



1. Project Data

Project ID

P128832

Project Name

ID-VILLAGE INNOVATION PROGRAM (VIP)

Country

Indonesia

Practice Area(Lead)

Social Sustainability and Inclusion

L/C/TF Number(s)

IBRD-82170

Closing Date (Original)

31-Dec-2015

Total Project Cost (USD)

633,703,222.47

Bank Approval Date

11-Dec-2012

Closing Date (Actual)

31-Dec-2019

IBRD/IDA (USD)
Grants (USD)

Original Commitment

650,000,000.00

0.00

Revised Commitment

650,000,000.00

0.00

Actual

634,058,255.76

0.00

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2. Project Objectives and Components

a. Objectives

The project, National Program for Community Empowerment in Rural Areas and the Village Innovation Program (P128832), originally had one objective “for the villagers in the PNPM-Rural locations to benefit from the improved local government and socio-economic conditions” (Legal Agreement IBRD-82170). This is the same objective outline in the project’s PAD (pg 7).



During the restructuring of 2017 the objective was modified. The new objective was “to improve participating village capacity to develop quality village development and implementing plans.” As a result of the change in objective, the ICRR will conduct a split evaluation.

b. Were the project objectives/key associated outcome targets revised during implementation?

Yes

Did the Board approve the revised objectives/key associated outcome targets?

Yes

Date of Board Approval

10-Mar-2017

c. Will a split evaluation be undertaken?

Yes

d. Components

Component 1: Kecamatan Grants (Appraisal cost was estimated at US\$3,723.8 million, of which US\$200 million were expected from IBRD. At closing the cost was US\$2,789.7 million). This component aimed at providing grants to participating sub-districts to finance sub-projects identified by communities, including block grants to support the provision of basic social and economic infrastructure and services. It also aimed to support pilots and special programs.

Component 2: Community Empowerment and Facilitation (Appraisal cost was estimated at US\$496.2 million. At closing the cost was US\$456.9 million). This component sought to provide technical assistance to support three sub-components: (1) community empowerment and facilitation; (2) strengthening of the existing revolving loan fund (RLF) scheme, and (3) rural economic empowerment through the development of a viable strategy. It also supported the piloting and subsequently mainstream of the implementation arrangement for the economic inclusion of women's group.

Component 3: Implementation Support and Technical Assistance (Appraisal cost was estimated at US\$280.0 million. At closing the cost was US\$253.4 million). This component aimed at providing oversight, technical advisory services, training, and other support at the national and sub-national level. This support was meant to strengthen the delivery system to ensure that it could effectively respond to the demands resulting from national-level delivery of the program.

All three components were revised as part of the Level 1 restructuring in March 2017. Below is a summary of the key significant revisions made in the components which changed the program from strengthening social and economic services through participative community action financed by block grants, to strengthening village capacity to effectively use the Village Law's significant fiscal transfers to improve a broader range of infrastructure, human development, and local economic and entrepreneurial services (ICR, Annex 4, para 58).



Revisions Component 1: Village Innovation Grants (Component cost at restructuring: US\$2,789.75 million, of which US\$265.98 million from IBRD, actual: US\$2785.95 million of which US\$262.18 million or 9.4% of actual cost from IBRD). The revisions included modifications towards the use of village fiscal transfers rather than directly finance investment sub-projects. Village Innovation Grants (VIGs) were funded to identify, document, disseminate, and replicate innovation of village fiscal transfers. These aimed to address village development problems. The component also funded Village Innovation and Incubation Grants (VIIGs) to support piloting new initiatives and innovations focused on local economic development. (ICR, para 22).

Component 2 Revisions: (Component costs at restructuring: US\$456.85 million, of which US\$317.03 million from IBRD, actual: US\$448.33 million of which US\$308.51 million or 68.8% of actual cost from IBRD). The revisions included modifications to the sub-components, including (1) a district-level village innovation platform that would support institutionalization of knowledge-sharing functions of the PNPM facilitation and community empowerment activities, (2) a capacity strengthening platform for local Technical Service Providers that would improve their ability to deliver technical services to villagers, and (3) a data platform that would support the maintenance and use of a dataset on village development needs, priorities, and outputs (ICR, para. 23).

Component 3 Revisions: (Component costs at restructuring: US\$253.41 million, of which US\$66.99 million from IBRD, actual: US\$250.88 million of which US\$64.46 million or 25.7% of actual cost from IBRD). There were no significant changes to the overall objective of this component or its activities. That said, there were significant project management structure changes, and an Executive Transformation Program (ETF) was introduced to provide training on collaborative leadership. It also aimed to streamline the national and regional project management structure (ICR, para. 24).

Split Rating: The basis for the split rating of outcomes is the change in the PDO from one which invoked a participative village development model financed by block grants to a PDO which invokes the Village Law which aligned district governments, villages and citizens in efforts to improve local services.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost. At appraisal, the total cost of the project was US\$4,500 million (PAD, pg. i). At closing, the total actual project cost was US\$3,484 million (ICR, pg. 2).

Financing. A total of US\$650 million was financed through an IBRD Investment Project Financing loan. At the end of the project, the disbursed amount was US\$634 million (ICR, pg 2).

Borrower Contribution. The borrower was expected to contribute US\$3,500 million towards the project. By the end of the project, the borrower had contributed US\$2,850 million (ICR, pg. 52).

Dates. The project was approved on December 12, 2012 and became effective on March 25, 2013. The project underwent a midterm review on November 28, 2014.

One year into the implementation of the project, the Village Law was passed. The Village Law strengthened the role of villages in the national decentralization framework and institutionalized the community grants and governance principles of participation, transparency and accountability (ICR, para. 3). This new law led to a series of restructurings for this project that sought to institutionalize the project's approach and align it with



the new Village Law. Therefore, the project can be divided into three phases. The first, lasting two years (2014-2015), during which the project was implemented as originally designed. The second phase was a transition period, when the Bank supported the implementation of the Village Law. The third phase was called the Village Innovation Program (VIP) (2017-2019) during which the Bank continued to support the implementation of the Village Law (ICR, para. 15).

On July 09, 2015, the project had its first restructuring. Key changes included shifting the implementing agency, result framework, component and costs, institutional and financial arrangements, and procurement implementation schedule. The legal covenant and loan closing dates were moved to March 2015.

On December 16, 2016, the project had its second restructuring. Key changes included results framework, component and costs, loan closing dates, financial plan, legal covenants and implementation schedule.

On March 10, 2017, the project had its third restructuring. Key changes included a shift in language of the objective, results framework, component and costs, loan closing dates, legal covenant, Institutional and Financial arrangements, and implementation schedule.

On December 14, 2018, the project had its fourth and final restructure to change the closing date.

The original closing date of the project was December 31, 2015. The project closed four years after the original date on December 31, 2019 (ICR. pg 2).

3. Relevance of Objectives

Rationale

Since the late 1990s, Indonesia has been on a path of decentralization and has sought to finance social assistance programs to address poverty and poor service delivery in rural areas. By 2011, the poverty rate had fallen to 12.5% and there was an expansion of basic service delivery. However, 30% of the population still hovered around the poverty line and in rural and remote regions the poverty rate was significantly higher (ICR, para 1).

In 2007, the Government launched the National Program for Community Empowerment also known as PNPM (Program Nasional Pemberdayaan Masyarakat). At the time of appraisal, the PNPM-Rural 2012-2015 was designed to maintain the expansion and support of the Government's PNPM roadmap. During the project design, the government was deliberating with parliament a new Village Law that would strengthen the role of villages in the national decentralization framework and institutionalize the PNPM's community grants and critical community empowerment and governance (ICR, para. 3). During this project's implementation the Village Law was approved. This led to a change of the project to ensure that the Bank could support the transition and implementation of key aspects of the Village Law.

Previous Sector Experience: Since 1998 the World Bank has provided financial and ethical support for the development of CDD approaches and programs in Indonesia. This work served as the foundation for this project. The World Bank also served as a trustee of the PNPM Support Facility (PSF) which the Government of Indonesia established to harmonize and coordinate the efforts of development partners



engaged in community empowerment- focused poverty reduction efforts (ICR, para. 4). By the time the project was designed and implemented, the Bank had a high level of sector experience in the country.

Alignment with Development Goals: The project's original objective aligned with the World Bank Development twin goals of reducing poverty and increasing economic growth. The project aimed to improve local governance and socio-economic conditions of villagers. The revised objective also aimed to improve capacity in order to develop quality village development and implementation plans. As a result there was strong alignment with the Bank's goals in the short and long term.

Alignment with Government Development Strategy: The project aligned with the Government of Indonesia's process of decentralization and providing local villages with more autonomy. In fact, the Bank worked closely with the Government of Indonesia to support the transition phase and implementation of the Village Law.

The project's objective aligned with the Bank's Country Partnership Strategy for 2012-2015. In particular this strategy emphasized the need for decentralization and mentions that the Bank's value add is the role it can play in supporting local government's delivery services (CPS, pg. 22). At project closure, the revised objective also aligned with the Country Partnership Framework (2016-2020). For example, the project contributed to the implementation of the 2014 Village Law as described under "Engagement Area 4: Delivery of Local Services and Infrastructure" (CPF, para. 73). The project's revised objective also contributed towards improving access to quality health and education services (ICR, para. 37) and supported decentralization efforts (Pillar 2) (CPF, para 78). By project closure, the CPF 2016-2020, acknowledged that projects should be delivered through a decentralized system and as a result the objectives of this project are aligned with the government strategy (CPS 2016-2020, para 49)

Overall, the project's revised objective introduced more clarity and it was highly relevant given the context. There was also strong alignment between the World Bank's Development Strategy, World Bank's capacities, and the Government of Indonesia's priorities, and both the original and revised objectives.

Rating

High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Villagers in PNPM-Rural locations benefit from improved local governance and socioeconomic conditions.

Rationale

Theory of Change. The project aimed at improving socioeconomic conditions at the village level by strengthening local governance through building the capacity of local government. The key mechanism to achieve the theory of change was the provision and administration of block grants for community



development. The retroactive theory of change presented in the ICR stated that as the villagers worked through the implementation of block grants, the project hoped to create not only socio-economic conditions to improve living standards, but also the infrastructure of a locally owned decision-making processes. The project assumed that communities would be interested in participating in meetings and an adequate number of people would be willing and able to identify key basic priorities for their village (ICR, para 6). The theory of change assumed that decision-making would be transparent, socially accountable, and that villages would be willing to account for inputs and engage in knowledge sharing (ICR, para. 6).

The results framework focused on measuring the satisfaction of the villagers with the process or outcome of local governance. Given the change in governance structure this analysis was an important part of understanding how the project, and the shift towards local governance, was perceived. However, the results framework and the ICR did not provide information on critical output and outcome data, such as how many block grants were provided and how. Furthermore, it failed to provide measures of the benefits that the villagers gained from the improved local governance or improved socio-economic conditions. As a result, it is difficult to verify the theory of change described above.

“The assessment of the efficacy with which Objective 1 was achieved will be sequenced in two separate but related parts, namely: (a) Benefits to villagers from improved local governance. (b) Benefits to villagers from improved socio-economic conditions

1. Benefits to villagers from improved local governance

Outputs

Overall, the consultation process engaged more people than previously anticipated. The number of local consultative meetings increased from 2.3 million community members in 2011 to 9.66 million in June 2016. This was three times the target of 3 million (Target achieved, Target 3 million, Baseline: 2.2 million, ICR, para 41a).

Community participation at the consultative meetings was inclusive, but the role and level of influence of women and low income citizens was not measured. Community participation and decision making, including planning, was inclusive of poor community members (52.8% against the target of 45%). Of the people participating in planning and decision-making meetings, 46% were women (Target not met, Target 50%, ICR, pg. 61). Women also played a role in the oversight team (31%) (Target met: Target, 30%) (ICR, para. 42). The Sentinel Villages Study found that activity implementation was more inclusive by gender, welfare groups and district than decision-making meetings (ICR, para. 43). The ICR did not discuss the types of roles women or poor community members played and the level of influence they had in processes of choosing or implementing the block grants. The ICR also did not discuss the sustainability of local governance structures and what obstacles they overcame or would have to overcome to remain productive.

Outcomes

The project's theory of change, as it related to improving local governance, was based on the achievement of a few underlying outcomes, including improvement in participation, inclusiveness, accountability and



transparency.

The project met its accountability and transparency targets as described in the results framework. Accountability was achieved with positive results for the frequency of audits (77% against a target of 65%), the resolution of corruption cases (58.8% of cases against a target of 50%), intervillage supervision and oversight visits (88% of villages against a target of 50%) and villages with functional oversight team (72% of villages against a target of 60%). Villages with updated information boards also exceeded the target (87% of the villages against the target of 80%). The ICR did not include information on the utility or use of the boards, as a result it is difficult to ascertain their quality or impact. A total of 65% of districts also linked the district's progress report to their local government's website (Target met, Target: 30%, ICR, pg. 62). The ICR did not include information on villagers' access to the local government's website and the extent to which the reports were downloaded. As a result, it is difficult to understand the use of the reports by the community, even if there was an increase in their availability.

The Revolving Loan Funds (RLF) groups that were evaluated as ready to be channeled to regular financial institutions exceeded the target (11.4% of the groups against target of 10%). And finally, the percentage of sub district management units (UPKs) evaluated as healthy administratively and financially was slightly below target (64.9% of UPK against a target of 70%).

The project was able to successfully increase the number of people that participated in consultative meetings, including women and low-income people.. The ICR did not provide information about the sustainability of the consultative meetings or structures. The ICR did not include a sense of the role that women and individuals of lower income played in the consultative process. It is unclear to the extent that villagers benefited from the consultative meetings. However, 81% of the beneficiaries felt that the project investments reflected their needs (against the target of 80%) (Target met) (ICR, para. 41). Even if it is difficult to determine the causality, the decision making processes yielded outcomes that benefited the villagers. At the end of the project, the villagers had improved local governance.

(b) Benefit to villagers from improved socio-economic conditions.

The project sought to improve villagers' access to services to improve socio-economic conditions, in particular transport, credit, and basic social services. In addition, employment opportunities would be provided through project implementation (ICR, para. 44). The retroactive theory of change stated that the socio-economic conditions would be improved through the implementation of the community grants.

Outputs

- The project evaluation found that 31.4 million villagers had benefited from the project grants by 2016 (Target met, Target: 30 million) (ICR, para 41). The project aimed to cover all the villages in the country and it covered 60,000 of the total 73,000 villages (ICR, pg. 61). A total of 51.2% were female beneficiaries (Target met, Target: 50%) (ICR, para. 41)
- Overall the project supported delivery of \$5.9 billion in community block grants and village transfers between 2013 and 2016, mobilized over 24,000 facilitators, and maintained a national program management structure, which together have supported PNPM's final two years of implementation



(CY13-14), the closure and handover of PNPM assets (completed March 2015), and the complex transition to the Village Law (CY15-CY16) (Restructuring Paper March 2017, para. 4).

- A total of 35,943 Women's Saving and Loan Activities were funded (Target exceeded, Target 13,400, ICR, pg. 63).
- A survey, in 2016, found that 97.7% of households were provided with low-cost access to infrastructure services as a result of the project (Target Exceeded, Target: 80%, ICR, para. 45). This was a result of the sub-projects financed in the first phase of the project. Moreover, in 2016, 90% of individuals surveyed were using the infrastructure works (Target met, Target 90%, ICR, pg. 62).
- In 2016, 75% of the infrastructure works were considered of high quality (Target not met, Target 80%, Baseline: 67%, ICR, pg. 61). However, the quality of village infrastructure constructed declined and by 2018 only 46% of the projects were meeting technical specifications (down from 82% in 2015) (ICR, pg. 58).
- By 2016, 82% of subprojects had operational and management (O&M) arrangements (Target not met, Target: 85%, Baseline: 85%, ICR, pg. 62). However, by 2018, the investment in O&M had sharply declined with only 15% of infrastructure projects having had sufficient or slightly below sufficient O&M practices (ICR, pg. 58).
- The project also constructed small- scale infrastructure during the transition period, which was also a period of time of increasing grant allocation. However, the technical quality of the infrastructure works declined over time (ICR, para. 47). Technical facilitators were unable to support all infrastructure subprojects and new institutional arrangements created considerable challenges for facilitating participation and provision of adequate operations and maintenance (O&M) arrangements (ICR, para. 47).

Outcomes

The ICR did not include any data on the breakdown of the subprojects, including information on how many were implemented and sectors they focused on. Project work constructed between 2012 to 2015 provided economic benefits (direct or indirect) to community members in the following ways (i) change in productivity and/or lower cost of access (28% increase against a target of 10%, target achieved); (ii) cost savings over regular procurement (22% against a target of 35%, target not achieved) and (iii) local level multipliers (1.37 against a target of 1.2, target achieved). A study in 2016 found that 81% of the beneficiaries felt that the project investments reflected their needs against the target of 80% (Target met) (ICR, para. 41). In November 2015 a survey of 3,671 village officials across 46 districts and 346 sub-districts in all five main island regions found that 57% of villages said they had received facilitation support and 38% of which were recognized as project-financed former PNPM facilitators (Restructuring Paper March 2017, para 2).

To summarize, the data included in the ICR show that the project met targets associated with low-cost access to infrastructure services and use of those services. The project also met socioeconomic metrics as stated in the results framework. There could have been other socioeconomic metrics in particular related to health, education, decrease in transportation time, access to markets. Those metrics could be difficult to measure, however, because this program was operating on a large scale and thus it was ever more important to understand the project's impact. According to the ICR, the quality of the infrastructure projects decreased over time and the investments in O&M were also lower towards the end of the project. The data on quality of



sub-projects and O&M highlighted a risk to the sustainability of this objective. Moreover, the Restructuring Project Paper also noted that facilitation and technical assistance under the Village Law was entirely dependent on programs financed from the national budget. Unfortunately, the structure was not sustainable and the National Development Planning Agency (Bappenas), in its Roadmap for Village Law Implementation, signaled that it intended to scale down such programs (Restructuring Paper, March 2017, para. 13). Furthermore, despite many PNPM community volunteers actively supporting village development planning and implementation activities under the Village Law, not all capacities were being fully used (Restructuring Paper, March 2017, para. 13). Nevertheless, the objective of improving local governance and socioeconomic conditions was substantially achieved.

Rating

Substantial

OBJECTIVE 1 REVISION 1

Revised Objective

Improved village capacity to develop village development plans and implementation plans.

Revised Rationale

Theory of Change. The theory of change for the revised objective shifted the focus of village development from directly providing social and economic services to strengthening village capacity to develop quality village development and implementation plans. These critical steps were meant to use the Village Laws significant fiscal transfers to improve a broader range of infrastructure, human development and socio-economic services (ICR, pg. 53). The key activities to do this were through village innovation grants, and capacity building training, and program management. It also included district and sub-district government training, platform for the generation of village data, and local government monitoring system. The goal was to provide a governance framework for villagers to facilitate invest in infrastructure, human capital and entrepreneurship. The plans developed were meant to align with both national and local priorities. The plans would be the basis for diversifying and improving village spending.

Outputs:

- 432 districts participated in Village Innovation Exchanges (BIDs) (Target 346 or 80% of districts) (Target met) (ICR, para. 51).
- By the end of the project 15,644 villages had benefited from technical services supported by the project (Target met, Target: 14,000) (ICR, ICR para 55).
- 2,563 provincial and district staff in 434 districts were provided with innovation capacity building training (No target provided, ICR, pg. 49)
- 2,289 capacity building training for TSPs were delivered (No target provided, ICR, pg. 49)



- Over 15,644 villagers benefited from technical services supported by the project (Target Met, Target: 14,000, ICR, pg. 39). The services that were provided varied from civil engineering, entrepreneurship training, and advisor support.

Outcome:

The percentage of villages with development plans that reflected local priorities was achieved with 68% against a target of 70% (Target nearly met. Target: 70%, Baseline 40%) (ICR, para. 50). There is also evidence that villages have diversified their spending away from administration and infrastructure towards increasing their spending in human capital. By 2016, 99% of the villages had completed a work plan during one program cycle (Target achieved, Target 90%, ICR, pg. 61).

Beneficiary surveys and case studies found that there was evidence of the perception that the villages had better organizing framework to develop village plans. In fact, 93% of village heads and 72% of village households surveyed reported that the infrastructure to develop village development plans had improved (ICR, para. 52). In a survey 87% of village heads reported that the village implementation teams had improved their capacity (ICR, para. 57). A total of 85% of participants in Village Innovation Exchanges (BIDs) also reported improved capacity to address village priority development needs (Target met, Target 70%) (ICR, para. 51).

Village capacity is not only the human capacity to develop plans and execute them, but it is the framework for meetings, access, and information. Unfortunately, villages acquiring functional datasets to inform development priorities were below target (42% of villages against a target of 70%) (ICR, para. 51). Female participation in the project's consultative forums to develop village innovation activities was also not achieved (Target not met, Achievement: 38%, Target: 50%). According to the ICR, the target was "overly ambitious and the baseline set based on high-level female participation in PNPM community-level meetings" (ICR, pg. 41). The ICR noted that female participation in official village meetings was even lower in hamlet level meetings only achieving 18.9% of participants compared with men 31.8%" (Sentinel Village report, ICR, pg. 42).

VIP Village Innovation Exchanges were a forum to disseminate information about the role of villages in contributing to national development priorities (such as stunting prevention, in addition to national and local innovations relating to the program's priority areas. The participants of village innovation forums were aware of how the village funds had been used (88% achievement, 80% Target, Baseline: 30%, ICR, pg. 44). to be used to inform village development (Target not met, Target: 60%, ICR, pg. 44). By the end of the project, 69% beneficiaries were satisfied with village investments and stated that they had met their needs (Target nearly met: Target: 70%, baseline 40%) (ICR, para. 50).

Technical service providers (TSP) also improved their capacity, 91% increase (Target met, Target: 80%, ICR, pg. 45). Moreover participants in village innovation forums felt that technical service producers had improved their capacity (Target met, Achievement: 98%, Target: 70%, ICR, pg. 45). That said the quality of technical facilitation declined and by 2018 technical facilitation was judged poor for 85% of the projects, up from 17% in 2012 (ICR, pg. 58). This did not necessarily mean that technical facilitation plans were faulty.

The project's National Management Consultant sampled 540 villages during the supervision mission and



concluded that 91% of villages had improved technical implementation plans (ICR, pg. 41). The ICR did not provide further information about the use or quality of the implementation plans.

In summary, the project was able to build the capacity of key individuals who produced village development and implementation plans and therefore the efficacy with which the revised objective was achieved is rated substantial. It remains to be seen whether the infrastructure, through key resources, websites, and procedures is sustainable since this project supported only two years of activities under the umbrella of the new Village Law and in 2017 the Government of Indonesia was reluctant to commit sufficient budget under the original project objective (Restructuring Paper March 2017, para 13).

Revised Rating

Substantial

OVERALL EFFICACY

Rationale

The ICR showed during the first phase of the project it was able to achieve both of the key outcome in project's original objective. For example, the project was able to achieve its targets as it related to dialogue, inclusion, accountability, and transparency. The project also met targets associated with low-cost access to infrastructure services, use of those services, and socioeconomic metrics, as stated in the results framework. However, as the ICR pointed out, the quality of the infrastructure projects decreased over time and the investments in O&M were also lower towards the end of the project implementation period. The efficacy with which the project's original objective was achieved is rated as substantial.

During the second phase (after restructuring) the project was able to build the capacity of key institutions that produced village development plans and implementation plans. It remains to be seen whether the infrastructure, through key resources, websites, and procedures, is sustainable. The efficacy with which the project's objective during the second phase was achieved is rated substantial.

Overall Efficacy Rating

Substantial

5. Efficiency

Scope of Analysis in the PAD: The financial analysis conducted at appraisal was based on an internal rate of return analysis of a small sample of infrastructure projects built by a similar project in Indonesia, PNPM-Rural 2012-2015. The economic rate of return of the sub-projects in PNPM-Rural was found to be 50% (PAD, para. 36). The studies were based on (a) the internal "rate of return" (EIRR) on infrastructure investments; (b) the size of the income or consumption multiplier on PNPM block grant monies used to build infrastructure; (c) the



cumulative costs of construction that PNPM projects incurred relative to estimated costs for local-government procurement and construction of the same/similar infrastructure items; and (d) a technical evaluation of the quality of the infrastructure built by PNPM (PAD, para. 36). The appraisal report did not provide an estimated economic internal rate of return for this project.

Economic Analysis in the ICR: The first phase of the project (PNPM-Rural) before restructuring and the Village Innovation Program (VIP) after restructuring were both efficient in terms of how much they leveraged in village fiscal transfers per year. With villages spending approximately US\$6.2 billion per year on village development activities, the ratio of the cost of capacity-building support to village development spending was very low for VIPs in comparison to the PNPM-Rural project (ICR para. 58). The ratio of the cost of facilitation to the cost of capacity building support to community block grants under PNPM-Rural was about 1:10. In comparison, the ratios under VIP and the Government's Village Facilitation Program were approximately 1:100 and 1:25, respectively. However, there were some indications that the VIP support costs might be too lean, given the huge volume of village fiscal transfers (ICR, para. 59). Although capacity improved during the VIP period, studies have found that the quality of village infrastructure subprojects was lower than during the PNPM-Rural period, particularly in relation to the O&M required. According to the ICR this was attributable to the massive scale-up in the number of subprojects under the Village Law in comparison to PNPM, and it suggests that some additional investment in capacity support was warranted to further improve outcomes.

A Bank-financed study "Technical Evaluation of Infrastructure Built with Village Funds" considered the cost-effectiveness (as well as the quality) of village infrastructure projects built during the second phase. It concluded that village infrastructure projects were still cost effective in comparison to standard district unit costs, but that had been a decline because of lower community contributions and donations. Overall, it found that building, bridges and roads were cost effective but that more complex water supply and irrigation projects tended to be less cost effective (Annex 5 and World Bank task team advice to IEG).

At project closure, the economic analysis was based on a series of indicators established in the results framework. The indicators included (a) percentage change in productivity and/or lower cost of access, (b) percentage cost saving over regular procurement, and (c) local level multiplier (ICR, pg. 56). To assess the project's efficiency, the project conducted studies in 2016 and 2018. These studies found that on average the construction of roads, bridges, irrigation canals financed by block grants reduced the cost of access or increased productivity by 10% and the local-level multiplier was 1.37 higher than the target (ICR, para. 57). A breakdown of the costs indicated that the project was relatively cost-effective in delivering capacity building support services to villages (ICR, para. 58). In terms of financial analysis, community contracting was less costly than using government contractors, but the cost savings were lower than expected (22% against the target of 35%) (ICR, para 57). Unfortunately, the material costs savings were negligible which meant that any savings were due to the labor component. As noted in the ICR, this implied that community labor received comparatively less remuneration than government contractors. In summary, by the end of the project, village infrastructure constructed using community-based development approaches did not have the cost advantage they enjoyed in 2012 (ICR, pg. 58). This information poses important questions regarding the justification for the model of village-constructed infrastructure as proposed under the new Village Laws.

Operational Efficiency: There were a few factors that negatively affected the project's operational efficiency. For example, the loan term was extended four times and consequently the actual closing date was four years later than the original closing date and the project's actual implementation period was twice that originally



planned. Planning, budgeting, and financial management also led to program implementation delays. The transfer of project responsibilities from MoHA to MOV in 2015 disrupted implementation for 12 months. Significant implementation delays in 2017 and in 2018 also affected the project's intermediate outcomes, particularly related to replication of innovation shared through innovation forums (ICR, para. 60).

Overall, the project experienced considerable operational delays that affected the completion of activities and attainment of intermediate outcomes in the last phase of the project. As a result, the efficiency of the project is therefore rated as modest.

Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 <input type="checkbox"/> Not Applicable
ICR Estimate		0	0 <input type="checkbox"/> Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The outcome of this project is rated as Moderately Satisfactory. The basis for this rating is provided in the table below. The project's Relevance was rated high throughout its duration. The Efficacy with which the project's objectives were achieved was rated substantial under the original objective and for the revised objective following restructuring. The efficiency of the project is rated modest throughout the project's implementation mainly because of considerable operational inefficiencies. In summary this project had moderate shortcomings in its efficiency and its outcome is therefore rated moderately satisfactory.

a. **Outcome Rating**
Moderately Satisfactory

7. Risk to Development Outcome

The main risk to the development outcome is continued commitment to operations and maintenance costs. The central and local governments are committed to continued governance structure and enabling villagers



to benefit from the improved socioeconomic and local conditions (ICR, para. 101).

According to the Borrower's Comments section in the ICR, the Technical Service Providers (TSP), which were active in 70% of the 434 districts, continue to need support. Moreover, the Village Innovation Implementation Team, District Innovation Teams, local government, and the Knowledge Management System also require ongoing support in order to serve as knowledge centers (ICR, pg. 59). This is a concern, given that the Restructuring Project Paper noted that facilitation and technical assistance under the Village Law was entirely dependent on programs financed from the national budget. If the borrower signals lack of funds to continue with decentralization processes this can be a risk to project outcomes.

Furthermore, despite many PNPM community volunteers actively supporting village development planning and implementation activities under the Village Law, not all capacities were being fully used (Restructuring Paper, March 2017, para. 13).

8. Assessment of Bank Performance

a. Quality-at-Entry

In order to design the project, the Bank mobilized an experienced task team. The original design was based on previous projects, including PNPM-Rural III and IV. These projects were being implemented at the time of appraisal. The key lessons learned included in the design of those projects were the importance of (a) strengthening institutional and managerial capacity of the implementing partner (b) implementing a robust Management Information System (MIS), (c) governance needed to be enhanced, (d) qualified facilitators were very important, (e) implementation assistance necessary through a platform approach (ICR, para. 67). The design of the project also aimed at improving the monitoring system as it included a MIS and the PNMP Support Facility (PSF) was responsible for monitoring systems (ICR, para. 68).

The Government of Indonesia (GoI) also developed a roadmap to integrate the operating principles of the project into regular Government operations, including addressing shortfalls in participatory planning, local governance and socio-economic conditions (ICR, para. 69). According to the ICR, the GoI played a central role in helping to prepare for the project.

The project's implementation risk was assessed as moderate. The risks identified in the PAD included facilitator training, risk of corruption, high volume of contracts, and capacity risks of implementing agency (ICR, para. 70). Mitigating strategies were developed and implemented during the preparation phase. However, the PAD did not discuss potential hurdles during the transition from PNPM-Rural to the VIP phase (ICR, para. 70).

The World Bank was aware of the new Village Law at the time of appraisal. However, it did not expect the law to pass and be implemented within the life of the original project (World Bank Staff Interview, 2020). The relatively quick passing of the law led to a scramble to prepare all the implementing regulations, as well as to prepare the documentation to shift the project to its second and substantially different phase (World Bank Staff Interview, 2020).



As a result of the design of the project, involvement of GoI and approach to mitigating risk, the quality of entry is rated as satisfactory.

Quality-at-Entry Rating Satisfactory

b. Quality of supervision

The World Bank team was made up of a multidisciplinary supervision and implementation support team that had experience working in CDD projects in Indonesia. The project experienced several setbacks throughout the life of the project that were outside the World Bank's control. For example, the shift in implementing agencies from MoHA to MOV produced a six month delay that had an impact on the budget, contract, grand disbursements, and activity execution (ICR, para 72). There were also planning, budgeting and financial management weaknesses at the national level that resulted in program implementation delays (ICR, para. 76). The project also experienced recruitment and disbursement delays (ICR, para. 77 and 78).

The project also experienced several factors that were within the control of the Bank. For example, the project was positively impacted by the complementary policy, analytics and operational engagement between the Bank and the Government while the Village Law was under development (ICR, para. 80). The Bank also actively raised funds through Trust Fund resources to enhance implementation support (ICR, para. 82). In hindsight, during the restructuring, the project design could have included result-oriented disbursement indicators (ICR, para 83). There were some critical knowledge gaps in the second phase. These included knowledge of village financial management systems, village head elections and village councils, community facilitators, and local government and civil society capacity to support village development. There was also insufficient attention focused on understanding O&M institutional arrangements (ICR, para 81). The gaps were caused in part because the Village Law was issued in January 2014 and aspects of how it would be operationalized were unknown (World Bank Staff interview, 2020). Another contributing factor to the knowledge gaps, was that research focused on policy questions rather than technical knowledge for project re-design (World Bank Staff Interview, 2020). This was in part because researchers from the Social Unit's analytics team focused on operation itself and government rather than technical issues (World Bank Staff Interview, 2020). Once the law was passed, the knowledge gaps were closed (World Bank Staff Interview, 2020) and partnerships were developed to work on local governance support.

The project also experienced problems related to data accuracy and quality. M&E implementation suffered, particularly during the first phase, but improved throughout the project. The project also had difficulties in budget execution and revision, consultant staff performance, coordination and facilitator recruitment. This included technical oversight and advice to national management consultants. Over the years, staff costs on the Borrower side were quite high because of the need to mobilize additional technical expertise (ICR, para. 98).

Overall the Bank was effective in supporting the Government of Indonesia to transition the project after the implementation of the Village Law. This meant working through the restructuring, alignment of policy and operational dialogue and implementing frank supervision reports. However, the technical staff costs were high, there were knowledge gaps, and scope to improve efficiency of technical support. The project also



experienced delays in M&E implementation, but by the end of the project it improved its M&E practices. Based on the many reported shortcomings the quality of supervision is rated moderately satisfactory.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

At appraisal, and during the first phase, the project had a moderately clear objective and the theory of change that was, in retrospect, well supported by the project's activities. The results framework had a clear set of indicators that aimed to measure the overall outcome of the project. It could have benefited from a handful of more output level indicators to be better able to monitor results and enable cross district comparisons. The lack of these simple indicators meant that the ICR was in a difficult position to report on basic outputs, let alone outcomes, particularly as it related to the first phase of the project. For example, the results framework did not measure type and quantity of block grants. It also failed to adequately measure the benefits that the villagers gained from the improved local governance or improved socio-economic conditions.

The PAD acknowledges that while there was an MIS in place, it needed improvements in order to integrate internal control and management to facilitate data entry and timely retrieval. The M&E design was realistic given the scale of the project. It hoped to build on M&E for previous evaluations of similar projects in Indonesia and close thematic gaps. The appraisal document also includes information on potential use of the evaluation findings and collaborations in Indonesia and Washington D.C. These collaborations would increase dissemination and conversation on monitoring and evaluation results (PAD, para. 27 and 28).

b. M&E Implementation

The project experienced difficulties in implementing the monitoring system. According to the ICR, during the first phase of the project, the MIS redesign started and drew from existing databases. However, as the project progressed delays and data validity concerns grew. Reporting on key project indicators (KPIs) was sparse (ICR, para.88)

During the restructuring, the government was unable to provide information on KPIs, there were delays in key evaluations, and recruitment of core staff for the MIS caused further delays. During the restructuring the project's indicators were changed.

By late 2017, the project had hired staff, and data was collected more regularly, and improved its system



(including the MIS). A review of the M&E system indicated that data was being collected regularly in 90% of the project provinces (ICR, para 88).

The ICR acknowledges the gap in M&E design, in particular the research priorities in the evaluations and indicators. It noted that the evaluations focused on evaluating outcomes and higher-level objectives, such as household income, poverty reduction and inclusion. However, for community driven development (CDD) design to be integrated fully, the evaluation could (as one of the ICR's lessons suggested) have looked at long term forward-looking knowledge generation, such as knowledge of core government systems, public financial management, intergovernmental fiscal transfer system, local government planning processes, local private sector and civil society organization capacity, as well as village capacity (ICR, para 103 and exchange between IEG and the World Bank task team in 2021).

c. M&E Utilization

According to the ICR, the use of the MIS system was slow and the system was unable to generate timely and reliable data (ICR, para. 89). As a result, GoI and the World Bank relied on support missions, surveys, and studies. With time, the MIS system improved. During the last phase of the project, the MIS was used to inform implementation progress meetings to support village planning and budgeting cycles.

In summary, the results framework lacked a few fundamental basic output and outcome level indicators to support the reporting and monitoring of key activities. This was particularly problematic in the first phase of the project. There were delays in setting up the MIS system and this negatively impacted its potential use. The project had to rely on separate support missions, surveys and studies to find critical information throughout most of the project's implementation. As a result, towards the end of the project's management had closed most M&E gaps.

Overall M&E quality is therefore rated as Substantial

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

The project was classified as an Environmental Category "B" Partial Assessment at appraisal. During appraisal, it triggered the following safeguards: Environmental Assessment OP/BP 4.01 and Indigenous People OP.BP 4.10 (PAD, pg. ix). At the end of the project, it had complied with all safeguard (World Bank Staff interview 2020).

During the PNP-Rural phase, the subprojects fell below the threshold size to require a formal environmental assessment (ICR, para 91). The Implementation Guidelines for Social and Environmental Safeguards were updated throughout the project and training was provided to communities. There was also an environmental



safeguards specialist hired (ICR, para. 91). Throughout the project, the activities did not trigger any safeguards because there were no physical works and no direct social impacts (Project Paper, pg. 17). The project anticipated indirect positive social impacts through regional dialogue and improved responses for forced displacement (Project Paper, pg. 17). The project was expected to implement principles to support social inclusion, including gender, and conduct consultative research ethically. The project also incorporated the social and environmental safeguards procedures into the stand operating procedure for the Village Economic Development Project (ICR, para 91). There was no mention of compliance with environmental safeguards in the ICR but it did state that “Implementation Guidelines for Social and Environmental Safeguards used in PNPM-Rural IV were updated for the project, and further training was provided to communities to ensure that the guidelines were well understood and implemented” (para 91).

During the PNPM 2012-2015, The Implementation Guidelines for Social and Environmental Safeguards was updated. It also consulted with women and civil society organizations. A rapid social assessment was conducted to comply with the Operational Policy on Indigenous Peoples (OP4.10). Key recommendations were incorporated into the design of the project, which adhere to principles of flexibility to adapt to specific cultural circumstances (ICR, para. 92).

No large scale, significant, or irreversible environmental impacts were anticipated or experienced under the project. There were no formal safeguards provisions under the new Village Law, however, the MOV was committed to having a democratic and socially inclusive village model. The MOV highlighted emphasis towards participatory process and inclusion of marginalized groups (ICR, para. 93).

b. Fiduciary Compliance

The ICR stated that during the first phase of the project, the project implemented the PNPM-Rural Better Governance Action Plan with measures of anti-corruption and encouraging stakeholder’s oversight and action (ICR, para. 94). During the Transition period, the project experienced budget delays due to the change in implementing agencies and delays in contracting and assigning field contracts. This created internal control risks as there were no field level facilitation services to control subproject implementations. These problems were resolved the second year of the project’s implementation. There were also slight delays in submitting interim financial reports, but generally the World Bank received them on schedule (ICR, para. 95).

There were negative findings in the 2018 project audit report, including ineligible expenditures and small scale corruption cases that remains pending. These findings did not affect the auditor’s opinion on the project financial statement. All audit reports received unqualified opinions during both the PNPM and VIP phases. The 2019 audit report was expected soon but not finalized at the time of the ICR’s completion.

Procurement: Procurement had some challenges during the PNPM phase of the project. There were delays in implementing the operations manual and weaknesses in the Government’s procurement oversight and monitoring functions. In 2015, there were several problems that indicated a high fiduciary risk in procurement processes. Among them, an absence of oversight mechanism at the community level, physical progress of contracts financed by the projects were not reconciled with a financial progress, a lack



of clarity on the institutional arrangements, and delays in submitting a revised Procurement Plan. By 2015, the project's district and sub district actors were reinstated and timely procurement awards were completed.

c. Unintended impacts (Positive or Negative)

None

d. Other

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	
Quality of M&E	Modest	Substantial	
Quality of ICR	---	Substantial	

12. Lessons

The following lessons were based on the ICR with some editing and language changes:

- Supporting complex institutional reform, such as institutionalization of community driven development (CDD) projects requires coordinated policy, collaborative operational engagement, and adequate time.** For example, to institutionalize this CDD project, Indonesia implemented a new law that led to multiple legal, regulatory and technical changes to its operations and processes. These included new approaches to funding flows, audits, oversight and capacity-building systems. It also required changes to governance at different levels, as well as a high degree of coordination and communication between a range of stakeholders. The transition period was 2 years, but it took longer to firmly establish the reforms at all levels of government and community management not to mention the geographical phasing required (ICR, para. 102).
- Decentralization requires a focus on leadership and institutional capacity, in addition to technical implementation capacity.** As a result for further coordination and collaboration across the multiple actors, the project included an explicit institution-



strengthening component focused on civil servants and core government planning and budgetary systems (ICR, para 107).

3. **Addressing gender gaps needs to be intentional from design to implementation to evaluation.** For example, the project failed to achieve its targets related to gender participation. One reason for this was that the implementing agency did not make adequate use of monitoring data that were available and the Bank did not systematically review progress and tackle shortcomings during supervision (ICR, para. 109). That said, the project also did not adequately measure the type of contribution that female participants made. In order to make advancements in women's participation mainstreaming a gender approach throughout the project and addressing barriers to entry and participation are needed. Measuring and tackling these barriers will improve not only gender related targets but also project outcomes.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR met the expectation of conciseness, including being clear and well written. The quality of analysis in the ICR was sufficient to adequately describe the limitations of the project's path during the different phases and some of the implementation. The ICR had the challenge of including a lot of information in a concise way, while still being insightful. Overall, it succeeded. However, it could have been more results oriented, including better highlighting how the activities led to outcomes. The internal consistency related to results could have been improved. For example, while the ICR is upfront about the limitations of the project and measuring its outcomes, the efficacy section did not adequately reflect these challenges. Instead, the reader was led to believe that the project met more than its targets. While it may have achieved that, the path to causation was unclear and this might have been better acknowledged in the efficacy section. The lessons were interesting and potentially useful to others. The Borrower's letter provided a unique insight in terms of the ongoing and outstanding barriers to achieving the outcome of the project. While there was a lot of information in the Annexes, none of it provided the reader a sense of the large scale of the project. Overall, the quality of this ICR is rated as Substantial.

a. Quality of ICR Rating

Substantial

