



# Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 07-May-2024 | Report No: PIDPC00122



## BASIC INFORMATION

### A. Basic Program Data

Project Beneficiary(ies)	Region	Operation ID	Operation Name
Indonesia	EAST ASIA AND PACIFIC	P505948	Indonesia Locally Led Climate Action Program
Financing Instrument	Estimated Appraisal Date	Estimated Approval Date	Practice Area (Lead)
Program-for-Results Financing (PforR)	01-Jul-2024	30-Sep-2024	Social Sustainability and Inclusion
Borrower(s)	Implementing Agency		
Republic of Indonesia	Ministry of Finance, Ministry of Villages, Development of Disadvantaged Regions, and Transmigration		

### Proposed Program Development Objective(s)

The development objectives of the Program are to (i) increase village-level investments in resilience-enhancing climate adaptation and mitigation actions and (ii) enhance central government capacity to monitor local climate finance and impact

## COST & FINANCING (US\$, Millions)

### Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? No

Is this project Private Capital Enabling (PCE)? No

### SUMMARY

<b>Government program Cost</b>	<b>1,135.00</b>
<b>Total Operation Cost</b>	<b>751.88</b>
Total Program Cost	750.00
Other Costs (Front-end fee,IBRD)	1.88
<b>Total Financing</b>	<b>751.88</b>
<b>Financing Gap</b>	<b>0.00</b>



**FINANCING**

<b>Total World Bank Group Financing</b>	<b>750.00</b>
World Bank Lending	750.00
<b>Total Government Contribution</b>	<b>1.88</b>

Concept Review Decision

The review did authorize the preparation to continue

**B. Introduction and Context**

Country Context

1. **Indonesia’s Gross Domestic Product (GDP) growth remains strong though the economy is yet to fully recover to its pre-pandemic trajectory.** The country has maintained seven consecutive quarters of growth above 5 percent (year-on-year), slowing very moderately to 4.9 percent in the third quarter of 2023. In July 2023, Indonesia regained an upper-middle group status after falling out in 2020 due to the impact of the Coronavirus Disease of 2019 (COVID-19) on the economy. With a post-pandemic recovery underway, poverty reduction has received a boost. In March 2023, Indonesia’s poverty rate was at 9.36 percent, after having risen to 10.2 percent in September 2020.<sup>1</sup>

2. **Indonesia’s strong growth and poverty reduction over the past 20 years have moved in parallel with rising greenhouse gas (GHG) emissions and increased intensity and frequency of climate shocks.** Indonesia’s emissions— at 3.5 percent of the global total—are high compared to its structural peers in absolute terms<sup>2</sup>; the bulk of which is derived from energy resources (fossil fuels, particularly coal), industrial processes, agriculture, forest and land use changes, peatlands, and waste.<sup>3</sup> As an archipelagic nation with extensive low-lying and small island areas, Indonesia ranks in the top one-third of countries at risk of natural hazards. Between 1990-2021, the country experienced more than 300 natural disasters, with climate-related disasters accounting for approximately 70 percent of the total. Disaster frequency has increased over the years, and this trend is expected to continue. Rising sea surface temperature is associated with greater severity of tropical cyclones, while heavier rainfall is expected to exacerbate floods and landslides. Further, more frequent El Niño events are likely to increase drought, fire, and water supply risks. These hazards pose risks to human health, economic productivity, and infrastructure with direct impacts on displacement, livelihoods, and lives.

3. **As Indonesia moves toward achieving its climate resilience goals, articulated in its 2022 Enhanced Nationally Determined Contribution (NDC)<sup>4</sup>, there will be disproportionate impacts on poorer, natural resource dependent**

<sup>1</sup> Indonesia Economic Prospects, World Bank, 2023. [Link](#).

<sup>2</sup> Although per capita emissions are in line with those of other large developing economies, and lower than those of developed economies. Indonesia Economic Prospects, World Bank, 2023. [Link](#); and Indonesia Country Climate and Development Report (CCDR), World Bank, 2023. [Link](#).

<sup>3</sup> World Bank CCDR, 2023.

<sup>4</sup> Including emission reduction targets of 60 percent from the forestry and other land use (FOLU) sector and from the coal/energy sector.



**populations.** The majority of Indonesia’s rural population is dependent on natural resources in high GHG sectors, including agriculture, forestry, and land use (AFOLU), which will experience significant transitions in the coming years as part of the Gol’s emission reduction efforts. Within communities, those facing limited access to rights and decision-making or exclusion from social networks are likely to be most affected. Further, the Gol predicts that the impacts of climate change and natural resource degradation will disproportionately affect the poorest and marginalized groups. In particular, gender norms that shape differential labor patterns and social roles could disproportionately increase climate change impacts on women.<sup>5</sup> The National Long-Term Development Plan (RPJPN) for 2025-2045 recognizes these vulnerabilities and looks to strengthen rural environmental management through climate crisis prevention, disaster resilience, and sustainable utilization of natural resources.

#### Sectoral (or multi-sectoral) and Institutional Context of the Program

4. **The Gol recognizes that addressing climate risks and impacts requires a whole-of-Government approach with an emphasis on subnational government.** Indonesia’s subnational government plays a significant role in local resource mobilization and decisions related to, inter alia, disaster risk mitigation while well-established village development institutions deliver infrastructure and frontline services. In 2014, the Gol passed the Village Law (Law No. 6) to mainstream and embed the community-driven development (CDD) agenda in its local governance structure, significantly increasing fiscal resources for development and community empowerment in Indonesia’s approximately 75,000 villages. The Law institutionalized rural villages as Indonesia’s lowest level of government, committed annual fiscal transfers, and outlined participatory principles for programing these funds. Village governments are elected regularly and are responsible for allocation and execution of annual budgets from the government and other revenues, driving significant improvements in rural development and economic growth. The Village Law was revised in March 2024 to, inter alia, allow the transfer of Village Funds (*Dana Desa*) of around US\$4.5 billion per year on average directly to village accounts instead of through districts accounts, extend the term of village officials, improve gender balance on village councils, and authorize channeling of climate finance to village accounts.

5. **The Village Law provides a vehicle to scale up financing and technical assistance towards climate adaptation and mitigation objectives but several gaps exist that prevent local climate action at scale.** Village Funds make up over half of the total village resources on average (US\$4.4 billion in total in 2024), and an even higher proportion in poorer parts of the country. A World Bank Village Expenditure Review conducted in 2017<sup>6</sup> assessed the overall functionality of the system, documenting reliable delivery of fiscal transfers, regular village elections, and effective utilization of village development budgets by the village governments, particularly to deliver basic infrastructure and services. The majority of village spending at that time was allocated by village governments to public works, housing, sanitation, and health. Yet, village budget allocations do not take into consideration climate adaptation costs and climate-related poverty impacts. Further, the regulatory framework for sending carbon finance directly to communities is weak or nonexistent, raising transaction costs and resulting in fragmentation of carbon finance projects. Many villages also lack the necessary guidance and technical support from district government agencies to plan and implement climate actions. Consequently, village-level development planning insufficiently integrates actions that address climate risks and issues of resilience. Where mitigation or adaptation projects do take place using the Village Funds, their amounts and impact on local development outcomes are not directly traceable by the central authorities due to a lack of an effective tagging and monitoring system.

6. **To address these gaps, the Gol is launching the Village Climate Resilience Program (the program) for 2025-2030 -**

<sup>5</sup> Statistics Indonesia (Badan Pusat Statistik, BPS), 2021.

<sup>6</sup> World Bank. June 2019. Policy Note on Redefining Village Expenditure Classification: Towards a Better Tracking of Village Spending. Methodology, Findings and Recommendations from the Village Public Expenditure Analysis (ViPER) 2017. Report No. AUS0001050.



**a new village development program that is grounded in the Village Law and promotes climate resilience.** This program will integrate the Ministry of Villages, Development of Disadvantaged Regions, and Transmigration (MoV) Village Climate Program, which provides technical assistance to villages on climate action at a small scale, and the Ministry of Finance (MoF) Village Funds program, which provides annual fiscal transfers to villages for development. The GoI intends to enhance the scale and effectiveness of both programs under one programmatic umbrella. The Program will be implemented by MoV and MoF with the overall goal of improving community resilience to climate change through the framework of the Village Law. The program will promote climate resilience by supporting and incentivizing village-level investments in climate-resilience enhancing projects that respond to identified climate risks and vulnerabilities. Village projects are expected to include basic adaptation infrastructure, disaster risk reduction measures, climate-smart agricultural technologies, improved forest and peatland conservation, rehabilitation, and management, and improved local waste management.

#### Relationship to CAS/CPF

7. **The proposed Indonesia Locally Led Climate Action Program (the Program) is aligned with the World Bank Group’s Country Partnership Framework (CPF) for Indonesia for the Period FY21-25.**<sup>7</sup> The Program directly supports Engagement Area 4 “Sustain management of natural assets, natural resource-based livelihoods and disaster resilience”, Objective 4.3 “Strengthen multi-hazard disaster resilience” as it will strengthen central and decentralized systems that finance and support climate action, and provide performance-based financing to improve vulnerable communities’ resilience to the impacts of climate change and shocks. The Program will also support Objective 4.1 “Strengthen management of natural assets and environment” and Objective 4.2 “Improve agriculture and natural resources-based livelihoods”, as well as Engagement Area 1 “strengthening economic competitiveness and resilience”, Objective 1.2 “Increase efficiency, equity, and effectiveness of public spending” and Engagement Area 2 “Improve infrastructure”, Objective 2.1 “Improve infrastructure provision and quality of service”, as climate actions are expected to improve the resilience and functioning of natural assets, livelihoods, infrastructure, and services, and thus improve the efficiency, equity, and effectiveness of public spending toward achieving the NDC and enhancing communities’ resilience to climate change impacts and shocks.

8. **The Program is consistent with Indonesia’s climate change commitments, including its NDC and National Adaptation Plan (NAP).** Under the Paris Agreement, Indonesia committed to significantly reduce GHG emissions. In 2022, the government made four new commitments to low carbon transitions through (a) an enhanced NDC, (b) a significant reduction of GHG emissions, (c) transforming the forestry and other land use sector into a net carbon sink by 2030, and (d) an economy-wide net-zero emissions by 2060 or sooner. On mitigation, this Program will support the goals of ensuring that Indonesia’s economic transition is one characterized by social equity (Low-Carbon Development Indonesia-LCDI, pillar 5) and enabling communities to benefit from climate actions (Indonesia Long-Term Strategy for Low Carbon and Climate Resilience 2050, pillar 2). On adaptation, the Program is aligned with Indonesia’s 2019 NAP’s national and sub-national targets in priority sectors through locally selected climate resilient infrastructure, capacity building of village communities on adaptive measures, and governance interventions through improved instruments for climate finance and monitoring. The Program supports the recommendations of the Indonesia CCDR to ensure inclusion in a low-emissions transition and to improve village-level technical services to support adaptation and mitigation activities. The CCDR further recommends supporting community-led funds allocation, in line with the Village Law.

#### Rationale for Bank Engagement and Choice of Financing Instrument

9. **The World Bank has been a key partner of the GoI in building Indonesia’s village development systems.** Since

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<sup>7</sup> Report No. 157221-ID.



1998, the World Bank has supported several CDD operations, such as the Kecamatan Development Program (KDP) and the National Program for Community Empowerment (PNPM) that endowed subnational entities and communities with capacity and resources to implement local development activities through inclusive and participatory processes. The results of these operations informed the Village Law. In addition, the ongoing Institutional Strengthening for Improved Village Service Delivery Project (P3PD, P165543) supports improvements to the implementation of the Village Law with a focus on quality of spending and oversight, result monitoring, and village institutions' capacity to build infrastructure and deliver frontline services and there are several complementary operations that support sectoral interventions.<sup>8</sup> These put the World Bank in a strong position to support the proposed Program.

10. **The Program for Results (PforR) is the most appropriate financing instrument for this Program as it anchors policy and institutional improvement and investments within established financing and service delivery systems while incentivizing results at the national and local levels.** The PforR will help the GoI implement the Village Climate Resilience Program while utilizing and strengthening MoF's village fiscal transfers and MoV's community support systems. It will incentivize an increase in climate funding within village development plans, coordination of policies and technical support across ministries, and systematic monitoring of climate finance and impact. Moreover, the use of a PforR responds to lessons learned from previous engagements in Indonesia, which demonstrate the need to finance community development and village institution building using existing budget sources and through established local institutions. Re-gearing existing systems towards locally led climate adaptation and mitigation actions instead of project-based financing, as a way to accelerate the reallocation and leveraging of climate funds.

### C. Program Development Objective(s) (PDO) and PDO Level Results Indicators

#### Program Development Objective(s)

11. The development objectives of the Program are to (i) increase village-level investments in resilience-enhancing climate adaptation and mitigation actions and (ii) enhance central government capacity to monitor local climate finance and impact.

#### PDO Level Results Indicators

12. **The following PDO-level Indicators will measure the PDO:**

- (i) Villages benefiting from community-led climate resilience investments (number)
  - Villages benefiting from community-led investments for reduced hydrometeorological risk sensitivity (number)
  - Villages benefiting from improved community-led natural resource management practices consistent with the NDC (number)
  
- (ii) People benefitting directly from improved climate risk management and increased climate resilience due to Program investments and activities (number) (Corporate Scorecard Indicator on Resilience)<sup>9</sup>

<sup>8</sup> These include the Strengthening of Social Forestry in Indonesia Project (P165742), the East Kalimantan Project for Emission Reductions Results (P166244), the Oceans for Prosperity Project (P173391), the Strengthening Intergovernmental Transfers and Subnational Finance for Service Delivery in Indonesia Program (SINERGIS, P176954), the Indonesia Mangroves for Coastal Resilience Project (P178009), as well as technical assistance to the Indonesian Environment Fund to enhance its capacity to manage public and private flows of climate finance.

<sup>9</sup> The methodology for measuring this indicator is under development.



(iii) Climate action spending and impact monitoring systems strengthened (text)

### D. Program Description

#### PforR Program Boundary

13. The table below presents a summary of the PforR Program boundary within the government program.

	Government program	Program supported by the PforR (PforR Program)	Reasons for non-alignment
Objective	Improve community resilience to climate change through the framework of the Village Law	Increase village-level investments in resilience-enhancing climate adaptation and mitigation actions and enhance central government capacity to monitor local climate finance and impact	The PforR PDO reflects the expected 5-year outcome while the government program objective reflects its long-term development goal. The PforR also specifies the national outcome in support of effective investment in local resilience.
Duration	2025 - 2030	2025 – 2030	NA
Geographic coverage	National	10,000 priority villages in western, central, and eastern Indonesia	The Program will prioritize at-risk villages in terms of climate impacts and disasters. Other villages will be supported by the government program and/or follow on operations
Results areas	<ol style="list-style-type: none"> <li>1. Increased participation and knowledge of local communities</li> <li>2. Strengthened village facilitation and TA systems</li> <li>3. Increased allocation and improved targeting of Village Funds to finance climate adaptation and mitigation</li> <li>4. Improved quality of Village Funds spending through improved management systems</li> <li>5. Cross-sectoral coordination to enhance provision of technical assistance to villages</li> </ol>	<ol style="list-style-type: none"> <li>1. Community capacity strengthening</li> <li>2. Increased village climate investment</li> <li>3. Stronger delivery and monitoring systems</li> </ol>	The PforR supports the core objectives of improving local capacity, fiscal transfers, and central coordination and management systems
Overall Financing	US\$1,135,000,000	US\$750,000,000	The PforR will finance a portion of the program's expenditure framework as it focuses on the most at risk villages only.

14. **Description of the Program Results Areas (RAs).** The Program will support three RAs that contribute to the government program’s objective. The World Bank will allocate loan financing of US\$750 million linked to disbursement linked indicators (DLIs). The following summarized the proposed Program RAs and DLIs:



15. **Results Area 1: Community capacity strengthening.** The Gol aims to improve risk awareness and climate-smart planning in approximately 10,000 villages most vulnerable to climate risks in Indonesia’s three regions, while leveraging local knowledge. MoV and MoF will produce a list of target villages using the Ministry of Environment’s Climate Vulnerability Index, poverty data, and fiscal absorption capacity data (of Village Funds). Once determined and agreed, the program will utilize and expand MoV’s community support mechanisms, including existing village facilitators employed by MoV, to sensitize the targeted villages about climate risks and facilitate a community-led planning of village climate action plans based on the climate risks and local knowledge. The Program will also assess the feasibility to tap into existing technical assistance structures provided by sectoral programs at the village level to inform the planning. The action planning will utilize digital methods, such as app-based access to information from central and local governments and recording.

16. **Results Area 2: Increased village climate investment.** The Gol aims to address funding gaps for village-level climate adaptation and performance incentives for mitigation, through reforms to the Dana Desa fiscal transfer instrument, including the allocation of Climate Village Funds. This RA will support the development of a methodology to determine the total village allocation per year to implement the climate action plans (using Village Funds and other sources of funding). The methodology will consider village climate vulnerability, size, and other factors to be agreed. This process will go in parallel to the development of the action plans under RA1 and inform it. Once agreed, the prioritized climate actions will be implemented using several performance-based tranches. Actions will be self-procured by the villages. RA2 will also support reforms to Village Funds regulations and implementation guidelines to introduce the allocation, transfer, and execution of annual Climate Village Funds to Indonesia’s villages.

17. **Results Area 3: Stronger delivery and monitoring systems.** The Gol aims to enhance the quality and targeting of Village Funds by improving oversight and management systems for tracing spending on climate actions and outcomes. MoV and MoF will i) upgrade the MoF OMSPAN accounting system and MoV’s Village Funds guidance and annual priority spending regulation to be able to “climate tag” Village Funds; ii) conduct expenditure analyses of Climate Village Funds; iii) upgrade the MoV e-MONEV system by adding to it (a) a systematic approach to climate vulnerability mapping, linked to expenditure and impact analysis, (b) a monitoring and accountability system to track attendance and performance of village facilitators, and (c) evaluations of impacts of Climate Village Funds-funded projects; and iii) routinely produce and publish analyses of the effectiveness of village climate finance systems using the upgraded OMSPAN and e-MONEV systems.

## E. Initial Environmental and Social Screening

18. **Environmental Assessment.** The Program’s overall environmental outcome is expected to be positive, improving community resilience against impact of climate change by strengthening a village financing mechanism that supports small-scale activities in the context of mitigation and adaption to climate risks. Program environmental risks are considered Moderate, coming from the implementation of the local climate actions under Results Areas 1 and 2. Screened potential environmental effects are expected to be small in scale, contained in the boundary of each village, not occur in or adjacent to sensitive areas, and manageable with appropriate implementation of national policies/regulations/standards; and they do not require unproven mitigation or management measures. The overall potential environmental impacts are considered manageable by ensuring that national policies, regulations, and standards on environmental protection are mainstreamed in the Program’s Disbursement Linked Indicators and Program Action Plan. Additionally, any activities located in or adjacent to natural habitats and physical cultural heritage sites shall be excluded.

19. Subject to the activities under Results Area 1, potential environmental risks are: (i) potential temporary and site-specific adverse environmental risks and impacts associated with the construction of small-scale infrastructures for sanitation, irrigation, drinking water, and road access (for example, noise, dust, and emission from material and personnel





mobilization, sanitary and domestic waste generated by workers, and worker and community health and safety); (ii) potential soil erosion, sedimentation, or dust emission caused by modification of land contour, for example for terracing activities; (iii) potential nuisance from decomposition odour, vector disease transmission, and soil and groundwater contamination from leachate caused from composting and other waste management activities; (iv) potential impact on human health and ecosystem balance from the use of pesticides in pest management programs; (v) potential contamination of water sources from coliform bacteria and water purification agents from the establishment of communal sanitation and water cleaning facilities; (vi) potential impact on surrounding habitats from fire control measures and fire-water management (for example, when canals are constructed, or when fire-extinguishing chemical are used); (vii) potential impact on the use of natural resource by the community from establishment of irrigation channels and new agricultural/fishery/husbandry areas; and (viii) potential surface water, soil, sediment, and groundwater contamination from establishment of wastewater and solid waste treatment facilities as associated facilities for established infrastructures/activities (for example, residential septic tank, wastewater and manure treatment system from agricultural/fishery/husbandry sites, etc.). Under Results Area 2, potential environmental risks are indirect or cumulative impacts such as: (i) limited reduction of river water volume at downstream regions due to establishment of several irrigation channels to agricultural area in the upstream regions; (ii) reduction of quality of river water with the increase of numbers of agricultural/fishery/husbandry areas discharging treated wastewater; and (iii) damage to nearby grass field habitat due to increasing needs for feed for animal husbandry.

20. **Social Assessment.** The social risk is estimated to be Moderate as the Program is not expected to support any major or large-scale civil construction, but rather basic- and small-scale infrastructures under Results Areas 1 and 2. However, the risk rating will be reassessed during preparation due to the Program’s contextual, institutional capacity, and complexity risks, and reputational and political risks. Negative social risks are associated with exclusion of villages that are not selected for various reasons, including not meeting the eligibility criteria (which have not been determined). There will be villages with preexisting poor social capital, or underlying tensions or social conflicts, which might bring additional layers of risk. Preexisting social conflicts are often caused by overlapping claims of land ownership and land use, other land-related conflicts, or natural resource-induced conflict, such as in villages inside or surrounded by large-scale oil palm plantations, large-scale mining areas, or large-scale state-led infrastructure projects. Following Core Principle 6, activities that potentially exacerbate underlying social tensions or conflicts will be included in the Exclusion List.

21. The potential locations of Program activities are not known at this stage. The Program will likely cover Indigenous Peoples’ (IPs) villages (*desa adat*), or villages with IPs presence, including formally recognized IPs (*Masyarakat Hukum Adat*) and IPs as defined in World Bank Environmental and Social Standard (ESS) 7 and Core Principle 5. Social risks may stem from the exclusion of villages and marginalized groups within communities in decision-making processes, lack of accessibility to messages, and inappropriate selection of communication methods to the communities and other local stakeholders. The risk of exclusion of marginalized groups is envisaged, where they are left behind in village governance (Results Area 1) such as the decision-making processes for the use of Village Funds, although participation and inclusion of “all members of the village community” is explicitly mentioned in MoV’s Regulation No. 7 of 2023 regarding Village Funds Use Priority Detail. In addition, negative social impacts are likely to occur under infrastructure construction from the additional Village Funds Activities (Results Area 2), related to labor-management procedures, (small-scale) land acquisition, and health and safety of workers and local communities. Some risks may be related to disturbances caused by work, such as difficulty of access, traffic deviation, noise, vibration, dust, etc., that could generate disturbances pertaining to occupational and community health and safety. Some activities may be conducted in challenging, remote, and conflict areas that need careful attention to occupational health and safety. In terms of public health measures, relevant COVID-19/communicable disease protocols must be included in occupational and community health and safety guidance.

22. The Environmental and Social System Assessment (ESSA) will assess the capacity of MoV and MoF to coordinate



technical assistance for implementing the activities supported by the Program, as well as capacity at the village level to carry out environmental and social impact assessments, implement mitigation measures prescribed, and conduct monitoring using the existing system and potential updated system in the future. Gap filling measures will be proposed based on the ESSA findings and agreed with the implementing agencies. Potential environmental risks of direct, indirect, and cumulative impacts of Program activities will be assessed against Core Principle #1 and Core Principle #3 of the World Bank PforR Financing Policy, while exclusion criteria that align with Core Principle #2 will be determined to avoid adverse impact to natural habitats and physical cultural heritage. The ESSA will also assess the experience under past Village Funds activities, including how local communities, including but not limited to IPs, have been engaged and consulted upon to achieve their broad community support, and identify gaps in existing systems, if any. Detailed social risk and impacts will be discussed and addressed in the ESSA under Core Principle 1, 4, and 5.

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Indonesia Locally Led Climate Action Program(P505948)

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