



THE DEVELOPMENT OF A PERFORMANCE-BASED GRANT SYSTEM (PBGGS) FOR VILLAGES IN INDONESIA

The Case of Kabupaten Bima

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Preface

The Law No. 6 of 2014 provides a ground for significant resources and authority for villages to improve the quality of basic service delivery. Various intergovernmental transfers are in place, mainly in the form of Village Fund (DD), Village Fund Allocation (ADD), Revenue Sharing from Local Taxes and Levies (BH-PDRD) and Financial Assistance to Villages (BKkD). While the allocation mechanism for most transfers is based on designated formula, there is a growing interest among district governments to develop a transfer scheme tailored to specific performance, known as the Performance-Based Grant System (PBGS) for village. In addition, the PBGS approach also serves to complement other existing modalities in ensuring village performance through regulation, regular monitoring, and supervision.

One initiative comes from Bima District Government in West Nusa Tenggara (NTB), aiming to encourage its village governments to improve their governance and performance. Villages with achievements in specific indicators – initially for the basic education, health, and population administration sector – are then eligible to get financial incentives. KOMPAK provided technical assistance and facilitated discussion between local government agencies (OPD) that resulted in the formulation of the *Dana Insentif Desa* (DINDA).

Previous assessment has shown that the implementation of PBGS in Bima were found to improve village performance, enabled the district government to harmonise the development priorities between districts and villages as well as strengthened the relationship between villages and subdistricts. The successful implementation of PBGS in Kabupaten Bima DINDA has drawn interest from other districts to adopt the approach. Currently, the PBGS model is being replicated in six other KOMPAK-supported districts: Bantaeng, Lumajang, Sumbawa, West Aceh, Bener Meriah, and Trenggalek. The Ministry of Finance adopts some aspects and learnings from DINDA in rolling out an incentive mechanism (*Alokasi Kinerja*) embedded in the DD formula.

The PBGS model provides a comprehensive picture on how KOMPAK piloted a specific policy in a particular district, replicated the model to other districts and later managed to promote the model as a national regulation. In addition, the PBGS model also illustrate how KOMPAK's activities fits to the national agenda in promoting performance-based transfers which becomes a core of the new Law on Financial Relations between the Central Government and Regional Government (UU HKPD).

Through this study, KOMPAK aims to documents the lessons learned in designing and implementing the PBGS for villages. The study specifically focuses on the implementation PBGS in Bima district and being adapted as the performance criteria for the allocation mechanism of village funds allocation.

We hope that this study can enrich discussions on related topics and provide inputs for policy improvement at both the central and regional levels, even after KOMPAK's facilitation period.

Salam KOMPAK,

Lily Hoo
Director of Performance, KOMPAK

List of Abbreviations

AA	Affirmative Allocation (<i>Alokasi Afirmatif</i>)
AD	Basic Allocation (<i>Alokasi Dasar</i>)
ADD	Village Fund Allocation (<i>Alokasi Dana Desa</i>)
AF	Formula-Based Allocation (<i>Alokasi Formula</i>)
AK	Performance Allocation (<i>Alokasi Kinerja</i>)
APBD	District Government's Budget (<i>Anggaran Pendapatan dan Belanja Daerah</i>)
APB Desa	Village Budget (<i>Anggaran Pendapatan dan Belanja Desa</i>)
APBN	Central Government Budget (<i>Anggaran Pendapatan dan Belanja Negara</i>)
AUD	Australian Dollar
Bappeda	District Planning Board (<i>Badan Perencanaan Pembangunan Daerah</i>)
Bappenas	Ministry of National Development Planning (<i>Badan Perencanaan Pembangunan Nasional</i>)
BH-PDRD	Local Government Taxes and Levies Revenue Sharing (<i>Bagi Hasil Pajak Daerah dan Retribusi Daerah</i>)
BKkD	Financial Assistance to Villages (<i>Bantuan Keuangan ke Desa</i>)
BKKD	Special Financial Assistance to Villages (<i>Bantuan Keuangan Khusus Desa</i>)
BPD	Village Council (<i>Badan Permusyawaratan Desa</i>)
BPK	Supreme Audit Board (<i>Badan Pemeriksa Keuangan</i>)
BPS	Statistics Indonesia (<i>Badan Pusat Statistik</i>)
BUM Desa	Village-Owned Enterprises (<i>Badan Usaha Milik Desa</i>)
COVID-19	Coronavirus Disease of 2019
DAK	Special Allocation Fund (<i>Dana Alokasi Khusus</i>)
DAU	General Allocation Fund (<i>Dana Alokasi Umum</i>)
DBH	Revenue Sharing Fund (<i>Dana Bagi Hasil</i>)
DD	Village Fund (<i>Dana Desa</i>)
Depik	Village Incentive Fund in Kabupaten Bener Meriah (<i>Dana insentif Pembinaan Kampung</i>)
DFAT	Department of Foreign Affairs and Trade [Australian Government]
DID	Regional Incentive Fund (<i>Dana Insentif Daerah</i>)
DIDes	Village Incentive Fund in Kabupaten Lumajang and Kabupaten Sumbawa (<i>Dana Insentif Desa</i>)
DiDESA	Village Incentive Fund in Kabupaten Bantaeng (<i>Dana insentif DESA</i>)
DINDA	Village Incentive Fund in Kabupaten Bima (<i>Dana INsentif DesA</i>)
DIRATA	Village Incentive Fund in Kabupaten Aceh Barat (<i>Dana Insentif RAmli and BanTA</i>)
DJPK	Directorate General of Fiscal Balance (<i>Direktorat Jenderal Perimbangan Keuangan</i>)
DPMD	Community and Village Empowerment Office (<i>Dinas Pemberdayaan Masyarakat Desa</i>)
DPRD	Local Parliament (<i>Dewan Perwakilan Rakyat Daerah</i>)
DST	Very Underdeveloped Village (<i>Desa Sangat Tertinggal</i>)

DT	Lagging Village (<i>Desa Tertinggal</i>)
DTK	Special Transfer Fund (<i>Dana Transfer Khusus</i>)
DTU	General Transfer Fund (<i>Dana Transfer Umum</i>)
e-KTP	Electronic ID cards (<i>Kartu Tanda Penduduk Elektronik</i>)
FY	Fiscal Year
GEDSI	Gender Equality, Disability, and Social Inclusion
IDM	Village Development Status (<i>Indeks Desa Membangun</i>)
IDR	Indonesian Rupiah
IGFT	Intergovernmental Fiscal Transfer
IKG	Geographic Difficulty Index (<i>Indeks Kesulitan Geografis</i>)
ILGR	Initiatives for Local Governance Reform
JP	Population (<i>Jumlah Penduduk</i>)
JPM	Number of Poor People (<i>Jumlah Penduduk Miskin</i>)
KemenPAN-RB	Ministry of Empowerment of State Apparatus and Bureaucratic Reform (<i>Kementerian Pendayagunaan Aparatur Negara dan Reformasi Birokrasi Republik Indonesia</i>)
Kepbup	Bupati Decree (<i>Keputusan Bupati</i>)
KOMPAK	<i>Kolaborasi Masyarakat dan Pelayanan untuk Kesejahteraan</i> [Governance for Growth program as part of Australia–Indonesia Government Partnership]
LPPD	Village Administration Report (<i>Laporan Penyelenggaraan Pemerintahan Desa</i>)
LW	Area (<i>Luas Wilayah</i>)
MC	Minimum Condition
MoF	Ministry of Finance
MoHA	Ministry of Home Affairs
MoV	Ministry of Villages, Development of Disadvantaged Regions, and Transmigration
Musdes	Village Deliberative Meetings (<i>Musyawarah Desa</i>)
NTB	West Nusa Tenggara (<i>Nusa Tenggara Barat</i>) Province
OPD	Local Government Agencies (<i>Organisasi Perangkat Daerah</i>)
P2D2	Local Government Projects and Decentralisation (<i>Proyek Pemerintah Daerah dan Desentralisasi</i>)
PADes	Village Own-Source Revenue (<i>Pendapatan Asli Desa</i>)
PBGS	Performance-Based Grant System
PDAM	Water Enterprises (<i>Perusahaan Daerah Air Minum</i>)
Perbup	Bupati Regulation (<i>Peraturan Bupati</i>)
Permendagri	Regulation of Minister of Home Affairs (<i>Peraturan Menteri Dalam Negeri</i>)
Permendes	Regulation of the Minister of Villages, Development of Disadvantaged Regions, and Transmigration (<i>Peraturan Menteri Desa, Pembangunan Daerah Tertinggal, dan Transmigrasi</i>)
PKK	Family Welfare Movement (<i>Pemberdayaan Kesejahteraan Keluarga</i>)
PM	Performance Measure
PMK	Regulation of Minister of Finance (<i>Peraturan Menteri Keuangan</i>)
Posyandu	Integrated Healthcare Post (<i>Pos Pelayanan Terpadu</i>)
PTPD	Village Governance Facilitator (<i>Pembina Teknis Pemerintahan Desa</i>)
RAB	Budget Plan (<i>Rencana Anggaran Biaya</i>)
RKD	Village Bank Account (<i>Rekening Kas Desa</i>)
RKP Desa	Village Annual Work Plan (<i>Rencana Kerja Pemerintah Desa</i>)

RT/RW	Neighbourhood Administrators (<i>Rukun Tetangga/Rukun Warga</i>)
SID	Village Information System (<i>Sistem Informasi Desa</i>)
SILPA	Financing Surplus (<i>Sisa Lebih Pembiayaan Anggaran</i>)
SiLPA	Unused Fund (<i>Sisa Lebih Perhitungan Anggaran</i>)
SINOVIK	National Public Service Innovation Competition (<i>Kompetisi Inovasi Pelayanan Publik</i>)
SNG	Subnational Government
SPJ	Accountability Report (<i>Surat Pertanggungjawaban</i>)
TKD	Transfer to Regions (<i>Transfer ke Daerah</i>) from Central Government
TKDD	Transfer to Regions and Village Funds (<i>Transfer ke Daerah dan Dana Desa</i>)
UNCDF	United Nations Capital Development Fund
UU HKPD	Law on Financial Relations between the Central Government and Regional Government (<i>Undang-Undang Hubungan Keuangan antara Pemerintah Pusat dan Pemerintahan Daerah</i>)
VFM	Village Financial Management
VL	Village Law
WH	Water Grants (<i>Water Hibah</i>)

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Chapter 1

Introduction

Over the years since its implementation in 2015, the Village Law (Law No. 6 of 2014) has inspired a growing interest among some district governments¹ in Indonesia to adopt a Performance-Based Grant System (PBGS) into their fiscal transfer arrangements to the villages (KOMPAK, 2021b). Such interest was primarily driven by the need of the district governments to find an effective instrument to foster village performance. The PBGS approach is aimed at supplementing other more traditional ways to ensure village performance, such as rules and regulations, technical capacity building, inspection, minimum standards, and output control (Sulistiono, et al., 2019).

The district governments have been concerned about the village underperformance issue around village financial management (VFM), especially with regard to lack of village budget compliance for statutory requirements, significant delays in village budget enactment, low village budget absorption, and a highly accumulated unused fund at the end of the fiscal year. These challenges have been quite persistent across a significant number of villages, despite of continuing improvement in many Village Law (VL) subsidiary regulations and technical guidance, as well as continuing expansion in the provision of capacity building and supervisory efforts from higher levels of government. Without innovative interventions, such phenomena may undermine the anticipated potential of the Village Law to benefit village communities with an increase in funding and authority.

Among the development assistance agencies, the Australian Government Department of Foreign Affairs and Trade (DFAT) through its support of the KOMPAK program has been at the forefront in supporting the district governments in their endeavours to develop a PBGS for villages. Since 2017, KOMPAK has implemented piloting in seven *kabupaten* (districts), through providing close assistance to the *kabupaten* governments in designing the PBGS and in supporting its consultative process with villages and wider stakeholders (KOMPAK, 2021b).

Despite variants in forms and terms, the systems that the *kabupaten* governments have tried to develop share the same objective and characteristic, which is to provide a monetary incentive (grant) to the villages to promote a positive change in certain aspects of village performance. Such a system corresponds to widely-used PBGS-approaches in the broader context of intergovernmental fiscal transfer (IGFT), which refers to the transfer system from the central to subnational governments.

As the process of developing the PBGS for villages evolved, so did the scope. The eventually enacted regulations on PBGS for villages in most KOMPAK-pilot *kabupaten* cover wider areas than merely related VFM performance. The expanded performance areas include among others the performance of the village basic service provision and village economic development.

¹ Subnational Government (SNG) in Indonesia comprises *provinsi* (provinces); and *provinsi* consist of *kabupaten* (districts) and *kota* (municipalities). In this paper, *kabupaten* and *kota*, are defined together as districts. A *Provinsi* is headed by a *Gubernur* (Governor), a *kabupaten* by a *Bupati* (Regent), and a *kota* by a *Walikota* (Mayor).

Among the seven participating *kabupaten* in the piloting process, Kabupaten Bima in West Nusa Tenggara (NTB) Province is the first starter, and has now become a leading district in promoting the PBGS for villages in Indonesia (Faisal, 2020; KOMPAK, 2021b). The provision of performance grants to villages in Kabupaten Bima is inspired by the provision of incentives by the central to district governments with good performance according to specified criteria (i.e. Regional Incentive Funds or DID). In addition, the provision of village incentives is carried out with the aim that changes or improvements in village performance will improve the overall performance of Kabupaten Bima, so as to increase the opportunity to achieve DID.² The recent development shows that even though the system remains at the stage of early formation, not only has the experience of Kabupaten Bima inspired many other district governments, but it also has gained a good reception from central government. Starting in 2020, the Ministry of Finance (MoF), based on the experience from Kabupaten Bima, has adopted the PBGS into a national system of transfers to villages (Kementerian Keuangan, 2020).

Meanwhile, the other six participating *kabupaten* show slower progress compared with Kabupaten Bima. This is partly due to some local dynamics in reaching consensus on PBGS design, and partly due to some interruptions, such as rotation of officials in-charge in the PBGS team and/or local elections. Despite some constraints, the recent developments in six of the pilot *kabupaten* shows that all have already passed the regulatory basis for implementing PBGS. However, its first roll-out, which was planned to be in 2020, has been postponed due to the COVID-19 pandemic, during which subnational budget resources have been almost entirely devoted to health and social assistance emergency responses, and to economic recovery efforts.

This paper attempts to capture lessons learned from the experience of designing and implementing the PBGS for villages through the lens of international and Indonesia's specific intergovernmental fiscal relations and broader decentralisation context. To fulfill the objectives, this paper focuses on the lessons learned from the implementation of PBGS in Kabupaten Bima and a brief comparison with those of the other six *kabupaten* that also implement PBGS policies with KOMPAK support. In addition, this paper will describe and analyse the design of a component in the Village Fund (DD), the Performance Allocation (AK), which aims to improve the performance of village government through the provision of incentives since 2020.

The paper will proceed as follows. The next section provides an overview of the transfer system to villages under the VL. Afterwards, the paper discusses the conceptual framework of the PBGS that is derived from both international and Indonesia's specific experiences on reforming intergovernmental fiscal transfers from central to subnational government. The paper continues with a discussion on lessons learned from the implementation of PBGS in Kabupaten Bima, which is followed by its replication in six other *kabupaten*, as well as the Village Incentive Fund policy adoption at the national level. The final section provides conclusions and recommendations.

² Related KOMPAK activities were initially intended to support and provide assistance to increase the DID revenues for provincial and district governments.

Chapter 2

Transfer System to the Villages under the Village Law

The Village Law (VL) is an integral part of Indonesia's ongoing process to deepen decentralisation, democratisation, and political reform (World Bank, 2020). Since 1999, Indonesia has undertaken an administrative and fiscal decentralisation to subnational level, which due to its scale and speed has been widely called the '*Big Bang Decentralisation*' (Mahi, 2016). Many observers hold the view that the VL marks the extension of big bang decentralisation to the lowest administrative level (Gonschorek and Schulze, 2018). Although the VL still considers district governments as the lowest government level and positions the village as part of their administration, it also recognises the autonomy of the villages, and confirms their right to prioritise and manage village-level development based on principles of self-governing communities and of local self-government (World Bank, 2020). To exercise village government autonomy, the VL provides villages with substantial financial resources and authority to deliver basic services such as education, health, and infrastructure at a scale that has never existed before.

A new fiscal transfer arrangement to the villages brought about by the VL has contributed to an unprecedented increase in the fiscal resources of nearly 75,000 villages in Indonesia. Village Government Financial Statistics data shows that one year prior to the VL taking effect, the national estimates of annual revenue remained at IDR 26.7 trillion (AUD 2.6 billion). In 2015, the first year of VL implementation, it has been doubled, to IDR 52.1 trillion (AUD 5.0 billion). Over the years since then, it has continued to rise. By 2021, the most recent year for which official estimates are available, annual village revenue nationally has increased to IDR 124.9 trillion (AUD 12.0 billion), or more than fourfold since before the VL. On average, each individual village has now managed around IDR 1.5 billion (AUD 144,000), increased from around IDR 360 million (AUD 34,000) per village prior to the VL implementation.³

The transfers to villages have already made a substantial contribution to overall village revenue, even prior to the VL, and accounted for 80% of total village revenue in 2014. Soon after the enactment of VL, its contribution sharply increased to 90% in 2015. By 2021, the transfer share has already made-up 97% of total village revenue. Due to its significance, the way the transfer system is designed would therefore impact on the success of the overall objective of the VL.

³ In parallel with the increase in national estimates of village revenue, the number of villages has also increased from 74,093 in 2014 to 74,961 in 2021. Hence, the increase in average village revenue per village is weighted to the growing number of villages.

This section will provide a detailed overview of four types of transfer instruments to villages introduced by the VL —*Dana Desa* (DD), *Alokasi Dana Desa* (ADD), *Bagi Hasil Pajak Daerah dan Retribusi Daerah* (BH-PDRD), and *Bantuan Keuangan ke Desa* (BKkD)— as well as the composition of these four transfers before and after the implementation of VL. The next chapter will discuss and examine whether such transfers bring incentives that can help to improve overall village performance in managing fiscal resources.

2.1 Dana Desa (DD)

Dana Desa (DD), or the Village Fund, is a fund transfer to villages from the Central Government Budget (APBN). The VL mandates the DD transfer be allocated in the APBN at a minimum 10% of and on top of the central government's Transfer to Regions (TKD).^{4,5} The DD transfer represents a new type of transfer, which never existed before the VL. It replaces the previous central government transfer arrangements to villages that were: (i) largely in the form of programmatic spending from multiple central government agencies; (ii) typically in the form of small-scale earmarked funds; and (iii) the transfers took the form of Financial Assistance to Villages (Bantuan Keuangan ke Desa or BKkD). Therefore, DD marks the shift of central government transfers to villages from many but small-scale, programmatic, and earmarked grants, to a single general multi-purpose and discretionary grant with the objective of improving village general fiscal capacity to finance the increasing responsibilities of villages.

Table 1. Components and Amount of DD, Fiscal Year (FY) 2015–2022

DD components (percentage)	2015	2016	2017	2018	2019	2020	2021	2022
Basic Allocation (AD)	90.0	90.0	90.0	77.0	72.0	69.0	65.0	65.0
Formula-based Allocation (AF)	10.0	10.0	10.0	20.0	25.0	28.0	31.0	30.0
– Population (JP)	2.5	2.5	2.5	2.0	2.5	2.8	3.1	3.0
– Number of poor people (JPM)	3.5	3.5	3.5	10.0	12.5	14.0	12.4	12.0
– Area (LW)	1.0	1.0	1.0	3.0	3.8	4.2	6.2	3.0
– Geographic Difficulty Index (IKG)	3.0	3.0	3.0	5.0	6.3	7.0	9.3	12.0
Affirmative Allocation (AA)	-	-	-	3.0	3.0	1.5	1.0	1.0
Performance Allocation (AK)	-	-	-	-	-	1.5	3.0	4.0
Pool size (IDR trillion)	20.8	47.0	60.0	60.0	70.0	71.2	72.0	68.0
Number of villages	74,098	74,754	74,954	74,958	74,953	74,954	74,961	74,960
Amount per village (IDR million)								
– AD	280.2	628.5	800.5	616.3	672.4	651.0	<i>Population cluster</i>	
– AF	<i>Calculated based on formula</i>							
– AA for Very Lagging Village				294.1	422.6	363.2	343.2	238.8
– AA for Lagging Village				147.1	211.3	181.6	171.6	119.4
– AK						144.1	288.2	241.9

Source: Compiled by KOMPAK based on MoF Regulations (PMK).

⁴ Transfers to regions (TKD) consist of: (a) balancing funds; (b) regional incentive funds (DID); and (c) special autonomy funds (for Aceh, Papua Barat, and Papua Provinces) and privilege fund (for Yogyakarta Province). The balancing fund contains (a1) General Transfer Fund (DTU) and (a2) Special Transfer Fund (DTK). DTU comprises (a11) Revenue Sharing Fund (DBH) and (a12) General Allocation Fund (DAU), while DTK consists of (a21) Physical Special Allocation Fund (DAK *Fisik*) and (a22) Non-Physical Allocation Fund (DAK *Non-Fisik*).

⁵ Due to the central government budget constraints, the fulfillment of the 10% requirement is carried out gradually.

DD is the largest fiscal source for most villages. At the national level, the total funds allocated for DD since the beginning of VL implementation have continued to increase from IDR 20.8 trillion in 2015 to IDR 72.0 trillion in 2021 (see Table 1).⁶ By 2022, the central government will reduce the DD grant pool size to IDR 68.0 trillion. The procedure for allocating DD is constantly being improved by the central government. If during the first three years of VL implementation, DD was allocated based only on the Basic Allocation (AD) and Formula-Based Allocation (AF), starting in 2018 the central government began to introduce the Affirmative Allocation (AA) aimed at villages with a high number of people living in poverty and with the village development status of ‘very underdeveloped’ (DST) and ‘lagging’ (DT). Since 2020, to improve village performance, the government added a Performance Allocation (AK) component to DD. AK will be discussed in section VI.

2.2 Alokasi Dana Desa (ADD)

Alokasi Dana Desa (ADD), or Village Fund Allocation, is a fund transfer to villages from the District Government’s Budget (APBD). The VL mandates the ADD transfer be allocated in APBD at a minimum of 10% of a district’s revenue from the General Transfer Fund (DTU) to the regions (see footnote 4). Unlike the DD transfer, the ADD transfer had been established long before the VL (see *Permendagri* (Ministry of Home Affairs or MoHA Regulation) No. 37/2007). The VL, however, has made a revision to the minimum allocation of ADD in the district budget, whereby it was previously set at only 10% of the General Allocation Fund (DAU) received by the district government, net of personnel spending. This adjustment in the minimum ADD allocation has impacted by significantly increasing district mandatory transfers to the villages.

Table 2. ADD Stipulations for Kabupaten Bima, FY 2020

Total amount of ADD	IDR 96.29 billion, equal to 11.1% of DAU and Revenue Sharing Fund (DBH) revenues (realisation data).
ADD allocation formula	<p>Mandatory ADD = IDR 94.31 billion (or 97.9% of total ADD). Calculated based on village funding needs for:</p> <ul style="list-style-type: none"> • Fixed income and allowances for village heads and village officials. • Health and employment insurance contributions for village heads and village officials. • Allowances for head and members of Village Council (BPD). • Incentives for neighbourhood administrators (RT/RW). • Operational expenses for village government and Village Council. • A flat amount of IDR 10 million (3 villages receive IDR 13 million). <p>Formula-based ADD = IDR 1.98 billion (or 2.1% of total ADD). Calculated based on village population (with a weighting of 10%), poverty rate (50%), area (15%), and Geographic Difficulty Index (IKG) (25%).</p>
Priority of use	To finance activities in the field of Village Administration and Village Community Development, as well as disaster management, and village emergencies and urgent conditions. Once fulfilled, the ADD can be utilised for other activities in the fields of Village Development and Village Community Empowerment.
Payment stages	ADD payment is carried out in stages every month.
Report on usage of ADD	Village head submits reports on the realisation of the use of the ADD the previous fiscal year (at the end of January) and the use of the ADD in the first semester (at the end of July).

⁶ For an analysis of the development of DD allocation in FY 2015–2018 and procedures for determining villages receiving the Affirmative Allocation (AA) along with its nominal amount, see World Bank (2019a). For a discussion regarding the impact on changes in the Basic Allocation (AD) allocation procedure from an equitable distribution to one based on population cluster, see KOMPAK (2021).

Monitoring and evaluation	<i>Bupati</i> monitors and evaluates the remaining ADD in the Village Bank Account (RKD). It focuses on whether the amount of ADD received by the village in the current fiscal year plus the remaining ADD of the previous fiscal year in the RKD is more than 30%.
Sanctions	<i>Bupati</i> imposes an administrative sanction in the form of delaying ADD payments if the village has not submitted a report on the realisation of the use of ADD and/or has more than 30% of the remaining ADD in the RKD. The <i>Bupati</i> will redistribute the ADD that was postponed once these conditions have been met.

Source: *Bupati* Regulation (*Perbup*) Kabupaten Bima No. 8/2020.

The district government has the discretion to determine the procedure for distributing ADD to each village, the stages of payment, the priority of use outside that for village administration, reporting, monitoring and evaluation, and sanctions. Therefore, there is no uniformity in ADD arrangements at the district level. Kabupaten Bima, for example, allocated the majority of ADD (97.9%) based on the needs for salaries, allowances, and operational expenses for the village government and Village Council (BPD), as well as incentives for neighbourhood administrators (RT/RW) (see Table 2).

2.3 Bagi Hasil Pajak Daerah dan Retribusi Daerah (BH-PDRD)

Bagi Hasil Pajak Daerah dan Retribusi Daerah (BH-PDRD), or revenue sharing from local taxes and levies is also a fund transfer to villages that comes from the District Government's Budget (APBD). It also represents a renewed transfer type that has existed since before the VL (see *Permendagri* No. 37/2007). In contrast to the ADD, the BH-PDRD is derived not from intergovernmental transfer revenue, but instead from local taxes and levies generated by the district government. The BH-PDRD in previous regulations is different from the new one under the VL, in that the VL set an explicit minimum requirement for such allocations, which is 10% of local taxes and levies. In terms of the fund use, the BH-PDRD is also designed to be a general-purpose grant.

Table 3. BH-PDRD Stipulations for Kabupaten Bima, FY 2020

Total amount of BH-PDRD	IDR 4.81 billion, equal to 14.8% of revenues from local taxes and levies (realisation data).
ADD allocation formula	Equitable BH-PDRD = IDR 2.89 billion (or 60% of total BH-PDRD) divided equally among all villages. Formula-based BH-PDRD = IDR 1.92 billion (or 40% of total BH-PDRD) divided proportionally based on the realisation of rural and urban land and building tax revenues from each village.
Priority of use	Activities related to community and regional security and order (Community Empowerment field). Once fulfilled, the BH-PDRD can be utilised for other activities in the fields of Village Administration, Village Development, Village Community Empowerment, and Village Community Development.
Payment stages	The payment of BH-PDRD is carried out in two stages: <ul style="list-style-type: none"> • Stage I of 60% is paid in May at the earliest. • Stage II of 40% is paid in October at the earliest. Each payment is accompanied by the submission of a report on the realisation of rural and urban land and property taxes.
Report on usage of BH-PDRD	Village head submits reports on the realisation of the use of the BH-PDRD in the previous fiscal year (at the end of January) and the use of the BH-PDRD in the first semester (at the end of September).
Monitoring and evaluation	Not regulated.
Sanctions	Not regulated.

Source: *Perbup* Kabupaten Bima No. 9/2020.

The district government, as is the case with the ADD, controls the arrangements for the allocation, payment, use, and other matters related to BH-PDRD. In the case of Kabupaten Bima, for example, 60% of the BH-PDRD is distributed equally to villages and 40% is based on the realisation of rural and urban land and building tax revenues from each village (see Table 3).

2.4 Bantuan Keuangan ke Desa (BKkD)

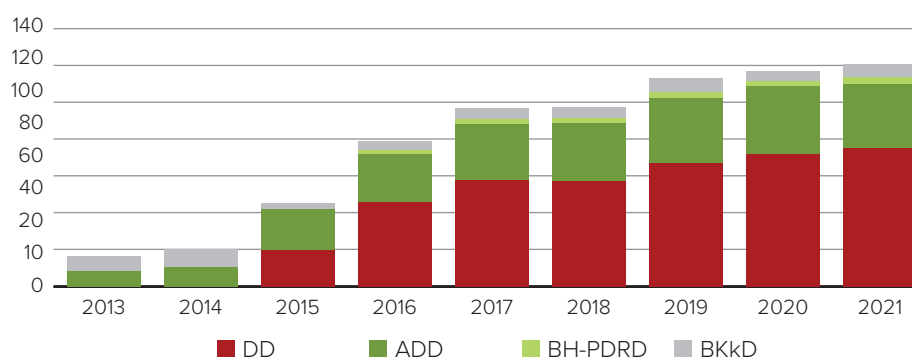
Bantuan Keuangan ke Desa (BKkD), or Financial Assistance to Villages, has been in place since before the VL. Along with ADD, the BKkD transfers were the main sources of the village revenue before the VL (see Figure 1). At the time, BKkD was intended to accommodate any transfer to villages that came from higher-level government (could be from central, province, or district governments) outside ADD and BH-PDRD, and mostly programmatic and earmarked funds in nature. With the newly introduced DD transfer as the sole central government transfer to villages, the VL limits the scope of BKkD transfers only to the transfer from a province or district government's budget and can be in the form of general or special BKkD (*Permendagri* No. 20/2018).

The VL mentions that the BKkD is aimed at accelerating village development where its provisions should be supplemented with the technical assistance provided by a province or district government. The BKkD is considered to be part of the broader role of the province and district in the supervision of and assistance to villages. As a final note, which will be elaborated further later in this paper, proceeds from Village Incentive Fund (DINDA) in Kabupaten Bima are recorded as BKkD in the Village Budget (APB *Desa*).

2.5 Composition of Transfers to Villages Before and After VL Implementation

Figure 1 illustrates how the VL has changed the structure of transfers to villages. The figure shows the significance of BKkD and ADD in overall transfers to villages in periods prior to the VL (2013–2014). Soon after the VL took effect (2015), the structure changed significantly. The newly established DD transfer instrument has taken a major share in overall village revenue, while the BKkD has shrunk drastically. On the other hand, the ADD transfer remained to play a significant role in overall structure until now, thanks to the change in the law's minimum allocation requirement of ADD transfers from the district budget. Meanwhile, the BH-PDRD has slightly increased in absolute terms compared with that before the VL implementation, but now contributes the least overall in transfers to villages.⁷

Figure 1. Composition of Transfers to Villages, FY 2013–2021 (IDR trillion, nominal)



Source: Village Financial Statistics, Statistics Indonesia (BPS), multiple publications, 2014–2022.

Note: Data from 2013–2020 are realised budget figures; Data 2021 is the budget figure.

⁷ Kabupaten Badung in Bali is an exception where BH-PDRD contributes 60–70% of the total revenue from transfers, while DD's contribution is only 15–20%.

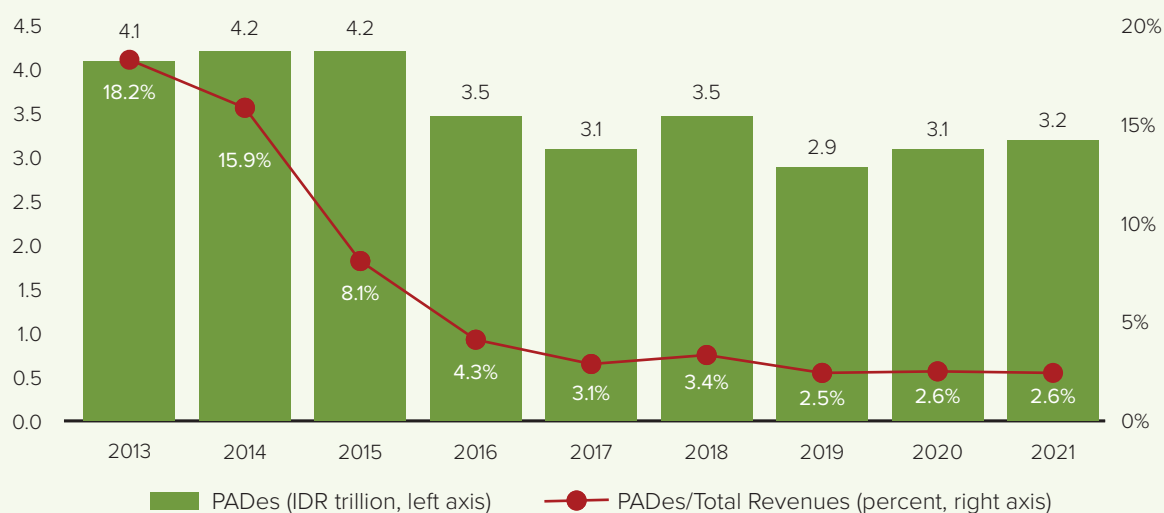
The unprecedented increase of transfers to villages may create a perverse incentive to the willingness of the village governments to generate their Village Own-Source Revenues or PADes. At the district level, the DAU, which is the largest transfer from the central to district governments, has an allocation formula that, among other things, depends on the size of the fiscal gap, which is the difference between the district's fiscal capacity and fiscal needs. As own-source revenue is part of the fiscal capacity component, the higher the own-source revenues, the lower the amount of DAU transfers (World Bank, 2020). Box 1 attempts to answer whether such perverse incentives also occur at the village level, by contrasting the development of PADes against the percentage of PADes to total village revenues.

Box 1. Disincentives in Existing Transfers to Villages

Abundant transfer revenues from central and district governments may forestall village governments' efforts to explore, design, and administer village income sources. This can happen because village heads want to avoid the efforts and politics of local revenue generation, or are overwhelmed in carrying out activities and fulfilling administrative requirements related to these transfers.

Figure 2 shows the total PADes at the national level before VL implementation (2013–2014) and afterwards (2015–2021) as an illustration of the village governments' efforts to collect PADes. These figures also compare the percentage of PADes to the total transfers received by the village governments. Total PADes (nominally) recorded a decline in FY 2016, the second year of VL implementation. After that, total PADes seemed to fluctuate but had not reached the level that existed before the start of VL.

Figure 2. PADes (Village Own-Source Revenues), FY 2013–2021



Source: Village Financial Statistics, BPS, multiple publications, 2014–2022.

Note: FY 2013–2019 numbers are realised figures, while FY 2021 gives budget figures.

In terms of total PADes as a percentage of total transfer revenues, as expected, there was a drastic decline since FY 2015 when DD was disbursed by the central government and ADD by district governments. In FY 2014, PADes was at a level of 15.9% of transfer revenues, then in FY 2015 it decreased to 8.1%, and in the last three years of observation (FY 2019–2021) it was between 2.5–2.6%.

The findings above conclude that, tentatively and at the national level, transfer revenues have had an adverse effect on PADes-raising efforts. This conclusion can be sharpened by analysing the problem at a lower level, such as at the district or village level, and using a longer data period.

Chapter 3

Conceptual Framework of a Performance-Based Grant System

This section presents general principles of a performance-based grant system (PBGS). To synthesise the framework, this paper benefited from a comprehensive report produced by the United Nations Capital Development Fund (UNCDF) (2017) on international experiences in designing and implementing PBGS, and from relevant studies related to intergovernmental fiscal transfers and PBGS in Indonesia (Lewis, 2010; Lewis, 2014; Pusat Kebijakan APBN, 2015; Lewis & Smoke, 2017).

The term PBGS is used to represent a wide spectrum of designs and practices from country to country, and despite variation in forms and names, they have a common characteristic: they are aimed at promoting positive changes in some aspect of performance of the subnational governments (SNGs) by providing them with tangible (monetary/grant/fund) incentives to improve their institutional, organisational, and functional performance (UNCDF, 2017). Much of the literature provides detailed overviews on PBGS design and implementation in the context of fiscal relations between central government and SNGs. This paper, however, takes the view that the principles are universal, in that they can be applied to the transfer relations from any given level of government to the level below (e.g. from central to district governments, and from district to village governments). Hence, the basic framework must be understood in terms of its universality to inform this paper of two things: (i) to better understand the emerging initiatives of PBGS for villages in Indonesia through the lens of international experiences; and (ii) to identify the needs for its future improvement/refinement.

This section starts with a brief discussion on the objectives, typology, and characteristics of PBGS. The discussion continues with a short presentation of Indonesia's experience in providing incentives from central to district governments. This section concludes with identifying some incentives embedded in existing transfers to villages: DD, ADD, and BH-PDRD.

3.1 Objectives of the PBGS

Governments globally are increasingly adopting a range of national incentives schemes into their intergovernmental fiscal transfer system. The objectives of implementing PBGS policies are twofold.

The first objective is *to improve the linkage between the overall IGFT system with SNG performance*. One critical issue regarding IGFT systems is how their structure affects the incentives of SNGs to behave in a responsible, productive, and accountable manner (Lewis & Smoke, 2015). Simply increasing the level of transfers to lower-level governments without ensuring that SNGs have the absorptive capacity or the

ability to spend the funds with a degree of efficiency or effectiveness may not address the challenges associated with local service delivery (UNCDF, 2017). PBGS is, therefore, usually designed to *supplement* existing grants’ objectives.

The second objective is *to improve upward, downward, and horizontal accountability*. A properly designed PBGS can positively influence all three accountability aspects at the same time:

- Upward accountability by strengthening the links between central government and SNG (e.g. on-time submission of reporting, and improved accountability of use of funds).
- Downward accountability by reinforcing links between SNG and local citizens through improved information (e.g. SNGs’ plans and budgets are publicly available through the media most frequently used by local citizens) and improved transparency (e.g. assessment results of SNGs’ activities are published).
- Horizontal accountability by deepening the dialogue between SNG and local lawmakers or decision-makers (i.e. DPRD or local parliament at *provinsi*, *kabupaten*, and *kota* levels; and BPD or local Village Council at village level) over SNG performance and corrective actions needed.

3.2 Focus of the PBGS

A PBGS can be differentiated in relation to two basic aspects: (i) the type of performance that the incentive funds try to leverage, and (ii) the use of incentive funds by receiving SNGs. Figure 3 shows the four types of PBGS categorised in relation to these two aspects.

Figure 3. Type of Performance and Use of Funds

		Use of funds	
		Multi-sector usage	Sector-specific usage
Type of Performance	Service delivery outputs	A Multi-sector usage Service delivery focus	B Sector-specific usage Service delivery focus
	Institutional development	C Multi-sector usage Institutional focus	D Sector-specific usage Institutional focus

Source: UNCDF (2017).

Multi-sector versus sector-specific performance indicators. A multi-sectoral PBGS seeks to improve SNGs’ overall institutional and organisational performance. To access the grant funds/incentives, SNGs need to display improvement in broad and cross-cutting areas such as financial management and planning. Examples of multi-sector performance indicators include that the SNG obtained satisfactory financial audit results, submitted development plans and related budgets on time, and opened opportunities for its citizens to participate in planning and budgeting processes. On the other hand, sector-specific performance indicators tend to focus on achieving certain service delivery targets. Examples of the latter include that the SNG has increased the clean water connection to household by X%, and has built Y km of roads connecting households and markets.

UNCDF (2017) suggests *not using too many and too mixed (between multi-sector and sector-specific) performance indicators in designing a PBGS*. Doing so will send the wrong messages to SNGs, as they will perceive that the bar is too high for them to meet. It is possible that SNGs will strive to become 'average SNGs' for each performance indicator, so that in the end they will have a high opportunity to access the grant funds. If this happens, then the purpose of implementing a PBGS will not be achieved.

Use of funds. This relates to the extent SNGs should be given discretion over the usage of the grant funds versus the extent to which central government should have earmarked them. National governments usually apply some measures for SNGs' discretion in the usage of grant funds, with the view of SNGs still adhering to achieving national targets. For example, central government may specify funds to be used for capital investment but exclude certain types of these expenditures (such as for the purchase of vehicles for *Bupati*). In designing a PBGS, governments should consider that tight control and earmarking of funds will limit the room for SNGs to achieve productive and allocative efficiency in allocating their resources based on local priorities.

In countries where the majority of SNGs still have limited capacity in the delivery of public services, the design of a PBGS should focus on strengthening cross-sectoral institutions. Therefore, PBGS type C in Figure 3 is often the first choice. Meanwhile, type A grants are most appropriate for SNGs with a mature institutional environment but with a few weaknesses in their basic structure, SNGs with robust, strong, and accountable local systems, and SNGs with fully-devolved sectoral responsibilities.

A PBGS may focus on inputs, processes, outputs, and outcomes. Many grant systems emphasise the resource-management perspective, systems, procedures, and processes. Nevertheless, strong systems of process indicators (e.g. a planning and budgeting process that is open to and accommodates citizen input and timely, good financial management practices) are important requirements for achieving public service outputs.

The implementation of a PBGS that focuses on outputs or outcomes, especially for a multi-sector PBGS, is very promising. However, there are some challenges that need to be considered in its design and implementation. First, the grant system tends to change the use of funds towards the outputs of certain sectors and will therefore shift the grant system to non-discretionary sector grants that rely on strict grant use procedures. Second, SNGs may claim that outputs, and especially outcomes, are not under their full control but depend on other external factors. Third, SNGs may use grants for different purposes than specified, making it difficult to compare the performance of these SNGs in terms of outputs, especially in multi-sector PBGS. Fourth, the assessment process requires detailed assessment tools with very specific definitions and targets, and this will require high costs.

Unconditional block grant funding in a PBGS is more closely tied to process indicators of performance. This is not only because indicators are easier to measure, but also because they are useful for SNGs (e.g. enabling citizen participation in decision-making processes, and involvement of women and marginalised groups).

3.3 Main Components of a PBGS

A PBGS ideally consists of three mutually reinforcing components. The three components are: (i) performance grant; (ii) performance incentive system (including the assessment system and process); and (iii) capacity-building support (including support to a sound system for assessment). These three components must be coordinated effectively between the central government and SNGs.

Performance grant. The performance grants are fundamental to any PBGS. The amount of grants must be of a sufficient size (relative to other funding sources), so that SNGs have the desire to improve their performance. In addition, the amount of grants must be set in such a way that SNGs benefit (or lose) meaningfully if they decide to comply (or not comply) with the system. The aggregate grants amount (grants pool size) can be determined based on the calculation of funding requirements for such performance grants, which can be linked as a percentage of existing transfers. In addition, the grant pool size can also be based on the total number of SNGs that will receive grants and the average grant amount that will be given. Although this differs among countries, eligible expenditures to be funded from the performance grant include a broad non-sectoral menu and a short negative list of non-eligible expenditures.

Assessment system and measures. A PBGS usually includes an annual assessment of SNG performance, which is carried out using a clearly defined set of indicators along with an assessment procedure. The assessment process plays a key role in the successful implementation of a PBGS. The assessment indicators are grouped into two categories: Minimum Conditions (MCs) and Performance Measures (PMs).

- **Minimum Conditions (MCs).** MCs are the basic conditions with which SNGs need to comply to be able to access performance grants. MCs are formulated to ensure an SNG has the minimum absorptive capacity/performance (e.g. planning documents are submitted on time, and financial audit results are satisfactory) in place to administer the additional funds. MCs are often formulated as on-off triggers for the release of grants. Ideally the entire set of MCs should be met before SNGs can access their grants.
- **Performance Measures (PMs).** PMs are qualitative and variable measures of SNG performance. These measures will go into more detail within each functional area (e.g. involvement of poor and vulnerable groups in the planning process, and quality of environmental management). The purpose of PMs is to adjust the level of funds made available to SNGs when they have complied with the basic MCs.

In general, a PBGS uses a combination of MCs, which are intended as on-off triggers wherein complying SNGs indicate a high degree of safeguards against the misuse of funds, and PMs, which are intended to adjust the size of the grants, to promote better performance. UNCDF (2017) suggests ensuring the core areas (such as planning, budgeting, and financial management) are well-targeted. It also suggests avoiding too many indicators of low importance, although some of these indicators may be included to raise future awareness. In addition, all indicators should cover functions/activities where SNGs have full control and for which performance is genuinely attributable to SNGs' management.

Assessment process. The definition of MC and PM indicators, as well as the structure of the scoring system, have important bearing on the acceptance and credibility of the PBGS. The SNG performance assessment mechanism is very important for the functioning of a PBGS. If this mechanism does not work properly, or lacks (or is seen to lack) integrity and objectivity, the incentive structure, which is the added value of the PBGS, will be seriously compromised, and the grants cannot fulfill the objectives.

A PBGS should be administered to minimise conflicts of interest, which among other things can be implemented by keeping the performance assessment process as independent and neutral as possible. To overcome the risk of conflict of interest, the assessment process can be carried out by including only indicators that can be easily verified, making the process transparent, undergoing an audit process, and/or quality assurance. In addition, this process can also be carried out on a contracted basis, as teamwork, or involving SNG representatives and other stakeholders. Something that is often overlooked are the associated administrative and other costs (including and especially the assessment process) that do not get adequate funding allocation. Therefore, in designing the PBGS, it is necessary to pay attention to the expenses for these activities.

Capacity-building support. The third component that is no less important for the success of a PBGS is well-designed capacity building that enables SNGs to address their capacity weaknesses and to improve performance. Capacity building can also be aimed at supporting SNGs in preparing utilisation of proceeds of performance grants effectively. One of the funding options for this activity is through a capacity-building grant scheme designed as part of the PBGS. This grant usually has a much smaller value than the amount of a performance grant, and would be used to fund capacity-building activities, such as the conduct of training and the purchase of minor equipment

3.4 Implementation of PBGS to District Governments in Indonesia

Indonesia has implemented a few PBGS from the central government to district governments (*kabupaten* and *kota*); some of these systems are carried out within the IGFT framework.⁸ Following are brief descriptions of the systems.

- **Initiatives for Local Governance Reform (ILGR).** ILGR, initiated in late 2002, aims at providing support to participating *kabupaten* governments in improving transparency, accountability, and public participation, as well as in undertaking reforms in financial management and procurement. MCs for ILGR include a letter of commitment and for the *Bupati*, among other things, to implement reform, establish reform units/committees, adopt procurement and financial management verification, and announce the budget, prepare the budget implementation report, and make public documents available in local media. There are 30 indicators that focus on minimum conditions. The size of grants varies between IDR 0.5 to 9 billion per SNG per year, in which 10% of the total investment cost is provided by SNGs. UNCDF (2017) reported that, overall, the investment fund is adequate as an incentive for SNGs to undertake reforms, even though the conditions (MCs and MPs) have been set at very high levels.
- **Water Hibah (Water Grants or WH).** Within the framework of the WH, district governments make equity investment in their water enterprises (PDAM). The PDAM then use the invested funds to create household water connections, especially for the poor. The promised grant is contingent on the maximum amount of funds that the MoF intends to transfer and is associated with a targeted number of connections to be established by the PDAM. Once the investments have been made and the water connections have been verified as operational, MoF transfers funds to the district government (in the year in which connections are created and verified). The amount of grants is IDR 2 million per connection for the first 1,000 connections, and IDR 3 million per connection thereafter, until the maximum is reached. WH was initiated in 2011 in 35 district governments and led by the Indonesian Infrastructure Initiative, a facility of the Australian Government Department of Foreign Affairs and Trade.

⁸ In addition, the central government is currently providing incentives for villages that have good performance as part of the DD; this will be discussed in section V.

Impact evaluation analysis suggests that the WH encourages district governments to make larger investments in their PDAM than they would otherwise (Lewis, 2014). This implies that participation in WH leads district governments to an increase in per capita equity investment and the creation of new household water connections.

- **Proyek Pemerintah Daerah dan Desentralisasi (Local Government Projects and Decentralisation or P2D2).** Since 2011, P2D2 has aimed to encourage more and better district government capital spending associated with the Special Allocation Fund (DAK). Capital spending performance in P2D2 is measured based on the extent to which DAK allocations were spent as planned, and to which the output funded by DAK complied with basic technical standards. District governments that successfully fulfill such requirements are awarded about 10% of their initial DAK for relevant subsectors (or the amount of SNG counterpart contributions to DAK funding). P2D2, financed through a loan from the World Bank, started in 2011 in 68 district governments. An impact evaluation conducted two years after the start of the project showed that capital spending by P2D2 district governments is, on average, not greater than that by non-P2D2 *kabupaten* and *kota* governments (Lewis, 2014). However, among P2D2 participating district governments, as DAK increases capital spending rises more quickly. The results indicate that district governments participating in P2D2 use their DAK to crowd-in additional capital spending to a larger extent than non-P2D2 participants do, which is a reasonably positive outcome. MoF State Budget Centre noted that the monitoring system used in P2D2, the Web-Based Monitoring System, has been able to provide valuable information about how much SNGs are able to implement the DAK compared with the goals of the central government (Pusat Kebijakan APBN, 2015).
- **Dana Insentif Daerah (Regional Incentive Fund or DID).** DID is part of the Transfer to Regions and Village Funds (TKDD) sourced from the APBN to SNGs that satisfied certain criteria, with the aim of rewarding improvements and/or achievement of SNGs' performance in the areas of financial management, public government services, basic public services, and public welfare (KOMPAK, 2022). The DID assessment indicators are those related to the SNG performance and are the responsibility of all regional officials from various levels of subnational government (i.e. district, subdistricts, and villages). DID has been disbursed every year since 2010. The amount of disbursed funds has continued to increase, from IDR 1.2 trillion in 2010 to IDR 13.5 trillion in 2021. In 2022, the DID budget dropped drastically to IDR 7 trillion, due to the decline in state revenues as a result of the COVID-19 pandemic; these circumstances will certainly increase competition for SNGs in receiving DID. An evaluation of the DID implementation conducted by the MoF State Budget Centre in 2015 noted several obstacles (Pusat Kebijakan APBN, 2015). First, the DID policy is still ad hoc, because it is only regulated in the State Budget Law.⁹ Second, PMK on DID allocation is determined after the fiscal year begins. Third, the DID budget ceiling is relatively fixed (i.e. during FY 2011–2015) while the number of SNG recipients of DID is increasing, so that the level of interest of SNGs towards DID tends to decrease. In 2018, the MoF reformed the allocation of DID with the aim of strengthening the role of DID as an incentive instrument in the IGFT system. The reform includes simplification and sharpening of the criteria for the allocation of DID, as well as linking it with an assessment of the creative innovations created by each SNG (Kementerian Keuangan, 2017).

⁹ The term DID does not appear in the Law on Financial Relations between the Central Government and Regional Government (Law No.1/2022 or UU HKPD). Nevertheless, the law still regulates the distribution of financial incentives in general. MoF officials clarified that the central government would provide fiscal incentives for SNGs even though they will not use the DID name. The latter is done to provide flexibility in offering incentives to SNGs in the future; e.g. central government can support the achievement of certain development targets through the provision of performance grants (other than DID) that pursue acceleration in the achievement of these targets.

From the discussion above, it can be concluded that the provision of incentive grants to SNGs contributes to improving the performance of SNGs in the areas targeted by PBGS.

3.5 Incentive System in Existing Transfers to Villages

Various incentives, both intended and unintended, operate in the current system of transfers to villages. This paper argues that, in essence, the incentive system has been already in play in at least three types of transfers to villages, DD, ADD, and BH-PDRD, to the extent that they serve as MCs that the villages are required to meet, and as PMs that determine the value of the transfers to the villages or provide more flexibility to the villages.

Dana Desa (DD). The DD disbursement arrangement is governed by PMK, which has been renewed over time on an almost annual basis, with evolving requirements from one year to another. Following are some explanations on the incentive characteristics embedded in the DD disbursement conditions, based on the latest MoF regulation (PMK No. 190/2021) intended for DD FY 2022 implementation.

- **DD disbursement tranches.** DD is disbursed into tranches. The tranches for general villages are divided into three (40, 40, and 20%), while those for *Desa Mandiri* (self-supporting villages) are divided into two (60 and 40%).¹⁰ The distribution of DD into two tranches for *Desa Mandiri* provides more flexibility in managing finances than for the other villages. This provision can be viewed as a PM indicator in the disbursement of DD.
- **DD disbursement requirements.** Each disbursement is associated with a few conditions. The requirements for the first tranche disbursement are enactment of APB Desa and a power of attorney for DD Fund book-entry. The second tranche requirements include: (i) a report on the absorption and output achievement of DD FY 2021; and (ii) a report on the absorption and output achievement of the DD Phase I, with an average absorption rate of 50+% and an average output achievement of 35+%. The requirements associated with the third tranche comprise: (i) a report on the absorption and output achievement of the DD Phase II, with an average absorption rate of 90+% and an average output achievement of 75+%; and (ii) a report on village-level stunting prevention convergence for FY 2021.¹¹ All of the mentioned requirements must be met by the village government to obtain DD disbursement for each tranche; therefore, these requirements serve as MC indicators for DD distribution.
- **Indirect string to drive village investment priorities.** As previously discussed, DD can only be used to fund activities in the fields of Village Development and Village Community Empowerment, and the list of investment priorities is guided through a Ministry of Villages Regulation (*Permendes*). Any deviation in the use of DD for matters outside these two areas would likely be considered as non-compliant with the priorities of DD. Although not binding to the level of detail in activities, such general guidance can drive DD investment only to the priority areas that are deemed to be productive spending from the central government's perspective, and to discourage the use of DD for village administrative purposes.

¹⁰ The status of village development is determined annually based on the calculation of a composite index called the *Indeks Desa Membangun* (IDM) published by the MoV. The IDM classifies the status of development of villages in five categories: *Mandiri* (self-supporting), *Maju* (advanced), *Berkembang* (developing), *Tertinggal* (lagging), and *Sangat Tertinggal* (very lagging).

¹¹ The requirements for the second tranche disbursement for *Desa Mandiri* includes a stunting prevention convergence report.

Alokasi Dana Desa (ADD). Provisions related to ADD are made at the district level, so the MC and PM indicators embedded in ADD differ between districts. The distribution of ADD for the month of February and beyond in Kabupaten Bima in FY 2020 requires a written recommendation from the head of subdistrict regarding the details of the planned ADD use, and reports on the realisation and accountability for the use of ADD in the previous month. This provision serves as an MC indicator for receiving ADD from the district government. In addition, Kabupaten Bima also imposes sanctions if the remaining ADD in the Village Bank Account is more than 30% of the ADD received by the village in the relevant fiscal year plus the remaining ADD of the previous fiscal year(s).

Bagi Hasil Pajak Daerah dan Retribusi Daerah (BH-PDRD). As with ADD, BH-PDRD provisions are made at the district level. The disbursement of Phase I BH-PDRD in Kabupaten Bima for FY 2020 is accompanied by a report on the realisation of rural and urban land and property taxes, in which the village has met at least 20% of the tax collection target. Phase II disbursement must include similar detail as Phase I, but with at least a 75% tax collection target. Again, these reporting requirements serve as MC indicators for receiving BH-PDRD. In addition, the BH-PDRD in Kabupaten Bima also includes a PM indicator whereby the amount of transfers received by the village depends on the amount of taxes paid to the district government; the higher the value of the tax paid, the higher the BH-PDRD received.

Chapter 4

DINDA: Village PBGS in Kabupaten Bima

‘...the village incentive fund existed as an innovation to encourage village governments to improve governance...’ (Ms Indah Dhamayanti Putri, Bupati Kabupaten Bima)

The first known performance-based grant system for villages at the district level was initiated in Kabupaten Bima, West Nusa Tenggara Province. Known as the Village Incentive Fund (*Dana INsentif DesA* or DINDA), the program aims to improve village performance in financial governance, basic service governance and community welfare through a fiscal incentive that is awarded from the district government to high-achieving villages. DINDA has specific focus on improving village governance and overall village performance, and on increasing access for villagers to basic education, health, and population administration services.

This section starts with a general discussion on the importance of implementing a PBGS from district to village governments, followed by discussions on the background and implementation of DINDA during FY 2017–2021. The discussions continue with information and brief analysis of the characteristics of PBGS in DINDA. The analysis is enriched by the presentation of interview results with key stakeholders at the district, subdistrict, and village levels in Kabupaten Bima. This section concludes with a brief discussion on the replication of DINDA in five other district governments.

4.1 Why Implement PBGS from the District to Village Governments?

The district government decision to use monetary-based incentives in dealing with village governance issues is considered reasonable for the following reasons. First, while the VL still positions villages as part of district administration, it also provides villages with much greater authority and resources than they have previously held. The VL still considers the district as the lowest tier of government, while the village is positioned as a self-governing community owning decision-making and budgeting power (PATTIRO, 2020). Greater village authority could mean a lesser ability for district governments to have a direct influence over village affairs, with respect to achieving broader and district-wide development objectives. Within this context, district government adoption of PBGS to village government systems could be viewed as an attempt to maintain a balance in achieving district goals while, at the same time, respecting village autonomy. Financial incentives are intended to bring improvement in village behaviour through voluntary actions to respond to the incentives.

Second, there has been increasing concern about the excessive administrative and compliance requirements that potentially hinder the ability of village governments to focus on service delivery (World Bank, 2019b). Village governments are overloaded with such demands that originate from all levels of government and multiple sectoral agencies, but are often not really tied to village-level issues. In this context, it is reasonable for the district governments to find alternative approaches in dealing with village underperformance concerns. Merely imposing new additional compliance requirements to already overloaded village governments may not be an optimal solution, as they often create new problems. The strategy of providing incentive funds could become a solution with minimum risk, at least in forming new kinds of village non-adherence.

Third, while there existed a mechanism in the current IGFT system to reward SNGs' performance (i.e. the DID), there is no similar kind of transfer for rewarding village performance. The initiative of developing PBGS at the village level has been partly inspired by the national IGFT system and partly driven by the objective reason of solving local problems.

While the need for village PBGS is obvious, at least to some district governments that have been trying to develop it, realising it in practice is often challenging. Nonetheless, any attempts or ongoing initiatives for building PBGS for villages should be considered an improvement, even if they are not yet fully achieving the desired results.

4.2 DINDA Background

The creation of DINDA was driven by Kabupaten Bima Government's need to stimulate village government behaviour towards improved village budget discipline (Faisal, 2020). This initiative is based on the Supreme Audit Board (BPK) opinion related to the implementation of budgeting and village financial management in Kabupaten Bima in FY 2016, which was referred to as 'inadequate' (*tidak memadai*). Some findings that underlie this opinion are:

- There are 126 (out of 191) villages whose APB Desa violates the '30% budget cap' provision.¹² The provision stipulates that a village spends a maximum of 30% of the total village expenditures to fund: (i) fixed income and allowances for the village head and apparatus; (ii) village government operations; (iii) Village Council (BPD) allowances and operations; and (iv) incentives for neighbourhood administrators (RT/RW). Such a budget cap is deemed essential to prevent opportunistic behaviour of the village officials to disproportionately allocate village budget for their own benefit at the expense of other important village investments.
- Only 20 (out of 191) villages with APB Desa had enacted their budgets before March, and the rest were enacted after March. Such considerable delays in budget enactment eventually cause a substantial amount of unused funds (SiLPA) to be accumulated as savings at the end of the fiscal year.
- The results of field tests on a few sampled village construction works found that the Budget Plan (RAB) was drastically different with different designs/drawings for construction works.

Based on these unfavourable findings, Kabupaten Bima Government attempted to seek a problem-solving formula with the basic idea of encouraging villages to improve governance and performance, with villages that achieved this to receive financial incentives. KOMPAK provided technical assistance and facilitated

¹² In the larger context, the World Bank's Village Expenditure Review, based on the 2016 village APB Desa dataset of more than 1,800 villages, reveals only 41% of villages complied with the cap, and villages with *Mandiri* and *Maju* development status were the least likely to comply (World Bank, 2019c).

several related meetings between local government agencies (OPD) that resulted in the initial formulation of the DINDA. The preparation of DINDA involves multi-sector stakeholders, including among others, the Community and Village Empowerment Office (DPMD), District Planning Board (Bappeda), Education and Culture Office, Health Office, Population and Civil Registration Office, Subdistrict Heads (*Camat*), and Village Heads. The presence of various parties in the preparation of DINDA makes the concept of DINDA more likely to represent the interests of these stakeholders. DINDA was formalised and launched in 2017 through by the issuance of *Perbup* No. 41/2017 on The Procedures for Allocating and Determining Village Incentive Funds.

4.3 DINDA Implementation

DINDA is scheduled to be implemented for the first time in FY 2017 with the issuance of *Perbup* No. 41/2017. However, in the subdistrict-level assessment process, only three out of 18 subdistricts submitted three village names as candidates to become DINDA recipients. This resulted in no DINDA assessment at the district level and, in turn, resulted in the cancellation of the DINDA implementation (Faisal, 2020).

In FY 2018, almost all subdistricts (16 out of 18) submitted the names of candidates to become DINDA recipients, based on an assessment at the subdistrict level. The names of 20 DINDA recipient villages/winners were announced at the end of June 2019 through a *Bupati* Decree (*Kepbup*). The delay resulted in the recording of revenues from DINDA (which is recorded as BKkD) in the Revised APB Desa FY 2018 (Faisal, 2020).

Although the number of subdistricts that proposed names of potential DINDA recipients to districts increased to 17, the announcement of the 20 villages that were selected to receive the DINDA FY 2019 was announced at the end of December. The disbursement of the DINDA incentive was therefore carried over to FY 2020, and there was no distribution of performance grants to villages for FY 2019.

In FY 2020, DINDA was not implemented because the *kabupaten* government had to refocus its budget to deal with the COVID-19 pandemic. Incentives to villages through DINDA were re-budgeted in FY 2021. However, the district government was not able to conduct a DINDA assessment. The latest information obtained indicates that Kabupaten Bima will carry over the budget allocation of DINDA FY 2021 to FY 2022.

From the discussion above, it can be concluded that the provision of performance grants to villages through the DINDA program has only been implemented twice, namely in FY 2018 and FY 2019 (although the latter incentives were only disbursed in FY 2020). The difficulties encountered, based on the information received, stemmed from the failure to carry out the assessment of the DINDA recipients. An in-depth evaluation is worth carrying out to systematically study what components of the entire DINDA system need improvement.

4.4 Performance Indicators

The performance indicators used to assess village performance are divided into two groups: (i) Village Planning and Financial Management Governance; and (ii) Basic Services and Village Economy Governance. Each indicator comprises a number of indicators (for a total of six indicators); and each indicator consists of a number of variables (27 variables) (see Table 4). The comparison of the total weights for the Village Planning and Financial Management Governance and the Basic Services and Village Economy Governance groups was 50:50% in FY 2017 and then changed to 60:40% in FY 2018–2019. The ‘Preparation of the Village Annual Work Plan (RKP Desa)’ indicator did not exist in FY 2017. Meanwhile, the variable with the highest weighting is number 5 ‘On-time Stipulation of Village Regulations on APB Desa’ with a weighting of 14%. The latter shows the importance of this variable in measuring village performance on DINDA.

Table 4. DINDA Performance Indicators FY 2017–2019

Village Governance/Indicator/Variable	Weighting (percentage)	
	FY 2017	FY 2018 and FY 2019
A. Village Planning and Financial Management Governance		
a. Preparation of the Village Annual Work Plan (RKP Desa)		10
1. Level of Community Participation in Village Deliberations on RKP Desa		4
2. On-time Stipulation of Village Regulations on RKP Desa		6
b. Preparation of APB Desa	20	20
3. Level of Community Participation in Village Deliberations on APB Desa	2	2
4. Availability of Infographics or Other Information Media about APB Desa	2	2
5. On time Stipulation of Village Regulations on APB Desa	14	14
6. APB Desa in SISKEUDES application format	2	2
c. Budgeting in APB Desa	30	15
7. Percentage of PADes to Total Village Revenues	10	5
8. Percentage of Basic Service Expenditure to Total Village Expenditures	10	5
9. Percentage of Last FY Unused Fund (SiLPA) to Total Village Expenditures	10	5
d. Village Financial Administration	15	15
10. On-time Submission of Accountability Report (SPJ) on the Use of Funds	3	3
11. On-time Submission of Realisation Reports for First Semester (current FY, end of July) and End of Year (last FY, end of December)	3	3
12. On-time Submission of Implementation of Village Administration Report (LPPD) to <i>Bupati</i>	3	3
13. On-time Submission of Information on the Implementation of Village Government Report (LKPPD)	3	3
14. Provision/Distribution of Written Government Administration Information to Village Communities	3	3
B. Basic Services and Village Economy Governance		
a. Basic Services	36	27
15. Education: Early Childhood Education Enrolment Rate	4	3
16. Education: Drop-out Rate	4	3
17. Health: Maternal Mortality Rate	4	3
18. Health: Infant Mortality Rate	4	3
19. Health: Attendance Rate of Residents Targeted by <i>Posyandu</i> (Integrated Healthcare Post)	4	3
20. Health: Percentage of Population with Malnutrition Status to Total Population	4	3
21. Sanitation: Percentage of Population Practising Open Defecation to Total Population	4	3
22. Cross-cutting: Percentage of Women and People with Disability Groups to the Total Group	4	3
23. Legal Identity: Percentage of Number of Birth Certificates to Total Population	4	3

Village Governance/Indicator/Variable	Weighting (percentage)	
	FY 2017	FY 2018 and FY 2019
b. Village Economy	14	13
24. Contribution of Revenues from Village-Owned Enterprises (BUM Desa) and Other Village Business Institutions to PADes	5	4
25. APB Desa Budget Support for BUM Desa and Other Village Business Institutions Capital	3	3
26. Number of Villages Leading Product Initiatives	3	3
27. Percentage of Village Expenditures for a Productive Economy for Women to Total Village Expenditures	3	3

Source: *Perbup* Kabupaten Bima No. 41/2017, No. 6/2018, and No. 33/2019.

Note: The total weighting for FY 2017 and 2018 is 115%. The author considers that there was an error in writing the weights for variables 7-9, where each variable should have a weighting of 5%. The error for FY 2018 has been fixed by the author in the table above.

Based on performance indicators and the weighting allocation for each variable, DINDA can be categorised as a PBGS focused/leaning towards institutional development indicators with multi-sector use of funds (as will be discussed later), or PBGS type C (in Figure 3). This type, as discussed previously, is usually adopted if the SNGs/villages receiving grants still have limited capacity in the delivery of public services, as do most villages in Indonesia.

Based on the type of indicator, all variables used in DINDA are categorised as a Performance Measure (PM). Most of the variables, especially those in the Village Planning and Financial Management Governance group, are under the control of the village government. A few variables in the Basic Service and Village Economy Governance group need detailed definitions. For example, variable number 22 'Cross-cutting: Percentage of Women and People with Disability Groups to the Total Group' needs clarification on the purpose of and how to measure this variable. More importantly, how valid are the measurement results of all basic service variables at the village level, because detailed data collection is required due to the small area coverage of the measurement (i.e. a village). For example, the variable number 20 'Health: Percentage of Population with Malnutrition Status to Total Population' would be difficult to measure reliably, considering the difficulty of measuring stunting among children aged 0–2 years. Another example, variable number 21 'Sanitation: Percentage of Population Practising Open Defecation to Total Population' would be better if it was proxied by the proportion of households that do not have latrine facilities at home and whether villages have shared latrine facilities.

In addition to literature review, this study also relied on a small-scale survey (through interviews) with key stakeholders in Kabupaten Bima.¹³ Concerning knowledge of DINDA performance indicators, all village officers who were respondents and whose village had received DINDA attested that they knew of the indicators, even though their level of understanding of these indicators varied. In contrast, village officials from villages who had never received DINDA replied that they did not know DINDA assessment indicators and had never received socialisation on the indicators from subdistrict officials. They also stated that they were

¹³ Village-level respondents consisted of Village Heads and Village Secretaries in two villages that had been DINDA recipients twice, four villages that had received DINDA once, and three villages that had never been selected as DINDA recipients. At the subdistrict level, interviews were conducted with subdistrict officials from two subdistricts with villages that had ever received DINDA; while at the kabupaten level interviews took place with the Head of Bappeda and Bappeda's Section Head of Social Culture.

aware of the existence of DINDA assessment indicators from villages that had received DINDA. Regarding the relevance of DINDA performance indicators, the majority of village respondents said that the indicators are in accordance with the scope of village authority and part of day-to-day administrative processes.

4.5 Assessment Procedures

The performance assessment of villages in Kabupaten Bima is conducted in two stages. The first stage took place at the subdistrict level by the subdistrict assessment team. The team is formed through a *Bupati* Decree and comprises the *Camat*, Subdistrict Secretary, and Village Governance Facilitator (PTPD). During the assessment process, the team disseminates DINDA indicators to all villages and encourages them to participate, performs data matching and verification, and carries out field assessment without notifying the village. The first stage assessment process resulted in the subdistrict nominating three villages to participate in the second stage assessment.

The second stage assessment is conducted at the district level. The district assessment team consists of officers from the Bappeda, DPMD, and selected sectoral agencies. This team verifies the subdistricts' assessment results, provides data for sectoral indicators, ranks villages according to their score on the performance indicators, and recommends the names of 20 villages as DINDA recipients to the *Bupati*. The *Bupati* then announces the name of the villages receiving the DINDA performance grants through a *Bupati* Decree.

Interviews with village stakeholders provided an overview of the weaknesses of the assessment process to determine DINDA recipient villages. The majority of village officials from villages who received DINDA understood the DINDA assessment process. In spite of that, the majority of village officials said that they were not aware of the nomination process that took place at the district level. The lack of information about the DINDA assessment process makes villages that did not receive the funds feel dissatisfied and assume that there has been lobbying in determining the recipients of DINDA grants.

The procedure for determining DINDA recipients ignores a fairness issue. The submission of three villages as candidates for performance grants by the subdistrict assessment team has the implication of not providing equal opportunities for all villages to compete. For example, a village occupying the fourth position in one subdistrict will not have the opportunity to receive DINDA, even though the village may have scored better than a nominated village in another subdistrict. Fairness is one of the six principles for assessing village performance proposed to the Directorate General of Fiscal Balance (DJPK) by KOMPAK to improve the allocation of DD (KOMPAK, 2021c). Fairness here is defined as every village having the same opportunity to receive an AK performance grant from the DD. This issue will be elaborated further in the following discussion.

Table 5. DINDA Recipients, FY 2018–2019

Subdistrict	Village receiving DINDA FY 2018		Village receiving DINDA FY 2019	
	Name	Development status	Name	Development status
1. Monta	Pela	<i>Tertinggal</i>		
	Simpasai	<i>Berkembang</i>		
	Tolouwi	<i>Berkembang</i>		
			Sie	<i>Berkembang</i>

Subdistrict	Village receiving DINDA FY 2018		Village receiving DINDA FY 2019	
	Name	Development status	Name	Development status
2. Bolo	Bontokape	<i>Berkembang</i>		
	Leu	<i>Berkembang</i>		
			Nggembe	<i>Berkembang</i>
			Rato	<i>Mandiri</i>
3. Woha	Rabakodo	<i>Berkembang</i>		
	Tenga	<i>Berkembang</i>		
	Waduwani	<i>Tertinggal</i>		
			Dadibou	<i>Tertinggal</i>
			Naru	<i>Berkembang</i>
4. Belo			Cenggu	<i>Maju</i>
5. Wawo			Raba	<i>Berkembang</i>
6. Sape	Naru Barat	<i>Berkembang</i>		
			Lamere	<i>Berkembang</i>
			Oi Maci	<i>Maju</i>
7. Wera				
8. Donggo			O'o	<i>Berkembang</i>
9. Sanggar	Boro	<i>Berkembang</i>	Boro	<i>Berkembang</i>
	Kore	<i>Maju</i>		
10. Ambalawi			Tolowata	<i>Berkembang</i>
11. Langgudu	Rupe	<i>Berkembang</i>		
			Sambane	<i>Berkembang</i>
12. Lambu	Monta Baru	<i>Tertinggal</i>	Monta Baru	<i>Tertinggal</i>
	Sangga	<i>Tertinggal</i>		
13. Madapangga	Dena	<i>Berkembang</i>		
			Rade	<i>Berkembang</i>
14. Tambora			Oi Bura	<i>Berkembang</i>
15. Soromandi	Kananta	<i>Tertinggal</i>	Kananta	<i>Tertinggal</i>
16. Parado	Kanca	<i>Berkembang</i>		
	Paradowane	<i>Berkembang</i>		
			Paradorato	<i>Berkembang</i>
17. Lambitu			Kaowa	<i>Tertinggal</i>
18. Palibelo	Belo	<i>Maju</i>		
	Teke	<i>Berkembang</i>		
			Tonggorisa	<i>Berkembang</i>

Source: KOMPAK calculations based on *Keptup* Kabupaten Bima on DINDA recipients for FY 2018 and FY 2019, and Ministry of Villages, Development of Disadvantaged Regions, and Transmigration (MoV) Village Development Status (IDM) for FY 2018 and 2019.

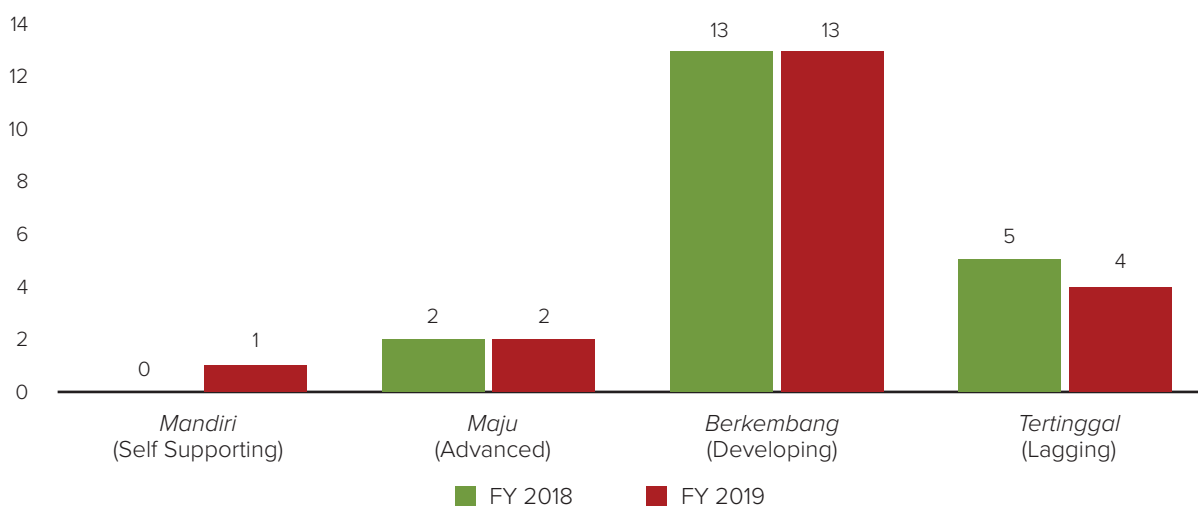
Note: Village development status at the subdistrict level is calculated as the average of the village IDM score in the subdistrict; then converted to the village development status category. *Mandiri* = self-supporting; *Maju* = advanced; *Berkembang* = developing; *Tertinggal* = lagging.

Table 5 shows the names of DINDA-recipient villages accompanied by their development status (which is based on FY 2020 IDM data). There are three points on the selected DINDA recipients worth mentioning here. First, in FY 2018 there were seven subdistricts in which no villages received DINDA. As 16 (out of 18) subdistricts proposed three villages as candidates to compete in the second round of assessment, this implies there were five subdistricts that submitted DINDA candidates but ended up with none of their villages receiving the performance grant. Furthermore, there were two subdistricts in which all three nominated villages received performance grants. This fact shows that in FY 2018, in determining the ‘winners’ of DINDA funds, the district assessment team selected 20 villages with the highest score out of all the available candidates (i.e. in this case 16 X 3 = 48 villages).

Second, the situation changed in FY 2018, when all 17 subdistricts that submitted candidate names had at least one village receive DINDA. This was probably due to the *kabupaten* government intention to ensure that each subdistrict was represented (i.e. there was at least one village in each subdistrict) with a DINDA recipient and, therefore, the principle of equity was upheld in determining performance grant recipients at the subdistrict level.

Third, there are three villages from three different subdistricts that received DINDA twice. This shows that villages that have received DINDA in a certain year still have the opportunity to compete in the assessment process for the following year. In addition, there is one subdistrict that has never received DINDA for one of its villages: Kecamatan Wera. It is certain that this subdistrict did not propose any candidate for the DINDA assessment process in the second round for FY 2019, and may have done likewise in FY 2018. We do not have information regarding why Kecamatan Wera decided not to submit village candidates for the second phase of DINDA assessment, but it is worth exploring.

Figure 4. Village Development Status of DINDA Recipients, FY 2018–2019



Source: KOMPAK calculations.

Note: Village development status category is based on IDM FY 2018 and 2019.

Figure 4 depicts the DINDA-recipient villages grouped by their development status. The DINDA recipients are dominated by *Desa Berkembang*, but it turns out that a quarter, in FY 2018, and one-fifth, in FY 2019, of the performance grant recipients are *Desa Tertinggal*. This shows that the DINDA recipients, which are determined through a two-tiered assessment process, do not only represent villages with higher development status (i.e. *Desa Mandiri*, *Maju*, or *Berkembang*).

4.6 DINDA Grant Pool and Performance Grant Amount per Village

The size of allocated funds to finance the implementation of DINDA have thus far depended on the availability of funds, rather than on careful considerations of the needs of the villages to finance key aspects (public investments or activities) that can encourage village governments to improve their performance. This implies that the allocated funds for DINDA remain on an ad hoc basis, and are not tied to a particular revenue or spending item (as in ADD and BH-PDRD). Kabupaten Bima set an amount of IDR 1 billion per year as the DINDA grant pool. The amount is derived from ADD, but not as a percentage of it.¹⁴

The DINDA grant pool of IDR 1 billion is distributed evenly to 20 recipient villages. Each village received a performance grant of IDR 50 million. In 2020, each village, on average, receives a total of IDR 1,521.2 million from DD (IDR 991.9 million), ADD (IDR 504.1 million), and BH-PDRD (IDR 25.2 million). Therefore, the DINDA grant per village is equivalent to 3.3% of the average total revenues from the three main transfers to villages, or double that of BH-PDRD revenues; a sufficiently high financial resource to make it of interest for the village.

One point worth mentioning and needing attention for future improvements is related to the equal amount of performance grant given to DINDA-recipient villages. This provision means that the village with the highest score (out of 20 DINDA recipients) receives the same amount of performance grant as the village with the lowest score. In the first years of DINDA implementation this might not have been an issue, but in the future it is possible that villages will not be interested, or at least not enthusiastic, about competing for these funds because of this issue. As a reference, in FY 2021, the Regional Incentive Fund (DID) provides performance grants with different amounts across districts, ranging from IDR 6.7 billion to IDR 104.2 billion, depending on the district's performance scores in each of the 24 categories.

4.7 DINDA Grant Utilisation

Each DINDA-recipient village in FY 2018 and 2019 received a performance grant of IDR 50 million. The use of these grants, which is regulated in a *Bupati* Decree (*Kepbup*), includes 20% intended for family planning, women's empowerment, and child protection activities, and allocation of the rest to be determined through Village Deliberative Meetings (*Musdes*). Interviews with relevant stakeholders show village governments translated the mandatory expenditure as a budget allocation for *Posyandu* (Integrated Healthcare Post) cadres and PKK (Family Welfare Movement) activities. Villages spent the remaining funds on various purposes, including renovating the BPD office, purchasing office facilities, procuring motorcycles for village officials, as well as renovating slum houses in the village.

4.8 Impacts of DINDA: the 'DINDA Effect'¹⁵

DINDA has been widely recognised as a good practice or innovation in improving village performance. Its successful implementation and broad acceptance in Kabupaten Bima has led to replications in at least six *kabupaten* and one province (to be discussed in the next subsection). At the national level, DINDA implementation has led to the introduction of the Performance Allocation (AK) component of DD started in FY

¹⁴ *Perbup* Kabupaten Bima No. 7/2017 on ADD for FY 2017 is the only *Perbup* that states an allocation of IDR 1 billion DINDA as part of ADD.

¹⁵ The impact of DINDA discussed in this subsection is based on reports from Kabupaten Bima officials, as well as interviews with KOMPAK staff and consultants in charge of DINDA implementation, and also relevant stakeholders in Kabupaten Bima; and not from a structured evaluation of the benefits and impacts of the DINDA initiative. The term 'DINDA Effect' was coined by Kabupaten Bima officials.

2020 (to be discussed in the next section). More recently, DINDA won the TOP 45 Public Service Innovation Award at the 2021 National Public Service Innovation Competition (SINOVIK), commissioned by the Ministry of Empowerment of State Apparatus and Bureaucratic Reform (KemenPAN-RB).

KOMPAK (2021a and 2021b) and Faisal (2020) described how DINDA contributed to improving overall village governance and citizens' access to basic services in Kabupaten Bima, among other things, as follows:

- Improvement in the timeliness of submission of village planning and budgeting documents. In FY 2016, only 20 villages (10.5%) were able to finalise their APB Desa on time, while in FY 2020, 121 villages (63.4%) enacted their budgets in timely manner.
- The APB Desa posture became more oriented toward improving community needs. In FY 2016, on average, only 11.3% of village expenditures were allocated for community empowerment activities. This figure increased to 40% in FY 2019.
- The APB Desa managed to meet the minimum 20% required allocation for basic social services for the poor and vulnerable in FY 2020.
- In terms of access to basic services, DINDA was reported to contribute to increasing ownership of civil registration documents. The ownership of birth certificates increased from 77.5% in 2016 to 93.2% in 2019, while e-KTP (electronic ID cards) ownership increased from 80.5% in 2016 to 97.8% in 2019.
- Citizens' access to clean water also increased from 78.6% in 2016 to 80.9% in 2019.

Despite the widespread recognition, assessing DINDA's impacts on village governance and access to basic services is not straightforward, especially if the assessment emphasis is on causality. Nevertheless, interview results with key stakeholders shed light on this causality mechanism. Their responses suggested that DINDA managed to stimulate villages to improve their performance. Apart from the financial reward, village heads attested that receiving the DINDA performance grant 'made them proud'. All respondents also mentioned that the annual nature of the award encouraged the unsuccessful villages to improve their performance, including by being more attentive to their governance and sectoral data. Subdistrict officials indicated that they focused on supporting the three worst-performing villages in their subdistrict with the view of gradually improving these villages' performance. KOMPAK's field assessment found there was improved village community participation and increased awareness in addressing the Gender Equality, Disability, and Social Inclusion (GEDSI) aspects in the village development planning process. Field visits also concluded there was increased use of the Village Information System (SID) and, more importantly, the use of data in village planning.

4.9 Replication of PBGS in Six Kabupaten¹⁶

Reflecting on the smooth implementation of DINDA and its positive impact on improving village performance, six district governments have the desire to replicate incentives to high-performing village governments. The KOMPAK team has provided technical assistance to six district governments in designing PBGS for villages, drafting the accompanying legal framework, and making suggestions for its implementation. This technical assistance was carried out based on the experience of implementing DINDA in Kabupaten Bima and by taking into account adjustments for specific *kabupaten* conditions.

¹⁶ Due to different scope and nature, this subsection will not discuss DINDA replication at the provincial level. In principle, performance grants are given in the form of financial assistance to villages (BK-Desa *Insentif*) with development statuses of *Mandiri*, *Maju*, and/or *Berkembang*, and to or villages that have made innovations. One unique characteristic of the BK-Desa *Insentif* is that the village government must submit a proposal to the provincial government for funding.

The following is a summary of the PBGS for the six districts (extracted from KOMPAK (2021b) and related *Perbup*).

- **Kabupaten Bantaeng, South Sulawesi: DiDESA (Dana Insentif DESA).** The provision of performance grants is directed at strengthening village performance governance in achieving the fulfillment of Minimum Service Standards and Sustainable Development Goals at the village level. One of the milestones expected from the implementation of DiDESA is the on-time submission of APB Desa. Performance evaluation is based on the assessment of village financial management, basic service governance, village economic conditions, village innovation, and IDM. The legal basis for implementing DiDESA is *Perbup* Kabupaten Bantaeng No. 79/2019.
- **Kabupaten Lumajang, East Java: DiDes (Dana Insentif Desa).** Kabupaten Lumajang provides performance grants to villages with the aim of supporting rural communities to prosper and accelerating the use of good governance principles in running village government. Village performance assessment is carried out in two stages at the subdistrict (first stage) and *kabupaten* (second stage) levels. The assessment team at the subdistrict level proposed the names of three villages to compete at the district level, based on grouped criteria: main and performance. The main criteria require village to fulfill all four indicators: (i) has Village Regulation (*Perdes*) on village authority; (ii) submits APB Desa (which uses the SISKEUDES format) in a timely manner; (iii) has a village profile for the past two years; and (iv) no irregularities in village cash management. Only villages that meet all of the provisions of the main criteria will be assessed through the performance criteria. The *kabupaten* assessment team will determine the DiDes recipients from candidates submitted by the subdistrict team. DiDes incentives can be used for the provision of basic services; construction, rehabilitation, and maintenance of facilities and infrastructure that support basic services; and/or capacity building of village government apparatus. The legal basis for implementing DiDESA is *Perbup* Kabupaten Lumajang No. 105/2019.
- **Kabupaten Sumbawa, West Nusa Tenggara: DiDes (Dana Insentif Desa).**¹⁷ As in Kabupaten Lumajang, the aims of the Village Incentive Fund known as DiDes in Kabupaten Sumbawa are to support rural communities to prosper and accelerate the use of good governance principles in running village government. Village achievement assessments are carried out in two assessment tracks: general and thematic. The general assessment track determines recipient villages through an assessment in which all village performance indicators are employed. Meanwhile, in the thematic assessment track, selection is based on certain thematic categories determined through a *Kepbup*. The number of villages receiving DiDes through the general assessment track is 10 villages, while through the thematic assessment track it is 15 villages. The grant pool size for DiDes is determined to be at least 2.5% of ADD; this makes Kabupaten Sumbawa's PBGS the only one (thus far) that explicitly sets the size of the grant pool to some transfer mechanisms. The terms of use of DiDes follows those of the ADD. The legal basis for implementing DiDESA is *Perbup* Kabupaten Sumbawa No. 7/2020.
- **Kabupaten Aceh Barat, Aceh: Dana Insentif RAMli and BanTA (DIRATA).**¹⁸ The Village Incentive Fund known as DIRATA aims to reward *gampong*¹⁹ with performance improvements; *gampong* that have achieved effectiveness and efficiency related to financial management; and *gampong* with performance that has supported the *kabupaten* government's performance. The assessment of

¹⁷ DiDes is also known as DiDes GERA, where GERA stands for *GE*milang yang *beR*kead*Ab*an (literarily means Glorious the Righteous).

¹⁸ Ramli and Banta are the names of, respectively, the *Bupati* and *Wakil Bupati* (Deputy Head of *Kabupaten*) of Kabupaten Aceh Barat.

¹⁹ *Gampong* is the name for a village in Aceh. DIRATA is also known as *Dana Insentif Gampong*.

gampong performance includes aspects of governance, planning and budgeting, basic services, population and land administration, poverty alleviation, *gampong* information systems, Islamic and customary laws, and *gampong* innovation. The legal basis for implementing DIRATA is *Perbup* Aceh Barat No. 14/2020.

- **Kabupaten Bener Meriah, Aceh: Depik (Dana insEntif Pembinaan Kampung).** Depik is a performance grant provided the *kampung* governments that can manage the DD well. The objectives of Depik are, first, to improve *kampung* performance in managing government affairs and *kampung* community interests. Second, it seeks to maximise the use of DD and ADD to support village development; and third, to support the *kabupaten* government in achieving DID in accordance with village authority. The legal basis for implementing Depik is *Perbup* Kabupaten Bener Meriah No. 30/2020.
- **Kabupaten Trenggalek, East Java: BKKD Insentif.** PBGS to villages in Kabupaten Trenggalek is regulated as part of the Special Financial Assistance to Villages (BKKD). There are three types BKKD: affirmative, incentive, and delegative. Performance grants to villages are the incentive BKKD *Insentif*. The incentives are given to villages that have innovations, achievements, and have won awards at the district, provincial, and national levels, related to public services improvement, problem-solving of basic service problems, and strategic issues, economic growth, poverty alleviation, and tourism, and/or villages that have experienced an increase in IDM status. The legal basis for implementing BKKD *Insentif* is *Perbup* Kabupaten Trenggalek No. 25/2020.

The implementation of the PBGS initiative in these six *kabupaten* was delayed due to the COVID-19 pandemic, but is expected to take place in FY 2022 or 2023. Nevertheless, the existence of a legal umbrella for the implementation of PBGS in each of these six districts is an important milestone for upcoming implementation of PBGS.

Chapter 5

Alokasi Kinerja: Institutionalising Village-Level PBGs at the National Level

Since 2016 KOMPAK has been providing assistance to the MoF (through the Directorate General of Fiscal Balance (DJPK)) – in partnership with the Ministry of National Development Planning (Bappenas), the Ministry of Home Affairs (MoHA), and Ministry of Villages, Development of Disadvantaged Regions, and Transmigration (MoV) – in the development of a subdistrict and village performance incentive approach that is linked to the distribution of funds from the central government. Such assistance consists of two components. First, it includes an initiative to link Regional Incentive Funds (DID) at the district level to subdistrict and village indicators. The initiative aims to better link the performance of the three tiers of local government (district-subdistrict-village), so that their priorities reinforce each other. Second, based on the implementation of DINDA in Kabupaten Bima, it has provided inputs on the design of incentives for villages as a component of DD. The latter are known as Performance Allocations (AK). The allocation of DD, one of the criteria for which is based on village performance, has been formally stated in the law on fiscal relations between central and subnational governments (Law No. 1/2022), the law that regulates IGFT in Indonesia.

This section describes AK based on its provisions for the first three years of implementation (FY 2020–2022), and discusses the characteristics of AK from the PBGS point of view.

5.1 Performance Allocation (AK) of DD

Based on MoF regulations (PMK), AK is defined as the allocation given to the village that has the best performance appraisal result. The AK came into effect in 2020, two years after the implementation of DINDA in Kabupaten Bima. In designing the AK, DJPK learned and reflected on the experiences of DINDA, from its objectives and functions, design, implementation, and monitoring.

Table 6. Basic Characteristics of AK

	2020	2021	2022
Pool of AK	IDR 1.08 trillion (1.5% of DD)	IDR 2.16 trillion (3%)	IDR 2,72 trillion (4%)
# Of receiving village	7,495 (10% of total villages); clustered by # villages in district: <ul style="list-style-type: none"> • 11% of # villages if district has 1–100 villages • 10% if 101–400 villages • 9% if 401+ villages. 	7,496 (10%); clustered by # villages in district: <ul style="list-style-type: none"> • 11% of # villages if district has 1–100 villages • 10% if 101–400 villages • 9% if 401+ villages. 	11,244 (15%); clustered by # villages in district: <ul style="list-style-type: none"> • 17% of # villages if district has 1–51 villages • 16% if 52–100 villages • 15% if 101–400 villages • 14% if 401–500 villages • 13% if 500+ villages.
Amount of AK per village	IDR 144.1 million	IDR 288.2 million	IDR 241.9 million

Source: PMK No. 205/2019, PMK No. 222/2020, and PMK No. 190/2021.

The overall size of the AK pool is determined as a percentage of DD. At the beginning of its implementation (2020), the amount of AK was 1.5% of the total DD. This amount was intended to double to 3% in 2021, and increase again to 4% in 2022. The number of villages receiving AK in the first two years of implementation was set at 10% of total villages, then increased to 15% in 2022. The determination of AK-recipient villages is based on clusters at the district level. This is done to ensure that AK-recipient villages are spread throughout the district.

As shown in Table 6, the larger the number of villages in a district, the smaller the percentage of villages in that district that receive AK. The determination of AK recipients is limited to villages competing within a district; this is similar to the determination of DINDA FY 2019 recipients, which in principle involved villages competing at the subdistrict level. Nevertheless, there is an opportunity to improve the fairness of determining AK beneficiaries through competition at a higher level, such as at the provincial, archipelagic (Sumatra, Java, Kalimantan, Sulawesi, and eastern Indonesia) levels, or nationally.

The amount of AK per village is divided equally among all recipient villages. In 2020, each AK-recipient village received IDR 144 million. This amount, following the doubling of the AK pool, increased to IDR 288 million in 2020. With the increase in the number of beneficiary villages greater than that of the AK pool in 2021, this amount fell to IDR 242 million. As with DINDA, the amount of AK per village is the same for all villages regardless of other factors, especially village population. The provision of performance grants with the same value between AK-recipient villages will result in unequal AK per capita. This, in turn, will increase per capita DD inequality.

5.2 Performance Indicators

The performance indicators used to determine prospective AK recipients consist of two types: main criteria and performance criteria. The main criteria, which are basically MCs, are conditions that must be met by the village to be able to obtain AK. These main criteria currently consist of three indicators, as shown in Table 7.

Table 7. Minimum Conditions (MCs) and Performance Measures (PMs) for AK FY 2020–2022

	2020	2021	2022
Minimum Conditions (MCs) Main Criteria	N/A	Village does not receive Affirmative Allocation (AA)	<ul style="list-style-type: none"> Does not receive AA Village development status: developing, developed, or independent Implemented village cash assistance (BLT Desa) in 2020
Performance Measures (PMs) Performance Criteria (2020 and 2021) (weighting 100%) Mandatory Performance Criteria (2022) (weighting at least 75%)	<p>Village financial management (weighting 20%)</p> <ul style="list-style-type: none"> Change in the ratio of Village Own-Source Revenues (PADes) to the total revenues in Village Budget (APB Desa) (weighting 50%) Ratio of expenditure on Village Development and Village Empowerment fields to total APB Desa expenditures (weighting 50%) <p>DD management (weighting 20%)</p> <ul style="list-style-type: none"> Percentage of conformity in the Village Development and Village Empowerment fields to total APB Desa expenditures (weighting 55%) Percentage of self-managed procurement (<i>swakelola</i>) of DD goods and services (weighting 45%) <p>DD achievement (weighting 25%)</p> <ul style="list-style-type: none"> Percentage of DD absorption realised (weighting 50%) Percentage of DD output achievement (weighting 50%) <p>Village development achievement (weighting 35)</p> <ul style="list-style-type: none"> Change in village development index (IDM) score (weighting 30%) Change in village development status (weighting 30%) Village development status (weighting 10%) Improvement in the number of poor residents in village (weighting 30%) 		
Performance Measures (PMs) Additional Performance Criteria (2022) (weighting up to 25%)	<p>Village financial management</p> <ul style="list-style-type: none"> Village regulation on APB Desa 2021 is stipulated in a timely manner Village regulation on Medium-term Village Development Plan FY 2021 existed Village regulation on Village Annual Work Plan (RKP Desa) FY 2021 and related amendments existed Village Treasury Budget Plan FY 2021 existed Fixed income/allowances for village head, village apparatus, and BPD FY 2020 does not exceed 30% of APBD expenditures Infographics or other media information about APB Desa FY 2020 available <p>DD management</p> <ul style="list-style-type: none"> Percentage of expenditures for Village BLT to DD FY 2020 Percentage of expenditures for improving the quality of life of the village community to DD FY 2020 Percentage of expenditures/equity financing for Village-Owned Enterprises (BUM Desa) to DD FY 2020 Percentage of expenditures for handling COVID-19 outside Village BLT to DD FY 2020 Percentage of expenditures for village cash-for-work to DD FY 2020 Percentage of expenditures for handling stunting to DD FY 2020 Percentage of expenditures for food security and animal production to DD FY 2020 Percentage of expenditures for information and communication technology to DD FY 2020 <p>DD achievement</p> <ul style="list-style-type: none"> Number of workers from the village involved in village development funded by DD FY 2020 Number of BLT Desa beneficiary families FY 2020 <p>Village development achievement</p> <ul style="list-style-type: none"> Availability of village innovation products FY 2020 Contribution amount of BUM Desa to PADes in APB Desa FY 2020 Status of village that has stopped open defecation FY 2020 Number of achievements in implementing sustainable village development FY 2021 		

Source: PMK No. 205/2019, PMK No. 222/2020, and PMK No. 190/2021.

In FY 2022, the performance criteria are divided into indicator groups, namely: mandatory and additional indicators. Each group of performance criteria indicators contains four categories: (i) village financial management, which contains inputs indicators; (ii) DD management, which represents process indicators; (iii) DD achievement, which comprises output indicators; and (iv) village development achievement, which contains indicators of outcomes. Most of the indicators used in the mandatory performance criteria do not reflect village performance and are therefore worth revisiting. Critical notes on the 10 indicators in this group, as well as proposed changes, are discussed in KOMPAK (2020).

5.3 Assessment Process

The assessment process to determine the villages that received AK in FY 2020 and 2021 was carried out entirely by the central government through the DJPK MoF. In FY 2022, districts are given the role of partially assessing the performance of villages within their jurisdiction. This is done voluntarily for predetermined indicators (see Table 7); therefore, the indicators that can be used by the district government are fixed (i.e. closed list). Depending on the number of indicators that will be assessed by the district government, the maximum share of the district government in the performance assessment of AK is 25%. The involvement of the district governments in conducting the assessment needs to be appreciated, but this has implications for the non-uniformity of indicators across villages in the assessment process. KOMPAK (2021c) also emphasises the importance of the principle of comparability in allocating AK performance grants, where comparability refers to the use of the same performance measurement and indicators for each village. Nevertheless, considering that the competition between villages occurs at the district level, the use of different indicators will not affect the final result.

Table 8. Number of AK Recipients in Kabupaten Bima, FY 2020–2022

<i>Kecamatan</i>	FY 2020	FY 2021	FY 2022	Villages that received both DINDA and AK
1. Monta	0	4	0	
2. Bolo	3	3	5	Rato
3. Woha	2	3	3	Naru
4. Belo	2	0	1	Cenggu
5. Wawo	0	0	1	
6. Sape	0	1	2	Naru Barat
7. Wera	2	2	1	
8. Donggo	0	4	1	
9. Sanggar	2	0	3	Boro
10. Ambalawi	1	1	1	Tolowata
11. Langgudu	5	0	0	Rupe; Sambane
12. Lambu	1	0	4	Monta Baru
13. Madapangga	1	0	1	Rade
14. Tambora	0	0	0	
15. Soromandi	0	0	2	Kananta
16. Parado	0	1	1	Paradorato
17. Lambitu	0	0	0	
18. Palibelo	0	0	3	Belo
Total recipients	19	19	29	

Source: PMK No. 190/2021; *Perbup* Kabupaten Bima No. 7/2020 and No. 6/2021.

The results of the assessment process for determining AK recipients for Kabupaten Bima for FY 2020–2022 are shown in Table 8. It can be concluded that in the process of determining AK recipients, the subdistrict that each village belonged to was not taken into consideration. This is reflected in FY 2020, in which there were nine subdistricts with villages that did not receive AK. In FY 2021, the number of subdistricts where none of their villages received AK was 10; and in FY 2022 it decreased to four subdistricts. In the three years of AK implementation, villages located in two subdistricts, Kecamatan Tambora and Lambitu, have never received AK. In addition, there are 13 different villages that have received both DINDA (FY 2018–2019) and AK (FY 2020–2022).

Chapter 6

Lessons Learned and Recommendations

Since 2017, KOMPAK has provided technical assistance to some district governments in developing initiatives to provide fiscal incentives to village governments with the intention of improving village performance in financial governance, basic service outcomes, and community welfare. The fiscal incentive that is awarded to high-achieving villages was a breakthrough in the provision of a PBGS from the district government to the village government in Indonesia. Kabupaten Bima was the first district to award such an incentive through DINDA. After Kabupaten Bima was successful in implementing two rounds of DINDA in 2018–2019, the central government adopted the provision of incentives to villages nationally through the Performance Allocation (AK) component of the Village Fund (DD). This section discusses the main takeaways from the implementation of DINDA in Kabupaten Bima and the *Alokasi Kinerja* (AK) component of DD nationally, and offers recommendations for improving the quality of future PBGS to villages.

6.1 Main Takeaways: A Good First Step

Kabupaten Bima Government's initiative to improve governance and the quality of village-level public services by providing financial incentives to villages that have good performance is *a good first step* and needs appreciation. Interviews results with key stakeholders in Kabupaten Bima, as well as data analysis, show progress in terms of village governance (e.g. an increasing number of villages that enact their APB Desa on time), enthusiasm from village officials and district governments, as well as an increase in some basic service outputs. Likewise, the initiative of six district governments to replicate PBGS to villages should be applauded, even though it has never been implemented due to some unforeseen constraints, among other things and especially by the COVID-19 pandemic. To the extent that the DINDA initiative won the TOP 45 Public Service Innovation Award at the 2021 National Public Service Innovation Competition (SINOVIK) from the KemenPAN-RB confirms the importance and success of DINDA in improving village performance in Kabupaten Bima.

At the national level, the addition of the Performance Allocation (AK) component to the Village Fund (DD) since FY 2020 is also *a good first step*. The grant pool size from AK (as a percentage of DD), which continues to increase, can be interpreted as a successful implementation of the provision of incentives. The inclusion of the village performance component as an element of the DD calculation shows that the central government recognises the importance of having a performance-based grants component in the largest transfers to villages.

International and Indonesian experiences in managing intergovernmental transfers have signalled that PBGS is *far from a silver bullet* (World Bank, 2020). Nevertheless, any initiatives to build an incentive system, including incentives to the villages, should be considered an improvement, considering the potential benefit they bring through improvements in village governance and public services.

So, what are the next steps?

6.2 Recommendations: Further Improvement in Provision of Village Incentives

The following are a number of recommendations for improving PBGS to villages, both at the district (i.e. DINDA) and national (i.e. AK) levels.

Grant pool size. In FY 2018 and 2019, the pool size is set at IDR 1 billion and is part of ADD, which seems to be ad hoc. The size of the DINDA pool should be tied to a certain transfer component; for example, as a percentage and on top of ADD. As a side note, in the APB Desa, DINDA receipts are recorded as financial assistance from the district government (BKkD); this causes the recording of ADD expenditure in the APBD to differ from the total ADD received by all villages.

Number of beneficiaries. In FY 2018 and 2019, the number of villages receiving DINDA was set at 20 villages or 10% of the total villages in Kabupaten Bima. If it is deemed necessary, for example to further improve village performance, the number of beneficiaries can be increased to 30 villages or 15% of the total villages (similar to the number of villages receiving AK).

Addressing the equity versus fairness principles. Some provisions of DINDA and AK tend to prioritise the principle of equity, so that the principle of fairness is somewhat neglected.

- **Villages should have the same opportunity to compete.** For DINDA selection, the restriction on the nomination of three villages per subdistrict can be seen as closing the opportunity for all villages to be nominated as DINDA recipients. One way to deal with this is to submit scores from all villages for evaluation at the district level. The district-level assessment team can decide that there is at least one winning village from each subdistrict (for a total of 18 villages; applying the equity principle), with the rest to be determined based on the highest score (two villages, or 12 villages if the number of DINDA winners is increased to 30 villages; applying the fairness principle).
- At the national level, the competition for receiving AK is conducted at the district level. The number of AK recipients is limited to around 15% of the total number of villages in the district. Such a provision is unfair, because it allows for villages that do not receive AK in one district to have a higher score than villages receiving AK in other districts. One way to overcome this is to allow AK competition at a higher level than the village. For example, competition at the district level is limited to 8% of the total number of villages in the district, while the remainder of villages are competing at the provincial, regional/ island group, or national levels.
- **Amount of incentives per village.** The amount of incentives in FY 2018 and 2019 was set at IDR 50 million, while AK fluctuated across years and is at IDR 241.9 million in FY 2022. This means that villages with higher DINDA/AK scores receive the same amount of incentives as those with lower scores. One way to determine the amount of DINDA that would pay attention to both of the equality

and fairness principles would be by allocating DINDA/AK as follows: (i) 40% divided evenly; and (ii) 60% divided based on the DINDA scores. This arrangement is expected to spur villages to improve their performance to obtain higher amounts of incentives.

- If, to uphold the principle of equality, especially for DINDA, it is deemed necessary to regulate that villages that have received DINDA in year t are not eligible to receive it in year $t+1$, then such a provision needs to be stated explicitly in the *Perbup*. Nevertheless, such an arrangement should be avoided, as it violates the principle of providing incentives to the 'best performing' villages.

Performance Indicators. Some important points for increasing PBGS to villages related to indicators are as follows:

- The number of indicators, especially those related to Performance Measures, needs to be reduced, focused on the purpose of performance grants, and being under the full control of the villages. Theoretically, the use of indicators with large numbers tends to either set the target too high for villages to achieve or will tend to incentivise mediocrity (as villages tend to aim for the middle on most indicators).
- Some PMs need to be refined both in terms of definition and relevance to the assessment objectives. In doing so, it is necessary to pay attention to the quality of the data used to generate these indicators, as well as their replicability in other districts. Therefore, definitions, data sources (including those carried out by the relevant *Dinas*), and scores need to be stated openly, including if there is any disputation by the village government.
- The score of an indicator must be able to represent village performance in a more granular way. The indicator of the percentage of the number of students dropping out of school to the number of students in the village, for example, should not be transformed into quartiles, so that the village can only get a score of 1, 2, 3 or 4 (and 0 if data is not available); instead, these numbers can be standardised to 0 (minimum) and 1 (maximum).

Assessment process. The assessment process for year t DINDA recipients needs to be carried out earlier. The announcement of the list of DINDA-recipient villages needs to be announced no later than November in year $t-1$. The aim is to provide certainty to the village government receiving DINDA to prepare the APB Desa for year t . Socialisation of assessment and nomination of candidates for DINDA recipients by the assessment team at the subdistrict level, as well as verification, validation, and ranking by the assessment team at the district level needs to be made more transparent. The names of the three nominated villages by the subdistrict assessment team, along with their scores, needs to be announced to all village governments in the respective subdistrict. Meanwhile, the names of the DINDA-recipient villages (which are determined through *Bupati* Decree) should be made available to all village governments. Assessment scores and decisions need to be communicated openly, so that village governments will be more motivated to take part and compete in the DINDA process.

Encourage district government to have its own PBGS to villages. The central government should encourage district governments to design and implement their own PBGS to villages in accordance with the objectives they want to be achieved. For this purpose, the central government can provide guidance in the preparation of the PBGS based on the experience of managing AK, while district governments that have implemented their PBGS (so far only Kabupaten Bima) can highlight their experience. The central government can also divert some of the AK funds to be managed directly by district governments with PBGS to villages in place and where they have implemented it well. As a first step, district governments are encouraged to take part in the AK assessment process by submitting scores on indicators in the additional performance criteria.

Capacity building. One important component of PBGS is the capacity building that accompanies its implementation. Based on the experience of DINDA and AK, no structured effort has been made to accommodate such needs. Capacity building is aimed at, among other things, improving the capacity of village governments to become recipients of performance grants (for villages that have never received them), and improving village government capacity in the effective use of performance grants (for villages that have received them). This capacity-building activity needs to be well designed and obtain adequate funding.

Thorough evaluation of DINDA and AK. The implementation of DINDA (FY 2018–2019) and AK (FY 2020–2022) needs to be thoroughly evaluated with a view to future improvements. This comprehensive evaluation would cover all aspects of PBGS, such as objectives, design, performance indicators, performance assessment, and information disclosure, as well as studying opportunities for appropriate capacity building.

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