



STAR REPORT **INDONESIA**

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MILLENNIUM
CHALLENGE CORPORATION

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The Star Report provides a comprehensive and accessible assessment of MCC's investments in a given country, builds on MCC's longstanding commitment to results and accountability, and is a go-to resource for policymakers, think-tanks, NGOs, and businesses alike. While MCC has produced Closed Compact Reports in the past, the Star Report offers a more complete narrative—from initial country selection by MCC's Board of Directors through final project evaluation—and highlights investment objectives, partnerships, policy reforms, results, and lessons learned.

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Rice fields are seen from the air outside Makassar, Indonesia.

Jake Lyell for MCC

EXECUTIVE SUMMARY

MCC's Board of Directors selected Indonesia as eligible to develop a compact in December 2008. With a population greater than all other MCC compact countries combined and an island geography spanning the same distance as from Miami, Florida to Juneau, Alaska, Indonesia was not a typical MCC partner country. As such, there was broad recognition at MCC that developing a compact with this strategic U.S. partner would be unique and challenging. Given Indonesia's large economy, sizeable population, and geographic expanse, the compact ultimately focused on innovation and opportunity for scale, allowing the Government of Indonesia (GOI) to tackle existing problems in innovative ways by using different standards and incorporating international best practices.

The compact included three projects. Through the Green Prosperity Project, the compact supported the GOI's commitment to improving natural resource management and maximizing opportunities for investment in renewable energy and sustainable agricultural practices, including through engaging and leveraging the private sector and other external resources. The Nutrition Project aimed to prevent and reduce chronic malnutrition by improving the capacity of health service providers and strengthening community health, sanitation, and education efforts, ultimately helping to shape the national conversation on nutrition. The Procurement Modernization Project piloted new procurement institutional and staffing arrangements and introduced a new digital system to help the GOI more efficiently and transparently procure goods and services.

Compact development and implementation faced challenges. At the start, none of the project concept papers initially submitted by the GOI met MCC's criteria for investment, and certain projects, such as Green Prosperity, were larger in funding and scope than MCC could realistically fund and indeed larger than many full MCC compacts. Additionally, the GOI was committed to leveraging the lessons from compact implementation to scale up interventions or change their own processes and policies. While this commitment was positive, it also led to additional bureaucratic obstacles that substantially delayed project implementation in some cases. As an example, it took over one year to develop a sufficiently accountable payment system to enable individual Ministry of Health (MOH) workers to attend trainings, in part because of a preference for using and improving MOH systems rather than outsourcing training and payments.

The overall commitment to improve existing systems did, however, lead to advances in the policy environment, particularly for the Nutrition Project and the Procurement Modernization Project. The progress at sub-national levels was even greater, with several local governments passing regulatory reforms and institutionalizing improved practices in public procurement through local parliament legislation.

MCC's Board of Directors approved the MCC compact with Indonesia in September 2011 and the \$600 million compact was signed on November 19, 2011. Approximately \$474 million (79 percent) of the Indonesia Compact was disbursed, with \$126 million unspent due to a slow start to implementation across the compact and with specific difficulties in launching the Green Prosperity Project.

THE GREEN PROSPERITY (GP) PROJECT

The objectives of the GP Project were to increase economic productivity through: 1) reduced reliance on fossil fuels by expanding renewable energy; and 2) reduced land-based greenhouse gas (GHG) emissions by improving land use practices and management of natural resources. The majority of the GP Project's investment was intended to occur through an adaptable and market-responsive GP Facility (GPF), a vehicle to provide grant financing to mobilize greater private sector investment and community participation in renewable energy and sustainable land use practices. The GPF was designed to identify and target projects that were ripe for implementation and/or scaling up in an evolving and dynamic market. The GPF also aimed to leverage private sector funds that would maximize the impact of compact funding and help improve sustainability beyond the life of the compact. To support the GPF and achieve project objectives, GP also strengthened the spatial planning and enforcement capacity of participating villages, districts, and provinces through the Participatory Land Use Planning (PLUP) Activity since understanding where land boundaries are and what land use is taking place within those

boundaries helps communities to plan and make informed decisions about managing natural resources.

Sixty-six GPF grants were completed, leveraging roughly \$28 million in private sector and other outside financing. The GPF achieved significant milestones, including:

- ★ Installation of 12.75 megawatts of new renewable energy generation capacity, MCC's largest renewable energy investment to date. The project also piloted new models in community-developed partnerships for off-grid electricity;
- ★ Training of more than 127,000 farmers, MCC's largest farmer training, certification, and technical assistance support program to date; and
- ★ The first MCC compact to sustainably certify independent small holder cocoa and palm oil producers with significant private sector co-financing. Certification schemes set out environmental and social standards and require farmers to meet improved farming practices and then monitor compliance through regular audits. Once farmers receive certification, they are able to sell beans at a higher price.

In addition, the GPF portfolio of investments supported peatland restoration to combat fires in degraded peatland, secured rights for community groups over communal forest lands, and encouraged community participation in land use planning. Special efforts were made to target training to reach poor and socially disadvantaged groups, including women and ethnic minorities, with over 43,000 women trained under the GP Project. Additional information on project results will be available from forthcoming independent evaluations.

THE COMMUNITY-BASED HEALTH AND NUTRITION TO REDUCE STUNTING PROJECT (NUTRITION PROJECT)

The objectives of the Nutrition Project were to reduce and prevent low birth weight and childhood stunting and malnourishment of children in project areas, resulting in increased household income through health cost savings, productivity growth, and higher lifetime earnings. In Indonesia, at the time of compact development, over one third of children under five were stunted.¹ This signals long-term malnutrition, which can have a major impact on children's lives, putting them at higher risk of chronic disease, delayed cognitive development, delayed enrollment in school, and reductions in future earnings. The Nutrition Project was conceived as a way to build community knowledge of and demand for health services that could combat stunting and strengthen the health system infrastructure at the local level to deliver these services.

¹ *Riskesdas 2007* (Riset Kesehatan Dasar - Basic Health Survey). Over one third of children under 5 in Indonesia remained stunted during the 2013 round of the *Riskesdas* survey, the year that the MCC compact with Indonesia entered into force.

The project design was based on the results of a 2011 rigorous impact evaluation, which found that an existing national project in Indonesia was delivering positive health and school enrollment impacts at the community level.² At the same time, qualitative data suggested that often communities that wanted services could not get them from their local health posts. The evaluation suggested that greater impacts might be possible if the “demand-generating” community empowerment and education activities were coupled with a “supply-side” set of interventions to meet this demand. Compact-funded interventions included community block grants and participatory technical assistance to communities, training for health service providers, sanitation and hygiene activities, provision of micronutrients to pregnant women, materials to measure children’s height, private sector interventions, and a behavior change communications campaign. Ultimately, the project trained over 17,500 service providers on proper feeding for infants and young children, distributed over 35 million iron folic acid tablets for pregnant women, and conducted over 4,200 community sanitation behavior change meetings in 64 districts.

While activity outcomes varied, the Nutrition Project formed a cornerstone for and supported a larger movement to increase awareness about stunting in Indonesia and to channel resources to address the problem. Similarly, the Ministry of Health has recognized the links between malnutrition and sanitation, and organized its offices accordingly. At the end of the compact, stunting had become a national priority for Indonesia, with national and local governments making public efforts to coordinate between sectoral agencies and leverage additional resources to tackle the issue.

THE PROCUREMENT MODERNIZATION PROJECT

At the time of compact development, the GOI did not recognize procurement as a specialized discipline. Instead, the purchase of goods and services was made by government personnel assigned to the task on an ad hoc basis. The GOI recognized that this public procurement system lacked consistency, governance, and expertise and was highly vulnerable to waste and abuse. The Procurement Modernization Project was designed to partner with the recently created National Office of Public Procurement (LKPP) to support implementation of newly enacted presidential decrees aimed at radically reforming the legal and institutional framework of procurement throughout the country.

The Procurement Modernization Project aimed to establish procurement as a professional function within the GOI and create a cadre of professional procurement officials with the appropriate skills, systems, processes, and operating standards to reduce costs and achieve efficiency in procurement, and provide procurement quality that met public needs and ensured timely delivery of services. Compact funds were used to establish

² Olken, Benjamin A.; Onishi, Junko; Wong, Susan. 2011. *Indonesia’s PNPM Generasi Program: final impact evaluation report (English)*. Washington, DC: World Bank.

dedicated procurement service units (PSUs) in a diverse set of government entities throughout Indonesia and to provide extensive training and support to nurture their organizational development. The organizational development program received strong support from LKPP and is expected to spread and be sustained to reach many more PSUs in Indonesia. By the end of the compact, high-capacity pilot PSUs were already sharing their knowledge with other PSUs.

As a condition of the compact, the GOI agreed to establish procurement as a functional position within government agencies. In support of this action, the Project developed and delivered 43 procurement and organizational skills training modules mapped to professional competencies focusing on building skills rather than on regulatory compliance, in order to enable the GOI to conduct more strategic, complex, and high value procurements within ministries and at the regional and district levels. Over 1,000 individuals participated in the training program, which also established local training institutions and developed local trainers. By the end of the compact, 24 percent of trained procurement specialists and staff of PSUs were women from a baseline of 19 percent, with four becoming PSU heads. The procurement skills training modules have been adapted by LKPP for use in the GOI competency requirements for procurement professionals across Indonesia.

The Procurement Modernization Project also helped develop and pilot new procurement policies, procedures, and model bidding documents for procuring public-private partnerships (PPPs), an important strategy for Indonesia to improve the poor condition of national infrastructure. The Project also provided research for the GOI to use as it adopts practices promoting environmentally and socially sustainable public procurement.

This Star Report for Indonesia provides a summary of the outputs of the compact program, documents changes in compact activities and the reasons behind them, details information on performance against targets in the monitoring plan, and summarizes the results of independent evaluations that have been completed. It also details relevant partnerships and learning as a result of compact investments. This Report includes the results of interim evaluations and will be updated to include data from nine independent final evaluations that are not yet complete.

COUNTRY CONTEXT

The MCC Board of Directors selected Indonesia as eligible to develop a compact in December 2008. At that time, it was the recipient of the then-largest MCC Threshold Program (\$55 million) with activities underway in e-procurement, child immunization, and judicial reform. Indonesia was also increasingly recognized as a key U.S. strategic partner. The administration of President Susilo Bambang Yudhoyono had proposed



that Indonesia and the United States enter into a Comprehensive Partnership, which was established in November 2010.³ With these windows of opportunity to improve relations, the U.S. government sought to bring significant resources to the new partnership. As Indonesia was developing its compact, another opportunity to reinforce the bilateral relationship emerged. When the U.S. made its pledges to the Copenhagen Accord in December 2009, Indonesia was recognized as a critical partner for climate action, and a potential MCC compact was viewed as a potential important contribution in this sector.

With a population greater than that of all other MCC compact countries combined, more than 17,000 islands spanning 3,181 miles from east to west and 1,094 miles from north to south, an independent, nationally-oriented government, and an expansive economy with large private and donor inflows, Indonesia was unlike any other MCC partner. In this context, MCC worked to ensure that its model and processes guided compact development and implementation. In order to satisfy MCC requirements and keep the compact development process moving forward, Indonesia tapped into an existing effort to analyze the critical constraints to inclusive economic growth by the Asian Development Bank, the Islamic Development Bank, and the International Labour Organization. The analysis identified three critical constraints to economic growth and poverty reduction: (1) inadequate and poor quality of infrastructure, (2) weaknesses in governance and institutions, and (3) unequal access to and poor quality of education.⁴ At the time, MCC's investment criteria did not require adherence to these binding constraints, and ideas that fell outside even these broad categories of constraints were raised by a variety of stakeholders.

³ The Comprehensive Partnership established a formal framework for enhanced bilateral cooperation in several areas. Details at: <https://obamawhitehouse.archives.gov/the-press-office/2010/11/09/joint-declaration-comprehensive-partnership-between-united-states-america>. Viewed October 24, 2018.

⁴ Asian Development Bank (2010), *Country Diagnostic Studies, Indonesia: Critical Development Constraints*. See page 86, Summary, for a statement of the three identified critical constraints to inclusive economic growth.

The GOI consultative process socialized the preliminary results of the constraints analysis and solicited concept notes for projects at 11 regional meetings and one meeting with the private sector in Jakarta. The process resulted in 388 project proposals from individuals, NGOs, private companies, and local governments. A steering committee of notable Indonesians from government, NGOs, the private sector, and academia oversaw the winnowing and consolidation of these proposals into 13 concept papers. While none of the submissions initially met MCC's criteria for investment, the GOI and MCC agreed to move forward with three themes for project development that had come through strongly in the consultative process and in the concept papers themselves: energy and the environment, access to basic services (education and health), and bureaucratic reform/governance. From these three themes arose the three projects that ultimately comprised the compact: Green Prosperity, Community-based Health and Nutrition to Reduce Stunting, and Procurement Modernization.

Since many promising project ideas emerged through the inclusive consultative process and the steering committee consolidated multiple small projects under thematic umbrellas, the GOI had strong expectations that a diverse set of projects could be funded. A desire to move such a varied set of projects forward greatly impacted the design and breadth of the compact. These expectations played a major role in the design of the Green Prosperity Project, which ultimately funded activities as diverse as female agricultural entrepreneurship, methane capture power generation, vocational education for renewable energy technicians, and participatory village boundary setting—a single project that had a greater breadth of activities than some of MCC's other compacts in their entireties. Similarly, knowing that an MCC compact would be monetarily small in scale compared to Indonesia's own public spending, compact development focused on identifying activities that could later be scaled up by GOI or other partners, should their success be demonstrated. Both the GOI and MCC understood that this complexity and innovation would lead to longer project timelines and identified early on the completion risks associated with this approach.

During compact development, the GOI and MCA-Indonesia (the accountable entity responsible for implementing the compact) conducted a wide array of additional consultations with relevant government agencies, donors, private sector, civil society and communities to inform compact-wide and project-specific Environmental and Social Management Systems (ESMS) and a Social and Gender Integration Plan (SGIP). Implementation of the ESMS and SGIP helped ensure adherence to MCC's Environmental Guidelines and promote the access of women and disadvantaged groups to projects and benefits. MCC's Board of Directors approved the MCC compact with Indonesia in September 2011 and the compact was signed on November 19, 2011.

COMPACT AT A GLANCE

Compact Agreement

<https://assets.mcc.gov/content/uploads/2017/05/compact-indonesia.pdf>

Final Performance Indicators

https://assets.mcc.gov/content/uploads/Indonesia-KPI-FY18-Q2_Closeout-2.pdf

M&E Plan

<https://assets.mcc.gov/content/uploads/Indonesia-Compact-ME-Plan.pdf>

Constraints Analysis

https://assets.mcc.gov/content/uploads/2017/05/Indonesia_CA_withCover.pdf

Post-Compact M&E Plan

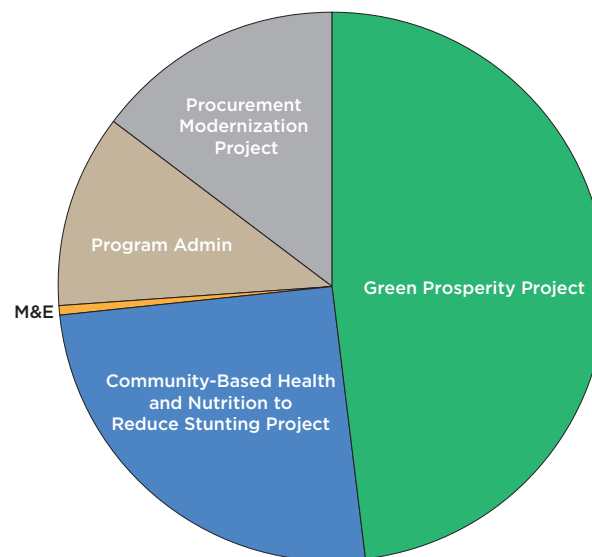
<https://assets.mcc.gov/content/uploads/IDN-Post-Compact-ME-Plan-June-2018.pdf>

Original amount at compact signing

\$600.0 million

Amount spent

\$474.0 million



Green Prosperity Project	\$228,020,661
The Community-Based Health and Nutrition to Reduce Stunting Project	\$120,367,345
Procurement Modernization Project	\$69,173,160
M&E	\$3,035,043
Program Admin	\$53,434,408
Total	\$474,030,618

GREEN PROSPERITY PROJECT

Original Compact Project Amount at Signing	Total Disbursed
\$332.5 million	\$228.0 million

PROJECT SUMMARY

Indonesia's constraints analysis identified a lack of infrastructure as its primary development constraint, noting that:

“Deficiencies in...electricity supplies are a particular concern. The electricity sector is characterized by a low electrification rate, low consumption, and high inefficiency in transmission and distribution. Moreover, investment in generation, transmission, and distribution has not been able to keep up with growing demand, resulting in power shortfalls.”⁵

The analysis also found that “the current pattern of growth is putting increasing pressure on the environment and natural resources, posing significant risks to both economic growth and poverty reduction in the long run.” The constraints analysis identified some of the barriers to investment in these areas, including inefficiencies in spatial planning and weak human and institutional capacity. Furthermore, the consultative process identified a keen interest from the private sector and civil society to engage in and support a project that appreciated the challenges and opportunities for green growth in targeted areas of Indonesia, including renewable energy.



Junior electrical technicians, inspect and maintain solar panels on Karampuang Island, Indonesia, which were installed as part of the Green Prosperity Project.

Jake Lyell for MCC

5 Asian Development Bank (2010), *Country Diagnostic Studies, Indonesia: Critical Development Constraints*.

Thus, the objectives of the Green Prosperity Project were to 1) increase productivity and reduce reliance on fossil fuels by expanding renewable energy; and 2) increase productivity and reduce land-based greenhouse gas (GHG) emissions by improving land use practices and management of natural resources. These objectives supported low carbon economic development and the protection of natural capital to increase household incomes in project areas, addressing critical challenges to economic growth while supporting the GOI's commitment to a more sustainable, less carbon-intensive future.

The GP Project was comprised of four discrete activities:

	Activity		Revised Compact Allocation	Final Disbursements
1	Participatory Land Use Planning	Administrative boundary setting; updating and integration of land use inventories; enhancing spatial plans at the village, district, and provincial levels; peatland mapping	\$43.1 million	\$38 million
2	Technical Assistance and Oversight	Technical assistance to project sponsors and community groups; program management support needed to implement the GPF; GHG emission reduction estimations	\$62 million	\$57 million
3	Green Prosperity Facility (GPF)	Grant financing for renewable energy, peatland restoration, sustainable agriculture, and natural resource management projects	\$192.6 million	\$123 million
4	Green Knowledge	Grants for technical assistance to build local, provincial, and national capacity to advance Indonesia's low carbon development strategy	\$15 million	\$10 million
	TOTAL		\$312.7 million	\$228 million

PARTICIPATORY LAND USE PLANNING (PLUP) ACTIVITY

Understanding where land boundaries are and what land use is taking place within those boundaries can help communities to plan and make informed decisions about managing natural resources. As such, the GP Project aimed to strengthen the spatial planning and transparency of land use decisions made in participating villages, districts, and provinces through the PLUP Activity. With greater spatial certainty, communities completing the PLUP Activity were expected to benefit from improved tenure security and related increases in ability and willingness to protect and invest in their land and natural resources. The PLUP Activity inverted the traditional Jakarta-led approach to mapping by actively involving the community, in direct collaboration with the local government, in the collection of geospatial data on land and natural and cultural resources.

The PLUP Activity developed and implemented a novel approach for determining and setting administrative village boundaries by combining government regulations with community participation, international best practices, and use of geospatial technologies, including global positioning systems, geographic information systems, and unmanned aerial vehicles with the aim of producing boundaries that would both earn social legitimacy and acceptance and maintain government authority. This innovative approach for village boundary setting was documented through a ‘Village Boundary Setting/Resource Mapping Guidelines’ and widely disseminated to national, district, and village governments as well as international donors like the World Bank and Asian Development Bank to foster and guide further use of the approach throughout Indonesia.⁶ As a direct result of the PLUP Activity, two district governments, Pesisir Selatan in West Sumatra and Lombok Tengah in West Nusa Tenggara, organized an effort to self-fund participatory village boundary setting using a combination of district and village budgets in late 2018 after the compact concluded. Customized versions of the MCC-funded PLUP Activity were implemented in all the districts where GP grants were made.

The PLUP Activity trained 1,535 village representatives in various aspects of village boundary setting and mapping of community resources. Additionally, the PLUP Activity trained 2,891 government technicians in the integration, management, and exchange of geospatial data for land use planning, permitting, and licensing. It provided 18 districts, 27 sub-districts, and 363 villages with improved spatial certainty by piloting a local-level-up-to-national-level approach to participatory village boundary setting and resource mapping. Definitive boundaries of 256 villages were formally accepted and registered in the official Ministry of Home Affairs village registry. This work and the associated learning ultimately fed back into the refinement of the GOI’s One Map Policy, which makes land and natural resource information widely available across national government agencies and to the general public. The Activity collected 16 terabytes of

6 <http://www.mca-indonesia.go.id/assets/uploads/pubs/PanduanTeknis%20PPB%20Des%20MCA-Indonesia%20Final.pdf>

geospatial data across Indonesia, making it available to the public through internet-based geo-portals. Of particular note is the contribution of PLUP Activity learning in the application of Free Prior and Informed Consent as a key step in the Village Boundary Setting/Resource Mapping process and in the participation of customary communities in the collection of geospatial data. MCA-Indonesia presented this experience at the AMAN (Association of Indonesian Customary Communities) national workshop in March 2018 and delivered all the relevant geospatial data to the Indonesian Ancestral Domain Registration Agency. The PLUP Activity also installed an integrated system for managing land use and natural resource licensing and permitting data in 40 districts and 11 provincial land use planning offices.

GREEN PROSPERITY FACILITY (GPF) ACTIVITY

In light of the interdependent, multi-sectoral constraints identified during compact development, the majority of the GP Project's investment occurred through an adaptable and market-responsive grant facility, the Green Prosperity Facility, which provided grant financing to mobilize greater private sector investment and community participation in renewable energy and sustainable land use practices. Project- and compact-level objectives required GPF investments to increase economic productivity, improve livelihoods, and credibly demonstrate a net reduction in GHG emissions. The GPF Activity implemented multiple, sequenced solicitations designed to identify projects that were ripe for implementation or scaling-up in an evolving and dynamic market.⁷

The Activity also aimed to leverage private sector funds to maximize the impact of compact funding and help address sustainability issues as early as the project design phase. Flexibility in timing and targets of solicitations allowed the project to address emerging priorities in areas such as peatland restoration and support independent smallholder producers as a key component of avoided deforestation, and to expand geographic scope to encourage a larger quantity and better quality of project proposals. GPF activities and investments were grouped into two main portfolios: renewable energy (on- and off-grid) and natural resource management (sustainable agriculture, peatland restoration, and improved land use planning and natural resource management).

The GPF Activity solicited grant proposals through five intake windows: two rounds of partnership grants, commercial on-grid renewable energy, community off-grid renewable energy, and community-based natural resource management. From April 2014 to February 2016, GPF grantees were selected from a pool of more than 600 proposals using a demand-driven, competitive, and transparent process, incorporating international best

⁷ For further detail on the evolution of the GPF Activity, please see the *Green Prosperity Facility Evaluation* referenced and linked below in this report.

practices for social, environmental, and project design. A total of 66 full project grants were awarded and completed.

Three of the five intake windows (the two rounds of partnership grants and on-grid renewable energy) included evaluation criteria and requirements related to project sponsor co-financing contributions, with the objective of catalyzing private sector investment by providing viability gap funding, de-risking and supporting project preparation costs, and supporting rapid scale-up of viable models. The community off-grid renewable energy window required community contributions, and the community-based natural resource management window made small grants without counterpart contribution requirements. By compact end, the GPF funds were combined with approximately \$28 million in private sector co-financing and outside resources, with almost 90 percent of that coming from the partnership grants and commercial renewable energy intake windows. The GPF also provided \$10.8 million in technical assistance grants to project sponsors to finance project preparation and pre-construction activities for 47 separate project proposals, mostly related to on- and off-grid renewable energy. Fifteen grants were terminated midway (during project preparation phase) as MCA-Indonesia determined that the project itself would not be completed during compact implementation. In order to follow up on projects that did not move forward due to compact timeline limitations, during the last few months prior to compact end, a matchmaking task was undertaken by MCA-Indonesia with the objective of finding investors.⁸

The original plan was for the GPF to award and administer grant funding over a four year period with three to three and a half years preserved for project implementation. The actual timeline for grantees, however, gave the majority much less time than three years to deliver projects, with some having to complete activities in only 18 months. The shortened GPF timeframe resulted from a series of challenges early in implementation, most notably a pivot by the GOI. At the time of compact signing, the National Development Planning Agency (Bappenas) intended that the GPF would be able to make loans as well as grants, a request that was ultimately denied by the Ministry of Finance. Despite MCC's usual practice, this compact was not ratified by the Indonesia legislature and did not have the status of Indonesian law.⁹ This meant the compact agreement could not prevail over the Indonesian regulations that prevented MCA-Indonesia from issuing loans. This change, along with initial poor project management and slow implementation of the unique funding structure, meant that the GP Project stalled during its critical launch phase. Despite having specifically identified this issue as a risk in its own investment documents, MCC was not able to accelerate implementation within MCA-Indonesia until a significant reset in management structures and resources by both MCC and

⁸ The matchmaking process has been somewhat successful. Several letters of agreement were signed and other "process" milestones reached. But, the GOI unit tasked with monitoring these outcomes has not yet delivered any satisfactory reporting covering this information.

⁹ MCC's standard practice is to have compacts ratified or approved by the partner country's legislature.

MCA-Indonesia in late 2014—more than a year and a half after the compact entered into force. This was the largest grant-making facility for MCC to date, bringing experience and learning that should inform decision-making at MCC for years to come.¹⁰

Renewable Energy Portfolio

When the compact entered into force in 2013, there were about 48.5 million people (20 percent of Indonesia's population) without access to electricity. Many of them reside in households in difficult-to-access remote areas or on small islands. They typically use kerosene for lighting, biomass for cooking, and small diesel generators for a couple of hours in the evening. These forms of energy are not only expensive, they emit unhealthy and environmentally dangerous fumes and GHGs. The National Energy Policy adopted by the GOI in 2014 set ambitious goals to achieve a 100 percent electrification rate by 2020; a 23 percent share of renewable energy power generation by 2025; and a 29 percent reduction in GHG emissions by 2030. MCC's investments in renewable energy projects supported these objectives by funding partnerships between private developers and local communities to build and operate new generation plants and mini-grids using renewable energy resources with no or little GHG emissions. These new energy sources would provide 24-hour electricity service to the nation's most underprivileged populations.

GPF provided approximately \$62 million in grant funding for 28 renewable energy projects (solar, hydro, and bioenergy). These projects created 12.73 MW in new generation capacity through four on-grid projects generating 8 MW and 24 off-grid projects generating 4.73 MW—the largest MCC-completed investment in renewable energy generation and in off-grid energy production and distribution (or mini-grids). Through these projects, 9,095 electricity connections were made, including 2,622 households who were provided with a lighting or cooking source fueled by renewable energy through GPF-funded projects. Almost \$11 million was leveraged from private sector partners and developers in these renewable energy projects by the end of the compact, with another \$2.3 million in commitments to follow after compact closure to complete the off-grid community operations components.

The shortened timeline limited the GPF's ability to fund micro-hydro projects, which represented the bulk of the incoming proposals in the commercial, on-grid renewable energy category, using a technology that tends to have a lower cost than other renewables. However, in addition to new generation capacity and connections, notable accomplishments of the Renewable Energy Portfolio include:

¹⁰ See the MCC Learning section for details about what lessons MCC took from implementing the GPF and how the agency is actively applying them to current and future facilities.

- ★ Piloting new models in community ownership and management by establishing legal entities in remote rural locations with the majority share of ownership of the power utility going to the community with the aim of enhancing sustainability.
- ★ Investing, on a cost-share basis, in three palm oil mills to install methane capture systems from palm oil mill effluent (POME) for electricity generation, demonstrating the recovery and use of biogas from POME as one potential strategy for the GOI to meet both their renewable energy targets and GHG emission reduction obligations.

Natural Resource Management Portfolio

As Indonesia's post-independence economic growth has been largely predicated on the capitalization of the country's rich and varied natural resource base, sustainable management of these resources has emerged as the highest of priorities for GOI. One third of Indonesia's labor force is engaged in agriculture and independent smallholders produce about 40 percent of the country's palm oil and nearly all of the country's cocoa, coffee, and rubber, Indonesia's most important export commodities. Thus, support for Indonesia's 11 million independent smallholder farmers and promotion of sustainable agriculture practices that both increase incomes and reduce pressure on critical natural resources is a focus of the GOI.¹¹ Low productivity leads independent smallholders to search for new lands, mostly forests, to clear and burn, releasing significant amounts of GHGs.

The GPF provided almost \$62 million in grant funding for 60 natural resource management projects that leveraged an additional \$15.4 million in private sector resources and co-financing targeted at sustainable agriculture, peatland restoration, improved land use planning, and natural resource management. Almost 40 percent of the total GPF investments in the natural resource management portfolio supported sustainable cocoa and palm oil partnerships to scale up and pilot new approaches with another \$9 million in commitments by December 2018. This additional funding represented the remaining co-financing by the cocoa and palm consortia to continue funding project activities after MCC's investment closed. In addition, significant resources were provided to local NGOs to support GOI and community priorities in peatland restoration, sustainable palm oil production, and community-based natural resources management, including small-scale sustainable agriculture interventions in rubber, coffee, patchouli, and rice.

11 FAO's Data Portrait of Smallholders. <http://www.fao.org/family-farming/data-sources/dataportrait/farm-size/en/>

Sustainable Cocoa: Scaling up with Private Sector Co-Financing

Cocoa is one of the most important commodities produced in Indonesia, with around 1 million independent smallholder farmer households dependent on the crop for their livelihoods. To address the challenge of falling productivity and economic returns in the cocoa sector, GPF prioritized catalytic private sector investment that promoted sustainable and less carbon-intensive economic growth among independent smallholder cocoa farmers. The grants scaled-up ongoing, industry-supported technical assistance and training activities in improved and sustainable production and land use practices and increased supply of quality agriculture inputs. Because of changing market dynamics, including the increased importance of farmer certification and supply chain traceability, the program included independent smallholder farmer training and support for sustainable farmer certification with the expected outcomes of increased farmer productivity and premiums paid to farmers as well as improved cocoa bean quality. In addition, MCC-supported cocoa investments supported activities aimed at increasing independent smallholders' access to finance and markets.

Eleven multinational and Indonesian cocoa industry companies participated in and contributed to these partnerships, including three U.S. multi-nationals. Despite often being competitors, these companies worked together to achieve common objectives that benefitted both individual company supply chains and independent smallholder cocoa producers. The private sector is applying the experience and lessons learned from cocoa to improve sustainability in other supply chains, such as palm oil.¹²

GPF and its partners invested \$26.6 million in the four projects in the sustainable cocoa portfolio—\$16.0 million from GPF and \$10.6 million from private sector partners—with an additional \$5.2 million co-financing commitment to be disbursed by December 2018.¹³ Investments reached roughly 74,000 cocoa-growing households and nearly 62,000 hectares across 24 districts in the six main cocoa producing provinces of Indonesia, significantly scaling up industry-led activities and reaching nearly 10 percent of all Indonesian cocoa farmers.¹⁴ As part of climate-smart and environmentally sound production practices, over 5.7 million shade trees were planted, resulting in an expected GHG emissions reduction of over 460,000 tons of CO₂-equivalent/year.¹⁵ Using co-financing commitments made after the end of the compact, project implementers are expected to reach a total of 90,000 cocoa farmers and 80,000 hectares by December 2018.¹⁶

¹² This refers to the CocoaTrace technology / app which is now being used for Palm Oil as well. Learn more here: <https://koltiva.com/#aboutus>

¹³ MCC is waiting for information from the Government of Indonesia to verify this statement.

¹⁴ FAO, "Small Family Farms Country Factsheet – Indonesia," <http://www.fao.org/3/i8881en/I8881EN.pdf>.

¹⁵ It is important to note that because the GP Project funded 66 grants under the GPF Activity, it was not possible to verify the data above in the same way that MCC normally does for a project. The data above were reported by grantees/implementers, which is standard; but the standard of evidence for accepting their reports was lower than for normal MCC projects because it was not possible to closely monitor activities of each grantee.

¹⁶ MCC is waiting for information from the Government of Indonesia to verify this statement.

Sustainable Palm Oil: Building on the Cocoa Experience

The palm oil industry is the largest driver of Indonesia's agricultural economy. In 2016 the country led the world in palm oil exports, accounting for 52 percent of all palm oil exports and contributing \$14.4 billion to the country's economy. Almost one million independent smallholder palm oil farmers account for about 35 percent of the country's palm oil production. GPF supported a portfolio of six projects that worked with seven Indonesian palm oil mills and their independent smallholder supply bases to catalyze and scale-up private sector efforts to promote sustainable palm oil production. Over \$10 million in investments—almost \$6.5 million from GPF and an additional \$3.6 million from private sector partners—directly supported technical assistance and training activities for nearly 12,000 independent smallholder farmers. These investments supported their efforts to achieve certification and continued market access, and resulted in the world's first five independent smallholder cooperatives to gain International Sustainability and Carbon Certification. In addition, GPF investments included \$4.2 million in technology and systems in three of these mills to install methane capture systems to use POME for electricity generation.¹⁷

Peatland Portfolio: Paving the Way for Improved Peatland Management

In the period 2000 to 2010, over 2 million hectares of peatland forest in Indonesia (20 percent of the base) were deforested and/or drained (often referred to as “degraded”). This pattern of peatland loss continues today, and many of Indonesia's most significant peatlands are now severely degraded. This process of degradation usually begins with the extraction of marketable timber. The deforested area is then drained to make the land suitable for establishing palm oil or pulpwood plantations. Drained peatlands dry out and subside and are subsequently affected by fires in the dry season and floods in the wet season. In 2015, wildfires caused more than 2.6 million hectares of peatland to burn, resulting in more than IDR 221 trillion (1.9 percent of GDP) in damage and releasing tremendous amounts of GHG, an estimated 14-16 million tons of CO₂-equivalent – more than the daily emissions from the entire US economy – each day at their peak.

These catastrophic fires provided a dramatic illustration of the importance of sustainable peatland management. In response, the President of Indonesia issued a Presidential Regulation to establish a Peatland Restoration Agency (Badan Restorasi Gambut, BRG). The GP Project supported this new GOI priority by funding a \$12.4 million portfolio of peatland related projects—two partnership grants, two support contracts, and one smaller community-based grant. This portfolio focused on rehabilitating drained and fire-prone peatlands, supporting alternative livelihoods for communities near peatlands,

¹⁷ POME investments also covered under the renewable energy portfolio section.

and building capacity for sustainable peatland management within local and national government entities. Through the GPF investments, 253,559 hectares of peatland were mapped and 232 dam structures were designed, constructed, and placed in canals to re-wet drained peatland. This doubled the number of dam structures constructed by the GOI and demonstrated the proof of concept that large scale canal blocking (and re-wetting) through community consent is possible. The investment also aimed to increased GOI capacity to manage peatland for years to come.

At the end of the compact, preliminary modeling estimated potential GHG emissions reductions for the 66 projects GPF supported at approximately 1 million tons of CO₂-equivalent per year, or the equivalent of 2.3 million barrels of oil consumed per year or 1.1 billion pounds of coal burned per year. Of those estimated reductions, 94 percent are attributed to natural resource management projects, including sustainable agriculture.

GREEN KNOWLEDGE ACTIVITY

The Green Knowledge Activity was designed to award grants focused on workforce development, skill acquisition, capacity building, and knowledge dissemination related to one or more areas of the GP Project. In early 2014, MCA-Indonesia competitively selected and awarded seven grants. Six grants were completed and supported projects that facilitated the collection, application, and dissemination of knowledge to build local, provincial, and national capacity to advance Indonesia's low carbon development strategy.¹⁸ MCA-Indonesia worked with several grantees to design a Green Knowledge management information system to showcase for the public Green Prosperity Project results and make available knowledge products such as training and certification manuals and modules, databases, technical designs, maps and feasibility studies, and portfolio-level lessons learned.¹⁹

TECHNICAL ASSISTANCE AND OVERSIGHT ACTIVITY

Initially conceived to help project sponsors develop marketable projects that could be funded by the GPF, the Technical Assistance and Oversight Activity allocated funds to hire a program management consultant and a separate grant administration team that provided technical resources for the solicitation to support MCA-Indonesia, review, due diligence, and selection process for the five windows of the GPF. The process in its entirety took 12-18 months, depending on the solicitation, and required significant resources not anticipated in the original design and budgeting. This resulted in

¹⁸ Brief summaries of the grants can be found at: <http://www.mca-indonesia.go.id/en/project/green-prosperity/grant/green-knowledge-grant>. Viewed October 24, 2018.

¹⁹ The Green Knowledge Management Information System can be accessed at: <https://forum-greenknowledge.ipb.ac.id/>. Viewed October 24, 2018.

approximately \$40 million of this budget item going for consultants to support MCA-Indonesia as the GPF Facility Manager.²⁰

GENDER AND SOCIAL INCLUSION, WOMEN'S ECONOMIC EMPOWERMENT, AND ENVIRONMENTAL AND SOCIAL PERFORMANCE IN THE GP PROJECT:

Each GP grantee was required to conduct a Landscape-Lifescape Analysis (LLA), a participatory methodology developed by MCC that integrates environmental, social, and gender tools to understand the three-way interaction between the local environment, communities, and proposed project. Since project performance depended on sustainable use of natural resources and addressing existing local factors such as inequality, jealousy, and potential tensions between communities; the integrated LLA methodology helped grantees identify potential risks, develop mitigation strategies and provide opportunities to improve or adjust their projects to achieve results. LLA findings also helped MCA-Indonesia and MCC to better appraise the realities on the ground and oversee grantees according to their needs.

Findings of the LLA also informed project-level Social and Gender Integration Plans (P-SGIPs) and Environmental and Social Management Systems required for all GP grantees, which included actions and budgets to increase access and opportunities for the economic empowerment of women and disadvantaged groups and ensure compliance with IFC Performance Standards, respectively. GPF also provided \$2.2 million in targeted grants for women-owned organizations within the Natural Resource Management window to five women's organizations and coalitions to enhance their approaches, capacity, and competitiveness in the low carbon economy.

By the compact's end, over 43,000 women were trained in improved skills in sustainable agriculture, value and supply chain development (especially regarding agricultural commodities and non-timber forest products in social forestry), natural resources management, renewable energy, and eco-tourism. The MCA-Indonesia Gender Team reviewed and selected 15 grants with good quality P-SGIPs and entrepreneurship components, and hired an expert to provide additional trainings to women participants and cooperative members in financial management, entrepreneurship, value chains, business development, and marketing to enhance their ability to establish or expand profitable businesses. Most of these women were from the poorest groups and ethnic minority communities. Compact funds were provided to form or expand cooperatives and enterprises, as well as to establish savings and loan facilities, which were managed by these women to maintain their access to finance and increase productivity.

²⁰ For further explanation on the administrative costs associated with the GPF Activity, please see the *Green Prosperity Facility Evaluation* referenced and linked below in this report.

At the end of the compact, MCA-Indonesia conducted an assessment of these 15 grants in order to capture lessons on whether women's economic empowerment activities undertaken by these projects helped to promote the desired outcomes, especially an increase in economic opportunities, productivity, market access, changes to gender norms, and other changes at the local level.²¹ Anecdotal evidence from this assessment indicated that women's increased participation in outside training and work, and gender training provided to both men and women promoted a gradual reversal of gender roles, norms, and traditional patriarchal attitudes and behaviors that were observed in households and communities. There are indications that many women have become successful entrepreneurs and business owners, especially in food production, artisanal salt making, and traditional high value handicraft production.

ECONOMIC ANALYSIS OF GREEN PROSPERITY

It was not possible to calculate a project-level, ex ante economic rate of return (ERR) for the entire project prior to implementation due to several factors. First, the Green Prosperity (GP) Project included a component to disburse small grants which covered roughly 54 percent of the total GP Project budget, and ERRs for these individual grants were typically not known in advance. Second, it was unclear what counter-factual to use for a grant facility with many project types included and without an understanding of what market failures the grant types were intended to solve. In addition, data and evidence were unavailable to estimate the impacts of the Participatory Land Use Planning (PLUP) and Green Knowledge activities. However during compact development, MCC due diligence consultants did conduct ERRs for example projects for the anticipated pipeline based on feasibility study-level information.

Throughout implementation, MCA-Indonesia estimated ERRs for all short-listed proposals using data provided by grant applicants. The cost-benefit analysis models were reviewed by the MCC economist and every proposal ultimately selected for funding had an estimated ERR above the 10 percent threshold. Based on these models, MCA-Indonesia estimated that the GP-financed grants would reach up to 291,637 beneficiaries and yield net present-value benefits up to \$1.09 billion over the 20-year projects' lifetimes under the assumptions of the initial proposals. Later, as grant agreements were amended to allow for a change in scope and/or results of detailed engineering designs, the net benefits of the GPF were not recalculated to reflect these changes in scope and project selection. However, these changes suggest that benefits have fallen below the initial \$1 billion estimate.

²¹ MCA-Indonesia (2018) Policy Study to Promote Economic Opportunities for Women and Vulnerable Groups in Indonesia Low Carbon Economy, Jakarta Indonesia.

PROJECT SUSTAINABILITY

The GP Project relied on both strong partnerships with the GOI and a model of private sector partnerships and leveraging to promote the sustainability of compact investments. For the PLUP Activity, compact investments directly fed into the GOI's One Map policy refinements.²² MCA-Indonesia also signed a memorandum of understanding with the National Geospatial Data Agency that committed the agency to updating and maintaining all 40 PLUP district-level geospatial data collected during the compact.

The focus on blending compact funds with private sector and other resources to enhance sustainability was prioritized in the design phase of the GPF, articulated in calls for proposals for all in-take windows, and maintained as a key feature in the selection process. The GPF awarded grants to projects that prioritized and fostered partnerships with the GOI, the private sector, other donors, and regional vocational training institutions. By the compact's close, GPF leveraged \$28 million in private sector funding from its \$123 million in grant funding.

Consistent with the compact's pilot-and-scale approach, some partnerships with government institutions under the GPF have been more successful than others. Relations with the Ministry of Environment, which became the Ministry of Environment and Forestry in 2016, were productive and led to keen GOI interest in innovative solutions created under the compact to address the often unique environmental permitting and social analysis needs presented by GPF activities. For GPF's renewable energy projects, the Ministry of Energy and Mineral Resources (ESDM) and the National Electricity Company (PLN) had no formal agreements in place with MCA-Indonesia. ESDM had been an on-again, off-again interlocutor as the ministry shifted direction multiple times to meet ambitious energy expansion targets.

A strong partnership with PLN was critical to implementing GPF funded on-grid renewable energy projects. However, dealings with PLN were mixed. During the preparations for MCA-Indonesia's calls for proposals for renewable energy projects in 2015 and 2016, PLN took little interest, as a buyer of power, in interacting with possible project sponsors. The result was that MCA-Indonesia ultimately had fewer project proposals that it could take forward to construction in the absence of stronger support from PLN.

On the other hand, PLN showed interest in late 2017 and early 2018 in two projects in the off-grid renewable energy portfolio that were close to its existing service area. For one of those renewable energy projects, PLN concluded a power purchase agreement to buy and distribute electricity from the small business set up to manage and operate

²² The Government of Indonesia's One Map Policy was initiated in 2011 to establish a unified database of geospatial information, including land use and land tenure, to be used to inform government decisions on the allocation and use of land and natural resources.

the power project. Known as a special purpose vehicle (SPV), this small business serves as a micro-utility for the project, providing project governance, billing, and operations and maintenance. This arrangement will help ensure the sustainability of the project and contribute economically to the community, which owns a majority share in the project. In another biomass project, PLN initiated discussions with the project sponsor for a similar power purchase and distribution arrangement to be concluded after compact end. Despite these more positive trends towards the end of the compact, the lack of consistent support from the GOI in the renewable energy sector seriously impacted the GP Project's ability to accomplish its objective with respect to on-grid renewable energy.

Rather than relying on the government for sustainability, the GPF commercial and off-grid renewable energy components instead aimed to build sustainability through partnerships with the private sector. The goal was to mitigate risk and address past failures and implementation challenges by:

- ★ Structuring on-grid projects with a combination of private finance provided by project sponsors and viability gap funding from GPF needed to de-risk and accelerate the investments in a challenging regulatory environment;
- ★ Emphasizing community-developer partnerships pairing technology providers, operations and maintenance vendors, and developers with communities and their resources;
- ★ Requiring Community Benefit Sharing Plans for commercial renewable energy grants; and
- ★ Targeting local energy NGOs and renewable energy service partners to replicate success.

Partnership grants within GPF were designed and structured to ensure that partners continued work with their own funding beyond the compact's end date. The GPF approach of requiring applicants to clearly demonstrate a "win-win" business case followed and supported current trends in sustainable commodities (i.e. cocoa, rubber, palm oil, coffee) that are moving toward private sector partnerships integrated into business strategies and budgeting.

- ★ Four of the six partnership grant projects are continuing after the end of the compact with additional funding commitments already in place. One example is L'Oreal's \$650,000 commitment to continue the Sustainable Palm Oil activity from the EMM Berback project in Jambi. The SwissContact-led sustainable cocoa consortium and

World Wildlife Fund together have committed \$8.3 million in co-financing to be disbursed from April to December 2018.²³

- ★ The \$308,000 GPF investment in PalmOilTrace and the PatchouliTrace Pilot and a local service provider start-up, Koltiva, is paying off. Major off-takers, such as Givaudan, and their supply chains are buying-in and expanding use of these databases and traceability tools, building on the significant investment and experience from the GPF cocoa portfolio. As an example, in early 2019, Golden-Agri Resources, a Singapore-based palm oil company worth over \$4 billion, agreed to adopt this technology for 60,000 of the smallholder farmers and 81 of the mills from whom they source. To date, this initial investment has resulted in \$1.1 million in follow-on financing to continue the palm oil pilot and develop a similar traceability pilot for patchouli (also building on work done under the compact). In addition, Koltiva is signing major implementation contracts with six clients, including Mars and Cargill, worth \$1.5 million in 2019. Due to the publicity from working with multinational donors and demonstrating its ability to deliver results at scale through MCC-funded projects, Koltiva has secured contracts for SeaweedTrace, RubberTrace, and SupplyChainTrace, with their main services now being offered and used in nine countries without any public donor support.²⁴
- ★ The GPF's work with independent smallholder coffee producers has resulted in nine new Indonesian coffee buyers contracting directly from the farmer groups.

Green Knowledge grantee PT KM Utama has developed a first-of-its-kind national training curriculum and certification system for renewable energy technicians. These certifications are recognized by the GOI and are designed so that participants can be trained and certified on-site at commercial- and community-scale power plants, through the vocational school system, or at special training centers.

EVALUATION FINDINGS

The GP Project aimed to increase productivity and reduce GHG emissions by expanding renewable energy and improving land use practices and management of natural resources. The GP Project results will be assessed by seven different evaluations, which are summarized in the table below. The structure of the GP Project as a series of geographically and sectorally diverse grant-funded projects presented a challenge for designing a comprehensive evaluation strategy. The approach has been to evaluate the PLUP Activity through a standalone evaluation and to conduct a process evaluation of the GPF to assess its design and implementation, including the Technical Assistance and Green Knowledge Activities. The remaining evaluations align with the various programmatic portfolios of grants. While not all grants or projects funded by the GPF were individually evaluated,

²³ MCC is waiting for information from the Government of Indonesia to verify this statement.

²⁴ Details can be found at: <https://www.rspo.org/palmtrace>. Viewed October 24, 2018.

a strategy was designed to evaluate a sample across key portfolios and speak to the broad aims of each portfolio.

	Activity	Type	Component	Status
1	Participatory Land Use Planning Evaluation	Performance	Baseline/Interim	Data collected in September 2016. Report released in July 2017.
			Second Interim	Second interim - Data collection expected in late 2019 and report to be released in 2020.
			Endline	Endline - Data collection expected late 2020 and report expected in 2021.
2	Green Prosperity Facility Evaluation	Performance	Endline	Data collection conducted from November 2017 to January 2018 and report released in November 2018.
3	Green Prosperity Cocoa Grant Portfolio Evaluation	Performance	Interim	Data collection completed September and October 2017. Report expected in 2019.
			Endline	Data collection to be completed September 2019. Report expected in 2020.
4	Green Prosperity Off-grid Renewable Energy Grant Portfolio Evaluation	Impact and Performance	Baseline	Data collection completed between September and November 2017. Report published March 2018.
			Interim	Data collection to be completed late 2019. Report expected in 2020.
			Endline	Data collection to be completed mid 2021. Report expected in 2021.
5	Green Prosperity Peatland Portfolio Evaluation	Performance		Data to be collected in April 2019 and final report expected in 2019.
6	Green Prosperity On-grid Renewable Energy Grant Portfolio Evaluation	Performance		Data to be collected in April 2019 and final report expected in 2019.
7	Green Prosperity Social Forestry Evaluability Assessment	Performance		Data to be collected in April 2019 and final evaluability assessment expected in 2019.

The **PLUP Evaluation** measures the program's effect on spatial certainty, land disputes, transparency in land governance administration, and management of natural resources. Interim evaluation findings indicated the following:

- ★ Stakeholders from the village- to the national-levels considered the PLUP activities to be relevant and important.
- ★ There is evidence of improvements across expected short-term outcomes, including improved spatial certainty among villagers, resolution of land conflicts and disputes, and more strategic thinking about land use planning at the district level.
- ★ The evaluation identified four key areas of risk related to the achievement and sustainability of PLUP results: 1) program design and approach, 2) design and management of implementation contracts, 3) coordination of closeout and sustainability, and 4) engagement at the national level.

The **Green Prosperity Facility Evaluation** assessed the evolution and quality of the design and implementation of the GPF. The evaluation focused solely on the implementation phase and did not assess the results of the grants funded by the GPF; some grant results are assessed by other evaluations. The *key findings* of this evaluation include:

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 non-traditional groups with access to international donor finance.

Implementation Effectiveness

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

Key Benefits and 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.

The **Cocoa Grant Portfolio Evaluation** is a performance evaluation designed to assess the efficacy of training approaches, the validity of the theory of change, sustainability, and lessons learned. Cocoa Interim Evaluation *key findings* include:

Farmer Training

- ★ Most of the trained farmers applied what they learned, but they needed ongoing mentoring and more time to see results from their improved practices.

Progress toward Targeted Results

- ★ The Sustainable Cocoa Production Program (GP-SCPP) and Cocoa Revolution (CR) grants performed well against their training targets and achieved short term behavior changes. However, they faced obstacles in trying to create sustainable markets for cocoa farming inputs (seedlings, fertilizer, etc.) and extension services (farmer training). The third grant, Economic, Quality, and Sustainability Improvement (EQSI), had implementation delays.

Sustainability of Practices

- ★ With MCC funding, the GP-SCPP grant grew its operations from 13 to 50 districts and will continue operating post-compact. The other two grants, CR and EQSI, will not continue post-compact.

Program Design

- ★ Weather extremes and market conditions significantly undermined project results. Implementers will need to develop climate resilience and risk mitigation measures to achieve higher yields.

The **GP Off-Grid Renewable Energy Portfolio Evaluation** will assess the impacts of the new provision of grid electricity to households and businesses in remote areas. Specifically, the four evaluation questions concern:

1. The effect on energy consumption patterns of households and businesses.
2. Whether the electricity provided by the renewable energy infrastructure has been used for economic purposes at the community and household level.
3. Whether any changes in household expenditure will lead to reduced GHG emissions.
4. Whether the Special Purpose Vehicle has been an effective intervention to improve community buy-in and sustainability of the infrastructure.

The **GP Peatland Portfolio Evaluation** will assess the effectiveness and sustainability of the GPF's grants regarding peatland rewetting.

The **GP On-Grid Renewable Energy Portfolio Evaluation** will assess the sustainability of the GPF's on-grid infrastructure grants in terms of continued power sales to the national utility and benefit sharing with communities surrounding the generation sites.

The **GP Social Forestry Portfolio Evaluation** will consist of an Evaluability Assessment to investigate whether grants categorized as social forestry were truly designed around and applied a common theory of change related to agro-forestry and the sustainable management of forest lands.

KEY OUTPUT AND OUTCOME INDICATORS AND EXPLANATION OF RESULTS

Participatory Land Use Planning Activity

Outcome: Improved local capacity for administrative boundary setting, updating and integration of land use inventories, and enhancing spatial plans at the district and provincial levels.

Key Performance Indicators	Baseline	End of Compact Target	End of Compact Achievement	Percent Target Satisfied
Number of villages assisted in participatory village boundary setting and resource mapping	0	450	363	81%
Land area of villages delineated through village boundary setting (in hectares)	0	No target	1,463,999	N/A
Number of village boundaries formally established	0	450	256	57%
Number of enhanced district-level spatial plans created	0	45	40	89%

Key Performance Indicators	Baseline	End of Compact Target	End of Compact Achievement	Percent Target Satisfied
Number of district-level inventories of land use, land cover, permits and licenses created	0	45	40	89%

PLUP was originally designed as a package of village- and district-level interventions in geographic areas targeted by the GP Project to inform the design of grant proposals. Due in large part to a failed early procurement, which significantly delayed the PLUP pilot phase, this implementation plan was altered so that different elements of PLUP were implemented in different areas where GPF grants had already been awarded. The targets reflect a midcourse adjustment in activity plans that was undertaken after the failure of the first PLUP procurement, which significantly delayed progress. The reasons the adjusted targets were not met include continued procurement challenges and longer-than-anticipated implementation timelines.

Technical Assistance and Oversight Activity

Outcome: Improved quality and design of renewable energy and natural resources management projects.

Key Performance Indicators	Baseline	End of Compact Target	End of Compact Achievement	Percent Target Satisfied
Proposals that received project preparation support	0	No Target	47	No Target
Technical assistance funds disbursed for project preparation support	0	No Target	\$10,775,189	No Target

The above indicators track the portion of this activity's funding that supported feasibility and due diligence work for grant proposals, known as TAPP Grants. The scope of the need for TAPP Grants was not known up front, so targets could not be set. Some TAPP Grants were terminated midway, so not all 47 were completed.

Green Prosperity Facility Activity

Outcome: Increased investment in renewable energy and natural resources management, increased productivity, and reduced GHG emissions.

Key Performance Indicators	Baseline	End of Compact Target	End of Compact Achievement	Percent Target Satisfied
Estimated hectares improved, rehabilitated, or protected through sustainable practices	0	498,382	432,971	87%
Canal blocking structures built in peatland areas	0	570	232	41%
Hectares of peatland mapped	0	249,329	253,559	102%
Renewable energy generation capacity added (in MW)	0	27.2	12.7	47%
Electricity customers added by off-grid grants	0	10,352	9,095	88%
Households provided with renewable energy source for lighting or cooking	0	3,240	2,622	81%
Project participants trained through GP Facility-funded projects and/or partnerships	0	136,973	139,553	102%
External resources (co-financing) disbursed by grantees	0	\$80,146,154	\$27,571,443	34%

Key Performance Indicators	Baseline	End of Compact Target	End of Compact Achievement	Percent Target Satisfied
Project financing disbursed by the GP Facility	0	\$136,654,166	\$123,099,779	90%

It is important to note that because the GP Project funded 66 grants under the GPF Activity, it was not possible to verify the data above in the same way that MCC normally does for a project. The data above were reported by grantees/implementers, which is standard; but MCC's standard of evidence for accepting their reports was lower than for normal MCC projects because it was not possible to closely monitor activities of each grantee. Targets for the above indicators were set based on signed grant agreements and do not reflect grant approvals, terminations, or amendments that were finalized after June 2017. Two additional off-grid renewable energy grants were signed after that point and their spending is reflected in the achievement of project financing disbursed by the GPF, but not in the target. The performance on this indicator is therefore artificially high.

The GPF was not able to meet its grant disbursement targets due to a combination of legal, regulatory, management capacity issues, and a shortened implementation timeline (from 3 years to 18 months) as discussed previously. The shortened implementation timeline limited the GPF's ability to fund commercial on-grid projects, particularly mini-hydro, which impacted key performance indicators related to generation capacity. In addition and relatedly, GPF did not receive proposals for watershed management activities/projects as originally anticipated. In the end, a lot of work was accomplished between December 2017 and April 2, 2018 (compact end date) after a project delivery unit was put in place to focus on the off-grid portfolio.

The disbursement of external resources, or co-financing secured by grantees, was well below the target due to the termination of seven grants that included significant co-financing contributions, the re-scoping of an additional grant, and some delays in spending of these funds for partnership grants. Most grant terminations and re-scopings were the result of long delays during implementation, which meant that completing project works in the remaining compact implementation period was no longer feasible. In the case of the partnership grants, grantees planned to spend these funds for their original purpose

by December 2018.²⁵ The canal blocking target was not met due to a de-scoping of one of the grantee's work plans after failure to get community consent for the canal blocking in one targeted geographic area.

Green Knowledge Activity

Outcome: Improved local, provincial, and national capacity to drive forward Indonesia's national low carbon development strategy within the context of the GP Project.

Key Performance Indicators	Baseline	End of Compact Target	Quarter 1 through Quarter 19 Actuals (December 2017)	Percent Compact Target Satisfied (December 2017)
Centers of Excellence established	0	6	4	67%
Project participants trained through Green Knowledge-funded projects	0	3,687	2,325	63%
Number of knowledge products produced	0	420	197	47%

Despite being the first set of grants awarded under GP, the Green Knowledge grants suffered from implementation delays, which prevented them from achieving their targets.

LESSONS LEARNED

As acknowledged above, \$126 million of the Indonesia compact was not spent. Of this, approximately \$70 million was due to the slow start-up and implementation challenges faced by the Green Prosperity Facility. In order to better understand the operational drivers of these issues, MCC completed an evaluation of the GPF. As described above, the evaluation highlighted the start-up and implementation delays experienced by the GP Project and how that hindered its ability to meet its process and output targets. This finding raises various lessons for future grant-making facilities being considered by MCC. Lessons drawn from the findings of the Green Prosperity Facility Evaluation include:

²⁵ MCC is waiting for information from the Government of Indonesia to verify this statement.

- ★ **Design projects and facilities to be focused.** The broad scope of the Green Prosperity Facility was one of many factors that caused continual delays in launching the grant-making facility. MCC has learned that facilities need to be focused, in terms of addressing principle root causes of the binding constraint, with clear objectives, scope, size, and strategy, in order to be viable. Focus is also critical to helping the project team develop a targeted engagement strategy with government and private sector counterparts who can support the success of the facility over its lifetime. This focus needs to be determined and agreed to during compact development, and key, non-negotiable features should be documented in the compact and/or Program Implementation Agreement. In addition, an approved operations manual should be produced no later than entry-into-force (EIF) and ideally as a condition precedent to initial disbursement. This way, the pre-EIF and implementation periods can be dedicated to launching the facility and implementing grants. MCC has already begun applying this lesson to facilities designed after GP, like in Benin II which targets one sector/subsector.
- ★ **Standardize and streamline.** The lack of standardized processes and templates greatly delayed the ability to start GPF grant proposal intake, evaluation, and due diligence, and grantees were often confused by conflicting and ad hoc guidance during both the solicitation and implementation phases. Lack of effective project management structure and systems further delayed and challenged development and implementation of processes, once finalized. Standard tools, policies, procedures, and approaches to management and implementation of *grant* facilities that can support efficient start-up of facilities and prevent the loss of precious time for grant implementation is necessary. MCC grant facilities in early stages of development and implementation have internalized lessons from the GPF's early challenges and are utilizing facility managers and prioritizing development of manuals and templates significantly earlier in the compact timeline. In addition, MCC is expanding and operationalizing the current MCC Grants Facilities Guidance, including producing a start-up toolkit.
- ★ **Test the market early.** Insufficient market analysis of the targeted GP sectors resulted in delays in launching the facility and in unrealistic disbursement targets. To allow for a minimum of three years for grant implementation and provide information to facility design and target-setting, it is critical to conduct market analysis, assess the potential pool of grantees and the size and characteristics of the addressable market, and initiate pre- or full feasibility studies very early in the compact development and implementation preparation periods. Early on-boarding of a facility manager would also allow the accountable entity to continue or expand market research and/or release calls for proposals once the compact implementation period begins. Recent grant facilities have been conducting market research well in advance of compact signing. This allows MCC to set more reasonable expectations for the absorptive capacity of the market as well as incorporate information from the market

and prospective grantees to better guide selection and investment criteria and begin due diligence

- ★ **Build in an exit strategy.** The GPF Evaluation highlighted that despite efforts in the final year of the compact to link the activities funded under GP to government units, the work of the GPF is not likely to be sustained by the GOI. This is largely because the facility itself was not designed to continue post-compact through existing Indonesian structures, but rather through the private sector and other partnerships developed during the selection and implementation process. As a result, facilities should be designed up front to have a future beyond the compact or should include a clear exit strategy that ensures the knowledge generated by the facility has an appropriate off-taker and that investments made will be sustainably managed and continued. MCC is considering this recommendation in its updates to operational guidance.
- ★ **Recognize MCC's competitive advantage with facilities.** MCC's ability to provide grant funding for both technical preparation and to buy down the cost of equity for potential investors is a real competitive advantage that can support the deployment of new technologies in the right circumstances. The Indonesia case has shown that there is a clear viability gap between the tariff and technical studies that are required to prepare an investment grade project for new, potentially disruptive technologies where the incentives are weaker to be the first investor on such projects.²⁶

²⁶ Learning from the experience with the Green Prosperity Facility has been applied to MCC facilities underway in Morocco, Benin, and Niger compacts.

COMMUNITY-BASED HEALTH AND NUTRITION TO REDUCE STUNTING PROJECT

Original Compact Project Amount at Signing: **\$131.5 million** Total Disbursed: **\$120.4 million**

Estimated benefits correspond to \$112 million of project funds, where cost-benefit analysis was conducted: 27

	Estimated Economic Rate of Return	Estimated beneficiaries	Estimated net benefits
At the time of signing	13%	2.9 million children	\$46.6 million
Updated	16.5%	1.7 million children	\$113 million
At compact closure ²⁸	N/A	N/A	N/A

Economic Analysis: MCC undertook an initial economic analysis of the Community-Based Health and Nutrition to Reduce Stunting Project (the Nutrition Project) at the time of compact approval in 2011. The economic rate of return (ERR) for the project was estimated at 12-13 percent and it was projected that the project would benefit 2.9 million children in 7,000 villages. This analysis was based on the project design as of mid-2011. Several project components were modified since then, including service provider training, sanitation and hygiene activities, provider incentives, provision of micronutrients, the national stunting awareness campaign, and the private sector response. The expected potential benefits of these activities were not fully captured in the initial analysis.

As a result, following detailed design, the economic analysis was updated in November 2013 to better reflect the evolving project implementation plans. The revised analysis incorporates the updated program design as well as additional data from the impact evaluation of the PNPM *Generasi* which facilitated quantification of the anticipated education benefits from *Generasi* block grants, adding substantially to the estimated total benefits of the project.²⁹ With these changes, the revised model increased the estimated ERR from 12-13 percent to 16.5 percent. The selection of the final project locations (499 sub-districts in eleven provinces) and a revised implementation timeline resulted in a decrease in the estimated number of beneficiaries to approximately 1.7 million children

27 As estimated in the cost-benefit analysis at time of signing.

28 MCC will not re-estimate the ERR for this project at closeout, but will contract with the Independent Evaluator to produce an evaluation-based ERR.

29 Olken, Benjamin A.; Onishi, Junko; Wong, Susan. 2011. *Indonesia's PNPM Generasi Program : final impact evaluation report (English)*. Washington, DC: World Bank.

in 5,300 villages. The impact evaluation for the Nutrition Project in Indonesia will include an economic analysis of the program that reflects further project design changes, final costs, and evaluation findings.

PROJECT SUMMARY

In Indonesia at the time of compact development, over one third of children under five were stunted, which can have a major impact on their lives, putting them at higher risk of chronic disease, delayed cognitive development, delayed enrollment in school, and reductions in future earnings. The Nutrition Project was originally conceived as a way to build community knowledge of and demand for health services that could combat stunting, and strengthen the health system infrastructure at the local level to deliver these services. The project was designed to respond to a problem not directly linked to the binding constraints, but noted as an issue of inequality of opportunity in the country. In particular, the constraints analysis contains a statement regarding unequal access to economic opportunities, namely that “some groups of people have weaker human capabilities than others, partly due to unequal access to education; health; and/or other social services such as clean water and sanitation.”³⁰ The analysis pointed out that this lack of access was due to both the “supply” side of services available to communities and the “demand” side of communities seeking options to improve their healthcare.



Health workers measure a baby boy at an MCC-funded community health center in the West Java region of Indonesia.

³⁰ Asian Development Bank (2010), *Country Diagnostic Studies, Indonesia: Critical Development Constraints*. This quotation is from the Executive Summary on page 4 but the larger discussion can be found in section 4.2.1 Human Capabilities beginning on page 57.

In particular, the objective of the Nutrition Project was to reduce and prevent low birth weight, childhood stunting, and malnourishment of children in project areas and increase household income through cost savings, productivity growth, and higher lifetime earnings. The project also aimed to determine the effectiveness of the use of MCC funding in a multi-donor trust fund, managed by a multilateral institution, and its impact on poverty reduction. Design was based on the findings of a rigorous impact evaluation for a previous intervention, which found that an existing GOI program was delivering positive health and school enrollment impacts at the community level, but qualitative data suggested that communities that wanted services could not get them from their local health posts.³¹ The evaluation suggested that greater impact might be possible if the “demand-generating” community empowerment and education activities were coupled with a “supply-side” set of interventions to meet this demand.

The Nutrition Project consisted of the following three Activities:

	Activity		Revised Compact Allocation	Final Disbursements
1	Community Projects Activity	Community block grants and participatory technical assistance to communities	\$81.6 million	\$78.6 million
2	Supply Side Activity	Training to service providers, sanitation and hygiene activities, provision of multiple micronutrient packets, materials to measure children’s height, and private sector interventions	\$33.9 million	\$23.5 million
3	Communications, Project Management and Evaluation Activity	Communications outreach, project management, and monitoring and evaluation	\$18.6 million	\$18.2 million
	TOTAL		\$134.2 million	\$120.4 million

The **Community Projects Activity**, also known as the “demand side, provided community block grants and participatory technical assistance to communities. This included the **National Community Empowerment Program, and Healthy and Smart Generation**. Alongside the World Bank, AusAID, the European Union, and other development partners participating in a World-Bank-managed, multi-donor trust fund, this activity aimed to scale up the GOI’s National Community Empowerment Program – Healthy and Smart

Generation, known as *Generasi*, which sought to improve access to health and early childhood education in more than 5,300 villages across 64 districts in 11 provinces.

The **Supply Side Activity** funded training to service providers, sanitation and hygiene activities, provision of multiple micronutrient packets, materials to measure children's height, and private sector interventions. More specifically, it included several subactivities:

- A. **Increasing Knowledge and Skills of Health Workers:** Through this sub-activity, Indonesian Ministry of Health (MOH) staff and volunteers from the provincial to village level received training and support for community activities aimed to reduce stunting, covering topics such as infant and young child feeding, community-led sanitation, sanitation entrepreneurship, growth monitoring, and micronutrient quality assurance. This sub-activity also included the delivery of Sanitation Triggering Events, a method of inciting behavior change at the village level around sanitation practices using interactive demonstrations to show how bacteria can be transmitted through poor sanitation. Health centers were also provided with anthropometric kits to facilitate more frequent and reliable child length measurement in communities;
- B. **Micronutrients for Pregnant Women:** Iron, folic acid and a micronutrient powder were delivered to district health offices for distribution to pregnant women by Ministry of Health and community-based staff, with the aim of reducing maternal anemia. The project planned to distribute micronutrient sachets for children, but was not able to do so due to conflicting specifications for the supplement; and
- C. **Private Sector Response:** Grants were awarded to leverage private sector resources and develop market-driven solutions to address community needs for safe water and sanitation.

The **Communications, Project Management and Evaluation Activity** included communications outreach, project management and monitoring and evaluation. Under the activity, the National Nutrition Communications Campaign provided mass media and training for interpersonal communication at the community level aimed to increase awareness of stunting, evoke commitments from stakeholders to tackle stunting, and foster behavior change related to health, nutrition, and sanitation.

Most of the components of the Nutrition Project were implemented during the compact term, but almost none of them were initiated on time, nor were they implemented in tandem. While the Community Projects Activity took place from 2014-2017 as planned, the remaining project activities had a very slow start as the MOH struggled to understand MCC requirements. In some cases, this led to lower realization of targets (e.g. number of sanitation triggering events), in other cases to rushed but ultimately successful activities

(e.g. training for health workers) and in at least one case to the component not being implemented at all (micronutrients for children). While each component was different, the common thread was that MCC's requirements for competitive procurement and tight fiscal accountability standards were not compatible with the implementing entity's (the MOH) experience of implementing projects funded by other donors. As an example, it took over one year to develop a sufficiently accountable payment system to enable individual MOH health workers to attend trainings.

The project's design had been predicated on the "demand" (Activity 1) and "supply" (Activities 2 and 3) sides taking place simultaneously and in the same locations so that the coordinated interventions could affect three cohorts of children during the implementation period. Since this did not materialize, it is likely that the impact of the project will differ from what was originally envisioned. MCC did not estimate the magnitude of impact on any of the quantitative outcomes targeted by the project; however, the impact evaluation was designed to detect a five percentage point reduction in stunting prevalence.³²

Nonetheless, the Nutrition Project has formed a cornerstone for and been supported by a larger movement to increase awareness about stunting in Indonesia and channel resources to address the problem. During the compact term, Indonesia played a pivotal role in the global Scaling Up Nutrition movement, which it joined shortly after compact signature.³³ MCC was the first donor to fund an explicitly anti-stunting project in Indonesia, instead of one focused on malnutrition or sanitation alone. Since then, other donors have made or are planning similar investments in a multi-sectoral approach to fight stunting, including a \$400 million follow-on investment to the Nutrition Project made by the World Bank in 2018. Similarly, the MOH has recognized the links between malnutrition and sanitation, combining its directorates of sanitation and nutrition under a single director general. The MOH also introduced a new word into Bahasa Indonesia: "stunting." Prior to the introduction of this project, there was no word for stunting in the language, with even health professionals using "orang pendek" ("short person") or "kerdil" ("dwarf") to refer to the condition. Today, stunting is a national priority for Indonesia, with national and local governments making very public efforts to coordinate between sectoral agencies and bring additional resources to bear in tackling the issue.

PROJECT SUSTAINABILITY

For most of the components of the Nutrition Project, sustainability was a critical element of project design. As the project was implemented, the level of GOI commitment

³² During the design stage, the independent evaluator proposed a 5 percent effect size as a reasonable effect size to expect based on the project cost. The power calculations were driven in large part by the number of sub-districts in the three treatment provinces.

³³ <http://scalingupnutrition.org/>

and buy-in was very high, and the project benefited from co-financing by the MOH at the national level during some years. Local governments also provided significant funding towards project activities, with MCC funding causing greater investment by local authorities into existing maternal and child nutrition budgets in order to replicate MCC-funded trainings for larger groups of healthcare workers. In 2016 alone, over 25 districts had already replicated the infant and young child feeding training and several districts had replicated the sanitation triggering activity, all using their own funds. This is mainly because the project activities were substantially aligned with national, provincial, and district government policies and represented a renewed emphasis on an existing policy trajectory. Similarly, the Community Projects Activity funded a scale-up and enhancement of an existing government program, further intensifying the GOI's focus towards the issue of stunting and bringing co-financing and cooperative efforts to bear. At the end of the compact, the GOI integrated the Nutrition Project, particularly the training and sanitation activities, into the MOH's existing health and nutrition programs.

During project implementation, MCA-Indonesia revised, in partnership with the MOH, the national guidelines on Mother Infant Young Child Feeding, Growth Monitoring, Community-Led Total Sanitation, Sanitation Entrepreneurs, Sanitation Entrepreneur Mentors, Supportive Supervision, Iron Folic Acid and Taburia Quality Assurance, and Distribution and Behavior Change Campaign Procedures. These guidelines are being used by the MOH after the end of the compact. The MOH has built upon the national nutrition communications campaign model developed by MCA-Indonesia to inform future MOH and NGO health and nutrition behavior change work. While the MOH will be the primary entity responsible for project activities post compact, MCA-Indonesia also signed an Implementing Entity Agreement with the Ministry of Villages in May 2017 to promote the sustainability of the Nutrition Project's investments by supporting the creation of minimum services standards and guidelines for a stunting response that will utilize funds provided directly to the village level.

The MOH was quite supportive of supply-side activities when they were congruous with its own policy priorities. However, MCA-Indonesia's ability to move the MOH in new directions was not very encouraging. Substantial delays in supply-side activities were the result of innumerable pressures on MCA-Indonesia to conform to existing policies and resistance by the MOH to change business models to tackle the issue of stunting in different ways. Over the compact period however, the MOH made a greater effort to include other ministries and parts of government in its dialogues on health issues, recognizing that the problems need a multi-sectoral solution. These new dialogues also led to some realignment within the MOH structure to take a more comprehensive approach to nutrition, including establishing a clear link between sanitation and nutrition by combining the respective directorates.

EVALUATION FINDINGS

A rigorous impact evaluation is underway for the Nutrition Project which will use both quantitative and qualitative methods. The quantitative approach is expected to be a randomized controlled trial. The impact evaluation will measure the project's impact on child and maternal health outcomes (including stunting), behavioral practices related to nutrition and sanitation, and receipt of health services.

Status of the evaluation: Community Based Health and Nutrition to Reduce Stunting Project

Component	Status
Baseline	Data collection completed between November 2014 and February 2015. Report is publicly available.
Interim	Data collection completed between November 2017 and February 2018. Report is publicly available.
Endline	Data collection planned for early 2019. Report expected by early 2020.

The key findings of the interim evaluation of the Nutrition Project include:

Implementation Quality

- ★ Training levels were significantly higher in project areas, but similar trainings were occurring in comparison areas.
- ★ Child nutrition training was implemented as intended with high quality. Sanitation training was implemented, though not as comprehensively as intended.

Short-Term Outcomes

- ★ Modest improvements in health provider knowledge, but not uniformly. Impacts varied by question and provider.
- ★ No impacts on frequency of nutritional group counseling, which was of mediocre quality, nor on the share of women receiving one-on-one health services.
- ★ Village-level meetings to initiate behavior change were more frequent in project areas, but omitted key steps.
- ★ Villages received Generasi grants as intended and most funding went toward health-related activities.

Medium-Term Outcomes

- ★ No improvement in village-level open defecation free status.
- ★ Interim findings overall indicate that long-term outcomes may not be achieved.

KEY OUTPUT AND OUTCOME INDICATORS

Community Projects Activity

Outcome: Improved health and education outcomes, including nutrition

Key Performance Indicators	Baseline	End of Compact Target	End of Compact Achievement	Percent Target Complete
Value of Generasi block grants funded to sub-districts	0	\$68,816,000	\$88,256,848	128% ³⁴
Number of Generasi Activity proposals approved	0	No Target	181,912	No Target

Supply-Side Activity

Outcome: Improved ability of health service providers to prevent, diagnose, and treat stunting; improved nutrition of pregnant women and infants; improved sanitation behavior; and reduced incidence of diarrhea

Key Performance Indicators	Baseline	End of Compact Target	End of Compact Achievement	Percent Target Complete
Number of open-defecation-free villages in MCA-Indonesia working areas	0	800	218	27%

³⁴ This indicator reports total Generasi block grant spending against the target for MCC's contribution to Generasi's block grant budget. The percent complete can be interpreted to mean that Generasi distributed block grants in excess of MCC's contributions, by 28%. MCC's targeted distribution toward Generasi block grants was met.

Key Performance Indicators	Baseline	End of Compact Target	End of Compact Achievement	Percent Target Complete
Number of Sanitary Toilets constructed by Private Sector Response Activity grant partners	0	1,080	1,182	109%
Iron folic acid tablets delivered to district	0	35,491,680	35,626,390	100%
Taburia (micronutrient) packets delivered to district	0	18,943,200	0	0%
Number of sanitation triggering events held at sub-village level	0	6,400	4,225	66%
Number of anthropometric kits distributed	0	1,408	1,186	84%
Number of service providers trained on growth monitoring	0	1,558	1,564	100%
Number of service providers trained on Infant and Young Child Feeding	0	18,578	17,531	94%
Number of service providers trained on community-led total sanitation triggering	0	7,433	6,724	90%

Key Performance Indicators	Baseline	End of Compact Target	End of Compact Achievement	Percent Target Complete
Number of service providers trained on supportive supervision	0	1,558	1,207	77%
Guidelines on integrating health, nutrition, and sanitation into village planning and budgeting process developed	N/A	31-Dec-17	March 26, 2018	Not applicable

Communications Activity

Outcome: Increased awareness about stunting

Key Performance Indicators	Baseline	End of Compact Target	End of Compact Achievement	Percent Target Complete
Number of people trained on interpersonal skills and communication	0	930	1,588	171%
Stakeholders and policymakers engaged on stunting prevention	0	No Target	8,455	No Target
Number of television spots aired	0	2,450	4,155	170%

EXPLANATION OF RESULTS

The targets for the Nutrition Project indicators were set during the compact implementation period, after implementation plans were developed and finalized. In some cases, particularly for sanitation training and triggering and the communications campaign, they do not reflect the original vision for the project to have uniform implementation of a package of interventions across all target sub-districts. The project was not adequately funded to implement all envisioned components equally across all targeted geographic areas. While many targets were met by the end of the compact, they were intended to have been met much earlier during the implementation period to allow for the demand- and supply-side interventions to have a coordinated impact on the target population of children under the age of three.

The implementers of the Generasi program were not able to provide timely and reliable monitoring data, so little meaningful monitoring data exists of this activity despite it representing the bulk of project spending. The only targets set related to the Generasi grants were for disbursements to the Support Facility, not for activities related to the use of those funds. MCC funds were expected to cover only a share of Generasi grants across the 11 provinces, but ultimately the compact funded the majority of Generasi grants from 2014-2017. No target was set for the number of Generasi activity proposals, as this was dependent on community needs.

The Supply-side Activity training and equipment targets were mostly met; when they fell short, it was generally attributed to delays in processing of paperwork and payment for trainings. The Taburia distribution activity was cancelled in the final year of compact implementation after the first batch of production because the specification of Taburia produced by the vendor did not match with the specification stated in the bidding document. The sanitation triggering work, and the associated outcome of open-defecation-free village status, fell short of expectations due to delays in trainings that had to precede the triggering events. One reason why the target number of open-defecation-free villages was not met could also be that the coverage of triggering events across sub-villages was not sufficient to result in open-defecation-free status in the short time period allowed. The communications campaign work exceeded its targets, though the sub-national activities were only conducted in 11 of the 64 project districts.

LESSONS LEARNED

Beginning at the concept paper stage of compact development, the Nutrition Project enjoyed a privileged position as the investment with the greatest level of country buy-in within the Indonesia compact. This was positive in that high-level declarations and policy positions that were supportive of the intervention were relatively easy for the national GOI to enact.

Similarly, bureaucratic reforms like combining directorates (as discussed above) were quick to come to fruition. There also appear to have been positive effects at the provincial and district levels, with motivated bureaucrats in both MCC and non-MCC funded areas beginning to direct resources towards a multi-sectoral fight against stunting.

However, as discussed elsewhere in this report, the less positive result of this close coordination with the GOI was that significant project delays were experienced any time that the project needed Ministry of Health permission or regulatory action in order to move forward. This dynamic played out repeatedly, including leading to a delay of over a year to put in place a mechanism for paying training participant expenses in a way that ensured no funds were misplaced and to a re-issued regulation for the composition of Taburia that came too late for the project to implement successfully.

Ultimately, the project was not high enough priority for the Ministry of Health to focus on, yet it still retained approval rights for each operational detail. For MCC, this is an important lesson to consider. The more MCC retains control over the “how” of project implementation—in other words being able to independently manage inputs and have more control over outputs—the more a project’s theory of change will be adhered to, but this will have an impact on sustainability if MCC’s country partners do not engage in implementation. In the Nutrition Project in Indonesia, there was significant emphasis on ensuring GOI buy-in for sustainability. As a result MCC did see high-level commitment to continue the project objectives, but this came at a cost of operational speed and effectiveness, as each implementation action was elaborated to meet MCC standards of fiscal accountability as well as GOI’s standards.

The findings of the interim evaluation correspond to these lessons, pointing to potential breakdowns in the project theory of change, which could be due to the lack of synchronization among the various components of the project. This raises a number of additional lessons for MCC:

- ★ Given MCC’s operational model, the agency should think carefully about the implementability of projects during the design phase of a compact. In particular, issues seen in the Nutrition Project demonstrate the difficulty of implementing a project with multiple components that have to work through separate government ministries across a wide geographic area, using different implementers. As the evaluation report discusses, the project that was ultimately implemented differed significantly from what was designed, and this presented challenges for achievement of the objective of reducing stunting in a way that was attributable to the project. To improve implementation outcomes for complex projects, MCC may also consider imposing more discipline in adhering to work plans and timelines that are approved as part of each quarterly disbursement request.

- ★ The lack of a detailed, evidence-based theory of change with timelines and targets for key outcomes for the project presented a continuous challenge for both the project and the evaluation. While the project logic could have served as a detailed tool to guide project decision-making in the context of results, it was not well understood or meaningful to key government decision makers who instead relied on project budgets and work plans that had no firm deadlines other than the end of the compact. As a result, decisions were made that potentially hindered the ability of the project to reduce stunting. The cost-benefit analysis was not able to serve this purpose because there was no evidence on which to model the benefits of certain project components. For the evaluation, this was challenging because there was no quantitative accountability framework around which to design the evaluation, e.g. there was no targeted impact on stunting prevalence, despite stunting reduction being the primary objective of the project. The lack of a more detailed theory of change, linking each of the project components to the key outcomes, presented challenges both for designing the interim evaluation and interpreting its results. Going forward, MCC should ensure that project objectives are both feasible to achieve within the given timeframe, measurable in a cost-effective manner, and possess targets that are explicitly drawn from the cost-benefit analysis.
- ★ The implementation study included in the interim evaluation provided important insights into the quality of project implementation and the likelihood of achieving targeted results. It is critical to document and assess the quality of the program being implemented, at a minimum to assess fidelity to the original project design. MCC should assess the quality of implementation as a standard monitoring practice for other projects moving forward.

PROCUREMENT MODERNIZATION PROJECT

Original Compact Project Amount at Signing: **\$50.0 million³⁵** Total Disbursed: **\$69.2 million**

³⁵ During compact implementation, MCC approved increasing funding for the Procurement Modernization Project to \$75 million.

	Estimated Economic Rate of Return over 20 years	Estimated beneficiaries beginning in year 6	Estimated net benefits over 20 years
At the time of signing	N/A	N/A	N/A
At compact closure	13.3 percent	49.7 million ³⁶	\$16.7 million

Economic Analysis: The Procurement Modernization Project did not have an ERR at the time of compact signing because key elements of the program were not sufficiently defined and supported by evidence. MCC proceeded with the project with the stipulation that the first phase of implementation would be assessed to produce an ERR before all \$50 million in funds would be dedicated to it. However, the procurement for such an exercise failed, and the project was scaled-up without a detailed assessment of Phase One. In the fourth year of compact implementation, MCC attempted to estimate economic benefits by exploiting geographic variation in the program's impact. Several months prior to compact closeout, MCC conducted three separate surveys, including government vendors and local procurement service unit officials.³⁷ MCC was able to detect modest impacts and calculated an ERR of 13.3 percent. The close-out ERR is based on an internal assessment performed by MCC, using qualitative and quantitative surveys, that includes estimates of program impacts based on ex-post data.

There were three major benefit streams in the model. First, the model considered whether improvements in the procurement process led to improvements in value-for-money. Second, winning vendors were surveyed to determine the profit margin on individual contracts tendered from project-affected procurement service units (PSUs), to offset benefits which might come at the expense of firms. Indeed, evidence suggests lower firm profitability associated with the project. Finally, the model considered efficiency improvements, which could 1) allow for additional procurements to occur on the margin, or 2) reduce the need for local governments to hire additional staff. MCC found evidence for the former hypothesis, and therefore dropped the latter to minimize the risk

³⁶ This represents the estimated population of project-affected local governments. Benefits associated with improved procurement within national ministries were not found to be significant.

³⁷ Officials from approximately 80 procurement service units were contacted, including all phase 1 and comparison PSUs.

of double-counting. Taken together these benefits also imply potential tax savings associated with the lower costs net of additional procurements, but hypothesized tax savings benefits were estimated to be small and highly uncertain.

PROJECT SUMMARY

The objective of the Procurement Modernization Project was to achieve cost and efficiency savings on procured goods and services, while assuring their quality satisfies the public need, and to achieve timely delivery of public services. These savings were expected to lead to greater provision of goods and services to the economy and positively impact economic growth. The constraints analysis noted that weak governance and institutions as well as inadequate and poor quality infrastructure were major constraints to economic growth in Indonesia. The weakness of the public procurement system was noted in particular as it is at the heart of the efficient delivery of public services and development of quality infrastructure and touches the daily lives of every Indonesian.

The public procurement of goods and services in Indonesia accounts for \$45 billion of expenditures (2016 figures), or 30 percent of the national budget. It is the biggest business in the country. During the time of compact development in 2010-2011, Indonesia's Corruption Eradication Commission concluded that up to 40 percent of public procurement value was misused. While not backed by rigorous research and analysis, if anything close to this percentage were true, it would mean that the Indonesian public was losing the equivalent of over \$15 billion annually in diminished quality and availability of public services, not including the lost economic impact of the inadequate and under-supplied services.

Amelinda holds her newborn baby boy at Pratama Hospital in Yogyakarta.



Jake Lyell for MCC

At the time of compact development, professional procurement was not yet a recognized function in government. Procurement was largely seen as an administrative function, performed on an *ad hoc* basis by government personnel temporarily assigned to the task. Staff members were not trained adequately in procurement and did not view themselves as members of a recognized, highly-valued profession. Staff performing procurement functions operated in a context of weak or absent controls, presenting an enormous vulnerability to the efficient use of public resources. While government regulations allowed for more modern procurement methods, those in use by the GOI at the time of compact development were generally limited to the most basic, traditional procedures, ill-suited to the needs of a public sector of the size and sophistication of Indonesia.

The Procurement Modernization Project was designed to help the GOI overcome these institutional weaknesses in the public procurement system and to modernize the system with the goal of substantially improving the government's ability to deliver public services. To strengthen the system, the project focused on developing well-resourced professional procurement institutions and a well-trained professional workforce equipped with more efficient procedures and the latest technology. To accelerate infrastructure development, the Procurement Modernization Project also provided support to reform the institutional, legal, regulatory, and procurement framework to make PPPs more feasible.

The Project consisted of two activities and worked in partnership with the National Procurement Agency (LKPP) and newly formed procurement service units (PSUs), which are administrative units of government attached to a spending authority whose responsibility is to buy goods and services in a range of government institutions at the local and central government level. In exchange for MCC's support, the GOI committed to establishing the procurement profession with a career path within its civil service for the first time.

	Activity		Revised Compact Allocation	Final Disbursements
1	Procurement Professionalization Activity	Establishment of permanent, independent procurement service units	\$68.2 million	\$62.6 million
2	Policy and Procedure Activity	Development of procurement policies and procedures to improve outcomes for PPPs and research into sustainable procurement practices	\$6.8 million	\$6.6 million
	TOTAL		\$75 million	\$69.2 million

Procurement Professionalization Activity

The Procurement Professionalization Activity supported the establishment of permanent, independent PSUs serving national and local governments. At the time of compact development, a recent regulatory decree had mandated that over 600 PSUs would need to be established in central ministries, regional offices, provinces, districts, cities, and public institutions across Indonesia. However, there was no vision for organizational standards, expected roles and responsibilities of the PSUs, nor a requirement that PSU staff be permanent and dedicated to the procurement function.

To establish and strengthen the PSUs, the project adopted an innovative approach. After selecting a group of 44 geographically and institutionally diverse pilot PSUs representing over 25 percent of national procurement spending, the maturity of each selected PSU was precisely assessed using the Indonesian Procurement Maturity Model (IPM2) tool developed within the context of the project. The results of the assessment provided a roadmap for institutional development not only in the areas of capacity development, but also in the resources needed, and proved to be a persuasive tool in gaining the necessary support from ministers, governors, and mayors.

The second component of Institutional Structure and Professionalization of PSUs Sub-Activity focused on creating a cadre of procurement professionals in Indonesia capable of conducting strategic, complex, and high value projects within ministries and at the regional and district level. The procurement skills training program adopted a competency-based training approach focused on building the skills and knowledge necessary to perform the duties of a procurement professional.

To complement the formal training program, the project also supported a mentoring and peer-to-peer learning program. During monthly visits to the pilot PSUs, the mentors assisted the PSU staff in applying their newly acquired skills and knowledge in their work activity and also assessed whether the participants demonstrated competency in the targets skills and knowledge defined in the competency framework. A network of women procurement professionals mentored other women in remote areas to enhance their confidence and career in this profession. The program also provided training for technical, budget, and audit personnel who contribute to executing procurements successfully.

In order to leave a sustained footprint of procurement professionalization in a country the size of Indonesia, the training targets were high. The goal was to train 500 individuals to procurement professional status (12 courses plus mentoring) and take 300 of those through advanced training and mentoring. The program also sought to train 500 non-procurement professionals in programs tailored to their procurement-related functions, including the special program for auditors. The program met – and in some areas even exceeded – the

ambitious targets. LKPP adapted the procurement skills training modules for use in the GOI competency requirements for procurement professionals across Indonesia. By raising the level of expertise, PSUs are expected to grow and apply more strategic procurement techniques (e.g., considering lifecycle costs and sustainable procurement factors). Mastering these more strategic techniques will increase Indonesia's ability to improve the provision of goods and services to its citizens in a more cost effective manner.

This project also aimed to empower women economically. A 2013 Gender Vendor Survey revealed that women vendors received less than five percent of contracts in public procurement, and women had low rates of participation (19 percent) in the procurement profession.³⁸ As a result, two specific gender and social inclusion activities were included in the Procurement Modernization project: 1) establishment of a network through consultative process to support, mentor and strengthen women's career and leadership development in this profession, and (2) training for women vendors to build their capacity to successfully participate and bid in government procurement processes. MCA-Indonesia signed a memorandum of agreement with the Indonesian Women's Business Association (IWAPI), which was keen to build the capacity of women vendors with training, mentoring, and networking opportunities. At the end of the compact, 24 percent of trained procurement specialists and staff of PSUs were women, with four becoming the heads of PSUs. MCA-Indonesia also trained 147 women vendors in five major cities in e-procurement in partnership with IWAPI, increasing their access to public procurement.

The second part of the Procurement Professionalization Activity was the Procurement Management Information System (PMIS) Sub-Activity which consisted of: 1) the acquisition of hardware and software to set up a modern cloud based e-procurement system, and 2) development of policies, procedures, and capacity to realize framework agreements to support a new E-Catalog system. The PMIS sub-activity funded the building of a modern, sophisticated PMIS that automates procurement processes, collects data, generates reports, and sends alerts of possible fraudulent activity. The PMIS is an important part of a modern procurement system and aims to liberate the procurement professional from the administrative burden and transaction costs related to the purchasing of routine commercial products and services, making better use of their skills for more complex purchases. To make maximum use of the new electronic catalog system, the Procurement Modernization Project supported developing policies and procedures that modernized the business transaction between government and suppliers. Most important among these tools were procurement procedures and standard bidding documents for framework contracting, a form of indefinite quantity, indefinite delivery procurement transaction.

38 LKPP/Bappenas/MCA Indonesia (2013) *Gender in Government Procurement in Indonesia: Survey Findings on Access to Procurement, Key Barriers and Trends*, Jakarta Indonesia

As part of the investments in information technology, the Procurement Modernization Project developed automated fraud/integrity filters and integrated these into the procurement systems and processes—an innovation that has been undertaken by few if any other countries—and established a fully integrated system for the creation and management of framework agreements and the resulting e-catalogues. The functionality of this system matches that of leading public jurisdictions in Scotland, Australia, and South Korea. Other investments in data warehousing and a procurement management information system took a vulnerable, insecure system of over 600 servers with limited functionality and no data analysis functions and transformed it into a highly secure, cutting edge cloud system able to report extensive procurement data to LKPP, the Ministry of Finance, and the President's office. The Procurement Modernization Project also provided funds to establish a knowledge and communications center in LKPP to sustain and scale up procurement modernization in Indonesia beyond the compact term.

Policy and Procedure Activity

The Policy and Procedure Activity aimed to 1) develop procurement policies and procedures to improve the outcomes for PPPs and 2) to conduct research that would lead to environmentally and socially sustainable procurement practices. Attempts at tendering PPPs took as long as three years, much too long to attract investors and make projects financially viable. Therefore, the PPP sub-activity was designed to address these problems with the goal of accelerating infrastructure development, especially in locations most harmed by the lack of procedures and capacity. In addition to supporting the development of procurement regulations for PPPs and developing and delivering a PPP training program at basic and advanced levels, the PPP sub-activity also partnered with four government contracting agencies to assist them with developing model bidding documents based on the two-step procurement process. As a result of the PM project, LKPP has become a major player in PPPs within the GOI, thereby emphasizing the importance of transparency, competition, and fairness in the PPP process. The PM Project was able to make a substantial contribution to the revision of PPP regulations by taking part in an inter-ministerial process to modernize the PPP framework. These contracting agencies had projects in water supply, airport infrastructure, waste-to-energy, and street lighting. The PM Project assisted each of these agencies, LKPP, and others to transparently reach out to the market and gauge interest and understand possible constraints in order to adequately prepare the projects for the two-stage procurement PPP process.

The Policy and Procedure Activity also aimed to conduct research that would lead to environmentally and socially sustainable procurement practices. In the area of policy reform, LKPP strongly supported the recommendations that came from the sustainable public procurement work done through the compact. The policy recommendations came from original research into approaches adopted by other jurisdictions as well as

consultations in Indonesia with government officials and representatives from several embassies familiar with experiences in their own countries. The PM Project also provided funds to establish a knowledge and communications center in LKPP to sustain and scale up procurement modernization in Indonesia beyond the compact term.

PROJECT SUSTAINABILITY

One of the reasons the Procurement Modernization Project enjoyed broad support during implementation was due to the crowding-in of partners at the national, provincial, and municipal levels. Leaders at all levels saw the benefit of improved public services to their citizens. Leaders within the PSUs benefitted from having clear benchmarks for improvement outlined within the Indonesian Procurement Maturity Model (IPM2). Staff within the PSUs benefitted from improved skills and a dedicated career path in procurement. This broad-based interest is critical to sustaining the gains made under the Project.

During the course of the Project, the GOI independently took several important steps that also contributed to building the momentum for procurement reform, including creating the Village Fund as a mechanism to channel money from the central government budget to villages directly, greatly increasing high-priority infrastructure spending and expanding the number of other transfers from the center to the provinces. All of these efforts led to a significant increase in budget and procurement spending at the local level. Along with the increase in resources came an increased responsibility at the local level to spend these funds wisely. As a result, local governments had a greater need for expertise. In highly decentralized Indonesia, the regions are responsible for supervising procurements all the way down to the village level. For example, the district of Badung in Bali Province was responsible for 46 villages with annual budgets ranging from \$500,000 to \$1 million. Since the level of procurement knowledge at the village level was very low, Badung developed procurement clinics to extend the knowledge to the villages to meet their regulatory requirements and deliver better outcomes for their local government. Replicating the procurement skills training and mentoring program from the Procurement Modernization Project, the procurement clinics provided consultancy/advisory services, mentoring, peer-to-peer learning, and training using materials developed by the project. Other pilot PSUs developed similar procurement clinics for neighboring PSUs.

Greater commitment and consistency from LKPP would have further enhanced the Procurement Modernization Project's sustainability. LKPP's policy mandate did not always translate to an ethos for reform. Most LKPP functionaries lacked procurement knowledge and LKPP's staffing and budget priorities changed several times a year as it developed and re-developed its own work program. At times LKPP's work program was congruous with the Procurement Modernization Project activities; and at other times, the agency showed a genuine lack of interest in supporting the Project. Over the compact

period, LKPP reshuffled its own senior leadership every few months, creating inconsistent support for MCA-Indonesia and frequent policy reversals.

In the end however, the Procurement Modernization Project provided an extensive organizational development training and mentoring program that included performance management and intense change management. By the end of the compact, 30 of the 44 pilot PSUs had so advanced in institutional maturity that they were formally recognized as Centers of Excellence (COE) and trained to mentor non-pilot PSUs. During the final phase of the project, and largely at GOI expense, these COEs began spreading the reforms to the remaining 620 PSUs. All 620 non-pilot PSUs attended regional workshops, 137 participated in coaching clinics and the “sistering” mentor program recorded over 500 visits between pilot and non-pilot PSUs. The organizational development program and PMIS has received strong support from LKPP and will be sustained through an on-line IPM2 platform and annual budget allocations to reach all of the PSUs in Indonesia.

EVALUATION FINDINGS

The Procurement Modernization Project evaluation with an impact evaluation/pre-post mixed methods design will explore whether there were changes to the shared culture and values; structure, leadership, and management; systems, including policies, procedures, and processes; skills and knowledge; and staffing of the PSUs as a result of the project.

Status of the evaluation:

Component	Status
Baseline	Completed in September 2017. https://data.mcc.gov/evaluations/index.php/catalog/188
Interim	Data collection completed December 2018. Report expected mid-2019.
Endline	Data collection to be completed April to July 2019. Report expected December 2019.

KEY OUTPUT AND OUTCOME INDICATORS

Procurement Professionalization Activity

Outcome: Improved procurement capacity and function of procurement service units and related spending units.

Key Performance Indicators	Baseline	End of Compact Target	End of Compact Achievement	Percent Target Complete
Number of pilot PSUs permanently established	15	45	43	96%
Number of framework agreements signed	0	No Target	66	No Target
Number of PSU staff trained on procurement skills (Basic)	0	500	675 (22.5% women)	133%
Number of PSU staff trained on procurement skills (Intermediate)	0	500	589 (23% women)	110%
Number of PSU staff trained procurement skills (Advanced)	0	300	494 (23% women)	151%
Date procurement management information system (PMIS) launched	N/A	31-Mar-18	15-Mar-18	Complete

Policy and Procedure Activity

Outcome: Increased rate and success of PPPs and improved environmental sustainability of government procurements

Key Performance Indicators	Baseline	End of Compact Target	End of Compact Achievement	Percent Target Complete
Number of Public Private Partnership standard bidding documents produced	0	6	4	67%
Date Sustainable Procurement Policy (SPP) Discovery Phase Report finalized	N/A	31-May-17	30-Nov-17	Complete
Number of female entrepreneurs trained	0	30	147	490%

EXPLANATION OF RESULTS

Most of the key performance indicators were selected during project design, but the targets set early in project implementation were modified when the project entered Phase II and upon a funding reallocation that added \$25 million to the project. Most of the targets were met or exceeded. The target for Standard Bidding Document (SBDs) for PPPs fell short because in the closing months of the compact the government discovered regulatory barriers to applying PPPs in two sectors for which SBDs were planned and partially developed. There was not enough time left in the compact to develop SBDs for other sectors.

LESSONS LEARNED

“Jump starting” nationwide institutional reform should be built into the structure of a pilot. The Procurement Modernization Project had many features designed to support sustainability of impact and learning. First, rather than provide less support to a greater number of pilot PSUs, the project provided focused and intense training and mentoring to only 44 of over 600 government procuring entities in Indonesia. Second, the 44

pilot PSUs were carefully chosen for geographic and institutional diversity to provide a rich cohort for national replication. Third, the project initiated a formal Procurement Modernization Project “sistering” program to facilitate peer-to-peer learning and knowledge sharing among the 44 pilot PSUs. This peer-to-peer learning and mentoring became a critical tool and provided a huge boost to gaining acceptance of change and accelerating reform. Fourth, in the final year of the compact, the project expanded the “sistering” program by providing champion pilot PSUs with training and tools to establish an institutional mentoring program for non-pilot PSUs to learn about PSU institutional establishment and organizational development. In addition, the compact set forth that the PSU support and training program would be implemented in two phases, with Phase II (scale up) contingent on an assessment of the results from Phase I, precisely so that the design could be adjusted in the event it showed little impact or was not cost-effective. By the end of the compact, a strong program for spreading PSU development appears to have been in place, and there were indications that the reforms sown in the pilot program were spreading beyond the pilot PSUs. The independent evaluation will determine conclusively whether and how program features have enabled sustainability of positive outcomes.

Institutional development requires an effective assessment and aspirational tool.

Building a professional, strategic procurement organization is a multi-dimensional task that requires strengthening institutional, management, personnel, and operational resources and capabilities. The development and delivery of the Indonesian Procurement Maturity Model (IPM2) tool provided an essential framework for institutional development of the pilot PSUs. As an assessment tool, it provided each pilot PSU with a clear picture of its current status and capacities. As an aspirational tool, it showed a clear action plan to organizational maturity. These action plans proved extremely effective in developing annual budget requests and advocating for increased resources for the procurement function. As a surprising added bonus, the precise grading scale of IPM2 ignited competition among political leaders hungry to demonstrate their reform agendas. The independent evaluators will assess the effect of the design and implementation of the maturity model on PSU performance.

Building a professional organization with a professional workforce requires more than a few weeks of technical training. In designing the project, MCC recognized that institutional development, especially in the context of procurement, is a heavy task. Accordingly, The Procurement Modernization Project was an elaborate program that focused on developing human and institutional capacity as necessary steps towards a larger goal of building a professional organization with a professional workforce, combining formal training with mentoring, change management, and networking, touching on a wide range of subjects and skills. The procurement skills training program developed and delivered 36 training modules, lasting two or three days each, with programs for procurement professionals, technical and budget professionals, auditors, and managers.

The on-site mentoring program insured proper application of the skills learned in the class room. In addition, the Procurement Modernization Project delivered 12 modules of organizational skills training and on-site mentoring with an emphasis on change management, performance planning and management, customer relations, stakeholder management, knowledge management, end-to-end procurement management, and risk management. There were also special programs in legal protection, strategic communications, and administering a virtual procurement forum for procurement professional to network. The independent evaluators will examine the role of the on-site mentoring program in the effectiveness of the project. However, these technical training and mentoring efforts should not be seen as sufficient to develop a sustained, strong institution and workforce, which is the GOI's ultimate goal.

Strategic communications campaign should launch at the beginning of a project.

The strategic communication campaign was designed to sustain the reforms and did not begin until the last year of the compact. However, reform projects require effective communication with many stakeholders including political officials, budget officers, sector specialists, auditors, vendors, law enforcement, and the general public. Given the significant improvement in spreading the message of procurement modernization and the importance of reform that resulted from the communication campaign in just the final eight months of the project, the campaign should have been an integral feature of project design from the beginning.

Approach PPPs as a procurement tool and not just a funding source. PPPs are often portrayed as a financing option to governments that do not possess sufficient funds to afford payment for the basic delivery of infrastructure assets. In reality, however, these projects are funded in large part with taxpayer money. These projects deliver public services and generally involve major infrastructure, but due to their size and complexity suffer from shortcomings in planning and execution and are highly vulnerable to corruption. The design of the PPP Sub-Activity was unique as it supported the consideration of these complex projects in the context of procurement and as an alternative to the traditional procurement for delivery of physical infrastructure assets in Indonesia. The program's objective was to introduce the primary principles of procurement: transparency of decision processes; accountability of public officials; introduction of fair, non-discriminatory, competitive PPP Procurement Policy and Procedures; and access to standardized bidding documents with relevant generic contractual provisions accessible to all stakeholders. As a result of the Procurement Modernization Project, LKPP now has a central role in procurement of PPP projects in Indonesia with procedures, tools, and skills to safeguard the planning and selection process.

COMPACT CHANGES

In May 2016, MCC approved a reallocation from the Green Prosperity Facility Activity to the PLUP Activity, the Procurement Modernization Project, and the Nutrition Project. The ERRs associated with the affected projects or activities had not been calculated (in the case of the PLUP Activity and the Procurement Modernization Project) or were not significantly impacted by the proposed modification (in the case of the Nutrition Project). This reallocation was prompted by several developments in the compact:

- ★ As a result of the increase in geographic scope of the GP Project to align with GP grantees, the PLUP Activity expanded to cover a total of 45 districts, up from the 26 districts originally envisioned, which required an additional \$16.6 million. An additional \$1.5 million was requested for mapping peatland hydrology in four priority districts in partnership with the new Peatland Restoration Agency (BRG) established by the GOI in 2016. MCA-Indonesia entered into a partnership with BRG in 2016 to deepen the GP Facility's engagement with peatland restoration work as part of its existing portfolio and to connect those projects with the GOI's leading technical experts.
- ★ As the Procurement Modernization Project entered Phase II, the focus shifted to ensuring replicability and sustainability of the activities. There was a desire by both LKPP and MCC to ensure that Phase II PSUs were strategic and aligned with Indonesian President Widodo's desire to improve spending for high priority social and physical infrastructure. As a result of this orientation, MCA-Indonesia requested \$1.5 million to develop and mentor participants in specialized training modules for the Ministries of Public Works, Transportation, and Finance under the Procurement Professionalization Activity. Due to their large procurement spending (over \$10 billion in 2016), these three ministries provided the Procurement Modernization Project with an opportunity to improve the procurement of infrastructure that underpins the GOI's national economic development objectives. An additional \$4 million was provided to support increased training and logistical costs for Phase II PSUs.
- ★ Approximately \$6.2 million in additional funds were used to expand the reach of the PSU mentoring, framework contracting, and procurement management information system (PMIS) sub-activities. Following the successful integration of fraud filters into the PMIS, LKPP requested an additional \$1 million to expand the roll out of fraud filters nationwide. Under the Policy and Procedure Development Activity, an additional six pilot model bidding documents were developed for PPPs. The reallocation provided \$1.5 million to establish a knowledge and communications center in LKPP to sustain and scale up procurement modernization in Indonesia beyond the compact term. These changes aimed to deepen the Procurement Modernization Project's

engagement with critical GOI entities to expend more of their budget, with greater efficiency, and deliver key public services of greater quality.

- ★ For the Nutrition Project, an additional \$4.7 million was provided to the National Nutrition Communications Campaign in two main areas: 1) a mass media campaign to reinforce and popularize key nutrition and sanitation messages; and 2) a direct interpersonal communications campaign. MCA-Indonesia expanded the mass media effort to include additional TV, radio, and print advertisements and an intensification of the digital media campaign. MCA-Indonesia also funded a program of direct communications at the district and village level, consisting of interpersonal communication skills training, advocacy, and community-based activities and events. These activities were implemented by leveraging community groups, implementing partners, and existing agencies in three selected districts, while the mass media component of the campaign continued at the national level.

In June 2016, MCC approved a further reallocation of \$12 million from the GP Facility to the Technical Assistance and Oversight Activity within the GP Project. As the GP Facility portfolio was taking its final shape, MCA-Indonesia anticipated \$8.5 million in shortfalls in the budget for the Technical Assistance and Oversight Activity. The first portion of the estimated shortfall was to complete program administration and oversight. The second portion of \$3.5 million represented new initiatives to mitigate implementation risks and improve the sustainability of the project by providing targeted resources to key stakeholders to reduce GHG emissions, restore peatland, and expand use of renewable energy in Indonesia.

A second reallocation totaling \$7.7 million was also made in June 2016 from the Program Administration and Control Activity to the Procurement Modernization Project's Procurement Professionalization Activity. Approximately \$1.6 million was provided to



Women graft cocoa plants in Indonesia.

fund additional workshops to expand socialization of key concepts as well as the development of a competency-based professional certification program. Another \$1.6 million was used to improve the security infrastructure of the e-tendering platform and related service centers. Finally, MCA-Indonesia's implementation experience showed that logistics costs for the Procurement Modernization Project exceeded estimates, and an additional \$4 million was used to continue human resources development training.

At the same time, MCA-Indonesia also proposed to utilize \$3 million of the Nutrition Project for new initiatives described in an Implementing Entity Agreement with the Ministry of Villages. To successfully implement Indonesia's Village Law, the Ministry of Villages had a mandate to develop minimum services standards for basic social services related to nutrition, health, and sanitation. These standards aimed to empower and guide village governments as they developed plans and budgets to utilize village funds for these services. To ensure the sustainability of interventions begun under the Nutrition Project, MCA-Indonesia agreed to support the Ministry of Villages to incorporate critical technical information for combatting stunting into the minimum services standards with the goal of properly and consistently including nutrition and sanitation in the regular planning and budgeting system at the village level.³⁹

COORDINATION AND PARTNERSHIPS

The compact was situated in an already crowded field of donor assistance in Indonesia. Therefore, it was important to select sectors with demonstration effects for the GOI, allowing them to use the MCC model to approach development challenges in new ways and to design projects that were scalable. In doing so, MCC and the GOI had opportunities to work with other development partners to build upon their knowledge and expertise, particularly in the Nutrition Project, which worked with UNICEF, the World Bank, and Australia's Department of Foreign Affairs and Trade (DFAT) through a multi-donor funding mechanism which supported the GOI-implemented Generasi Project.

The GPF was designed to identify, develop, and scale-up partnerships with the private sector and other development partners. Notable achievements through partnerships included:

- ★ Eleven major industry players in sustainable cocoa active in Indonesia, including multinational companies such as Cargill, Mars, Mondalez, Nestle, Olam and others, co-financed projects and partnerships with cocoa producers that will continue after the end of the compact.
- ★ The World Wildlife Fund (WWF) Rimba Corridor Green Growth Demonstration Project matched MCC's \$5 million to co-finance a \$10 million demonstration project designed

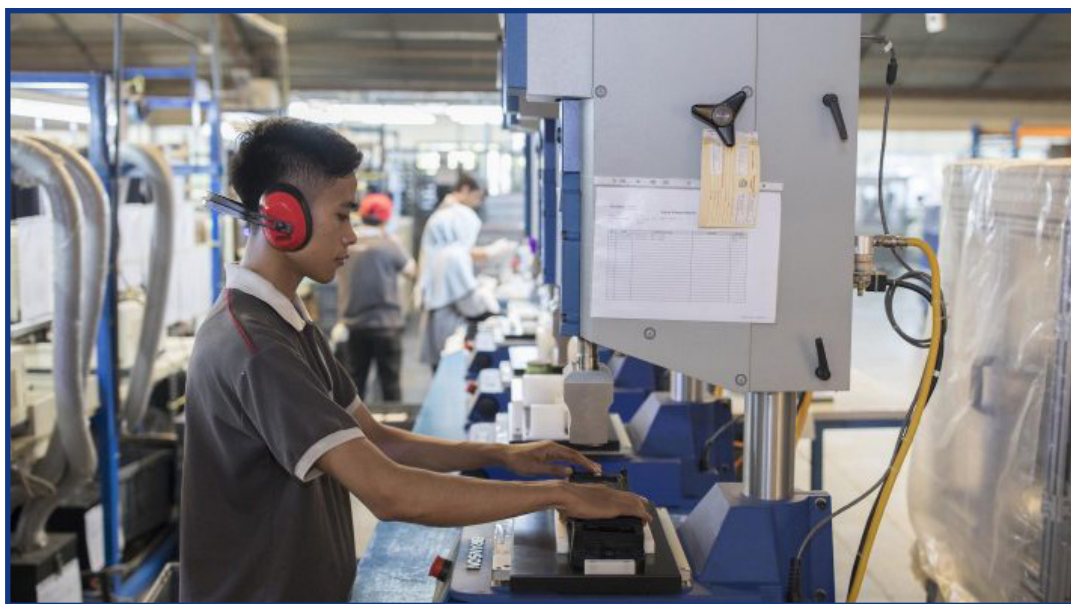
³⁹ This new initiative was presented to MCC management for the purposes of transparency; however, the funding came from within the Supply-Side Activity, therefore no reallocation of funds between Activities was required. Funds were made available by MCA-Indonesia from savings projected in the purchase of multiple micronutrients, the use of district consultants, and total awards planned for the private sector response activity.

to identify and demonstrate green development opportunities in three geographic areas of a high conservation corridor in Sumatra. This partnership targeted the coffee sector and prioritized identifying and supporting development of direct partnerships in the coffee supply chain.

- ★ The Norwegian and Dutch governments, along with a local service provider, contributed \$3.2 million in co-financing to scale up and expand installation and leasing of solar photovoltaic systems in households, schools, and kiosks. Projects supported the development of Renewable Energy Service Centers to address sustainability. These partnerships were expected to continue after the end of the compact.⁴⁰
- ★ MCC collaborated with Musim Mas and the International Finance Corporation (IFC) to train 4,700 smallholder palm oil farmers in improved production practices and preparation for eventual sustainability certification. MCC provided \$2.6 million in grant funding that leveraged an additional \$1.9 million from Musim Mas. This project was part of a larger \$10 million IFC effort to support independent palm oil smallholders in Jambi, Riau and North Sumatra provinces focusing on sustainability certification, environmental protection, access to finance, and traceability.

Partnership grants within the GPF were structured to ensure that partners continue the work with their own funding beyond the compact term. Similarly, on-grid renewable energy projects were structured with private finance provided by project sponsors to be used after the compact end to move projects to their commercial operations date. Overall, the GPF leveraged an estimated \$35 million of private sector funding.

Ricky works on the zinc metal air battery production line at Fluidic Energy in Bogor, Indonesia. Fluidic Energy is an American-owned company headquartered in Scottsdale, AZ, that supplies batteries for solar energy plants.



Jake Lyell for MCC

⁴⁰ MCC is waiting for information from the Government of Indonesia to verify this statement.

A major success was signing and implementing memorandums of understanding and agreement with MOWECP and IWAPI for promoting women's economic empowerment approaches and lessons within government, and private sector planning and programs, respectively. IWAPI organized events with buyers and corporations for women entrepreneurs, helping them access national and global markets for selling their products. IWAPI also supported women vendors training and uploaded all training materials on their website to support the continuous online training of women vendors.

POLICY AND INSTITUTIONAL REFORMS

Several conditions precedent to compact funding were identified in the compact. As a condition to Phase II of the Procurement Modernization Project, the GOI agreed to establish procurement as a functional position within the government. This condition was met ahead of schedule, and in support of this significant action, the Procurement Modernization Project developed and delivered 43 procurement and organizational skills training modules. The GOI also committed to continue the reforms to regulations governing the procurement of PPPs and sustainable public procurement, both of which were accomplished during the compact term.

The Procurement Modernization Project was also able to successfully realize national-level reforms, concurrently with the continued development of LKPP as an institution. However, the progress at sub-national levels was even greater, with several local governments passing regulatory reforms and institutionalizing the practice of public procurement through



Lusningsih is the Head of Human Resources for the Procurement Services Unit in Yogyakarta, Indonesia.

Jake Lyell for MCC

local parliament legislation, providing some institutional security for the newly-minted procurement professionals as they further developed their practice.

In the Nutrition Project, the condition precedent to continued funding in the compact related to the institutional home of the GOI-implemented *Generasi* project. This was met ahead of schedule and the change in the project's structure formed an integral part of the GOI's transition to further fiscal decentralization through the "Village Law." The project ultimately produced a set of guidelines to assist with the implementation of nutrition and sanitation activities using this new funding structure, supporting the sustainable transition to village-led management of funds.

Several reforms were identified as necessary for the successful execution of the Green Prosperity Project, particularly with respect to feed in tariff (FIT) changes and regulations associated with electricity project development such as the consolidation of conflicting sector master plans and the streamlining of the application process for Power Purchase Agreements (PPAs). These conditions were either not met or only partially met. While the FIT for mini-hydro was adjusted during the compact term, industry opinion was that these provided a disincentive for PLN to buy power from independent producers. Subsequent regulations raised the FIT more than 30 percent above PLN's average cost to purchase power and the government has not provided increased subsidy cover to PLN to cover its losses. With further changes in Ministry of Energy and Mineral Resources leadership, changing FIT regulations continued to be a source of uncertainty. Ultimately, with the restructuring of the GP Facility described elsewhere in this report, the reforms called for in the compact proved much less relevant. However, both are symptomatic of the troubled regulatory and policy environment for the energy sector in Indonesia. Meanwhile, reforms that had not been anticipated at compact signing, such as the adoption of improved spatial planning guidelines by the Ministry of Home Affairs that were consistent with the lessons from implementation of PLUP activities in multiple districts across the country, proved to be much more relevant and successful in terms of achieving the GP Project's goals of improving transparent decision-making around land use.

BEYOND THE COMPACT

MCC worked over 18 months with the GOI to create the implementing structure of the compact prior to entry-into-force in April 2013. MCA-Indonesia was established as a national trust fund, a new and innovative model for development funding in Indonesia, which has allowed the government to explore the possibility of taking a greater role in managing both donor assistance and its own development funding. One of MCA-Indonesia's greatest attributes was that despite its status as a government institution, it was permitted to channel donor and central government funding to development projects at the community level. MCA-Indonesia's design included a public and private

sector Board of Trustees, the first of its kind in Indonesia. After the establishment of MCA-Indonesia, the GOI created two more trust funds based on this model, most notably the *Indonesia Climate Change Trust Fund*, which has made grants to small projects around the country.

This spirit of experimentation and pushing the limits of what the GOI was able to accomplish on its own by way of policy reform in these sectors was advanced within the design of each project and played out during compact implementation in unexpected ways. For example, the Green Prosperity peatland portfolio included several initiatives to build the capacity of the GOI's newly-established Peatland Restoration Agency. The flexible design and focus of the GP Facility enabled MCA-Indonesia to support the accomplishment of GP objectives as well as supporting a national priority. Another example of how the GP Facility enabled policy changes to quickly be operationalized and brought to scale took place when a new Ministry of Forestry regulation was issued in December 2016 that streamlined the application process for social forestry licenses, changing the time needed from a minimum of two years to as little as three months. In 2017, MCA-Indonesia supported projects assisting dozens of community groups to secure such communal forest rights for over 139,000 hectares.

As described above, the most notable example of a project being implemented to a much larger scale than originally contemplated was the Procurement Modernization Project's expansion from \$50 million to \$75 million. For the recruitment of the initial pilot PSUs, MCA-Indonesia took several months to convince local mayors and governors that the project would be worth their time and effort. By the beginning of Phase II, when it came



Solar panels along an Indonesian hillside.

Jake Lyell for MCC

time to select the additional pilots, PSUs from around the country were competing to participate in the project, each trying to outdo the other's declarations of transparency and commitment to better procurement results. By the conclusion of the project, non-pilot PSUs received training from some of the first PSUs selected, some of which aimed to be accredited as Centers of Excellence.

The graduates of the entire organizational and procurement skills training program, consisting of 30 formal training courses and substantial mentoring, took the initiative to establish their own network for procurement professionals to learn from and support one another. The pilot PSUs are also already serving as mentors and champions to other non-pilot PSUs. As of December 2016, the Yogyakarta city government PSU was mentoring seven non-pilot PSUs and the Special Capital Region of Jakarta was mentoring other PSUs in setting up Framework Agreements. MCA-Indonesia's innovative Indonesian Procurement Maturity Model was also adopted by LKPP for use in more than 600 other PSUs across the country.

LESSONS FROM THE COMPACT

Focusing on government priorities may help achieve greater impact. As described above, the issues of project sustainability were addressed during the design phase, as the GOI committed publicly to taking the lessons learned from compact implementation and using them to either scale-up interventions or change their own implementation modalities and policies.⁴¹ This commitment was possible because, during the program design phase, MCC and its Indonesian counterparts selected areas of interest to the GOI to get relatively more traction and high-level interest despite MCC being a relatively small donor in the country.

Striking a balance between high-profile activities and streamlined implementation is critical. Projects that generated a greater level of interest and involvement from stakeholders simply took longer to be implemented because of increased bureaucratic obstacles. If it had been possible for the Indonesian legislature to ratify the compact, some of this bureaucratic inertia may have been overcome or avoided; though, it is also possible that greater visibility to legislators would have further delayed project implementation. However, the flexibility afforded by the compact's structure and the scalable design of the projects allowed MCA-Indonesia to be opportunistic in recruiting mid-level champions for each of the projects as GOI staff shifted, helping to accelerate various components. For example, the establishment of the Peatland Restoration Agency

⁴¹ As the compact entered the final year of implementation, MCA-Indonesia took seriously its charge to outline these "models" of application and "lessons learned" for its GOI stakeholders as reflected in the large number of studies produced. The best example is the Green Knowledge repository: <https://pengetahuanhijau.batukarinfo.com>.

was not contemplated in the compact but was an excellent opportunity to catalyze the work that had been started under the PLUP Activity in line with the GOI's focus on preventing peat fires.

MCC's competitive advantage in Indonesia from the GOI's perspective was the ability to experiment. The projects manifested the GOI's own desire to break with the status quo and use compact projects and the institutional setup of MCA-Indonesia to reach beneficiaries in ways that otherwise were not possible under the existing regulatory framework. For example, the GOI was not able to provide grants directly to community-owned microgrid energy projects through their own regulations, while MCA-Indonesia could make such grants under the compact. Another example was the way that the results of participatory village boundary-setting exercises fed up to approved, national-level mapping efforts instead of conflicting with them. The desire to improve systems led to unforeseen advances in the policy environment, particularly for the Nutrition and Procurement Modernization Projects. In both cases, the compact projects were situated in an overall context of reform and change, had been designed to be adaptable and scalable to manage this change, and were able to use MCC's country-led model to make policy advances.

MCC should consider policy implementation at all levels of government, from national to the village level. MCC and the GOI knew that a set of interventions at the national level would not be enough to achieve a meaningful reduction in poverty. In this case, it was critical that the concept of country ownership be interpreted as ownership by multiple levels of government and local stakeholders including, for example, ratification of agreements by local legislatures, but with such a widely dispersed program, this resulted in complexity, with hundreds of local governments involved in the compact.



Receptionist Herlina helps patients at Pratama Hospital in Yogyakarta (Jogjakarta), Indonesia, which was built and is supplied under the new system implemented by the Procurement Modernization project.

Jake Lyell for MCC

Reducing Poverty Through Growth



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UNITED STATES OF AMERICA

1099 14th Street NW | Suite 700
Washington, DC 20005
www.mcc.gov