



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 13-Apr-2018 | Report No: PIDC155830



BASIC INFORMATION

A. Basic Program Data

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| Country Indonesia | Project ID P165543 | Parent Project ID (if any) | Program Name Institutional Strengthening for Improved Village Service Delivery |
| Region EAST ASIA AND PACIFIC | Estimated Appraisal Date 18-Mar-2019 | Estimated Board Date 16-Jul-2019 | Does this operation have an IPF component? No |
| Financing Instrument Program-for-Results Financing | Borrower(s) Republic of Indonesia | Implementing Agency Ministry of Finance, Ministry of Home Affairs, BAPPENAS (Minister of Planning and National Development), Ministry of Villages | Practice Area (Lead) Social, Urban, Rural and Resilience Global Practice |

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Proposed Program Development Objective(s)

Strengthen villages' ability to deliver effective investments

COST & FINANCING

SUMMARY (USD Millions)

| | |
|--------------------------------|----------|
| Government program Cost | 3,108.00 |
| Total Operation Cost | 1,246.00 |
| Total Program Cost | 1,246.00 |
| Total Financing | 1,246.00 |
| Financing Gap | 0.00 |

FINANCING (USD Millions)

| | |
|---|--------|
| Total World Bank Group Financing | 350.00 |
| World Bank Lending | 350.00 |



Total Government Contribution

896.00

B. Introduction and Context

Country Context

1. Indonesia's poverty reduction progress and performance in sharing prosperity is positive, but has slowed. The country made large gains in poverty reduction since 1999, cutting the poverty rate by more than half to 10.9 percent. Currently, more than 28 million Indonesians live below the poverty line and one in five Indonesians remain vulnerable to poverty. In recent years, inequality and the gap between rich and poor has increased.
2. Poverty and inequality are significantly higher in Indonesia's rural and lagging regions. In Indonesia, 63 percent of the country's poor population reside in villages. Often poor connectivity and access to basic services prevent people from building the necessary skills to enter an increasingly competitive labor market and thus keeps them poor.
3. The 2014 Village Law (No.6/2014) marks a new phase of decentralization that seeks to address inequality while building on years of large-scale community development. The law increases the role and responsibilities of Indonesia's nearly 75,000 villages, and dramatically increases their funding. Building on Indonesia's 17 years of large-scale CDD experience, the Village Law seeks to integrate key practices of CDD into regular village government systems. The Law states that the objective of village development is to improve villagers' welfare and quality of life, and to alleviate poverty through fulfilment of basic needs, development of village infrastructure, development of local economic potential, and sustainable utilization of natural resources and environment.

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

4. Rural village development, and reducing poverty and inequality, are longstanding priorities for the GoI. Over the past two and a half decades, the GoI has made major efforts to reduce poverty and increase rural village prosperity, involving communities directly in this process. In 1998, Indonesia, with the support of the Bank, began its nearly two-decade journey CDD with the *Kecamatan Development Program (KDP, 1998-2007)*. After numerous KDP projects, each one increasing in size and scope, the program was rebranded in 2007 as the *National Community Empowerment Program (PNPM Mandiri Rural, 2007-2014)*, with greater funding from Indonesia's own sources than the Bank's. Indonesia's PNPM Rural became internationally recognized, and in some ways a CDD "poster child" and model for other programs around the world due to its scale and impacts.
5. Indonesia's CDD programs demonstrated the potential of villages themselves to improve local consumption and basic service delivery and to reduce poverty using a community-driven model at a large scale. Both KDP and PNPM led to considerable achievements at the village level, including the



delivery of over 135,800 kilometres of rural roads, 30,000 irrigation systems, nearly 19,000 clear water systems, about 13,000 public toilets and washing facilities, and 20,000 education related activities.

6. In parallel, with increasing decentralization, poverty reduction and inequality increasingly depend on improving the performance of sub-national governments. Given that sub-national governments now manage half of government resources and a large share of the public services, they are the critical public entity that can make a difference in the lives of the poor and marginalized, but many lack adequate capacity.

7. The 2014 Village Law seeks to integrate key practices from CDD directly into the workings of village government – combining community-driven approaches with decentralization to the lowest level of government.

8. While the Village Law builds on this CDD experience, it represents a shift from past approaches. *First*, whereas communities led the implementation of CDD programs, village government has the primary responsibility for managing funds under the Village Law. *Second*, district governments play a larger supporting role. District governments have increased responsibility for village supervision, capacity support, and oversight. *Third*, Village Law institutional arrangements are more complex than the CDD programs. Whereas PNPM and KDP were managed by a single program implementation unit (in MOHA), Village Law implementation involves multiple ministries: Ministry of Finance (MoF), Ministry of Home Affairs (MoHA) and Ministry for Villages, Disadvantaged Areas and Transmigration (MoV).

9. The Village Law brings a significant increase in funds available at the village level, in particular their development budgets. In 2017, the GoI is transferring \$7.38 billion to villages -- via 2017 transfers of Dana Desa and Alokasi Dana Desa (ADD)¹. Under the Village Law, on average in 2017, each village received IDR 1.35 billion (\$102,000) in fiscal transfers². The amount of funds transferred to villages in one year, 2017, now exceed the total transferred to villages during all 17 years of KDP and PNPM Rural. Transfers to villages now represent about 5% of Indonesia's budget.

10. These increased funds bring a major opportunity for rural villages to increase access to basic services, reduce poverty and inequality, and address the village dimensions of national development and priorities.

11. However, there are concerns about the poverty impact of these large funds as well as their governance.

12. Indonesia's CDD programs relied on several elements to drive results: (1) clear national poverty reduction strategy using community empowerment approaches (reflected in RPJMN 2010-

¹ ADD is additional funds that districts are required to provide to villages, representing 10 percent of the district's own unconditional transfer from the National Treasury.

² The amounts of funding channeled to village communities under KDP/PNPM block grants (which were for development spending) are not directly comparable to Village Law funds (which are used for administration and other purposes). Prior to the Village Law, village governments received other funds from district (ADD) and national government. But due to accounting challenges and other issues, it is difficult to determine with accuracy what village government budgets amounted to before the Village Law.



2014); (2) direction and incentives for villages to use funds for investments and services that benefit the overall community and in particular the poor (e.g. competition for funds, with local decisions on which projects would be financed); (3) structured community participation to ensure citizens' voice in prioritizing investments and services that would contribute to poverty reduction; (4) sustained on-the-ground capacity support for communities through a large network of trained facilitators and regular trainings; (5) relatively simple systems (financial management and monitoring and evaluation [M&E]) to track spending and outputs; and (6) bottom-up and top-down oversight.

13. Although the Village Law incorporates many of these elements, they are yet to be fully established in implementation. Villages have limited incentives to use funds for projects likely to generate significant development or poverty impacts. Many village governments are yet to adopt structured community participation. Although village governments' responsibilities and funds have increased dramatically, they are not receiving adequate capacity support and guidance. Although there is progress, the GoI is not yet able to reliably track village spending and outputs. Finally, both top-down and bottom-up oversight are not yet firmly established.

14. These challenges are not surprising – given that few countries have attempted to shift so much funding from the national level to villages on such a scale in a short space of time.

Improving Village Law implementation and outcomes will depend on villages progressively shifting their spending toward productive and pro-poor investments and services that make a difference in local livelihoods, which will require a larger and better coordinated investment to strengthen the support system that enable and incentivize village governments

Relationship to CAS/CPF

15. The proposed Program-for-Results (PforR) operation supports Indonesia's Five-Year Development Plan and the Jokowi administration's *Nawa Cita* strategy as well as the World Bank's Indonesia Country Partnership Strategy (CPS) FY 2016-2020. The CPF is structured around six Engagement Areas and two Supporting Beams. The proposed operation supports Engagement Area 4: Delivery of Local Services and Infrastructure and supporting Beam II: Shared Prosperity, Equality and Inclusion. It is consistent with Pillar 1: Strengthening the decentralization framework to improve local service delivery; and Pillar 2: Supporting the delivery of quality education and health services, water and sanitation in rural areas. Under Pillar 1, the proposed operation is consistent with several of the pillar's strategies, including strengthening the capacity of central government to support and oversee local governments, strengthening the capacity and functions of local governments to deliver local services, supporting citizens to monitor local service delivery, and establishing a performance-based fiscal transfer system. Under Pillar 2, the proposed operation is consistent with the Bank's approach to supporting local implementation of national programs, like Village Law 2014.

Rationale for Bank Engagement and Choice of Financing Instrument



16. The World Bank is well positioned to support GoI's national strategy to institutionalize core CDD lessons and elements into Village Law implementation to enhance the Law's poverty impact. Village Law has already institutionalized CDD in a historic manner, yet challenges persist. The GoI's openness for support to standardize and improve the quality of implementation, based on its 17-year experience with CDD, is an opportunity that cannot be missed. Given the Bank's longstanding engagement and experience with Indonesia and its past CDD programs, the Bank is well positioned to continue to support GoI to further institutionalize this initiative. Over the past two decades, the Bank has supported Indonesia (through analytic and operational support) to rollout ground-breaking community development initiatives, which became internationally recognized and a model for other countries.

17. There are several advantages of the proposed Program-for-Results (PforR) instrument: *First*, the Village Law depends on government systems to finance and support village development (compared to PNPM). *Second*, by focusing on results, the PforR instrument will enhance incentives and resources for both national and sub-national governments to finance, execute and achieve these agreed to result. *Third*, given that the proposed operation will not be implemented solely by one ministry, the instrument will help coordinate and realign government efforts towards a set of common priorities and measurable results. In contrast, a traditional investment instrument would likely promote various segregated inputs, which would create additional coordination challenges.

18. In summary, the proposed operation will support GoI's program and develop a results-focused approach based on the government's own priorities and resources, reinforced by Indonesia's own CDD experience and early Village Law implementation. It will strengthen, across ministries and local governments, and help the Government to further "institutionalize" the practices and mechanisms that contribute to Indonesia's large and world-recognized CDD program successes, within core government systems and processes. It will strengthen Government capacity to incentivize and monitor village results.

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

Program Development Objective(s)

Strengthen villages' ability to deliver effective investments

PDO Level Results Indicators

1. District incentivized to support effective, inclusive village planning & budgeting processes
2. Village infrastructure and services evaluated as high quality and functional (percentage, by district)
3. Villages spending and output information accessible by communities and broader public (percentage, by district); or Villages audit results accessible by community and broader public



D. Program Description

PforR Program Boundary

19. Program description: The PforR operation will be anchored in the Government's Village Law implementation support. The Village Law implementation encompasses: (i) transfers to villages and (ii) the support systems that regulate, support, and oversee village management of the transfers, including multiple ministries as well as sub-national governments. Although the PforR aims to contribute to the effective use and impact of the transfers, its immediate target is to strengthen the supporting architecture and systems through which large village transfers are converted into pro-poor productive investments and improved basic services. The targeted Government program therefore comprises the Village Law support systems -- the institutions and systems that guide Village Law implementation and the use of village funds including Dana Desa, Alokasi Dana Desa, and other village revenues.

20. The PforR Program will focus on four key Results Areas that are critical to equip villages to make more effective use of village funds and drive rural development and poverty reduction.

21. **Results Area 1: Strengthened effectiveness and inclusiveness of village planning and budgeting.** Supporting villages to choose higher-impact investments and services is a critical building block in order to improve the development effectiveness of the Village Law and village funds. This Results Area will support national and district governments to clarify Village Law objectives; provide data that helps villages to identify priority challenges and activities; provide better capacity support via facilitation, supervision, and guidance for a structured and participatory village planning and budgeting process; and supervision of these processes.

22. **Results Area 2: Improved village implementation of infrastructure and local economic services.** Another priority is to improve the capacity and incentives for village governments to effectively implement investments and services. This Results Area will support national and district governments to provide villages with: standards and unit costs on local investments; improved technical support to design and implement infrastructure and other investments and services efficiently; top-down and bottom-up mechanisms to improve supervision and monitoring of village infrastructure quality. It will include strengthened provision of technical assistance to implement investments and services effectively and efficiently.

23. **Results Area 3: Improved reporting, monitoring and oversight around village development activities and expenditures.** Reliable data on village spending and outputs, regular top-down oversight, and bottom-up monitoring by empowering and mobilizing villagers to track outputs and funding are the foundations for village accountability and incentives. Good progress has been made, but there are still gaps in the systems, capacity, and incentives needed to strengthen village accountability. This Results Area will support GOI and sub-national government to improve: (i) regular, verified reporting on village spending and outputs by standardizing and analyzing financial and output data; (ii) quantity and quality of village oversight; (iii) monitoring and evaluation of village outcomes; (iv) transparency and accountability in village processes and performance.



24. **Results Area 4: Strengthened coordination, planning, financing and monitoring of Village Law implementation support.** Village Law implementation involves multiple ministries (MoV, MoHA, MoF and BAPPENAS), technical sectoral ministries and levels of government (national, provincial, district and villages). This Results Area will support improvements in how Village Law implementation support is evaluated, planned, budgeted, and tasked in the 5-year and annual planning and budget process; improved clarity of roles and responsibilities for support systems across ministries and between national and sub-national government, and introduction of mechanisms to strengthen local government capacity and incentives to support villages.

E. Initial Environmental and Social Screening

25. **The initial environmental and social systems screening concluded that the proposed PforR Program will likely generate moderate social and environmental effects.** Through an initial environmental and social risk screening, the 2018 priority list of activities were assessed to have moderate environmental and social effects. This will be reviewed as part of the ESSA and a better understanding of the risks and effects as part of the assessment process. However, these are expected to be manageable. Net environmental benefits are expected to be positive because investments and activities are expected to stabilize communities' resource base. The main potential environmental effects from the program are expected to be site-specific, less complex, and with less potential for strong cumulative impacts. Initial screening at the PCN stage identified social effects will stem from the weak capacity of villages (village governments, communities and occasionally contractors) in managing potential risks and impacts that emerge from the implementation of the village development activities (mostly on small infrastructure and government administration). Other social effects to consider will be groups that may be excluded as a result of stigmas, lack of meaningful consultations, lack of recognition by village governments as citizens of their jurisdictions, lack of legal documentation to access services, remote locations and high operational costs for the implementation of village-level programs will not benefit from the Program. Indigenous Peoples are expected to benefit from the program. The PforR is not expected to support any infrastructure investments.

26. **An Environmental and Social Systems Assessment (ESSA) will be undertaken as part of Program preparation.** The stakeholder engagement process, together with details of stakeholders and summary of methods of engagement for the Program and the ESSA, will be presented in the ESSA. The environmental and social systems assessment will review national & local government systems and institutional capacities (resource and budget) to identify and mitigate social and environmental risks around Village development programs. The social system assessment in particular will focus on:

- focus on systems related to planning, capacity to deliver and ensure quality through monitoring and supervision of village and inter-village infrastructure and services, for managing social risk particularly at village and district level;
- take into account the type of investments to be supported under the PforR and the associated activities to elaborate on the on the social effects of such investments including to Indigenous People and vulnerable groups;



- provide an analysis of the underlying social risks that may stem from poor implementation of the village law including any risks to Indigenous peoples.
- analyse the needs of different groups, issues of access, inclusion and participation will, as well existing systems for feedback and complaint handling.

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