Indonesia Kecamatan Development Program:

Building a Monitoring and Evaluation System For a Large-Scale Community-Driven Development Program

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ABSTRACT

The World Bank has invested heavily in community-driven development (CDD) programs throughout the world since the mid-1990s. As with other development programs, these CDD investments require strong monitoring and evaluation systems to assess progress and evaluate program impact. The Kecamatan Development Program (KDP) in Indonesia is a large-scale CDD program that developed an extensive monitoring and evaluation system to track its progress and evaluate its impact. The system consisted of quantitative and qualitative tools, including internal monitoring from program stakeholders and external independent monitoring by Indonesian non-governmental organizations (NGOs), journalists, and audit teams. The Program commissioned several impact and technical studies to measure its impact on poverty alleviation and local governance. Because of the strong emphasis the World Bank and the government of Indonesia placed on oversight, monitoring and evaluation became integral components of overall program management. Findings were discussed regularly with managers and used to improve the design and operations of KDP.

This paper describes the monitoring and evaluation system developed for KDP. It includes a detailed description of its components, how they were constructed and operationalized, and the challenges encountered while incorporating these multi-faceted activities into a large CDD program. It is hoped that this case study will aid practitioners in the development community who seek innovative and effective tools to monitor and evaluate their programs.

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LIST OF ACRONYMS

AJI (*Aliansi Jurnalis Independen*) Association of Independent Journalists

Bappeda (*Badan Perencanaan Pembangunan Daerah*), Regional Development Planning Agency at the province or district level

Bappenas (*Badan Perencanaan Pembangunan Nasional*), National Development Planning Agency

BPD (*Badan Pemwakilan Desa*) Democratically elected village representative council. This body was introduced under Regional Governance Law 22 of 1999.

BPKP (*Badan Pemeriksa Keuangan dan Pembangunan*) Finance and Development Supervision Agency

BRI (*Bank Rakyat Indonesia*) Indonesian People's Bank

CDD Community Driven Development

DPRD (*Dewan Perwakilan Rakyat Daerah*) Local Parliament. DPRDI is the parliament at the province level. DPRDII is the parliament at the district level.

FD (*Fasilitator Desa*), Village Facilitator

FK (*Fasilitator Kecamatan*), Kecamatan Facilitator

KDP Kecamatan Development Program

Kecamatan Subdistrict containing on average 20 to 25 villages with as many as 60,000 persons

KMKab (*Konsultan Manajemen Kabupaten*) District Engineer Consultant

KMProp (*Konsultan Manajemen Propinsi*), Provincial Consultant

KPKN (*Kantor Perbendaharaan dan Kas Negara*) Treasury State Office

LD (*Lembaga Demografi*) Demographic Institute, University of Indonesia

LKMD (*Lembaga Ketahanan Masyarakat Desa*) Village Community Resilience Board

LP3ES (*Lembaga Penelitian, Pendidikan dan Penerangan Ekonomi dan Sosial)* Institute for Social and Economic Research, Education, and Information

M&E Monitoring and Evaluation

MIS Management Information System

Musbangdes (*Musyawarah Pembangunan Desa*) , Village Development Meeting

Musbangdes I: meeting to provide KDP orientation at the village level and to select village facilitators.

Musbangdes II: meeting to decide which ideas the villages will put forward as proposals.

Musbangdes III: meeting to report upon results of UDKPII meeting, to organize the community Implementation Team to oversee project implementation, and to decide upon the village technical assistance.

Musbangdes Pertanggungjawaban: meeting to report upon project progress and finances halfway through implementation.

NGO Non-Governmental Organization

NMC National Management Consultants, located at central level

O&M Operations and Maintenance

PjAK (*Penanggungjawab Administrasi Kegiatan*) Project Administrator for KDP at the kecamatan level

PjOK (*Penanggungjawab Operasional Kegiatan*) Project Manager for KDP at the kecamatan level. The PjOK is the section head of PMD at the kecamatan level

PMD (**Pembangunan Masyarakat Desa**) Community Development Agency under the Ministry of Home Affairs. PMD is the government implementing agency for KDP.

Podes (*Potensi Desa*) Annual village survey

Susenas (*Survei Sosial Ekonomi Nasional*) National Expenditure Survey of Households

TK – Kab (*Tim Koordinasi Kabupaten*) Coordination Team at district level consisting of various government ministries and chaired by Bappeda

TK-Prop (*Tim Koordinasi Propinsi*) Coordination Team at provincial level consisting of various government ministries and chaired by Bappeda

UDKP (*Unit Daerah Kerja Pembangunan*) Kecamatan Development Forum, composed of village representatives and key local officials

UDKP I: kecamatan – level meeting to discuss what KDP is and which villages will participate in the program for that year.

UDKPII: kecamatan – level meeting to decide which village proposals will be accepted and elect members of the UPK

UPK (*Unit Pengelola Keuangan*) Financial Unit elected by the UDKPII forum usually composed of two or three persons who handle the kecamatan and village finances for KDP

1. INTRODUCTION

The World Bank has invested heavily in "community-driven development" (CDD) programs and approaches since the mid-1990s. CDD projects are broadly defined as those that give control of decisions and resources to community groups.[1] As CDD investments grow rapidly, it is important that monitoring and evaluation (M&E) systems be established to assess the program's progress as well as evaluate its impacts. All too often, development programs do not incorporate adequate or rigorous monitoring and evaluation mechanisms to measure progress and evaluate the impact of interventions. These systems are crucial to provide timely, reliable information and allow program managers to adjust activities as needed and to assess development effectiveness.

The Kecamatan Development Program (KDP) in Indonesia is one of the largest World Bank-financed CDD projects, with a budget of some $700 million for its first two phases (1998 to 2006). During its first phase (1998-2002), KDP developed an extensive M&E system to track the program's progress and evaluate its impact. The system consisted of both quantitative and qualitative tools, including internal monitoring from program stakeholders and independent external monitoring by Indonesian non-governmental organizations (NGOs), journalists, and audit teams. The program commissioned several impact and technical studies to measure cost effectiveness and the impact of the program on poverty alleviation and local governance. Because of the strong emphasis the World Bank and the government placed on M&E from the outset, it became an integral component of overall program management. Findings were discussed regularly with managers and used to improve KDP design and operations.

This paper describes the M&E system developed for the first phase of KDP. It aims to provide development practitioners with a case study of how monitoring and evaluation approaches and tools can be incorporated into large-scale CDD programs.

[1] This is the broad definition of CDD as defined in the World Bank's Poverty Reduction Strategy Sourcebook, May 2001.

Detailed information regarding the components is included in the text, while annexes serve as a reference for those developing their own M&E systems.

2. BRIEF KDP PROGRAM DESCRIPTION

The Kecamatan Development Program (KDP) is a government of Indonesia program aimed at alleviating poverty in rural communities and improving local governance. The first phase of KDP began in 1998 and ended in 2002. The second phase will run from 2002 to 2006. KDP provides block grants of Rp350 million to 1 billion ($40,000 to $114,000) directly to kecamatan[2] and villages for small-scale infrastructure, social, and economic activities.

KDP began in 1998 at a time of tremendous political upheaval and economic crisis. The economic crisis reversed years of progress in poverty reduction and plunged millions of rural poor below the poverty line. Economic growth declined to negative 13 percent in 1998, in marked contract to the 8 percent annual growth rates of earlier years. Public demonstrations and riots shook the country and led to the downfall of President Suharto after 32 years in power. Indonesia entered into a period of political transition leading in June 1999 to the country's first free general elections in 44 years.

The change in leadership, however, did not solve the country's deeper problems. Despite high rates of poverty reduction, vulnerability remained high and many poor did not benefit adequately from the country's economic growth. Three decades of authoritarian rule had also undermined local capacity and placed heavy restrictions on local community organizing. Local level government was generally unresponsive and unaccountable to the needs of its citizens. Corruption was rampant, and the mismanagement of government projects and funds led to a general disillusionment with public programs.

[2] Kecamatan are Indonesian sub-districts containing on average 20 to 25 villages with a population of some 60,000 persons. For a fuller description of kecamatan and Indonesian administrative levels, see Annex A.

Government-sponsored community development programs in Indonesia, as in many other countries, were vulnerable to political manipulation and capture by local elites. While new decentralization laws were passed in 1999 to give districts greater responsibilities and authority, this did not mean that power would automatically shift to communities or indeed be democratic.

KDP was implemented in the midst of Indonesia's bumpy political transition period and decentralization process. Despite a volatile political and economic backdrop, KDP eventually became a core part of the government's strategy of decentralization and improving local governance. National and local governments have "bought in" to the KDP approach as evidenced by increasing budgetary contributions to the program and the replication of KDP mechanisms for other public programs. Current government policy promotes the KDP design as a foundation of its national poverty reduction strategy.

KDP's goals are to:

- Alleviate poverty by raising rural incomes and providing increased economic opportunities at the village level in the poorest kecamatan.
- Strengthen local government and community institutions by empowering them to manage increased funding and becoming accountable for it.
- Build public infrastructure through labor-intensive methods.[3]

By pushing decision making down to the lowest levels, KDP aims to allow villagers to participate and directly manage development resources. The program, in essence, seeks to empower the rural poor and encourage more democratic and participatory forms of local governance. All KDP activities aim at allowing villagers to make their own choices about the kinds of projects that they need and want. The program gives power to communities by placing funds and the planning and decision making processes directly in the hands of villagers.

[3] See First Kecamatan Development Project Project Appraisal Document, April 21, 1998.

KDP's key principles are:

- *Community participation and empowerment of poor rural communities* — Communities should have control over decisions and resources that affect them. Communities take ownership of all aspects of projects, from planning and decision making to implementation. Participation should be broad based and include poor people and other marginalized groups.
- *Transparency* — KDP emphasizes transparency and information sharing throughout the project cycle. Information is power. Decision making and financial management should be open and shared with the entire community. Everyone should have access to key program information.
- *Sustainability* — Activities should be sustainable, building on community self reliance and village management of all activities.
- *Simplicity* — KDP strives to keep projects simple. There should be no complex rules or procedures; only simple strategies and methods should be used.
- *Competition for funds* — There should be open, healthy competition between villages for KDP funds. KDP encourages villagers to select projects based on their individual merits.

Geographic coverage

Based upon a national poverty ranking of kecamatan, the government selected the poorest kecamatan to participate in KDP. The program began in 501 kecamatan in 20 provinces throughout the country. By its third project year (2001-02), it had scaled up almost twofold to cover 984 kecamatan with a total population of approximately 35 million. KDP is operational in almost one out of every four villages in Indonesia. (Table 1).

Management

The overall management of KDP is the responsibility of the Ministry of Home Affairs Community Development Agency (PMD). PMD deals with the program's day-to-day operations at the national level. Government coordination teams, representing vari-

Table 1: KDP Geographic Coverage, 1998-2002

Year One of KDP (1998-1999)	Year Two (1999-2000)	Year Three (2001-2002)	Total in Indonesia
• 20 provinces	• 20 provinces	• 22 provinces	• 32 provinces
• 105 districts	• 116 districts	• 130 districts	• 341 districts
• 501 kecamatan	• 727 kecamatan	• 984 kecamatan	• 4,048 kecamatan
• 3,524 villages	• 1,325 villages	• 15,481 villages	• 69,168 villages

ous ministries, exist from the national down to the district levels to oversee KDP.

PMD hired consultant teams to provide technical assistance to the program. The office of the National Management Consultants (NMC) based in Jakarta led the teams of consultants and provided overall guidance and supervision to field consultants. Some 1,660 consultants from 16 private companies at the national, provincial, district, and kecamatan levels give technical assistance and guidance to KDP.

For a more detailed description of KDP, see Annex A.

3. DEVELOPMENT OF KDP'S MONITORING AND EVALUATION SYSTEM

The Context

Monitoring is the regular checking of project progress through the routine and systematic collection of information. This information, when verified and analyzed, highlights progress or problems that allow project managers to adjust plans and implementation as needed. Evaluation is the assessment of the merit of the project by measuring it against the achievement of its objectives. Evaluation answers the questions: has the project met its objectives and what factors led to these outcomes. What were the project's impacts?

The KDP M&E System was designed to collect systematically information about the program's progress and evaluate its effectiveness and impact over time. The uniqueness and magnitude of KDP in the Indonesian context, especially in stressing the importance of community participation, transparency, and institution strengthening, demanded that a solid M&E system be in place to document the KDP experience and to distill lessons. In many ways, KDP is a pioneering effort for government programs in Indonesia and offers a potential model for future democratization and development efforts. Therefore, findings from KDP had to be fully monitored, documented, and evaluated.

The system also needed to provide effective channels of communication from the field to the national level—and back—to inform management decisions and ensure that corrective action was taken if necessary. Reliable and timely information had to be in the hands of those who could act upon it and resolve issues and problems expeditiously.

Challenges in developing the M&E system

There were several challenges in developing the M&E System.

- *Ambitious objectives and wide variety of activities* — Among the most difficult challenges in developing an M&E system were the program's ambitious objectives and wide scope of activities. While KDP's overall goal was poverty alleviation, for many stakeholders issues of process and democratization were of equal, or greater, importance. The program's emphasis on citizen involvement, inclusion, and open and transparent discourse on devel-

opment priorities provided the fundamental building blocks for democratic practices in a society branded with three decades of authoritarian rule, top-down planning, and corrupt practices. Capturing the breadth of that process required the use of complementary qualitative and quantitative M&E instruments, as well as concerted efforts to systematically document the process.

The open menu and multi-sectoral nature of KDP also meant that a variety of outputs had to be monitored and evaluated for quality and cost effectiveness. This meant designing and implementing control systems for roads, water, and a variety of infrastructure projects, as well as economic activities such as women's savings and loan schemes.

- *Geographical scope and logistics* — The sheer magnitude and geographical scope of KDP also made monitoring and reporting a challenge. Indonesia is an archipelago of over 13,000 islands and logistics and communications posed challenges. Reaching provincial capitals was easy enough, but visiting remote villages and islands was sometimes difficult, especially in the eastern islands and the Malukus. Also, with over 1,660 consultants nationwide, obtaining standard, timely, and useful reports was not always easy. Simply managing data and reports from over 15,000 villages nationwide presented enormous data entry and quality-control issues for the management information system.
- *Combating corruption* — Fighting corruption was also high on the agenda. Indonesia has traditionally been ranked as one of the most corrupt countries in the world and tough measures to detect, prevent and deal with corrupt practices had to be built into the M&E system. Corrupt practices were endemic, particularly in government development programs, and it would take a concerted anti-corruption strategy and effort to counter these tendencies. KDP implemented a three-pronged strategy that guided elements of project design as well as the M&E system: (i) eliminate complexity in project design features and fund flows; (ii) ensure transparency of all project information including financial transactions; and (iii) respond quickly to complaints.[4]
- Political change and conflict — Lastly, KDP Phase One operated in the midst of a tumultuous political and economic backdrop throughout its project period: a prolonged drought; severe financial crisis; a political coup followed by the first free general elections held in 44 years; four presidents and numerous cabinet reshuffles in four years; armed insurgencies; ethnic riots and repeated terrorist attacks around the archipelago, and the October 2002 Bali bombing. Over one-third of Indonesia's provinces had recent experiences with conflict or are currently in the midst of civil unrest. While KDP continued relatively unscathed from these political events, project operations were suspended in certain troubled areas for varying stretches of time. Insecurity in provinces such as Aceh, Maluku, Central Kalimantan, and Central Sulawesi affected the program's ability to implement and monitor activities.

Opportunities

Despite these challenges, Indonesia had numerous advantages that made it conducive to implementing the M&E system.

- *Nascent democracy and more open political climate* — After the downfall of President Suharto in 1998, KDP benefited from the more open political environment in several ways. First, while intimidation and repression were, and still are, all too prevalent in parts of the country, there was a growing trend for citizens and community groups to speak out and voice their concerns. This greater openness facilitated the documentation and reporting of stakeholder feedback on the program's progress.
- *Growth of civil society organizations* — The burgeoning democratization process also paved the way for a rapid expansion of media and civil society organizations. After President Suharto's downfall, media organizations flourished and the number of provincial NGOs grew exponentially.

[4] For further details on anti-corruption measures, see Second Kecamatan Development Program Project Appraisal Document, May 23, 2001, Annex 11.

While questions remain over the quality and regulation of some of these groups, there is little doubt that they have grown in prominence and influence since 1998. This growth helped tremendously in forming partnerships with civil society groups to undertake independent monitoring of KDP.

- *Skilled pool of consultants* — Indonesia enjoys a high national adult literacy rate of 87 percent and KDP could recruit educated consultants and facilitators, usually with university degrees. There were problems in some provinces, such as Papua and the outer islands, with recruiting educated and experienced consultants, but in the majority of provinces hiring suitable staff did not pose significant problems. That being said, KDP still had to invest in staff development, especially for community facilitation and mediation skills, technical supervision, and reporting. Obtaining a good gender balance among consultants, especially for technical staff, also posed an enormous challenge.
- *Relative ease of communications* — Another advantage was Indonesia's generally efficient communications network. Telephones, faxes, post and e-mail could be used down to the district level if not lower. By Year 3, over 80 percent of district facilitators, and all provincial coordinators, could use e-mail to send their reports and communicate with the national level. The widespread knowledge and use of a single national language across most of the archipelago simplified reporting and communications between the central and field offices.
- *Firm government and World Bank support and commitment to developing a strong M&E system* — The establishment of the KDP M&E system would not have been possible if the World Bank and the Indonesian government had not committed financial and technical resources toward this effort. M&E activities such as journalist monitoring, special studies, complaint-handling procedures, and impact monitoring were incorporated into the Project Appraisal Document and Loan Agreement. The program established a 22-person M&E Unit and Complaints Handling Office to develop and implement this system. The Loan Agreement contained a $2 million budget for specific M&E activities and special studies.

4. DEVELOPMENT OF THE M&E PLAN

Developing the overall monitoring and evaluation plan for such an extensive and multi-faceted program was not an easy task—nor was it a one-off exercise. KDP evolved, and to the program managers' credit, results from monitoring reports and evaluations influenced project implementation, the annual redesign of the program's procedures, training plans, and the next KDP2 (2002-2006) phase. For example, if field monitoring or audit reports revealed problems with elite interference or incorrect implementation of procedures, managers contacted local staff to investigate and initiate remedial actions. In several provinces, extreme cases led to the temporary suspension of activities.

The starting point for development of the M&E plan was understanding a project's background and design, including its context, objectives, outputs, inputs, and activities. What were the key objectives and outputs of KDP? How did the steps in the project cycle work, and what critical information had to be collected and at what stages? What research questions or hypotheses must the M&E system address? To answer these questions, the KDP M&E team undertook a thorough review of KDP's background documents and Loan Agreement. This document review was complemented with discussions with key KDP actors in the government and World Bank, and provincial stakeholders, to ascertain what they felt were the "heart and spirit" of KDP, and what they hoped to see as a result of the three-year program.

What eventually developed as the basic M&E plan or framework is listed in Annex C. Based on discussions with stakeholders, key research questions and information needs emerged, such as the following:

1. Poverty and Socio-Economic Impact

a. What is the socio-economic impact of KDP on household welfare?

b. What are the social and economic benefits of the project's activities?

2. Technical Quality of Infrastructure and Social Subprojects

a. Is the technical quality of the infrastructure and social subprojects sound?
b. What are the returns on public infrastructure (KDP vs. non-KDP)?
c. What is the cost-effectiveness?
d. What are the factors that affected technical quality?
e. Is the infrastructure sustainable? What actions have been taken to ensure the project's operations and maintenance?

3. Economic Loan Activities

a. The economic loans are used for what purposes? Are these economic activities profitable?
b. Who benefits from the loan activities (gender, socio-economic status, etc.)
c. What are the repayment rates and the reasons for high or low repayment?
d. Are funds revolving?

4. Institution Strengthening

a. Are the village and kecamatan-level councils functioning and are they being strengthened?
b. What other social organizations exist in the village? Who are the members? What roles did they play in KDP?

5. Community Empowerment

General:

a. How do villagers feel about KDP? Is there a sense of ownership of projects and processes?
b. Are the projects that are chosen those that the villagers want?
c. Are there any major problems with the project, and if so, how are they addressed or solved?
d. How do villagers feel about the technical assistance provided?
e. Are any of the mechanisms, principles, or practices used under KDP being replicated in other development projects?
f. What impact, if any, does KDP have on local governance?

Participation:

a. Are villagers actively participating in all stages of the project?
b. Who participates? Who does not? Why? Are disenfranchised groups, women, poor, participating in all stages?
c. How are decisions being made? Are decision or agreements carried out? If not, why?
d. Do villagers feel as if they benefit from the project? Who benefits most from the project? In what way?
e. Do villagers feel ownership of the project, compared to other projects?

Information Flow and Transparency:

a. How is information disseminated and how often? What issues are confusing?
b. What are the best practices for widespread and transparent information dissemination and education in specific areas?
c. What is the community's knowledge and awareness of the general project and specific issues, i.e., budget, payments made, roles and responsibilities?

6. Project Management Information

a. Are the main project outputs being achieved?
b. Is information on inputs and outputs being collected and used for management purposes?
c. Is the project being monitored and evaluated effectively and are the results being fed effectively into management decisions?

Indicators

Once objectives, outputs, and key research areas are clearly defined, indicators must be developed to measure progress. An indicator serves as a target or an explicit measure of expected results. It is important that indicators are clearly defined, gender-disaggregated where appropriate, and realistic. The development and finalization of the data points and indicators is usually one of the most difficult phases of establishing the M&E system. Managers often have a tendency to collect a wide range of information without a clear

idea of why that data is needed, what the purpose is, and how it will be used. Sometimes indicators are difficult to quantify (e.g., increased trust of the villagers toward government agencies) and proxy indicators must be put in place. Pinpointing the final indicators is usually the most lengthy phase of developing the framework.

The performance indicators listed in the loan agreement (Table 2) were the *minimum* number of indicators for reporting. In practical terms, additional indicators for management and reporting purposes are required and those indicators should be included in the overall M&E plan.

Means of verification and data gathering tools

Once indicators are determined, the project must determine how those pieces of information will be captured. If indicators are impossible or not feasible to measure, they are eliminated. For KDP, many of the input and output indicators relied on the internal monitoring system of the project and monthly reporting by KDP's 1,600 field consultants. However, there were other indicators that required more technical specialized skills or independent assessment, such as impact surveys, cost benefit analyses, and financial audits.

The KDP monitoring and evaluation components were designed to cross-validate and triangulate information from various sources. The project benefited from a range of perspectives from different sources. For example, KDP field consultants might report that there was active community participation in project activities and meetings, while NGOs judge the activities differently based upon their own research and field interviews. External monitoring by outside parties such as NGOs and journalists was used to complement perspectives from project implementers as well as provide more thorough analysis of cases and events.

Also, the integration of quantitative and qualitative methods allowed the program to reach some more generalizable conclusions as well as understand in greater depth the reasons or dynamics behind certain outcomes. The quantitative household surveys provided useful statistically representative information, while case studies helped interpret some of these findings and provide greater insight into the dynamics and reasons behind the statistics. The qualitative work provided a richer and more nuanced understanding of the project landscape. In combining these two methods, the program was able to meet more of its information needs and gain a broader perspective of the progress and impact KDP was making.

As the program progressed, the M&E plan was periodically refined and altered, as, over time, some issues or outputs were stressed more than others or reporting requirements changed. Also, various research questions or hypotheses arose over the course of implementation as field experience and data unearthed interesting areas worth researching. For example, communities' abilities to manage conflict and undertake dispute resolution became a rich area of analysis. The role of women's groups and female leaders in the KDP process was another area of analysis and the subject of several case studies leading ultimately to a separate project under the KDP umbrella.

The following sections describe the components of KDP's monitoring and evaluation system. In total, 11 activities were developed over the four-year program. Table 3 illustrates the principles and functions of the M&E system and how the mechanisms were used in a complementary fashion to provide a comprehensive picture of KDP.

M&E components

Internal Monitoring:

- Reporting by government officials and field consultants
- Community participatory monitoring
- Case studies and documentation of lessons
- Financial supervision and training
- Handling complaints and grievance procedures.

External Monitoring:

- NGO independent monitoring

Table 2: KDP Loan Agreement Performance Indicators

	Target set for Loan Agreement in Yr 3	Actual for Yr 3	Difference for Yr 3/ Comments
I. Inputs Number of project kecamatan	725	986	+261 kecamatan +304, if East Timor is included, KDP has worked in 1,029 kecamatan since 1998
Number of villages with subprojects	6,000	15,000	+9,000
Grants and subloans disbursed (Rp billion)	Rps. 450 billion	Rps 1,600 billion	+ Rps 1,150 billion
II. Outputs Number of subproject agreements	>6,000	15,000	+9,000
Percentage of agreed work completed	>80%	95%	+15
Percentage of sites visited by supervision staff	>10%	100%	+90% , All villages are visited by government and project staff
Recommendations from studies received	Yes	Yes	Studies and evaluations completed in 2001-2002. Recommendations incorporated into program design.
III. Impacts			
1. Sub-project impacts			
Benefits/returns	>20%	60%	+40%, Weighted average taken from sample of KDP infrastructure
Number of beneficiaries	3 million	Est. 35 million	+ 32 million
Sub-loans; % repaid by schedule	>80%	45%	-35%
2. Poverty assessments using Susenas household data	X	Yes	Power and sample size feasibility study completed in 2001. Economic impact assessment to be completed mid-2003 after last round of Susenas data becomes available
3. Governance			
% of infrastructure subprojects with O&M committees formed	>50%	86%	+36%
In kecamatan with sub-loans % of UPKs operative % of revolving funds with increased capital	 >50% >80%	 100%	 +50% Survey underway at beginning of 2003 to ascertain final amount for KDP1.
Audits (kecamatan sample)	2.5%	30%	+27.5%
Independent monitoring Number of locations providing information on kecamatan list	20	240	+220 (distributed through NGOs)
Number of trips by journalists to monitor villages	20	>250	>+230
Agreed study recommendations	Yes	Yes	Studies completed

Source: Schedule 6 of KDP Loan Agreement and KDP Phase One: Final Report
Note: Figures for actuals and differences were reported in KDP Phase One: Final Report

Box 1. Steps in developing the monitoring and evaluation framework and plan

1. Review all the **project documentation.** Understand fully the project background and design, especially its objectives, outputs, and project cycle.
2. **Meet with key stakeholders** such as the government, implementing agencies, fieldworkers, and World Bank, to find out what important information they need from the program and what research questions are interesting to them. This can be done through key informant interviews, focus groups, or workshops.
3. Decide on the **key research topics and hypotheses** the project wants answered by the end of the project. Determine the key questions and issues that the M&E system should answer.
4. **Determine the indicators** for the project based on the inputs, outputs, objectives, and research questions mentioned above. Check that all the indicators are measurable, relevant and gender-disaggregated when possible.
5. Determine **means of verification** or tools to collect the information for the indicators. Ensure that these tools are realistic given the country context, budget, and human resource capacities.
6. Decide **who is responsible** for collecting that information.
7. Determine the approximate **time frame** for collecting the information.
8. Develop rough budget approximations for each activity.
9. Ensure that there are ways for monitoring and evaluation results to feed into **management channels** to improve the program. Link the M&E information to decision-making forums and develop regular reporting flows.
10. **Review periodically** the M&E plan, perhaps every six months or year, to assess what is relevant or if additional research areas need to be added or taken out. One of the most common mistakes made is when managers ask to collect a large volume of information but it's not clear why that information is needed or what purpose it would serve. If the information is not used, it may be wiser to stop collecting the information.

- Independent journalists' monitoring

Evaluation:
- Impact evaluation study
- Technical infrastructure and economic activities evaluations
- Audits and financial reviews
- World Bank supervision missions

5. COMPONENTS OF THE MONITORING SYSTEM

5.1 Field monitoring and reporting by government officials and consultants

KDP is a government of Indonesia program. KDP funds are public funds, and government authorities have a responsibility to ensure that the program proceeds according to its principles and procedures and that funds are used appropriately and effectively. Government officials at all administrative levels—national, provincial, district, kecamatan, and village—are responsible for monitoring KDP. One weakness of the reporting system however, has been that

Table 3. Principles, Functions and Mechanisms of the KDP M&E System

M&E System Principles and Functions	Mechanisms
To **check regularly project progress** through the routine and systematic collection of information.	Examples: • Consultant & government field reports/MIS • Financial supervision • Monthly independent reporting from NGOs & journalists • Complaint handling mechanism • Case studies
To **assess the impact** of the program	• 4,600 household impact survey • Case studies • Audits • Bi-annual World Bank supervision missions
To gain a **variety of perspectives** from different sources	• Monitoring by implementers, such as consultants, communities. • Monitoring by independent actors such as NGOs, journalists • Participation of other donors and NGOs in World Bank Supervision Missions
To use **quantitative and qualitative methods** to complement research findings	• Consultant reports, MIS and household surveys provided quantitative data • The quantitative reports were complemented by qualitative work in the form of case studies and descriptive reports from NGOs, journalists, complaints & grievances

reporting to the national level occurred only sporadically, usually if there was a problem in the field or specific cases required follow up action. This lackadaisical reporting was a program weakness that needs to be corrected in the next phase. For KDP Phase 2 there will be a greater institutionalized monitoring role for district parliaments, government coordination teams, and local village councils. These groups will receive specialized training in monitoring and reporting.

Most of the reporting for the program was done through the monthly reporting of KDP consultants at the national, provincial, district, and kecamatan levels. The consultants were responsible for writing monthly reports. Using the M&E plan and key indicators as a reference, the M&E Unit of the NMC developed standard reporting forms and field tested them in several provinces before finalization. The forms incorporated critical performance and management indicators (Annex C, KDP M&E Framework, Means of Verification). The program originally started with some 90 forms but by Year 3 the forms were revised and reduced to 64, including administrative, financial, and narrative formats. The intention was to reduce forms and reporting to the minimum amount needed so as not to overburden the field staff.

The monthly reporting formats varied depending upon the field position, but they generally covered the following topics:

- Activities completed during the past month and plans for the following month
- Status of activities in the project cycle
- Description of infrastructure, economic and social activities
- Financial information
- Level of community participation in activities
- Information dissemination and transparency
- Training and activities with village councils, kecamatan financial units (UPKs), and other local institutions
- Coordination work with government coordination teams, parliaments, and other government agencies
- Coordination with NGOs, journalists, or other civil society groups
- Problems encountered and proposed solutions
- Any other issues

- Attachments: reporting forms, photos, complaints received, etc.

Field staff sent their monthly reports directly to their companies for forwarding to the Ministry of Home Affairs (PMD), with copies to their local field supervisors and the NMC in Jakarta, which was responsible for technical supervision of field consultants. The regional coordinators at the NMC reviewed the reports and quantitative data was entered into an ACCESS Management Information System in Jakarta. The NMC and PMD used the monthly reports to assess progress in the project cycle, monitor financial disbursements, and keep track of problems arising in the field. The NMC also encouraged field staff to review their progress reports at the monthly provincial and district level coordination meetings.

Any reporting system dealing with over 1,600 consultant reports each month is daunting under the best of circumstances. While the reporting system functioned and the reports provided very useful quantitative and qualitative information on progress, there were also several difficulties:

- Consultant reporting was sometimes sporadic, incomplete or late, especially from remote provinces. Also, writing skills were often lacking, and some reports were difficult to understand. The central office MIS unit spent considerable time at the end of each month or project year collecting outstanding reports from field consultants. By mid-project, KDP had instituted policies tying salaries to reporting, which resulted in a 30 to 40 percent increase in reporting overall (with wide provincial variations). By the end of the program, approximately 90 percent of field consultants were reporting regularly, but this required substantial reinforcement and follow-up.
- Although the overall political climate was more open and freedom of speech had generally increased since 1998, it was sometimes difficult to encourage whistle blowing and urge consultants or community members to raise complaints or problems openly. Indonesia had a long history of intimidation and retribution and some Indonesians felt that it was futile reporting problems so they remained silent. Facilitators sometimes experienced physical intimidation in the field from village elites or other actors. Moreover, some consultants feared that implementation problems would be seen as a reflection of their own poor work performance, and tried to hide problems. Better communications between the national level and the field helped to improve this negative environment somewhat by Year 3. However, project managers need to ensure more open reporting and communication channels during the next phase.
- Entering project data centrally into the MIS system in Jakarta has meant tighter control over data quality but placed a heavy burden on MIS staff at the central level to clean the data and follow up missing reports and incomplete information. Centralized data management has also meant that provincial and district consultants lack direct responsibility for managing the data (they received copies of the reports) and have not made optimal use of it for their own project management. Under KDP2 the MIS function will be decentralized to the regions.
- KDP had great difficulty controlling the economic loan portion of the portfolio. Throughout the program, repayment rates were low, averaging about 40 percent. Accounting systems for the loans were rudimentary and depended for the most part on the experience local groups already had in managing microfinances. Financial units at the kecamatan level (UPKs) found it difficult at times to complete forms for loan reporting. The microfinance portion, including the reporting forms, has been completely redesigned for KDP2.

It is anticipated that with the decentralization of the MIS for KDP's next phase, more effective training, and stronger supervision and enforcement measures, reporting should improve.

5.2 Community Participatory Monitoring

The best type of monitoring is monitoring conducted by communities themselves. Communities take ownership of the process when they are responsible

for monitoring project activities. This promotes participant learning about the program and its performance, and enhances understanding of other stakeholders' points of view. It also increases the likelihood that evaluation information will be used to improve project performance.

Monitoring and evaluation by outside parties often focus on issues important to donors and implementers; but communities may have other issues that they value and wish to monitor. Community participatory monitoring allows the communities to become the question-makers, the collectors of information, and, ultimately, the end users.

Over the years, KDP encouraged different kinds of community participatory monitoring:

- **Monitoring by village councils (BPDs):** Laws for the election of village councils were passed in 1999. Prior to this, village chiefs generally appointed the village assemblies (LMDs) and village community resilience boards (LKMDs) from village elites. By the middle of KDP however, villagers were democratically electing their representative councils in many Indonesian villages. BPDs have responsibility for monitoring KDP activities at all stages: socialization, planning, implementation, and maintenance. The BPDs select members to monitor each phase. Results of this monitoring are then discussed at council meetings or fed into larger village meetings.
- **Monitoring by special community groups or teams:** KDP encouraged community monitoring groups in each village during Years 2 and 3. Communities were encouraged to form special teams or groups at the community level during the village meetings to monitor KDP. These community monitoring groups were independent of the village implementation teams. The community team members shared responsibilities for checking financial accounts, monitoring bank transactions and material purchases or rentals, visiting suppliers to confirm the costs of goods, and monitoring subproject activities, including infrastructure construction.
- **Community participatory monitoring facilitated by NGOs:** In several provinces, including Aceh and East Java, NGOs involved in province-based monitoring helped a number of villages, special groups, and teams conduct community participatory monitoring. They helped villagers decide what questions were important to them about KDP, how to collect data to answer those questions, and helped villagers analyze community findings. NGO facilitation has been a success story in several locations, and the activity will be expanded to every province under KDP2.

5.3 Case Studies and Documentation of Lessons

Because of KDP's large scale and ambitious goals for improving local governance, it was important that the program research and carefully document field results. The NMC had two full-time staff members responsible for conducting research and writing case studies on KDP, assisted by other NMC staff for larger or more technical case studies. The case studies were important monitoring and communication tools because they provided rich descriptive information and analyses on multiple themes related to KDP implementation. The case study work provided qualitative in-depth information to help explain some of the findings from the quantitative surveys and monthly reporting data.

Case studies began with NMC M&E staff meetings to discuss possible topics or themes, which usually arose from field reports, supervision missions, or general feedback from KDP staff. The case study staff compiled a list of topics and developed rough action plans and schedules, then contacted regional managers and provincial coordinators to brainstorm possible locations to research the topics. In general, the case studies covered at least three different provinces. Once locations were decided, staff developed general research plans, including question guides pertaining and list of persons to interview in the field. In the field, they used a combination of methodologies to collect information, including: direct observation; focus group discussions; key informant interviews; mini-surveys, and rapid appraisals. The staff adjusted research plans and question guides as needed. Case studies averaged approximately two to three months

of fieldwork followed by a month of analyzing data and reporting findings.

Except for a more lengthy study on KDP's impact on local governance, the case studies were purposely brief and limited to eight pages so that they were not too "heavy" for the KDP audience. The idea was to capture lessons from different project areas and share that information widely with project stakeholders.

Language was kept simple so that village communities could understand the stories.

Under KDP1, the program published and distributed eight case studies on:

- Lessons from KDP Year 1
- Participation of Women and the Poor
- Conflict Resolution
- Information Dissemination and the Role of the Village Facilitator

Box 2. Steps in Conducting Participatory Community Monitoring

NMC training for NGOs assisting with independent monitoring included a module on community participatory monitoring and the steps to begin the process in KDP communities:

1. Call a general meeting to ask who would be interested in participating in the monitoring exercise. It is important to check if villagers actually have the time to participate in this activity.
2. Once the community decides who wishes to join the participatory monitoring, the facilitator meets with the group at a time convenient to them.
3. The facilitator builds consensus on the purpose of the exercise, clarifies his/her role, expectations, and reviews the schedule.
4. Community members then identify the monitoring and evaluation questions they want answered related to the KDP activity. Questions come solely from the community; there are no predetermined questions or forms from the facilitators. The group then brainstorms on ways to collect the data and who is responsible for data collection.
5. Once the data is gathered, the group meets again to analyze it and reach consensus on findings, conclusions, and recommendations.
6. The group then reports to the larger community and KDP field consultants and together they prepare a plan of action to improve performance if needed.

In Aceh Province the PUGAR NGO provided independent KDP monitoring and facilitated community participatory monitoring in four villages. In Lok Nga Village, for example, PUGAR asked the KDP Kecamatan facilitator and village leaders to call a general meeting where PUGAR explained its purpose and the benefits of monitoring. At the meeting, the villagers appointed seven members for the community participatory monitoring team representing women, youth, the poor, and community leaders. The team decided on each member's responsibilities and then chose their leader, a woman named Ibu Mardiana. PUGAR met with the community monitoring team each month to review progress. The monitoring group reported back to the village regularly on project progress.

"I encouraged women to take part in the community participatory monitoring and now they realize how useful it is," Ibu Mardiana says. "To get a good quality road, I myself sat on top of the roller machine and watched the workers work."

Another female member of the group adds: "We have a very good quality KDP road and it is very cost effective as well. We controlled the quality of the materials by checking it when it was delivered by the suppliers and we did this every time."

- Community Participatory Monitoring
- Women Leaders in KDP
- Infrastructure Best Practices under KDP
- KDP's Impact on Local Governance in Nine Villages

Each case study was sent to 3,200 consultants, government officials, local parliaments, journalists, and NGOs at the national level and in the field. By reading these case studies, it was hoped that program stakeholders, especially consultants, would learn from the experiences in other KDP areas.

Results of a June 2001 survey questionnaire requesting feedback on the case studies indicated that readers found the studies to be very informative and useful reference guides, especially for providing information on problems in other provinces and how they were solved. The case studies also gave them a richer understanding of how rules and procedures were put into practice in the field. Respondents also found the simple language of the case studies easy to understand. KDP will continue these case studies in the next phase.

5.4 NMC Financial Supervision and Training Unit

Financial monitoring was an important part of the program's overall monitoring activities. Given Indonesia's endemic corruption, it was important to supervise financial transactions and procurement closely, especially at the kecamatan and village levels. Community participatory monitoring played a crucial role in overseeing village finances and procurement but there was also a need for the program to provide its own financial supervision and develop community capacity for financial management.

The NMC established a five-person Financial Supervision and Training Unit in May 2001 to improve the financial skills of the kecamatan financial units (UPKs), village boards (LKMDs), and economic loan groups, and check their financial and administrative records at the kecamatan and village levels. The unit served a dual function of providing much needed on-the-job training and mentoring to community financial units as well as supervising and auditing KDP finances at the local level. (For Terms of Reference for this Unit, see Annex G)

The unit was not established as only an internal audit unit because project management felt that it would be more beneficial for UPKs, LKMDs, and economic loan groups to be mentored in financial skills. Auditors would have focused chiefly on pointing out problems rather than concentrating on ways to improve skills. Thus, the unit was conceived as a group of "roving accountants" who would review financial records, but also provide much-needed financial training and mentoring.

Despite initial delays in recruiting staff and finalizing the unit's scope of work, it accomplished a great deal in a little over a year and strengthened KDP's financial oversight function. The unit audited and trained financial and program staff in 13 of the 22 KDP provinces and 140 kecamatan. It visited an average of 36 percent of the KDP kecamatan in each province, sampling two or three villages in each kecamatan. The team also played an important supportive role in formal World Bank supervision missions.

The unit's findings varied from province to province. In provinces such as Central and East Java, financial management was, on the whole, fairly sound, with regular consultant supervision and solid bookkeeping by the UPKs and LKMDs. In other provinces, such as North Sumatra and South Sulawesi, there were systematic problems related to misuse of funds, lack of financial oversight from district and kecamatan consultants, and lack of documentation for revolving funds. After each trip, the unit presented its findings to local consultants and government authorities, and the national level. Problems uncovered were sent to the complaints handling unit's consultants and government for follow up as part of overall KDP program management. For example, in North Sumatra and South Sulawesi, the unit's report led to the temporary suspension of project financing until the identified problems were corrected. The unit also provided follow-up financial training in problem provinces.

The NMC also carried out two confidential surveys using field consultants to ascertain if consultants were being paid according to their contracts so that the program manager could take action on non-performing or corrupt consultant companies. The surveys found that several companies were holding back on transportation and other allowances to consultants. PMD notified and warned the companies but eventually four of the consulting firms were terminated.

5.5 Handling Complaints and Grievance Procedures

KDP established a complaints resolution process to ensure that communities had a forum or outlet to air complaints, and resolve problems. Complaints and questions about KDP could be directed to any KDP field consultant or government official. Complaints could also be sent to a special post office box in Jakarta and the KDP national project secretariat office. Project brochures and posters included information on where to send complaints. Five staff at the NMC, the Handling Complaints Unit, were responsible for ensuring that complaints and questions were answered promptly and investigated further in the field. The unit coordinated with KDP field managers and local government officials to ensure prompt follow-up action in response to complaints. KDP complaints procedures are illustrated in Figure 1.

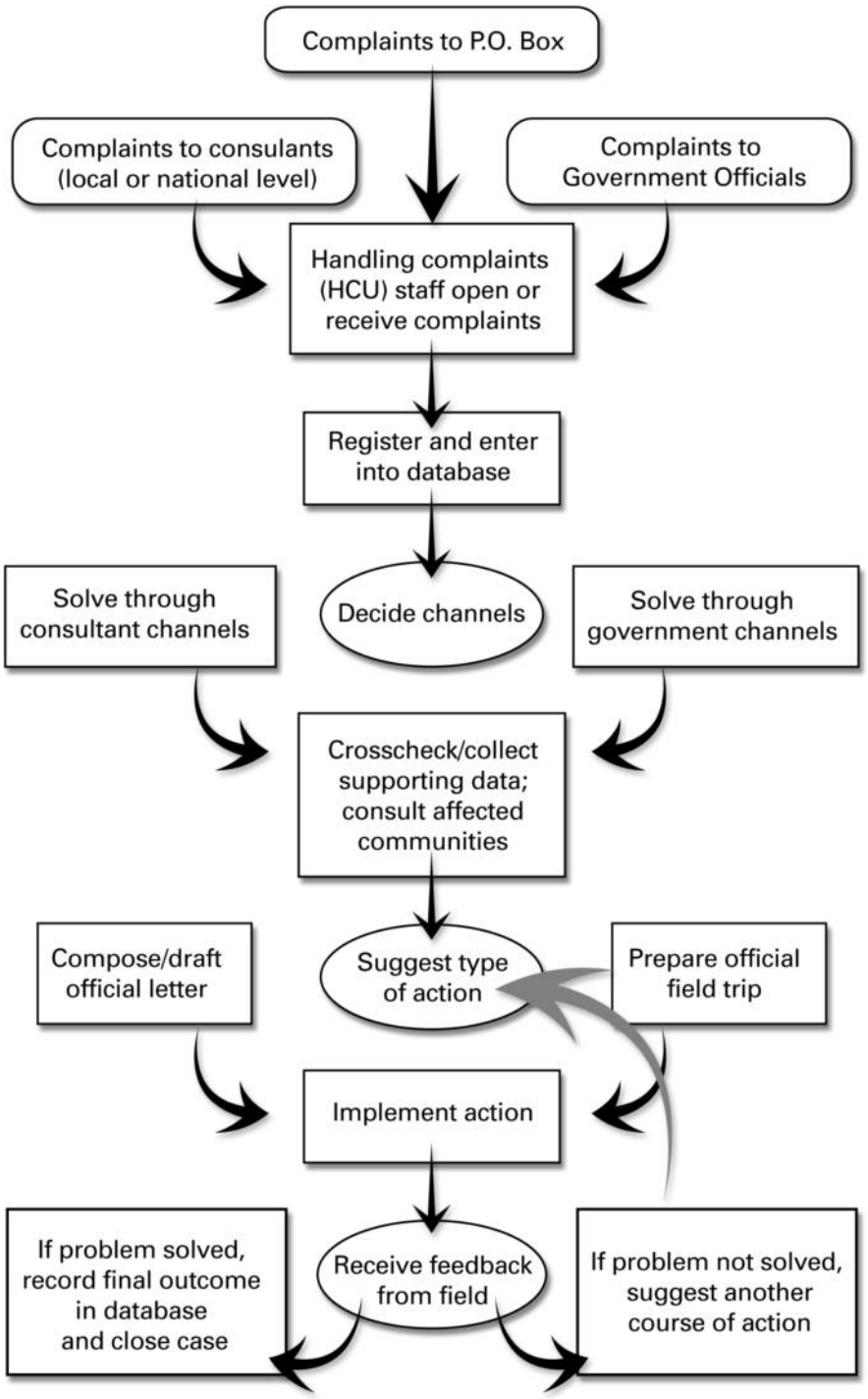
There were four general categories of complaints or problems from the field: those regarding the KDP process and procedures; misallocation of KDP funds; inappropriate intervention from government officials or KDP consultants, and unforeseeable events such as natural disasters (force majeure) cases (Table 4). KDP received the largest number from KDP field consultants or NMC staff who visited the field. The regular monthly reports from field consultants and field reports from NMC staff visits provided useful information on problems in the field and what needed to be followed up by the proper parties. Letters were also sent in by community members, NGOs, and anonymously. The unit also tracked the newspaper reports from AJI reporters (see section on AJI/LP3ES journalist monitoring) and ensured that problems described in those reports were communicated to field staff and government officials for follow-up. Regular supervision missions by the World Bank, NMC, and PMD were also useful sources of information on field problems. The Handling Complaints Unit, with assistance from MIS staff, entered complaint and grievance information into a central ACCESS database in Jakarta. (See Annex F for Complaints and Grievances database fields).

As of July 2002, 1,900 problems or complaints had been reported—an average of 45 per month—of which 49 percent had been resolved and 51 percent were still in process (Table 4). The most common problems or complaints related to violations of KDP principles or procedures (52 percent) followed by mishandling of funds (38 percent) and force majeure (5 percent). Force majeure cases were tracked in case follow up actions were necessary or funds must be recorded. Some 77 percent of the problems or cases were reported by consultants followed by NGOs (7

Table 4. Summary of Complaints Received under KDP1 (January 1999-July 2002)

Types of Problem or Complaints	Number	%	Resolved	Still in Process
Violation of Principles or Procedures	987	52%	499	488
Misuse of Funds	724	38%	304	420
Intervention	75	4%	51	24
Unforeseeable events (Force Majeure)	102	5%	58	44
Other	21	1%	17	4
TOTAL	**1,909**	**100%**	**929**	**980**

Figure 1. KDP Grievance and Redress Procedures



This diagram was adapted and revised from an original complaints procedures diagram drafted by Enurlaela Hasanah and Sadwanto, NMC in 1998.

Table 5. Actors/Sources of Information for Complaints

Source of Information	Number of Complaints	% of Total Complaints
Consultants	1,468	77 %
Monitoring NGOs	140	7 %
Community members	99	5 %
Mass Media (journalists)	41	2 %
Other	161	8 %
TOTAL	1,909	100%

Source: KDP NMC Complaints Handling Unit database

percent), community letters or reports (5 percent) and AJI or other journalists (2 percent). While NGOs and media accounted for only 180 cases or 9 percent of the total number of complaints received, these civil society groups usually played an important role in following up and monitoring cases. For example, once grievances such as misuse of funds were reported to KDP, AJI journalists followed the stories and reported upon them as the cases unfolded.

As Table 4 shows, it was much more difficult to resolve cases related to the misuse of funds and corruption than those involving procedural violations or intervention by outside parties. Among the difficulties faced in resolving problems in general were:

- Consultants were sometimes not creative enough in seeking alternative solutions or persistent in solving problems. Better training and clearly defined procedures are needed;
- Consultants had differing perceptions of problems or how to resolve them.
- Consultants sometimes did not want to report problems due to physical intimidation or feared they would be blamed for the problems.
- In some cases, there was insufficient support from government officials to solve problems; oftentimes government officials were reluctant to impose sanctions.
- Corruption cases took an especially long time to resolve. Many times, those that stole money could—or would—not return funds. Given the weakness of law enforcement and judicial processes in Indonesia, the prosecution of criminal cases is lengthy. Also, the police and judicial system do not give ample attention to the poor and their cases. Only five KDP corruption cases went to court. These cases were in Lampung, Central Java, North Sumatra, and two in Nusa Tenggara Timor (NTT). As of June 2002, three cases in Central Java, Lampung, and NTT were finished and the culprits were prosecuted successfully. Two cases, in NTT and North Sumatra, were still in trial. While these court cases were few and far between, the "victories" were widely publicized and sent a strong signal to the public that corruption would be punished in KDP.

Under KDP 2, there will be more training for consultants on dispute resolution. Also, the Handling Complaints function will be decentralized so that there will be a complaints officer in each region, which should improve communications with provincial and district government coordination teams and resolve grievances more expeditiously.

In response to several corruption and legal disputes arising in KDP areas, the program initiated in 2001 a pilot Legal Assistance Project for KDP communities in North Sumatra and Central Java. The project provided legal assistance to KDP communities through NGOs and university legal aid organizations. The project has since expanded into a "Justice for the Poor" pilot activity on sub-national legal reforms.

On the positive side, KDP has a wide range of actors to help push the agenda forward. The most important actors were the communities themselves who were usually consulted immediately regarding reported problems. Consultants and government, as well as NGOs and the media also assisted in problem resolution.

Box 3. Handling complaints successfully in South Sumatra

In September 1999, the KDP Kecamatan Facilitator (FK) of Tulung Selapan Kecamatan in South Sumatra discovered that a village head had apparently stolen KDP funds in one of the villages. The FK reported the case directly to the KDP district coordinator and the government district coordination team, who reported the details to the NMC. The Handling Complaints Unit of the NMC informed PMD at the national level about the case and confirmed the details with the provincial and district authorities in South Sumatra. In the meantime, the district coordinator and the district coordination team discussed the case and decided upon a course of action. A meeting was held with the village head to clarify the details of the case, and it was confirmed that the village head had taken approximately Rps 8 million ($1,000) of KDP funds for personal use. At the meeting, the village head was asked to return all the funds immediately, and he later returned about half the funds, Rps. 4.5 million, promising to repay the balance as soon as he could.

The outcome of the meeting was reported to the NMC Complaints Unit, which tracked the case for the next several weeks and wrote a letter in October, suggesting that another village "audit meeting" be held to review the case. The meeting was attended by the village head, the village resilience board (LKMD) and village elders and the village head was interrogated again. At the end of this meeting, the community leaders concluded that the village head should be fired. He was relieved of his duties, but the local leaders, KDP consultants and NMC continued to press for him to return the stolen funds. Every two weeks, the NMC Complaints Unit phoned the district coordinator to check on progress and urge local officials to resolve the case. Finally in December 1999, the village board together with some of the village elders met formally with the ex-village head and demanded that he return the debt by the following month or the case would be sent to the police authorities for further action. He paid back the remaining amount in January 2000.

External monitoring by independent organizations
The program defined external monitoring as the collection of project information and data by outside parties or non-implementers. KDP included external monitoring activities so the program could benefit from a wide variety of perspectives from independent parties who may have more objective viewpoints than project implementers. KDP could then cross check the information from external monitoring with its own internal monitoring reports.

The activities of civil society organizations such as NGOs and media were suppressed until the downfall of Suharto in 1998, when the new government lifted media censorship. Freedom of organization and the press has flourished ever since to the point now where there are hundreds of registered NGOs and some 700 newspapers and journals, and the media and NGOs have formed key pillars in building a more open democracy in Indonesia.

Indonesian civil society groups such as NGOs and journalists provide independent monitoring for KDP. Feedback from these groups reveals that they value their roles as civil society watchdogs to hold government and policymakers publicly accountable.

5.6 NGO Independent Province-Based Monitoring

Many Indonesian NGOs have solid skills in community development and extensive knowledge of

local conditions. In many cases, NGOs are able to amplify the voices of communities so that their concerns are heard. To take advantage of these skills and increase the involvement of civil society organizations in the program, KDP contracted NGOs in each province to monitor and report monthly on KDP progress. The NGO Independent Province-Based Monitoring activity began in July 2000. To ensure transparency and wide information dissemination, KDP sent out terms of reference and requests for applications to hundreds of provincial NGO fora and NGOs recommended by other donors. Some 27 provincial NGOs, including three provincial NGO consortia, were selected competitively out of 210 NGO applicants to monitor KDP in each province. In 2001, the NGO monitoring activity expanded and to date 40 NGOs monitor the program in all 22 KDP provinces.

The NGOs were responsible for monitoring (specific terms of reference for NGO independent monitoring are in Annex D):

- The participation of villagers, especially women and the poor, in all phases of the program
- Information sharing and transparency
- Adherence with the general principles and procedures of the program
- Financial reviews
- Quality of technical assistance
- Quality of program outputs
- Recommendations from program stakeholders on how to improve KDP.

The NGOs provided oral and written reports at the monthly coordination meetings for consultants and provincial and district government coordination teams. These reports included descriptions of problems encountered and recommendations for corrective action. The monthly meetings were important in making the NGO findings part of the program's overall management and problem-solving at the local level. While there were some provinces with weak provincial coordination teams and poor NGO coordination, the majority of provinces incorporated the NGO reports and recommendations into their monthly meetings and action plans.

The KDP M&E Unit conducted four initial training sessions for NGOs to provide an orientation toward KDP, review NGO terms of reference for independent monitoring, discuss data collection methodologies and monitoring techniques, and develop work plans. (See sample NGO orientation workshop schedule in Annex E) These initial trainings were critical to ensure that NGOs were properly briefed about KDP's principles and procedures and their expected roles and responsibilities under the contracts. Over the last two years, KDP also sponsored workshops in Surabaya and Manado that brought NGOs together to reflect on their experiences in the field, best practices and lessons learned, technical and financial monitoring, and recommendations for program improvement.

The NGO monitoring activity has been valuable. First, the NGO monitoring provided an external, independent analysis of KDP progress in each province. NGO findings were cross-checked and validated against those of KDP's internal monitoring system. The NGOs uncovered some 140 cases of anomalies. Also, some villages reported that they felt more comfortable confiding in NGOs than implementers. Lastly, NGO reports indicated that NGO staff improved their monitoring skills and the KDP activity enhanced their ability to monitor public use of funds and government development programs. Evaluations have, however, indicated several areas that need improvement. NGOs should have a deeper understanding of how KDP works and its procedures, their reports were sometimes late or unclear in the presentation of results, and coordination between NGOs, consultants, and provincial coordination teams could be improved.

One important management consideration in undertaking such an exercise was that contracting NGOs individually created enormous contract management burdens on the government. The KDP National Secretariat's contract management unit managed 61 service contracts for the entire program, of which 28 were individual NGO contracts. These figures do not include contract amendments. One alternative would have been to contract only one NGO network or membership association but that option was

Box 4. Local NGO reporting mechanisms

The Indonesian NGO SPEKTRA undertakes independent monitoring for KDP in East Java. According to Abdul Azis, SPEKTRA's executive director and NGO coordinator: "During the monthly coordination meetings at the district and provincial levels, we report field findings to the consultants and government coordination team for feedback. The KDP provincial and district consultants are generally responsive and follow up on issues raised by us. They will cross-check, clarify, and report back at the next coordination meeting. Then if it is necessary for the government side to take action, they will."

He recalls a recent case dealing with corruption. "Someone from the local treasury office (KPKN) asked money from villages and this was discovered during our regular NGO monitoring. Together with the KDP district consultant, we reported this case during a coordination meeting at the district level. The head of planning was so angry that he immediately made a phone call, then the next day, the money was returned to the villages."

rejected because several provincial NGOs did not wish to use intermediary forums or associations. Also, there was some resentment that the larger Jakarta-based NGO forums were monopolizing donor funding. Many of the provincial NGOs preferred contracting directly with the government.

KDP 2 will continue and expand this NGO monitoring activity. Other NGOs will have an opportunity to participate, as NGO monitoring contracts will be re-tendered for the next phase. More emphasis will be placed on community participatory monitoring.

5.7 Independent Monitoring by Journalists

In January 1999 the Ministry of Home Affairs signed a contract with the Association of Independent Journalists (AJI) and the Institute for Social and Economic Research, Education and Information (LP3ES) to provide systematic external monitoring and reporting on KDP. This activity was deemed important enough to be included as a provision in the original KDP Loan Agreement between the government and World Bank.

The purpose was for provincial journalists to provide independent monitoring of KDP and publish or broadcast their findings. An important principle for this monitoring activity to succeed was that there was no prior review or censorship of the stories. Secondly, the journalists did not receive any honoraria, only reimbursement for travel expenses to KDP sites. Thirty-one journalists (26 print media and five from radio) from 20 KDP provinces visited project areas and broadcast radio stories or wrote articles monthly in leading newspapers. AJI selected the journalists based on membership in its network or because they represented the leading newspapers or radio stations in a province. In general, the AJI reports fell into three categories of articles:

- General KDP information and orientation pieces
- Feature stories
- Investigative reporting (for example, reports on corruption or the misuse of funds)

By the end of KDP1, the provincial journalists had written or broadcast some 850 stories and visited over 250 villages. The KDP Complaints Unit received the monthly journal articles or radio tapes and followed up on any reported problems. AJI/LP3ES also published ten editions of a newsletter entitled "*Transparan,*" which printed selected KDP-related stories.

Annual evaluations and a 2002 end-of-contract evaluation revealed some of the strengths and weaknesses of the journalist monitoring activity:

Strengths:

- Journalists were able to adhere to the principles of independent, unbiased journalism in covering KDP activities and were not subject to outside intervention or censorship that would affect their reporting.
- AJI reported that the KDP activity improved their members' reporting skills and practical knowledge of transparency and good governance. They understood more fully the free media's role as a public watchdog. AJI believed that other journalists in Indonesia could learn from its experience and took the initiative to publish a book entitled, "KDP as a Monitoring Model for a Development Program".
- In several provinces, such as Yogyakarta and Lampung, the newspaper articles had a direct impact on policy makers by pressuring them to take action. Once cases of corruption or misuse of funds were reported, the journalists usually wrote follow-up stories and kept the cases in the public spotlight. In a corruption case in Lampung for example, the local AJI journalist reported closely on the scandal and trial of a kecamatan government official accused of stealing KDP funds. Despite repeated threats and intimidation, the journalist reported consistently on the criminal case and kept the public spotlight on the case through to the end of the trial.

Weaknesses:

- The abilities of journalists were limited despite the fact that the KDP contract paid for orientation and refresher training for the journalists. There were problems with clarity in writing, accuracy, balanced reporting, cross checking sources, and unfamiliarity with KDP procedures.
- Some KDP villages are located in remote areas, so it was difficult for the journalists to cover them.
- Journalists did not get out to the field as often as they should have.
- Investigative reporting by the journalists was limited. Some journalists did not have the skills to do investigative journalism; others could not devote sufficient time to investigate cases because they had other reporting responsibilities with their newspapers. Other journalists, such as those in Aceh, reported problems of intimidation when investigating cases.
- Newspaper articles in general did not reach the villages, so, KDP villagers often did not see the articles unless consultants posted them on village boards.

The AJI activity will continue into KDP 2. Additional training and orientation will be provided to the journalists to give them more extensive KDP program orientation and improve their journalistic skills. The radio journalism component will also be expanded. AJI will also try to link up more with national media organizations in covering KDP.

6. COMPONENTS OF THE EVALUATION SYSTEM

The KDP evaluation system was designed to measure the overall impact of program interventions. Did the project achieve its objectives? Were resources used cost effectively? How could the program be better designed to achieve the desired outcomes? These were some of the questions to be answered through evaluations.

It is important that periodic evaluations are incorporated into the design of projects so that managers can use the results to adjust or redesign program components. KDP's original program design included impact studies, including the collection of baseline data, and technical evaluations to assess program impact.

6.1 Impact Evaluation Study

In 1999 KDP contracted the Demographic Institute of the University of Indonesia (LD) to conduct an impact study looking at two major issues: KDP's impact on household welfare, and its impact on community organization and perceptions.

For the household welfare component, LD conducted an initial feasibility study to determine if it was actually possible to evaluate quantitatively the impact of KDP on poverty, incomes, and livings standards given the available data. The sample had to be sufficiently large to distinguish relatively small differences in per capita income growth rates between those areas benefiting from the program and a set of control areas. Furthermore, the control areas had to be sufficiently comparable to ensure that the measured differences were really due to the program itself. The study recommended the appropriate sample size and the use of official socio-economic statistics (Susenas) datasets for 1998-99 and 2001-02 to compare data before and after KDP 1 interventions, and in program and control areas.[7] The World Bank staff in Jakarta will complete the study of the Susenas panel datasets by mid-2003.

For the community organization component, LD conducted a baseline 4,600-household survey in program and control areas and followed by another panel survey looking at impact after one project cycle was completed. The survey followed a quasi-experimental design using a double difference methodology comparing the groups before and after the intervention. LD selected 74 pairs of KDP and non-KDP enumeration areas and held interviews with 2,600 household members and 2,050 local leaders in the seven provinces of North Sumatra, South Sumatra, West Java, Central Java, East Nusa Tenggara, Central Kalimantan, and Central Sulawesi.

The identification strategy of selecting program and control areas took advantage of KDP's staggered design in village selection within kecamatan. According to KDP1 procedures, for kecamatan containing more than ten villages, only half of the villages were allowed to participate in KDP during the first year. The other half of the villages participated during the second year, and all villages were eligible to participate in the third and final year. LD used the year 1 villages, with the villages in the same kecamatan that did not participate that year as controls.

The survey asked questions related to:

- Household socio-economic characteristics
- Community participation in the various phases of KDP (planning, implementation, maintenance, cost-sharing) as well as other development projects
- The role of different groups in the project process (village council, women, poor)
- Information sharing and transparency
- Impact of the subproject interventions
- Problems encountered and handling of complaints
- General level of satisfaction with the project

In some enumeration areas, field researchers followed up the quantitative survey questions with more probing qualitative techniques and questions. Detailed field notes from the researchers were very helpful in explaining some of the household survey results and describing the details of some problem issues.

Results of the household survey were mixed. KDP infrastructure investments were very popular and beneficiaries expressed satisfaction over the results. The perceived benefits of the infrastructure development were fairly equitably distributed to people across income groups. Compared to control areas, community leaders in the KDP areas had significantly more positive perceptions regarding the impact of KDP infrastructure projects on household income, access to markets, schools and health facilities. Women and the poor in KDP areas were also more involved in project activities compared to control areas. Lastly, KDP beneficiaries had greater knowledge of the role of village councils, kecamatan forums (UDKP), women's groups and the poor in KDP projects than those in control areas. Village leaders had an even greater knowledge and positive perception of the program than ordinary citizens. On the negative side, about 10 percent of respondents raised problems such as the lack of financial transparency or the negative impact that some of the infrastructure projects had on specific individuals, e.g., inadequate compensation for their land.

[7] "Evaluation of Kecamatan Development Program (KDP) Impacts on Community Organization and Household Welfare: Power and Sample Size Calculation for Feasibility Study," Demographic Institute, Faculty of Economics, University of Indonesia, May 2001.

The surveys revealed that economic loans were generally not made to poorer families in the villages. Compared to economic loan programs in non-KDP areas, loans were strongly biased toward the richer segments of villages. Beneficiaries were chosen who were more likely to pay back their loans. There were also widespread complaints about the complexity and the lack of transparency of the economic loan arrangements. Respondents stated that loan terms were not clear, calculations of the interest rate to be paid were complex, and sometimes the terms of payment and repayment were filled with hidden costs.[8]

The LD survey provided some useful inputs into future program design. First, the economic loan portfolio was redesigned to take into account the many shortfalls identified in the LD survey as well as recommendations from a 2001 economic evaluation study (see following section). The LD findings regarding economic loans were more or less consistent with some of the findings from internal monitoring reports and other evaluations. Secondly, the survey showed the need to emphasize transparency in all project activities. Improved community outreach materials will be developed to reach target audiences more effectively.

Lastly, KDP is examining closely survey methodologies in order to improve the measurement of program impact during the next phase. The identification and matching strategy present a special challenge due to KDP's selection criteria for project beneficiary areas. The problem with the identification strategy used for the KDP1 LD evaluation was that most of the "control villages" were recruited into KDP the following year. Thus, it was very difficult to measure subtle changes in attitudes and behavior over just a one or two year time frame. KDP is currently examining the feasibility of alternative identification strategies. In addition, the survey questionnaire will be improved to include more questions on social capital and local governance.

[8]See "Evaluation of Kecamatan Development Program (KDP) Impacts on Community Organization and Household Welfare", First and Second Round reports, Demographic Institute, Faculty of Economics, University of Indonesia, May 2001 and July 2002.

6.2 Infrastructure and Economic Loan Evaluations

There were several program components that required more specialized studies to determine impact. Many questions regarding cost effectiveness, program benefits, and impact were not answered through the routine consultant reporting system, audits, or periodic supervision missions. KDP therefore initiated several, sectoral studies in 2001 to evaluate rural infrastructure and economic loan activities. KDP commissioned a team of outside evaluators to undertake a rural infrastructure study that reviewed:

- The technical quality of KDP infrastructure projects
- Maintenance plans
- Usage of facilities
- Employment generation
- Economic rates of return
- Community perceptions of, and satisfaction with, the infrastructure
- Cost efficiency
- Increases in economic activities, savings, and access directly related to the KDP-built infrastructure.

The evaluators examined KDP infrastructure in 167 villages across 18 KDP provinces. They found that the general quality of KDP infrastructure was good to very good. The study also showed that over 83 percent of community respondents were satisfied with their KDP infrastructure. Ninety-six percent of the respondents stated that the quality of the infrastructure was the same or better than that built through other government programs. KDP infrastructure was also more cost effective than equivalent works built through other government programs. KDP infrastructure was determined to be as much as 23 percent less expensive than similar government-funded infrastructure works. In terms of sustainability and maintenance, field reports and the technical evaluation revealed that 86 percent of KDP Year 1 infrastructure was being maintained, with 94 percent of maintenance done by village O&M teams or community members.

Economic internal rates of return (EIRR) were also found to be relatively high for the main infrastruc-

Table 6. Economic Internal Rate of Return for KDP Infrastructure

Projects	EIRR
Water Supply	83.3%
Bridges	58.7%
Roads	32.8%
Irrigation/Drainage	14.8%
Weighted Average	60.1%

ture types (Table 6). Generally, the nature of small-scale rural infrastructure projects is such that the marginal productivity of capital can be very high and only relatively small injections of capital are needed to release large incremental benefits. KDP infrastructure projects illustrate this point. The EIRR for a small sample of the main infrastructure types ranged from 14.8 to 83.3 percent.[9]

Economic Loan Evaluation

KDP also commissioned a separate evaluation of the economic loan sector in September 2001. The study examined:

- The overall design of the economic activities portfolio
- Repayment rates, including timeliness of repayment and reasons for high or low repayments
- Relending of funds
- Control and management of loans and their uses
- Economic return on the loans
- Recipients and beneficiaries of the loans
- Impact of KDP loan funds on other sources of local credit
- Borrower perceptions of the loans and economic activities.

The study's conclusion was that there were serious design and system flaws and that major improvements needed to be made in design, credit management, training, and administration. It found that KDP's credit functions were distributed to many persons who did not bear credit risks. The evaluation recommended that the credit management functions be viewed separately from the overall project process and that substantial changes be made to the economic component design and management. As a result of this evaluation and similar findings through KDP's internal monitoring and reporting, KDP assigned a special task force of micro-credit and financial management experts to prepare the new KDP Phase 2 micro-credit component.

The importance of these sectoral evaluations was that they provided critical and constructive input that allowed program management to improve the design and operation of KDP. Both studies have helped to inform the design of KDP's second phase.

6.3 Audits and Financial Reviews

Given the widespread misuse of funds in many Indonesian government programs, KDP put in place mechanisms to ensure that there was strong financial oversight of program finances. Along with the NMC Financial Supervision and Training Unit, the government audit agency, the Finance and Development Supervision Agency (BPKP), and the World Bank conducted regular financial inspections and audits of KDP. BPKP and the NMC Financial Supervision and Training Unit audited almost 30 percent of KDP kecamatan in 2000-2001.

BPKP

BPKP audited KDP annually. It usually audited 14 to 30 percent of all KDP kecamatan. By Year 3, audit samples were taken from 17 provinces, 61 districts, 137 kecamatan and five to eight villages in each kecamatan. BPKP reviewed four aspects of the program:

- Project financial statements and their accuracy
- Adequacy of project financial management systems including internal controls
- Compliance with provisions of financing agreements, especially those relating to accounting and financial matters
- Achievements of planned project results as measured by the performance indicators stipulated in the financing agreement.

[9] "Ex-Post Evaluation of Kecamatan Development Program Infrastructure Projects: Final Report", prepared by Geoffrey Dent, Project Appraisals Pty Limited, November 2001, and "Technical Study on Infrastructure", Infrastructure Technical Study Team, September 2001.

For the complete terms of reference for the BPKP KDP audit, see Annex H. In general, over the last three years, BPKP found that PMD had followed the terms of the loan agreement in program execution. The selection of sites was in accordance with predetermined guidelines. Preparation of proposals had been well planned and followed program policies. BPKP found levels of participation and transparency adequate, although there were several provinces with weaknesses. Benefits from the economic and infrastructure activities were adequate, although problems were mentioned regarding economic loans not being targeted towards the poor. Maintenance of infrastructure was also found to be adequate.

Special problem areas included weak and incomplete document administration in some locations, and loan repayment in numerous provinces. In general, the BPKP audits were helpful in uncovering problems in the field. The Handling Complaints Unit incorporated the audit report findings into the complaints database for follow up action. The overall audit findings were consistent with KDP's general findings from its own internal monitoring and reporting.

6.4 World Bank Supervision Missions and Financial Reviews

The World Bank, together with the government and NMC, undertook semi-annual supervision missions that proved helpful in identifying management issues and evaluating the progress of the program at the central level and in the field. To gather a wide spectrum of perspectives, these missions usually included representatives from other donor agencies and Indonesian NGOs. The Bank also undertook occasional financial spot checks of consultant companies and contractors. World Bank financial specialists examined invoices and payments made to consultants for salaries, transport allowances, travel and the use of operational expenses in the field. Staff also occasionally intervened on corruption cases and pressured local stakeholders to solve problems expeditiously. KDP program management and the Bank identified a number of consultant firms who were performing below standard and gave written warnings to rectify problems. Financial supervision and auditing from BPKP, the NMC (Financial Supervision and Training Unit) and the World Bank were all valuable in ensuring that program funds were not diverted. Field consultants reported that even the threat of audits or financial reviews helped deter misuse of funds. These periodic audits were reinforced through more regular field visits by consultants, government officials, and NGOs. Under KDP 2 these audit activities will increase along with more financial management training for consultants and kecamatan- and village-level actors. KDP2 will also sponsor cross-village visits to "audit" and learn from the successes and weaknesses of other villages.

7. COSTS OF THE MONITORING AND EVALUATION SYSTEM

The total program cost for monitoring and evaluation activities was approximately $2.4 million. This figure does not include costs for general field consultant staff or World Bank supervision missions. The M&E budget was less than 1 percent of the overall program budget of $273 million.

There were 22 full-time monitoring and evaluation staff (including the complaints/grievances unit) based in Jakarta. They spent on average 50 to 75 percent of their time in the field. (See Table 7 for cost breakdown of activities)

8. DIFFICULTIES ENCOUNTERED

Implementing the M&E procedures in the field created its fair share of challenges. Among some of these difficulties were:

- **Difficulty in managing contracts** — On average, it took seven months to a year to contract out each of the monitoring and evaluation activities. In large part, this was due to the difficulties the government experienced in initiating and managing some 61 contracts to various consultant companies, suppliers and service agencies for the entire program. Contracts related to M&E (e.g., NGOs, journalists, studies, evaluations) comprised one

half of the KDP contracts. Delays in finalizing contracts created significant implementation problems. For example, the NGO monitoring contracts took over a year to finalize. Contract extensions also took unduly long to complete.

- **Incomplete reporting by consultants** — KDP field consultants on occasion did not report problems in the field for fear of being blamed for the problems or drawing attention to their situation. Despite repeated training and instructions, there were consultants who would rather keep quiet about problems rather than report them to managers. The project also experienced problems with incomplete reporting from certain remote provinces, and eventually sanctions had to be established to deal with consultants who did not report regularly. More training should also be given in the future in the identification of problems, technical and financial reviews, and report writing.
- **Limited capabilities of M&E implementing agencies** — Contracting out to Indonesian NGOs and journalists also meant a certain amount of capacity building had to accompany the activities. For NGOs, KDP provided not only program orientation, but also training on simple data-collection methodologies, interview techniques, reporting and technical and financial reviews. For journalists, KDP supported training for investigative journalism as well as interviewing techniques and media resources. The quality of the monitoring suffered somewhat from the lack of deep data analysis and high quality written reports. Also for the impact survey, KDP had significant problems with the implementing organization and the quality of questionnaire development and data analysis was not as high as had been originally anticipated.
- **Improvements needed for impact survey design** — While KDP succeeded in putting in place a quasi-experimental design for its impact survey, improvements could be made. The questionnaire should be more focused and include more questions related to social capital and local governance. Data analysis and reporting were also had problems and must be improved. KDP's design and selection of kecamatan based on a national poverty ranking presented unique problems in developing an identification strategy to determine control areas. That problem is still being wrestled with for KDP2.

9. CONCLUSIONS AND FUTURE IMPROVEMENTS UNDER KDP2

KDP employed a broad mix of approaches to monitoring and evaluation. As KDP is a large multi-sectoral program with a wide range of targets and output variables, capturing these program aspects rigorously necessitated a variety of approaches and techniques. The program combined quantitative instruments (household surveys, regular monthly field reporting) with qualitative research (case studies). It supported participatory methods such as community participatory monitoring along with more highly specialized monitoring and evaluation activities such as financial audits and sector studies. Lastly, to provide a wide array of perspectives as well as cross-triangulation of data, KDP incorporated both internal and external monitoring from a host of civil society actors and other donors.

But did the system work? Did the monitoring components allow program managers to keep track of program progress and take corrective action as necessary? Did the evaluation components allow KDP to assess the impact of its activities?

Program managers in general were able to assess regularly whether program activities were being implemented as planned. Through internal monitoring by program stakeholders, NGOs, and journalists, program managers obtained feedback and information on the status of program implementation. While there were problems with the consistency and quality of reporting, the information was generally useful and timely. The findings provided information for program managers to take corrective action and adjust program procedures. The direct link between M&E findings and actions taken was evidenced in several tangible ways: the handling of grievances and complaints; suspension of activities in problem areas;

termination of four company contracts; reformulation of procedures each project year, and the incorporation of lessons and best practices for the design of KDP Phase Two. In the cases where communities undertook participatory monitoring, feedback was also very positive because villagers were able to monitor and assess project aspects that mattered to them.

The evaluation components also provided vital information to assess impact. The final impact evaluations to measure changes in household welfare are still underway. However, the sectoral evaluations gave constructive recommendations for the redesign of the economic loan portfolio and the cost effectiveness and use of infrastructure. Financial audits and the periodic supervision missions again led to further financial training in certain areas, program suspension in problematic areas and reformulation of design issues.

The next phase of KDP (2002-2006) will allow for further refinements and improvements in the monitoring and evaluation system. Specifically, the following changes will be incorporated:

- KDP2 will decentralize many of its management and monitoring functions by establishing field offices at the regional level. Several M&E functions such as the management information system and handling complaints unit will be decentralized to the regions and districts. This could present more difficulties in controlling and managing the quality of data and processing of complaints. Conversely, with additional personnel in the field, it should be easier to gather and process information as well as respond to grievances in a more efficient manner.
- The impact survey work is being redesigned building on the baseline work captured under KDP1. The survey instruments will be refined and further qualitative and participatory work will complement the quantitative survey work. Case studies and more ethnographic research are planned.
- Under KDP2, the government, especially district parliaments, will take a more active role in supervising the program. KDP2 places greater emphasis on involving the local parliaments and government officials to monitor activities more regularly.
- KDP2 emphasizes to a greater extent capacity building especially to improve the skills of communities and consultants in technical supervision, financial oversight, and contracting. During the next phase, KDP's M&E system will need to incorporate additional mechanisms to track and measure the impact of capacity building and training interventions.

Table 7. Summary of KDP1 Monitoring and Evaluation Activities and Costs

Activity	Objective	Implementing Agencies/Actors	Outputs	Approximate Cost ($)
INTERNAL MONITORING ACTIVITIES				
Monitoring by consultants/MIS	To monitor and regularly report upon KDP progress	Consultants at the national, provincial, district and kecamatan levels	Monthly reports, database, problems solved.	$540,000 MIS Unit, M&E Advisor, and full-time M&E staff.**
Monitoring by Govt. Officials	To monitor and regularly report upon KDP progress, troubleshooting	Govt. officials at the national, provincial and district levels	Reports and problems solved	0
Community Monitoring	To monitor projects within their communities	Community members	Activities monitored by the community	0
Case Studies	To document lessons learned and best practices of KDP	2 full-time KDP staff plus occasional consultants	6-8 case studies per year	$230,000 Staff salaries & travel costs plus @ $100,000 for production & distribution of case studies
Complaints Resolution Process	To document and resolve field problems	6 full-time KDP staff in Handling Complaints Unit	Resolved cases Database of complaints	$145,000 6 staff persons' salaries, travel
Financial Supervision and Training	To improve the financial skills of UPKs and economic loan groups and to check financial/admin records at the kecamatan and village levels.	5 full-time staff with accounting backgrounds in the Financial Supervision and Training Unit	Training to UPKs and economic groups. Field finances checked and audited.	$168,000 5 staff persons' salaries, travel
EXTERNAL MONITORING ACTIVITIES				
NGO Province-based Monitoring	To monitor and provide an independent source of qualitative information on KDP	40 provincial NGOs	Monthly reports	$616,000 ($10,000 – 14,000/NGO/province/year)
Journalist monitoring and reporting	To provide independent monitoring and reporting on KDP by local journalists	18 provincial journalists, LP3ES/AJI	Newspaper articles, radio reports	$ 390,000 $130,000/yr
EVALUATION ACTIVITIES				
World Bank Supervision Missions	To supervise KDP progress and achievements	World Bank , PMD, BAPPENAS, NMC, NGOs	Aide-memoire (usually twice a year)	
Financial Audits	To audit KDP finances	BPKP	Audit findings and reports	
Impact Evaluation	(a) To evaluate KDP's impact on community organization and perceptions; (b) to assess the feasibility of measuring KDP impact on poverty, incomes, and living standards.	Demographic Institute, University of Indonesia	Baseline survey of 4500 HHs and community leaders. Economic feasibility assessment	$300,000
Technical Infrastructure Study	To evaluate KDP infrastructure projects and recommend improvements	External consultant team (5 persons) including one expatriate	Study evaluating the quality of KDP infrastructure projects	$30,000
Economic Loan Study	To evaluate KDP economic loan activities and recommend improvements	External consultant team (4 persons) including one expatriate	Study evaluating the quality of KDP economic loan activities	$30,000
TOTAL M&E BUDGET				**$2.4 million**

* Costs are over four-year program period. World Bank supervision costs are not included. **Costs for consultant monitoring include only the costs of full-time M&E staff. Costs for field consultants involved in technical assistance, management, and supervision are not included here.

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ANNEX A: BRIEF DESCRIPTION OF KDP

This Annex describes briefly how KDP Phase One (1998-2002) operated, starting from the initial selection of project locations to implementation in the field. Additional information can be found in the main text of this report.

1. Selection of KDP Locations

The *selection of KDP kecamatan and provinces* was based upon poverty incidence. The Program targeted the poorest kecamatan in the country. Studies suggest that populations within kecamatan are relatively homogenous in terms of poverty incidence, and thereby form a sound basis for poverty targeting and for reaching a large number of the rural poor. The national planning agency, Bappenas, analyzed poverty incidence statistics based upon government official Susenas data (expenditure) and Podes (mostly infrastructure surveys). Bappenas then prepared a long list of some 1,500 kecamatan with a high incidence of poverty.

The long list of kecamatan was sent to the KDP government Coordination Teams (*TK-Prop and TK-Kab*) at the provincial and district levels for review and to confirm poverty incidence and ranking. A short list was formed of the poorest kecamatan. Once the list was finalized, the Government of Indonesia sent it to the World Bank for final approval.

For *village selection,* if a kecamatan contains ten villages or less, all villages were allowed to participate. For kecamatan with more than ten villages, only half of the villages in a kecamatan were allowed to participate in the first year of KDP (up to a maximum of ten). This was primarily done to limit the amount of facilitation required. In Year Two, the other half of the villages were eligible to participate. All villages were eligible to participate the third year. Since healthy competition among village proposals was encouraged, not all villages necessarily received funds during any given year.

2. How KDP Works

KDP provides funds at the kecamatan level. Villagers then decide to use these funds for infrastructure, social or economic activities. These funds are available to each kecamatan each year for up to three years.

The distribution of funds within the kecamatan is through the UDKP Forum (*Unit Daerah Kerja Pembangunan)* to the village board, *LKMD* or village council *BPD.* The UDKP Forum consists of UDKP members, appointed by government, plus additional, broadly respected persons (such as religious and traditional leaders, teachers) and three additional representatives (one man and two women) selected from each participating village. The UDKP also creates a unit called the Financial Management Unit *(Unit Pengelolaan Keuangan (UPK))* to manage KDP funds and to oversee any large procurements.

The grant size to each kecamatan varies by population size (Table A.1).

3. KDP Project Activity Cycle

The KDP Project Cycle goes through various stages: information dissemination; planning; proposal preparation and verification; funding decisions; implementation; and follow-up. The Project Cycle generally takes 12 to 14 months to complete although there is variation among provinces. The socialization and planning stages take approximately four to six months. All stages aim to achieve a high degree of community participation and transparency throughout the process.

Information Dissemination

Information dissemination about KDP occurs in several ways. Workshops are held at the provincial, district and kecamatan levels to disseminate information and popularize the program. The workshops involve community leaders, local government

Box A.1: Profile of Villages and Kecamatan in Indonesia

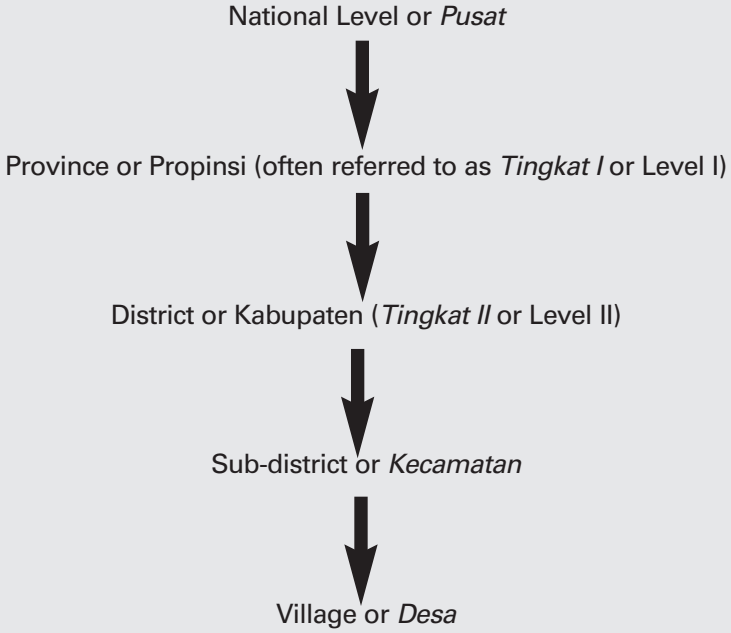
Villages in Indonesia

Villages (desa) in Indonesia are formal administrative units containing on average approximately 2,700 people. There are some 69,000 villages in Indonesia and most of these are predominantly rural. Villages vary greatly in terms of population size and land area, as well as physical layout and land use. Culture also differs significantly between villages across the Indonesian archipelago. The head of a village is called a "Kepala Desa". The Kepala Desa selects and is assisted by a committee called a Village Community Resilience Board (LKMD) or Village Assembly (LMD), that is mandated to guide development within the village through periodic consultation meetings. The Decentralization Laws of 1999 also called for Village Councils (BPDs) to be democratically elected. LKMDs or BPDs play an important role in facilitating KDP in the villages.

Kecamatan in Indonesia

Kecamatan are the sub-district level of administration in Indonesia. There are some 4,000 kecamatan in the country. On average a kecamatan contains approximately 20 villages and a population of over 68,000 people. Though these units are already fairly large, the kecamatan office is still seen as being "approachable" by the community (whereas the district (*kabupaten*) is usually seen as too distant on the administrative scale). The administrative head of a kecamatan is called a "*Camat*". He is appointed by government.

The administrative levels in Indonesia are as follows:



Source: Adapted from the KDP First Annual Report (1998-1999), National Management Consultants for the KDP National Secretariat, Ministry of Home Affairs, Community Development Agency

Table A.1: Grant Size Eligibility Thresholds for Kecamatan

(Exchange rate: $1=Rps 8,000)

Kecamatan in Java:	Kecamatan outside Java:	Maximum Grant to Kecamatan
> 50,000 persons	> 25,000 persons	Rps 1 billion/year ($125,000/year)
25,000 – 50,000 persons	15,000 – 25,000 persons	Rps 750 million/year ($93,750/year)
	< 15,000 persons (NTT)	Rps 350 million/year($43,750/year)

officials, local press, universities and NGOs. Dissemination of information at the village level occurs through large village meetings (Musbangdes meetings) as well as through group and sub-village level meetings to disseminate information and encourage villagers to propose ideas for KDP support. Elected Village Facilitators play an important role in disseminating information to community groups. On average, approximately 50 to 100 villagers attend Musbangdes meetings, although in some areas, attendance is reported to be several hundred participants.

Planning

Planning meetings occur at the sub-village (hamlet) and village levels. The Village and Kecamatan Facilitators disseminate information about KDP procedures and encourage villagers to submit ideas for KDP funding. Women also hold their own separate meetings to decide upon women's proposals. At the second village meeting (Musbangdes II), villagers' ideas are discussed and the forum decides which ideas the village should put forward to the UDKPII Forum as proposals. The planning stage of KDP usually takes one to two months for villagers to learn about KDP procedures and submit ideas for funding.

Proposal Preparation and Verification

Each village can submit up to two proposals to the UDKP. If there are two proposals, one must come from village women. Proposals from villagers range between a minimum of Rps 35 million ($4,375) to a maximum of Rps 150 million ($18,750).

KDP can finance productive infrastructure, social and economic activities. Proposals can include a mixture of social, economic and infrastructure activities if the villagers so choose. Project menus are open to all productive investments except those on a negative short list.[10] Villagers can prepare joint proposals, for example, for multi-village irrigation, road or water supply systems. KDP does not support district-level infrastructure since districts have their own budgets and areas of responsibility. The Open Menu policy is an important element of KDP. It allows villagers themselves to decide what they want.

For economic activities, the borrowing groups are required to be in existence for at least one year. Interest rates should follow prevailing market rates and loans should be repaid within a maximum of 18 months. The repayment schedule should fit the type of economic activity undertaken and benefit flows, and should be agreed upon by all members of the group. The repayment schedule should be attached with the proposal.

For infrastructure projects, village technical assistance should be identified and used in proposal preparation. Public infrastructure projects must meet technical design quality standards, benefit the poor, and include a plan and budget for maintenance after completion, including arrangements to collect and manage user fees as appropriate. Villagers are expected to contribute labor and/or materials so that contributions are maximized. There is no preset target for community contributions, but the greater the contribution, the more favorably the proposal is reviewed by the UDKP Forum.

[10] KDP funds cannot be used for: military or paramilitary purposes; civil works for government administration or religious purposes; manufacture or use of environmentally hazardous goods, arms, or drugs; or financing of government salaries. Land acquisition is also restricted.

Verification of the proposals' technical elements occurs during the proposal review stage prior to the UDKP Forum selection. A kecamatan verification team is formed and usually includes community leaders, the Kecamatan Facilitator (FK), and appropriate technical staff recommended by the District Engineer (KMKab). The District Engineer also does a final check before the results of the verification are presented and considered in the UDKP forum. The verification team looks at the following questions:

- are proposals technically and economically feasible?
- do they benefit large numbers of people, especially the poor?
- are there maintenance plans (or repayment plans in the case of economic loans) in place?
- do people genuinely participate in the formulation of proposal ideas, and what is the community contribution?

This verification phase usually takes three to four weeks and is seen as crucial to screen for projects that are only of sound design and quality.

Project Selection

Village proposals are discussed at the kecamatan level during the second kecamatan level meeting, UDKPII. The UDKP Forum reviews the findings of the verification team and discusses the merits and budgets of each proposal. On average, about 60 persons attend these meetings. Final decisions from the UDKPII meeting are posted on KDP Information Boards and shared with the villagers through the third village level meeting, Musbangdes III, and smaller sub-village and group meetings.

Financial Management and Accounts

The Head of the UPK, the Kecamatan Facilitator and all the LKMD Heads open a KDP account at the local Bank of the Republic of Indonesia (BRI). When the subproject agreements are finalized, they are endorsed by the PMD Kecamatan Project Manager, PjOK, and a copy is sent to the government treasury office (KPKN). KPKN then orders an initial transfer to the KDP-BRI account. The installments are made in 40%- 40% - 20% installments. The UPKs, Village Councils, and implementation teams must report to the community on the use of the funds after each installment has been utilized. The last 20 percent payment to villages cannot be released until the District Engineer approves and signs the completion certificate.

Although money is deposited in the kecamatan account in three installments, there is no limit on the number of village withdrawals and there are no minimum periods between withdrawals by villages. Disbursements are made against certified requests of expenditure by the village's LKMD Head, the UPK Head and the FK. The UPK with the assistance of the FK must account fully for the kecamatan grant.

Basic signature requirements are as follows:

Establishment of kecamatan bank account: FK, UPK Head, All LKMD Heads

Withdrawal of funds: FK, UPK Head, LKMD Head (3 persons)

Project agreement: PjOK, FK, LKMD Head, Kecamatan Head

Project completion report: KMKab, LKMD Head, UPK Head

Project Implementation

Once it has been decided which projects should be funded, villagers mobilize technical assistance. Contracts are signed with the LKMD and acknowledged by the District Engineer. Technical designs are finalized and the mobilization of workers takes place. During the Musbangdes III meetings, villagers elect a community Implementation Team of five persons in each village to oversee the project implementation. Funds are withdrawn from village level accounts for the construction of infrastructure and economic loans. The community contributions are also collected. The Kecamatan Facilitators and PjOK (PMD kecamatan level project manager) support groups and LKMDs on administrative and financial matters. Communities, government officials and KDP consultants supervise the implementation of activities. Village meetings are encouraged to report upon the status of project implementation. At least one village meeting occurs when activities are halfway through implementation. There is also a final village meeting when the project is completed and final accounts are

reported. Infrastructure implementation usually took three to four months for completion.

Maintenance
Once the infrastructure is built, villagers form Operation and Maintenance Committees who are responsible for overseeing the proper maintenance of facilities and fee collection. The user fee system is also reconfirmed. For economic loans, loan repayments are collected by the UPK for a maximum loan period of 18 months.

4. Management of KDP

The management of KDP is the responsibility of the Ministry of Home Affairs, Community Development Agency (PMD). At the national level, PMD deals with the day-to-day operations of the Program. Government coordination teams, representing various ministries also assist with KDP. At the national level, the Deputy for Regional Development of the National Development Planning Agency (*Bappenas*) heads the national Coordination Team. At the province and district levels, the government Coordination Teams are headed by the Regional Development Planning Agency (*Bappeda*). At the kecamatan level, the role of the PjOK is very important because he serves as KDP's local project manager. The PjOK is assisted by administrative staff (*PjAK*) also from PMD.

KDP is assisted technically by consultant teams. Some 1,662 consultants from 16 private companies at the national, provincial, district and kecamatan levels provide technical assistance and guidance to the project.

In terms of roles and responsibilities for managing KDP, the PMD Project Secretariat at the national level issues formal guidelines and determines project policy based upon the Loan Agreement with the World Bank. The Secretariat also performs all contracting and invoice verification. In addition, the Secretariat undertakes all formal contact with the World Bank and local government agencies.

The consultants are responsible for all daily technical matters, clarifying and operationalizing policies, supervising and evaluating all consultants, drafting Terms of Reference and guidelines, and advising upon all monitoring and evaluation work for the Program.

Figure A.1 KDP Activity Cycle—Year 3

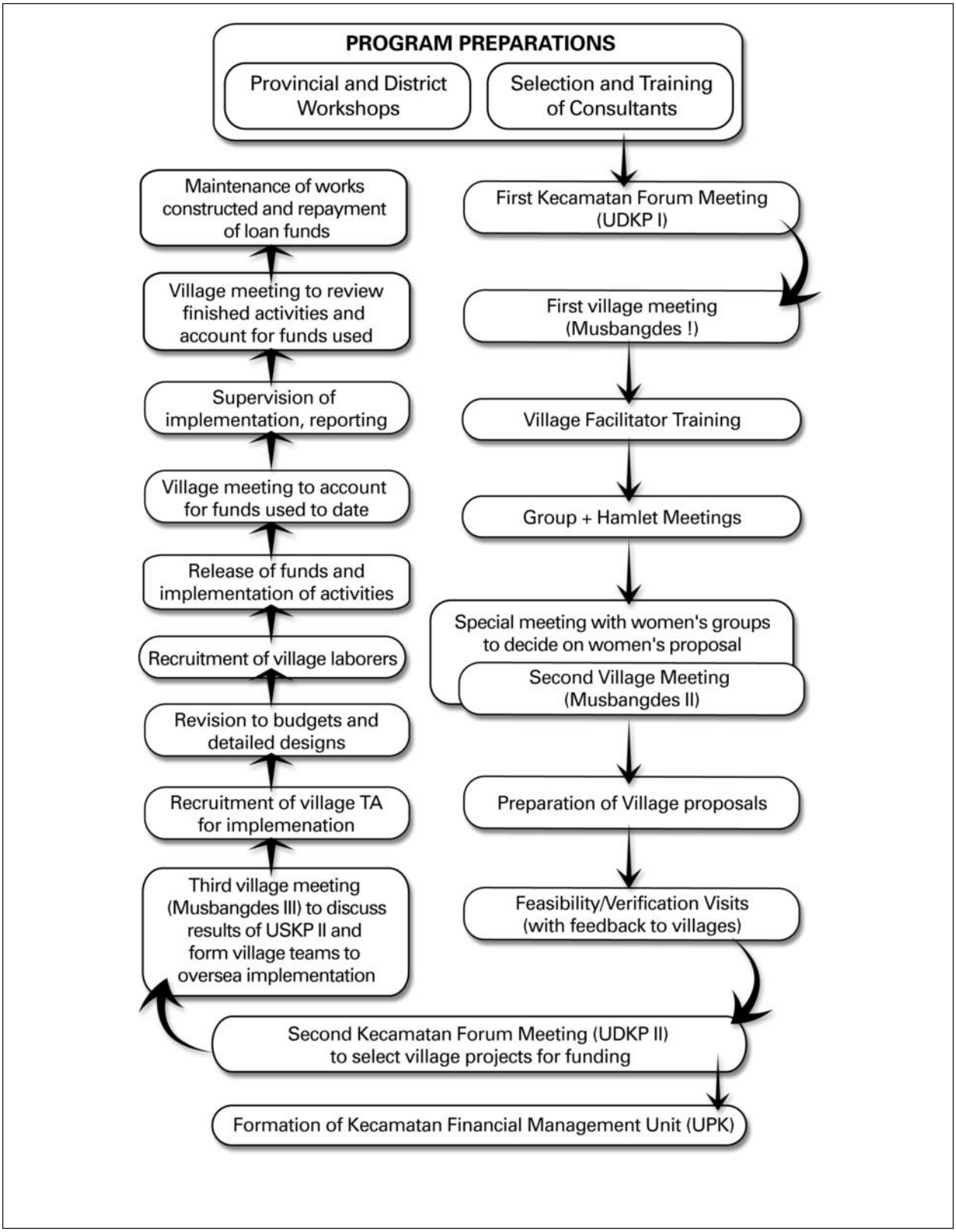


Table A.2: Phases of Implementation

Kecamatan Development Program Year 3

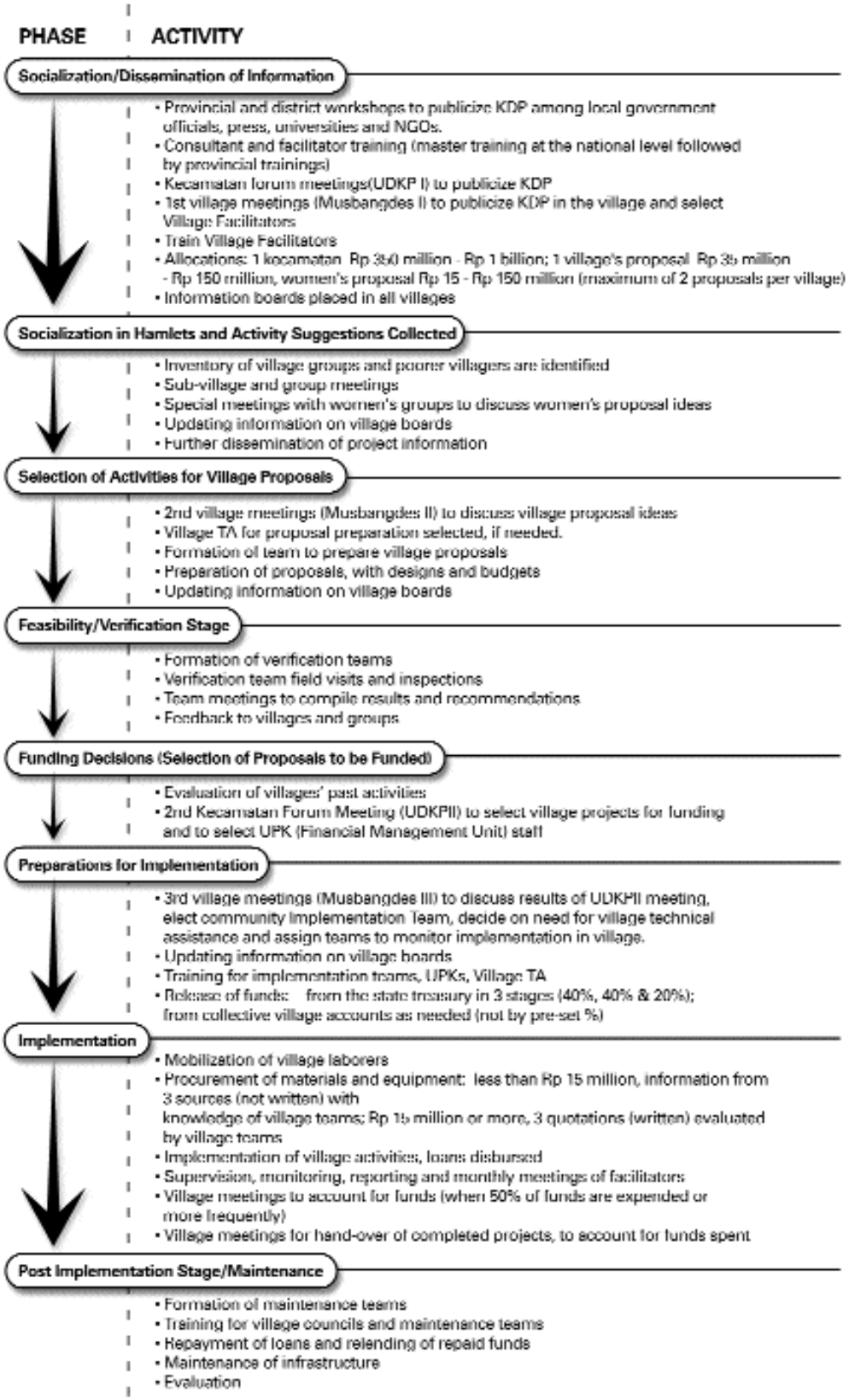


Figure A.2: KDP Funds Flow System in Year 3

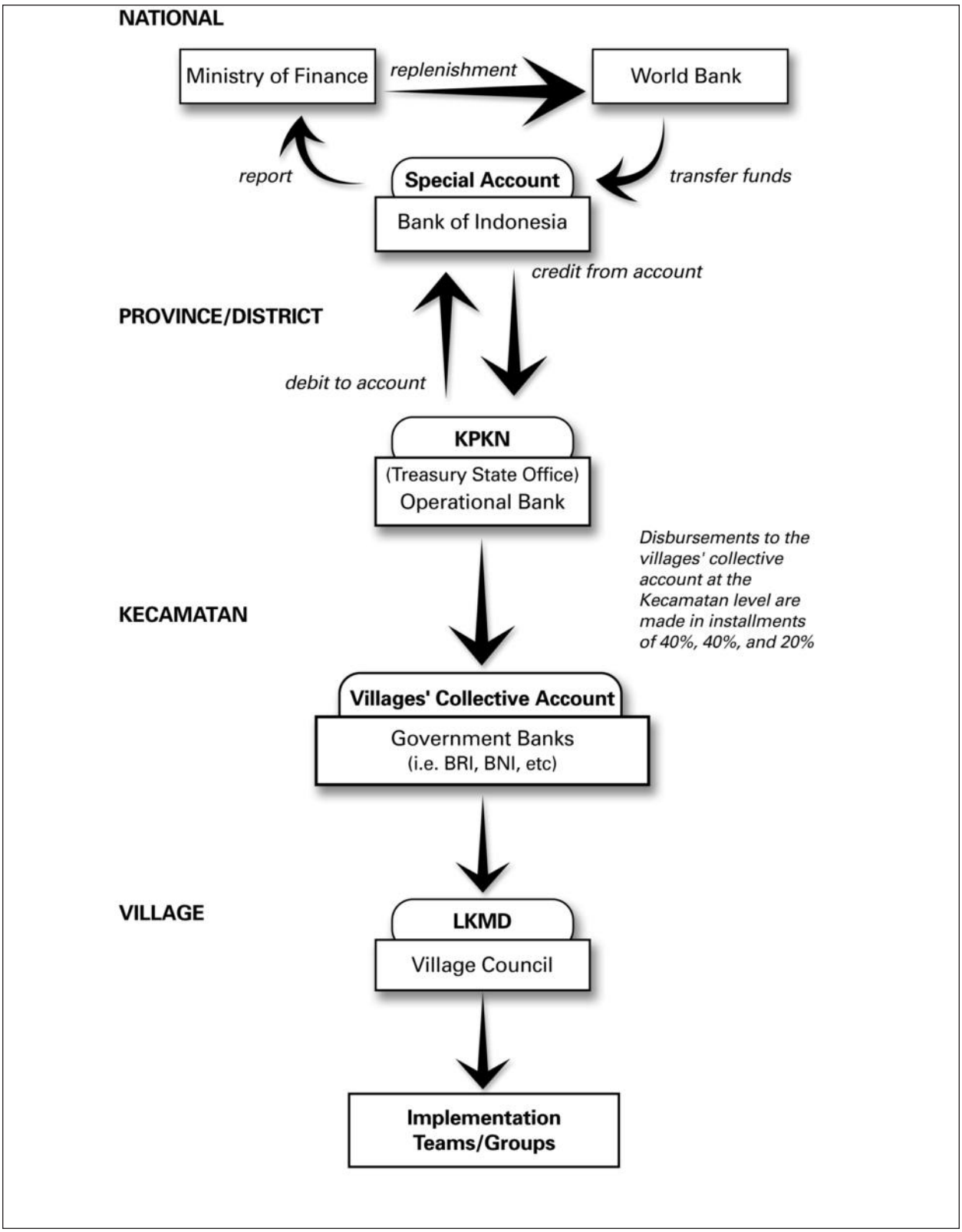
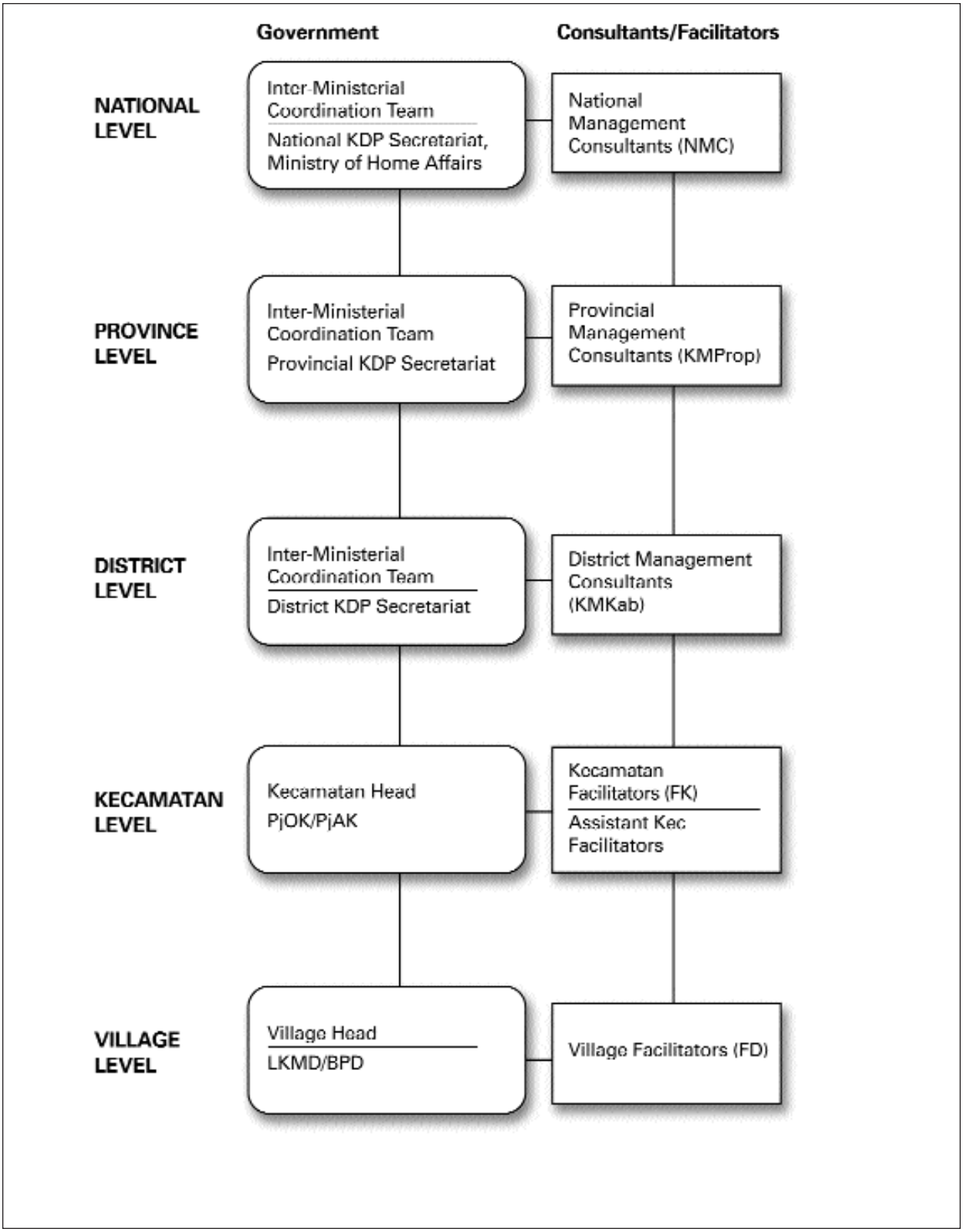


Figure A.3: The KDP management System



ANNEX B: KDP PROJECT DESIGN SUMMARY

Narrative Summary	Key Performance Indicators [1]	Monitoring and Supervision	Critical Assumptions and Risks
CAS Objectives: • Reducing poverty • Efficient provision of basic services • Participation in development • Decentralization	% of absolute poor Increased transfers to kecamatan and village levels	CAS and CEM reports	(CAS Objective to Bank Mission) No gaps between macro and project objectives.
Project Development Objectives • Strengthening kecamatan and villge level government by empowering them to manage increased funding and becoming accountable for it	# participating kecamatan: Year 1: 350 Year 2: 725 Year 3: 725 Transfers to kecamatan: Baseline:Rps 6m per village KDP: Rp 500m/year for kecamatan with 25,000/50,000 people on Java, 15,000/25,000 people off Java Rp 750 million for kecamatan exceeding these thresholds; Rp 250m on Timor Timur	Bappenas' records KPKN records Provincial records Kecamatan UPK records Journalist reports	(Development Objectives to CAS Objective) The project's development objectives are fully in line with CAS objectives. Risks: (a) Scale up too fast; (b) Central government does not complete transfers; (c) Districts appropriate funds for kecamatan/villages (d) No improvement in local mobilization of maintenance resources
Rural development by providing increased economic opportunities at the village level in the poorest kecamatan	#participating villages: Year 1: 2000 Year 2: 4000 Year 3: 6000 Susenas household expenditure surveys	Susenas analysis Ad-hoc surveys and kecamatan field visits Provincial records	(a) Current economic crisis may increase poverty; thus changes in the % poor by Susenas may not reflect on KDP results; (b) Inadequate targeting may miss the poorest

[1] See additional Performance Indicators as listed in KDP1 Project Appriasal Document, Annex 1

Source: KDP Project Apraisal Document, Annex 1

ANNEX B: KDP PROJECT DESIGN SUMMARY

Narrative Summary	Key Performance Indicators 1	Monitoring and Supervision	Critical Assumptions and Risks
Project Outputs			
• Improved planning process and plans	# of villages with sub-village/village meetings held implementation agreements UPKs established/ operative Transparency rules applied	UPK/KPKN & BRI records	(a) Risks: Elite and higher-level domination of planning process/exclusion of poor; (b) Directed investment
• Public infrastructures • Economic investments • Studies, in particular to improve kabupaten procurement guidelines to encourage small contractors	#proposals implemented #completed works by type and total amounts # O&M committees formed and funded/ operational from Yr 2 onwards #proposals implemented by type and amounts Compliance with repayment Benefit returns Issued new regulation and if necessary MoHA clarification, repeal of SKs (local regulations) Project Year 2	Overall: Technical audits TA qualitative evaluations of participation Random field checks Summary reports from facilitators. Bank-GOI site supervision of 3-5% of recipient kecamatan Annual review of project performance Bappenas records Database on contracts with communities	(a) Poor technical quality, inadequate engineering support (b) inadequate maintenance; (a) Inadequate facilitators, poor choice of activities could limit sustainability; (b) High leakage rates; (c) Low repayment Risk: removing one set of barriers to local contracting may prompt issuance of other, new restrictive guidelines. Critical assumption: local contractors and artisans can provide quality goods and services at competitive prices if procurement is opened to them.

ANNEX C: KDP MONITORING AND EVALUATION FRAMEWORK

KEY RESEARCH QUESTIONS	INDICATORS *	TOOLS/ MEANS OF VERIFICATION	
		Monitoring Tools	Evaluation Tools
1. Poverty & Socio-Economic Impact			
a. What is the socio-economic impact of KDP? What are the social and economic benefits of the project's activities?	1. Household socio-economic poverty indicators, % of absolute poor 2. #/type of beneficiaries 3. #/type of workdays created 4. #/type of persons who gained employment from the project. 5. Community perceptions of project benefits (e.g. usage/increase in economic activities, cost & time savings, access directly related to infrastructure)	1. Case studies 2, 3,& 4 MIS – Forms 2.1-2.2, 81. – 8.7 5. Field reports from consultants, govt.,NGOs, journalists	Impact survey using Susenas panel data Impact survey on community perceptions Case studies
2. Quality and Effectiveness of Infrastructure Projects			
a. Is the technical quality of infrastructure projects sound? How does the quality of KDP infrastructure compare with non-KDP?	1. # /$/type/dimensions/ quality of infrastructure built 2. Satisfaction levels of community with infrastructure projects	1. MIS - Forms 3.1, 3.2, 8.1, 9.9 -9.14, 10.1- 10.2, 11.1 – 11.6, NGO reports 2. Consultant regular monitoring & reports Handling Complaints, NGO reports, community participatory monitoring Case studies	Infrastructure evaluation study Impact survey on community perceptions Supervision missions
b. Cost/benefit, cost-effectiveness relative to non-KDP projects	1. $/type of infrastructure project, KDP vs. non-KDP 2. Economic internal rate of return 3. Feedback from community regarding project costs	1. District engineer reports Forms 4.1, 5.1, 8 3. Field visit reports Community participatory monitoring	Infrastructure evaluation study Supervision missions
c. Factors which may affect technical quality (e.g, simplicity of design, use of local/external expertise, quality of district engineers and village technical assistance)	1. Use of villagers vs. outside contractors 2. Quality of technical designs 3. # TA visits 4. Performance of District engineers and village technical assistance 5. Satisfaction levels of communities with TA	1. MIS - Form 3.1 2. Form 2.3, 3.1 3. Prov & district consultant reports 4. MIS-Form 8.1 Prov & district consultant reports 5. Handling Complaints reports Field visit reports	Infrastructure evaluation study Supervision missions
d. Are the projects being maintained?	1. No. of O&M committees 2. No. of members involved in O&M 3. Schedule of O&M activities 4. Quality of O&M activities	MIS- Form 2.1, 11.1-11.6	Infrastructure evaluation study

– All indicators are gender-disaggregated where appropriate. Indicators listed in the framework include, but are not limited to, the key performance indicators required for World Bank reporting per the KDP Loan Agreement Schedule 6.
– MIS Forms refer to the specific reporting forms to be completed by field consultants.

ANNEX C: KDP MONITORING AND EVALUATION FRAMEWORK

KEY RESEARCH QUESTIONS	INDICATORS *	TOOLS/ MEANS OF VERIFICATION	
		Monitoring Tools	Evaluation Tools
3. Quality and Use of Economic Activities			
a Benefits of Economic Loan Portfolio – For what purposes were the economic loans used? Were these economic activities profitable? Who benefited from the loan activities?	1. #/size of loans 2. #/type loan recipients 3. use of loans 4. economic return on loans 5. borrower perceptions	1&2 MIS – Form 8.2, 8.4, 8.6 3 Form 2.2 4&5 Field monitoring reports, community monitoring	Economic loan study Impact survey on community perceptions Supervision missions
b. Repayment & Revolving Funds – What were the repayment rates and the reasons for high or low repayment? Did funds revolve?	1. Repayment rates (by location, gender) 2. Timeliness of repayment 3. Reasons cited for high/low repayment 4. $revolving funds (by location, gender)	1,2,4 MIS – Form 8.2, 8.4, 8.6 3. Field reports, NGO reports	Economic loan study Supervision missions
4. Other Social Activities (Followed same kinds of indicators as above for technical and economic activities)			
5. Institution-Strengthening			
a. Are the village councils and inter-village forums functioning and are they being strengthened?	1. #/type of persons attending committee meetings 2. quality of participation at meetings 3. #/type of decisions made,when, how often 4. community awareness/satisfaction with committee decisions	1&2 MIS-Form 9.5 3 Form 4.1, 9.5 4 NGO & journalists' monitoring, field visits, case studies	Impact survey on community perceptions
b. What other social organizations exist in the village? Who are the members? What role do/can such organizations play in KDP?	1. #/type social orgs 2. composition of members 3. perceptions by the community	1&2 LLI study Field reports	Impact survey on community perceptions
6. Community Empowerment General			
a. In general, how do villagers feel about KDP? Sense of ownership of projects and process? Were the projects chosen those that they wanted?	1. Community perceptions 2. #/type of complaints 3. Level of community contribution (financial, time, in-kind) 4. Willingness to participate in future activities	Field reports, handling complaints reports, NGOs, journalists, case studies, community participatory monitoring	Impact survey on community perceptions Supervision missions

ANNEX C: KDP MONITORING AND EVALUATION FRAMEWORK

KEY RESEARCH QUESTIONS	INDICATORS *	TOOLS/ MEANS OF VERIFICATION	
		Monitoring Tools	Evaluation Tools
b. Recourse - were there any major problems with the project, and if so, how were they addressed and/or solved?	1. community perceptions 2. #/type of complaints, resolutions	Field reports, handling complaints reports, NGOs, journalists, case studies, community participatory monitoring	Impact survey on community perceptions Supervision missions
c. Participation - Are villagers actively participating in all stages of the project?	1. #/type of villagers/%HH participating actively in various stages 2. # consultation meetings 3. Amount/type of community contributions	1. MIS-Form 9.5 NGOs & journalists' reports, case studies 2. Consultant reports 3. Form 2.1,2.2, 2.4, 10.1	Impact survey on community perceptions Supervision missions
d. Inclusion - Who is participating? Who do not? Why? Are disenfranchised groups, women, poor participating in all stages?	1. #/% women, poor, marginalized villagers participating actively in various stages 2. # women proposals received and approved. 3. Perceptions of different groups	1&3 MIS-Form 9.5 NGOs & journalists' reports, case studies Consultant reports 2. Form 4.1	Impact survey on community perceptions Supervision missions
e. Decision-making - how are project decisions made? Are decisions or agreements carried out? If not, why?	1. Quality of decision-making 2. Perceptions by the community on how decisions were made	MIS-Form 9.5 NGOs & journalists' reports, case studies Consultant reports	Impact survey on community perceptions Supervision missions
f. Benefits - Do villagers feel like they benefit from the project? Who benefits most from the project? In what way?	1. Community perceptions	NGOs & journalists' reports, case studies Consultant reports	Impact survey on community perceptions Supervision missions
Information-Sharing & Transparency			
g. How is information disseminated and how often? What issues are confusing? What are the best practices for widespread and transparent information dissemination and education in specific areas?	1. # of info boards 2. Regularity of info boards being updated 3. Type of info posted 4. # community info meetings 5. Knowledge/awareness of the community about various aspects of KDP 6. Frequency/type of info disseminated 7. Community response	NGO reports Case Studies Field supervision reports Information, education, communication consultants' reports	Impact survey on community perceptions Supervision missions
h. What is the community's knowledge and awareness of the general project and specific issues, i.e., budget, payments being made, roles and responsibilities?	1. Knowledge/awareness of the community regarding various aspects of KDP	NGO reports Case Studies Field supervision reports Communication consultants' reports	Impact survey on community perceptions Supervision missions

ANNEX C: KDP MONITORING AND EVALUATION FRAMEWORK

KEY RESEARCH QUESTIONS	INDICATORS *	TOOLS/ MEANS OF VERIFICATION	
		Monitoring Tools	Evaluation Tools
7. GENERAL PROJECT MANAGEMENT INFORMATION			
a. Are the main project outputs being achieved?	1. $ disbursed by activity type, beneficiary group, area 2. #/name of provinces, districts, kecamatan and villages where KDP operates 3. # subproject agreements 4. #/type of total beneficiaries 5. #/type of training provided & beneficiaries	1. MoF, PMD,MIS reports 2. MIS 3. Form 4.1 4. Form 4.1, 9.5 Field reports Training reports	Supervision missions PKP audits
b. Is the project being monitored and evaluated effectively?	1. # supervisory visits by field consultants/ % of sites visited 2. # audits 3. # visits/reports/stories of independent monitoring by journalists, NGOs and other 3rd parties 4. #WB supervision missions 5. #independent evaluations, surveys, studies conducted 6. # communities conducting participatory monitoring 7. Complaints information (see database info)	Field reports, handling complaints reports, NGOs, journalists, case studies, community participatory monitoring	Supervision missions
c. Are the project's finances being managed properly?	1. # villages/kecamatan audited and audit findings 2. #/type of complaints received regarding mishandling of funds	Financial Supervision and training unit audits, field reports, handling complaints reports, NGOs, journalists, case studies, community participatory monitoring.	BPKP annual audits World Bank supervision missions and financial reviews

ANNEX D: TERMS OF REFERENCE FOR NGO INDEPENDENT MONITORING OF KDP[1]

A. Background

The Kecamatan Development Program (KDP) is a Government of Indonesia program aimed at alleviating poverty in rural communities and improving local governance. KDP provides block grants of 350 million to one billion rupiah ($40,000 to $114,000) directly to kecamatan and villages for small-scale infrastructure, social and economic activities. KDP emphasizes the principles of community participation, especially for women and poor villagers, transparency, competition for funds, and sustainability. All KDP activities aim at allowing villagers to make their own choices about the kinds of projects that they need and want. *(See attached brief description of KDP)*

Phase One of KDP began in August 1998 through a $280 million World Bank loan. By 2002, the Program will cover 984 kecamatan across 22 provinces.

The uniqueness and magnitude of the program require a solid monitoring and evaluation system to be in place to document the KDP experience and lessons learned from this program. KDP's monitoring and evaluation system consists of several components:

- Monthly field reporting from consultants at the kecamatan, kabupaten, provincial and national levels;
- Complaints/problems monitoring and resolution
- Community participatory monitoring
- Monitoring by government officials
- Case studies documenting best practices and lessons learned;
- Special studies on infrastructure, economic activities, and other themes
- Financial supervision and auditing
- Joint World Bank/GOI supervision missions
- Impact studies
- Independent monitoring and reporting by the Association of Independent Journalists (AJI)

In order to strengthen its monitoring system, KDP will invite Indonesian NGOs to monitor independently program progress in each province. This activity is intended to provide valuable inputs for improving the program.

B. Description of NGO Independent Monitoring

The purpose of the NGO independent monitoring is to provide an independent source of qualitative information on KDP implementation from a select number of project locations to complement the information collected through the project's internal monitoring system.

Currently, KDP monitoring centers on regular internal reporting from project implementors at all project locations. Although the reporting system is effective for monitoring progress on program implementation, inputs, and direct outputs, it is less effective at registering the program's ability to affect less tangible changes (such as improvements in the quality of women's participation and institutional strengthening), and a wide range of specific problems and lessons learned from overcoming them. Also, because all information stems from program staff, data are not collected by objective parties.

In order to ensure that emerging problems are noted and addressed, additional monitoring is required to provide data on: (i) common problems that are occurring in many or all locations; (ii) specific problems limited to a particular location; and (iii) short- and medium-term changes brought about by the program. The NGO independent monitoring described herein mainly concerns the collection of qualitative data through participatory methods, although a small number of quantitative indicators will also be incorporated in the NGO monitoring.

[1] These Terms of Reference were adapted and revised from an earlier draft version prepared by Anna Wetterberg, World Bank, in 1999.

The main source of information will be villagers and stakeholders in KDP kecamatan, both those that have participated directly in the program and others who have not. Some data may be collected at the kecamatan level, but only as they relate to program implementation at the village level.

C. Specific Tasks and Responsibilities

NGO independent monitoring is currently planned for all 22 KDP provinces. NGOs will monitor regularly the program's developments and provide an independent source of information to improve KDP. The primary users of the collected information will be province and district- based project staff. The NGO monitoring is not intended to cover all project areas; the emphasis is for the NGO to provide rich, descriptive information in a sample of select locations.

In each chosen province, one or two NGOs (or NGO consortia) will be identified to carry out the monitoring. The Community Development Office in the Ministry of Home Affairs (PMD), the National Management Consultants (NMC) and World Bank will select the NGOs on a competitive basis.

1. Monitoring Scope

NGOs will focus on these specific areas for monitoring:

- Participation of villagers, especially women and the poor, in all phases of the program;
- Information-sharing and transparency;
- Adherence with the general principles and procedures of the program;
- Quality of technical assistance
- Quality of program outputs
- Financial review
- Recommendations from program stakeholders to improve KDP.

A list of sample questions for each of the topics listed above is attached in Annex D.2. The NGO is free to add other questions as it deems necessary.

2. Geographic Coverage

In most provinces, only one NGO or NGO consortia will be chosen for each province. Due to the geographical distances involved and the number of KDP kecamatan, two NGOs will be chosen for the provinces of Irian Jaya, Nusa Tenggara Timur, North Maluku, and North Sumatra. More NGOs may be added at a later date if necessary.

Each month, the NGO must visit a total of eight villages in a minimum of three kecamatan. Two villages should be monitored continuously each month (through community participatory monitoring) in order to follow the progress of the complete project cycle in two set locations. The NGO can select any other six villages to visit. The NGO should rotate its monitoring of kecamatan and districts so that it covers as wide an area as possible (taking into account budgetary considerations). The NGO should try to monitor a wide sample of KDP locations in various sites around the province.

Summary of Monitoring each Month:

- District : sample as many districts as possible
- Kecamatan: Minimum of three kecamatan
- Village: Minimum of eight villages, monitor two villages continuously, monitor six other villages

3. Methodology to be Used

The NGO shall decide what monitoring tools it wishes to use. Some monitoring and data collection tools include:

- Direct Observation
- Informal interviews
- Focus Group Discussions
- Mini-surveys
- Participatory rural appraisal
- Community participatory monitoring
- Financial review of book-keeping

Community participatory monitoring will be required in the two villages that are continuously monitored each month. Using this methodology, the NGO will facilitate the community members in data collection, compiling questions and analysing their data. The NMC will provide training on these methodologies at the start of the contract.

Monitoring should include direct observation of the various stages of the planning process (such as observing village and kecamatan-level meetings), as well as more general monitoring of developments at the village level (such as informal discussions with villagers about their involvement in the KDP process). NGOs should make a special point of interviewing the poorer segments of the community to solicit their views on KDP and the process. Direct quotations from the field are highly encouraged and should be included in the NGO reports.

Under this TOR, NGOs will also be responsible for financial monitoring and checking simple bookkeeping at the kecamatan and village levels. While a full-scale audit is not required, the NGO will be expected to spotcheck financial documentation and be on the lookout for cases of corruption or price mark-ups.

The NGO should strive to be as thorough as possible in its monitoring. It should cross-check its findings and determine the validity of the information with a range of sources, including villagers, contractors, government officials, and consultants.

It is important to note that the implementing organization's role is to observe, collect, analyze, and report data. The NGO must not compromise its independent observer status by intervening to correct perceived problems or otherwise become involved in the process. The role of the NGO is to monitor the process and then report its findings to KDP implementers.

4. Analysis of collected information

NGOs will clean and analyze the collected data, drawing attention to problems encountered, villagers' recommendations for changes, and general findings of program impacts. NGOs are expected not only to present field findings but also to analyze systematically the results and provide recommendations.

5. Reporting

During the first week of each month, the NGO will make an oral presentation of findings to provincial KDP consultants and the government coordination teams. In addition, the NGO will submit a brief written report on the previous month's monitoring results to them with a copy to the NMC using the concise standard reporting format in Annex D.1. The main text of the report should be no more than ten pages in length, followed by attachments.

E. Management and Contract Provisions

Upon selection, NGOs will be asked to attend a national orientation about KDP, led by NMC staff, to be introduced to project objectives, design, and procedures. A range of monitoring methodologies will also be reviewed. NGOs will then be asked to finalize a time schedule and workplan for the monitoring activities. The NGOs' main counterparts for the provincial monitoring will be the KDP field consultants, although KDP central-based staff will be directly involved at early stages to provide feedback on reports as well as provide technical assistance and guidance throughout the monitoring process.

The contract will be signed between PMD and the contracting NGO for an initial one-year period. That contract is subject to renewal after one year depending upon contract performance and availability of funds.

The NGO will negotiate a lump-sum fee contract with PMD. Payments to NGOs will be made in three installments. Thirty percent of the total fee will be paid out at the initiation of the contract. An additional 60 percent of the total fee will be paid based upon receipt and acceptance of the first three monthly reports. The remaining ten percent of the total fee will be paid after all twelve reports have been submitted as agreed.

ANNEX D.1: NGO INDEPENDENT MONITORING REPORT FORMAT

Given that different organizations will be undertaking the NGO monitoring in numerous parts of the country, there is a need for a standard reporting format to ensure that similar issues are covered in different locations and make it easier for readers to find information on specific issues. The reporting format is intended to provide concise information on basic issues and should be no more than ten pages for each monthly report. However, additional detail (including brief descriptions of villages visited, photos, field notes, and other logistical information) should be attached as annexes to ensure that the richness of collected information is not lost. Brief case studies can be compiled if instructive and interesting. Direct quotations from villagers and stakeholders are highly encouraged and should be included in the report.

The reports should be as specific as possible. In all the comments, please be specific about details and locations (name of village, kecamatan, to whom the NGO spoke, etc.)

Detailed questions for each topic are attached on the following pages.

Reports must follow the following format:

1. Cover Page
2. Table of Contents
3. Summary Table of Problems and Recommendations (see below)
4. Table of Geographical Areas Covered
5. Methodology Used
6. Participation (especially of poor people, women, and the "disenfranchised") and barriers to active participation and decision-making
7. Information-sharing and transparency (issues of awareness, information dissemination and ongoing flows)
8. Role of technical assistance in the broad sense (FK, FD, KMT-Kab, local officials, NGOs, technical team, others) and the following of procedures
9. Quality of Program Outputs, Technical quality of infrastructure, economic and social activities.
10. Financial Review
11. Strong and weak points of the program, recommendations for improvement

Summary Table of Problems and Recommendations

No	Location (Name of village and kecamatan)	Problem encountered	Recommendation	Follow-up needed & by whom
1				
2....				

Table of Geographical Areas Covered

Name of Kecamatan visited	Name of village visited	Name of persons interviewed (optional)	Position/Title of persons interviewed (i.e. villager, Village Council member, Village Head.)

ANNEX D.2: SAMPLE OF MONITORING QUESTIONS

These questions are the most basic required for independent monitoring and reporting on findings. The NGO is encouraged to use a variety of techniques and interview several respondents to answer these questions and explore other questions as needed. *It should also be noted that the purpose is to get general answers to the questions, rather than ask all questions of all respondents in all locations.*

Participation — The NGO should monitor participation during the different phases of the KDP cycle.

During the planning and socialization phases, are villagers **aware of KDP** and do they understand its principles, regulations, and requirements? Who is aware of the project and who isn't? Why? Do facilitators, consultants and local officials understand the principles and process?

Are **sub-village and village meetings** well attended? Who attends and who doesn't? Why? Who makes proposals? Is the process open and transparent and are the decisions made participatory? What degree of participation do "regular" villagers have, especially women, poor people, and the "disenfranchised"? Do decisions represent the needs and wishes of the majority of villagers? Is there evidence of intervention from outside or domination by the village head or village elite?

Are separate **women's meetings** held? Are they well attended? Is there active participation from all women participants or do just a few women dominate the proceedings? Are poor women actively involved?

Who is involved in the **village mapping and wealth ranking** exercise? Is it well attended and are villagers actively participating? Do most villagers seem to understand the process? Are the real needs of the community identified?

Are villagers involved in the **proposal writing process**? What role do they play? Are proposals developed based on the actual needs of the originating group or are design details left up to the proposal preparation team (*Tim Penulis*)?

What role does the **Technical Assistance Team** play in developing proposals? How were they selected? Do villagers find their input useful? What role does the **Verification Team** play before the UDKP meeting? How were they selected? Are villagers aware of their recommendations? If so, what action was taken based on Verification Team's recommendations?

Are the **UDKP meetings** well attended? Who attends and who doesn't? Why? Are decisions negotiated in the group or decided by a small number of people? Is there competition based on quality and poverty impact of proposals? Are there elected representatives from all participating villages, including at least two women from each village? Do other villagers attend, especially members of groups with proposals? What degree of participation do village representatives have in decisions? What was the role of the Verification Team in the UDKPII meeting? Are UDKPII meeting decisions reported back to villagers who did not attend? How and by whom? Do groups who did not receive funding understand the reasons why they were not funded?

Who is involved in the **implementation process**? Who isn't? Why? What roles do poor people, women, and marginalized groups play?

Who **benefits** from funded activities? Who doesn't? Why? Are beneficiaries those that were intended in the original proposal? Do projects especially benefit poor people and women? Are there projects that benefit only a small group of people? Are there people who are excluded from project benefits? If so, who? Are beneficiaries satisfied? Why or why not? Are those who do not benefit upset? How is this dealt with?

Are villagers **aware** of the projects that are funded under KDP, who is supposed to benefit, and how funds are supposed to be used? Do they know whether projects are being implemented and funds

being used as intended? If yes, how? If not, why not? Has there been any leakage of funds or other corruption in projects (diverting benefits, changing project goals, etc.)? How and by whom are problems encountered dealt with? To whom are they reported? What was the response? If problems have not occurred, do villagers know who to report to or where to report problems?

Information and Transparency — The NGO should monitor if program information is transparent and shared widely within the communities.

Are villagers aware of KDP and do they understand its principles, regulations and requirements? Are **information boards** well-placed, clear, up to date with all relevant information posted in kecamatan, villages, and hamlets? Do villagers know about them? Do they use them? Why or why not? What other mechanisms are used to disseminate basic information on project principles and overall process? What mechanisms are used to keep villagers informed of progress, including decisions at village and kecamatan meetings, disbursements, and payments? Are there breakdowns in the information flow at specific stages or in getting information to certain villagers (women, poor people, distant hamlets, illiterate/non-Indonesian language speakers, etc.)? Are villagers informed of decisions after they are made and do they have opportunities to give input? During implementation, is financial information on individual projects and on bank withdrawals posted?

Quality of Technical Assistance and Institutions — NGOs should monitor the role of Technical Assistance Teams, Verification Teams, UPK, consultants and other government officials in implementing KDP.

How are local officials supporting the project? How are the facilitators and local consultants assisting the project? Do they work together well? Are involved officials and consultants often in the villages? How is the quality of the technical assistance provided by consultants and contractors? Do they understand the principles and procedures of KDP and are they following them? What are villagers' views on their involvement? How can support from technical consultants and officials be improved?

Quality of Outputs, Technical Soundness — The NGO should monitor the quality of the economic, infrastructure and social activities.

Are **infrastructure projects** technically sound? What impact have these projects had on the village? Are they maintained? By whom and how? If not, why not? Are there sanctions for incomplete or technically flawed projects? If so, are they enforced?

Are **economic activities** successful enough for loans to be repaid? Are the loans being put to productive uses? What impact have the economic activities had on the household welfare of the recipients? Are repayments on time? If not, why not? Are there sanctions for late or missed payments? If so, are they enforced? Do group members know the conditions and amount of the loan and repayment schedule? Are there regular meetings of the group to report upon the loan status and repayments?

How are repaid funds being used? By whom and how are decisions made for use of revolving funds?

Are the **social activities** successfully completed? Are they technically sound? What impact have these activities had on the village?

What do villagers think about the projects, especially poor people, women, and the "disenfranchised"? Are they satisfied with the projects? What impact have the projects had on their lives (economic, social, etc.)? Have there been problems at any stage? How have they been dealt with? How could the process be improved? Do they see any differences from how plans and decisions are usually made and their role in the process? Are there changes in villagers' understanding and views of the LKMD and UDKP?

Financial Review of Bookkeeping — The NGO should do a spotcheck of the UPK, LKMD, and economic group financial records.

Are the UPK and the LKMD/TPK handling project funds appropriately? Are standard prices for

goods made public? Are financial transactions transparent and properly documented, and are they made known to the community? Are there any signs of mark-ups on goods? In the case of economic loans, are the loan repayments being recorded accurately? Are the FKs and the KMKabs checking the books regularly?

Strong or Weak Points of the Program — The NGO should mention any strong or weak points of KDP based upon their observations and interviews with villagers and KDP stakeholders. Quotations from stakeholders should be provided as much as possible.

What are the strong points of the program as seen in the field? What do villagers cite as the benefits of KDP? What do government officials such as the PjOK, Kecamatan Head, Village Head or LKMD view as benefits or positive impacts from KDP? Can you describe any success stories or positive examples from which others can learn?

According to your NGO team members, what are the weak points of the program? What do villagers and other program stakeholders cite as the weak points? What are recommendations for improving the program?

ANNEX E: SAMPLE WORKSHOP SCHEDULE FOR NGOS INVOLVED IN INDEPENDENT MONITORING

Sample Schedule for One-Week Orientation Workshop[1]

Time	Activity	Person-in-Charge
Day One		
08:30 – 9:00	Registration	
09:00 – 09:45	Opening: • Welcome remarks • Introductions • Review Agenda • Procedures for Workshop	PMD, NMC *Government* Provincial Coordination Team
09:45 – 10:30	KDP Orientation: Principles and Project Cycle	KDP Provincial Coordinator
10:30 – 10:45	Coffee Break	
10:45 – 12:00	KDP Orientation Continued Question & Answer session	KDP Provincial Coordinator, NMC
12:00 – 13:00	LUNCH	
13:00 – 14:00	KDP M&E System Overview	M&E Unit
14:00 – 14:30	Presentation by Association of Independent Journalists (AJI)	AJI
14:30 – 14:50	Coffee Break	
14:50 – 15:30	Question & Answer Session with AJI	AJI
15:30 – 16:00	Small Working Groups to discuss the day's presentations and answer questions	
16:00 – 17:00	Plenary to answer any general questions Evaluation of Day 1	M&E Unit NGO Coordinator
17:00	CLOSE DAY 1	
Day Two		
09:00 – 09:15	Review day's agenda and evaluations from Day 1	M&E Unit NGO Coordinator
09:15 – 10:30	Terms of Reference for NGO Independent Monitoring, Q&A	M&E Unit NGO Coordinator
10:30 – 10:50	Coffee Break	
10:50 – 12:00	Presentation by NGO currently undertaking monitoring: experiences and lessons learned	NGO
12:00 – 13:00	LUNCH	
13:00 – 13:15	Team game	KDP Trainer
13:15 – 15:00	Presentation of various types of monitoring tools, quantitative and qualitative Advantages & disadvantages Review four different M&E methodologies and techniques: • Direct observation • Informal Interviewing • Focus Group Discussions • Community Participatory Monitoring	M&E Unit
15:00 – 15:30	Coffee Break	
15:30 – 16:30	Small working groups – role play using different M&E techniques	
16:30 – 17:15	Plenary session – discussion of advantages and disadvantages of methodologies.	
Evaluation of Day 2	M&E Unit	

[1] One week was considered the minimum time needed for the initial NGO orientation. After the initial orientation, KDP provided additional training and meeting opportunities for the NGOs twice a year after they had gained field experience doing the independent monitoring. Additional sessions on monitoring tools and practicum should be included if time and budget permit.

ANNEX E: SAMPLE WORKSHOP SCHEDULE FOR NGOS INVOLVED IN INDEPENDENT MONITORING

Time	Activity	Person-in-Charge
Day 3		
09:00 – 09:15	Review of day's agenda and evaluations from Day 2	NGO Coordinator
09:15 – 10:30	Financial Reviews: Financial tips for non-finance people. How do we check simple book-keeping?	Head of NMC Financial Unit
10:30 – 10:50	Coffee Break	
10:50 – 12:00	Group exercises on financial review and checklists	NMC Financial Unit
12:00 – 13:00	LUNCH	
13:00 – 13:15	Team Game	KDP Trainer
13:15 – 14:30	Technical Reviews: Technical tips for non-engineers. What should we check in simple infrastructure projects?	NMC Engineer
14:30 – 15:00	BREAK	
15:00 – 16:30	Group exercises on technical review and checklists	NMC Engineer
16:30 - 16:45	Evaluation of Day 3	
Close Day 3	NGO Coordinator	
Day 4		
09:00 – 17:00	All day field trip to KDP field sites; practice different monitoring techniques	KDP Provincial Team
Day 5		
09:00 – 10:30	Discussion of field observations, sharing of general impressions, plenary and group sessions	NGO Coordinator
10:30 – 10:50	Coffee Break	
10:50 – 12:00	Review of reporting format and requirements for NGO monitoring, Q&A	M&E Unit, PMD Contracts Officer
12:00 – 13:00	Lunch	
13:00 – 13:30	Games	KDP Trainer
13:30 – 14:45	Development of workplans by NGO	NGO Coordinator
14:45 – 15:00	Coffee Break	
15:00 – 16:30	Sharing of individual workplans in plenary	NGO Coordinator
16:30 - 17:00	Any other business, establish tentative date & venue for next meeting	NMC
17:00 – 17:30	Official Closing Ceremony	PMD

ANNEX F: COMPLAINTS/GRIEVANCES DATABASE FIELDS

It is important that the Program establish a simple, password-secure database (in Access or another database program) to record complaints or problems being reported. Keeping a detailed, accurate account of each complaint is critical to facilitate follow-up action as well as program reporting. The Handling Complaints Unit should generate a monthly report listing complaints received and other key information as listed below. This report should be circulated to Project Senior Management, World Bank, and senior field staff. The following information fields are suggested:

1. Date complaint received
2. Location where problem occurred (province, district, sub-district…)
3. How the complaint was received (i.e., letter, telephone, field report, NGO,etc.)
4. Name of plaintiff (optional)
5. Contact information for plaintiff (optional)
6. Type of complaint. This can be divided into several categories: a) violation of principles or procedures; b) misuse of funds; c) improper intervention; d) force majeure; e) other
7. Brief description of complaint (text field)
8. Who should handle the complaint
9. Actions taken to respond to the complaint and dates
10. Status of complaint (in process, solved)
11. Date complaint or grievance was resolved

ANNEX G: TERMS OF REFERENCE FOR NMC'S FINANCIAL SUPERVISION AND TRAINING UNIT

I. BACKGROUND

The **Kecamatan Development Program (KDP)** is a Government of Indonesia effort to alleviate poverty in rural communities. KDP is a three-year program begun in 1998 through a World Bank loan (IBRD loan number 4330-IND) to finance village activities. KDP aims to strengthen kecamatan and village capacities and improve community participation by providing block grants directly to kecamatan and villages for small-scale infrastructure, economic and social activities. KDP works directly with village councils (LKMD or BPD) and kecamatan development forums (UDKP). KDP is supported by teams of facilitators and consultants from village to national levels who provide technical support and training.

Most importantly, KDP emphasizes the principles of *community participation,* especially for women and poor villagers, *transparency,* and *sustainability.* All KDP activities aim at allowing villagers to make their own choices about the kinds of projects that they need and want.

During its first year of implementation (1998-1999), KDP provided assistance to 501 kecamatan spread across 105 districts in 20 provinces throughout the country. In its second year, 2000/2001, an additional 269 kecamatan were added, covering over 11,325 villages.

As of mid-February 2001, KDP has disbursed a total of Rps. 671 billion (US$75 million) to kecamatan. While the government audit branch, the Finance and Development Supervision Agency (or *Badan Pengawasan Keuangan dan Pembangunan (BPKP))* is responsible for regularly auditing KDP, there still remains much to be done to strengthen local financial management, especially with the kecamatan financial units, UPKs (*Unit Pengelola Keuangan*) and economic loan groups, and to prevent the misuse of program funds. In its 1999 audit findings, BPKP found in general that administration and documentation were not sufficient in places they visited.

Furthermore, the National Management Consultants (NMC) completed a brief ten-day needs assessment in July and August 2000, and many UPKs requested additional training to improve their financial management skills and their understanding of KDP principles and financial reporting requirements. Thus for Year Three, the NMC will form a five-person roving team of accountants in a Financial Supervision and Training Unit within the NMC to coach and work together with UPKs and economic loan groups.

II. PURPOSE AND SCOPE OF THE FINANCIAL SUPERVISION AND TRAINING UNIT

The purpose of the Financial Supervision and Training Unit is: (1) to improve the financial skills of UPKs and economic loan groups; and (2) to check their financial and administrative records at the kecamatan and village levels.

Specifically, the Unit will:

Training:

- Review UPK financial records and provide guidance to UPK units on ways to improve their accounting and administrative skills. This includes the formulation of balance sheets and proper income statements;
- Train UPKs on ways to improve loan repayment and collection from economic groups;
- Improve the UPKs' capabilities to report on KDP transactions, especially to the UDKP fora (e.g, what should be reported, when, and how) and the community at large;
- Review financial records of the economic groups and provide guidance to the groups in recording their transactions.
- Provide recommendations to PMD and NMC on ways to improve the economic loan portfolio. This includes developing an understanding of how other village micro-lending activities are operating and providing some comparative analysis.

Supervision:

- Check UPK financial records for proper accounting, adequate documentation, contracts, bidding, unit prices of goods, and cost efficiency;
- Check bank statements and signature cards, all financial records and cashbooks, receipts, expenditure records for operational costs, and economic loan records;
- Ensure that documents have been properly signed and approved by appropriate parties;
- Check economic groups' records and sample individual borrowers' records of loan payment and repayment;
- Ensure that financial and contractual information is being shared with the community and has been posted on the information boards.
- Visit the project site to verify that the activity/subproject is actually in place.
- Participate in supervision missions to perform financial reviews.

Other:

- Coordinate with members of the NMC, including the Regional Managers and Handling Complaints Unit to monitor financial progress of kecamatan and follow up on supervision recommendations;
- Brief and debrief KDP provincial, district and kecamatan teams before and after missions.

The members of the Financial Training and Supervision Unit will travel to various KDP locations to provide training and check the financial records of UPKs and a select number of economic groups. The Unit will be a five-person roving team whose members will spend at least 75 percent of the time in the field. In general, the team should not overlap with kecamatan already visited by the government audit agency, BPKP.

Members are expected to meet with relevant actors in the field to explain their tasks and findings before and after missions. Along with the UPKs and economic groups, this includes meeting when possible with government coordination teams, PjOKs, KMProps, KMKabs, FKs, TTDs, and village management teams.

III. MANAGEMENT OF THE WORK

The NMC will form a Financial Training and Supervision Unit consisting of five persons trained in accounting. The M&E Advisor will supervise the Unit. The Unit will coordinate closely with PMD and the NMC's Regional Coordinators, Finance Unit, and the Complaints Resolution Unit for trouble-shooting in special situations where corruption or financial anomalies are reported.

After recruitment, the Unit will spend two to three weeks in Jakarta reviewing KDP documentation, UPK training materials and meeting with relevant PMD, NMC and World Bank staff for orientation. The Unit will also meet with BPKP to discuss BPKP's findings so far under KDP and their terms of reference and schedule for the upcoming year. During this initial orientation period, the Unit will design and agree upon operational procedures in the field, standard reporting formats, and their quarterly workplan.

IV. TIMING

This activity is expected to begin in March 2001, as soon as five qualified persons are recruited. The activity will continue until the end of KDP Phase One.

V. REPORTING

The team will brief and debrief KDP provincial, district and kecamatan teams before and after the field mission.

The general report format will be:

1. Introduction – Dates of the mission, timetable of visits, and list of mission participants
2. Specific location of mission and the number and names of districts, kecamatan and villages covered visited. Description of methodology and criteria used for site selection.
3. Main findings listed by kecamatan and village (reported in priority order)

4. Description of training provided by team members (topics covered, number of days, name of participants)
5. Recommendations for follow-up action.

Annexes including financial tables, matrix of cases, list of trainees, photos

The Unit will share its written mission reports with PMD, World Bank, NMC, relevant consultants in the field, as well as the provincial government coordination teams. The Unit will also organize meetings to discuss the reports with senior program management.

ANNEX H: TERMS OF REFERENCE FOR KDP FINANCIAL AUDIT

TERMS OF REFERENCE for the Audit of Special Purpose Project Financial Statements

Objectives

The overall objectives of the audit are: (i) to enable the auditor to express a professional opinion on the project financial statements, the operation of the overall financial management system including internal controls, and compliance with financing agreements; (ii) to provide project management with timely information on financial aspects of the project to enable follow-up action; and (iii) to assess on the achievements of project objectives as measured by performance indicators.

The audit should cover the entire project, i.e. covering all sources and application of funds by all implementing agencies. The auditor should visit the various implementation units and other agencies as considered necessary for the audit.

Scope

The audit will be carried out in accordance with International Standards of Auditing and with the Audit Manual for World Bank Financed projects (July 1998). It will include such tests and controls as the auditor considers necessary under the circumstances. Specific areas of coverage of the audit will include the following:

(1) an assessment of whether the project financial statements have been prepared in accordance with consistently applied Generally Accepted Accounting Principles (GAAP) and give a true and fair view of the operations of the project during the year and the financial position of the project at the close of the fiscal year. Any material deviations from GAAP, and the impact of such departures on the project financial statements as presented would be stated

(2) an assessment of the adequacy of the project financial management systems1, including internal controls. This would include aspects such as adequacy and effectiveness of accounting, financial and operational controls, and any needs for revision; level of compliance with established policies, plans and procedures; reliability of accounting systems, data and financial reports; methods of remedying weak controls or creating them where there are none; verification of assets and liabilities; and integrity, controls, security and effectiveness of the operation of the computerized system (if any), and

(3) an assessment of compliance with provisions of financing agreements, especially those relating to accounting and financial matters. This would interalia include verification that:

(a) all external funds have been used in accordance with the conditions of the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which the financing was provided.

(b) counterpart funds have been provided and used in accordance with the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes of which they were provided;

(c) expenditures charged to the project are eligible expenditures and have been correctly classified in accordance with the relevant financing agreement;

(d) goods and services financed have been procured in accordance with the relevant financing agreement;

(e) all necessary supporting documents, records, and account have been kept in respect of all project activities;

(f) clear linkages exist between the accounting records including accounts books and the Project Financial Statements;

(g) where Special Account has been used, it has been maintained in accordance with the provisions of the relevant financing agreement;

(h) statement of expenditures (SOE) used as the basis for the submission of withdrawal applications accurately reflect expenditures and activities on the project;

(i) project expenditures as reported by the project implementation agencies are reconciled with the amounts withdrawn from the Special Account and the amounts deposited to the special account are reconciled with the amounts disbursed from the IBRD Loan.

(4) an assessment on the achievements of the planned results of the projects as measured by the performance indicators as stipulated in the relevant financing agreement.

Project Financial Statements

Project Financial Statements prepared by the project executing agency would be based on the projects's Financial Monitoring Reports (FMR), and should include:

(a) project accounts, covering (i) Annual Project Expenditures and Financing; and (ii) Cumulative Project Expenditures and Financing. Sources of funds would show IBRD/IDA, other donors, and GOI counterpart funds separately. Project expenditures would be summarized by main project components, disbursement categories and by project location (province or district) both consolidated for the current fiscal year and accumulated to date.

(b) financial statement of special account, covering (i) deposits and replenishments received from the Bank; (ii) withdrawals from the special account; and (iii) the remaining balances at the end of the fiscal year

The auditor should provide an opinion as to the degree of compliance with the Bank's procedures and the exactitude of the balance of the Special Account at year-end. The audit should examine the eligibility and integrity of financial transactions during the period under review and fund balances at the end of the period, the operation and use of the special account in accordance with the financing agreement, and the adequacy of internal financial controls.

The auditor must assess a reconciliation report between the project expenditures made from the special account and the withdrawals from the special account. Reconciliation should also be made with the amounts paid from the pre-financing account and direct payments.

Statement of Expenditures (SOEs)

The auditor is also required to audit all SOEs (paid from the special account and/or other accounts) used as the basis for the submission of withdrawal applications. The auditor should apply such tests and control as the auditor consider necessary under the circumstances. These expenditures should be carefully compared for project eligibility with the relevant financing agreements, and with reference to the Project Appraisal Document for guidance when considered necessary. Ineligible expenditures identified as having been included in withdrawal applications and reimbursed by the World Bank should be noted separately by the auditor. The total withdrawals under the SOE procedure should be part of the overall reconciliation of Bank disbursements described above.

Audit Report

The audit report shall contain the auditor's opinion on the fairness of the project financial statements. The audit opinion should include a separate paragraph commenting on the accuracy and propriety of expenditures withdrawn under the SOE procedures and the extent to which the Bank can rely on SOEs as a basis for loan disbursement. The report should refer to the auditor's TOR.

The auditor should submit the report to the project executing agency who should then promptly forward one copy of the audited accounts and report to the Bank. It should be received by the Bank no later than six months after the end of the project's fiscal year.

Management Letter

In addition to the audit reports, the auditor will prepare a "management letter," in which the auditor will:

(a) give comments and observations on the accounting records, systems, and controls that were examined during the course of the audit; and identify specific deficiencies and areas of weakness in systems and controls and make recommendation for their improvement;

(b) give comments on economy, efficiency, and effectiveness in the use of resources;

(c) report on the achievement of the planned results of the project

(d) report on the degree of compliance of each of the financial covenants on the financing agreement and give comments, if any, on internal and external matters affecting such compliance;
(e) communicate matters that have come to attention during the audit which might have a significant impact on the implementation of the project, and
(f) any other matters that the auditors considers pertinent.

General

The auditor should be given access to all legal documents, correspondence, and any other information associated with the project and deemed necessary by the auditor. Confirmation should also be obtained of amounts disbursed and outstanding at the Bank.

The auditor should be familiar with the Bank's Audit Manual for World Bank Financed Projects which provide guidance to auditors conducting audits of World Bank financed projects.