

INDONESIA

Country Summary Brief

Country Name:

Indonesia

WB Project Involved: Name of Project and Project Code:

PNPM Rural ([P128832](#))

PNPM Generasi ([P132585](#))

PNPM Village Training Project ([P132945](#))

Village Law PAAA Project ([P153219](#))

Technical Assistance and Support to Bappenas and Kemenko Kesra Project ([P144980](#))

Name and Date of Legislation/Policy:

[Law No. 32 of 2004 on Regional Autonomy](#) (October 2004)

[The Village Law – Law No.6/2014](#) (January 2014)

[Government Regulation No. 43/2014 on the Implementation of the Village Law](#) (June 2014)

[Government Regulation No. 60/2014 on Village Grants](#) (July 2014) – Amended by [Government Regulation No. 22/2015](#) (May 2015)

* Ministry-level subsidiary regulations are also available on request to the Indonesia team.

Description of Legislation/Policy:

The new Village Law (Law No.6 of 2014) was approved by the Indonesian Parliament (*Dewan Perwakilan Rakyat*: DPR) in December 2013 and ratified by the President in January 2014. The law replaces a Government Regulation on Villages under the previous Law No. 32 of 2004 on Regional Autonomy.¹ The new law strengthens the legal status of villages, increases their authority and responsibility, and recognizes “*adat*,” traditional village governance arrangements. The law substantially increases direct transfers to villages, which are to be used for administration, development, and community empowerment. It requires districts to transfer around 10% of the fiscal balance funds received from the central government to villages—a three-fold increase—and requires the national government to transfer an additional 10% directly to villages. The law establishes a new institutional framework for community development in Indonesia’s 74,091 rural villages.

The Village Law incorporates a number of key CDD principles and institutions, including participatory village planning, implementation of village-level projects, inter-village collaboration, community facilitation and community oversight. The law is expected to improve transparency and accountability based on experience implementing PNPM activities, such as village meetings and information systems. Village Assemblies (*Musyawarah Desa*) will be the highest decision-making body, building on the accountability forum of PNPM Rural.

¹ The first national law on villages was Law No. 5 of 1979.

The village transfers will be scaled over time. The national government allocated IDR 280 million (USD 20,000) in 2015, and district governments are estimated to allocate around IDR 500 million (USD 40,000). It is estimated that, starting in 2017, each village will receive approximately IDR 1.4 billion (approximately USD 122,000) on average each year. The transfers are partially financed via the consolidation of existing community-based national development programs (including PNPM).

Government Regulation No. 43/2014 on the Implementation of the Village Law and Government Regulation No. 60 of 2014 on Village Funds (*Dana Desa*) were approved by the President in June and July 2014, respectively. Government Regulation No. 43 of 2014 covers village government structure, village formation, village head elections, village councils, development planning, village financial management, inter-village collaboration, rural development, customary villages, assets, etc. Meanwhile, Government Regulation No. 60/2014 includes the scheme for the transfer, prioritization and reporting of funds allocated in the national budget.

Nation-wide implementation of the Village Law began in 2015. The first six months have been slow. Funds have finally started to be disbursed; however, mandated technical assistance for villages is not yet in order (e.g. delay in the placement of village facilitators, socialization, and training). In addition, there are gaps in the sub-national regulatory framework.

Background of CDD Project(s) involvement in Legislation/Policy. Type of TA provided:

The PNPM Village Training Project provided significant input and technical support in drafting the Village Law based on over 15 years of operational experience and longitudinal analytical work. The project provided technical experts that advised the government and parliament on key aspects of the Law. The project and the PNPM Support Facility (PSF) also organized a number of study tours for DPR members to visit PNPM project sites in collaboration with the Government's Team for the Acceleration of Poverty Reduction (TNP2K).

The PNPM Rural and PNPM Generasi projects have recently moved to the Ministry of Villages, Disadvantaged Areas and Transmigration, a new ministry charged with policy and oversight for village development activities, and are transitioning to support community development and empowerment within the new institutional framework. Technical assistance and guidance are provided while the relevant ministries draft the government regulations and guidelines.

The Village Law Programmatic AAA Project was recently established to provide complimentary policy advice and analytical activities in the first three years of implementation. The project has four pillars: i) Resource Mobilization, Allocations and Flows; ii) Village Development Governance, Accountability and Capacity; iii) Community Empowerment and Inclusion; and iv) Impact Evaluation. It is a cross collaboration of GSURR (Social, Urban, Rural and Resilience) and GGODR (Governance) and is financed from the PSF and J4P Trust Funds.

Other Comments:

The new Village Law has great potential to accelerate national development, but there are many challenges ahead. Indeed, its implementation over the next few years will be critical. When large resources come straight into a village without strong oversight, budgets are not always used for the benefit of those that need them the most. Capacity building and control measures for villages need to be put in place to ensure proper fund usage. In order to prepare villages to manage the large amount of capital, a new funding scheme will be introduced in sequences, which allows at least two years for the law to be fully operational. Human resource capability in villages needs to be improved so that they can manage the funds properly. Training should be given gradually to the village heads

and BPD members so that they can learn about the source of the funds, how to manage them, and the legal risks to mismanaged funds. The Village Law itself does not provide an adequate basis to regulate proper village financial management; therefore, it must be combined with the strengthening of other accountability and governance arrangements, including the capacity of districts to oversee and coordinate village activities, audit village budgets, and design a simple and effective budget and information management system. In the early years, it will be critical to establish a learning cycle of monitoring and analysis in order to understand and quickly address weaknesses in the regulatory framework and the implementation support structures.

Background Documents:

Hadi, Suprayoga. 2015. [The Role of CDD and Village Law in Promoting Village Development and Community Empowerment in Indonesia: Best-Practice, Mainstreaming, Implications, Implementation, and Challenges](#). PowerPoint Presentation.

PNPM Support Facility. 2014. [The implementation of the Village Law and the sustainability of PNPM](#).

World Bank. 2015. [Background Slides on Indonesia's Village Law](#). PowerPoint presentation.

World Bank. 2015. [Indonesia: "Big Bang" Institutionalization of CDD?](#) PowerPoint Presentation.

World Bank. 2014. [The Indonesian Village Law and the Future of PNPM in Rural Areas: Background, Content, Implications and Next Steps](#). PowerPoint Presentation.

World Bank. 2012. [Indonesia National Program for Community Empowerment in Rural Areas Project. Project Appraisal Document](#). Washington DC: World Bank.

Email exchanges with Hans Antlov, Senior Social Development Specialist, World Bank, Samuel Clark, Project Officer, World Bank, and Victor Bottini, CDD Specialist with DFAT-financed KOMPA

Updated: December 6, 2015