MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

EVALUATION BRIEF | NOVEMBER 2018

PROMOTING GREEN GROWTH WITH GRANTS IN INDONESIA

Design and learning continued well into grant facility implementation

Program Overview

MCC's $474 million Indonesia Compact (2013-2018) supported sustainable economic growth through the $228 million Green Prosperity (GP) Project. GP primarily funded grants in Renewable Energy (RE) and Natural Resource Management (NRM) through the GP Facility (GPF). Its 72 grants funded projects in sustainable agriculture, off- and on-grid power, and peatland restoration. They were intended to increase productivity and reduce greenhouse gas emissions by reducing reliance on fossil fuels and improving land use practices and NRM.

MCC commissioned an independent performance evaluation by Social Impact (SI) to assess the design and implementation quality of GPF, and draw lessons to inform future grant programs. The study does not assess the results of GP. Full report results and learning: https://data.mcc.gov/evaluations/index.php/catalog/203

Key Findings

Evolution of Design

- The GPF was not well-defined upfront and its design was protracted and largely reactive. This delayed and shortened grant implementation.
- The GPF ended up being an innovative model that addressed Indonesian government priorities and provided access to donor finance to non-traditional groups.

Implementation Effectiveness

- With three months of implementation remaining, the GPF had disbursed 45% of 2014 funding plans. 85% of awarded grants continued to completion.
- The limited implementation timeframe and high operational costs diminished the GPF's potential cost-effectiveness.

Key Benefits & Challenges

- Grantees perceived GPF's requirements and standards, particularly environmental, to be beneficial for their capacity to take on future grants. GPF is linked to positive changes in the national and local policy and enabling environment.
- The high administrative burden and changing guidance from MCC and GPF managers led to significant delays in grant implementation.

Evaluation Questions

This performance evaluation was designed to answer the following questions about implementation.

1. How and why did the design of the GPF evolve over time? Was the GPF cost effective?
2. Is the GPF an effective model to achieve the objectives and/or delivery of grant funding? Why or why not?
3. What key results did the GPF have with respect to processes, policy, or sustainability?
4. What were the key successes, challenges, and lessons learned with respect to operationalizing the GPF at each stage of work?

Detailed Findings

Evolution of Design

MCC and Compact staff largely agreed that the design of GPF was reactive. Early on in the design period, the Facility encountered local legal issues in the type of financing it could provide and staffing issues that delayed development of an Operations Manual. With the protracted design period and the fixed timeline for implementation, respondents suggest that in the rush to disburse funding with the remaining time available, there was greater emphasis on making awards than on ensuring that the Facility was ready to finance projects with the appropriate policies and procedures. Furthermore, the foundational GP activity—Participatory Land Use Planning (PLUP)–encountered procurement issues and was implemented alongside the Facility instead of during Facility design. This impacted the project logic, as the Facility awards were intended to be informed by spatial certainty provided by PLUP's work. The Green Knowledge activity was also implemented in parallel, but without significant interaction with GPF grants.

Implementation Effectiveness

34%
of applicants received grants

85%
grant completion rate

45%
planned funding disbursed

- Awarded grants were generally aligned with the GP Project objectives, but the causal pathway linking funded activities with achieving targeted results was not always clear.
- The GPF saw substantial variation across funding windows in terms of disbursements, acceptance rates, and completion rates, with community NRM performing best and RE performing worst. Overall, 22% of expressions of interest were invited to submit a proposal and 26% of accepted proposals received grants. 85% of grants completed a project.
- Targets for GPF disbursement and results were revised throughout implementation to adjust for operating realities, making it challenging to assess overall implementation effectiveness. As of the time of the evaluation, the GPF was behind process, output, and outcome targets.
- GPF grants are projected to result in an annual GHG emissions reduction of approximately 1 million tons of CO2e, based on an independent, ex-ante estimation.

Policy Results & Sustainability

- Almost half of grantee respondents suggested that their project may have influenced policy change at the local level. The GPF introduced new models of ownership and benefit sharing to ensure communities benefitted from resources used to generate power. It is also perceived to have improved grant quality through the technical assistance and capacity building offered to grantees.
- The GPF was not designed to be sustained beyond the life of the Compact. However, 39% of grantees plan to continue to work in the same communities, and the majority of grantees plan to scale up the efforts of their projects to new communities.

Key Benefits

Environmental standards were regarded as largely beneficial to grantees and better prepared them to work with other donors

Community benefit sharing may increase prospects for sustainability of renewable energy

Local and national-level policy changes improved the enabling environment for green activities and grant making

Key Challenges

Financial reporting and disbursements were among the most stated challenges noted by GPF managers and grantees alike. Most complaints from grantees centered around the length of time required for administrative requirements and the changing guidance received from GPF managers or contractors, which resulted in implementation delays.

Mismatch between MCC's operational model and the GPF model

58% cite disbursement delays as a challenge

Cost Effectiveness

With roughly three months of implementation remaining, 53% of funds spent on GP overall had gone into the operation of the GPF, with the largest cost being the network of contractors hired to manage the GPF. Comparing the costs to run the GPF against grant funding disbursed, indicates that the GPF generated

Ratio of productive grant spending to GPF operating costs, by scenario

	Including PLUP costs in GPF spending	Excluding PLUP costs from GPF spending
Excluding co-financing from grant spending	$0.88	$1.09
Including co-financing in grant spending	$1.07 ($0.27 co-financing leveraged per dollar spent)	$1.46 ($0.37 co-financing leveraged per dollar spent)

between $0.88 and $1.46 of productive grant activity for every dollar spent on operations. The evaluation team was not able to identify a grant facility comparable in size or sectoral scope of GP against which to compare these costs, nor was it able to obtain cost data from other facilities, more generally, to serve as a benchmark.

MCC did not estimate an ex-ante economic rate of return (ERR) for the GP Project and instead required that each grant funded by the GPF demonstrate an ERR of at least 10%. The evaluation team reviewed a sample of the ERR spreadsheets to assess the appropriateness of the benefit streams and assumptions and found the modeling to be of varying quality, depending on the grant portfolio, i.e. RE models tended to have more credible assumptions than community-based NRM models.

MCC Learning

- **Focus:** Facilities must be focused, in terms of objective, scope/size, and strategy, to be viable
- **Test the Market Early:** Market analysis should be conducted very early in the program development process, to assess the potential pool of grantees and the size and characteristics of the addressable market
- **Standardize & Streamline:** Teams require standard tools, policies, and procedures for grant facilities that can support efficient start-up and prevent the loss of time for grant implementation
- **Sustainability:** Facilities should either be designed to have a future beyond the Compact, or should develop an exit strategy that ensures the knowledge generated by the facility has an appropriate off-taker
- **Evaluation:** To conduct this type of evaluation, which focuses on processes rather than concrete results, it is important to clearly define terms such as cost-effectiveness or efficiency in context. It is also critical for the project to have tracked detailed cost data and for the evaluator to be able to gain access to similar cost data from other facilities/funders

Evaluation Methods

The **evaluation was commissioned during the final year of project implementation** so as to draw lessons that could inform project closeout events and documentation. It assessed primary and secondary data to identify themes related to the evaluation questions. Mixed methods **data collection occurred from November 2017 to January 2018**, while the project closed on April 2, 2018, therefore financial and progress data reported are not final. SI interviewed **82 key informants** and held focus group discussions with **21 individuals**. The key informants included grantees, MCA-I staff, MCC staff, project management contractors for the GPF, Government of Indonesia representatives, and selected donors that also run grant facility projects in Indonesia. The team traveled to Jakarta, Yogyakarta, Bogor, Bali, Pontianak, Lombok, Jambi, Mamuju, and Makassar. It examined grant cost-benefit analyses, feasibility studies, grantee applications and scoring sheets, and theories of change to assess grant quality, alignment with GP objectives, and appropriateness of the benefit streams. SI also conducted an **online survey with 57 responses** among grantees and unsuccessful grant applicants.