Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)
## BASIC INFORMATION

### Proposed Development

#### A. Basic Project Data

<table>
<thead>
<tr>
<th><strong>Country</strong></th>
<th><strong>Project ID</strong></th>
<th><strong>Project Name</strong></th>
<th><strong>Parent Project ID (if any)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>P165543</td>
<td>Institutional Strengthening for Improved Village Service Delivery Project</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Region</strong></th>
<th><strong>Estimated Appraisal Date</strong></th>
<th><strong>Estimated Board Date</strong></th>
<th><strong>Practice Area (Lead)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia and Pacific</td>
<td>January 31, 2019</td>
<td>April 22, 2019</td>
<td>Social, Urban, Rural and Resilience Global Practice</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Lending Instrument</strong></th>
<th><strong>Borrower(s)</strong></th>
<th><strong>Implementing Agency</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Project Financing</td>
<td>Government of Indonesia</td>
<td>Ministry of Home Affairs, National Development Planning Agency, Ministry of Villages, Disadvantaged Areas and Transmigration</td>
</tr>
</tbody>
</table>

### Objective(s)

To strengthen institutional capacity for improved quality of spending in participating villages

### Components

<table>
<thead>
<tr>
<th><strong>Component</strong></th>
<th><strong>Amount (in USD Million)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening Village Government Institutions</td>
<td>185.00</td>
</tr>
<tr>
<td>Promoting Participatory Village Development</td>
<td>95.00</td>
</tr>
<tr>
<td>Village Performance Based Incentive</td>
<td>50.00</td>
</tr>
<tr>
<td>National Coordination, Monitoring and Supervision</td>
<td>20.00</td>
</tr>
</tbody>
</table>

### Financing (in USD Million)

<table>
<thead>
<tr>
<th><strong>Financing Source</strong></th>
<th><strong>Amount</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower</td>
<td>403 million USD</td>
</tr>
<tr>
<td>IBRD</td>
<td>350 million USD</td>
</tr>
</tbody>
</table>

**Total Project Cost**: 753.0
Environmental Assessment Category

B- Partial Assessment

Have the Safeguards oversight and clearance functions been transferred to the Practice Manager? (Will not be disclosed) NO

Decision

Other Decision (as needed)

B. Introduction and Context

Country Context

1. Indonesia is the world’s largest archipelagic state, fourth most populous nation, tenth-largest economy in purchasing power parity terms, and is one of the most socially, economically and culturally diverse countries in the world. Indonesia has a population of more than 261 million, with 300 distinct ethnic groups, and over 700 languages and dialects spread across around 6,000 inhabited islands spanning 1.9 million square kilometers from Aceh in the Indian Ocean to Papua on the edge of the Pacific. The country has witnessed rapid urbanization since the 1970s. However, with approximately 45 percent of the population (i.e. 118.9 million people) living in rural areas, it remains less urbanized than most middle-income countries.

2. Indonesia continues to make progress on reducing poverty and has begun to reverse inequality, with the poverty rate falling to a single digit for the first time in 2018 and the Gini coefficient declining. Indonesia made large gains in poverty reduction since 1999, cutting the poverty rate by more than half to 10.6 percent in 2017. However, most of the progress happened before 2012, with poverty rates declining by 4.6 percentage points between 2007 and 2011, compared to a 2.1 percentage point reduction since 2012. Inequality increased over this period, rising from a Gini coefficient of 30 in 2000 to 41 in 2010. More recently, both poverty and inequality have begun to decline. The national poverty rate fell to 9.8 percent in 2018 and the Gini coefficient to 38.9.

3. Poverty is significantly higher in Indonesia’s rural and lagging regions, and the rural poor are particularly vulnerable to sliding back into poverty. The rural poverty rate is about 14 percent, compared to 7.7 percent in urban areas. This means that close to 60 percent of the poor reside in rural areas, where poverty reduction has tended to be slower. From 2014 to 2017, the rural poverty rate declined by only 0.3 percentage points, from 14.2 to 13.9 percent, compared to the 0.6 percentage point decrease, from 8.3 to 7.7 percent, in urban areas. Households living in predominantly rural districts also lag on several other human development indicators. For example, only 86

---

1 World Development Indicators for Indonesia, (updated November 14, 2018), World Bank.
percent of births are attended by a skilled health worker and 62 percent have access to safe drinking water in predominantly rural districts, compared to 98 percent and 83 percent in predominantly urban districts. Likewise, socioeconomic outcomes are lower, with household heads in predominantly rural districts attaining lower levels of education (8.5 years vs. 10.0 years in urban districts), being much more reliant on agricultural employment (49 percent vs. 11 percent in urban districts) and informal employment (38 percent in rural districts versus 66 percent in urban districts). Overall, rural Indonesians remain vulnerable to poverty, and lack the economic security to transition to the middle class, which is crucial to Indonesia's future growth.

4. **The rural poor are also exposed to shocks from natural disasters and climate change, threatening their livelihood security and contributing to trapping them in poverty.** Indonesia is highly vulnerable to the negative impacts of climate change; hydrometeorological events such as floods and droughts, which currently make up 80 percent of disaster occurrences in the country, are projected to increase with climate change. In the long run, Indonesia is also anticipating impacts from slow-onset events, namely sea level rise (SLR), increasing temperatures, and shifting rainfall patterns. The poor populations in Indonesia's rural and lagging regions face greater risks from exposure to natural disasters and climate change because of their greater reliance on agriculture and other natural resource based livelihoods, as well as greater levels of informality in employment. This impacts rural areas, and particularly the rural poor, through multiple channels, including increased disaster damage to village infrastructure, water shortage, reduced agricultural yields, increased food insecurity, more prevalence of climate-sensitive diseases (such as diarrhea, dengue and malaria), etc. Java, Bali and Sumatra islands face high and very high risks from climate change compared to other regions, due to their higher concentration of population and infrastructure. Villages in Eastern Indonesia are also particularly prone to more droughts.

5. **Indonesia's dynamic digital economy, driven in part by its young tech-savvy population, together with its infrastructure investments in reducing internet costs and expanding the fiber backbone to all regions, provides a unique opportunity to bridge the “digital divide” between urban and rural areas as well as the poor and non-poor.** Indonesia is rapidly digitizing; however, it is concentrated in urban areas despite recent government efforts to expand access to internet services in rural areas and remote regions. In only five years, the total number of internet users in Indonesia expanded from roughly 63 million in 2013 to 143 million people in 2017. This rapid growth in internet users is consistent with decreasing mobile data costs. From 2014 to 2018, the cost of one gigabyte in Indonesia decreased from roughly two percent of GNI per capita to less than 0.8 percent, making data costs in Indonesia as low as 50 percent of the cost paid in neighboring ASEAN countries. While in urban areas 72.4 percent of the population had internet access, for rural areas internet penetration stood at 48.3 percent. To improve connectivity throughout Indonesia, the government is undertaking an ambitious country-wide infrastructure investment, the Palapa Ring Project, spanning 67,887 kilometers of broadband fiber-optic cable over sea and land, and making concerted efforts to link district governments to the internet; in 2018, around 80 percent of district governments were connected to

---

2 SUSENAS 2017 data.
3 Government of Indonesia (2016), Indonesia’s First Nationally Determined Contributions submitted to the UNFCCC.
5 Association for Internet Service Providers in Indonesia (APJII).
fiber optic networks. Increasing digitization across Indonesia provides an opportunity to capitalize on cheaper, more efficient and cost-effective service delivery across Indonesia’s 75,000 villages.

**Sectoral and Institutional Context**

**Sectoral Context**

6. In 2014, the Government of Indonesia (GoI) passed the Village Law (2014/6), significantly increasing fiscal resources for development and community empowerment in Indonesia’s 75,000 rural villages (desa). Between 2015 and 2018, fiscal transfers to villages increased from IDR 78 trillion (US$5.6 billion) to IDR 119 trillion (US$8.4 billion). The new Village Law also expanded the roles and responsibilities for villages, including for village administration, development, basic service delivery, and community empowerment. The fiscal transfers are large and in 2018 they accounted for approximately six percent of the national budget, and around 0.5 percent of GDP. On average, a village now receives approximately IDR 1.6 billion ($113,500) every year, although the amount on a per capita basis varies widely because the allocation formula includes a large fixed allocation and village population sizes vary greatly; while on average villages have 2,500 inhabitants, they range from less than 500 people, to well above 5,500 people.7

7. The increased financial resources and the new institutional framework offer new opportunities for villages to invest in larger, multi-year and multi-sectoral development activities and strategies in alignment with village needs and local district and regional development priorities. To access and use these financial resources the Village Head and the village administrative apparatus are required to prepare six-year Village Medium-Term Development Plans (RPJMDes),8 annual Village Development Plans (RKPDes), annual Village Budgets (APBDes), and annual financial reports in consultation with community members. The district government is also required to review and endorse the annual village budget. In contrast to previous village development activities, which were fragmented across multiple sector programs and/or tended to bypass local government planning processes, the Village Law enables villages to: (a) make larger multi-year investments—for example, instead of one-off sub-projects of around IDR 150-200 million (US$10,000-15,000), villages can plan larger multi-year activities; (b) address development problems that require investments across multiple sectors—for example, the National Strategy for Accelerating Stunting Prevention supports villages to invest in the health (maternal health and community growth promotion activities), water and sanitation, early child education services as well as strengthens village leadership and capacity to oversee convergence of these multi-sectoral services;9 (c) finance a wider variety of investment types—in additional to infrastructure investment, villages have more scope to inject capital into village-owned enterprises and manage assets for village development purposes; (d) align village investments with local district and regional development priorities; and (e) ensure synergies across a wider variety of activities.

---

7 An average village in Indonesia has around 2,500 people or 500-600 households. However, about one-third of villages have less than 500 people or 100 households (generally in Eastern Indonesia and other more remote locations), and about one-third have more than 5,500 people or 1,000 households.

8 The six-year RPJMDes is aligned with the Village Head election cycle; that is, Village Heads are required to prepare the development plan within one year of their election (or re-election). Village Heads must be a resident in the village and can be re-elected three times for a total of 18 years.

9 See results area 4 of the Investing in Nutrition in Early Years (P164686)
8. These investment opportunities have opened new “pathways” for villages to address Indonesia’s gaps in rural infrastructure, jobs and human capital, as well as rural connectivity and digital inclusion, and thereby contribute to poverty reduction and future economic growth. For addressing remaining infrastructure gaps, improving local services to reduce stunting, managing natural resources and disaster risks, or improving local economic development, villages occupy the key position where government meets the community. Playing this role effectively depends on how well villages can identify their priority needs, and then convert increased financing into investments and services that effectively meet those needs. In turn, this depends on the capacity and incentives of the village government to work with the community, as well as with higher levels of government, to plan, budget and implement village development. Village government capacity, accountability, and incentives to perform will be a key determinant of the Village Law’s impact. These relatively early days of Village Law implementation are a key window of opportunity for national government to set policies, and make large-scale investments to strengthen villages – both governments and communities – to use their expanded transfers effectively.

9. There are some early signs that some villages are taking advantage of these new opportunities, with the number of “independent villages” increasing from 2,894 (3.9 percent) to 5,559 villages (7.6 percent), and the number of “left-behind villages” declining from 19,750 (26.8 percent) to 13,232 villages (17.9 percent) between 2014 and 2018. The government Village Development Index (IPD) is one attempt to measure village development progress holistically, albeit one that is imperfect and requires improvements. The index consists of five core components and is based on 42 composite indicators from the Village Potential (PODES) survey, which is a village census that the Central Statistical Agency (BPS) conducts every 3-4 years. The five components are basic service delivery facilities, village infrastructure conditions, transportation and accessibility, general services and village administration. The overall index score increased from 55.7 to 59.4, with most gains coming from improvement to village infrastructure conditions and village administration. Unsurprisingly, the majority of “left-behind villages,” which score low on the index, are in Papua, Maluku and Kalimantan, as well as pockets of Sumatra, Sulawesi and NTT.

10. There are also tentative signs that rural poverty reduction is accelerating after three years of stagnation, although it is too early to know whether this will be sustained, and it is difficult to directly link this to village investments. The official government statistics on poverty concluded that rural poverty declined only marginally from 14.2 percent in 2014 to 13.9 percent in 2017. However, as noted above, in March 2018 it recorded the largest year-on-year decline since March 2011, with the poverty rate for the first time decreasing faster in rural than in urban areas. This is partly the result of a recent expansion in social assistance programs and buoyant labor market conditions, and

---

10 The Government of Indonesia has developed a Village Development Index, classifying villages as “independent,” or advanced development, “developing,” and “lagging.” The index is updated annually, and draws on 42 composite indicators, with 117 specific indicators, including measurements on five dimensions: basic services, infrastructure, transportation, public services, and governance.

11 The survey was conducted in May 2018, and therefore it covers three effective years of increased financial resources for villages, i.e. 2015, 2016 and 2017. Villages usually receive the first tranche of fiscal transfers around March-April, and most activities occur in the second half of the year.

12 The IPD measures across 47 indicators, many of which are correlated, and therefore provides an imperfect measurement of village development.
some in government have argued that increased financial resources for villages, which reached the full allocation in 2017, contributed to the decline rural areas.13

11. However, most evidence indicates that most villages have stuck with “typical” investment strategies that will only contribute marginal improvements to their IPD score and are unlikely to create new economic opportunities, increase human capital, or transform livelihoods. The Village Public Expenditure Review (ViPER), which the World Bank conducted in 2016, found that villages spent almost 40 percent of their budget on village administration, 38 percent on village infrastructure, and very little on health, education and livelihoods.14 The government’s monitoring data indicates similar patterns in more recent years. The Ministry of Villages, Disadvantaged Areas and Transmigration (MoV) reported that in 2017 spending on village administration had declined to around 30 percent, village infrastructure had increased to almost 60 percent, and spending on human capital and economic empowerment remained very low.15 Furthermore, systematic qualitative research indicates that although the quality of individual infrastructure sub-projects are satisfactory overall, villages tend to simply divide up development spending relatively evenly between hamlets within a village.16 This results in small and fragmented investments (e.g., small-scale infrastructure sub-projects or, worse, “beautification” sub-projects), which have little impact on economic growth and poverty reduction.

12. Villages have not yet realized the full potential of the Village Law to contribute to improved socio-economic development. Several factors currently constrain villages from translating their financial resources into better development impacts, although these factors vary widely from village to village. Many villages are unable to envisage and oversee more complex village investment plans, because they lack the requisite capacity for comprehensive planning, lack basic information on village needs as well as more complex information on regional development plans, lack access to technical service providers that could help them implement the plans if they wanted, and lack incentives and community demand to embark on more ambitious development plans. There is wide variation across the country in village leadership, participation and citizen engagement, management and technical capacity, and incentives to take advantage of the new investment opportunities. Global empirical research and operational experience relating to local governance and community-driven development (CDD) emphasize that capacity building through incentives for public sector workers, improved selection processes, and top-down and bottom-up accountability mechanisms are effective in improving local governance and strengthening development outcomes. Community participation and citizen engagement can also play a contributing role. Across potential interventions, costs of implementation should be weighed against evidence of impact, with attention given to lowering investments in less proven interventions.17 For example, reducing investments in traditional capacity building face-to-face training and education that have variable impact records.

13. The challenges of enabling villages to invest effectively are compounded by the scale of the country and variation in the situation of Indonesia’s 75,000 villages. Given the size and variation across Indonesia’s 75,000 villages,

---

16 On infrastructure quality, see World Bank, Indonesia Village Law: Evaluation of Infrastructure Built with Village Funds, October 2018; on village planning, see Sentinel Villages study.
approaches to support villages must be adaptable, flexible, and demand driven. Current systems of support are often “one size fits all” and supply driven, addressing village needs with a uniform approach. This not only creates a gap in the services for village development, but also results in inefficiencies in government expenditures towards villages. There is no uniform solution that will resolve all problems and ensure all villages take full advantage of their new investment opportunities in accordance with their local needs and priorities. For some villages, the challenge will be leadership and not technical capacity, for others, administrative capacity and not incentives, and for others, the problem may not be village itself but the subdistrict or district government.

**Institutional context**

14. **The central government, as well as provincial and district governments, realize villages require support to improve the implementation of their mandates under Village Law.** Since 2015, national, provincial and district governments all contribute to financing various programs and systems to improve coordination, village administration, village development and community empowerment, and increase accountability. The central government spends approximately IDR 9.6 trillion (US$715 million) per year on support to, and oversight of, villages. This is spread across three levels of government. The central government spends approximately IDR 3.2 trillion (US$239 million) or 33 percent of the total amount, (although most of this is executed by provincial governments via de-concentrated financing (Dekon)). Provincial and district governments spend an estimated IDR 1.9 trillion (US$141 million) and IDR 4.5 trillion (US$335 million) respectively, which works out to be about US$4.1 million per provincial government, and IDR 11.2 billion (US$770,000) per district government. These sums are significant and amount to approximately US$9,000 per village, or approximately 10 percent of the amount villages are spending on village administration and investment.

15. **The quality of these support systems has improved over the past four years; however, they are costly, their effectiveness is mixed, and their efficiency is low.** There are four core areas—village administration, village development and community empowerment, inter-village development, and accountability—which are the responsibility of three main ministries: the Ministry of Home Affairs (MoHA), the Ministry of Villages, Disadvantaged Areas and Transmigration (MoV), and the Ministry of Finance (MoF):

   a. **Administrative capacity support.** MoHA, via the Directorate General for Village Government Guidance, is responsible for village government and administration, including village elections, village boundaries, village administration, village financial and asset management, and village oversight. It implemented a large-scale cascading training program for villages in 2015 and 2016 that trained almost all 75,000 villages on core government tasks, including village elections and village administration, as well as village planning, budgeting and reporting for the increased village funds. The approach was one-size-fits-all and used a traditional cascading delivery model, which was arguably justified in the first years of Village Law implementation given the need to provide basic information to all villages. More recently, the Directorate General has focused on capacity building for subdistricts offices, although implementation has been weak because of limited resources. The Directorate General, like MoHA more generally, tends towards a legalistic and technocratic approach to capacity building—setting rules, explaining the rules, and demanding compliance—that is focused on core capacities to hold elections, disburse village funds, and account for financial inputs. It has focused little attention on leadership and the “soft skills” of village government, performance-based management, and results-based accountability.
b. **Village development and community empowerment support.** MoV, via the Directorate General of Village Development and Community Empowerment, is responsible for various programs, which are based on a one-size-fits-all approach. Its flagship program is the Village Development and Community Empowerment Program (P3MD), which builds on the CDD facilitation structure of the World Bank-supported PNPM project.\(^{18}\) At a cost of approximately IDR 2.7 trillion (US$201 million) per year,\(^{19}\) the central government finances via the provinces, the provision of 2,484 district-level technical advisers, 15,305 subdistrict-level village facilitators (which includes 5,577 technical village facilitators with engineering qualifications), as well as 19,851 local village facilitators that support villages to prepare plans, budgets and reports. P3MD deploys traditional approaches to implementation that focus more on augmenting capacity than building capacity. The one-size-fits-all approach means there is often a misalignment between village technical capacity needs and the support available. More recently, MoV has adopted more innovative and less traditional approaches to capacity building. With support from the World Bank, it launched a peer-to-peer learning and results-focused knowledge exchange platform, the Village Innovation Program (P128832), which uses video and knowledge exchange hubs to inspire, incentivize and empower villages to innovate in how they use their villages funds for infrastructure and human capital. MoV has also recently established Village Academy 4.0, which it aims to develop as an online learning platform for courses on village business development.

c. **Inter-village development support.** MoV is also responsible for inter-village development, via the Directorate General for Inter-Village Development, and with some programming for villages dispersed within other Directorate Generals (DGs). These DGs have smaller, more niche programs focused on piloting methods and approaches to encouraging inter-village development cooperation, and aligning village development plans with regional development priorities.

d. **Accountability systems and support.** MoHA, MoF and the Supreme Audit Agency (BPK), as well as district governments, all play important roles in the village accountability system. BPK has ultimate audit authority but has limited resources to audit village governments. MoHA supports district-level inspectorates to conduct operation audits of villages and supports accountability via its role in village elections; and MoF accounts for use of the fiscal transfer to villages from the central government (*Dana Desa*). These accountability systems are heavily input-oriented and there has been relatively little focus on results. That began to change after the President and Parliament started to demand information on how the village funds were being used, questions that the input-oriented reporting and audit systems could not answer. This prompted both MoF and MoV to establish systems for the collection and compilation of village output data.\(^{20}\) However, both systems have tended to focus on providing data to line ministries for central government accountability purposes (i.e. to cabinet and parliament). There has been little focus on enabling districts and villages—let alone the general public—to access and use this data for public accountability and planning purposes at the local level.

\(^{18}\) The government’s Village Law to PNPM Transition Strategy, which ran from 2015 to 2016, saw inter alia approximately 14,000 district, empowerment and technical facilitators transition from PNPM to supporting villages to prepare village plans and budgets.

\(^{19}\) Based on 2016 budget allocations.

\(^{20}\) MoF also recently incorporated a results-oriented scorecard, in relation to the National Strategy to Accelerate Stunting Prevention, into its latest ministerial regulation on *Dana Desa* Reporting (PMK /2018). This was a Disbursement-Linked Result (DLR) for the Investing in Nutrition and Early Years (P164686) Program for Results (PforR) Program.
16. **One overall weakness of the support systems is that they make little use of new technologies for teaching, knowledge sharing, and accountability.** The administrative approach to capacity building is overall reliant on expensive and ineffective top-down cascade training systems. New opportunities in technology-based innovations, coupled with Indonesia’s rapid digital infrastructure expansion, present potential to expand more flexible, adaptive, and demand driven service delivery. The Village Innovation Program, although innovative and operating at a scale rarely seen, is still reliant on face-to-face knowledge exchange and learning, and does not fully maximize online peer-to-peer knowledge platforms. Despite MoV’s “market place approach” to technical service provision, it has yet to tap the potential of online platforms for matching the demand and supply of technical services. Similarly, the approach to accountability is strictly hierarchical and focuses on extremely “long paths” of accountability rather than “short path” direct accountability. These online and digital systems can support a more cost-effective and efficient system for connecting villages in innovation exchanges and for accessing services.

17. **It is also critical that the support systems more systematically help districts to do capacity building and empowerment differently.** In general, government entities involved in implementing the Law include: (i) DPMD, under MoV, which is responsible for village support and supervision at both the provincial and district levels; (ii) the District Finance Office (*Badan Keuangan dan Asset Daerah*, BKAD) which is responsible for disbursing *Dana Desa* to villages; (iii) the district-level Local Inspector, which is overseen by MoHA; and (iv) the District Planning Agency (*Badan Perencanaan dan Pembangunan Daerah*, BAPPEDA). In addition, at the sub district (kecamatan) level, the Technical Guides for Village Government (*Pembina Teknis Pemerintahan Desa*, PTPD) play a coordinating role in village governance and development. One key challenge for districts is that, while roles and responsibilities vis-à-vis villages have increased with the introduction of the Village Law, districts have not seen a commensurate increase in budget or fiscal transfers to effectively manage these responsibilities.²¹

18. **Finally, national coordination of the support system is weak.** Currently, Kemenko PMK plays a coordinating role between institutions and ministries related to the Village Law. This brings together relevant line ministries to regularly discuss policies, regulations, and issues related to implementation of their respective Village Law functions. Despite effectively bringing together ministries, however, the coordinating function is *ad hoc*, and lacks the institutional mandate to effectively enforce decisions reached during coordination meetings. This issue is exacerbated by the fact that several key line ministries do not fall under the coordinating mandate of Kemenko PMK (e.g. MoHA). BAPPENAS’ planning functions related to Village Law are well structured (it oversees both MoHA and MoV under a single department), but it lacks the analytical and technical capacity needed to effectively oversee and monitor implementation of key activities related to Village Law. Finally, there is currently no systematic engagement with the private sector, which has an important role to play in supporting villages with technical services at the local level.

**Relationship to CPF**

19. **The proposed Project contributes to the World Bank Group’s Country Partnership Framework (CPF) for the period 2016-2020 and the Performance and Learning Review (PLR) dated October 2018.** The 2016-2020 CPF identifies three pathways for poverty reduction and shared prosperity: job creation; service delivery and

²¹ District Assessment; District expenditure review.
opportunities for all; and natural resource management. The CPF is structured around six Engagement Areas and two Supporting Beams, further confirmed in the 2018 PLR. The Project supports Engagement Area 4: Delivery of Local Services and Infrastructure. Under Engagement Area 4, and under the PLR, it is consistent with Objective 6: Strengthening the decentralization framework to improve local service delivery, and Objective 8: Improved access to quality education and health related services. The Project is consistent with the Bank’s commitment to supporting the implementation of Village Law of 2014.

20. The Project also supports the government’s National Medium-Term Development Plan (Rencana Pembangunan Jangka Menengah Nasional, RPJMN) 2015-2019, and contributes to the Government’s Nawa Cita Strategy that aims to narrow the gaps in poverty and development in Indonesia’s lagging regions. The Government’s Nawa Cita Strategy (the administration’s mission statement) and RPJMN 2015-2019 identify priorities and goals for reducing poverty and inequality. Nawa Cita includes a strong emphasis on developing Indonesia’s lagging regions and on improving governance and accountability in the public sector. Transfers to villages, as mandated by the Village Law, are one of the major instruments through which the GoI is pursuing the administration’s vision of “building Indonesia from the periphery.” The RPJMN aims to boost overall development with specific emphasis on achieving a competitive economy that is based on quality human capital, optimum natural resources management, and improved technological capacity. The plan sets out national targets for achieving stable economic growth (with a growth target of 6-8 percent per year), accelerating poverty reduction (with a poverty rate target of 6-8 percent by 2019), and reducing disparities and inequality (with a Gini coefficient target of 0.36 by 2019). The RPJMN includes three pillars: (i) developing a national social protection system, (ii) improving service delivery for the poor and vulnerable, and (iii) promoting sustainable livelihoods for the poor.

21. The proposed operation also supports the GoI’s climate policy objective of strengthening social resilience to climate change at the village level. Adapting to the impacts of climate change is a high priority of the GoI. The country’s first Nationally Determined Contributions (NDC) document articulates a clear climate policy objective of reducing risks from climate change on all development sectors by 2030 through local capacity strengthening, improved knowledge management, convergent policy on climate change adaptation and disaster risks reduction, and application of adaptive technology. As climate change impacts are experienced locally, achieving these policy objectives calls for strong engagement of local governments and villages. The proposed operation will contribute to achieving these objectives at the local level by promoting climate-resilient village development planning and spending, facilitating peer-to-peer exchange of climate-resilient village-led innovations, and building climate awareness and preparedness of systems for service delivery to villages in climate-sensitive regions.

C. Proposed Development Objective(s)

22. The proposed Project Development Objective (PDO) is to “strengthen institutional capacity for improved quality of spending in participating villages.” This will be achieved through investments that improve and modernize support systems that build capacity of village institutions, enhancements to and integration of information systems, and aligning these with fiscal transfers to focus on performance and results.

---

22 Government of Indonesia (2016), Nationally Determined Contributions submitted to the UNFCCC.
Key Results

PDO Level Indicators

- Village institutional capacity to execute core functions strengthened (percentage)
- Beneficiaries feel that village investments meet their needs (percentage, by gender)
- Village governments participating in the performance-based incentive see improvements in quality of spending (number)

D. Project Description

The Project was originally a PforR. After the PCN Stage, the Project was converted into an IPF.

23. Project Components. The Project is organized in four components, which together comprehensively support the development of systems and approaches, as well as their roll out and adoption, for improved Village Law implementation. Implementation of these systems and approaches are expected to lead to improved efficiencies in government expenditures. These will improve delivery systems for institutional strengthening, strengthen mechanisms of oversight and coordination, and align incentives for improved quality of spending. MoHA, with a mandate for supporting sub-national government institutions, will be the lead executing agency for the Project, and will be directly responsible for Components 1 and 3 of the Project. These components will focus on improving institutional strengthening systems for village governments, as well as testing incentive mechanisms for improved village government performance. MoV, with a mandate to support village development, will participate in the Project by overseeing Component 2, which aims to strengthen community empowerment and improve social accountability within village development processes. The Ministry of National Development Planning/ National Development Planning Agency (Badan Perencanaan dan Pembangunan Nasional, BAPPENAS) will implement Component 4 of the Project, with the objective of improving coordination, monitoring and oversight of the implementation of the Village Law. A detailed description of the Project is provided in Annex 2.

24. Component 1: Strengthening Village Government Institutions (IBRD US$185 million). The objective of this component is to improve the institutional strengthening system for village governments (apparatus) within MoHA, and to support the rollout and adoption of these new tools and approaches at the subnational level. This will be achieved by supporting the development of a capacity building platform for village governments that is flexible and adaptable, to address the varied capacity needs of village governments. This component will also support the rollout of this platform through the subnational government institutions, providing an opportunity to leverage existing support systems and further strengthening and aligning these to better support village governments. The Project will finance: (i) the design of a digital learning platform within MoHA to integrate content and deliver cost effective and efficient capacity building support to villages; (ii) the development of expanded content and tools (e.g. animation videos, e-learning, blended learning, distance learning, and other tools), as well as technical manuals, guidelines, modules and supporting instruments to bolster administrative capacity; (iii) the rollout of a revised institutional strengthening program through subnational governments, including support to adoption and transition of these systems, improved coordination and oversight, and alignment with sub-national spending and programs on capacity building; and (iv) support to upgrading MoHA’s village level data systems, management information systems (MIS), and integration of monitoring and performance measurement systems. This component also provides an opportunity...
to improve the quality of village planning and development by mainstreaming training, capacity building, and technical guidelines to improve social and environmental standards, awareness of climate change hotspots and impacts on village livelihoods and potential responses to be integrated in village plans, strengthening inclusion and participation in planning and budgeting, and upgrading and supporting best practice in procurement systems. In addition, this component will support village financial management through strengthening current reporting systems and supporting capacity building for oversight and supervision functions of the district and subdistrict through the learning platform.

25. **Component 2: Promoting Participatory Village Development (IBRD US$95 million).** The objective of this component is to strengthen participation and social accountability in village governance systems by leveraging systems of capacity support within MoV. Strengthening these systems will leverage the existing facilitator structure under MoV, which currently supports around 37,000 facilitators, including 14,000 field level facilitators, across the country, as well as several other programs within MoV to support community empowerment and village development. These programs will be supported to be more flexible and adaptable to better respond to needs, and to facilitate innovation and cross learning for community capacity. This component will also put in place systems to improve support for improving participatory planning and strengthening social accountability mechanisms. The Project will finance: (i) improvements to community learning systems that aim to build capacity (e.g. Akademi Desa 4.0), and peer to peer exchanges, such as village innovation forums (Bursa Innovasi Desa), including creating and curating content and improving systems to better access and distribute knowledge; (ii) digitization of the oversight and management systems for village facilitators (P3MD), and integration of village level feedback on performance for improved resource deployment; (iii) development of a digital platform (GoDesa) to integrate digital solutions more effectively within MoV, and support to develop, upgrade and improve digital applications, hardware and software systems (including a citizen portal with access to comparative information and statistics about villages (e.g. poverty, health, nutrition, exposure to floods, droughts etc.); (iv) digital marketplaces for technical service providers, among others); and (v) testing of different innovations in village development, including digital or smart villages, participatory tracking systems, etc. Social accountability and participatory planning systems will be strengthened through upgrading training content and guidelines for facilitators to better support community participation in decision-making, and to ensure the contestability of different fora for deliberation (e.g. facilitate MusDes, BPD, village meetings, needs assessments, etc.). Technical assistance to support the development, testing and rollout of these systems will be provided, as well as support to subnational management of facilitators for the first two years of the Project. The subnational technical assistance will help monitor results more closely during implementation to identify adjustments, as needed. The Project will not finance facilitator salaries, incremental operating costs, training costs for facilitators, or travel and supervision costs.

26. **Component 3: Village Performance-Based Incentive (IBRD US$50 million).** The objective of this component is to test a performance grant system that would reward village governments according to key performance metrics of good governance. While investments in Components 1 and 2 focus on strengthening the institutional capacity of village institutions (including village governments and communities), and in improving their capacity for better governance, Component 3 matches these supply side interventions by testing a program to measure and reward improved outcomes in village governance and quality of spending. A performance assessment system will be established in Year 1 of the Project to capture simplified metrics for village government performance; annual assessments will be carried out for participating village governments, through a combination of a web-based system
and in person assessments. A proposed set of metrics, which will assess if and how village plans address issues such as local economic development, exposure to and preparedness for climate and disaster risks, and social and environmental standards etc., is provided in Annex 2. This list includes measurements to capture improvements in the quality of planning (i.e. more inclusive, participatory, and climate-resilient), capture improvements in output and budget reporting, and promote transparency and accountability. Districts and villages will opt into the performance-based incentive in year 1 and will be assessed in Year 2 of the Project against the agreed performance metrics and criteria. Assessments would be conducted by the National Government Internal Auditor (Badan Pengawasan Keuangan Dan Pembangunan, BPKP), who would recommend qualifying village governments to MoHA; MoHA would in turn work with the Directorate General of Fiscal Balance (Direktorat Jenderal Perimbangan Keuangan, DJPK) under MoF, to release the performance transfer to village government accounts via district governments. The performance grant system will be tested in 50 districts, or around 8,500-9,000 villages. The detailed design of the performance-based incentive will be laid out in a dedicated manual—which will include inter alia clear verification protocols—and will be validated during Year 1 of the Project. Performance-based grants will be tested against different end use objectives, including: (i) village level investments, (ii) capacity building activities, and (iii) performance allowances. An impact evaluation to ascertain the impacts of different approaches on village government performance will be conducted under Component 4.

27. **Component 4: National Coordination, Monitoring and Supervision (IBRD US$20 million).** The objective of this component is to improve and strengthen national coordination, harmonization of regulations, monitoring, and supervision of village development. This will be achieved through the establishment of an integrated information management system that offers real time incorporation of key metrics for village development under a single information system (InfoDesa). This information management system will draw on existing data collected through a variety of government agencies, and will integrate these into a single platform, accessible via a dashboard where data can be visualized by different levels of government through web and application-based interfaces. Data to be integrated in this platform may relate to village poverty status, income, health, nutrition, education, existing infrastructure, exposure to disasters and climate-related hazards (e.g. droughts, floods, storms, coastal inundation, etc.), and community assets at risk, land and forest fire hotspots and related greenhouse gas emissions, etc. Linkages to existing real-time data bases (e.g. for disaster early warning, weather forecasts) and indexes (e.g. climate vulnerability and food security indexes), which are relevant for village-level planning, will be explored. The component will finance the following: (i) hardware, systems and technical assistance required to establishing this integrated information system and ensure that the system contains the data needed for decision making processes; (ii) the formal establishment of a National Coordination Platform for Village Development, which would be chaired by the Coordinating Ministry for Human Development and Cultural Affairs (Kementerian Koordinator Bidang Pembangunan Manusia dan Kebudayaan, Kemenko PMK), and would be supported by a Secretariat under BAPPENAS who would oversee the management and coordination efforts, and the integrated information system; and (iii) evaluations and studies, including impact evaluations, of the Project’s interventions.

**E. Implementation**

Institutional and Implementation Arrangements

28. The Project organizational structure is presented in Diagram below. Chaired by BAPPENAS, the Project has a Steering Committee comprises of various ministries and agencies at the national level. Main implementing agencies
(PIUs) are MoHA and MoV at the national level, and there are PIUs and Working Group (Pokja) at the provincial and district levels. A Consultant team will assist the PIUs at the national level, provincial and district level. Detail explanation of the project organizational structure and implementation arrangements is presented in the PAD Annex 1: Implementation Arrangements and Support Plan.

**Organizational Structure of the Institutional Strengthening for Improved Village Service Delivery Project**

29. The mainstreaming and strengthening of environmental and social sustainability (ESS) aspects in the Project will be part of the activities of the project organizational structure and implementation arrangements. For instance, strengthening the current manuals and guidelines for the village apparatus on ESS aspects will be the responsibilities of the MoHA (PIU), as MoHA has been responsible for such manuals and guidelines. Similarly, improvement of the ESS aspects in the manuals, guidelines and training for the village community and village facilitators will be in the MoV (PIU). Structure of responsibilities of ESS strengthening and improvement will follow the current responsibility structure between the MoHA, MoV, the provincial and district governments of the relevant tasks.

**F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)**

30. The Project will be implemented nation-wide. The project will benefit 75,000 villages in 434 districts across Indonesia with various physical characteristics from coastal and low-land areas to inland/highland areas. Many villages are located in remote and small islands whereby access can be a challenge. The Project will involve various implementing agencies at the central level (such as MoV, MoHA), provincial, district, sub-district and village levels. Sub-projects to be financed by the APBDes whereby performance grants are part of, will be small-scale and implemented through community-based scheme. As the Project will benefit all villages in the country, it is anticipated that IPs might presence in some villages, and therefore might benefit or affected (positive and negative) by the Project. World Bank IPs Screening Study (2010) indicates that potential IPs presence are geographically distributed in 174 districts (30 provinces) out of about 434 districts in the country (list of districts where IPs would be potentially present is included in the Annex of the Project’s ESMF). The presence of the IPs need to be verified in the field once the Project is implemented in the villages in the 174 districts identified by the Study.
G. Environmental and Social Safeguards Specialists on the Team

Ina Pranoto (Environmental Specialist)
Krisnan P. Isomartana (Senior Environmental Specialist)
Indira Dharmapatni (Senior Social Safeguards Specialist)

SAFEGUARD POLICIES THAT MIGHT APPLY

<table>
<thead>
<tr>
<th>Safeguard Policies</th>
<th>Triggered?</th>
<th>Explanation (Optional)</th>
</tr>
</thead>
<tbody>
<tr>
<td>OP/BP 4.01 Environmental Assessment</td>
<td>YES</td>
<td></td>
</tr>
</tbody>
</table>

Component 1, 2, 4 of the Project involve establishment of a digitalized, IT-based tools, development of e-platform and e-services for learning, capacity building, market place for capacity services, knowledge management, harmonization and simplification of regulations, oversight and monitoring, and integrated information and data-system management as well as establishment of internet-based, demand-driven market place for the village. Anticipated potential environmental impacts from Component 1, 2, and 4 would be in the form of electronic waste (e-waste) due to the expansion of the existing and/or purchase of information and communication infrastructure required including hardware, software, design, and upgrading data centers. Expansion of the existing and/or new installation of IT hardware would take place in the PIUs and other government unit. E-waste is anticipated relevant to the disposal of old/unwanted electronic equipment from the current system or future disposal of the equipment when they are no longer needed. E-waste is categorized as hazardous wastes which need proper disposal management. The Project has developed a protocol to manage e-waste disposal as part of the ESMF.

Given the nature of the activities explained in the Project Description, it is clear that Component 1, 2, and 4 will not involve any direct physical investment, nor will support the preparation of any plan that would lead to the implementation of physical investment or activities involving downstream environmental and social impacts and risks. The Project’s funds will not be used, in anyway, to prepare any village plans, and/or the design and implementation of subprojects that are solely financed by the Government. Having said this, however, the Project provides an opportunity to mainstream the objectives, principles and requirements specified in and consistent with the OP 4.01 and the EHS Guidelines into the improved manuals, guidelines, training modules, Terms of References’ for the facilitators and monitoring and supervisory team/unit, and into the awareness training and improved capacity building delivery of the village governments. For instance, in identifying natural habitats such as wetland, peatland, forest boundaries and preventing them from conversion and degradation, identifying incremental and cumulative impacts from ongoing development planning at the village level and their environmental and social implications, in improving stakeholder engagements, inclusion of vulnerable groups and gender as well as complaint handling system. Component 1, 2, 4 triggers OP 4.01 as the mainstreaming will be consistent with this policy’s objectives, principles and requirements.

Government counterpart contribution in the form of expected budget allocations during the Project period will contribute to the village development and capacity building activities, estimated partial costs for facilitators staff, management costs, and incremental operating costs for the continued implementation of village development activities. These activities will adopt the improved manuals, guidelines, training modules, Terms of References’ for the facilitators and monitoring and supervisory team/unit, and improved awareness training and improved capacity building delivery of the village governments that have mainstreamed the objectives, principles and requirements.
specified in and consistent with the OP 4.01 and the EHS Guidelines as explained above. Allocated Government budget will ensure that overall Project management, training for village governments, facilitators, PTPD at the sub-district level, monitoring and supervision by the Project apparatus at all levels, development of integrated information management system, etc., will take place using the improved manuals, guidelines, training modules etc. In conclusion, the Project provides an upstream intervention through the above-mentioned mainstreaming to ensure that overall village law implementation will be consistent with the objectives, principles and requirements specified in the OP 4.01. Similar principle also applies for the other triggered policies below (OP 4.04, OP 4.36, OP 4.11, OP 4.10 and OP 4.12).

For Component 3 (strengthening village government performance): the village grant will be pilot tested in well-performed villages in 50-100 districts that will be enrolled in a village grant system at the end of Year 2. All participating villages will be assessed independently against a set of metrics that aim to measure improvements in the quality of planning, budgeting and spending including considerations of ESS aspects that have been mainstreamed in the manuals and guidelines (such as the negative list and relevant ESMF requirements). Villages that are assessed to have met performance standards will receive the incentives, which will be provided through on-granting mechanism to districts currently estimated at about $10,000 per village. The performance grants will be used exclusively for activities that will be financed only by the grants and will not co-finance any other source of financing in the APBDes.

Type of small scale activities which is eligible for performance grants financing will be an open menu against a negative list, among others: innovative activity to strengthen capacity of village institutions, local economic development, women empowerment of productivity, small scale physical infrastructure (with negative list that includes among others, that sub-projects shall not need land nor assets attached to land), small-scale innovative technology of water supply facilities, disability inclusive facilities for school and early childhood center, and so on. The grants might also finance small-scale physical investments, such as upgrades to community roads, water supply, sanitation, drainage, as well as health and education facilities that will be community-based and community self-built and/or community’s-contractor built. The grant funds will not co-finance any other village level physical investment or activity. The VIPER Study (2017) found that sub-projects financed under the village budget is similar with those financed by the PNPM-Rural. Each package involves small-amount of funds. Average costs for toilet construction is USD 4,520; sanitary facilities USD 4,569; hygiene facilities USD 3,220; garbage collection facilities USD 2,725; community waste water treatment facility USD 6,368; water supply system USD 6,926; improved housing USD 5,233; environmental sanitation equipment USD 6,579 and capacity building USD 784. Environmental and social impacts are insignificant, site-specific, non-cumulative, non-irreversible, and managed by the community with some guidance by the facilitators. Impacts that could occur primarily take place during construction such as dust, placement of construction materials, generation of construction wastes, water flow blockage, etc. Hence, Component 3 triggers safeguard policy OP 4.01 and an Environmental Management Framework have been developed (screening, impacts identification, negative list, and so on). The Project Category is B for environmental assessment.

The negative list clearly defined that the Project will not finance sub-projects under Component 3 that are located in prohibited, critical natural habitats (including critical forest, coastal and marine habitats), nor will it result in the significant conversion of natural habitats. The activities should not affect the health/quality of forest or involve any forest management. Eligibility criteria for the grant recipient would be for rehabilitation of small-scale village roads in the residential areas or public facilities and is not eligible for any access road development toward forest boundaries. The activities that will have significant adverse impact to environment shall be avoided. The previous experience with PNPM Rural and from the recent missions revealed that the location of the small-scale activities can typically be changed or rerouted, or redesigned, should there are any concerns with forestry and natural habitat
aspects. The negative list specified in the ESMF, which will be part of the Guidance for the Performance grants (in the Project Operations Manual-POM) will be socialized to the Project management staff at all levels, BPKP, provincial, district, sub-district and the village governments. BPKP will use this Guidance to assess the eligible villages for receiving performance grants. Furthermore, this Guidance will also be disclosed in the village office.

OP 4.01 (and other triggered Policies below, i.e. OP 4.04, OP 4.36, OP 4.11, OP 4.10 and OP 4.12) does not apply to government investments that run in parallel with the performance grants-financed investment, both in villages with village-financed investments and in all other villages. Part of the rationale is that the activities under Component 1, 2 and 4 are ‘upstream activities’ not directly linked to on the ground investments. Measures to manage reputational risks concerning Government’s investment under the program/village law implementation not financed by the Bank is explained in sections of Summary of Key Safeguards Issues below.

The following explanation also apply for sections under OP 4.04, OP 4.36, OP 4.10, OP 4.11, and OP 4.12.

The list of proposed activities to be financed by the performance grants must be included in the annual work plan and annual budget plan of a village (or Rencana Kerja Pemerintah Desa and APBDes respectively). Local community who are consulted during the preparation of any village plans (such as RPJMDes, RKPDes and APBDes) should be aware of the needs to consider the negative list for the performance grants and other ESMF requirements (which is part of the Guidance for the Performance grants). The BPD who reviews and approves these plans should include the negative list for the performance grants as parts of its considerations. District Environmental Agency (DEA) will have to provide training and guidance to the sub-district government, village government and community on the ESMF requirements including the negative list for the performance grants to be included during the preparation and implementation of the village plans particularly for activities financed by the performance grants. The DEA should provide awareness and capacity training to the PTPD (at the sub-district level) who guides the village governments in preparing and implementing the village plans.

The District, including the Inspectorate, and sub-district government will be responsible to ensure that the grants are used for eligible activities as specified in the Guidance for the Performance grants in the POM. The community groups at the village level will also have to ensure that the performance grants are used for eligible activities whereby negative lists are not breached through appropriate monitoring. When it is already in place, the IT system through “Smart Village” and other digital solutions will also assist the MoHA in providing information on the use of the performance grants.

**OP/BP 4.03 Performance Standards for Private Sector Activities**  
NO  
The Project is not supporting private sector activities as defined under the policy.

**OP/BP 4.04 Natural Habitat**  
YES  
The Project will not finance activities that involve significant conversion or degradation of critical natural habitats or natural habitats. The Project provides an opportunity to mainstream the objectives, principles and requirements specified in and consistent with OP 4.04 into the improved manuals, guidelines, training modules, Terms of References’ for the facilitators and monitoring and supervisory team/unit, and into the awareness training and improved capacity building delivery of the village governments. Mainstreaming covers, for instance, in identifying potential natural habitats presence in the villages such as wetland, peatland, forest boundaries and developing a system in preventing natural habitats from conversion and degradation. Component 1, 2, 4 triggers OP 4.04 as the mainstreaming will be consistent with this policy’s objectives, principles and requirements.
Under component 3, the performance grants will not finance any sub-project that involves significant conversion or degradation of critical natural habitats or natural habitats as defined in the negative list. Sub-projects to be financed by the performance grants will be located in the already converted land area, developed and utilized-areas (such as farming areas, settlements, garden, parks, planted areas, etc.). The negative list will specify the types and characteristics of natural habitats which need to be avoided such as wetland, peatland, grass land and outline specific prohibition measures to prevent indirect or induced adverse impacts, such as from the small-scale access road development toward forest boundaries by allowing only small-scale road rehabilitation/development in residential areas or surrounding public facilities. The Project has developed ECOPs and/or SOPs as part of the ESMF for addressing potential impacts from small scale construction works financed by the performance grants.

**OP/BP 4.36 Forest**

The Project will not finance activities that involve conversion or degradation of critical forest areas or natural forests as defined under the policy. The Project is not intended for commercial plantation and there is no Project component to improve the forest function. Improved system supported by the Project under Component 1, 2, and 4 will take into considerations the objectives, principles and requirements of critical forest areas and natural forest. The Project provides an opportunity to mainstream the objectives, principles and requirements specified in and consistent with OP 4.36 into the improved manuals, guidelines, training modules, Terms of References’ for the facilitators and monitoring and supervisory team/unit, and into the awareness training and improved capacity building delivery of the village governments. Mainstreaming covers, for instance, in identifying of forest types and boundaries and its functions. Component 1, 2, 4 triggers OP 4.36 as the mainstreaming will be consistent with this policy’s objectives, principles and requirements.

Under component 3, the performance grants will not finance any activities that involve conversion or degradation of critical forest areas or natural forests as defined in the negative list provided in the ESMF. The Project is not intended for commercial plantation and there is no Project component to improve the forest function. Component 3 will exclude the villages which part of their areas are forests and villages that are located in the surrounding forests area. Specific provisions in the negative list has been made to prevent potential indirect impacts from the forbidden of the small-scale road development leading to forest boundaries (road rehab/development are only allowed for residential areas or public facilities for this village category). The task team believes there are enough possible sub-projects in the RKPDes and APBDes that will meet the negative list. This would also allow the Project to ringfence the financing and ensure that Bank financing does not cause any adverse social or environmental impacts to forest.

As explained under OP 4.01, the proposed activities to be financed by the performance grants will have to be listed in the approved village plans (RKPDes and APBDes). The mechanisms to ensure that proposed activities eligible for performance grants financing meet the negative list are in place, as explained in the OP 4.01 above.

**OP 4.09 Pest Management**

The Project will not procure or use any pesticide or support activities that may lead to the use and/or a significant increase in the use of pesticide. The negative list will include this provision.

**OP/BP 4.11 Physical Cultural Resources**

The Project will not affect or involve any physical cultural resources. The Project will not finance any sub-project that affects or involves physical cultural resources.

The Project provides an opportunity to mainstream the objectives, principles and requirements specified in and consistent with OP 4.11 into the improved manuals, guidelines, training modules, Terms of References’ for the facilitators and monitoring and supervisory team/unit, and into the awareness training and improved capacity
building delivery of the village governments. Mainstreaming covers, for instance, in identifying potential physical cultural resources in the village. Component 1, 2, 4 triggers OP 4.11 as the mainstreaming consistent with the policy’s objectives, principles and requirements.

Under component 3, the Project will not finance any sub-project financed by the performance grants that affects or involves physical cultural resources. If during construction, the village community happens to find physical cultural resources which were unknown prior to the sub-project design, they will adopt a Chance Finds Procedures provided in the ESMF to avoid or to manage the impacts.

**OP/BP 4.10 Indigenous Peoples**  YES

The Project covers all villages nation-wide, therefore, it is expected that some villages would have potential IPs presence, affected and/or benefit from the Project. The Project provides an opportunity to mainstream the objectives, principles and requirements specified in and consistent with OP 4.10 into the improved manuals, guidelines, training modules, Terms of References’ for the facilitators and monitoring and supervisory team/unit, and into the awareness training and improved capacity building delivery of the village governments. An IPPF has been prepared in the ESMF for **Component 3**, to ensure that no sub-project would adversely impact nor exclude IPs and ensure that the Project promotes the benefit for the IPs. The objectives, principles and requirements specified in the IPPF will be included in the mainstreaming activities under Component 1, 2, and 4.

Special attention will also be given for IPs community under OP 4.10. Social sustainability for Component 1, 2 and 4 will also include measures to enhance the inclusion of benefits to IP and the delivery of culturally appropriate benefits through the strengthening of the existing systems and tools (for instance, concerning training, capacity building, knowledge management, regulations, and M&E). The Project will consider include a more pro-active approach to IP inclusion and development benefits through a more pro-active targeting of IP communities, additional support (TA/PD) in areas with IPs, a broader menu of eligible investments for IPs, monitoring and evaluation of IPs participation and benefits during project implementation. Results of Project monitoring and evaluation will be used to improve the capacity building delivery (such as for the PDs and village apparatus) and/or manuals tailored to the needs to increase IPs participation and benefits.

**OP/BP 4.12 Involuntary Resettlement**  YES

Components 1, 2, and 4 involve strengthening government systems related to supporting Village Law implementation. Component 1, 2, 4 involve establishment of a digitalized, IT-based tools, development of e-platform and e-services for learning, capacity building, market place for capacity services, knowledge management, harmonization and simplification of manuals, oversight and monitoring, and integrated information and data-system management as well as establishment of internet-based, demand-driven market place for the village. Given the nature of the activities described under Component 1, 2, and 4 will not involve any direct physical investment, nor will support the preparation of any plan that would lead to the implementation of physical investment or activities involving downstream environmental and social impacts and risks. In other words, funds from these three components will not be used, in anyway, to prepare any village plans.

The Project provides an opportunity to mainstream the objectives, principles and requirements specified in and consistent with OP 4.12 into the improved manuals, guidelines, training modules, Terms of References’ for the facilitators and monitoring and supervisory team/unit, and into the awareness training and improved capacity building delivery of the village governments, for instance, in identifying potential needs of land, developing measures to avoid or minimize land acquisition, in improving stakeholder engagements, inclusion of vulnerable groups and
gender as well as complaint handling system. Component 1, 2, 4 triggers OP 4.12 as the mainstreaming will be consistent with the policy's objectives, principles and requirements.

The performance grants will be pilot tested in 50 districts that will be enrolled in a village grant system at Year 2 of Project implementation. The performance grants would cover 8,500-9,000 villages. All participating villages will be assessed independently against a set of metrics that aim to measure improvements in the quality of planning, budgeting and spending. Villages that are assessed to have met performance standards will receive a village grant, currently estimated at about $10,000 per village and can only be used for activities separate from those that are financed by other financing sources in the APBDes. In other words, the grants cannot be used to co-finance other source of village financing for a particular activity or physical investment.

It is expected that the grants could be used for an open menu against a negative list, with the following two caveats: (1) the funds may only be used to fund a sub-project that was already approved in the village development plan; and (2) the funds shall not finance any sub-project that needs land nor assets attached to land.

Type of activities eligible for financing under the performance grants will be an open menu, among others: innovative activity to strengthen capacity of village institutions, local economic development, women empowerment of productivity, investment or physical infrastructure (with negative list), small-scale innovative technology of water supply facilities, and so on. It might also finance activities or physical investments such as rehabilitation of community roads, water supply, sanitation, drainage, or small-scale rehabilitation works for community health and education facilities that will not need any land nor assets attached to land. Having explained this, the Project does not need to prepare a Resettlement Policy Framework or sub-project Resettlement Action Plans.

As explained under OP 4.01, the proposed activities to be financed by the performance grants will have to be listed in the approved village plans. The mechanisms to ensure that proposed activities eligible for performance grants financing meet the negative list are in place, as explained in the OP 4.01 above. The negative list, among others, specifies that proposed activities to be financed by the performance grants shall be those that do not need any land nor assets attached to land.

**OP/BP 4.37 Safety of Dam**
NO
The project will not finance construction and/or rehabilitation of dam.

**OP/BP 7.50 Projects on International Waterways**
NO
The project will not be located in the watersheds of any international waterways.

**OP/BP 7.60 Projects in Disputed Areas**
NO
The project is not located in any known disputed areas as defined under the policy.

**OP/BP 4.03 Performance Standards for Private Sector Activities**
NO

## KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

### A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
Given the nature of the activities explained above, Component 1, 2, and 4 will not involve any physical investment or preparation of any plans that would lead to the implementation of physical investment or activities involving downstream environmental and social impacts and risks. Project activities under Component 1, 2, 4 involve establishment of a digitalized, IT-based tools, development of e-platform and e-services for learning, capacity building, market place for capacity services, knowledge management, harmonization and simplification of regulations, oversight and monitoring, and integrated information and data-system management as well as establishment of internet-based, demand-driven market place for the village. Anticipated potential environmental impacts would be in the form of electronic waste (e-waste) due to the expansion of the existing and/or purchase of information and communication infrastructure required including hardware, software, design, and upgrading data centers. Expansion of the existing and/or new installation of IT hardware would take place in the PIUs. The Project has developed a protocol to manage e-waste disposal to manage its potential impacts as part of the ESMF.

The Project provides an opportunity to mainstream objectives, principles and requirements specified in and consistent with the triggered policies (OP 4.01, OP 4.04, OP 4.36, OP 4.11, OP 4.10 and OP 4.12) and EHS Guidelines into the improved manuals, guidelines, training modules, Terms of References’ for the facilitators and monitoring and supervisory team/unit, and into the awareness training and improved capacity building delivery of the village governments. Examples of specific strengthening areas are described in the explanation of OPs above. It is expected that from the improved capacity building and institutional strengthening system, the village governments will have a better capacity to prepare various village plans (such as RPIMDes, RKPDes, APBDes) in response to local conditions and village community needs, and that promote efficient and effective spending and ESS friendly, despite the fact that the Project will not finance, in any way, the preparation of any village plans.

Government counterpart contribution in the form of expected budget allocations during the Project period will contribute to the village development and capacity building activities, estimated partial costs for facilitators staff, management costs, and incremental operating costs for the continued implementation of village development activities. These activities will adopt the improved manuals, guidelines, training modules, Terms of References’ for the facilitators and monitoring and supervisory team/unit, and improved awareness training and improved capacity building delivery of the village governments that have mainstreamed the objectives, principles and requirements specified in and consistent with the OP 4.01 and the EHS Guidelines as explained above. Allocated Government budget will ensure that overall Project management, training for village governments, facilitators, PTPD at the sub-district level, monitoring and supervision by the Project apparatus at all levels, development of integrated information management system, etc., will take place using the improved manuals, guidelines, training modules etc. In conclusion, the Project provides an upstream intervention through the above-mentioned mainstreaming to ensure that overall village law implementation will be consistent with the objectives, principles and requirements specified in the OP 4.01. Similar principle also applies for the other triggered policies below (OP 4.04, OP 4.36, OP 4.11, OP 4.10 and OP 4.12).

Component 3, the performance grants could be used for an open menu against a negative list. Type of activities eligible for the performance grants financing among others: innovative activity to strengthen local economic development, women empowerment of productivity, investment or physical infrastructure (with negative list, of which a sub-project shall not need land nor assets attached to land), small-scale innovative technology of water supply facilities, rehabilitation of school and early childhood facilities to promote disability inclusion, and so on. The performance grants might also finance activities or physical investments such as such as rehabilitation of community roads, water supply, sanitation, drainage, as well as small-scale rehab works of health and education facilities, within a US$10,000 envelope, that will not need any land nor assets attached to land. To prevent potential impact into
critical natural habitat and forest, the eligibility criteria for the grant recipient would be for the rehabilitation of small scale rural roads in residential areas or public facilities and is not eligible for any access road developed towards the natural habitat and forest boundaries. As the grants is only US$ 10,000 per village and taking into considerations of the small-scale subprojects involved in the villages as presented in the VIPER Study (see explanation under OP 4.01) and experiences from the PNPM-Rural project, it is very likely that the grants will only finance small-scale activities, i.e., physical and/or non-physical investments. As explained above, environmental and social impacts would be insignificant, site-specific, non-cumulative, non-reversible, and managed by the community with some guidance by Ministry of Villages facilitators. Impacts are usually taking place during construction such as dust, placement of construction materials, water flow blockage, etc.

This was possible as most sub-projects were improvement, rehabilitation or expansion of the existing infrastructure; new physical investments usually involved alternative designs or sites. Procedures and formats for environmental and social screening, as well as UKL-UPL, SPPL, ECOPs and/or SOPs for addressing potential environmental and social impacts have been developed as part of the ESMF.

Potential Reputational Risks

Although the Project will not involve any direct physical investment (except for the village grant under Component 3), nor will support the preparation of any plan that would lead to the implementation of physical investment or activities involving downstream environmental and social impacts and risks and funds from the Project will not be used, in anyway, to prepare any village plans, it is expected that parallel Government’s investments at the village level will be implemented in a manner consistent with the Bank’s triggered safeguards policies. This expectation is reasonable as:

(a) there are strong commitments and ownerships of the MoHA and MoV in implementing the program with the supports of this Project, showed among others by their commitment to mainstream (and implement) the objectives, principles and requirements specified in and consistent with the triggered OPs in the existing manuals, guidelines, training modules, Terms of References’ for the facilitators and monitoring and supervisory team/unit, and into the awareness training and improved capacity building delivery of the village governments;

(b) there will be continuous implementation supports from the Bank Task Team in the form of technical assistance, training for trainers (TOTs), regular supervisions;

(c) MoHA’s long-standing experiences in implementing the PNPM-Rural project whereby environmental and social safeguards policies (especially OP 4.01 and OP 4.10) have been satisfactorily implemented;

(d) there would be better information (including those related to environmental and social aspects) available once the integrated information and management system is established and functioning so that monitoring and supervision by the MoHA and MoV will be easier; and,

(e) the strengthened inclusion of relevant local agencies such as the district inspectorate, BAPPEDA (local planning agency) and environmental agency to provide guidance, monitoring and supervision (audit for the inspectorate) to the PTPD (at sub-district level) who has the responsibility of guiding and advising the village government in implementing the RPIMDes, RKPDes and APBDes as well as the activities funded by the village budget.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

The Project does not envision potential indirect and/or long-term impacts. However, anticipation has to be made particularly on e-waste disposal. PIUs, every individual and community need to be educated and made aware of
about the danger of this particular waste and it should be disposed properly in the dropping point facilitated by the Government/local government, or licensed third-party agencies.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

N/A

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

The Project has developed an Environmental and Social Management Framework (ESMF) that addresses environmental and social safeguards issues both for the system strengthening activities under Component 1, 2, and 4 and for village-level investments under the performance grants of Component 3. The ESMF consist of first, an outline pathways of the environmental and social sustainability, namely, the objectives, principles and requirements specified in and consistent with the triggered OPs that would be integrated in the activities under Components 1, 2, and 4. The Terms of References for Consultants who will help MoHA and MoV in strengthening the capacity building and institutional strengthening system will be discussed and reviewed by the Bank to ensure that the mainstreaming under Component 1, 2, 4 is consistent with the objective, principles and requirements specified in the triggered OPs as reflected in the ESMF. The second, is applicable to Component 3, i.e., sub-projects to be financed by the performance grants to villages, comprising of an environmental management framework (screening, identification of impacts, negative list, etc.) and an Indigenous Peoples Planning Framework (IPPF) to screen, identify potential environmental and social impacts and risks, respectively, and to prepare the appropriate safeguards instruments to address the identified potential impacts and risks. The ESMF also covers proposed principles, procedures, requirements and organizational arrangements for managing environmental and social impacts and risks, strategy for capacity building to implement the ESMF, GRM, disclosures, results of ESMF’s public consultations, monitoring and budget. An e-waste disposal protocol has been also developed and included in the ESMF.

MoHA and MoV will be the Project’s implementing units (PIUs) who are responsible to prepare and implement the ESMF. Some of the MoHA staff who were involved in the PNPM-Rural are aware of and have long-standing experiences in implementing the World Bank’s safeguards policies, particularly for OP4.01 and OP 4.10. Overall, awareness and capacity of the stakeholders involved in implementing the village law on the environmental and social sustainability especially the objectives, principles and requirements specified in the triggered OPs are limited, including at the central level (MoHA and MoV), provincial, district, sub-district and village level. Further, village facilitators who had been involved in the PNPM-Rural have some awareness and understanding on environmental and social sustainability, particularly the objectives, principles and requirements specified in the OPs, and used their knowledge during their facilitation to the village community. However, in general, facilitators (Village Facilitator (PD: PD-P and PD-TI) and Local Village Facilitator (PLD)) have a very limited awareness and capacity on environmental and social sustainability, particularly the objectives, principles and requirements as specified in the triggered OPs.

During Project implementation, the MoHA and MoV will carry out awareness environmental and social sustainability (ESS) training for its management staff, i.e. PIUs at national, provincial and district levels, as well as for the TAPMD (esp. TA-ID), PTPD, officials of DPMD, and District Inspectorate (new), provincial satker; and technical training for

23 Instruments for environmental management: UKL-UPL, SPPL, ECOPs; whereas for IPs: Indigenous Peoples Plan, IPs requirements in the design of the activities or sub-projects to be financed by the performance grants.
the village facilitators and local village facilitators. In addition to training provided to the PTPD and PD as well as to the village apparatus with modules and training delivery that have mainstreamed the ESS particularly the objectives, principles of the triggered OPs, the Project intends to (1) strengthen the monitoring and supervision activities by including monitoring indicators representing the inclusion of ESS sustainability; (2) include the district environmental agency (DEA) to provide awareness and capacity training to the district inspectorate, PTPD (at the sub-district level) on the ESS; (3) provide guidance to the village government and community on the ESS considerations (i.e., the negative list for the performance grants) during the preparation and implementation of the village plans particularly for activities financed by the performance grants; (4) include the ESS sustainability aspects in the monitoring and supervision activities to villages carried out by the PTPD; and/or (5) include key ESS provisions as part of the criteria for the performance grants.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

Key Project’s stakeholders involved in the mainstreaming the environmental and social sustainability (ESS) aspects especially the objectives, principles and requirements of the triggered OPs in the capacity building and institutional strengthening of the Village Law implementation are PIUs of the MoHA and MoV; provincial PIUs, district PIUs, sub-districts and village administration and community. Other stakeholders include the regional experts (Tenaga Ahli), village facilitators, and local village facilitators hired by the MoV as well as village communities.

The Project carried out public consultations for the ESMF during 14-15 January 2019. As the nature of the Village Law implementation is community-based at the village level, the mainstreamed ESS aspects particularly the objectives, principles and requirements of the triggered OPs in various manuals and training materials for the village facilitators, local village facilitators and village apparatus will be adopted by them during the preparation and implementation of the RPJMDes (village mid-term plan), RKPDes (village annual plan), APBDes (village annual budget) and activity plan. The manuals which have mainstreamed the ESS aspects particularly the objectives, principles and requirements of the triggered OPs will be used as references during the consultations with the villagers in preparing and implementing such plans.

B. Disclosure Requirements (N.B. The sections below appear only if corresponding safeguard policy is triggered)

The draft ESMF was disclosed in the MoHA’s website, namely http://binapemdes.if/informasi, both in English and Bahasa prior to public consultation. Public consultation took place in Jakarta during January 14-15, 2019. The final draft ESMF (English and Bahasa) will be disclosed in the same websites and in the Bank Infoshop prior to appraisal.

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting) (N.B. The sections below appear only if corresponding safeguard policy is triggered)

OP 4.01; OP 4.04; OP 4.36; OP 4.11; OP 4.10; OP 4.12
CONTACT POINT

World Bank

Borrower/Client/Recipient
Republic of Indonesia

Implementing Agencies

Directorate General of Village Government Affairs
Ministry of Home Affairs

Directorate General of Village and Community Development and Empowerment
Ministry of Villages, Disadvantaged Areas and Transmigration

Deputy for Regional Development
Ministry of National Development Planning/BAPPENAS

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

| Task Team Leader(s): | Anna C. O’Donnell, Samuel T. Clark |

Approved By

| Safeguards Advisor: | Peter Leonard | Feb 15, 2019 |
| Practice Manager/Manager: | Nina Bhatt | Feb 17, 2019 |
| Country Director: | Rodrigo A. Chavez | Feb 21, 2019 |