD (PMD Sosbud). PMD will continue to mobilize additional technical assistance for PNPM Generasi in the form of dedicated health, education, financial management of MIS specialists; facilitators; and database managers at the national, provincial, district, and sub-district levels.

Communities will continue to identify interventions and will be responsible for implementation and oversight. Guidelines for project implementation are detailed in the Project Operations Manual (PTO) (last updated in September 2012), which will be updated following the upcoming revisions to the PNPM-Rural Operations Manual, as required, to reflect project needs as well as the GOI and the Bank requirements.

VI. Safeguard Policies (including public consultation)

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Comments (optional)

VII. Contact point

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**Implementing Agencies**
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