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Report No: PAD3049

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF \$300 MILLION

TO THE

REPUBLIC OF INDONESIA

FOR AN

INSTITUTIONAL STRENGTHENING FOR

IMPROVED VILLAGE SERVICE DELIVERY PROJECT

JUNE 5, 2019

Social, Urban, Rural and Resilience Global Practice  
East Asia and Pacific Region

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective May 24, 2019)

Currency Unit = Indonesian Rupiah (IDR)

IDR 14,348 = US\$1

IDR 1 = 0.0000697

FISCAL YEAR

January 1 - December 31

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## Abbreviations and Acronyms

APBD	District Budget	IDR	Indonesian Rupiah
APBN	National Budget	IEG	Independent Evaluation Group
APBDes	Village Budget	IFR	Interim Financial Report
APJII	Association of Internet Service Providers in Indonesia	INEY	Investing in Nutrition and Early Years
ASEAN	Association of Southeast Asian Nations	IP	Indigenous Peoples
AWPB	Annual Work Plan and Budget	IPD	Village Development Index
Balitbangkes	National Institute of Health Research and Development	IPF	Investment Project Financing
Bappeda	District Development Planning Agency	IPPF	Indigenous Peoples Planning Framework
Bappenas	National Development Planning Agency	IRR	Internal Rate of Return
BAU	Business-as-usual	Kemenko	Coordinating Ministry for Human Development and Cultural Affairs
BP/BD	Bank Policy / Bank Directive	PMK	Governance for Growth Program
BPD	Village Council	KOMPAK	Key Performance Indicator
BPK	Supreme Audit Agency	KPI	Treasury Office
BPKP	Development and Finance Oversight Agency	KPPN	Online Civil Complaints Service
BPS	National Statistics Agency	LAPOR	Village Community Institution
Bupati	District Head	LKD	National Public Procurement Agency
CDD	Community-driven development	LKPP	Learning Management System
CPF	Country Partnership Framework	LMS	Local Solutions to Poverty Multi-Donor Trust Fund
CPMU	Central Project Management Unit	LSP MDTF	Monitoring and evaluation
CQS	Consultant Qualification Selection	M&E	Ministry of Education and Culture
DA	Designated Account	MoEC	Ministry of Finance
DAK	Special Allocation Fund	MoF	Ministry of Health
Dapodik	Basic Education Data System	MoH	Ministry of Home Affairs
DD	Village Fund	MoHA	Ministry of Social Affairs
Dekon	Deconcentrated Funds	MoSA	Ministry of Villages, Disadvantaged Areas and Transmigration
DFAT	Australia's Department of Foreign Affairs and Trade	MoV	Mid Term Review
DG Bina Pemdes	Directorate General of Village Government Affairs	MTR	National Coordination Platform
DG Dukcapil	Directorate General of Population and Civil Registration	NCP	National Management Consultant
DG PK	Directorate General of Fiscal Balance	NMC	Net Present Value
DG PPM	Directorate General of Village Community Development and Empowerment	NPV	Online Monitoring-State Treasury and Budget System
DID	Regional Incentive Fund	OM-SPAN	Operational Policy/Bank Procedure
DIPA	Spending Warrant	OP/BP	Village Development and Community Empowerment Program
DPIU	District Project Implementation Unit	P3MD	Programmatic Advisory Services and Analytics
DPKAD	Department of Regional Revenue and Asset Management	PASA	Village Facilitator
DPMD	Department of Community and Village Empowerment	PD	Project Development Objective
ESMF	Environmental and Social Management Framework	PDO	District Head Regulation
ESS	Environmental and Social Standards	Perbup	Program-for-Results
FM	Financial Management	PforR	Project implementation unit
GDP	Gross Domestic Product	PIU	Local Village Facilitator
Gol	Government of Indonesia	PLD	Performance and Learning Review
GRM	Grievance Redress Mechanism	PLR	Project Management Unit
HDW	Human Development Worker	PMU	National Program for Community Empowerment
IBRD	International Bank for Reconstruction and Development	PNPM	Village Potential Survey
ICT	Information and Communication Technology	PODES	Working Group
		Pokja	Projects Operationa Manual
		POM	Provincial Project Implementation Unit
		PPIU	Commitment Officer
		PPK	Project Procurement Strategy for
		PPSD	

Prodeskel	Development	SC	Steering Committee
PTPD	Village Profile Data System	SOE	Statement of Expenditures
Puskesmas	Technical Advisor for Village Governments	SP2D	Payment Orders
QCBS	Subdistrict Health Center	SPM	Payment Request
RAN API	Quality- and Cost-Based Selection	SPSE	National Electronic Procurement System
	National Action Plan for Climate Change	STEP	Systematic Tracking of Exchanges in Procurement
	Adaptation		
Rifaskes	Health Facility Research Survey	SUSENAS	National Socio-economic Survey
Riskadas	Basic Health Research Survey	TAPM	Community Empowerment Technical Advisor
RKP	Annual National Development Plan		
RKPDes	Annual Village Development Plan	TSP	Technical Service Provider
RPJMDes	Village Medium-Term Development Plan	ULP	Procurement Service Unit
RPJMN	National Medium-Term Development Plan	UNFCCC	United Nations Framework Convention on Climate Change
RPJP	National Long-Term Development Plan		
SaPA	Complaints and Aspirations System	USAID	United States Agency for International Development
Satker	Working Unit		
SEPAKAT	Integrated System for Poverty Planning, Budgeting, Analysis and Evaluation	VFM	Village Financial Management
		VIP	Village Innovation Program
SIPADES	Village Asset Management System	ViPER	Village Public Expenditure Review
SIPEDA	Village Development Information System	WA	Withdrawal Application
Siskeudes	Village Financial Management System	WB	World Bank





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DATASHEET

**BASIC INFORMATION**

Country(ies)	Project Name	
Indonesia	Institutional Strengthening for Improved Village Service Delivery	
Project ID	Financing Instrument	Environmental Assessment Category
P165543	Investment Project Financing	B-Partial Assessment

**Financing & Implementation Modalities**

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Disbursement-linked Indicators (DLIs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
26-Jun-2019	31-Dec-2024

Bank/IFC Collaboration

No

**Proposed Development Objective(s)**

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

**Components**

Component Name	Cost (US\$, millions)
Strengthening Village Government Institutions	192.50
Promoting Participatory Village Development	102.50
Village Performance Awards	50.00
National Coordination, Monitoring and Policy	5.00

**Organizations**

Borrower:	Republic of Indonesia
Implementing Agency:	Ministry of Home Affairs National Development Planning Agency Ministry of Villages, Disadvantaged Areas and Transmigration Coordinating Ministry of Human Development and Culture

**PROJECT FINANCING DATA (US\$, Millions)****SUMMARY**

<b>Total Project Cost</b>	350.00
<b>Total Financing</b>	350.00
<b>of which IBRD/IDA</b>	300.00
<b>Financing Gap</b>	0.00

**DETAILS****World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	300.00
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**Non-World Bank Group Financing**

Counterpart Funding	50.00
Borrower/Recipient	50.00

**Expected Disbursements (in US\$, Millions)**



WB Fiscal Year	2019	2020	2021	2022	2023	2024	2025
Annual	0.00	21.13	59.15	69.72	63.38	59.15	27.47
Cumulative	0.00	21.13	80.28	150.00	213.38	272.53	300.00

**INSTITUTIONAL DATA**

**Practice Area (Lead)**

Social, Urban, Rural and Resilience Global Practice

**Contributing Practice Areas**

Governance

**Climate Change and Disaster Screening**

This operation has been screened for short and long-term climate change and disaster risks

**Gender Tag**

**Does the project plan to undertake any of the following?**

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF	Yes
b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment	Yes
c. Include Indicators in results framework to monitor outcomes from actions identified in (b)	Yes

**SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)**

Risk Category	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● Low
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Substantial
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Substantial
7. Environment and Social	● Moderate





8. Stakeholders	● Moderate
9. Other	
10. Overall	● Substantial

**COMPLIANCE**

**Policy**

Does the project depart from the CPF in content or in other significant respects?

Yes  No

Does the project require any waivers of Bank policies?

Yes  No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	✓	
Performance Standards for Private Sector Activities OP/BP 4.03		✓
Natural Habitats OP/BP 4.04	✓	
Forests OP/BP 4.36	✓	
Pest Management OP 4.09		✓
Physical Cultural Resources OP/BP 4.11	✓	
Indigenous Peoples OP/BP 4.10	✓	
Involuntary Resettlement OP/BP 4.12	✓	
Safety of Dams OP/BP 4.37		✓
Projects on International Waterways OP/BP 7.50		✓
Projects in Disputed Areas OP/BP 7.60		✓

**Legal Covenants**

Sections and Description

Loan Agreement: Schedule 2, Section I.A.1 (a) - The Borrower shall establish by November 30, 2019, and thereafter maintain, throughout the Project implementation period, a National Coordination Platform for Village Development, with a mandate, composition and resources satisfactory to the Bank. Without limitation to the foregoing, the National Coordination Platform for Village Development shall: (i) include representatives from the Coordinating Ministry of Human Development and Cultural Affairs, BAPPENAS, MOHA, MOV, MOF and BPS; and (ii)



be responsible for: (A) coordinating policies on village institutional strengthening and village development; (B) implementing the support systems related to village institutional strengthening and village development; and (C) fostering collaboration among institutions, sectors and stakeholders.

#### Sections and Description

Loan Agreement: Schedule 2, Section I.A.1 (b) - The Borrower shall establish by November 30, 2019, and thereafter maintain, throughout the Project implementation period, a Steering Committee, with a mandate, composition and resources satisfactory to the Bank. Without limitation to the foregoing, the Steering Committee shall: (i) be chaired by a representative from BAPPENAS and co-chaired by a representative from the Coordinating Ministry of Human Development and Cultural Affairs; (ii) include echelon-1 representatives from the, Coordinating Ministry of Human Development and Cultural Affairs, MOHA, MOV, MOF and BPS; (iii) meet at least once a year or as often as required; (iv) be responsible for overseeing the overall Project implementation, including: (A) ensuring Project coordination at the national level; (B) resolving issues that require inter-ministerial decisions; (C) supporting policy developments; (D) monitoring achievements of national targets for village development; (E) ensuring consistencies in the adoption of policies by CPMU, PMU, and PIUs; (F) establishing collaborative technical support and joint monitoring mechanisms for the Project.

#### Sections and Description

Loan Agreement: Schedule 2, Section I.A.1 (c) - The Borrower shall establish by November 30, 2019, and thereafter maintain, throughout the Project implementation period, a CPMU, under the directorate general responsible for village government of MOHA, with a mandate, composition and resources satisfactory to the Bank, which shall be responsible for: (i) day-to-day implementation, management and reporting of Parts 1 and 3 of the Project; (ii) consolidation of the Annual Work Plans and Budgets and submission of the Annual Work Plans and Budgets to the Bank for the Bank's no-objection; (iii) preparation, consolidation and submission to the Bank of the Project Reports and other reports as may be required by the Bank; and (iv) ensuring coordination among CPMU, PMU, and PIUs

#### Sections and Description

Loan Agreement: Schedule 2, Section I.A.2 - At the provincial level, the Borrower shall establish by December 31, 2019, and thereafter maintain, throughout the Project implementation period, Provincial PIUs with representatives from district governments, with functions, resources and staff in numbers and with terms of reference and qualifications satisfactory to the Bank, which shall be responsible for: (a) day-to-day implementation, management, monitoring and reporting of the Project at the provincial level; (b) mobilization of technical supports; (c) establishment of partnerships with provincial-based institutions and sectors; (d) production of modules in line with regional development policies and priorities; (e) review of and provision of clearances for annual capacity building work plans submitted by the districts; (f) provision of recommendations for districts to receive grants based on performance; (g) supervision, monitoring and evaluation; (h) undertaking of quality control and provision of support and coaching to districts in carrying out capacity building activities; and (i) allocation of provincial budget for capacity building activities specifically relevant to provincial priorities.

#### Sections and Description

The Borrower shall establish by November 30, 2019, and thereafter maintain, throughout the Project implementation period, a PMU, under the secretariat general of MOV, with a mandate, composition and resources satisfactory to the Bank, which shall be responsible for day-to-day coordination, management, monitoring and reporting of Part 2 of the Project.

#### Sections and Description



Loan Agreement: Schedule 2, Section I.A.1 (e) - The Borrower shall establish by November 30, 2019, and thereafter maintain, throughout the Project implementation period, PIUs MOHA, MOV, BAPPENAS and the Coordinating Ministry of Human Development and Cultural Affairs, each of which shall be responsible for day-to-day implementation, management and reporting of its respective Part(s) of the Project in coordination with relevant PMU(s) and/or PIU(s), all with functions, resources, and staff in numbers and with terms of reference and qualifications satisfactory to the Bank.

#### Sections and Description

Loan Agreement: Schedule 2, Section I.B.3 (a) - The Borrower shall: (i) adopt by January 1, 2020, and thereafter ensure, that the activities are implemented in accordance with the Performance Grant Manual, in form and substance consistent with the Bank's Safeguard Policies, containing detailed arrangements and procedures for the implementation of Parts 3(b) and 3(c) of the Project.

#### Sections and Description

Loan Agreement: Schedule 2, Section II - The Borrower shall furnish to the Bank each Project Report not later than forty-five (45) days after the end of each calendar semester, covering the calendar semester.

#### Sections and Description

Loan Agreement: Schedule 2, Section I.A.4 - The Borrower shall ensure that the village governments and institutions are responsible for: (a) identifying the capacity building needs and submitting proposals for learning; (b) allocating village budget for attending the training, printing the training materials and providing adequate resources for training; and (c) managing capacity building activities at the village level, including establishing a learning forum and selecting key champions for learning at the village level.

#### Sections and Description

Loan Agreement: Schedule 2, Section I.B.1 (a) - The Borrower shall (a) ensure that the Project is carried out in accordance with the Project Operations Manual, in form and substance satisfactory to the Bank, containing detailed arrangements and procedures for: (i) institutional coordination and day-to-day execution of the Project; (ii) disbursement and financial management; (iii) procurement; (iv) environmental and social safeguard management; (v) monitoring, evaluation, reporting and communication; (vi) preparation and review of a consolidated Annual Work Plan and Budget for each Fiscal Year; (vii) selection of Participating Village Governments; and (viii) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Project

#### Sections and Description

Loan Agreement: Schedule 2, Section I.A.3 - At the subdistrict level, the Borrower shall establish by December 31, 2019, and thereafter maintain, throughout the Project implementation period, PTPDs, with functions, resources and staff in numbers and with terms of reference and qualifications satisfactory to the Bank, which shall be responsible for: (a) carrying out village need assessment and verifying village proposals for capacity building; (b) developing annual work program for capacity building at village and subdistrict levels to be submitted to district governments; (c) delivering training at subdistrict and village levels; (d) coordinating peer-learnings and identifying sectoral and technical supports; and (e) managing supervision, monitoring, evaluation and feedback.

### Conditions



Type	Description
Effectiveness	The Borrower shall adopt, no later than sixty (60) days after the Signature Date, a Project Operations Manual in form and substance satisfactory to the Bank.

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## I. STRATEGIC CONTEXT

### A. Country Context

1. **Indonesia is the world's largest archipelagic state, fourth most populous nation, tenth-largest economy in purchasing power parity terms, and one of the most socially, economically, and culturally diverse countries.** Indonesia has a population of more than 261 million, with 300 distinct ethnic groups and over 700 languages and dialects spread across some 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 (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 has made large gains in poverty reduction since 1999, cutting the poverty rate by more than half to 10.6 percent in 2017.<sup>1</sup> However, most of the progress occurred before 2012: poverty rates declined by 4.6 percentage points between 2007 and 2011 and by only 2.1 percentage points between 2012 and 2017. In contrast, inequality has increased since 1999, with the Gini coefficient rising from 30 in 2000 to 41 in 2010. More recently, both poverty and inequality have begun to decline together. 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 rural Indonesians are particularly vulnerable to sliding back into poverty.** The rural poverty rate was 13.2 percent in 2018, compared to 7.0 percent in urban areas. Close to 60 percent of Indonesia's poor people 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, in predominantly rural areas 86 percent of births are attended by a skilled health worker, and 62 percent of people have access to safe drinking water, compared to 98 percent and 83 percent, respectively, in urban areas. Socioeconomic outcomes are also lower in rural areas: household heads in predominantly rural areas attain lower levels of education (8.5 years versus 10.0 years in urban areas) and rely much more on agricultural employment (49% versus 11% in urban areas) and informal employment (38% versus 66% in urban areas).<sup>2</sup> Overall, rural Indonesians remain more vulnerable to poverty and lack the economic security to transition to the middle class.

4. **The rural poor are also exposed to shocks from natural disasters and climate change, which threaten their livelihood security and contribute to trapping them in poverty.** Indonesia is highly vulnerable to the negative impacts of climate change. Hydrometeorological events, such as floods and droughts, account for 80 percent of disaster occurrences in the country, and are projected to increase with climate change.<sup>3</sup> In the long run, Indonesia also anticipates impacts from slow-onset events—sea level rise, increasing temperatures, and

<sup>1</sup> World Development Indicators for Indonesia (updated November 14, 2018), World Bank.

<sup>2</sup> SUSENAS 2017.

<sup>3</sup> Government of Indonesia (2016), Indonesia's First Nationally Determined Contributions submitted to the UNFCCC.



shifting rainfall patterns.<sup>4</sup> Poor people 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, and on informal employment. Natural disasters affect rural areas, and particularly the rural poor, through multiple channels: damage to village infrastructure, water shortage, reduced agricultural yields, increased food insecurity, and greater prevalence of climate-sensitive diseases such as diarrhea, dengue, and malaria. Java, Bali, and Sumatra islands face high and very high risks from climate change compared to other regions, because of their higher concentration of population and infrastructure. Villages in Eastern Indonesia are also particularly prone to droughts.

5. **Indonesia’s dynamic digital economy—driven by its young tech-savvy population and infrastructure investments in expanding the fiber backbone and reducing Internet costs to all regions—provides a unique opportunity to bridge the “digital divide” between urban and rural areas and to increase the efficiency of services delivered to Indonesia’s rural villages.** The total number of Internet users in Indonesia more than doubled in only five years, expanding from approximately 63 million in 2013 to 143 million people in 2017.<sup>5</sup> At the same time, the cost of mobile data fell: from 2014 to 2018, the cost of one gigabyte in Indonesia decreased from roughly 2 percent of per capita gross national income to less than 0.8 percent, making data costs in Indonesia as low as 50 percent of the cost paid in neighboring ASEAN countries.<sup>6</sup> Indonesia’s rapid digitalization is concentrated in urban areas despite recent Government efforts to expand access to Internet services in rural areas and remote regions. To improve connectivity throughout Indonesia and increase Internet penetration in rural areas—Internet access is 72.4 percent in urban areas and 48.3 percent in rural areas—the Government is investing in countrywide infrastructure through the ambitious Palapa Ring Project, providing 67,887 kilometers of broadband fiber-optic cable over sea and land. As part of this initiative, the Government is linking all district governments to the internet; as of 2018, around 80 percent of district governments were connected to fiber-optic networks. The increased availability of high-speed Internet across Indonesia provides an opportunity to provide cheaper, more efficient, and cost-effective service delivery across Indonesia’s 74,954 villages.

## ***B. Sectoral and Institutional Context***

### ***Sectoral Context***

6. **In 2014, the Government of Indonesia (GoI) passed the Village Law (Law No. 6 of 2014), significantly increasing fiscal resources for development and community empowerment in Indonesia’s 74,954 rural villages.** Between 2014 and 2018, annual fiscal transfers to villages increased from approximately IDR 16.8 trillion (\$1.2 billion) to IDR 119 trillion (\$8.4 billion). In 2018 these large fiscal transfers accounted for approximately 6 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 per capita amount varies significantly because the allocation formula includes a large fixed allocation and village population sizes vary greatly.<sup>7</sup> The new Village Law also expanded the

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<sup>4</sup> Government of Indonesia (2013), National Action Plan for Climate Change Adaptation (RAN API): Synthesis Report.

<sup>5</sup> Association of Internet Service Providers in Indonesia (APJII).

<sup>6</sup> Google and TEMASEK, e-Conomy SEA 2018, Southeast Asia’s Internet Economy Hits an Inflection Point, 2018.

<sup>7</sup> An average village in Indonesia has around 2,500 people or 500-600 households. However, about one-third of villages have fewer 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.



roles and responsibilities of villages in relation to village administration, infrastructure, basic service delivery, and community empowerment.

7. **The increased fiscal resources and the new legal framework offer new opportunities for villages to invest in larger, multiyear and multisectoral development activities and strategies in alignment with village needs and local district and regional development priorities.** Village governments, under the leadership of a directly elected Village Head, are required to prepare six-year Village Medium-Term Development Plans (RPJMDes),<sup>8</sup> Annual Village Development Plans (RKPDes), Annual Village Budgets (APBDes), and annual financial reports in consultation with community members. The annual village budget must be reviewed and endorsed by the district government. 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 multiyear investments—for example, instead of one-off subprojects of around IDR 150-200 million (\$10,000-15,000), villages can plan larger multiyear activities; (b) address development problems that require investments across multiple sectors—for example, the National Strategy for Accelerating Stunting Prevention supports villages in investing in maternal health and community growth promotion activities, water and sanitation, and early child education services while strengthening village leadership and capacity to oversee these multisectoral services;<sup>9</sup> (c) finance a wider variety of investment types—in addition 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.

8. **These investment opportunities have opened new opportunities for villages to address gaps in rural infrastructure, basic service delivery, job creation, and economic empowerment as well as rural connectivity and digital inclusion, thereby contributing to poverty reduction and economic growth.** A village's ability to take advantage of these opportunities effectively depends on its capacity to consult on needs and priorities, prepare development plans and budgets, and execute technical subprojects. In turn, all this depends on the capacity and incentives of the village government to work with citizens and community organizations as well as with subdistrict and district governments and nongovernment stakeholders such as the private sector and civil society. These relatively early days of Village Law implementation offer a window of opportunity for the central Government to set policies and establish efficient systems for supporting and incentivizing villages—both governments and communities—in using their increased fiscal transfers for village development and poverty reduction.

9. **There are early signs that some villages are taking advantage of these new opportunities, with the number of “independent” villages<sup>10</sup> increasing from 2,894 (3.9%) to 5,559 villages (7.6%), and the number of “left-behind” villages declining from 19,750 (26.8%) to 13,232 villages (17.9%) between 2014 and 2018.<sup>11</sup>** Gol's

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<sup>8</sup> 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 reelected three times for a total of 18 years.

<sup>9</sup> See Results Area 4 of the Investing in Nutrition in Early Years Program-for-Results (PforR) Program (P164686).

<sup>10</sup> The government's Village Development Index classifies villages into three categories based on the village development status: “independent” or advanced villages, “developing” villages, and “lagging” or “left-behind” villages. The index is updated every three years based on data from the Village Potential (PODES) Survey.

<sup>11</sup> The 2018 survey was conducted in May and therefore the changes between 2014 and 2018 cover three effective years of increased fiscal transfers for villages—that is, 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.



Village Development Index (IPD) attempts to measure village development progress holistically, although it is imperfect and requires improvements.<sup>12</sup> The IPD 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 National Statistics 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 IPD score increased from 55.7 to 59.4, with most gains coming from improvements to village infrastructure and village administration. Unsurprisingly, the majority of “left-behind” villages, which score low on the IPD index, are in Papua, Maluku, and Kalimantan as well as more remote pockets of Sumatra, Sulawesi, and Nusa Tenggara Timur.

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 trend will be sustained, and it is difficult to directly link it 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, and for the first time the poverty rate decreased 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 some have argued that increased financial resources for villages contributed to the decline in rural areas.<sup>13</sup> **Box 1** illustrates how some villages are taking advantage of the new village fiscal resources and authorities to reduce rural poverty and dramatically improve their ranking on the IPD index.

**Box 1: The potential for villages to use the village funds for transformative investments – the experience of Panjalu Village**

Panjalu Village in Ciamis (West Java), which has a population of 12,600, transformed its infrastructure, services, and livelihoods in the past few years. Classified as “disadvantaged” in 2011, by 2018 the village was classified as “independent,” with most of the gains coming in the years since 2015, with the increased village funds.

The village adopted a multiyear development plan that directed the village funds to various mutually supportive development areas: investments in infrastructure for education, health, transportation, and markets; tourism investments in human resources; and specific investments in village youth.

The village collaborated with neighboring villages and other stakeholders, especially in forest and natural resource management, to maintain spring water for local bathing, washing, and latrines and to upgrade the tourism and market facilities. In addition to increasing the incomes of villagers, the village’s multiyear development plan has generated additional village revenues—some IDR 1.4 billion (\$96,550), about the same as the village receives in fiscal transfers from the central and district governments.

11. **However, evidence indicates that most villages have stuck with “typical” investment strategies that have contributed to only 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.<sup>14</sup> Gol’s monitoring data indicate 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, spending on village infrastructure had increased to almost 60 percent, and spending on human capital and

<sup>12</sup> The IPD index is based on 42 indicators, many of which are correlated, and therefore it provides a useful if imperfect measurement of village development changes since the Village Law was implemented in 2015.

<sup>13</sup> Santoso & Sandy Maulana (2017), *On Constructing Village Fund Impact Evaluation Model* (Paper presented at FKP seminar session—Article 33).

<sup>14</sup> World Bank, 2016 Village Expenditure Review (ViPER), 25 August 2017.





economic empowerment remained very low.<sup>15</sup> Furthermore, an infrastructure audit conducted by the World Bank in 2018 found that although the quality of individual infrastructure subprojects is satisfactory overall, villages tend to simply divide up development spending relatively evenly among hamlets within a village.<sup>16</sup> This results in small and fragmented investments (e.g., small-scale infrastructure subprojects or, worse, “beautification” subprojects) that have little impact on economic growth and poverty reduction.

12. **Several factors constrain villages from translating their fiscal 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 (a) the capacity for comprehensive planning, (b) basic information on village needs and more complex information on regional development plans, (c) access to technical service providers that could help them implement such plans, and (d) incentives and community demand to embark on more ambitious development plans. There is also 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.

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 many villages.** Given the size and variation across Indonesia’s 74,954 villages, village support approaches must be adaptable, flexible, and demand-driven. Often support systems are supply-driven, addressing village needs with a uniform approach. Thus villages do not get the services they most need, and Government funds for supporting villages are used inefficiently. There is no uniform solution that can resolve all problems and ensure that 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.

14. **Global research and operational experience with implementing large-scale community-driven development (CDD) programs and public sector reforms show that a combination of reforms is required to realize the full potential of the Village Law to improve socioeconomic development.** As **Box 2** summarizes, 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 contribute. Across potential interventions, costs of implementation should be weighed against evidence of impact, with attention given to lowering investments in less proven interventions<sup>17</sup>—for example, reducing investments in traditional face-to-face capacity-building training, an approach that has a variable impact record.

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<sup>15</sup> MoV, Program Achievements: Village Development 2014-2018, 5 March 2018.

<sup>16</sup> 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.

<sup>17</sup> World Bank, Building Village Governance Capacity: Literature Review, November 2018.



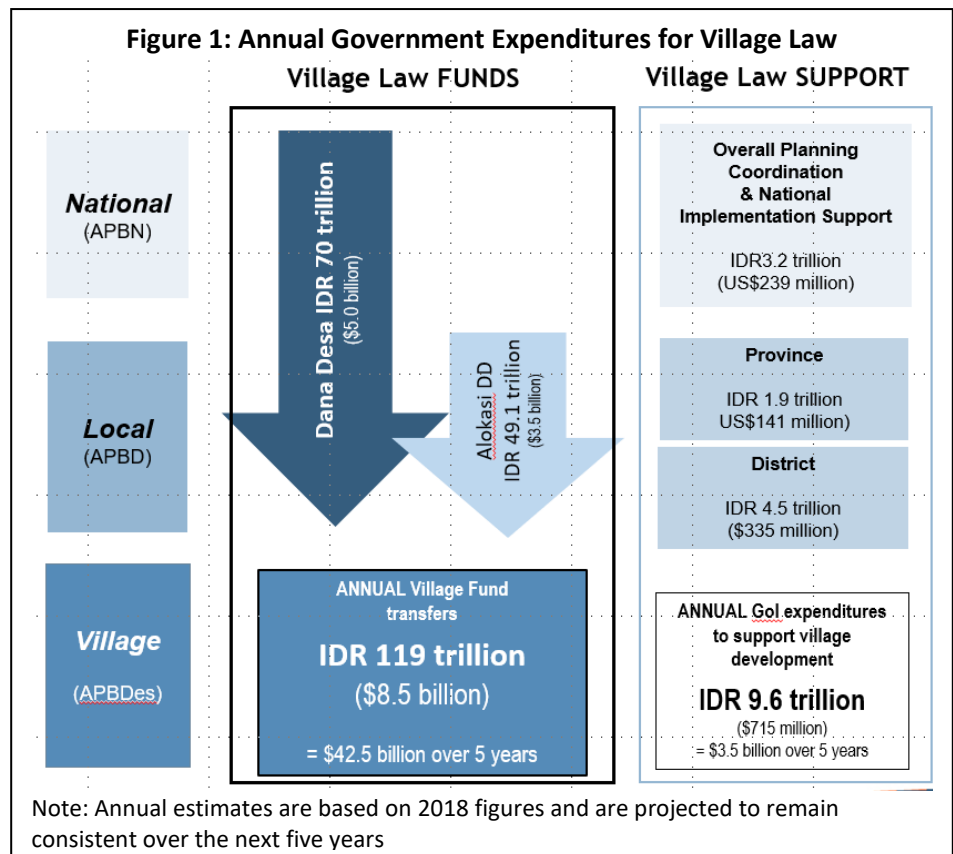
<b>Box 2: Local Governance and Community Development – A Summary</b>	
<b>Capability</b>	<b>Global Literature &amp; Indonesia Assessments</b>
Capacity-building via selection and screening	<p><b>Selecting and delegating tasks to higher-skilled workers at the village level</b> can create significant improvements in governance outcomes (Casey et al. 2018).</p> <p><b>Selecting more skilled, competent, and motivated individuals</b> can improve governance outcomes significantly (Finan 2017).</p> <p>Designing selection methods that <b>attract officials with higher intrinsic motivation</b> is a promising approach to improving governance outcomes (World Bank Group WDR 2017)</p>
Capacity-building via training	<p>(Indirect evidence via community) The 2017 WDR lists some examples of research on <b>training members of the community</b> but lacks evidence about training government employees or service providers. Duflo et al. (2015) found that schools in Kenya could <b>reduce capture (by civil service teachers) by training parents</b> in the community.</p> <p><b>Ex post evaluations</b> of capacity-building efforts supported by development partners have been <b>very critical, especially with regard to a focus on training relative to other dimensions of capacity</b> (World Bank, 2017).</p>
Performance-based management via incentives	<p><b>Financial incentives are important for improving governance outcomes</b>, despite consistent concerns among experts that higher financial incentives could discourage performance by selecting against intrinsically motivated workers (Finan 2017).</p> <p>Consider tools that provide incentives, such as <b>pay-for-performance schemes</b>. Randomized evaluations of these schemes in the context of the <b>front-line provision of public services</b> find that the performance of public officials in fulfilling their tasks improves” (WDR 2017).</p> <p>In Indonesia, incentive-based block grants delivered to villages based on performance in health and education indicators led to significant improvements on health indicators (.04 standard deviations) – especially malnutrition rates – and bigger gains for those villages that started worse off (they report no gains in education and muted gains in health over time) (Olken, Onishi, Wong 2014).</p>
Top-down accountability	<p>Examples, such as inspections by higher subnational agencies, provide mixed but mostly positive evidence in support. Monitoring can improve outcomes via multiple channels: (a) monitoring can <b>enable performance-based management</b> (rewards or punishments based on observable outcomes); (b) monitoring can act as a <b>deterrent</b>; and (c) monitoring by higher-level agencies can <b>deter officials from colluding in policy capture</b> and generate useful <b>information for third parties</b> interested in preventing capture.</p> <p>When results from top-down monitoring are made available to the public, it <b>enables important bottom-up accountability via citizen pressure</b> (WDR 2017, Finan 2017).</p> <p>However, the WDR 2017 adds that despite the strong evidence of results from effective monitoring, <b>monitors themselves are not immune to capture</b>.</p> <p>Audits, for example, have been shown to reduce leakage in village-level public investment programs (Olken 2007).</p>
Bottom-up accountability via community monitoring, participation, and citizen engagement (evidence from Indonesia and India)	<p>A cautious approach toward the use and <b>interpretation of score card initiatives</b> is recommended, as such initiatives attempt to use <b>citizen satisfaction as a close proxy for actual quality of services</b>, in nonrandom samples, and without controlling for other factors (Lewis and Pattinasarany 2009).</p> <p>Participants in civic activities tend to be wealthier, more educated, of higher social status (by caste and ethnicity), male, and more politically connected than nonparticipants (Mansuri and Rao 2013).</p> <p>At some point, the <b>opportunity cost of participation must surely eclipse its instrumental and intrinsic value</b>. Findings indicate that participation is a tax, and associated quotas for the poorest and most marginalized make it a particularly regressive one (Casey 2017).</p>
Technology	<p>In quasi-experimental evidence from India and Indonesia, <b>electronic procurement</b> leads to quality <b>improvements in infrastructure</b> provision by facilitating entry from more diverse and higher-quality contractors (though notably they did not find reduced costs) (Lewis-Faupel et al. 2016).</p>



**Institutional Context**

15. All levels of government—central, provincial, and district, realize that villages require support to maximize the village development impact of the Village Law. Since 2015, the central, provincial, and district governments all contribute to financing various programs and systems to improve coordination, village administration, village development and community empowerment, and accountability. As **Figure 1** summarizes, it is estimated that GoI—all three levels of government—spends approximately IDR 9.6 trillion (\$715 million) per year on support to, and oversight of, villages. 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 Deconcentrated Funds. Provincial and district governments spend an estimated IDR 1.9 trillion (\$141 million) and IDR 4.5 trillion (\$335 million) respectively, which is about IDR 57 billion (\$4.1 million) per provincial government and IDR 11.2 billion (\$770,000) per district government. These sums amount to approximately \$9,000 per village, or about 10 percent of the amount villages spend on village administration and investment.

16. 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 of support—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), MoV, and the Ministry of Finance (MoF):



(a) **Administrative capacity support.** MoHA, via the Directorate General for Village Government Affairs (DG Bina Pemdes), is responsible for village government and administration, including village elections, village boundaries, village administration, village financial and asset management, and village oversight. In 2015 and 2016 it implemented a large-scale cascading training program for village governments that trained officials from almost all 74,954 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 justified in the first years of Village Law implementation, given the need to provide basic information to all villages.



More recently, DG Bina Pemdés has developed and tested a model for enabling subdistricts to support village governments. This approach is more sustainable but has not yet been rolled out at scale. DG Bina Pemdés (like MoHA more generally) tends toward a legalistic and technocratic approach to capacity-building—setting rules, explaining the rules, and demanding compliance—that is focused on core tasks (e.g., village elections, disbursing village funds, and financial reporting) and is not adapted to local needs. It has focused little attention on leadership and the “soft skills” of village government, participation, transparency, and results-based accountability.

- (b) **Village development and community empowerment support.** MoV, via the Directorate General of Village Development and Community Empowerment (DG PPMD), is responsible for various programs, which are also largely based on a “one-size-fits-all” approach. Its flagship program is the Village Development and Community Empowerment Program (P3MD), which built on the CDD facilitation structure of the National Program for Community Empowerment (PNPM).<sup>18</sup> At a cost of approximately IDR 2.7 trillion (\$201 million) per year,<sup>19</sup> the central Government finances the provision of 2,484 district-level Community Empowerment Technical Advisers (TAPMs), 15,305 subdistrict-level Village Facilitators (PDs) including 5,577 Technical PDs with engineering qualifications, and 19,851 Local Village Facilitators (PLDs) that support villages in preparing RPJMDes, RKPDes, APBDes, and village financial reports. P3MD’s traditional approaches to implementation focus more on augmenting than on building village 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 knowledge exchange platform, the Village Innovation Program (VIP), which uses video and knowledge exchange hubs to inspire, incentivize, and empower villages to innovate in how they use their village funds for infrastructure, human capital, and local economic development.<sup>20</sup> MoV has also recently developed Village Academy 4.0, 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 in 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, the Supreme Audit Agency (BPK), and district governments all play important roles in ensuring accountability. BPK has ultimate audit authority but has limited resources to audit village governments. MoHA supports district-level inspectorates in conducting operations audits of villages and supports accountability through its role in village elections; and MoF accounts for use of the fiscal transfer from the central Government to villages. These accountability systems are heavily input-oriented and have 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

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<sup>18</sup> Under the Government’s PNPM-to-Village Law Transition Strategy, which ran from 2015 to 2016, saw approximately 14,000 district, empowerment and technical facilitators transitioned from PNPM to supporting villages in preparing village plans and budgets.

<sup>19</sup> Based on 2016 budget allocations.

<sup>20</sup> After completion of the PNPM-to-Village-Law transition in 2016, GoI and the World Bank restructured the PNPM Rural Project. For details, see the VIP Restructuring Paper (Report No. RES27023, March 10, 2017).



and MoV to establish systems for to collect and compile village output data.<sup>21</sup> However, both systems have tended to focus on providing data to line ministries for central Government accountability purposes (i.e., to Cabinet and Parliament) and have proliferated in such a way that the same data on village development are being collected multiple times. However, 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.

17. **One overall weakness of the support systems is that they make little use of new technologies to increase the efficiency and effectiveness of capacity-building, knowledge sharing, and accountability.** The administrative approach to capacity-building relies heavily on expensive and ineffective top-down cascade training systems. In the context of Indonesia’s rapid digital infrastructure expansion, technology-based innovations provide opportunities to deliver more flexible, adaptable, and demand-driven support services to village governments, community organizations, and citizens. VIP, although innovative in its use of peer-to-peer rather than top-down approaches to learning, still relies on face-to-face forums and does not fully maximize online peer-to-peer knowledge platforms. And although MoV has adopted a “marketplace approach” to technical service provision, it has yet to tap the potential of online platforms for matching the demand for technical services, including for facilitation services, with the supply. Similarly, the approach to accountability is strictly hierarchical and focuses on “long routes” of accountability rather than enabling “short routes” of accountability and empowering citizens through increased transparency and comparative information on village performance.

18. **It is also critical that the support systems work more systematically to help districts deliver capacity-building and empowerment to villages and community organizations.** Key district government entities involved in implementing the Village Law include: (a) the Department of Community and Village Empowerment (DPMD), under MoV, which is responsible for village support and supervision at both the provincial and district levels; (b) the Department of Regional Revenue and Asset Management (DPKAD), which is responsible for disbursing *Dana Desa* (village funds) to villages; (c) the district-level Regional Inspectorate, which MoHA oversees; and (d) the District Development Planning Agency. In addition, at the subdistrict level, Technical Advisors for Village Governments (PTPDs) play a coordinating role in village governance and development. One key challenge for districts is that, while their 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.<sup>22</sup>

19. **Finally, national coordination of the village support system is weak.** Currently, the Coordinating Ministry for Human Development and Cultural Affairs (Kemenko PMK) plays a coordinating role between ministries related to the Village Law. It regularly brings together relevant line ministries to discuss policies, regulations, and issues related to implementation of their respective Village Law functions. However, this coordinating function is *ad hoc* and lacks the institutional mandate to effectively enforce decisions reached during coordination meetings. The challenge is exacerbated by the fact that several key line ministries, such as MoHA, do not fall under Kemenko

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<sup>21</sup> 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 No 7 of 2018). This was linked to a disbursement-linked result for the Investing in Nutrition and Early Years PforR Program (P164686).

<sup>22</sup> World Bank and MoHA, *Study Report: Review of Local Government Capacity to Support Implementation of the Village Law* (January 2019); World Bank, *District Village Supervision and Support Expenditure Analysis: Synthesis Note* (January 2019).



PMK's coordinating mandate. The support of the National Development Planning Agency (Bappenas) for village development is well structured, as it oversees both MoHA and MoV under a single deputy, but it lacks the analytical and technical resources 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.

### **C. Relevance to Higher-Level Objectives**

20. **The proposed Project will contribute to the World Bank Group's two goals of ending poverty and promoting shared prosperity and is aligned with the World Bank Group's Country Partnership Framework (CPF) for 2016-2020 and the Performance.** The 2016-2020 CPF (Report No. 99172, reviewed by the Board on December 1, 2015) identifies three pathways for poverty reduction and shared prosperity: job creation; service delivery and opportunities for all; and natural resource management. The CPF is structured around six Engagement Areas and two Supporting Beams, which were confirmed in the 2018 Performance and Learning Review (Report No. 131849, Board Date: November 29, 2018). The Project supports Engagement Area 4: Delivery of Local Services and Infrastructure, supporting Objective 6, Strengthening the decentralization framework to improve local service delivery, and Objective 8, Improved access to quality education and health-related services.

21. **The Project is aligned with Gol's National Medium-Term Development Plan (RPJMN) for 2015-2019 and will support the RPJMN for 2020-2024 currently in preparation.** Gol's RPJMN 2015-2019 and *Nawa Cita* strategy (the current administration's mission statement) prioritize reducing poverty and inequality through community and regional development. *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 the administration is using to achieve its vision of "building Indonesia from the periphery" (*membangun dari pinggiran*). 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 Project is aligned with the RPJMN's national targets for accelerating poverty reduction (with a target poverty rate of 6-8 percent by 2019) and reducing disparities and inequality (with a Gini coefficient target of 0.36 by 2019), which are expected to remain in the RPJMN for 2020-2025.

22. **The proposed operation also supports the Gol'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 Gol. The country's first Nationally Determined Contributions document articulates a clear climate policy objective of reducing risks from climate change in all development sectors by 2030 through local capacity strengthening, improved knowledge management, climate change adaptation and disaster risk reduction, and application of adaptive technology.<sup>23</sup> As climate change impacts are experienced locally, achieving these policy objectives calls for strong engagement with local governments and villages. The proposed Project 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 innovations, and building climate awareness and preparedness of systems for service delivery to villages in climate-sensitive regions.

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<sup>23</sup> Government of Indonesia (2016), Nationally Determined Contributions submitted to the UNFCCC.

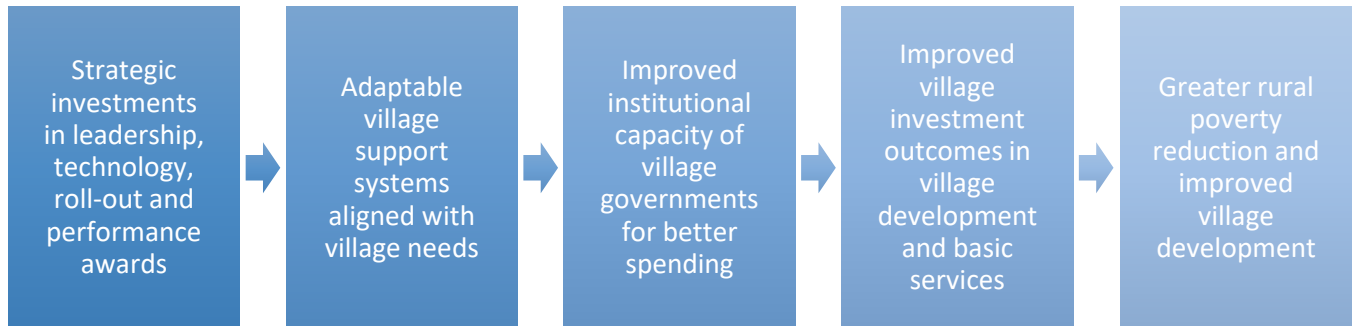


## II. PROJECT DESCRIPTION

### A. Project Theory of Change

23. **The Project will support the GoI in developing and rolling out new technology-based systems focused on strengthening village institutional capacity and accountability to improve the quality of village spending.** Improved quality of village spending will help accelerate rural poverty reduction and improve village development. The overall results chain from Project inputs to the higher-level objectives consists of four links: first, the Project components will change the village support system; second, improved village support systems will lead to increased institutional capacity for improved quality of village planning and budget execution; third, improved village planning and budget execution will lead to better village investment outcomes; and finally, improved village investments will contribute to poverty reduction and economic growth (see **Figure 2**).

**Figure 2: Overall Project Results Chain**



24. **The Project investments will focus on developing and supporting the rollout of adaptable village support systems that strengthen village governance and empower communities in accordance with local institutional needs and development opportunities.** The Project will focus on reforming and improving systems through investments in four sets of activities:

- (a) **National results-oriented leadership and coordination.** The Project will strengthen national leadership and coordination through investments in consolidating, analyzing, and using data to drive national policymaking related to the Village Law and its support systems.
- (b) **Technology-driven delivery systems.** The Project will leverage technology to reform business processes and improve support systems that promote innovative and cost-effective learning. In particular, it will (i) better match the supply of support services with village needs and demands; (ii) introduce improved accountability and oversight systems; (iii) significantly reduce the costs of delivering support; and (iv) collect and better use data in managing the support system. **Box 3** below summarizes how the Project will use innovative digital solutions to drive improvements in the support system and establish a village-focused platform for transforming rural service delivery (see Annex 5 for more details). Digital solutions are expected to shift the way in which services are delivered, leading to greater alignment between village needs and services offered; they are also expected to lead to greater cost-effectiveness in delivering



services as year-on-year operating costs of activities under Components 1, 2, and 4 are projected to be much lower than current arrangements.<sup>24</sup>

**Box 3: Driving innovation in service delivery through digital solutions**

Indonesia is experiencing a digital transformation, as information and communication technologies (ICTs) are deployed in the private sector and increasingly in the public sector. As digital infrastructure and connectivity continue to improve, there will be increasing opportunities to harness digital solutions to improve service delivery. For example, digitizing back-end service delivery—such as integrating e-learning systems or digitizing human resource management functions—has the potential to improve efficiencies, cut costs, and improve oversight within government systems. Further innovations in digitally based solutions can also empower citizens and communities.

Global innovations to link end-users with services through a platform-based approach, under which the government acts as a facilitator or coordinator of citizen-to-market or peer-to-peer interactions, allow citizens and communities to connect directly with the people or services that they need. Given the size and scale of the solutions needed to effectively cater to the needs of Indonesia's 74,954 villages, digital solutions have tremendous potential. The Project will test digital systems and approaches, with a view to learning and scaling up, while providing significant resources to support villages, districts, and provinces in adapting and adopting these solutions.

- (c) **Rollout of support in priority locations.** The Project will support the phased rollout of these new support systems and services in priority districts (see **Table 3** and **Box 5**, page 26). In each district the rollout support will end after two years. That is, each district will receive two years of initial technical support to introduce and integrate the new systems in the current support policies and programs; the districts will then operate the new systems themselves, with only on-demand technical support from provincial and central units.
- (d) **Performance awards.** The Project will also invest in developing and rolling out a village performance system that is aligned with Gol's existing subnational incentive system, to strengthen villages' incentives to adopt and use these new adaptive support systems.

25. **With the development and rollout of improved village support systems, the Project is expected to strengthen institutional capacity and accountability systems that will lead to improved quality of spending at the village level.** The current processes for deciding how village funds are programmed and spent lie largely with village governments, with limited accountability. Quality village spending is defined as allocating village funds to programs and subprojects that are aligned with and responsive to village development needs and priorities.<sup>25</sup> Ensuring quality village spending on development and poverty reduction depends on (a) adequate fiscal resources and budget allocations; (b) incorporation of good governance and citizen engagement principles into the "rules of the game" for resource allocation and use; (c) adequate village institutional capacity for participatory planning, activity implementation, and good governance; and (d) compliance and incentive systems that encourage villages to focus on and achieve development outcomes. As noted above, the Village Law provides adequate fiscal resources and adopts key principles of good governance (e.g., medium-term planning, citizen participation,

<sup>24</sup> Changes in processes that are expected to lead to greater cost-effectiveness include switching from a cascading top-down, face-to-face training to a needs-oriented learning platform, switching from a static model of one facilitator per two villages to a demand-driven village facilitation service platform with feedback on facilitation performance, and switching from fragmented and often manual reporting processes to improved data system integration, along with synchronized reporting and analysis.

<sup>25</sup> Development needs and priorities vary from village to village, depending on a mix of community aspirations, village government medium-term plans, and local and national priorities for development. Improving the quality of expenditures would need to balance these priorities in a way that emphasizes efficient, effective, timely, transparent, and accountable allocations.





district-village collaboration, transparency). However, village institutional capacity and incentive systems remain weak.

26. **The Project will focus on improving three key areas of village institutional capacity that are critical to realizing and improved quality of spending.** As the Project’s Theory of Change details (see Figure 3), the Project will invest in technology-driven systems and will roll out support for customized village capacity plans, increased citizen access to empowerment and technical support services, village performance systems, and national coordination. These interventions will lead to improved institutional capacity in three core areas:

- (a) **Data-driven and results-oriented medium-term development plans and budgets.** The enhanced support systems will improve village governments’ core capacity to create multisector medium-term development plans that integrate data on village needs alongside national and district village development priorities; to assess and allocate resources to achieve strategic priorities; and to monitor implementation for effectiveness of spending. Improving information systems to support data-driven decision-making and resource allocation will be central to these activities.
- (b) **Active citizen engagement in planning, implementation, and oversight.** The enhanced support systems—including the e-learning system, innovation exchange, and Village Digital Platform—will strengthen information flows, ideas, inspiration, and the enabling environment, and enhance citizen engagement in planning, activity implementation, and oversight.
- (c) **Improvements in transparency and accountability systems.** The enhanced support systems, combined with the village performance awards in pilot locations (see **Box 4**), will also strengthen village-level transparency and accountability mechanisms leading to, for example, annual publication of RKPDes, APBDes, and financial reports; implementation of community accountability meetings; and annual district publication and distribution of village performance-based awards.

**Box 4: Rewarding good governance through annual performance awards**

The Project will develop and test a performance mechanism—annual performance awards—that focuses on incentivizing villages and districts to improve core governance processes for improved village spending. Performance measures in this category will emphasize processes that lay the foundations for good governance and community empowerment. It is proposed that the measures will focus on four core processes: participatory and sectoral planning and budgeting, timely disbursement, participatory activity implementation, and transparent reporting.

The underlying assumption of outcome-oriented performance assessment is that the assessed unit has the knowledge, capacity, and institutional authority to translate inputs into service delivery outcomes. Since the Project will focus on inputs to capacity, information systems, and institutional authority to enable village governments to improve performance, the performance awards will be able to test whether these inputs are being adequately translated into effective outputs for improved performance.

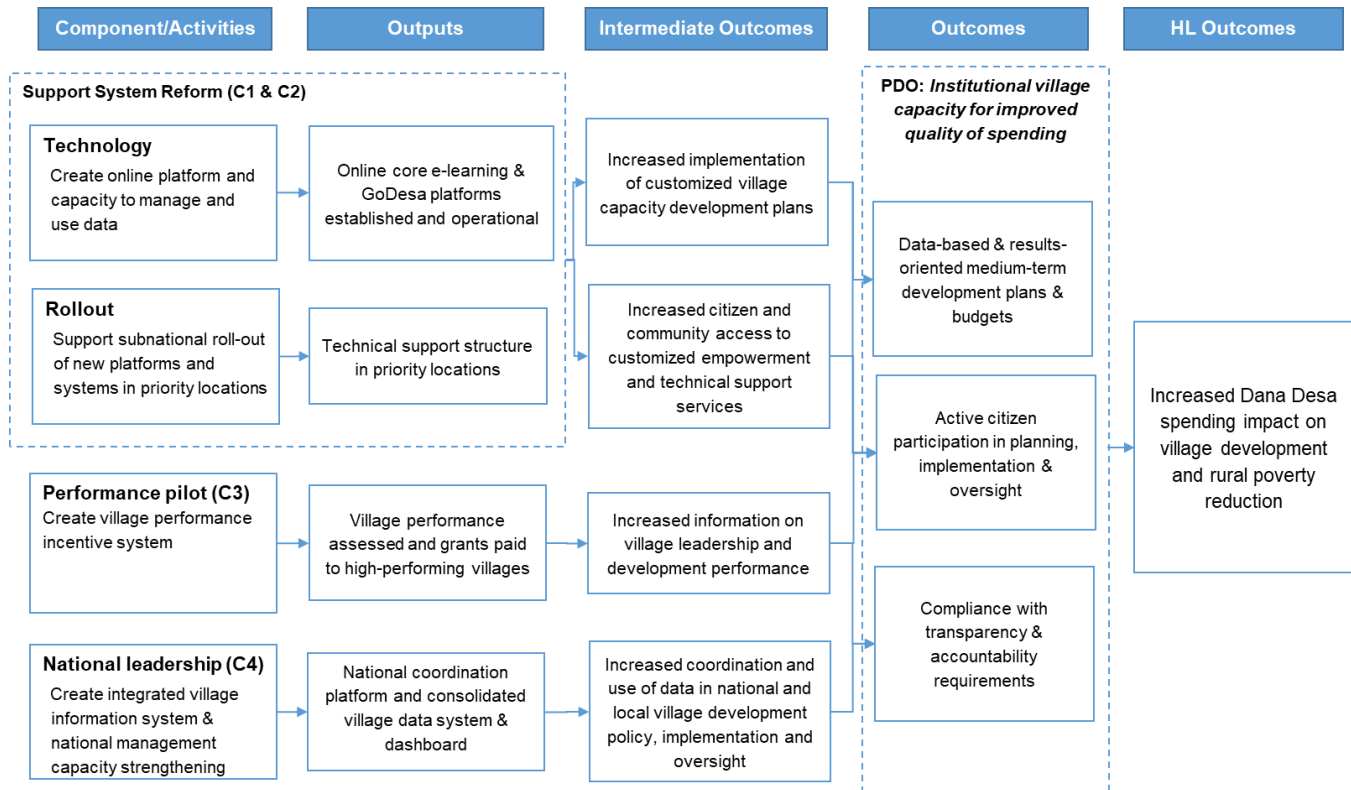
The village performance awards will pilot different assumptions and interventions to test which are most effective to support improvements in village governance outcomes. **Annex 2** provides details on the award structure.

27. **Improving villages’ institutional capacity will enable improved quality of spending of village-level funds.** The Project’s Theory of Change outlines several pathways to achieve these results (see **Figure 3** below). First, the Project’s activities are expected to result in improving the formulation and execution of village-level spending, while also increasing citizen engagement and community participation in village governance. In addition, the Project activities of investing in information systems and supporting the integration of data into decision-making will lead to greater oversight and monitoring of village governance and development activities. These investments



will lead to an overall improvement in villages’ institutional capacity for improved quality of spending, and ultimately a greater impact of village-level funds on rural growth and poverty reduction.

Figure 3: Project Theory of Change



28. **Better quality of spending is expected to improve village investments, contributing to rural poverty reduction and village development.** Three types of typical village investments could contribute to poverty reduction. First, improved capacity and accountability of village institutions would result in decisions about infrastructure investments that better align with village needs and village economic opportunities. Strategic infrastructure investments also have the potential to unlock local economic development, align better with district-level planning and investments to maximize impacts, and support community labor for direct poverty benefits. Second, village investments in human capital would support closing urban-rural gaps in access to early education and health services and create economic value for villages. Finally, improving the quality of spending is expected to result in investments in physical and digital connectivity that have the potential to drive economic empowerment and reduce poverty.

**B. Project Development Objective**

**PDO Statement**

29. **The Project Development Objective (PDO) is to strengthen institutional capacity for improved quality of spending in participating villages.** Project investments will improve and modernize the support systems to



build the capacity of village institutions, enhance and integrate information systems, and align fiscal transfers to focus on performance and 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 award see improvements in quality of spending (number).

#### ***C. Project Components***

30. **The Project is organized in four components, which together comprehensively support the development, rollout, and adoption of systems and approaches for improved village spending on development.** They will improve delivery systems for institutional strengthening, strengthen mechanisms of oversight and coordination, and align incentives for improved quality of spending. MoHA, with its mandate to support subnational government institutions, will be the executing agency for the Project, and will be directly responsible for the implementation of Components 1 and 3. These components will focus on improving institutional strengthening systems for village governments and on testing mechanisms for incentivizing village performance. MoV, with its mandate to support village development and community empowerment, will implement Component 2, which aims to strengthen community empowerment and improve social accountability in village development processes. Bappenas and Kemenko PMK will implement Component 4 of the Project, which is designed to improve the coordination, monitoring, and oversight of the implementation of the Village Law. **Annex 2** provides a detailed description of the Project.

31. **Component 1: Strengthening Village Government Institutions (IBRD \$192.5 million).** The objective of this component is to improve the institutional strengthening system for village governments within MoHA, and to support the rollout and adoption of technology-based tools and approaches at the subnational level. The component will support the development of an e-learning platform for village governments that is flexible and adaptable to their varied capacity needs. It will also support the rollout of this e-learning platform with the aim of handing over implementation to provincial and district governments and subdistrict PTPDs in a phased manner. The component will allow 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. The Project will finance three subcomponents:

- (a) Supporting Institutional Strengthening Systems for Village Governments.** This subcomponent covers the development of (i) new systems for village government capacity-building, including a digital learning platform within MoHA to integrate content and deliver cost-effective and efficient capacity-building support to villages; (ii) expanded content and tools (e.g., animation videos, e-learning, blended learning, distance learning, and other tools) for the e-learning platform; and (iii) technical guidelines, modules, and supporting instruments to bolster administrative capacity.
- (b) Rollout of Institutional Strengthening Systems.** This subcomponent will support the rollout of the revised institutional strengthening systems to subnational governments, with support for the adoption of and



transition to the e-learning platform, for improved coordination and oversight of local capacity-building activities, and for aligning subnational capacity-building and regional development planning processes.

- (c) **Village Oversight and Data Management.** This subcomponent will improve oversight of village performance, including through the development of a performance tracking system for capacity-building activities, and will support upgrading and integrating MoHA's village-level data systems and management information systems. In addition, this component will support village financial management by strengthening reporting systems and supporting capacity-building for the oversight and supervision functions of the districts and subdistricts.

32. **Component 2: Promoting Participatory Village Development (IBRD \$102.5 million).** This component will strengthen participation and social accountability in village governance systems by leveraging systems of capacity support within MoV—both the existing facilitator structure and several other programs that 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. The Project will finance four sub-components:

- (a) **Village Digital Platform.** This subcomponent will improve systems for village assistance, including by digitalizing the oversight and management systems of village facilitation, integrating village-level feedback on performance for improved resource deployment, developing the Village Digital Platform to integrate digital solutions more effectively within MoV, and supporting the development, upgrading, and improvement of digital applications and 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 and droughts) and a digital marketplaces for technical service providers.
- (b) **Community Capacity and Social Accountability Systems.** This subcomponent will strengthen community capacity and social accountability systems, including improving the social accountability and participatory planning systems, to ensure the contestability of different fora for deliberation—for example, by facilitating community forums, Village Representative Councils (BPDs), village meetings, and needs assessments.
- (c) **Digital Innovation and Community Learning.** This subcomponent will support digital technology-based innovation and development, including MoV's Village Academy 4.0 community learning system and peer-to-peer knowledge exchanges, creating and curating content and improving systems to better access and distribute knowledge, and testing different innovations in village development, including digital or smart villages and participatory tracking systems.
- (d) **Technical Support and Program Management.** This subcomponent will support the development, testing, and rollout of these systems and will provide two years of support for the subnational management of facilitators. The subnational technical assistance will help monitor results more closely during implementation to identify and adjustments needed.

33. **Component 3: Village Performance Awards (IBRD \$0 million).** The objective of this component is to develop a village performance system that rewards village governments according to key performance metrics of good governance. While investments in Components 1 and 2 focus on strengthening the delivery of capacity support to village governments and communities, Component 3 matches these interventions by testing a system



to measure and reward improved outcomes in village governance and quality of spending. The Project will support three sub-components:

- (a) **Village Performance System Development.** A performance assessment system will be established in Year 1 of the Project to capture simplified metrics for village government performance. It will involve annual assessments that will be carried out for participating village governments. (A proposed set of metrics, assessing whether 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, is provided in Annex 2.) The village performance system will be aligned with GoI's existing subnational government performance system. The Project will provide technical assistance to develop the performance system and a grant manual for it.
- (b) **Village Performance Assessments Implementation.** This subcomponent will support implementation of the village performance assessments, including any verification processes that are required under the existing GoI subnational government performance systems. The Directorate General of Fiscal Balance (DG PK) under MoF will release the performance transfer to village government accounts via district governments in accordance with the existing performance grant mechanism;
- (c) **Village Performance Grants.** Through this subcomponent the Project will provide performance grants, financed by GoI's own resources as counterpart funding, to villages on the basis of pre-determined performance criteria, award amounts, and funds-channeling mechanisms as specified in the dedicated village performance grant manual developed under Subcomponent 3A. An impact evaluation to ascertain the effectiveness of the village performance system will be conducted under Component 4.

34. **Component 4: National Coordination, Monitoring, and Policy (IBRD \$5 million).** The objective of this component is to improve and strengthen national coordination and harmonization of regulations, monitoring, and supervision of village development. It will also strengthen the empirical foundations and policymaking processes for incorporating village development and community empowerment in strategic policy documents, including the Long-Term Development Plan (RPJP) for 2025-2045. It will establish an integrated information management system (*InfoDesa*) that offers real-time incorporation of key metrics for village development. This information management system will draw on data collected through a variety of government agencies and will integrate them into a single platform, accessible via a dashboard by different levels of government through web- and application-based interfaces. Data to be integrated in this platform will relate to village poverty status, income, health, nutrition, education, infrastructure, exposure to disasters and climate-related hazards (e.g., droughts, floods, storms, coastal inundation), and community assets at risk, land and forest fire hotspots and related greenhouse gas emissions, etc. Linkages to existing real-time databases (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 included. The component will finance the following: (a) hardware, systems, and technical assistance required to establish the integrated information system; (b) technical assistance, enhanced supervision, and knowledge-sharing activities that strengthen the secretariat functions of the National Coordination Platform for Village Development; and (c) international standard evaluations and studies, including impact evaluations of the Project's interventions, as well as strategic leadership and management activities that support the preparation of the village development and community empowerment sections of the GoI's strategic development policy *Visi Indonesia 2045* and RPJP 2025-2045. Bappenas and Kemenko PMK will implement this component together.



**D. Project Costs and Financing**

35. The total Project costs are \$350 million, which is to be financed through an IBRD loan of \$300 million and Gol counterpart financing of \$50 million for Component 3. Table 1 summarizes.

**Table 1: Project Costing by Component**

Project components	Project cost	IBRD financing	% IBRD financing
1. Strengthening Village Government Institutions	192.5	192.5	100%
2. Promoting Participatory Village Development	102.5	102.5	100%
3. Village Performance Awards	50.0	0.0	0%
4. National Coordination, Monitoring, and Policy	5f.0	5.0	100%
<b>Total Financing Required</b>	<b>350.0</b>	<b>300.0</b>	

36. The Project will leverage expected Gol expenditures through parallel financing of capacity-building programs through designated line ministries of an estimated \$403 million over the Project’s five years (see Table 2). These contributions include annual Gol budget allocations for village development and capacity-building activities, estimated partial costs for facilitator staff and management costs, and incremental operating costs for the continued implementation of village development activities. These contributions are expected to be based on existing expenditure patterns and government programs for improved village capacity. In addition, interventions under the Project will support the development of systems that will enhance and improve village capacity for planning and spending. In total, the Project will influence an estimated \$42.5 billion in Gol spending over five years.

**Table 2: Expected Gol Counterpart Financing by Level of Government (2020-2024)<sup>a</sup>**

	IDR (billion)	USD (million)
<b>National Budget (ABPN)</b>	3,262.0	233.0 <sup>b</sup>
<b>Provincial Budget (ABPD Prov)</b>	145.0	10.0
<b>District Budgets (APBD)</b>	1,087.5	75.0
<b>Subdistrict</b>	217.5	15.0
<b>Village Government</b>	1,740.0	120.0 <sup>c</sup>
<b>TOTAL</b>	<b>6,342.0</b>	<b>453.0</b>

<sup>a</sup> Estimated expenditures are based on existing budget allocation patterns and are calculated as those that are directly relevant to the Project’s activities, including capacity-building activities and training programs that exist already and could be leveraged as part of Project activities. These estimates do not include government staff salaries, or operational costs for government departments. These contributions are considered parallel financing to the Project.

<sup>b</sup> Includes the portion of the national budget currently used to fund TAPMs and PDs in districts and subdistricts for community empowerment.

<sup>c</sup> Village spending on capacity-building is estimated at less than 1 percent of all village spending.

**E. Project Locations, Beneficiaries, and Gender Gaps**

37. **Project locations.** The Project will use a phased approach during implementation. It will begin with implementation in 100 districts in Year 1 and aim to cover a total of 380 districts and 66,496 villages by Year 5 (see Table 3). The technical rollout support will be phased. Each district will receive two years of intensive rollout support and will subsequently receive only on-demand technical support from provincial and central teams. This



phased approach will enable learning and adjustments during implementation based on the data generated by the digital systems that underpin Project implementation. It will also help to ensure the sustainability of the new systems after completion of the rollout in 2024.

**Table 3: Number of Project Provinces, Districts, and Villages by Year (2020-2024)**

Administrative units	Year 1	Year 2	Year 3	Year 4	Year 5
Provinces	33	33	33	33	33
Districts	100	180	250	330	380
Villages	15,799	27,656	47,038	58,502	66,496

38. **Box 5** explains the method and indicators that have been used to select participating districts.

**Box 5: Criteria for selecting participating districts**

Given the Project’s focus on villages, it will be implemented only in districts that receive Dana Desa (434 districts). These districts are further selected using four indicators as proxies for district and village capacity in managing village development:

- (a) Village access to basic infrastructure (i.e., access to health and education facilities, road, and market) – data source from PODES 2018.
- (b) Capacity of village government apparatus (i.e., education level of village head and village secretary, and composition of village apparatus) – data source from PODES 2018.
- (c) Village government budgeting capabilities in improving village capacities (i.e., village budget allocation for capacity-building) – data from Village Development Information System (SIPEDA) 2018.
- (d) Capacity of districts to support villages as proxied by the fiscal transfers for villages from district governments – data from the 2018 Village Financial Management System (Siskeudes) database.

Using these indicators, each district was given a score that was a simple average of the four indicators:  $(a + b + c + d)/4$ . The districts were then divided into 5 quintiles based on their scores, with 1 the lowest and 5 the highest. For Year 1, 100 districts from 33 provinces (excluding the Special Province of Jakarta) were then randomly selected from all districts in Quintiles 2-4 to capture districts and villages with low to moderate capacity in line with Gol’s regional development priorities.

39. **The Project is expected to benefit approximately 104 million villagers from 66,496 villages in 380 rural districts in Indonesia.** Investments in improved support services and capacity, coupled with community empowerment and development, are expected to further strengthen participation in village governance, and to better serve poor and marginalized people, or groups that are otherwise excluded at the village level. The Project is also expected to benefit village governments and BPDs by strengthening their capacity to execute their core functions. It will also benefit local governments, especially subdistricts and district governments, by strengthening their capacity to support and supervise villages and village governments more effectively. Nationally, the Project will directly benefit line ministries involved in providing support to village governments, through improved regulations and systems, as well as through improved coordination and oversight functions that will help better direct government resources and spending toward villages.

40. **Gender gaps.** Assessments of the specific gender challenges related to village development identified a gender gap in local decision-making processes. As **Table 4** shows, the findings were statistically significant in both 2016 and 2018.<sup>26</sup>

<sup>26</sup> World Bank (2019), *Promising Opportunities for Better Village Governance: A Longitudinal Study on Four Years of the Village Law (2015-*



**Table 4: Village Attendance by Gender (2016 vs 2018)**

Indicators	Female	Male	Differences
Attendance rate in village forum (2016)	12.2	19.5	-7.3**
Attendance rate in village forum (2018)	12.2	20.4	-8.2**

Note: \*\* denotes that the difference between men and women is statistically significant at the 10 percent level.

41. **The same study found that even when women attend, they are significantly less active in meetings** (see Table 5). This means that attendance does not equal authentic participation in the local decision-making process, as women are not voicing their concerns/needs. As Table 5 shows, in nearly all forms of participation, women are not as active as men:

**Table 5: Participation in Village-level Meetings by Gender (2018)**

Indicators	Female	Male	Differences
Attendance rate in village-level meetings	12.2	20.4	-8.2**
<b>Participation rate among those attending meetings</b>			
- Provided proposals	18.5	45.3	-26.6**
- Passed judgment	17.9	40.1	-22.2**
- Asked about program	17.4	29.0	-11.5**
- Asked about program targets	9.8	17.7	-7.9**
- Asked about the budget	14.8	21.2	-6.4**
- Voted for decision	31.8	31.6	0.2

Note: \*\* denotes that the difference between men and women is statistically significant at the 10 percent level.

42. **Evidence suggests that when women have improved voice and leadership in village forums, more village subprojects meet women’s preferences and thus increase women’s access to resources for development.**<sup>27</sup> When women are actively involved in local council or development forums, they are part of local decision-making processes that determine, among other things, the allocation of village funds for priority development subprojects. In addition, the IEG review of women’s empowerment in rural CDD programs suggests that by engaging in project decision-making women can increase their ability to be involved in public debate and in asserting their position, leading to political empowerment (as emphasized in the WBG Gender Strategy).<sup>28</sup>

43. **The qualitative part of the recently completed World Bank Study on Village Law implementation suggested that women do not attend meetings or are not active in meetings largely because they are not aware of the relevance of those meetings for them and because they feel they are not sufficiently informed to be able to actively participate in meetings.** This condition has limited their ability to voice their needs and priorities in village development forums and thus reduced their chances to influence decisions on priority development activities to be funded. An inclusion stocktaking recently conducted in preparation for the Project has documented

2018).

<sup>27</sup> See, for example, Chattopadhyay and Duflo (2004); Beath et al. (2013); Mansuri and Rao (2013); Wong and Guggenheim (2018); and Gine, Khalid and Mansuri (2018). Chattopadhyay and Duflo (2001) found that women and men can often have different priorities for CDD. For example, they compared decisions made in villages with and without women’s representation in village-level councils (panchayats). In the two Indian states included in the study, panchayats with women members invested more in goods that were relevant to the needs of local women.

<sup>28</sup> Independent Evaluation Group (IEG) (2017), Women’s Empowerment in Rural CDD Projects.





cases in which women who are trained in village development processes and leadership skills were able to lobby and negotiate to get their proposals funded. Hence, providing women with knowledge about village development processes and citizen rights, along with strengthening their leadership and communication skills, is a critical first step to allow women to better voice their needs and influence the local decision-making processes.

44. **The Project will work to close the gap between women and men in their active participation in local decision-making processes** by (a) providing training to village women on the Village Law and core village development functions (e.g., planning, budgeting, implementation, and monitoring); (b) working with village cadres to strengthen their capacity to encourage women participants to speak up and engage in village meetings (through targeted training, strengthened terms of reference on their roles to support women and other marginalized groups in village meetings, and improved guidance/manuals on village meeting protocols); and (c) promoting the fulfilment of quotas for women’s membership in BPDs through the issuance of local regulations on BPDs and the provision of training to village governments and communities on the selection of BPD members. BPD’s role is to represent the community in key development and governance aspects, including channeling the community’s aspirations, leading the village forum, preparing village regulations with the village government, and holding the village government accountable. BPDs usually have 5-9 members, depending on the size of the village, and members can also become chair of the BPD. MoHA regulations require reserving a seat for women in BPD membership.<sup>29</sup> However, the World Bank study found that around 40 percent of villages still do not have at least one woman representative in the BPD.<sup>30</sup> Targeting the village government and BPD, the Project will provide training that presents the business case, development rationale, and practical mechanisms for how to actively involve women in village planning meetings and in the BPD membership. Key indicators to be tracked are as follows:

- Women representatives provide suggestions in village meetings (percentage, compared to men)
- Increased shared of villages that have women representatives in the village council (percentage)
- Beneficiary who feels that project investments meet their needs (percentage, by gender)
- Increased percentage of proposals raised by women in village planning meetings that are accepted and funded (percentage)

45. The tracking for these indicators will be done annually by PDs and village cadres. The Project will also conduct baseline, midline, and end-line surveys in 50 districts that will be part of the performance-based grants pilot in Component 3.

#### ***F. Rationale for Bank Involvement and Role of Partners***

46. **The World Bank is well positioned to support the GoI in institutionalizing core CDD lessons and elements into how villages implement development planning and budgeting to enhance the Law’s poverty impact.** The World Bank has been a key partner supporting the GoI in addressing rural poverty and promoting the socioeconomic development of Indonesia’s villages, providing financing of over \$3.5 billion toward CDD programs and policies since 1998. This experience influenced the formulation of the Village Law, which institutionalizes key

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<sup>29</sup> Ministry of Home Affairs Regulation No. 110 of 2016.

<sup>30</sup> World Bank (2019), *Promising Opportunities for Better Village Governance: A Longitudinal Study on Four Years of the Village Law (2015-2018)*. The survey was conducted in 112 villages randomly selected from 5 districts in 3 provinces.



aspects of the CDD approach at the local government level.<sup>31</sup> The Bank is thus well positioned to support the Gol in continuing to incorporate and institutionalize participatory, inclusive CDD elements (including transparency and downward accountability to citizens) into core Village Law systems to encourage the more effective use of village funds for pro-poor investments and services. The Bank will leverage ongoing operations, including the National Rural Water and Sanitation Project (P085375), VIP (P128832), the Investing in Nutrition and Early Years (INEY) Program (P164686), and lessons from the Healthy and Bright Generation Project (P132585), and will draw on analytic work such as the Village Law Programmatic Advisory Services and Analytics (PASA) Program (P153219). The Bank will also draw on global lessons learned in integrating digital systems into capacity support systems that have the potential to improve the efficiency and cost-effectiveness of service delivery and strengthen the bottom-up and demand-driven approach to accessing key services at scale. In addition, the Project will draw on global lessons learned in the adoption of technology solutions to digitize government systems and services, and to facilitate governments' role as a facilitator of market-based interactions.

47. **The Project will complement Bank and development partner support to Gol for the Village Law.** The most active partners are the World Bank, with financing from the Local Solutions to Poverty (LSP) Multi-Donor Trust Fund (MDTF) supported by Australia's Department of Foreign Affairs and Trade (DFAT) and the United States Agency for International Development, which has supported the World Bank's analytics and technical assistance relating to the Village Law. During the first two years of Village Law implementation, the World Bank assisted the Gol through the PNPM Rural Project (P128832), which was later restructured as VIP, and through the Generasi Project (P132585). The LSP MDTF also finances analytical work, including the Sentinel Villages Study in collaboration with SMERU Research Institute, the Village Expenditure Review, and other technical assistance. In addition to its contributions to the LSP MDTF, DFAT also supports the Gol through the Australia-Indonesia Governance for Growth (KOMPAK) Program and the Knowledge Sector Initiative. KOMPAK prioritizes the involvement of the nongovernment sector, both international and domestic, working with The Asia Foundation Institute for Research and Empowerment consortium, and the National Secretariat of the Indonesia Forum for Budget Transparency. During the first two years of implementation of the Village Law, DFAT, through the Knowledge Sector Initiative, assisted the Gol (particularly MoV) in developing a draft Road Map for Village Law implementation.

48. **The Project will support scaling up pilots implemented under DFAT's KOMPAK program.** The LSP MDTF and KOMPAK have worked closely together on many initiatives supporting Village Law implementation. For example, during the first year of implementation, LSP and KOMPAK provided joint assistance to MoF to help districts issue required regulations on the allocation of village funds to villages and to roll out a national village capacity-building program at MoHA (mentioned above). They have also collaborated on advisory services, technical assistance, and pilot design and implementation, including in relation to the implementation of regulations, village capacity development, village service delivery, village financial management, and social accountability. As **Box 6** notes, the Project will also support the scaling up of one KOMPAK-supported pilot on capacity-building. It will also support integrating the *RuangDesa* app into the Village Digital Platform.

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<sup>31</sup> Most notably, the Village Law institutionalized the transfer of national and district budgets directly to villages, so that that village governments and communities could determine their priorities and needs. The Village Law thus institutionalizes principles of bottom-up participation and accountability systems and establishes a high level of autonomy for village governments.



**Box 6: Building on MoHA-KOMPAK piloting of PTPD**

Following the passage of the Village Law, MoHA's DG Bina Pemdes developed new models and approaches for strengthening the capacity of village governments to execute their expanded responsibilities. Starting in 2016, MoHA began working with KOMPAK to test two subprograms: (a) strengthening PTPDs, and (b) a model for village government self-learning. The pilots were conducted in selected villages across 24 districts in 7 provinces. Subdistrict teams, consisting of PTPDs and PDs, were formed, trained, and equipped to advise and facilitate village governments in enhancing governance, planning and budgeting, and coordination around basic service provision. Drawing on an assessment of this initiative undertaken during preparation, Component 1 of the Project will build on the lessons of the pilot and scale up the PTPD approach to mobilizing subdistrict administrations to work with PDs to coordinate and provide enhanced capacity support to village leaders, BPDs, and village administrative staff.

49. **The Project will also complement civil society and sector support for village development and community empowerment.** Indonesian civil society organizations and nongovernmental organizations are active in providing inputs, tools, and even training in areas such as empowering village women, establishing village enterprises, and developing village information systems. Gol will use the Village Digital Platform to help link villages to technical service support that civil society organizations and private firms can provide, including in engineering, human resource development, digital empowerment, and market information.

***G. Lessons Learned and Reflected in the Project Design***

50. Lessons learned and reflected in the Project design include:

- **People-centered and demand-driven village development.** The Project draws on nearly 17 years of CDD approaches supported through multiple World Bank-financed programs. Specifically, the Project advances similar principles of demand-driven village development, strengthening relationships between communities and village governments as a core objective of its interventions. This draws on experiences and lessons from community development programs, as well as from extensive analytical work and technical assistance in support of Village Law implementation in recent years.
- **Linking input financing to performance outputs.** The Project draws on extensive global experience and World Bank-financed projects focused on strengthening local government institutions, which highlight the need to link investments in inputs (e.g., institutional capacity support) with outputs, to incentivize government institutions to deliver more efficiently. These lessons inform the pilot performance-based awards in Component 3.
- **Role of technology in improving service delivery.** The Project draws on global examples in leveraging the use of technology to improve service delivery in two ways. First, it uses technology systems to improve government services with the expectation that they will improve the cost-effectiveness, monitoring, and oversight of government resources transferred to village institutions. Experience in Indonesia also suggests that attention must be given to the utilization of data, ensuring that they are valid and reliable, and are indeed used for decision-making purposes. Second, the Project will draw on frontier approaches in service provision, positioning the government as a facilitator or coordinator through platform-based approaches that link communities and village governments directly with services, service providers, or peer-to-peer networks. These alternatives to service delivery better address the varied needs at scale and can support the Gol in aligning service delivery with demand.



### III. IMPLEMENTATION ARRANGEMENTS

#### *A. Institutional and Implementation Arrangements*

51. **Executing agency and implementing units.** The lead Executing Agency of the Project will be MoHA through DG Bina Pemdes, which will establish a Central Project Management Unit (CPMU) for the Project. MoV's Secretariat General will establish a Project Management Unit (PMU) overseeing the four Project Implementation Units (PIUs) under Component 2. In addition, Bappenas, under the Deputy for Regional Development, and Kemenko PMK will each establish a PIU to execute Component 4. The CPMU, the PMU, and the PIUs will be supported by technical, environmental and social development, financial, and administrative staff in each implementing agency to ensure that the Project's financial, procurement, and contract management are sound, and that the objectives and principles of the Bank's Environmental and Social Standards (ESS) are mainstreamed during Project implementation. The CPMU, PMU, and PIUs will also be responsible for ensuring the achievement of the PDO and key performance indicators, improving relevant policies and regulations, and ensuring that expenditures are consistent with the intended activities and outputs. The CPMU at MoHA will manage Components 1 and 3, and the PMU at MoV will manage Component 2.

52. **National Coordination Platform for Village Development.** At the national level, through Component 4 the Project will support Bappenas and Kemenko PMK in strengthen a National Coordination Platform (NCP) for Village Development, including developing a data management and oversight system for monitoring and evaluation (M&E). Both Bappenas and Kemenko PMK will establish PIUs for the implementation of Component 4. (**Annex 1** provides detailed implementation arrangements.)

#### *B. Results Monitoring and Evaluation Arrangements*

##### *Monitoring and Regular Reporting*

53. **The Project will use PIUs and technical assistance at the provincial level to collect basic data on activities and inputs.** Data will be compiled at the district and province levels and submitted to the National Management Consultant (NMC) for quarterly financial and progress reports. The Project's CPMU, PMU, and PIUs will conduct twice-yearly supervision missions with the Bank's task team. (**Annex 3** provides more details on the monitoring and reporting arrangements.)

54. **To improve the Gol's overall capacity to collect and use data to track village development performance, the Project will develop an integrated village data platform (*InfoDesa*) that will compile key village performance data.** The Project has identified several village-level information systems that can be used to monitor village governance and development outcomes: the Prodeskel (Village Profile Data) System, Village Financial Management System (Siskeudes), Village Asset Management System (SIPADES), Village Development Information System (SIPEDe), the Online Monitoring-State Treasury and Budget System (OM-SPAN), and the Integrated System for Poverty Planning, Budgeting, Analysis and Evaluation (SEPAKAT). In addition, data on basic health and education service provision are available from the Ministry of Health (MoH) and the Basic Education Data System (Dapodik) of the Ministry of Education and Culture (MoEC), while poverty-related data are available through the Unified Data Base managed by the Ministry of Social Affairs (MoSA). The integrated data platform will enable the Gol to pull data from these various sources and use it to monitor village development and performance. The



Project will also help strengthen key systems, such as Prodeskel and Siskeudes, to ensure the availability and quality of the data. In addition, the Project will support Bappenas and BPS in analyzing data and results from *InfoDesa* to inform national planning strategies and shape village development policies and indicators in the next RPJMN.

### ***Evaluation and Oversight***

55. **The Project will use various mechanisms to ensure evaluation and oversight:** (a) development of a participatory tracking system for community monitoring of the use of village funds and outputs; (b) village audits by BPK; (c) establishment of verification protocols to assess village performance; (d) an annual Village Potential census; (e) baseline and end-line data collection to support impact evaluations; and (f) midterm and final evaluations of key Project outcomes. In addition, the Project will conduct an impact evaluation of the village performance system under Component 3, to assess which mechanism leads to the best improvement in village performance/capacity. GoI and the World Bank will also conduct a Mid Term Review (MTR) for the Project, during which the target values will be reviewed and any required Project design adjustments will be discussed and made.

### ***C. Sustainability***

56. **Overall sustainability.** The Project focuses on improving the institutional capacity and quality of village spending through a multipronged intervention that addresses the key gaps in institutional capacity, information systems, and the enabling environment. The interventions are structured to improve the GoI's institutional structures by building capacity and by addressing information asymmetries and regulatory and coordination challenges. At the close of the Project, it is expected that the institutional systems, processes, and tools will be better equipped to support village governance and development. Thus, it is expected that the operation will lead to support systems that are sustainable beyond Project closing.

57. **Digital infrastructure.** The Project will increase the technical and managerial capacities of village institutions and supporting systems to oversee and manage more cost-effective, efficient, and demand-driven service delivery, supported by digital infrastructure. Significant technical assistance will be provided under the Project to facilitate adopting digital systems, and to ensure that adequate time and resources are devoted to the behavioral change needed for this adjustment. The Project focuses both on building new systems, and on building the capacity of existing government institutions to take over the operation and management of the digital systems effectively.

58. **Village performance system.** The Project will pilot a village performance system in at least 50 districts. This pilot will test (a) the effectiveness of a performance assessment and grant system to improve the quality of spending among participating village governments, and (b) the efficacy of a performance-based assessment and reporting system that can be scaled across Indonesia's 74,954 villages. It is expected that this component may influence the future allocation formulas for government transfers to villages, which could include a performance allocation in addition to a basic transfer and a pro-poor allocation.

59. **Climate co-benefits.** The overall design of the Project contributes to climate-resilient village development in Indonesia. Component 1 invests in systems to improve institutional capacity to integrate climate resilience and



disaster preparedness into village-level planning, as through the development of the village's climate profiles. Component 2 supports the development of digital platforms that will host village-level information on climate-change-related risks (such as droughts and floods.), invests in capacity-building in climate-resilient village development, and facilitates the peer-to-peer exchange of climate-resilient village-led innovations. Component 3 contributes to improving village performance in responding to climate-related challenges by incorporating exposure to and preparedness for climate and disaster risks in the performance metrics.

#### IV. PROJECT APPRAISAL SUMMARY

##### *A. Technical*

60. **The Project proposes to transform service delivery to villages by improving government tools, systems, and processes for greater efficiency.** From a technical standpoint, the key challenges are to develop an approach and a system to support village development (a) at a significant scale to cover all villages in the country; and (b) across extremely varied contexts in terms of geography, needs, and capacities. The systems to be put in place must be flexible and position the Government as a key enabler and facilitator for service provision, so that villages may use their funds most effectively to meet their needs. Where possible, the Project will leverage digital technologies to improve cost-efficiencies.

61. **Supporting village government capacity.** An assessment of a sample of village governments demonstrates that there is wide variation in village government capacity to execute the core functions of planning, budgeting, and monitoring. The current training delivery modality works through a cascading face-to-face training program that (a) is expensive to roll out; (b) uses a one-size-fits-all approach; and (c) does not address turnover, performance, or the ongoing capacity-building needs of village governments. In addition, the lack of a robust and comprehensive monitoring system means that there is little evidence of the impact of the capacity-building program. The Project will address these challenges by shifting much of the core training program onto a digital learning management system to better deliver and track core training programs. This system will also enable the eventual addition of higher-level or additional capacity-building through third-party training providers who may offer capacity-building services directly to village governments. In addition, capacity-building for village governments will expand under the Project from the provision of training to include learning (training, peer learning, on the job training), technical assistance (partnerships, expert and advisory support), systems (especially developing a knowledge and learning platform as well as an M&E system), and supporting behavioral change to promote the adoption of these new approaches. An assessment found MoHA's digital hardware to be adequate, with a Tier 3 server in place already to support the shift to a more digitally enabled approach. Significant investments will be required to ensure that behavioral changes to these new capacity-building platforms will be sustained. The Project Operations Manual (POM), which was reviewed during appraisal and submitted for the Bank's no-objection shortly thereafter, adequately outlined the proposed processes for introducing the new systems and rolling them out in a phased manner.

62. **Promoting participatory development.** Although MoV has built up significant experience through VIP in supporting village development in Indonesia, key challenges remain. The PDs and PLDs under MoV require support to ensure consistency of services and clarity about their roles and responsibilities. In addition, several of MoV's



support services remain siloed within the ministry. The Project will address these challenges by introducing an integrated and digitally enabled platform for village service delivery (Village Digital Platform). This platform will begin to digitize and house several key services within MoV, including the deployment and oversight of facilitator services and marketplaces for technical service provision and for exchanging knowledge and information on innovations and ideas for village development and learning. Many of these services use a peer-to-peer learning approach to improve the capacity of villages and will institutionalize this approach through digital platforms. MoV has an IT unit that is responsible for all back-end services for digitalization of MoV's own internal processes. The Project will support this unit in providing back-end services for technical units in the Ministry to digitize their service delivery and support systems. These systems will be housed on an integrated service delivery platform, with facilitators sensitizing villages to their use. The POM outlines the processes for introducing the Village Digital Platform. Advance procurement was also agreed to ensure that the IT firm would be mobilized early in the Government's 2020 fiscal year, that is, in January 2020.

63. **Coordination.** A key challenge in the implementation of the Village Law is the coordination among different Ministries, as well as conflicting regulations and duplications in implementation. The Project will support the Government in establishing a National Coordination Platform (NCP) for village development, bringing together key stakeholders under a common vision and with clear roles and responsibilities. The NCP will rely on a unified data system that will draw information in real time from different data collection efforts already under way in different ministries, further supporting efforts toward data-driven decision-making.

64. **Behavioral change.** A major challenge around the implementation of the Village Law will be to enable behavioral change from the current fragmented and top-down approaches toward more flexible, transparent, and coordinated approaches. One key challenge will also be to move away from an input-oriented system toward more results-based approaches that set clear benchmarks in achieving improvements in governance as well as metrics for improvements in service delivery. The Project will pilot-test some of these approaches by setting clear targets in improved governance standards for well-performing village and district governments. The results of this pilot could inform future discussions on allocation of budgets and resources, tying them to outputs and outcomes rather than inputs.

65. **Leveraging Indonesia's digital potential.** An assessment of the opportunities and challenges for introducing digital systems and tools was undertaken during Project preparation (see **Annex 5**). Indonesia's Internet usage is expanding rapidly, although gaps remain in penetration and use. The GoI already has several initiatives to take advantage of technology: single portals for data (*Satu Data Indonesia*), e-learning, clinics, blended learning, and other capacity-building systems, as well as the use of marketplaces for Technical Service Providers (TSPs). The digitalization of Government systems is already expanding, and the Project will build on these initiatives to scale and integrate new tools and solutions as part of a comprehensive and coordinated program for village development. On the end-user side, within village governments and local communities, the assessment revealed uneven penetration of Internet usage, and the need for a more nuanced approach that builds on existing systems and processes and supports a gradual transition to digital systems over the next several years.



**B. Economic and Financial Analysis**

66. **The economic analysis assesses both the reduction in costs and the improvements in social impact that the operation will entail.** Cost savings through the proposed operation are expected in three areas: (a) under Component 1, through the implementation of a more flexible, needs-oriented learning platform to replace the cascading top-down, face-to-face training; (b) under Component 2, through the implementation of a demand-driven village facilitation service platform with feedback on facilitation performance versus the current static model of one facilitator per two villages; and (c) under Component 4, through improved data system integration and synchronized reporting and analysis versus fragmented and often manual reporting processes. Component 3 will introduce new costs, since the GoI currently has no performance grant scheme in place. Cost savings are anticipated from Components 1, 2, and 4; while the operation will involve the introduction of fixed-cost investments to set up the digital platforms and systems, the ongoing year-on-year operational costs are expected to be much lower. For example, a cascading face-to-face training for 380,000 village government officials is estimated to cost MoHA approximately \$150 million per year, while switching to a learning platform that offers multiple modes of providing training (face-to-face, online content, blended, videos) is expected to lower operational costs to \$50 million per year.<sup>32</sup>

**Table 6: Internal Rate of Return (IRR) Calculations**

IRR	ADDITIONAL INCREASE IN RURAL INCOMES		
	1%	2%	3%
BAU	7%	7%	7%
UNDER PROPOSED OPERATION	13%	14%	16%

67. **In calculating the potential internal rates of return (IRRs) for the operation, it is assumed that the Project will be effective in introducing a 1-3 percent increase in rural incomes.** It should be noted that given the annual fiscal transfers of approximately \$8.5 billion under the business-as-usual (BAU) cost scenarios, the Village Law transfers should be increasing rural incomes by an average of 7 percentage points per year to have a positive IRR.<sup>33</sup> With an additional 1 percent increase in rural incomes under the Project (combining the cost reductions with increased income benefit), the IRR will increase to 13 percent; and an additional 3 percent increase in rural incomes would boost the IRR further to 16 percent (see **Table 6**). **Annex 4** presents a detailed economic analysis of the Project.

**C. Fiduciary**

**Financial Management**

68. **The Bank carried out a financial management (FM) assessment of the Project implementing agencies to determine whether their FM systems have the capacity to produce timely, relevant, and reliable financial information on Project activities.** The assessment also aimed to determine whether the accounting systems for Project expenditures and underlying internal controls are adequate to meet fiduciary objectives, allow the Bank

<sup>32</sup> Full details of the cost estimates for BAU and under the new operation are available in the economic analysis workbook.

<sup>33</sup> These impacts on rural incomes should be plausible, based on previous community development programs in Indonesia. For example, Voss, John (April 2012) finds that the PNPM led to a 9.1 percent increase in rural incomes.





to monitor compliance with agreed implementation procedures, and appraise progress toward Project objectives.

69. **The CPMU, PMU, and the PIUs at the central level all have experience with managing Bank-financed projects.** However, some local PIUs lack such experience. Overall, the Project faces two major risks: first, there is limited FM staff capacity, especially at the local level; and second, risks may arise from weaknesses in the internal controls on soft expenditures, such as consultants and training/workshop expenditures.

70. **The appraisal identified and agreed on risk mitigation measures.** FM risks will be mitigated by (a) delivering training on Bank FM procedures to local PIUs and providing similar refresher training to the CPMU, PMU, and PIUs; and (b) providing technical assistance through the provision of FM consultants to PIUs at the central and provincial levels. Considering the risk mitigation measures proposed, the overall Project FM risks are assessed as substantial. The proposed FM arrangements will satisfy the Bank's minimum requirements under Bank Policy/Bank Directive (BP/BD) on Investment Project Financing dated November 10, 2017. More details are provided in Annex 3.

### **Procurement**

71. **Procurement under the Project will be governed by the World Bank's Procurement Regulations for IPF Borrowers, dated July 2016 (revised November 2017 and August 2018) and by the provisions set out in the Procurement Plan and the POM.** The proposed operation envisages a comprehensive program for strengthening the institutional capacity of village governments through technical assistance, capacity-building activities, and development of data management systems. To carry out the Project, goods, non-consulting services, and consulting services will be procured by DG Bina Pemdes at MoHA and the PIUs in MoHA, MoV, and Bappenas.<sup>34</sup> The draft Procurement Plan and the draft Project Procurement Strategy for Development (PPSD) were reviewed during appraisal and subsequently submitted to the Bank on February 28, 2019. The Bank issued its no-objection to the Procurement Plan on March 11, 2019. Further details on the procurement arrangements are provided in Annex 3.

### **D. Safeguards**

72. **The Project supports Gol activities (Component 1 and 2) by strengthening the existing capacity-building and institutional strengthening systems so that village governments will have improved capacity to plan, budget, and implement village development activities that are responsive to needs, and to better implement innovative development activities.** Further, the Project plans to pilot a village performance system (Component 3). Well-performing villages, as defined by a set of criteria, will be eligible for an award package in the form of funds transferred from the MoF through the district. Through Component 4 the Project will also support activities to improve the existing data collection, monitoring, and evaluation system to better inform policies and decision-making related to village governance and development. In addition, the Project will support activities to strengthen the coordination of the implementation of the Village Law at all levels (national, provincial, and district) through the establishment of the NCP for Village Development and the strengthened database system (the *InfoDesa* data platform). The proposed operation also supports the Gol's climate policy objective of strengthening social resilience to climate change at the village level as part of the country's Nationally Determined Contribution

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<sup>34</sup> The PIU at Kemenko PMK is not expected to procure goods and services.



to reduce risks from climate change in all development sectors by 2030, especially through local capacity strengthening.<sup>35</sup> Details of the activities supported by the Project are presented in Annex 2.

73. **Given the nature of the activities summarized above, Components 1, 2, and 4 will not involve any physical investment or the preparation of any subproject plans that would lead to the implementation of physical investment or activities involving downstream environmental and social impacts and risks.** Most activities under these three components involve the establishment of digitalized, ICT-based tools and the development of e-platforms and e-services for learning, capacity-building, marketplace for capacity services, knowledge management, harmonization and simplification of regulations, oversight and monitoring, and integrated information and data management. Anticipated potential environmental impacts would be in the form of electronic waste (“e-waste”) resulting from the expansion of the existing and/or purchase of new information and communication infrastructure, including hardware, software, and upgrading of data centers in the CPMU, PMU, and PIUs. With the introduction of digitalization, the Project will promote social transformation in the implementation of the Village Law. This represents a challenge for all stakeholders involved in using the Village Law’s fiscal transfers, including the village communities and village government, consultants, facilitators, subdistricts, districts, provinces, MoHA, MoV, Bappenas, and Kemenko PMK.

74. **Investments in physical infrastructure.** Although the Project will not involve any direct physical investment (except for the performance grant under Component 3) or 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 any way to prepare any village plans, it is expected that parallel GoI investments at the village level will be implemented in a manner consistent with the Bank’s safeguards policies. This expectation is reasonable, given that (a) there are strong commitments from and ownership by MoHA and MoV in implementing the program with the support of this Project; (b) there will be continuous implementation support from the Bank’s task team; (c) MoHA has long-standing experience in implementing the PNPM Rural Project, under which the World Bank’s environmental and social safeguards policies (especially OP/BP 4.01 and OP/BP 4.10) have been satisfactorily implemented; (d) better information (including information related to environmental and social aspects) will be available once the integrated information and management system is established and functioning, so that monitoring and supervision by MoHA and MoV will be easier; and (e) relevant local agencies—including the district Inspectorate, Bappeda, and the Environmental Agency—will have a role in project implementation and will provide guidance, monitoring, and supervision to PTPDs at subdistrict levels.

75. **The Executing Agency will ensure that the improved awareness and capacity of village governments includes Environmental and Social Standards (ESS) aspects by mainstreaming the objectives, principles, and requirements of the relevant GoI laws and regulations and the World Bank’s safeguards policies and Environmental Health and Safety Guidelines into the improved manuals, guidelines, training modules, and terms of reference for the facilitators and monitoring and supervisory team/unit.** Although Components 1, 2 and 4 do not involve any physical investment or preparation of plans that would lead to the implementation of

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<sup>35</sup> As climate change impacts are experienced locally, achieving these policy objectives calls for strong engagement by local governments and villages. The 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-resilience village innovations, and building climate awareness and preparedness of systems for service delivery to villages in climate-sensitive regions.



physical investments or activities involving downstream environmental and social impacts and risks, relevant World Bank safeguards policies that contribute to strengthening the ESS aspects in the existing capacity-building and institutional strengthening system for improved Village Law implementation are OP/BP 4.01, *Environmental Assessment*; OP/BP 4.04, *Natural Habitats*; OP/BP 4.36, *Forests*; OP/BP 4.11, *Physical Cultural Resources*; OP/BP 4.10, *Indigenous Peoples*; and OP/BP 4.12, *Involuntary Resettlement*.

76. **Under Component 3, villages that are assessed to have met performance standards will receive awards provided through Gol's performance system via districts.** Grants are estimated at a maximum of \$15,000 per village. Villages may receive grants for any subproject that was approved in the village development plan, prepared through consultations, and approved by the BPD but is not yet financed through other sources, and that does not trigger any items from a negative list. Performance grants to villages will be tested for the following eligible uses: (a) village-level investments that fulfill these criteria; (b) capacity-building activities for the village government, the BPD, or eligible community members; and (c) performance incentives for village governments. The negative list includes any subproject requiring land acquisition and involuntary resettlement, or affecting physical and cultural resources, natural habitats, or forests. Grants will not co-finance any other activities listed in the approved village development plan, and will not involve any land acquisition (see the negative list detailed in the Environmental and Social Management Framework (ESMF)).

77. **Under the category of village-level investments, activities are expected to be small-scale and limited to the village level.** Subprojects that are eligible for grant funding may include innovative activities to strengthen local economic development, women's empowerment, and productivity; small-scale physical infrastructure (for which a negative list will be provided); small-scale innovative technology for water supply; disability-inclusive facilities (for schools, early childhood centers, etc.). Small-scale physical investments, such as rehabilitation or improvement of community roads and bridges, water supply, sanitation, drainage, or health and education facilities, will be community-based and community self-built (and/or built by community contractors). The Project triggers OP/BP 4.01, as these activities might have environmental and social impacts. However, any potential environmental and social impacts need to be insignificant, site-specific, non-cumulative, non-irreversible, and able to be managed by the community with guidance from the facilitators. Activities to be financed by the performance-based grants are not expected to cause potential adverse impacts to natural habitats, forests, and cultural resources. This has been the experience of subprojects of a similar nature over the past 17 years under Bank-financed programs on village development (e.g., Kecamatan Development Project and PNPM); it is also suggested by the ViPER study and field visits. Impacts are expected to take place mostly during construction (e.g., dust, placement of construction materials, generation of construction waste, water flow blockage).

78. **As the Project will cover villages in districts that are geographically dispersed, the presence of indigenous peoples (IPs) in some of the villages is anticipated.** The World Bank's IPs Screening Study (2010) indicates that potential IPs are geographically distributed in 174 districts (in 30 provinces) of the 520 districts in the country. The presence of IPs needs to be verified in the field once the Project is implemented in the villages in the 174 districts identified in the study. It is expected that IPs will benefit from the Project as part of the larger village community. The Project triggers OP/BP 4.10, *Indigenous Peoples*.

79. **In summary, the Project triggers OP/BP 4.01, *Environmental Assessment*; OP 4.04, *Natural Habitats*; OP/BP 4.36, *Forests*; OP/BP 4.11, *Physical Cultural Resources*; OP/BP 4.10, *Indigenous Peoples*; and OP/BP 4.12,**



**Involuntary Resettlement.** ESS aspects are covered by the objectives, principles, and requirements of Indonesian laws and regulations, and these policies will, to the extent feasible, be mainstreamed into the capacity-building and institutional strengthening system of Village Law implementation—that is, into the manuals, guidelines, training modules, and terms of reference for the facilitators and monitoring and supervisory team/unit. Furthermore, OP/BP 4.01 is also triggered to address the potential e-waste produced by the replacement of the IT infrastructure due to the digitalization involved in Components 1, 2, and 4, and potential small-scale potential impacts for the Component 3. The Project triggers OP/BP 4.10 because of its nationwide coverage, with the expectation that IP groups will benefit from the Project while the Project avoids or minimizes adverse impacts.

80. **The Project Executing Agency will be responsible for overall management of the Project, including the mainstreaming of ESS aspects.** The CPMU at MoHA and the PMU at MoV will be the Project’s main implementing agencies, responsible for overseeing and ensuring that the Village Law implementation includes the mainstreaming of ESS aspects. Some MoHA staff who were involved in the PNPM Rural Project are aware of and have long-standing experience in implementing the World Bank’s safeguards policies, particularly OP/BP 4.01 and OP/BP 4.10. But overall, stakeholders involved in implementing the Village Law have limited awareness and capacity on ESS aspects, particularly the objectives, principles, and requirements of all the triggered OP/BPs, including at the central, provincial, district, subdistrict, and village levels. PDs and PLDs who had been involved in PNPM Rural have some awareness and understanding of ESS aspects and have used their knowledge while facilitating village community processes. However, most PDs and PLDs have very limited awareness of and capacity in ESS.

81. **MoHA and MoV have developed an ESMF that consists of two main measures to ensure that the principles of ESS are integrated in the implementation of the Village Law.** The first measure is a framework for mainstreaming ESS in the activities under Components 1, 2, and 4—manuals, guidelines, training modules, and terms of reference for the facilitators and monitoring and supervisory team/unit. The second measure is the ESMF for Component 3 and e-waste disposal management, which includes a protocol for e-waste disposal, negative list for investments, and the Indigenous Peoples Planning Framework (IPPF). Requirements and procedures for screening, identifying potential environmental and social impacts and risks, and preparing the appropriate safeguards instruments to mitigate such impacts and risks are also included in the ESMF.<sup>36</sup> The ESMF also covers principles, procedures, requirements, and organizational arrangements for managing environmental and social impacts and risks, a strategy for capacity-building to implement the ESMF, requirements for grievance redress mechanisms (GRMs), results of the ESMF’s public consultations, disclosure, monitoring and budget.

82. **The improved manuals, guidelines, and training modules will be used with all stakeholders—that is, PMUs/PIUs at all levels, subdistricts, and villages.** The CPMU in MoHA and the PMU and PIUs in MoV will carry out capacity-building for staff, facilitators, BPDs, and village governments using the improved manuals, guidelines, and training modules. The District Environmental Agency should train and guide PTPDs, who will, in turn, provide guidance to and monitor the village government during the preparation and implementation of the village plans and budgets—the RPJMDs, RKPDes, and APBDes. Finally, one of the performance criteria under the village

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<sup>36</sup> The instruments for environmental management include Environmental Monitoring Effort – Environmental Management Effort (*Upaya Pengelolaan Lingkungan Hidup – Upaya Pemantauan Lingkungan*, commonly referred to as UKL-UPL), Environmental Management Statement (*Surat Pernyataan Pengelolaan Lingkungan*, or SPPL), and ECOPs; and instruments for IPs include Indigenous Peoples Plan, IPs requirements in the design of the physical investment.



performance grant will be the integration of ESS considerations in the village's planning cycle. DG PK, which will implement the performance system, will be provided awareness training on ESS aspects.

83. **MoHA and MoV carried out public consultation on the draft ESMF in Jakarta on January 14-15, 2019 ,to obtain constructive inputs from the relevant stakeholders for mainstreaming ESS, for the environmental management framework for Component 3, and for the IPPF in the overall Project design.** The draft ESMF (in English and Bahasa) was published on MoHA's website (<http://binapemdes.id/information>) before the consultation. DG Bina Pemdes and DG PPMD jointly implemented the public consultations. The public consultation was opened by Bappenas and attended by representatives of the PIUs of MoHA and MoV, DPMDs from 33 provinces and 39 districts, and representatives from five nongovernmental organizations. One of the important comments concerned the practicability of implementing the mainstreamed objectives, principles, and requirements of ESS in various manuals, guidelines, and training modules, and implementing the safeguard instruments at the village level, given that the subprojects are relatively small investments. The final draft ESMF (in English and in Bahasa), incorporating the relevant inputs from the public consultations, was uploaded on MoHA and MoV's websites before appraisal.

#### ***E. Citizen Engagement and Grievance Redress Mechanisms***

84. **Citizen engagement.** The Project design includes a series of mechanisms to engage with beneficiaries, including (a) technology-based applications that will enable real-time community monitoring of village budget implementation and participatory processes; (b) annual community meetings at the village level, where communities will be able to express their views about priority development and investment needs, as part of the budget planning process; and (c) annual community accountability meetings, where communities will be able to provide feedback on budget performance.

85. **Grievance redress mechanisms.** The Project will also make use of existing GRMs at the central and local levels. MoHA operates a GRM application called Complaints and Aspirations System, which the public can access through <http://www.sapa.kemendagri.go.id>. This application is integrated with the GRM system in each of the districts' websites ([www.name of district.go.id](http://www.name of district.go.id)), which allow one-stop service for complaint handling. The system is also available on mobile phones (currently it is available only from the Android play store). Public complaints and aspirations are forwarded to relevant agencies, including districts. The person in charge of managing the GRM monitors the follow-up on the incoming complaints, and the complainants also can monitor the progress of the follow-up through the system. The system seems to be using real time and provides information on the types of complaints—e.g., related to regulations, permits, area boundary and land, bribery/corruption, misuse of authority, violation, village government, regional development, and others—as well as information on the status of complaints (received, being followed up, and completed) and on the complainants' satisfaction levels (satisfied, not satisfied).

86. **MoV also has a GRM system with various venues to receive complaints, questions, and aspirations.** One system, called "Village Complaints," uses a call center (1500040) and short message numbers (081288990040 and 0877 8899 0040), Twitter, and Facebook. Complainants can also go in person to the Office for Information and Documentation Management in the Minister's Office. Another channel for filing complaints is an application called LAPOR (Online Civil Complaints Service), initiated by the President's Office and now managed by the Ministry of



State Apparatus Empowerment and Bureaucratic Reform. In addition, MoV has just launched an application for complaints handling that is accessible on its website. Short messaging is the most popular channel for submitting complaints. The GRM is managed by the Office for Information and Complaint Service, which records complaints, forwards them to relevant DGs, and monitors and records the follow-up. At the village level, MoHA Regulation No. 114/2014 stipulates that the village should have a complaint management system. The head of the village is responsible for managing and processing complaints, following up on them, and documenting them as well. This complaint management system will benefit from the planning process, which includes the environmental and social safeguards aspects. The CPMU and PMU will coordinate with the line ministries and the local-level PIUs to identify, monitor, and report on all queries and complaints received through these systems that concern the Project.

87. **Communities and individuals that believe that they are adversely affected by World Bank -supported projects may submit complaints to existing project-level GRMs or the World Bank’s Grievance Redress Service,** which ensures that complaints received are promptly reviewed and project-related concerns addressed. Project-affected communities and individuals may submit a complaint to the World Bank’s independent Inspection Panel which determines whether harm occurred, or could occur, because of the Bank’s noncompliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank’s attention and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service, please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

**V. RISKS**

88. **The overall risk of the Project is rated as Substantial, before mitigation measures.** This risk rating is based primarily on the complexity of the Project’s design and the scale of coverage of the Project’s activities. The Project is expected to involve cross-sectoral and partially centralized/decentralized implementation structures by multiple agencies with varied capacity. **Table 7** summarizes the risk ratings. Mitigation measures for four risk categories, detailed below, reduce the overall risk of the Project. **Annex 1** outlines an Implementation Support Plan.

**Table 7: Risk Assessment**

Risk category	Rating (H, S, M, L)
1. Political and Governance	Substantial
2. Macroeconomic	Low
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	Moderate
<b>Overall</b>	<b>Substantial</b>



89. **Political and governance.** The political and governance risks are rated Substantial. The Project relies on coordinated implementation of proposed activities to fully realize benefits to villages. This coordination necessitates strong leadership by lead agencies that are able to bring together and align Project activities. It will also need adequate resources, information, and capacity. The mitigation strategy includes the establishment of an NCP to formalize existing coordination and monitoring structures, as well as leadership capacity-building under Component 4. This platform will be supported by a dedicated Secretariat, adequately staffed and resourced to enable improved and more effective coordination. An integrated data system will be implemented to ensure that the coordination activities are informed by information and data.

90. **Technical design of project.** The technical design risks are rated Substantial. This assessment is based on the complexity of the implementation arrangements required for effective village development. The technical design brings together several line ministries and agencies, as well as national, subnational, and village governments, to maximize the effective use of village fiscal transfers for development and poverty reduction. The complexity is compounded by the need to develop flexible and adaptable systems to address the wide variation in village needs across Indonesia, as well as the substantial behavior change needed to implement the systems envisaged under the Project, including the heavy reliance on technology. To mitigate this risk, the Project implementation will be phased, with a strong emphasis on learning in the design and rollout of new systems and approaches. Significant technical assistance will be provided, especially at the subnational level, to ensure that system rollout and the commensurate learning for these systems will be fully captured and institutionalized. Implementation of the coordinating mechanism will also be closely monitored during implementation, to identify the potential need for additional technical assistance.

91. **Institutional capacity for implementation and sustainability.** The institutional capacity risks are also rated Substantial. The Executing Agency (MoHA) and implementing agencies (MoV, Bappenas, and Kemenko PMK) have experience implementing and supporting Bank-financed projects. However, the capacity for effectively managing complex technology-based delivery platforms is limited. In addition, MoHA does not have experience in managing the village performance system proposed under Component 3. Mitigation measures include the provision of technical assistance to improve the institutional capacity of relevant directorates and agencies, and to support the development of a long-term and sustainable implementation support system for the Village Law. In addition, the Project will support identifying areas of conflict and lack of clarity in the roles and responsibilities for implementation and will address these challenges to improve coordination.

92. **Fiduciary.** The fiduciary risks are rated Substantial. There are two main FM risks: limited FM staff capacity, especially at the local level; and potential risks from weaknesses in the internal controls on soft expenditures, such as consultants and training/workshop expenditures. Procurement risks identified under the Project include (a) procedural noncompliance; (b) cumbersome internal processes and coordination among the multiple implementing agencies; and (c) delays due to limited procurement capacity and weak procurement and contract monitoring. These risks will be mitigated through a broad range of measures that are detailed in **Annex 3**, including by building capacity through providing FM and procurement training program to local PIUs, as well as refresher training to the CPMU, PMU, and PIUs on the Bank's procedures; providing technical assistance on fiduciary issues to assist the CPMU, PMU, and PIUs at central and provincial levels; and requesting local PIUs to provide supporting documentation and completion reports for each activity.



VI. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Indonesia

Institutional Strengthening for Improved Village Service Delivery

Project Development Objectives(s)

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

Project Development Objective Indicators

Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
<b>To strengthen institutional capacity for improved quality of spending in participating villages</b>								
Village institutional capacity to execute core functions strengthened (Percentage)		50.00	50.00	60.00	70.00	80.00	80.00	80.00
Beneficiaries feel that village investments meet their needs (by gender) (Percentage)		75.00			80.00	85.00	85.00	85.00
Village governments participating in the performance awards see improvements in quality of spending (Percentage)		0.00			40.00	50.00	60.00	60.00





**Intermediate Results Indicators by Components**

Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
<b>Strengthening Village Government Institutions</b>								
E-learning platform for needs-based capacity building for village apparatus and institutions established and fully operational (Text)		None	E-learning platform developed and piloted	E-learning platform roled out in 180 districts	E-learning platform reviewed and adjusted; roled out to 250 districts	E-learning platform roled out to 330 districts	E-learning platform roled out to 380 districts	E-learning platform established and fully operational
Village where key village aparat and BPD members completed core training modules (Percentage)		10.00	30.00	40.00	50.00	60.00	70.00	70.00
Villages with women representatives in the village council/BPD (Percentage)		50.00	50.00	60.00	70.00	80.00	90.00	90.00
District with online Siskeudes (VFM system) (Number)		20.00	50.00	100.00	150.00	200.00	250.00	250.00
District inspectorate conduct annual inspection to villages (Percentage)		0.00	0.00	30.00	40.00	50.00	60.00	60.00
District issues regulation on village authority (Number)		70.00	100.00	150.00	200.00	250.00	300.00	300.00
Prodeskel upgraded and used to evaluate village performance (Text)		Existing Prodeskel	Revise regulation, upgrade Prodeskel system	Prodeskel data update piloted in 180 districts	Prodeskel data update implemented in 250 districts and used in evaluating village performance	Prodeskel data update implemented in 330 districts and used in evaluating village performance	Prodeskel data update implemented in 380 districts and used in evaluating village performance	Prodeskel data updated and used in evaluating village performance



Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
<b>Promoting Participatory Village Development</b>								
Villages have access to technical service providers (Percentage)		0.00	30.00	50.00	70.00	75.00	80.00	80.00
Community learning platform established and accessible (Text)		None	Community learning platform designed and piloted in 100 districts	Community learning platform adjusted, roled out to 180 districts and accessed by at least 5,000 users	Community learning platform roled out to 250 districts and accessed by at least 7,500 users	Community learning platform roled out to 330 districts and accessed by at least 10,000 users	Community learning platform roled out to 380 districts and accessed by at least 15,000 users	Community learning platform established and utilized by community
Women participants provide suggestions in village meetings (Percentage)		18.50	0.00	25.00	30.00	35.00	40.00	40.00
Integrated digital platform for village development established and operational (Text)		None	Integrated digital platform designed and piloted in 100 districts	Integrated digital platform design finalized and include various apps for facilitators and community	Integrated digital platform roled out to 250 districts	Integrated digital platform roled out to 330 districts	Integrated digital platform roled out to 380 districts	Integrated digital platform for village development established and operational
Increased percentage of proposals by women in village planning meetings accepted and funded in participating villages (Percentage)		0.00		5.00	10.00	15.00	20.00	20.00
<b>Village Performance Awards</b>								
Number of villages exceeding project performance criteria and receiving supplementary incentive (Number)		0.00	0.00	0.00	0.00	500.00	1,000.00	1,300.00



Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Number of districts developed capacity building plan to mainstream the program approach (Number)		0.00	50.00	100.00	150.00	250.00	300.00	300.00
<b>National Coordination, Monitoring and Policy</b>								
Integrated village information system established and operational (Text)		None	InfoDesa concept developed	InfoDesa piloted	InfoDesa launched and utilized to track village performance	System check to verify InfoDesa data	InfoDesa updated and utilized to track village performance	InfoDesa updated and utilized to track village performance
National coordination team for village development established formally and functional (Yes/No)		No	No	Yes	Yes	Yes	Yes	Yes
Bappenas provide updated data/analysis on village performance from integrated village information system annually (Yes/No)		No	No	Yes	Yes	Yes	Yes	Yes
Bappenas conduct impact evaluation for Component 3 and use results to inform policy dialogue on performance awards for villages (Text)		No IE	Baseline in 2019 and results use to inform pilot design	Pilot launched	Spot-check to verify performance indicators	Endline preparation	Endline implemented and results use to inform policy dialogue; dissemination & policy dialogues	IE implemented and results used to inform policy dialogue



**Monitoring & Evaluation Plan: PDO Indicators**

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Village institutional capacity to execute core functions strengthened	This is a composite indicator that consists of five key measurement: 1) village government issue regulation on village authority in development (Y/N); 2) village government submit annual village planning document on time (Y/N); 3) village government submit annual village budget document on time (Y/N); 4) village government submit financial and activity realization reports on time (Y/N); and 5) village government publish village budget and realization reports (Y/N). Baseline is based on estimate from 2018 Sentinel Villages survey in 5 districts. An updated baseline data will be provided after the baseline survey in 2019. Increase is expected from Year 2 when the results of capacity building start to	Annual	InfoDesa; Siskeudes/Pr odeskel; baseline survey (2019); endline (2024)		MoHA; Bappenas (survey)



	materialize				
Beneficiaries feel that village investments meet their needs (by gender)	Baseline and endline surveys will be conducted by Bappenas. MOV will provide annual update once the SmartVillage app is functional	Annual from Year 3	Baseline and endline surveys; Village Digital Platform		MoV; Bappenas
Village governments participating in the performance awards see improvements in quality of spending	This will be measured against performance indicators for Component 3 on performance-based grants	Annual from Year 3	Performance assesement, BPKP verification	Annual from Year 3	MoHA, BPKP

**Monitoring & Evaluation Plan: Intermediate Results Indicators**

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
E-learning platform for needs-based capacity building for village apparats and institutions established and fully operational		Annual	E-learning platform, activities reports	E-learning platform will be roled out in stages following program's location expansion	MoHA
Village where key village apparat and BPD members completed core training modules	Key village apparat consists of minimum 5 people, including village head and secretary. BPD include head of BPD and one member. Core modules include planning, budgeting, implementing and	Annual	E-learning platform, activities reports		MoHA



	monitoring. Baseline is estimated from existing training reports at MoHA.				
Villages with women representatives in the village council/BPD	Indicator to capture utilization of e-learning and other capacity building platform/program	Annual	Prodeskel	Village council functions among others as representative of community that channel villagers aspiration, including in development activities. Permendagri 116/2016 mandated a reserved seat for women in the BPD membership. Not all villages have done this yet. Baseline from Sentinel Villages survey estimated around 50% of villages still do not have women representative in BPD	MoHA
District with online Siskeudes (VFM system)	Siskeudes is VFM system used by MoHA in accordance to Permendagri 20/2018 on village financial management. Currently the system is only online in 20 districts and hence not all village financial reports can be accessed in real time	Annual	Siskeudes portal		MoHA



District inspectorate conduct annual inspection to villages	District inspectorate to conduct inspection on sampling basis annually and roll to different set of villages the following year. Currently the inspectorate only conduct inspection on Dana Desa, not the entire village budget (APBDes), hence the baseline is set at 0%. Year 1 will be used to train local inspectorate to conduct the annual check	Annual	Inspectorate reports		MoHA
District issues regulation on village authority	The local regulation (Perbup) on village authority is key to ensure villages can issue their own regulation on their authority in development. This will help them in planning processes to focus on priority/needs based on their authority	Annual	Perbup on village authority		MoHA
Prodeskel upgraded and used to evaluate village performance	Prodeskel will serve as database for villages and will include data on village government and institutions.	Annual	InfoDesa; Prodeskel	InfoDesa; Prodeskel	MoHA
Villages have access to technical service providers	Technical/thematic facilitation is one of the key needs-based capacity building supports utilizing market-based approach and	Annual	Village Digital Platform, facilitator reports		MoV



	will be supported through Village Digital Platform app among others. The type of technical/thematic facilitation could include local economic development, agriculture, tourism, etc.				
Community learning platform established and accessible	Akademi Desa 4.0 focuses on community training - including the use of e-platform. Special modules to train women representatives to be included to improve women's capacity to participate in village development processes. Community will also be trained in core village development processes such as planning, budgeting, and monitoring	Annual	Akademi Desa 4.0; activity reports		MoV
Women participants provide suggestions in village meetings	This is indicator to track gender gap in meeting participation.	Annual	Village Digital Platform, cadres reports, facilitators reports		MoV
Integrated digital platform for village development established and operational	This platform will bring together all digital apps and	Annual	Village Digital Platform,		MoV





	database under MOV, including apps for facilitators (Village Digital Platform), for community learning (Akademi Desa 4.0), and village development data (including p-tracking by community)		activity reports		
Increased percentage of proposals by women in village planning meetings accepted and funded in participating villages	This is indicator to track gender gap in meeting participation.	Annual	Village Digital Platform, cadres reports, facilitators reports		MoV
Number of villages exceeding project performance criteria and receiving supplementary incentive	The performance criteria will be determined as pilot design is finalized in Year 1	Annual	Siskeudes/Pr odeskel; Village Digital Platform; BPKP verification		MoHA; MoV; BPKP
Number of districts developed capacity building plan to mainstream the program approach	This is to ensure institutionalization of program capacity building approach in the local government system, including capacity building for the community (MOV)	Annual	Activity reports, local regulation on capacity building plan		MoHA; MoV
Integrated village information system established and operational	Manual must be very clear on DD objectives to improve public services, poverty	Annual	InfoDesa		InfoDesa will integrate data from various line ministries, including



	reduction, village economy development, and closing gaps among villages; as well as roles and responsibilities of various line ministries and local governments				PODES, Prodeskel, Siskeudes, SmartVillage, OM-SPAN. It will provide data dashboard for central government to be used to monitor village governance and development performance
National coordination team for village development established formally and functional	Formal coordination mechanism has been planned by Kemenko PMK and will be supported to ensure smooth coordination and synergy in policy and decision-making for village development. Functioning means conduct regular coordination meeting every quarter and discuss among others updated data from InfoDesa; conduct special meetings as needed; issue guidance/manual as needed to solve problems related to Village Law implementation	Annual	Regulation issued, minutes of meetings, activity reports, guidance/manual (as needed)		Kemenko PMK
Bappenas provide updated data/analysis on village performance from integrated village information system annually	Data from InfoDesa will be analyzed annually to update village index in RPJMN 2020-2024 and to inform policy-making around village	Annual	InfoDesa		Bappenas



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	development strategy and priorities. Data dashboard will be presented every quarter in the VL Coordination Meeting chaired by Kemenko PMK				
Bappenas conduct impact evaluation for Component 3 and use results to inform policy dialogue on performance awards for villages	IE will be implemented to measure results of Component 3 and to provide inputs for policy dialogue on performance awards for villages	Annual	IE reports; activity reports; pilot design		Bappenas



## ANNEX 1: Implementation Arrangements and Support Plan

### COUNTRY: Indonesia Institutional Strengthening for Improved Village Service Delivery

#### Overview

1. **Key objective.** The overall objective of the Project is to strengthen GoI's support systems for increasing village institutional capacity for improved quality of spending. As such, the Project looks first to the systems, processes and institutions in place to support villages, and aims to strengthen and transform these to be more cost effective, efficient and adaptive to the varied needs of villages. The Project will develop new systems for the delivery of capacity-building support to village governments, as well as for learning and capacity-building for communities, and expanding service delivery options through marketplace models.

#### National Coordination and Collaboration

2. **National Coordination Platform for Village Development.** The Project will support the government to strengthen its institutional mechanisms for coordinating policy and implementing of support systems related to village institutional strengthening and village development, and foster collaboration among institutions, sectors and stakeholders. The current mechanism, under Kemenko PMK, brings together key agencies involved in implementing programs at the village level.<sup>37</sup> It is proposed that GoI establish a NCP for Village Development to include the key implementing agencies responsible for Project implementation: Bappenas, MoHA, MoV, MoF, Kemenko PMK, and BPS.<sup>38</sup> GoI will establish a Secretariat under Bappenas to support the NCP, including preparation of reviews, data dashboards, and documents as needed.

3. **Steering Committee.** Under the auspices of the NCP, the government will establish a Steering Committee (SC) for Project coordination at the central level. The SC will include echelon 1-level representatives from the key implementing agencies (Bappenas, MoHA, MoV, Kemenko PMK, MoF and BPS) and will be chaired by Bappenas and co-chaired by Kemenko PMK. The SC will discuss and resolve issues that require inter-ministerial decisions, support policy developments, and monitor achievement of national targets for village development. In addition, the SC will ensure that the Project achieves the PDO, that incentive mechanisms are developed, and that there is consistency among the policies adopted by the CPMU, PMU and PIUs.

4. **Provincial and District Level Coordination.** At the subnational level, the government will establish Working Groups (*Kelompok Kerja* or *Pokja*) or identify existing committees with similar functions to strengthen coordination and oversight at each level. These would draw on strengthening existing mechanisms, where relevant, and would support coordination of local policies relevant to village development and capacity-building, and foster collaboration among institutions and sectors.

<sup>37</sup> The current mechanism is established in Kemenko PMK Decision No 2 of 2015 on a Team for Strengthening Coordination for Village Governance, Community Empowerment, Village and Rural Development but can be adjusted as required.

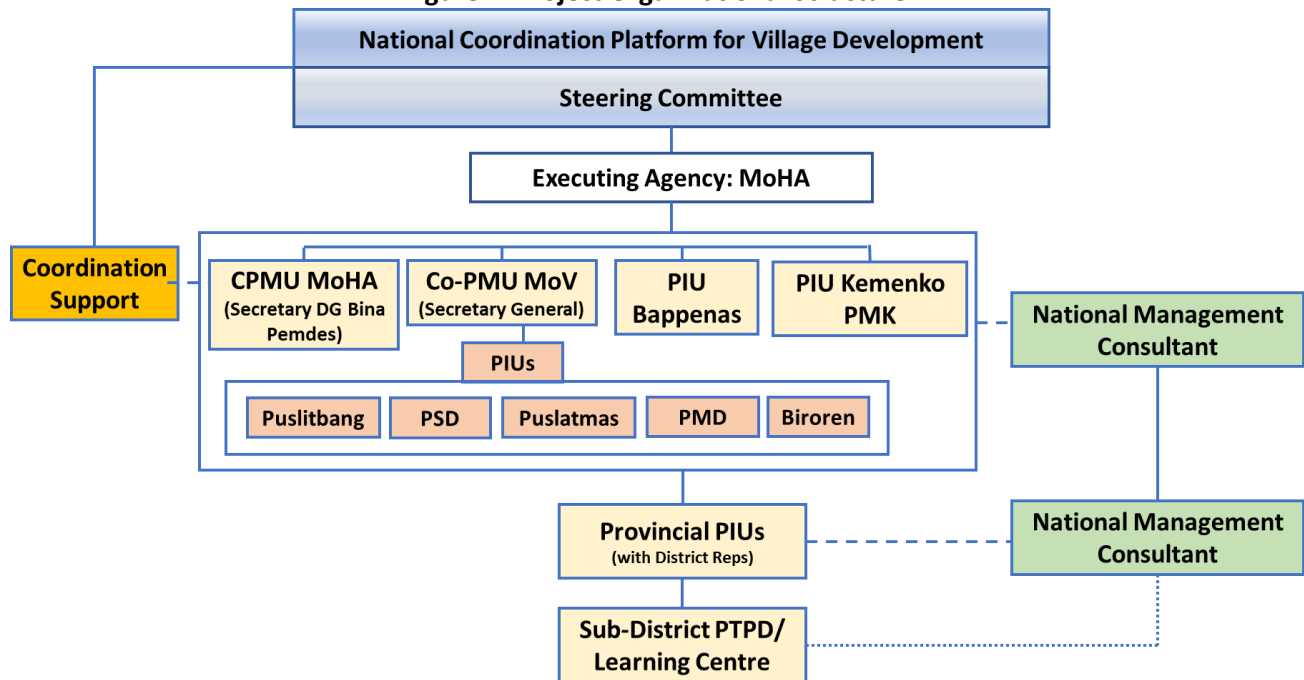
<sup>38</sup> The current mechanism does not include BPS.



**Project Implementation Structure**

5. **Executing Agency and Implementing Agencies.** The lead Executing Agency of the Project will be MoHA through DG Bina Pemdes. The Executing Agency will (a) consolidate the Annual Work Plans and Budgets (AWPB) for no-objection; (b) prepare, consolidate and submit to the Bank the Project Reports, interim unaudited financial reports and other reports as may be required by the Bank; and (c) ensure coordination among PMUs/PIUs. There will also be three implementing agencies: MoV through the Secretariat General, Bappenas and Kemenko PMK. See **Figure 4** for summary and **Table 8** for key implement agency roles.

**Figure 4: Project Organizational Structure**



6. **Project Management and Implementation Units.** DG Bina Pemdes will establish a CPMU for the Project. MoV’s Secretariat General will establish a Project Management Unit (PMU) overseeing four Project Implementation Units (PIUs) at MoV for the sub-components under Component 2. In addition, Bappenas under the Deputy of Regional Development, and Kemenko PMK will each establish PIUs to execute Component 4. The CPMU, PMU and PIUs will be supported by technical, financial and administrative staff in each implementing agency, ensuring sound financial, procurement and contract management, and that safeguards and overall Project implementation conform with the World Bank policies. The CPMU, PMU and PIUs will also be responsible for ensuring achievement of the PDO and KPIs, improving relevant policies and regulation, and ensuring that expenditures are consistent with the intended activities and outputs. The CPMU within MoHA will manage Components 1 and 3, the PMU within MoV will oversee Component 2 , and the PIU within Bappenas will manage Component 4 together with Kemenko PMK.

7. **Project Coordination and Collaboration.** Under the NCP, secretariat support will be provided via Bappenas, to ensure that coherent policies are adopted by the CPMU, PMU and PIUs and establish collaborative technical support and a joint monitoring mechanism, monitor achievement of target KPIs and implementation of



the work plan, and recommend performance grants for village governments. The Secretariat will support the functioning of the NCP, which, in turn, will ensure participation of various central ministries involved in village development and capacity-building activities.

**Table 8: Roles and Responsibilities of Key Ministry and Central Institutions**

Institutions	Roles and Responsibility
Bappenas	Overall program coordination and collaboration, and implementation of Component 4: National Coordination, Monitoring and Supervision.
Kemenko PMK	Coordination of policies and regulations, and together with Bappenas, implement Component 4: National Coordination, Monitoring and Supervision.
MoF	Support budget release for village governments, disbursement of loans and government co-financing funds as well as disbursement of the village performance grants to districts.
MoHA	Implementation of Component 1: Strengthening Village Government Institutions and Component 3: Village Performance Awards, as well as administrative coordination to consolidate and prepare annual Project financial reports and quarterly IFRs.
MoV	Implementation of Component 2: Promoting Participatory Village Development, and support to the implementation of Component 3: Village Performance Awards.
BPS	Support data provision under the integrated information management system led by the Secretariat.

8. **Provincial PIUs with District Representatives.** Provincial PIUs (PPIUs) will be established at the provincial level to: (a) mobilize technical support; (b) establish partnerships with provincial-based institutions and sectors; (c) produce training modules in line with regional development policies and priorities; (d) review and provide clearance to annual work plans for capacity-building submitted by the municipality/district; (e) recommend districts to receive grants based on performance; (f) carry out regular supervision, monitoring and evaluation by utilizing the web-based and mobile integrated information system; (g) undertake quality control and provide support and coaching to districts in capacity-building activities; and (h) allocate Provincial budget for capacity-building activities specifically relevant to provincial priorities. The Provincial PIUs will include representatives from the districts that are participating in the rollout of Project activities to ensure coordination with districts and PTPD as well as ensure institutionalization and sustainability of Project activities.

9. **Role of PPIU District Representatives.** The PPIU District Representatives will ensure Project implementation at the district level. Their roles include: (a) monitoring the implementation of activities and budget allocation, and achievement of KPIs; (b) establishing PTPDs and advisory clinics; (c) establishing partnerships with district-based institutions and sectors, (d) managing capacity-building for villages (both for *apparatus* and communities) at district level; (e) carrying out supervision and monitoring to PTPD performance and capacity-building delivery by utilizing the web-based and mobile integrated information system; (f) ensuring the quality of capacity-building delivery (i.e. quality control, feedback mechanism, etc.); (g) supervising PTPD in implementing village capacity-building plans; (h) organizing assessment of village capacity-building needs; (i) producing training modules in line with district development policies and priorities; and (j) reviewing the performance of villages in capacity-building , and proposing incentives accordingly.

10. **Subdistrict PTPDs.** At the subdistrict level, PTPDs will be established based on a Decree of the Bupati (District Heads) or Mayor, as part of the village capacity-building system. PTPD will be responsible, among other tasks, for: (a) carrying out needs assessments, and verifying village proposals for capacity-building ; (b) developing



annual work programs for capacity-building at village and subdistrict level; (c) arranging the delivery of the training at subdistrict and village level; (d) coordinating peer-learnings and identifying sectoral and technical support needs; and (e) managing supervision, monitoring, evaluation and feedback at the subdistrict level, locally in each subdistrict.

11. **Village Governments and Institutions.** Village governments and institutions are responsible for: (a) identifying the capacity-building needs and submitting proposals for learning; (b) allocating budget for attending the trainings, printing the training materials and providing the adequate instruments (smartphones or tablet); and (c) managing capacity-building activities at the village level, including establishing a learning forum and selecting champions for learning at the village level.

#### ***Advisory and Technical Support***

12. **Advisory Support.** Advisory support will be deployed to support the Secretariat under Bappenas and Kemenko PMK. This will support the central government in drafting relevant regulations and guidance for improving the mechanisms for budget transfers, creating incentives for villages to improve their budgetary performance, developing sectoral support as needed, and advising institutional strengthening activities.

13. **National Management Consultant (NMC).** The NMC team will be mobilized at the central level to support the CPMU and the PMU within MoHA and MoV respectively. The NMC will be responsible for daily overall program management, including strengthening the technical and institutional capacities; carrying-out Project supervision, monitoring, spot-checks, and evaluation of outputs and outcomes; strengthening sustainability of Project outcomes, and managing the web and mobile based capacity-building. The NMC will include various technical experts across a range of disciplines. The NMC team will support the CPMU and PMU during the life of the Project contingent on their annual performance.

14. **Provincial and District Consultant Teams, and Subdistrict Facilitators.** These teams will be contracted at the provincial level, and will operate at the provincial, district and subdistrict levels. The recruitment will be jointly managed by the CPMU, PMU, PIUs and PPIUs through the establishment of a joint recruitment committee. The joint recruitment committee will develop selection criteria, which will be used as part of the annual performance review of the teams. All recruitment processes will be managed and recorded through the web-based integrated information system. Teams will be mobilized to service for three years, contingent on annual performance.

#### ***Implementation Arrangements and Stages***

15. **Project Cycle.** Project management will follow annual cycles and will involve the stakeholders depicted in **Figure 4** above. The annual cycle will include the following activities:

- (a) Planning activities will include needs assessments; annual work-planning and budget allocation; organizing communities, local institutions and village government (including key champions); and learning events at the village, subdistrict or district levels;



- (b) Implementation activities include training of trainers (if applicable), socialization of the learning events, distribution of training modules and supplemental tools and instruments, and registration and recording of the learning events;
- (c) Feedback and evaluation and learning performance reviews include: review of the contents of trainings, instruments used, delivery methodology and training duration, attendees'/participants' feedback, and the trainer/learning facilitators performance. All feedback and training evaluation will be submitted through a web-based system. The learning performance review (for district, subdistrict and village levels) will be carried out against pre-determined criteria;
- (d) Follow-up activities conducted after the capacity-building is implemented and reviewed, i.e. advisory clinics, visits to selected villages for refresher learning/trainings, community or village government knowledge sharing activities, and peer-learning activities among villages. These activities will be managed by PTPDs and PDs; and
- (e) An outcome performance review will be carried out annually; it will target learning participants based on surveys submitted through the web-based system. Findings of the review will be used to revise the substance of the learning materials, types of delivery, instruments used, schedule, tariff, the focus on behavior change, etc. Feedback from the performance review will also be used by CPIUs and partner institutions for improving and upgrading training modules and management, as well as further guidance and regulations.

### ***Project Implementation Phases***

16. **The Project will be implemented in three phases.** During the first year Project implementation will lay a solid foundation and begin to put in place and socialize the required systems. During the middle years (Years 2 and 3), the Project will pilot innovative modules and instruments that are more solutions-oriented to encourage peer learning; it will also pilot the village performance system. In the latter years (Years 4 and 5), the Project will aim to maintain the capacity-building management system, improving/upgrading relevant policies and guidelines, and upgrading the substance of trainings to suit recent local development needs, and bringing successful pilots and good practices to scale, formalizing and institutionalizing them.

- (a) Short-term (Year 1): activities to be implemented include the following:
  - (i) Revisions to basic national curriculum and expected competencies, preparation and modification of mandatory and selected modules on compliance (on procedure, accountability, performance, and others) and its supporting instruments (i.e. promotional materials: flyer, video, posters);
  - (ii) Development of program implementation guidelines and operation procedures;
  - (iii) Mobilization of the management and support system, including identification of partner institutions, training of trainers (to facilitate the learning process), etc.;
  - (iv) Development of a web-based integrated information system and e-learning mechanism.
  - (v) Pilot of web-based system for mandatory training modules; and
  - (vi) Strengthening the roles of participating institutions at central, provincial, and district levels, as well as collecting letters of interest from districts for participating in Project activities.

- (b) Medium term (Years 2 and 3): activities to be implemented include the following:





- (i) Development of expanded modules, including those provided by provincial and district levels, and its supporting materials;
- (ii) Full utilization of the web-based integrated information management system;
- (iii) Scaling up the modules and capacity-building delivery mechanism, including expanding the use of partner institutions; and
- (iv) Adoption of a structured supervision, monitoring and feedback, integrated with the web-based information management system.

(c) Longer-term (Years 4 and 5): activities to be implemented include the following:

- (i) Strengthening the institutions for sustainable use of the e-learning platform and web-based information management system;
- (ii) Formal guidance provided for partnerships and service delivery;
- (iii) Abolishment of the face-to-face or facilitated training delivery, to rely only on remote training delivery (except for lagging/disadvantaged areas with limited internet connection); and
- (iv) National scale-up and institutionalization or formalization of changes introduced.

**Project Locations**

17. **The Project will use a phased approach during implementation.** The Project will begin with implementation in 100 districts, with a view to expand into additional districts as per the sequencing provided in the table below. **Table 9** summarizes the number of Project coverage by year.

**Table 9: Number of Project Provinces, Districts and Villages by Year (2020-2024)**

Administrative Units (total)/ Year	Year 1	Year 2	Year 3	Year 4	Year 5
Provinces	33	33	33	33	33
Districts	100	180	250	330	380
Villages	15,799	27,656	47,038	58,502	66,496

18. **Given that the Project will use a phased implementation approach, three key criteria will be used as conditions for entry.** Interested provinces and districts must submit a letter of interest with the following elements:

- (a) Establishment of Project institutions (CPMU, PMU and PIUs, PTPD, and *Pokja*);
- (b) Allocation of adequate staff and budget for Project activities (including for monitoring and supervision), and selection of self-managed capacity-building activities; and
- (c) Commitment to comply with the Project’s operational guidelines.

19. **During Years 1 and 2, the number of participating districts will be limited to 180 (100 in Year 1 and 180 in Year 2), in line with criteria agreed jointly between Bappenas, MoHA and MoV.** Selection criteria includes: (a) infrastructure status of villages; (b) capacity of village government; (c) village government readiness to improve village institutional capacity; and (d) capacity and willingness of district government to support villages.<sup>39</sup> The

<sup>39</sup> These indicators all draw on existing data systems and propose to measurements as follows: (a) Infrastructure status of villages in a



Project will scale up the number of participating villages and districts based on the capacity of DPIUs to maintain and operate the web-based systems for capacity-building (i.e. provision of adequate modules, partnership with at least two national institutions, and the regular use of the web-based programs by the existing participating districts).

20. **Conditions for Implementation of Village Capacity-building Activities.** The Project will provide specific guidance for the capacity-building management, which will include mechanisms for:

- (a) Rolling out systems for improved capacity-building (at village, at subdistrict, and at district levels). Depending on village needs and quality of materials, the PTPD, DPIUs and PPIUs may determine that a learning event be held in groups and accounted for as contribution from the village, subdistrict, or district, without additional costs being borne by the Project;
- (b) Delivery type: face-to-face and online (web-based) learnings. The Project will strongly encourage the use of web-based systems, except for the first years. A waiver will be provided for remote and lagging areas. The definition of remote and lagging areas will be based on: (i) limited accessibility (i.e. accessible by only one mode of transport or taking more than 8 hours of travel time), and (ii) geographical conditions (i.e. island based, and border areas); and
- (c) Type of learning: self-learning, facilitated discussions, peer learning, on the job training, and coaching and learning forums.

### ***Partnership Arrangements***

21. **Partnerships with national, provincial and district levels institutions will be initiated by the Project.** Partnerships will aim to strengthen the delivery of capacity-building, improve the quality of learning materials and its supporting instruments, encourage local ownership (from village governments and local institutions), and support the sustainability of CB mechanisms.

22. **The SC and Executing Agency will manage national partnerships while partnerships at provincial and district levels will be facilitated by PPIUs.** Selection of partner institutions will be based on competencies and will consider a variety of services: (a) development of modules; (b) delivery of training/events; (c) provision of trainers/co-trainers; and (d) coaching and evaluation.

23. **Registration of trainers and partner institutions.** Registration and verification of partner institutions will be made through the web system, with approval by MoHA.

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district (i.e. access to health and education facilities, road and market) – data source from PODES 2018; (b) Capacity of village government (i.e. education level of village head and village secretary, and composition of village aparat) – data source from PODES 2018; (c) Village government readiness to improve village institutional capacity (i.e. village budget allocation for capacity-building) – data from SIPEDE 2018 (MOV database on village budget); and (d) Capacity/willingness of district government to support villages (i.e. fulfillment of district transfers allocation per village) – data from Siskeudes 2018.



### ***Village Performance System (Component 3)***

24. **The Project will develop and test a village performance system to qualify villages that meet agreed metrics aimed at determining the performance of village governments in improving quality of planning, budgeting and supervision.** Up to 50 districts will be selected to participate in the performance-based grant program in Year 1 of the Project, with all villages within their jurisdiction having the opportunity to opt into the program. MoHA will issue the Guidelines in 2019 and in Year 1 socialize the performance system and architecture to selected districts and villages. In Year 2 of the Project, village and district governments will be assessed based on the agreed metrics. Those found to qualify against quality of governance measures will be recommended to receive the performance award, which would first be disbursed in Year 3. The participating villages would be assessed each year subsequently and would receive the performance grant based on the achievement of agreed quality metrics.

25. **Eligible activities.** Village-level investments could include innovative activities to strengthen local economic development, women empowerment, productivity, investment in physical infrastructure, small-scale innovative technology for water supply, disability inclusive facilities for schools and early childhood centers, and digital infrastructure to promote connectivity. There will be a brief negative list of prohibited infrastructure types. The list of proposed activities must be included in the RKPDes, and it must be consulted with and agreed by communities and local institutions. MoF will develop guidelines to further elaborate the criteria and transfer mechanism for the village performance awards.

### ***Monitoring and Evaluation Arrangements***

26. **To improve overall GoI's capacity to collect and use data to track village development performance, the Project will develop an integrated village data platform (*InfoDesa*) that will compile key village performance data to monitor/track village capacity and development performance.** The Project has identified several village level information systems that can be used to monitor village governance and development outcomes. These include the Prodeskel, Siskeudes, SIPADES, Sipepe and OM-SPAN. In addition, data on basic health and education service provisions are available from administrative data of MoH and MoEC. *InfoDesa* will enable the GoI to pull data from these various sources and use it to monitor village performance. The Project will help strengthen existing key systems (such as Prodeskel and Siskeudes) to ensure data availability and quality. The Project will also support Bappenas and BPS to analyze data and results from *InfoDesa* and utilize the data to inform village development policies and strategies.

27. **Several data sources have been identified to be integrated into an integrated data platform.** The Project aims to integrate the various data sources identified in **Table 10** below under a single platform. This will require the establishment of digital infrastructure to integrate the data sources identified, as well as additional sources that may become available during Project implementation.



**Table 10: Existing Data Sources**

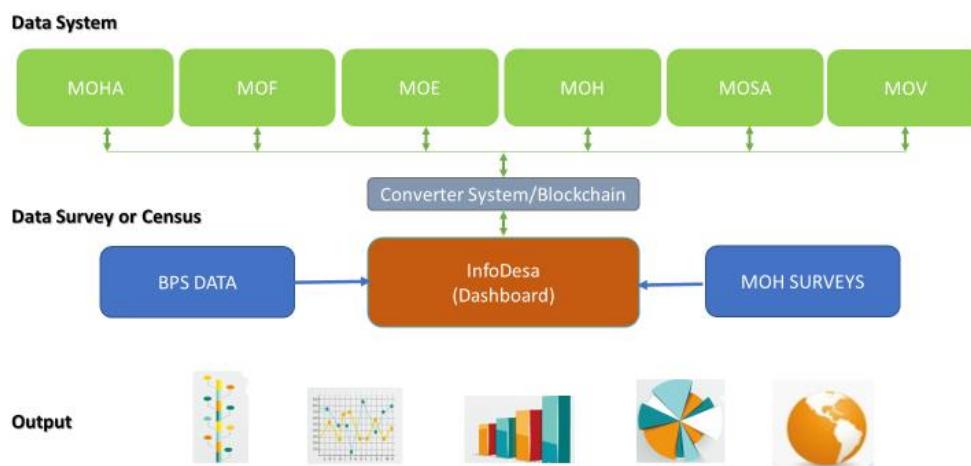
Ministries	Data System	Information/Variables
<b>MoHA</b>		
1. DG Bina Pempdes	Prodeskel	Village Data covers: <ul style="list-style-type: none"> <li>- Village government capacity</li> <li>- Population</li> <li>- Resource</li> <li>- Agriculture</li> <li>- Basic Services</li> </ul>
2. DG Dukcapil	Civil Registration	<ul style="list-style-type: none"> <li>- Basic information on family member and background</li> <li>- Individual background</li> </ul>
3. BPKP and District	Siskeudes	<ul style="list-style-type: none"> <li>- Village budget</li> </ul>
<b>MoV</b>	SPEDE	<ul style="list-style-type: none"> <li>- Village budget</li> <li>- Village fund output</li> </ul>
<b>MoF</b>	OM-SPAN	<ul style="list-style-type: none"> <li>- District budget</li> <li>- Village budget</li> </ul>
<b>MoEC</b>	Schools	<ul style="list-style-type: none"> <li>- School basic information</li> <li>- Student examination result</li> </ul>
<b>MoH</b>		
1. Basic Service	Sub-district Health Center (Puskesmas)	<ul style="list-style-type: none"> <li>- Puskesmas services</li> <li>- Medical Staff in Puskesmas</li> <li>- Puskesmas Coverage</li> </ul>
2. Balitbangkes	Health Facility Research (Rifaskes) Survey	<ul style="list-style-type: none"> <li>- Health facility information</li> <li>- Medical Staff in each health facility</li> <li>- Coverage</li> </ul>
3. Balitbangkes	Basic Health Research (Riskasdas) Survey	<ul style="list-style-type: none"> <li>- Health status of household</li> <li>- Basic information about the household background</li> </ul>
<b>MoSA</b>	Poverty data	<ul style="list-style-type: none"> <li>- The poor households background</li> </ul>
<b>Geospatial Information Agency</b>	Digital Map	<ul style="list-style-type: none"> <li>- Border area of villages</li> <li>- Agriculture map</li> </ul>
<b>BPS</b>	PODES	<ul style="list-style-type: none"> <li>- Village basic information</li> <li>- Resource</li> <li>- Population and demographic</li> <li>- Village government background</li> <li>- Basic services</li> <li>- Agriculture</li> </ul>
<b>BPS</b>	Population Census	<ul style="list-style-type: none"> <li>- Basic Information of Population</li> </ul>
<b>BPS</b>	Agriculture Census	<ul style="list-style-type: none"> <li>- Detail information about agriculture business</li> </ul>
<b>BPS</b>	Economy Census	<ul style="list-style-type: none"> <li>- Detail information about business, in small to large scale</li> </ul>
<b>BPS</b>	Susenas	<ul style="list-style-type: none"> <li>- Household information data including access to education, health, finance, and poverty program, health status, consumption, access to sanitation and clean water, etc.</li> </ul>
<b>BPS</b>	Village digital map	<ul style="list-style-type: none"> <li>- Village border area</li> </ul>
<b>Bappenas</b>	SEPAKAT	<ul style="list-style-type: none"> <li>- Poverty website for district</li> </ul>



28. The integrated data portal (*InfoDesa*) will integrate data systems into a single portal that will be able to update on indicators in real time (see Figure 5). The Project will also develop data dashboards for different levels of government and to be able to filter and layer different data inputs. This data system will be publicly available.

Figure 5: Integrated Village Data Platform (*InfoDesa*)

## Integrated Village Data Platform (InfoDesa)



29. The Project will utilize the PPIUs and TA at subdistrict/district levels to collect basic data on activities and inputs. Data will be compiled at district and province levels and submitted to the National Management Consultant for quarterly financial and progress reports. The Project’s CPMU, PMU and PIUs will conduct bi-annual supervision missions together with Bank.

30. The Project will use various mechanisms for evaluation and oversight, such as:

- (a) E-platform for community monitoring (SmartVillage app), an app that will enable communities to monitor the use of village funds and their outputs;
- (b) Village audit with BPK;
- (c) Performance protocol to assess village performance; this will be done as part of piloting the performance-based grant transfers to villages;
- (d) Annual PODES. The Project will support and pilot test implementation of annual PODES with BPS to help verify some village performance indicators;
- (e) Baseline and end line data collection, as needed;
- (f) Mid-term and final evaluations of key Project outcomes; and
- (g) Modern electronic system for recording/monitoring procurement, payment transactions and performance.

31. In addition, the Project will conduct an impact evaluations, studies and analyses of Project investments to best capture learning under the Project as noted above under Component 4.



**Strategy and Approach for Implementation Support**

32. **The strategy for implementation support has been developed based on the risk assessment of the Project.** The Project is considered to have substantial risk, based mainly on: (a) the political and governance assessment; (b) technical design of the Project; (c) institutional capacity; and (d) fiduciary risks. The strategies incorporated in the project design to mitigate these risks are summarized below (see Table 7, page 41).

33. **Political and governance.** The Project relies on coordinated implementation of proposed activities to fully realize benefits to villages. This coordination will be formalized on the government side through the NCP. The Bank will support this mechanism particularly in the initial phases of Project implementation through technical support financed from the LSP MDTF.

34. **Technical design of project.** The technical design brings together several line ministries and agencies—as well as national, subnational and village governments—to maximize the effective use of village fiscal transfers for development and poverty reduction. The complexity is compounded by the need to develop flexible and adaptable systems to address wide variation in village needs across Indonesia as well as the substantial behavior change needed to implement the systems envisaged under the Project, including the heavy reliance on technology. GOI will support this rollout through significant technical assistance especially at the subnational level with the objective of facilitating system rollout and uptake across a variety of contexts. The Bank will further support this through frequent supervision missions and field visits to identify bottlenecks and challenges early in the implementation period.

35. **Institutional capacity for implementation and sustainability.** The Project will challenge the implementation capacity of the implementing agencies, particularly through the introduction and strengthening of systems using digital technologies. The Bank task team will support these systems through targeted technical assistance in the first two years of the project that will leverage international expertise to support the design and testing of these systems. The Bank will also support the design of the village performance system through the support of high-level technical expertise to support MoHA and MoF to develop and implement system.

36. The Project will be supervised jointly by GoI and World Bank staff at least three times a year during the first two years. Annual implementation reviews will be carried out jointly by GoI and the Bank. GoI and the Bank will undertake an MTR in mid-2022 to evaluate progress and make necessary adjustments.

**Implementation Support Plan**

37. **Table 11 details the implementation support plan for the Project.**

**Table 11: Implementation Support Plan**

Time	Focus	Skills Needed	Resource Estimate
First twelve months	<ul style="list-style-type: none"> <li>Selection of major consultancies (NMC, Sub-national support, Digital development)</li> <li>Design of LMS system and rollout in first 100 districts</li> </ul>	<ul style="list-style-type: none"> <li>Technical (community development, ICT, behavioral economics, engineering, gender, etc.)</li> <li>Safeguards</li> <li>Fiduciary</li> </ul>	Country based team engages frequently with key counterpart officials in MoHA, MoV and Bappenas; International experts in ICT, governance, behavioral economics, engineering, and



	<ul style="list-style-type: none"> <li>Village digital platform designed and in place</li> <li>NCP established</li> </ul>		social accountability visit over three formal missions.
12-24 months	<ul style="list-style-type: none"> <li>Design and rollout of performance system</li> <li>Rollout of LMS to additional districts</li> <li>Digital platform scaled</li> <li>Monitoring and supervision</li> </ul>	<ul style="list-style-type: none"> <li>Technical (social, engineering, housing finance)</li> <li>Safeguards</li> <li>Financial management</li> <li>Procurement</li> <li>M&amp;E</li> </ul>	Full team supervision three times a year.
24-36 months	<ul style="list-style-type: none"> <li>Assessment of implementation of learning system and digital platform</li> <li>Monitoring and supervision</li> <li>Mid-term review</li> </ul>	<ul style="list-style-type: none"> <li>Technical (social, engineering, finance, housing finance)</li> <li>Safeguards</li> <li>Financial management</li> <li>Procurement</li> <li>M&amp;E</li> </ul>	Full team supervision three times a year.
36-60 months	<ul style="list-style-type: none"> <li>Scale up of all support systems to target districts</li> <li>Coordination platform fully operational</li> <li>Draft ICR</li> </ul>	<ul style="list-style-type: none"> <li>Technical (social, engineering, finance, housing finance)</li> <li>Fiduciary</li> <li>M&amp;E</li> </ul>	Full team supervision twice a year.

38. **Table 12 details the technical skill mix that the Bank will mobilize to support implementation.**

**Table 12: Technical Skill Mix**

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Sr. Social Development Specialist (TTL)	1 staff member: 40 weeks	20	Locally based; 4 field trips per year + 6 weeks per year+ 5 extra weeks in the first two years
Sr. Social Development Specialists (Community Development, Data Systems)	2 staff members: 48 weeks	20	Locally based; 4 field trips per year + 4 weeks per year+ 2 extra weeks in the first two years
Digital/ICT specialist	1 staff member: 14 weeks	10	2 trips + 2 weeks per project year + extra 2 weeks in the first 2 year
Governance specialist	1 staff member: 12 weeks	10	2 trips + 2 weeks per project year + 2 extra weeks in the first year.
Behavioral Economists	2 staff members: 12 weeks	6	3 trips + 3 weeks in the first two project years



Social accountability specialist	1 staff member: 6 weeks	3	3 trips + 3 weeks in the first two project years
Gender specialist	1 staff member: 6 weeks	4	1 trip + 2 weeks per first two project years
M&E specialist	2 staff members: 12 weeks	6	3 trips + 3 weeks in the first two project years
Fiduciary specialist	2 staff members: 12 weeks	6	3 trips + 3 weeks in the first two project years





## ANNEX 2: Detailed Project Description

COUNTRY: Indonesia

### Institutional Strengthening for Improved Village Service Delivery

1. The proposed Project Development Objective 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.

#### 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 award see improvements in quality of spending (number)

2. **Project approach.** The Project will support the GoI to develop and rollout new systems of implementation support for village institutions, with the objective of improving the institutional capacity of villages and the quality of their development plans and programs. This will be achieved by: (a) supporting the design of new systems and approaches for capacity-building, knowledge sharing, technical assistance, and learning that are adaptable and demand driven; (b) focusing on aligning results in improved performance with award mechanisms; and (c) strengthening the village information and data systems through digital solutions that improve monitoring and evaluation of village performance (including procurement and payment transactions), as well as promoting the use of data in planning and budgeting at the village level. Taken together, these interventions will support village institutions to better access the support systems they need to improve quality of spending.

3. **Component 1: Strengthening Village Government Institutions (IBRD \$192.5 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. 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 sub-national government institutions, providing an opportunity to leverage existing support systems and further strengthening and aligning these to better support village governments. This component has the following sub-components:

(a) **Subcomponent 1A: Supporting Institutional Strengthening Systems for Village Governments.** The primary objective of this subcomponent is to develop new systems for institutional capacity strengthening especially for village governments. This subcomponent falls under Directorate of Village Apparatus Capacity-building under DG Bina Pempdes. The subcomponent will finance the following activities:

- (i) Development of training materials and tools to improve the institutional capacity of village governments (*apparatus*). This will include improving and updating materials and modules on



village government core administrative functions (e.g., basic planning, budgeting, monitoring and reporting). It will also develop expanded material to target varied capacity needs of governments, by, for example, developing materials for higher level and strategic planning, improving social and environmental standards, integrating climate resilience and disaster preparedness into planning, strengthening procurement, improving financial management capacity, among others. This subcomponent will develop materials for face to face training, blended learning, web-based or e-learning and videos, and will include design for materials such as posters, pamphlets, good practice and other materials to be disseminated. The subcomponent will finance the development of guidelines, manuals and training handbooks to guide the rollout of training programs.

- (ii) Design of a learning platform that integrates digital learning solutions and acts as a repository for relevant material and guidelines for MoHA's capacity-building system. This digital learning platform will integrate schedules for face to face training, offer web-based learning systems, host videos, and serve as an online learning catalogue for village government. The learning platform will be designed to be adaptive and flexible, with the possibility to expand services and include outside training providers, integrating a form of learning marketplace that would better link village government with capacity programs. This will include developing strategies and methods for organizing activities that are systematically tailored to local needs and capacities, such as independent learning programs, face-to-face learning programs, internships (or on-the-job training), peer-learning or comparative studies, learning programs web/internet, compiling databases for monitoring the implementation and results of capacity-building activities, and submission of inputs, complaints and evaluations. The learning platform and marketplace will also be available to subdistrict and district governments to strengthen capacity for key roles and functions, including, for example, audit, supervision, oversight, etc. The e-learning platform will include a feedback function to rate programs, trainer performance, quality of materials, and learning outcomes.

- (b) **Subcomponent 1B: Rollout of institutional strengthening systems at the sub-national level.** The primary objective of subcomponent 1B is to support the rollout and adoption of capacity-building systems developed in the previous subcomponent. The expected outcome of this subcomponent is that village governments are able to: (a) prepare village development planning documents through a participatory and inclusive process; (b) manage the development budget and village assets in a more systematic, transparent and accountable manner; (c) implement the program and village development activities by utilizing natural and human resources available in the village (self-management); and (d) to be accountable for every stage of village governance and development in accordance with the applicable regulations. These outcomes are expected to result from improved access to institutional strengthening programs, facilitated under the sub-component. This subcomponent will finance subnational technical assistance to be recruited at the provincial level and deployed to subnational governments to facilitate rollout and implementation of the institutional strengthening system. Technical assistance will include facilitating a mapping process of village government capacity needs, adaptation of key modules and training materials, development of partnerships with local and national institutions for learning marketplaces, supporting the transition to the learning platform approach to institutional capacity-building, ensuring coordination and support in oversight and capacity support functions, including specialized support to strengthen the role of PTPDs in subdistricts, developing subdistrict clinics, and supporting improved assessment of village government performance. This component will also



institutionalize and strengthen a GRM and collaborate with DG Regional Development of MoHA in provision of technical assistance and monitoring to district and village government regional development, specifically policy making for a synchronized and harmonized village development.

- (c) **Subcomponent 1C: Improving oversight and management.** This subcomponent will strengthen mechanisms for monitoring and supervision systems. This oversight and monitoring will support two main areas: (i) developing a performance tracking system for capacity-building activities and program interventions; (ii) strengthening data management systems, especially the development of Prodeskel as well as in evaluating village developments to assist in determining the direction for village development. Project financing will be used to support digital systems, including the hardware, software and technical expertise needed to improve monitoring systems, as well as technical expertise to strengthen and update MoHA's data systems. The developed village profiles will also incorporate data on climate change risks to villages based on their location in order to inform climate-resilient village planning.

4. **Component 2: Promoting Participatory Village Development (IBRD \$102.5 million).** The objective of this component is to strengthen systems of capacity support and village development within MoV. This will be achieved by revamping and supporting programs within MoV to be more flexible and adaptable to better respond to needs, and to facilitate innovation and cross learning for community capacity. This component is divided into the following sub-components:

- (a) **Subcomponent 2A: Village Digital Platform.** This subcomponent will focus on: (a) improving the village support service by building the competency of village facilitators using digital tracking systems, improving learning media, and adopting digital-based applications; and (b) encouraging the simplification of village development guidelines and regulations to strengthen the implementation of participatory development in villages. The agency responsible for the subcomponent is the Directorate of Village Development and Empowerment under MoV's DG PPMD. Professional facilitators are important to assist local governments in bridging between districts subdistricts, villages, and village community institutions (LKD). The Village Law also relies on the role of facilitators to oversee the village development process from planning to post-development, and systems and skills need to be improved so that facilitators can better perform these tasks. Based on this, facilitators are essential for the capacity-building activities that aim to strengthen the village development process. Learning from the VIP demonstrated that effective capacity can be carried out by utilizing digital media that is well-managed, updated and informative. Models such as the Village Digital Platform application are appropriate to be further developed. This subcomponent will finance technical assistance to support to the design and development of the Village Digital Platform PLD application for facilitator management, updating and digitizing capacity-building modules and programs for village facilitator training, monitoring the performance of delivery systems for capacity-building, facilitator support, etc., and finally supporting technical assistance for harmonization of regional regulations. Capacity-building will also include topics that respond to new development needs such as climate-resilient development in disaster-prone areas and climate change hotspots.
- (b) **Subcomponent 2B: Community Capacity and Social Accountability Systems.** Subcomponent 2B aims to improve the quality of community participation and social accountability in village development governance. Therefore, activities under this subcomponent will focus on improving the performance of community cadres and the development of community learning centers. Subcomponent 2B will be under the responsibility of MoV's Directorate of Basic Social Services under DG PPMD. This subcomponent will



finance the strengthening of village cadres, or community volunteers, with a view to reactivate their role in village development. This subcomponent will also finance continued technical support to Community Learning Centers, including development of peer-to-peer exchanges, “people’s schools” (*Sekolah Rakyat*), joint learning activities and facilitated interactions. These programs were developed under the Village Innovation Program and would be further supported and replicated across all participating villages. Finally, this subcomponent will develop social accountability monitoring mechanisms that, alongside the reactivation of cadres, is expected to improve the quality of participation and accountability in village governance. The Project will develop all of the above models on a sufficient scale to be replicated by the district and subdistrict governments using the Regional Budget (APBD), following the evaluation of their effectiveness and impact on quality social participation and accountability. Later, national replication is the ultimate goal. Through the Project, all activities in subcomponent 2B will be digitally integrated in stages through the community learning system *Akademi Desa 4.0*, which will be developed under component 2C.

- (c) **Subcomponent 2C: Digital Innovation and Community Learning.** Subcomponent 2C focuses on the development and deployment of digital systems for improved village innovation and development. This includes technical assistance to (i) establish a digital community learning platform (*Akademi Desa 4.0*); (ii) the development of a smart village digital system as a platform to accommodate and disseminate learning materials and knowledge to village communities, including facilitating peer-to-peer exchange of climate-resilient village-led innovations; and (iii) development of and implementation of a modern electronic system for recording/monitoring procurement, payment transactions and performance. The responsible agency for the development and management of *Akademi Desa 4.0* is MoV’s Community Training Center (*Puslatmas*); and the development of the smart village model is under the responsibility of MoV’s Research and Development Center, supported by MoV’s Center for Data and Information. **Box 7** elaborates on the community cadre system.

**Box 7: The community cadre system.**

Better functioning community cadres are essential to improve village spending and results. Both the experience of PNPM Rural and government regulations demonstrate the importance of cadres being involved in village development as a driving force that can increase the quantity and quality of community participation. Cadres can appear in various forms and in various sectors. Their service is voluntary in nature, thus there can be village community empowerment cadres, human development cadres, village journalists, and village literacy cadres. Formation of cadres can happen through training of village officials, Village Councils (BPD), and community members; they can also be facilitated by village facilitators, or emerge from personal initiatives to contribute to village development. Community cadres can organize or form groups, for example: Village Health Houses (*Rumah Desa Sehat*), Community Halls (*Balai Rakyat*), Children’s Forums, Women’s Groups, and Farmers’ Groups.

- (d) **Subcomponent 2D: Technical Support and Program Management.** This subcomponent is managed by MoV’s Secretary General. All technical assistance and digital platform development under Component 2 are managed by the Planning Bureau of MoV’s Secretary General. Activities under this subcomponent focus on achieving performance targets for the whole component. This subcomponent will finance costs associated with the coordination and monitoring of MoV’s departments and activities and will support MoV’s PMU to manage component activities.



5. **Component 3: Village Performance Awards (Counterpart Financing \$50 million).**<sup>40</sup> The objective of this component is to develop 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 and on 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. The Project will include three sub-components:

- (a) **Subcomponent 3A: Village Performance System Development**—a performance assessment system will be developed to capture simplified metrics for village government performance, and annual assessments will be carried out for participating village governments. A proposed set of metrics is provided in **Table 13** below; it includes measurements to capture improvements in the quality of planning (e.g., planning that is more inclusive and participatory), to capture improvements in the quality and functionality of outputs and the reliability and timeliness of progress and financial reporting, and to promote transparency and accountability. Participating village governments will be assessed in Year 2 of the Project against the agreed performance metrics and criteria. The village performance system will be aligned with Gol’s existing subnational government performance system. The Project will provide technical assistance to develop the performance system.
- (a) **Subcomponent 3B: Village Performance Assessment Implementation**— This sub-component will support implementation of the village performance assessments, including any required verification processes consistent with the existing Gol subnational government performance system. DG PK under MoF will release the performance transfer to village government accounts via district governments in accordance with the existing performance grant mechanism;
- (b) **Subcomponent 3C: Village Performance Grants**—through this subcomponent the Project will provide performance grants, financed by Gol’s own resources as counterpart funding, to villages on the basis of pre-determined performance criteria, award amounts and fund channeling mechanisms as specified in the dedicated village performance grant manual developed under Subcomponent 3A. An impact evaluation to ascertain the effective of the village performance system will be conducted under Component 4. The system will be based on a performance tracking system, to be established in Year 1 of the Project, which will integrate reporting via a web-based system and Gol existing subnational performance mechanisms.

**Table 13: Proposed Set of Metrics for Village Performance**

No	Objective of measurement	Proposed Performance Metric
1	Improvements in <i>quality</i> of planning and budgeting process (e.g., more participatory and inclusive)	Village planning and budgeting processes, based on widespread participation of community, and based on principles of inclusion of subgroups and populations (including poor, women, IPs, etc.)
2	Improvements in <i>quality</i> of participation and accountability systems	Village holds a minimum of four annual meetings (including an annual accountability meeting) that are fully open for the community; community signs off on the planned budget and execution
3	Improvements in the <i>quality</i> of the plans produced, and alignment in the implementation of those plans	Village plans integrates sector agencies/service providers to consider local economic development, climate and disaster risks, and social and environmental standards; annual review and sign-off indicates

<sup>40</sup> Gol will finance \$50 million for the village performance grants. Gol may avail of technical support financed from the IBRD loan to develop and implement the village performance system (i.e. subcomponents 3A and 3B) via the CPMU at MoHA (Disbursement Category 1).



No	Objective of measurement	Proposed Performance Metric
		alignment in implementation
4	Improvements in the <i>quality</i> of reporting, including on outputs and FM	Village reporting through integrated FM Information System to track alignment in planning, budgeting, payments; FM reporting on financial statements completed in timely manner
5	Improvements in transparency to drive greater accountability	Village government publishes plans, budget realization reports, and contracts, on web-based platform or in other public spaces through other means
6	District level indicators to measure improvements in village performance aggregated at the district level	For example: (1) agreed percentage of villages are audited by local inspectorate, with average finding less than 2.5 percent of total APBDes; and (2) percentage of villages in district use integrated performance reporting system

6. **Proposed program architecture.** The village-based performance incentive will provide an opportunity to test and refine different interventions that will become the basis for the government to incorporate a results-based approach to allocating village funds after the Project closes. **Table 14** below summarizes the core program architecture that the Project plans to test, as well as the alternatives considered.

**Table 14: Proposed Program Architecture**

No	Design element	Option Proposed	Alternatives considered
1	Institution awarded performance incentive	Districts and villages awarded incentives	Village only District only
2	Award metrics	Improvements in metrics of good governance (static)	Improvements in governance (dynamic) Improvements in service delivery outputs
3	Incentives	Financial and non-financial incentives	Financial only Non-financial only
4	Target for incentives	Pilot testing options for: (i) financial grant to villages, (ii) capacity-building activities, (iii) performance incentives for village government	Financial grants only Capacity-building only Performance incentive for village government only
5	Selection process	Villages and districts must opt into program	Opt-in mechanism for districts but not villages Selection process to determine eligible districts and villages based on set of agreed indicators
6	Financial mechanism	Aligned with the existing Regional Incentive Fund (DID) system	Special Allocation Funds (DAK) Village Funds (DD) Deconcentrated Funds ( <i>Dekon</i> ) DID <i>Hibah</i> mechanism

7. **Structure of the program.** Under the village performance award program, the village is the primary target of the award program. However, it is recognized that the district will also play a critical role in enabling villages to achieve improved performance, in particular through strengthened mechanisms of oversight and accountability, as well as through providing capacity support. Thus, mechanisms to reward districts that fulfill general oversight functions with a high degree of quality would be proposed under this program. The village performance grant will use a flexible *hibah* mechanism (but aligned with and if possible integrated with the existing subnational incentive mechanism) to channel the financial rewards to villages and districts will also receive a portion of the grant based on their performance. This creates an added incentive and role for the district to participate in the program.



Verification of performance will follow a three-step process. First, villages will report on the key agreed performance metrics via a web-based system, to ensure that all evidence is available. Second, the district will play a role in verifying that the submissions were received, and in forwarding the list of eligible villages for verification. The pilot will test different interventions to incentivize performance, including development grants, capacity grants, and performance award for village governments. The results of this pilot are expected to inform the Gol's allocation formulas for village funds.

8. **Component 4: National Coordination, Monitoring and Policy (IBRD \$5 million).** The objective of this component is to improve and strengthen national coordination, harmonization of regulations, monitoring, and supervision of village development. This component is divided into the three sub-components:

- (a) **Subcomponent 4A: Development of Integrated Village Data System.** This subcomponent will support the development of an Integrated Data and Information Systems on Villages (*InfoDesa*). This will include the provision of technical assistance, procurement of hardware and software, preparation of procedures for collecting, verifying and integrating various village data systems, and data analysis by various stakeholders (i.e. a dashboard). Detailed descriptions of *InfoDesa* will be developed in the General Guidelines and the Project's Technical Guidelines. 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.
- (b) **Subcomponent 4B: National Coordination Platform Support.** Through this subcomponent, the Project will support the establishment of the NCP. This platform would be supported by secretariat functions under Bappenas who would oversee the management and coordination efforts, and the integrated information system. Project financing would support costs related to strengthening the coordination platform and developing the roles, responsibilities and mechanisms for effective functioning. Project financing would Bappenas's advisory and analytical services and improvements to its monitoring and oversight, harmonization of regulations, and impact evaluations and studies of the Project results.
- (c) **Subcomponent 4C: Strategic Evaluation and Leadership for National Policy Making.** Under this subcomponent, Bappenas will carry out evaluations and studies as well as strengthen national leadership as the basis for strengthening village development and community empowerment policies in strategic national policies and long-term development plan. This will include an impact evaluation on Component 3, the results of which are used to inform policy on village performance and accountability. The implementation of the impact evaluation for this Project (especially Component 3) includes the implementation of baseline and endline surveys, which the Bank will provide technical support to design and monitor. In addition, a number of thematic studies will also be carried out by Bappenas and/or Kemenko PMK in accordance with the issues and needs of information and evidences to support policy making related to village. This subcomponent will also support activities to strengthen strategic leadership and policing making as the basis for including policies and programs in the national strategic policy and planning document, including *Visi Indonesia 2045* and the RPJP for 2025-2045.



9. **Project Locations.** The Project will use a phased approach during implementation. It will begin with implementation in 100 districts in Year 1 and cover a total of 380 districts and 66,496 villages by Year 5 (see **Table 15**). This phased approach will enable learning and adjustments during implementation, based on the data generated by the digital systems that underpin Project implementation.

**Table 15: Number of Project Provinces, Districts and Villages by Year (2020-2024)**

Administrative Units (total)/ Year	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Provinces</b>	33	33	33	33	33
<b>Districts</b>	100	180	250	330	380
<b>Villages</b>	15,799	27,656	47,038	58,502	66,496

10. **Given the Project’s focus on villages, the Project will only be implemented in districts that receive village fiscal transfers (total of 434 districts).** These districts are selected using four indicators as proxies for district and village capacity in managing village development as follows: (a) access to basic infrastructure (i.e. access to health and education facilities, road and market); (b) capacity of village government apparatus (i.e. education level of village head and village secretary, and composition of village government); (c) village government budgeting capabilities in improving village capacities (i.e. village budget allocation for capacity-building; and (d) capacity of districts to support villages as proxied by the fiscal transfers for villages from district governments. Based on these indicators, each district was given a score using a simple average of the four indicators:  $(a + b + c + d)/4$ . The districts were then divided into 5 quintiles based on the scores. For Year 1, Project location covers 100 districts from 33 provinces randomly selected from all districts in Quintile 2-4 to capture districts and villages with low to moderate capacity in line with Government’s priority for village capacity development.<sup>41</sup>

**Project Cost and Financing**

11. **Project Costs.** The total Project costs are estimated at about \$350 million, which is to be financed through an IBRD Loan of \$300 million and government co-financing of \$50 million for Component 3 (See **Table 16**). The Project will also leverage Gol contributions through parallel financing of \$403 million.

**Table 16: Project Costs by Component**

Project Components	IBRD	Gol	Total Cost
1. Strengthening Village Government Institutions	192.5	0	192.5
2. Promoting Participatory Village Development	102.5	0	102.5
3. Village Performance Awards	0	50.0	50.0
4. National Coordination, Monitoring and Supervision	5.0	0	5.0
<b>Total Project Cost</b>	<b>300.0</b>	<b>50.0</b>	<b>350.0</b>

<sup>41</sup> Some exceptions applied: (a) a maximum of three districts in quintiles 2-4 are randomly selected in each province, with additional districts from outside Java and Bali chosen to round the total to 100, which is in line with the government prioritizing development outside in Java and Bali in the next RPJMN 2020-2024; (b) districts that are receiving the TEKAD Program financed by IFAD were excluded; and (c) districts that suffered from catastrophic natural disaster in 2018 (i.e. Poso, Donggala, Sigi, Lombok Timur and Lombok Utara) were excluded from Year 1 to allow the district governments to focus on recovery. For Component 3, 50 out of 100 first year districts were chosen randomly with regard to regional distribution.





### ANNEX 3: Fiduciary Assessment

COUNTRY: Indonesia

Institutional Strengthening for Improved Village Service Delivery

#### *Financial Management*

- 1. The Bank carried out the FM assessment of the Project implementing agencies to determine whether their FM systems have the capacity to produce timely, relevant and reliable financial information on Project activities.** The assessment also aimed to determine if the accounting systems for Project expenditures and underlying internal controls are adequate to meet fiduciary objectives, allow the Bank to monitor compliance with agreed implementation procedures, and appraise progress towards Project objectives.
- 2. The CPMU, PMU and the PIUs at the central level all have experience in managing Bank financed projects.** However, some sub-national PIUs (PPIUs and DPIUs) lack such experience. Overall, the Project faces two major risks: first, there is limited FM staff capacity, especially at the local level; second, risks may arise from weaknesses in the internal controls on soft expenditures, such as consultants and training/workshop expenditures.
- 3. FM risks will be mitigated by:** (a) delivering training on Bank FM procedures to local PIUs and providing a similar refresher training to PMUs/PIUs; and by (b) providing technical assistance through FM Consultants to PMUs/PIUs at central and provincial levels. Considering the risk mitigation measures proposed, the overall Project FM risks are assessed as substantial. The proposed FM arrangements will satisfy the Bank's minimum requirements under BP/BD IPF dated November 10, 2017.
- 4. Budgeting.** Project budgeting will follow the existing government budgeting system. The Project budget will be included in the annual government budget and line ministry spending warrants (DIPA). There is a budget risk due to the delay in issuing DIPA, which will create Project implementation delays. Delays in issuing DIPA may be minimized through prior circulars on the decree on Working Units (Satker) at the CPMU, PMU and PIUs, and revision of documents as soon as possible when approved DIPA differs from the budget proposal.
- 5. Accounting and Reporting.** All financial transactions will be recorded in the government accounting system and included in government accountability reports. The FM Unit will prepare a separate set of Project financial reports that are suitable for monitoring purposes. The specific accounting procedures are set out in the Project Operations Manual.
- 6. There are risks related to the reliability and timeliness of financial reports.** These risks will be mitigated through each PMU/PIU maintaining separate accounting records for all payment requests (SPM) and payment orders (SP2D) on a cash basis. The FM Office in the PMU/PIU will be responsible for preparing aggregate IFRs and submitting these to the Bank on a quarterly basis in a format agreed with the Bank within 45 days of the end of said quarter. IFRs will be part of progress reports for those quarters when the progress reports are required.



7. **Internal Control.** The FM Unit in the CPMU, PMU and PIUs will incorporate additional financial controls into the existing FM procedures to mitigate an internal control risk on payment verification. This financial control will include a requirement for stronger accounting evidence for all Project activities (e.g., third-party invoices, attendance lists for workshops and training events, consultants' outputs, etc.).

8. **Audit Arrangements.** MoV and MoHA are two ministries at national level that have a strong relationship with village operations. BPK expressed an unqualified (i.e. clean) opinion on financial statements from MoV and MoHA for fiscal year 2017. Based on internal control review reports, there are no significant findings on village operations reported by the auditor. However, this result may be due to the very small amounts allocated for village operations, which were not sampled in the audit.

9. **The FM Unit in the CPMU, PMU and PIUs will be responsible for preparing the Project financial statements, which will be audited by BPK.** The annual audit report will be furnished to the Bank no later than six months after the end of the GoI's fiscal year. The auditor will use agreed audit terms of reference. It is expected that the external audit will go beyond merely providing an opinion on account statements, and will also include opinions on the internal control framework and compliance with the POM. The audit will also include an assessment of the reliability of Project financial statements, and the verification of accounting information on a sample basis. The scope of the audit will include a review and reconciliation of Special Account transactions and quarterly IFRs.

10. **The CPMU, PMU and PIUs will set up a monitoring system to ensure that adequate follow-up actions take place to address audit findings.** The monitoring system and procedures will be included in the Project Operations Manual.

11. **Disbursement Arrangements.** The applicable disbursement methods are reimbursements and advances to the Designated Account (DA), which will be used to finance eligible Project expenditures; direct payment and special commitment methods are also available to the Project, if needed. The DA will be opened in Bank Indonesia or a Bank acceptable to the World Bank in US Dollars (USD) and under the name of the DG Treasury, Ministry of Finance. DG Bina Pemdes will be responsible for reconciling the DA and preparing applications for the withdrawal of additional advances, which must be duly approved by DG Treasury before their submission to the Bank. Copies of the designated bank account statements will be provided to DG Bina Pemdes by the Directorate for Cash Management in DG Treasury.

12. **The ceiling of the advance to the DA will be variable, and the advance(s) will be made based on six months of projected expenditures.** The reporting on the use of the DA will be done through quarterly IFRs. Applications for advances to the DA shall be submitted together with the reporting on use of DA funds, which will consist of: (a) IFRs, Statement of Expenditures (SOE), and list of payments for contracts under the Bank's prior-review; (b) projected expenditures for six months; and (c) the DA reconciliation statement. The disbursement categories are shown in **Table 17** below.

13. **All documentation for expenditures submitted for disbursement will be retained by the implementing unit and be made available to the auditors for the annual audit, and to the Bank and its representatives, if requested.**



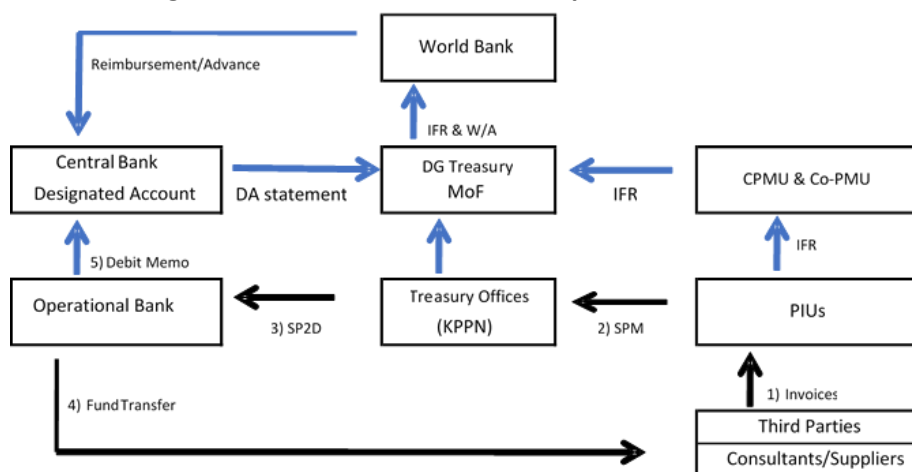
Table 17: Allocation of Loan Proceeds

Disbursement Category Description	Amount (in Million USD)	% of expenditures to be financed (inclusive of taxes)
1. Goods, non-consulting services, consulting services, Training and Incremental Operating Costs for Component 1 and Subcomponents 3A and 3B	192.5	100%
2. Goods, non-consulting services, consulting services, Training and Incremental Operating Costs for Component 2	102.5	100%
3. Goods, non-consulting services, consulting services, Training and Incremental Operating Costs for Component 4	5.0	100%
TOTAL	300.0	

14. **Financing Percentage.** In Indonesia, financing arrangements for Bank projects implemented by Central Government Agencies are governed by the Integrated Budget Implementation List, or DIPA, maintained by the Ministry of Finance. Sources of financing for Project activities, including financing percentage, are detailed in the DIPA and strictly followed. As such, Project activities identified to be financed by the Bank will be 100%; the government’s counterpart funds of \$453 million to the Project are in the form of parallel financing of a separate set of project-related activities and/or expenditures including \$50 million for the performance grants under Component 3.

15. **Flow of Funds.** The Satker at the CPMU, PMU and PIUs will execute the Project budget and administer it. All third parties’ invoices (suppliers/consultants) will be submitted to the Commitment Officer (PPK) under the Satker, who will review and verify the invoices and relevant supporting documents, and then submit them to the Verification Officer. The Verification Officer will review and verify the invoices and documents before issuing the payment request (SPM) to the Treasury Office (KPPN). KPPN will then issue payment orders (SP2D) to its operational bank, which will arrange for remittance of the funds from the DA to the respective supplier or consultants’ accounts. Figure 6 summarizes.

Figure 6: Flow of Funds Under Components 1, 2 and 4



16. **The CPMU will compile the Project expenditures from the CPMU, PMU and PIUs and prepare IFRs.** The reports will be submitted to DG Treasury, who then submits to the Bank with the withdrawal application (WA) for DA replenishment.



17. **Supervision Plan.** Risk-based supervision of Project FM will be conducted. This will involve a review of the Project FM system, including Project expenditures, accounting, reporting and internal control framework. In addition, the review will also look at internal and external audit reports, and the follow-up of audit findings. FM supervision will be conducted by FM specialists and consultants, if required.

### **Procurement**

18. **Procurement under the Project.** All Procurement anticipated under the Project and financed from the loan shall be carried out in accordance with the World Bank's Procurement Regulations for IPF Borrowers of July, 2016, revised November 2017 and August 2018, and the provisions of the Procurement Plan and Project Operations Manual. This also applies to procurement of goods and non-consultant services through the Request for Bids method using the National Competition market approach, which shall also be governed by the Bank's Procurement Regulations. In this regard, the Gol's procurement regulations may be used to the extent that they do not conflict with the Bank's Procurement Regulations and are subject to the required improvements listed in the Procurement Plan and incorporated in the harmonized model bidding documents agreed between the Bank and National Public Procurement Agency (LKPP) for national competitive procurement. In case a conflict or difference in opinion arise during the procurement process, the Bank shall provide clarification in writing for the correct application of the Bank's Procurement Regulations. The Gol's SPSE e-procurement may only be used for procurement of goods, works and non-consultant services under the Request for Bids method through the National Competition market approach, and using the harmonized model bidding documents agreed between the Bank and LKPP. Furthermore, the SPSE e-procurement system modified by MPWH may be used only for selection of consultant firms under the Quality and Cost Based Selection (QCBS) method and using the Bank's standard Request for Proposal document adjusted in a manner satisfactory to the Bank for electronic use. Procurement under all other methods shall be carried out through a non-electronic process with manual issuance of invitation for bids and receipt of bids, until such time that the modifications of the SPSE e-procurement system has been completed by LKPP and is acceptable to the Bank; this acceptability will be confirmed through the Bank's written no objection. During Project implementation, the Bank's Systematic Tracking of Exchanges in Procurement (STEP) tool shall be used to record all procurement and contract implementation processing under the Project.

19. **Procurement of contracts under Government regulations.** Procurement of contracts that are not financed by the loan and are exclusively financed from the Gol's own budget may follow the Gol's Procurement Regulations, as provided for in paragraph 2.3 of the Bank's Procurement Regulations.

20. **Procurement Requirements.** The procurement requirements of the Project, including contract packaging, and the procurement and contract management responsibilities of the various implementing agencies have been discussed with DG Bina Pemdес as the Executing Agency and all the PMU and PIUs in MoHA, MoV, Bappenas, and Kemenko PMK. The PPSD has been prepared by DG Bina Pemdес and all other PMUs/PIUs in MoV, Bappenas, and Kemenko PMK, with support from the Bank. The strategy and approach are reflected in the initial Procurement Plan agreed with the Bank, which sets out the specific procurement packages, the applicable procurement methods, and the Bank's review requirements based on the procurement risk; the Procurement Plan will be updated at least once a year with the Bank's prior approval.



21. **Most of the procurement under the Project, by value, is expected to be for consulting services and non-consulting services.** Procurement will comprise: consulting services contracts ranging between \$1 million and \$6 million per contract, to be procured centrally by DG Bina Pemdes as the Executing Agency, and all other PMU/PIUs in MoV, Bappenas, and Kemenko PMK; and non-consulting services contracts for providing logistical and administrative support for the district and subdistrict implementation team supporting the work of village government, which are estimated to cost between \$1.5-5 million per contract in each selected province; these will be procured by the PPIU through each respective Procurement Service Unit (ULP).

22. **Procurement of Goods.** It is also anticipated that there will be procurement of goods to supply equipment for digital technology, which includes servers, data storage, hardware upgrade, computers, cables (including digital community centers), ranging between \$1.5-4 million. These will be procured separately by DG Bina Pemdes MoHA as the Executing Agency and all other PIUs in MoV, Bappenas, and Kemenko PMK, as the budget, procurement and contract management responsibility are independently assigned to each PIU.

23. **The selection of consulting firms is expected to include national management consultants and advisory services, IT system development, consultants for legal and regulatory framework, and other technical assistance to support institutional capacity-building and policy development.** Most of the consulting assignments will require hiring of firms, for which the QCBS method will be applied following the international market approach. For any smaller-value contracts, the Selection Based on Consultants Qualifications Selection (CQS) method may be applied.

24. **Goods and non-consulting services that fall below the thresholds requiring international competition will be procured through** the Request for Bids method using National Competitive market approach by each PMU/PIU, either through each central/national ULPs (for goods) and decentralized/regional ULPs of the selected provinces with varying procurement capacity (for non-consulting services).

25. **The Project is expected to involve cross-sectoral and decentralized implementation by multiple agencies with varied procurement capacity and differential understanding of the Bank's Procurement procedures.** The proposed CPMU in DG Bina Pemdes was also the Executing Agency for the previous PNPM Rural Projects, while the other PMU in MoV (Secretariat General) is supporting the ongoing VIP. The PIUs in Bappenas and Kemenko PMK have limited capability in implementing community development operation financed by the Bank, except for the selection of consultants for technical assistance under different sectors. These PIUs are considered to have limited experience, particularly in the selection of consulting firms under Bank financed projects. The procurement capacity assessment for this Project confirmed that Project procurement processes should build on the lessons learned from the implementation of the previous PNPM Rural and VIP Projects, with the introduction of specific measures to enhance competitiveness, transparency and accountability. These measures focus particularly on procurement of non-consulting services and selection of consultants, which account for the bulk of Project procurement. Support will be provided through consultants under Component 1 of the Project to strengthen procurement capacity.

26. **Based on the experience from other projects being implemented by the same agencies,** the following procurement risks have been identified:



- (a) Procedural non-compliance due to implementing agencies' insistence in following the Gol's Procurement procedures instead of the Bank's Procurement Regulations, which govern procurement under the Project;
- (b) Rejection of lower priced bids due to a narrow interpretation of the qualification criteria;
- (c) Cumbersome internal processes and coordination among the multiple implementing agencies;
- (d) Delays due to weak procurement capacity and ad hoc establishment of ULPs, with staff accredited on the basis of rudimentary training in the Gol's procurement regulations and with limited understanding of the Bank's procurement procedures;
- (e) Inadequate procurement planning by the PPK, particularly weaknesses in cost estimation prepared without using justifiable quantities and realistic market prices;
- (f) Inadequate monitoring, and weak contract management by the PPK.

27. **The risks will be mitigated through the following measures:**

- (a) Including an explicit provision in the Procurement Plan and Project Operations Manual highlighting that the application of the Bank's Procurement Regulations, which is mandated and legally binding under the Financing Agreement, shall govern and take precedence for all procurement under the Project;
- (b) Establishing that the Executing Agency, with the support of consultants, provide procurement training to the PMUs/PIUs, as well as to PIUs in the local governments; and systematically verify procedural compliance and monitor progress against planned schedules;
- (c) Specifying qualification criteria in bidding documents in an explicit manner, such that there is no rejection of lower priced bids without seeking written clarifications from bidders on information provided in the bid;
- (d) Requiring the Bank's prior review of strategically important and large value or complex contracts, based on the Bank's standard prior review thresholds linked to risk; and
- (e) Procurement supervision in the field be conducted at least twice per year, including delivering training and carrying ex-post reviews of no less than 20 percent of the contracts subject to the Bank's post review.



ANNEX 4: Economic Analysis

COUNTRY: Indonesia
Institutional Strengthening for Improved Village Service Delivery

1. The economic analysis assesses both the reduction in costs and the improvements in social impact that the operation will entail. BAU cost scenarios use information on the existing annual expenditures on support services to villages (through MoHA and MoV) and on monitoring implementation and managing coordination (through MoF and Bappenas). It is estimated that MoHA’s village government capacity-building programs costs approximately \$150 million per year, MoV spends approximately \$72 million annually on managing and building the capacity of village facilitators, and Bappenas together with MoF and Kemenko PMK spend approximately \$10 million annually on coordination and data management. The overall expenditure on implementing Village Law across all levels of government is estimated at approximately \$700 million per year, although this figure likely includes other overhead costs, such as salaries and per diems, that are not directly comparable to what the component activities of the proposed operation will influence, at least in the short run.

Table 18: Cost Assumptions

Table with 3 columns: Component, Fixed Costs, and Year-on-Year Operational Cost. Rows include categories like '1: Strengthening Village Government Institutions' and 'Total'.

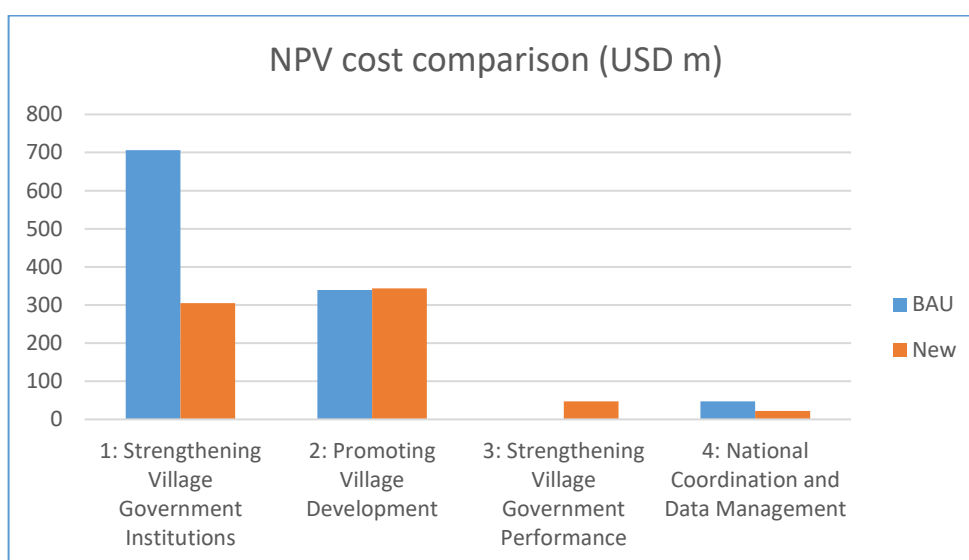
2. Cost savings through the proposed operation are expected in three areas: (a) under component 1 through the implementation of more flexible, need-orientated learning platform vs. cascading top-down, face-to-face training; (b) under component 2 through the implementation of demand-driven village facilitation service platform with feedback on facilitation performance versus the static one facilitator per two villages model; (c) under component 4 through improved data system integration, synchronized reporting and analysis versus fragmented and often manual reporting processes. Component 3 on strengthening village government performance will introduce new costs since there is no existing type of performance grant implemented in the government program. The cost savings from components 1, 2 and 4 are anticipated since while the operation will involve the introduction of fixed cost investments to set up these digital platforms and systems, the ongoing year-on-year operational costs are expected to be much lower. For example, a cascade approach of face-to-face



training to train 380,000 village governments delegates is estimated to cost MoHA approximately \$150m per year, while switching to a learning platform that offers multiple modes of providing training (face-to-face, online content, blended, videos) is expected to lower operational costs to \$53m per year.<sup>42</sup> **Table 18** summarizes cost assumptions per component.

3. **In net present value (NPV) the cost savings associated with the new and adjusted activities under the operation are expected to total over \$350 million over the next five years.** Cost savings per component in NPV terms are highlighted in **Figure 7**. These cost savings should be monitored over the life of the Project to ensure that the operation realizes its potential economic return.

**Figure 7: NPV cost comparison across components**



4. **The operation is also expected to positively impact the quality of spending within villages and through that improve the “development dividend” of Village Law.** Hence it is anticipated that social benefit improvements from the IPF will derive from shifting use of village funds towards village-level investments in public goods and services that offer higher social welfare gains than current village fund allocations. For example, increasing allocation towards goods and services that attain higher community utilization rates, address more acute physical and social infrastructure gaps in villages, and strengthen village rural livelihoods more inclusively. Ultimately, the program should lead to increased rural incomes, particularly among the poor, as it was initially introduced as a program to reduce regional inequities. Impacts on rural incomes is something component 4 will need to measure more systematically to assess whether the operation is yielding expected improved social benefits. Component 4 will also need to introduce a more comprehensive M&E approach that can utilize the incremental rollout of different components to assess which new approaches under the Project lead to greatest impacts on rural incomes. This information can be used to refine and inform the implementation of the operation, and potentially lead to further economic benefits.

<sup>42</sup> Full details of the cost estimates for BAU and under new operation are available through accompanying economic analysis workbook.



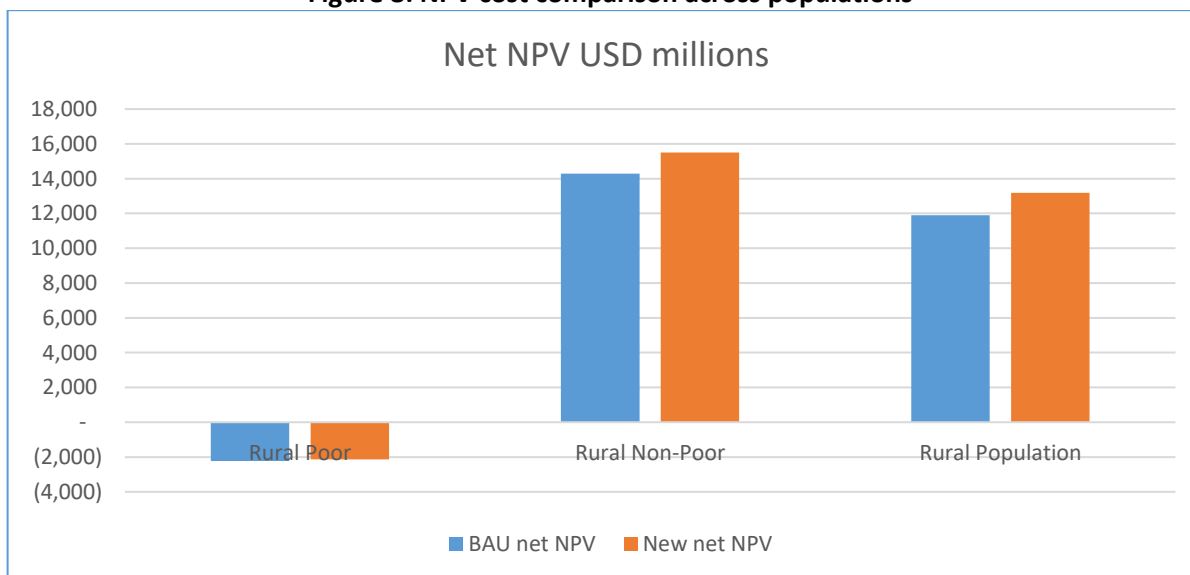


5. In calculating the potential internal rates of return (IRR) for the operation, it is assumed that the operation will be effective in introducing a 1-3 percent increase in rural incomes. It should be noted, that given the annual fiscal transfers of approximately \$7 billion and under the BAU cost scenarios, the Village Law program needs to already be increasing rural incomes by 7 percent on average per annum to have a positive IRR.<sup>43</sup> With an additional 1 percent increase on rural incomes under the new operation (combining the cost reductions with increased income benefit), the IRR should increase to 13 percent and an additional 3 percent increase on rural incomes boosts the IRR further to 16 percent. **Table 19** and **Figure 8** (under an additional 2 percent increase on rural incomes) summarizes these results. As will be noted most of the improvement in NPV of Village Law derives from impacts on the rural non-poor. This is purely from an accounting framework and is rather mechanical as they make up 87 percent of population in rural villages and have higher baseline earnings. Thus, while the operation can be assessed to have led to a successful leveraging of economic resources if average rural incomes improve, the operation risks missing its objectives on inclusion if attention is not paid to the rural poor population. This is also something the M&E approach financed under component 4 should pay attention to.

Table 19: IRR calculations

IRR	Additional increase in rural incomes		
	1%	2%	3%
BAU	7%	7%	7%
Under proposed operation	13%	14%	16%

Figure 8: NPV cost comparison across populations



<sup>43</sup> These impacts on rural incomes should be plausible based on previous community development programs in Indonesia. For example, Voss, John (April 2012) finds that the PNPM led to 9.1% increase in rural incomes.

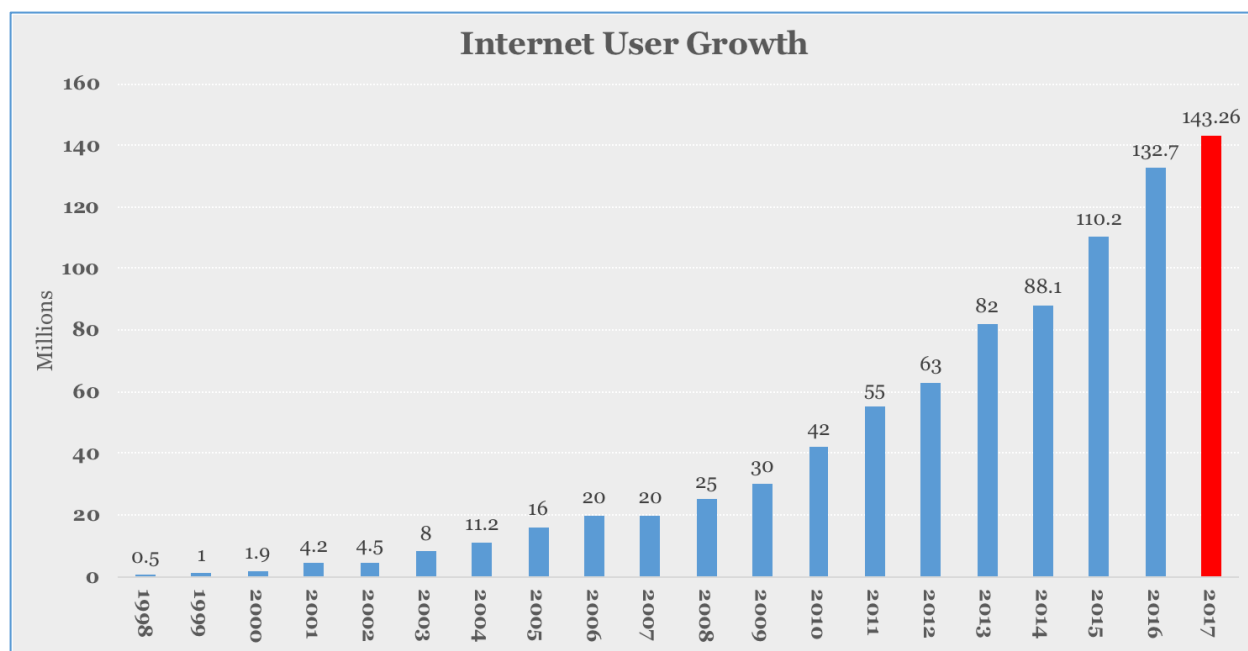


ANNEX 5: Digital Solutions to Improve Service Delivery

COUNTRY: Indonesia  
Institutional Strengthening for Improved Village Service Delivery

1. **Indonesia is rapidly digitizing, driven in part by its young and tech-savvy population, as well as the increasing affordability of smartphone and mobile data.** In only five years, the total number of internet users in Indonesia spiked from roughly 63 million in 2013 to 143.3 million people in 2017 (see **Figure 1**).<sup>44</sup> 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 2 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.<sup>45</sup> With a median age of 28, Indonesia’s young population grew up in the advent of the digital age, making them fast adopters of new technologies. While Indonesia’s internet penetration rate was 54.7 percent in 2017, this rate was as high as 75.5 percent for youth aged 13 to 18.<sup>46</sup> More than 66 percent of internet users are under the age of 34, and they are among the most active internet users in the world. In fact, Indonesians spend an average of about 4 hours per day on mobile internet, surpassing the 2 hours a day spent in the US and UK, and the 1 hour and 30 minutes in Japan, France, and Germany.<sup>47</sup> Dubbed as the Twitter Capital of the world, and with more than 90 percent of internet users connected to Facebook, the digital age has firmly taken root in Indonesia.

Figure 9: Internet Users in Indonesia in from 1998 to 2017



Source: APJII, Penetration and Behavior of Internet Users in Indonesia in 2017

<sup>44</sup> APJII.

<sup>45</sup> Google and TEMASEK, e-Conomy SEA 2018, Southeast Asia’s internet economy hits an inflection point (2018).

<sup>46</sup> APJII.

<sup>47</sup> Google and TEMASEK (2018).



2. **Digital growth has been concentrated in urban areas, but the government is making important strides to narrow the digital divide.** While in urban areas 72.4 percent of the population had internet access, for rural areas internet penetration stood at 48.3 percent. Java has the highest internet penetration rate (58.1 percent), followed by Sumatra (19.1 percent), Kalimantan (7.9 percent), Sulawesi (6.7 percent), Bali-Nusa Tenggara (5.6 percent) and Maluku-Papua (2.5 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. This Project will connect all districts across Indonesia, providing equality of service to even the most remote locations to boost digital inclusion. For example, connectivity in Easternmost Papua, currently at 3 megabytes per second, is expected to move closer to Jakarta's level, reaching about 7 Mbps after the completion of the Project. Currently, 450 districts and cities are connected to the national fiber optic backbone, with 64 districts in central and eastern Indonesia remaining to be connected by the end of 2019.

3. **The government is contributing to Indonesia's digital transformation by promoting connectivity and digitizing its services.** As part of the RPJP 2005-2025, Gol aims to make Indonesia globally competitive by embracing good governance reforms and promoting a competent bureaucracy capable of delivering high quality public services. ICT innovations can support these efforts by: (a) promoting a more open, cost-effective, and responsive government administration; (b) enhancing cooperation across different government agencies to achieve common objectives; (c) expanding the coverage and quality of services to communities in remote areas; and (d) increasing transparency and accountability over the use of public resources through electronic supervision and GRM systems. Between 2014 and 2016, total government expenditures on ICT reached IDR 12.7 trillion (\$900 million), pointing to the government's commitment to modernize its services. However, the National ICT Council found significant overlap in those investments, with 65 percent of software purchases used to finance similar applications and licenses between different government agencies. To ensure greater coordination in e-government services, in 2018 Gol enacted a new regulation on electronic government system. Moving forward, the government aims to integrate its online services across national agencies and sub-national governments by 2025, establishing a unitary system that improves service delivery.

4. **Building on Indonesia's evolving digital ecosystem, the Village Law presents an unprecedented opportunity to leverage technologies to strengthen service delivery at community level.** Under the Village Law, the government allocates IDR 102 trillion (\$7.3 billion) in annual fiscal transfer for villages to invest in rural infrastructure, human capital, and job creation. To support the implementation of the Village Law, the government assigns an additional IDR 9.6 trillion (\$715 million) for facilitation and supervision functions, relying on a supply-driven and one size fits all model to cover all 74,954 villages spread across more than 13,000 islands. Currently, one PLD is assigned for every 2-4 villages, and there is limited technical support provided to villages based on their actual needs, affecting overall service delivery and failing to account for inter-village differences. In addition, there is limited information about facilitators' performance, and coordination and accountability challenges plague Village Law implementation. The Gol can address these challenges by developing digital solutions that enable a flexible and demand-driven approach to facilitation, learning, and village development at scale.

5. **The proposed Project will finance a series of mobile and web-based applications under MoV, MoHA, and Bappenas.** These applications will cover two types of digital interventions: (a) the digitalization of existing



government services; and (b) transformative new solutions that redefine the government’s role in service delivery. The former will focus on improving the cost-effectiveness, efficiency, and reach of government services by digitizing core government functions related to village governance and development. In particular, these applications will include the digitalization of village facilitator tasks (Village Digital Platform PLD), access to village information and comparative statistics (*InfoDesa*), and live monitoring of village budget and participatory processes through visual maps and data (Participatory Tracking System). The latter involves more innovative initiatives seeking to transform the government’s role from service provision towards facilitation and mediation, leveraging private sector resources for content creation, training, and technical assistance. For example, these applications involve the creation of a digital marketplace for technical service providers (Village Digital Platform TSP), an online learning academy for communities where third parties can upload content (Akademi Desa 4.0), and a digital marketplace for capacity-building and learning activities for local governments (LMS). To facilitate access to the different technology solutions, MoV will create a common platform, the Village Digital Platform application, which will house all applications used by village stakeholders, including those financed under different government programs. Overall, the range of applications financed by the proposed Project aims to strengthen village development by: (a) leveraging data to drive decision-making; (b) strengthening government mediation and facilitation functions; and (c) building performance-based awards for better management of village resources. **Table 20** lists the proposed applications and their respective functions.

**Table 20: List of Proposed Applications and Respective Functions**

Application Name	Main Functions	Supporting Ministry
Village Digital Platform PLD	A task management platform that digitizes all PLD functions, including time-stamped and geo-tagged community visits validated by the village government. Inputs for all requested tasks will appear monthly, allowing facilitators to digitally verify their task completion and track upcoming tasks to plan their work in advance. The Village apparatus will also have an opportunity to rate facilitators’ performance, which will be linked to each PLD’s profile. This application will enable MoV to more effectively supervise and monitor PLDs, while equipping PLDs with digital tools to facilitate their core functions and improve their performance.	MoV
Village Digital Platform TSP	A digital marketplace for TSPs that provides a demand-driven gateway for communities to connect with TSPs to match their dynamic and newly emerging needs. Villages will be able to request TSP services based on specific expertise (e.g., local economic development, specialized infrastructure support, stunting), ratings, cost, and availability. The platform will also allow the village apparatus to validate task completion, provide feedback, and potentially make payments linked to the village funds.	MoV
Smart Villages	A village information function linking communities to village level data and comparative village statistics, including access to district level averages to compare key outcomes and results. This platform will use village data to drive decision-making and prioritize village investments.	MoV
Akademi Desa 4.0	An online learning academy for communities, which will provide links to digital and interactive content and offline learning opportunities. The material will be mainly in video form and will cover a range of topics related to the implementation of the Village Law and village development, including communities’ rights. By informing communities about their rights, this application aims to make the village government more accountable to communities. The main content will be developed by MoV, but third parties, including NGOs, universities, and the private sector, will be allowed to upload	MoV



	additional content covering specific topics useful for communities. Through this application, MoV can answer basic community questions, update new material as needed, and send notifications to users about new learning opportunities, saving costs and time required for in-person training, and keeping constant the training quality across different villages.	
<i>InnovasiDesa</i>	A peer to peer platform to showcase innovations, best practice videos and documentation, and provide networking opportunities among village stakeholders.	MoV
<b>eHDW</b>	A tool for Human Development Workers (HDWs) to support village convergence efforts for nutrition sensitive and specific interventions targeting priority households to accelerate stunting prevention. The application will digitize HDWs key functions to facilitate their task management, data input, stunting diagnostics, and generate quarterly and annual reports for districts and the central government. This application will be developed under another program, INEY, but will be housed within the <b>Village Digital Platform</b> platform for easy access to village stakeholders.	MoV (under INEY)
<i>RuangDesa</i>	A chat application for village facilitators. This platform was developed by DFAT for MoV and is currently used to broadcast messages from the ministry to all facilitators.	MoV (completed)
<i>Desa Pay</i>	A tool of promoting transactions at village level exercising cashless payments. It will be generated from some villages that have been developed and applied the tools.	MoV
<b>Learning Management System (LMS)</b>	A web-based learning platform for the village <i>apparatus</i> , subdistrict, and district governments to improve their core functions related to the implementation of the Village Law and village development. For the village <i>apparatus</i> , the LMS will provide training on planning, budgeting, financial management, procurement, Project supervision, reporting, and a range of other more specific topics. For subdistricts and district governments, web-based trainings will focus on coordination, supervision, auditing, and other support functions. LMS will include a “marketplace” based approach that allows training providers to directly connect with government officers to offer training, with the participation paid by the district, subdistrict, or village.	MoHA
<b>Participatory Tracking System</b>	A pilot application that tests an approach to mapping and visualizing data at the village level to support participatory planning and budgeting. By tracking village spending and priorities, the system aims to create upwards and downwards accountability through greater monitoring of annual spending.	MoHA
<b>Village Performance System</b>	A pilot application in selected districts monitored through an online portal where villages will be eligible to receive performance grants based on their achievement of selected KPIs. Villages will need to upload materials and use the system for reporting and tracking of KPIs related to the quality of planning, budgeting, and implementation. The portal would be linked to the Participatory Tracking System and complemented by additional indicators specific for the performance grant allocation. This system will be used to monitor improvements in governance and could be potentially integrated to the <i>Dana Desa</i> allocation formula based on results from the pilot.	MoHA
<i>InfoDesa</i>	A portal to improve national level oversight and monitoring of village governance and development. The portal will draw information from other databases and applications from different ministries, using big data and advanced analytics to identify critical gaps, patterns, and opportunities to further support village development. The portal will be used to monitor uptake of different systems, assess overall performance management, conduct forecasts, and compare results across different regions, districts, and villages.	Bappenas

6. **To effectively implement technology-based solutions for development, the proposed Project will draw on global best practices for digital development.** In particular, all technology solutions will follow a user-centered design, rooted in the understanding of the target user’s characteristics and needs. To ensure development solutions are intuitive and simple to use, these will all be thoroughly tested throughout all stages of their



development and piloted in selected villages and districts before taking new systems to scale. In addition, the applications will be phased out with sufficient time to allow for village stakeholders to shift their behavior. Training at different levels of government will support this transition to ensure widespread uptake of the new technologies. Lastly, to avoid connectivity related issues, all solutions will have online and offline functions, enabling the application to be used in remote locations where signal may occasionally fail. In addition to the tools, the Project will also explore ways to enable villages to make better use of the rapidly expanding digital infrastructure, including through the potential rollout of digital community spaces (see **Box 8**).

**Box 8: Digital Community Spaces**

In addition to mobile and web-based applications, the proposed project will support the establishment of Digital Community Spaces to ensure rural communities benefit from Indonesia's improved connectivity. These spaces will be locally managed and community-owned, offering fast and reliable broadband internet connection, as well as a range of digital services to improve local livelihoods and promote digital inclusion. In particular, the spaces will provide capacity-building support in digital literacy, outreach and information services, e-service, and other community activities. The spaces will advance technological developments with a view to promote inclusion, particularly of women and other disadvantaged groups.

7. **In conclusion, Indonesia's rapid digitalization presents a unique opportunity for the government to harness technology solutions to improve service delivery.** In particular, the government can leverage Indonesia's burgeoning digital ecosystem to advance its digital transformation and embrace new innovative frontiers to support village development. In recent years, over 1,700 digital startups have emerged in Indonesia, trailing only the US, India, and the UK. Indonesia boasts 4 of the 9 South East Asian unicorns and has benefited from more than \$6 billion in venture financing since 2015. More broadly, in 2018, Indonesia's internet economy reached a new high of \$27 billion, making it the largest and fastest growing in the Southeast Asia region, and is expected to reach \$150 billion by 2025. This rapid expansion is the result of Indonesia's adoption of disruptive technologies, including big data and advanced analytics, cloud computing, the Internet of Things, and mobile internet usage. From 2014 to 2015, big data and advanced analytics increased by 60 percent, allowing more firms to leverage big data to drive better decision making and optimize supply chain and business processes. Likewise, during the same time frame, total spending on cloud technology increased 1.4 times from \$269 million to \$364 million, while total connected devices increased by 22 percent from 32 million to 39 million.<sup>48</sup> These advances, coupled with the Gol's commitment to embrace the digital age, create a window of opportunity to use technology to improve systems and approaches, and strengthen institutional capacity for development.

<sup>48</sup> Google and TEMASEK (2018).



ANNEX 6: Project Map

COUNTRY: Indonesia  
Institutional Strengthening for Improved Village Service Delivery

