

Incentivized community grants for aid effectiveness

A community-based performance-incentivized grant program shown to improve health reached 3.7 million women and children in Indonesia.



Indonesians participate in their community block grants meetings and decision-making process as part of Generasi, 2007. Photo: Komar | Shutterstock.com

Enabling local communities to allocate development funds to programs and activities that best meet community needs could more effectively improve outcomes for the neediest individuals and avoid wasteful spending. Providing performance bonuses based on communities' past success at improving health and education outcomes is one way to make social spending even more effective. Research conducted from 2007 to 2009 by J-PAL affiliate [Ben Olken](#) (MIT), together with Junko Onishi and Susan Wong, showed that community block grants linked to performance were more effective in improving maternal and child health outcomes than non-incentivized grants in Indonesia. Based on this evidence, the Government of Indonesia moved exclusively to a system of incentivized grants.

The Problem: What are the best ways to design performance-based aid programs?

Recently there has been an increased drive among governments, international organizations, and NGOs to strengthen the link between development aid and performance. While linking aid to performance may create incentives to improve effort and mobilize additional resources, there are potential downsides as well. For example, communities or individuals may reallocate effort toward targeted indicators at the expense of other goals. There is also a risk that performance-based aid will drive budgets to be directed to richer or otherwise better-performing locations.

In 2007, the Indonesian government began a pilot program to test community-based block grants—a new approach to improving health and education. Under the program, known as Generasi, villages received annual block grants which they could allocate to activities covering twelve health, nutrition, and education indicators. The twelve indicators represented activities that were within direct control of villages—such as the number of children who receive immunizations or prenatal and postnatal care, and the number of children enrolled and attending school—rather than long-term outcomes, such as test scores or infant mortality.

The Research: Community block grants improved health and education in Indonesian villages, and adding performance incentives sped up improvements in health.

J-PAL affiliated researchers and coauthors worked with the

Government of Indonesia's Ministry of Home Affairs to [evaluate the effectiveness of Generasi](#) as it was being rolled out in villages across the country between 2007 and 2009. In some randomly selected communities, a portion of the subsequent year's grant was allocated based on their relative performance on twelve health, nutrition, and education indicators. Researchers found that health indicators improved more for incentivized communities than for non-incentivized communities, particularly in less developed provinces, but found no effect of incentives on education. In total, between 50–75 percent of the impact of the block grant program on health indicators can be attributed to the performance incentives.

To learn more about the program, see the [evaluation summary](#).

Drawing on a growing body of international evidence...the project provides an incentives-based scheme to increase demand for tools to reduce stunting, while improving the health sector's capacities to respond to increased demand.
– United States Embassy, Indonesia. November 2011

From Research to Action: Building an evaluation into the program design enabled researchers to engage the government at all stages and resulted in rapid scale-up of the research pilot.

Following the Government of Indonesia's decision to scale up incentivized block grants within Generasi in 2010, the US government's Millennium Challenge Corporation (MCC) signed a US\$600 million compact with the Government of Indonesia to fund projects to reduce poverty. Citing the evaluation results, [MCC pledged over US\\$130 million of the compact](#) to support the next phase of Generasi, including revising the program to further target stunting and nutrition outcomes, which were identified as priorities by the Government of Indonesia.¹

The revised program, known as Generasi Plus, reinforced the community incentives system originally piloted under the program and added performance incentives for individual service providers to ensure that the supply of health services met communities' demand. The Government included an evaluation component that focused on measuring household

level impacts, as well as the effect of incentives for communities and health workers.

The current version of the Generasi program is scheduled to end in 2018. In 2015, the Government of Indonesia began to roll out a much larger community development program called the Village Fund. The government was planning to integrate the Generasi program into the Village Fund but requested evidence to help them decide whether they should continue to implement Generasi or prioritize other interventions instead. To help answer this question, researchers conducted a long-term follow-up survey in the original Generasi treatment and comparison groups in 2016 to measure whether the program's impacts persisted. The researchers presented the results to the government and will release a paper summarizing their findings in 2018.

References

Olken, Benjamin A., Junko Onishi, and Susan Wong. 2014. "Should Aid Reward Performance? Evidence from a Field Experiment on Health and Education in Indonesia." *American Economic Journal: Applied Economics* 6 (4): 1-34. <http://dx.doi.org/10.1257/app.6.4.1>.

¹Millennium Challenge Corporation. "Notice of Entering Into a Compact With the Republic of Indonesia." Notice 76 FR 73691. November 29, 2011. Accessed October 10, 2018.

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