LOCAL SOLUTIONS TO POVERTY

Kementerian PPN/ Bappenas

KOMPAK
Kolaborasi Masyarakat dan Pelayanan untuk Kesejahteraan
Kemitraan Pemerintah Australia - Indonesia

How to Improve the Delivery of Village Law

Village Law Policy Note

October 2019

Summary of Key Outcomes

In 2014, the Government of Indonesia (GoI) passed the Village Law (Law No. 6 of 2014), which aims to support poverty reduction, improve service delivery, promote community harmony, and bring citizens and the state closer together, by increasing the voice of local communities in development decisions. The Village Law significantly increased fiscal resources for development and community empowerment in Indonesia's 74,954 rural villages. In 2018, the Government of Indonesia transferred an average IDR 1.6 billion to nearly 75,000 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). The fiscal transfers accounted for approximately six percent of the national budget, and around 0.5 percent of GDP.

There are some early signs that some villages are taking advantage of these new opportunities. The number of "independent villages"[1] increased from 2,894 (3.9 percent) to 5,559 villages (7.6 percent), and the number of "left-behind villages" declined from 19,750 (26.8 percent) to 13,232 villages (17.9 percent) between 2014 and 2018.[2] The overall Village Development Index (*Indeks Pembangunan Desa* or 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 (NTT). There are also tentative signs that rural poverty reduction is accelerating after three years of stagnation.[3] 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.[4]

Evidence indicates that most villages are investing in small-scale infrastructure projects, which improve access to critical needs such as roads and irrigation. However, these investments have only led to marginal improvements to village IPD scores

**This note was prepared jointly by the World Bank and KOMPAK at the request of Bappenas, to inform policy discussion related to Village Law. The note is based on available data as of October 2019, including forthcoming assessments and studies. It is one of five briefs: 1) How to improve the delivery of Village Law, 2) Effective support from Local Governments to Villages, 3) Delivering Quality Rural Infrastructure with Village Funds, 4) Putting communities at the center of Village Law implementation, and 5) Financial management, reporting and oversight.*

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.[5] GoI's monitoring data indicates similar patterns in more recent years. The Ministry of Villages, Disadvantaged Areas and Transmigration (MoV) reported that in 2017 spending on village administration had declined to around 30 percent, village infrastructure had increased to almost 60 percent, and spending on human capital and economic empowerment remained very low.[6] Furthermore, an infrastructure audit conducted by the World Bank in 2018 found that villages tend to simply divide up development spending relatively evenly between hamlets within a village.[7] This results in small and fragmented investments (e.g., small-scale infrastructure projects), which have limited impact on economic growth and poverty reduction.

Future Areas for Attention

Optimizing village transfers for improved rural development outcomes will necessitate strong systems and institutions to support and monitor investments. Several factors currently constrain villages from translating their fiscal resources into better development impacts. First, the conflicts in legal and regulatory frameworks create a lack of clarity on the roles and responsibilities for implementation of village funds. While village governance and development is guided by Village Law (6/2014), the Local Government Law (23/2014) guides subnational governments in their functions, roles and responsibilities. The Local Government Law provides the basis for subnational, especially district, regulations. Meanwhile, village governance follows the Village Law and its ensuing regulations. Most significantly, the Village Law assigns provinces and districts with specific responsibilities for village guidance, supervision, and capacity building support, whereas the Local Government Law does not.

The role of multiple ministries and subnational entities creates conflicting guidance for village governments in planning and budgeting village funds and implementing projects. At the national level, villages receive guidance from both the Ministry of Home Affairs, as well as Ministry of Villages, with direct transfers coming from the Ministry of Finance. An institutional assessment of Village Law indicated that national level coordination structures are present, but that there is room to strengthen these mechanisms to effectively realize synergies across government.[8] This is also true for coordination between national and subnational levels of government, which is further compounded by varying levels of district government capacity. More guidance is needed on how villages and districts can work together. This last point is particularly evident in infrastructure planning, where the opportunity to construct larger more impactful projects are often hampered by lack of a consistent framework on joint planning and budgeting, jurisdiction challenges, and on assets. The Local Government Law does not currently mandate how sectoral agencies (health, education, public works, etc.) at the district level should support and provide guidance and supervision (*binwas*) to villages on service delivery. With a tenfold increase in village budgets, there is opportunity for districts and villages to be working together on service delivery gaps. However, this requires further strengthening among sectoral agencies on critical areas such as irrigation, schools, and Early Child Development (PAUD).[9]

Village governments are facing increased reporting requirements, often to multiple sources. Disbursement of Village Funds comes to villages in three tranches, requiring administrative efforts at villages and at the district level to complete relevant reporting. Until 2018, reporting was done separately for Village Funds and the village budget (comprising six revenue sources), thus causing duplicate reporting.[10] In addition, the first two tranches for Village Funds comprise 60% of the annual funds, and absorption of these funds is a requirement to disburse the final tranche. This could potentially exacerbate fragmentation of projects, as village governments seek small scale projects for rapid disbursement in the first half of the calendar year to meet the requirement. Hence, leaving little to undertake larger scale and potentially more impactful projects.[11]

Overall participation rates throughout Village Law implementation has been fairly stable at 16%. However, there is space to further improve the participation of women and other marginalized groups.[12] Community participation and empowerment are some of the key principles underpinning the Village Law (Article 3). Although more information on expenditure is available under Village Law, awareness of households around village funds information is relatively low, with only 6% of households reporting awareness.[13] A 2018 assessment on village infrastructure quality[1] found a 30% reduction in the number of projects rated 'high' for functionality by users and a near 50% drop in projects considered to have appropriate design by users as compared to 2012.[14] While no correlation data exists, the drop in projects rated as "high" could be coming from the relatively low levels of participation and potential lack of ownership over village infrastructure investments.

Policy Recommendations

Optimizing the implementation of the Village Law is a long-term process that will necessitate policy adjustments as local realities change. Within each sector, there will need to be specific changes to help unlock the potential of villages to spend their funds on productive investments to increase the welfare of Indonesia's rural communities. However, four key issues stand out with respect to improving Village Law implementation in the short term:

a) **Finalize and adopt a single government regulation (PP) for Village Law implementation** that would correct for conflicts and gaps in existing laws and regulations and establish national coordination platform with a Presidential Regulation with a view to enforce decisions and streamline coordination. This would go a long way to bringing a common vision to Village Law implementation, aligning stakeholders behind a common plan for village improvements, and provide sub-national guidance under a unified legal and regulatory authority.

b) **Focus on the subnational governments**, especially sub-districts (*kecamatan*), as the frontline support and supervision systems for villages. With the significant variation in local realities and contexts in Indonesia, the lowest level of government is best placed to support the villages in realizing their potential. This is particularly true for the *kecamatan*, where it has been strengthened, has played a crucial role for village development.[16]

c) **Strengthen support for community empowerment and bottom-up social accountability systems**. With the increased reporting burden for village governments that resulted from Village Law, professional facilitators (*pendamping desa*) have played a crucial role in supporting village government capacity in reporting and fulfilling their new functions. However, as a result, levels of participation have faltered, and systems of bottom up accountability are weak. Over the next five years, the professional facilitators could be better used to focus on strengthening community empowerment, facilitating inclusive participation, and advocating for community-led village development.

d) **Invest in information systems to drive decision making**. At all levels of government, much of the planning and decision-making related to village development is based on partial information, or conflicting data and information systems. In order to improve the implementation of Village Law, the Government should invest in an integrated information system to drive decision making. This information should be available and used at the village level as well as by sub-districts, districts, provinces, and the central level. This can integrate different data sources and systems to track key indicators and outcomes, and can build consensus on what the key areas of development—and budget resource allocation—should be.

e) **Improve coordination at the central and subnational levels**. At the central level, it will be critical to clarify institutional mandates on coordination of all entities involved in Village Law, including Ministry of Home Affairs (MoHA), MoV, Ministry of Finance (MoF), Bappenas, and Coordinating Ministry of Human Development and Culture (Kemenko PMK). This will require that the central coordinating agency (whether Kemenko PMK or another entity) has a legal mandate to coordinate the work of all ministries. At the technical level, Bappenas is well structured to oversee and coordinate the work of MoHA and MoV, but Bappenas can further strengthen its coordinating role through additional resources for analytical and technical oversight and monitoring of key activities related to Village Law. At the provincial and district level, guidelines for relevant areas should be issues to support governors and *bupatis* in implementing the Village Law.

[1] 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.

[2] 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, i.e. 2015, 2016 and 2017. Villages usually receive the first tranche of fiscal transfers around March-April and most activities occur in the second half of the year.

[3] The official government statistics on poverty concluded that rural poverty declined only marginally from 14.2 percent in 2014 to 13.9 percent in 2017. However, as noted above, in March 2018 it recorded the largest year-on-year decline since March 2011, with the poverty rate for the first time decreasing faster in rural than in urban areas. It is too early to know whether these declines will be sustained and it is difficult to directly link this to village investments.

[4] Santoso & Sandy Maulana (2017), *On Constructing Village Fund Impact Evaluation Model* (Paper presented at FKP seminar session– Article 33).

[5] World Bank, 2016 Village Expenditure Review (ViPER), 25 August 2017.

[6] MoV, Program Achievements: Village Development 2014-2018, 5 March 2018.

[7] 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.

[8] World Bank, P3PD Project Appraisal Document

[9] World Bank, Review of Local government Capacity to Support Implementation of Village Law, June 2019 (draft).

[10] In 2019, the financial systems of Siskeudes and OMPSAN were linked, allowing OMSPAN to extract relevant data from Sisekudes for Dana Desa. Siskeudes comprises the financial report for the entire village budget, whereas OMSPAN reports only on Dana Desa. However, Siskeudes is still not in use across all villages in the country.

[12] World Bank supervision missions

[12] Sentinel a Study (WB 2015 – 2018), PNPM Incidence of Benefits Survey (2012), Evaluation of PNPM/Respek Implementation in Papua and West Papua (2009 – 2013)

[13] World Bank, Sentinel Villages

[14] Quality is assessed based on process, technical specifications, operations and maintenance (O&M), and cost.

[15] World Bank, Village Infrastructure Technical Assessment, 2018 and Neate, 2012, PNPM Mandiri Rural Infrastructure Technical Evaluation Report, World Bank. While the 2012 assessment looked at infrastructure constructed under PNPM, it provides a useful benchmark for looking at village infrastructure quality, particularly in highlighting the drop in access to technical and engineering services required for small scale infrastructure. The 2018 assessment also found that as a result of the lower levels of technical inputs, the overall quality of the infrastructure constructed was lower.

[16] Results from PTPD implementation and village clinics in several KOMPAK program locations (see KOMPAK 6-monthly report, January-July 2019)

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