Annex 18: Strategy to Reduce Fraud and Corruption

INDONESIA: Third Urban Poverty Project

As in other community driven development projects, the strategy to limit corruption in the Third Urban Poverty Project follows the following themes: i) simplicity, ii) transparency, iii) accountability, iv) socialization, and iii) monitoring and follow up actions. The following explains the details of actions taken under the project in this respect.

Simplicity

UPP3 funds go directly to communities, i.e. to the BKM account in the case of Kelurahan Grants and to the Dinas/BKM joint account in the case of the Poverty Alleviation Partnership Grant. Once the beneficiaries fulfill the drawdown conditions, following a request from the PJOK (after verification by the Oversight Consultants), the funds are remitted from the Special Account within a few days.

The BKM prepares and executes budgets on behalf of the community under the guidance of the OCs, and the community controls them. In order to ensure that the BKM can perform its expected functions effectively, the financial formats are simplified to ensure that the BKM can prepare them easily, and, more importantly, to ensure that the community which controls them, can easily understand them.

The procedures, size and criteria for defining grants, eligibility criteria for beneficiaries, and conditions for drawdown are simplified and defined upfront to ensure that stakeholders can understand them easily. For the Kelurahan Grants, the conditions for drawdown of funds to BKM are linked to performance rather than inputs, with the first drawdown of 20% based on satisfactory completion of the BKM’s Community Development Plan, the second 60% based on indicators of satisfactory utilization of funds and financial management, and the third 20% based on indicators of BKM sustainability.

Transparency

All financial information is made public and displayed in the kelurahans. Minutes of meetings, BKMs’ monthly financial status, bad debtors, and names and amounts of funded proposals are posted on signboards that are displayed around the kelurahan.

Discretion of actors is limited by setting rules that all financial transactions require at least three signatures, two from the elected BKM members and one from the project’s OC. For purchases above Rp. 15 million each, the project requires the BKM to conduct a limited bid whereby quotations must be read out in public. For smaller purchases, local shopping must be carried out by two persons who will seek quotations from local suppliers.

Socialization

Socialization will be carried out through meetings, workshops and focus group discussions at the kelurahan, kecamatan, kota and provincial levels. It will also include a campaign through newspaper spots and radio programs. The full time presence of kelurahan facilitators in the field is a critical input in the socialization process. The socialization strategy is geared towards making communities aware of the project’s goals, and its rules and regulations. These are aimed to ensure that stakeholders know what their respective roles and responsibilities are, and how to hold each other accountable for their actions. Accountability of the BKM to the community can only be effective if the community wants to know and holds the BKM accountable when something goes wrong. Accountability to the government will only work if both sides are aware of the rules of the game and are taking an active interest in each others’ actions. An important part of the socialization process will be letting people where to go and what to do if they are not satisfied with the project’s outcomes.
Accountability

Under UPP3, BKMs will meet regularly to make collective decisions on strategic issues, and to review the UPK’s accounts regarding the use of funds. The BKM will also hold annual meetings with the general community to account for its activities during the year.

BKM finances will be audited each year by local accountants. Audit results will be reported to the community at the end-of-year BKM accountability meeting.

In order to enhance the quality of consultants’ supervision under the project, facilitators are required to regularly check the BKM and UPK books. They will also need to sign and file a “representation statement” regularly, confirming that they have checked the books and found them satisfactory. The OCs at higher level would randomly check the facilitators’ statements and will also be required to sign and file similar representation statements. A mechanism for checking and applying sanctions will be developed for those filing false statements (sanctions may include job separation).

Monitoring and Sanctions

The project will require extensive field monitoring. The NMC will develop a program for regular project monitoring and each BKM will be visited at least twice per year.

An address to mail complaints will be posted in the kelurahan’s signboards. A special unit/person designated for handling of complaints will be made available in the NMC and OCs. The database of complaints and their follow up actions will be maintained by the OCs and NMC. The complaint handling unit/person will investigate and facilitate the resolution of complaints and problems. The database of complaints, follow-up actions being taken, and sanctions applied will be publicized to increase participants’ involvement and to increase the likelihood of their lodging protests, thereby raising the social costs of misuse of funds.

Drawdown of funds from the project Special Account to BKMs could be suspended in case misuse of funds is suspected. At a larger scale, entire kota(s) may be excluded from participation in the subsequent phase if misuse of funds is suspected to occur widely in the respective kota(s).

Examples of how corruption was handled in UPP1

BKM Kota Baru, Bekasi, West Java: The BKM in this kelurahan was not formed in a democratic manner. The BKM chairman was “elected” by manipulation of the head of the kelurahan (the Lurah). The Chairman ran a business which needed cash, so fake KSMs were formed and the money channeled to the Chairman’s business. This malpractice was discovered by a young community resident who informed the facilitator. The facilitator tried to set up a community meeting with the BKM but was vetoed by the BKM members. The Oversight Consultant intervened and a community meeting was held. The BKM chairman confessed and the money is being returned. New elections produced a new set of BKM leaders truly elected by the community.

BKM Bintoro, Demak: The identity card of some villagers had been borrowed by the members of BKM. The reason was not explained to the villagers. Some BKM members used the cards to create a fictitious KSM called Amana in order to siphon funds for themselves. Amana owed a debt of Rp. 58 million to the BKM, almost 60% of all delayed micro-credit repayments in the kelurahan. Members of the board used the money for their own purposes—for instance, the treasurer Zaenuri claimed that he had lent Rp 10 million to some friends to start a business trading in ginger. A group of community members decided to form a team – Tim Penyelamat Dana P2KP or ‘Team to safeguard UPP Funds’. Their primary objective was to remove the old BKM. One strategy was to socialize the problem to the broader community and garner their support to this end. A second strategy was pushing for the support of the Bappeda, the chair of the Government Coordination Team for UPP. After a series of meetings at the Bappeda, the old chairman BKM agreed to step down.

BKM Cipadung, Bandung: The treasurer was accused of embezzling around Rp. 100 million of the funds. The money was used to build a private Islamic school. The treasurer created two fictitious KSMs, marking up the amounts requested by the KSMs, and hoarding repayments. The community formed a Tim Penyelamat Dana P2KP (Team to Safeguard UPP Funds). This team with the help of the facilitator, acted as a pressure group to solve this case. However, the problem could not be solved at the community level. Eventually, the case was formally reported to the police and the suspect was detained.