REPORT NO.: RES34406

DOCUMENT OF THE WORLD BANK

RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF

VILLAGE INNOVATION PROGRAM (VIP)

APPROVED ON DECEMBER 11, 2012

TO

REPUBLIC OF INDONESIA

SOCIAL, URBAN, RURAL AND RESILIENCE GLOBAL PRACTICE

EAST ASIA AND PACIFIC

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I. BASIC DATA

Product Information

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Financing Instrument</th>
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<tbody>
<tr>
<td>P128832</td>
<td>Investment Project Financing</td>
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<table>
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<tr>
<th>Original EA Category</th>
<th>Current EA Category</th>
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<tr>
<td>Partial Assessment (B)</td>
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<table>
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<tr>
<th>Approval Date</th>
<th>Current Closing Date</th>
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<tr>
<td>11-Dec-2012</td>
<td>31-Dec-2018</td>
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Organizations

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<tr>
<th>Borrower</th>
<th>Responsible Agency</th>
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<tr>
<td>Republic of Indonesia</td>
<td>Ministry of Villages, Development of Disadvantaged Areas and Transmigration</td>
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Project Development Objective (PDO)

Original PDO

The PDO of the Project is for villagers in PNPM-Rural locations to benefit from improved local governance and socio-economic conditions.

Current PDO

To improve participating village capacity to develop quality village development and implementation plans

Summary Status of Financing

<table>
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<th>Ln/Cr/Tf</th>
<th>Approval</th>
<th>Signing</th>
<th>Effectiveness</th>
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Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No
II. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES

PROJECT BACKGROUND

The original loan of US$650 million for the National Community Empowerment Program (PNPM) was approved on December 11, 2012, signed on January 22, 2013, and became effective on March 25, 2013. The original closing date of December 31, 2015 was first extended for 12 months to December 31, 2016, to complete the transition from PNPM to the Village Law. A second extension of three months to March 31, 2017, was processed to allow time to complete a Level 1 restructuring and a third extension of 18 months to December 30, 2018, was approved on March 27, 2017, as part of the Level 1 restructuring. In addition, the 2017 Level 1 restructuring: (a) revised the Project Development Objective (PDO) to reflect completion of the transition from PNPM to Village Law; (b) re-structured the project components; (c) re-allocated funds across the component disbursement categories; (d) revised the results framework in line with the changes; and (e) renamed the project to the Village Innovation Program.

The revised PDO as approved on March 27, 2017 is “to improve participating village capacity to develop quality village development and implementation plans.” The project has three components: (a) Village Innovation and Incubation Grants; (b) Village and Technical Capacity Building; and (c) Implementation Support and Technical Assistance.

Overall project implementation is divided into three phases: (a) the original PNPM project phase (2013-2014), which accounted for $396 million or 61% of project financing; (b) the PNPM to Village Law transition period (2015-2016), which accounted for $121 million or 19% of project financing; and (c) the Village Innovation Program period (2017-2018), which accounts for $133 million or 20% of the project financing. The project status update focuses on the third phase.

PROJECT STATUS

Overall progress towards achievement of the PDO is Moderately Satisfactory. The implementing agency reached or almost reached most targets due in 2017. At the PDO-level, the Ministry of Villages (MoV) reported that 4,720 villages benefited from technical services supported by the project (2017 target: 5,000) and qualitative evidence collected during the implementation support mission to five provinces in November 2018 found that district and village officials as well as community members felt that the project activities helped to better identify and align village needs and investments (PDO indicator 2), align village plans with national village development priorities (PDO indicator 3) and develop quality village activity implementation plans (PDO indicator 4). At the intermediate outcome level, the MoV reported that 33% of participants in village consultative forums were female (2017 target: 50%), 54% of districts had functional innovation exchange platforms (2017 target: 60% of 434 districts), and 17% of villages had datasets available to inform village prioritization (2017 target: 30%). These activities contributed to replication of village innovations with MoV's monitoring system estimating that approximately 41% of the 32,781 villages that participated in the 234 Village Innovation Exchanges in 2017 replicated village innovations in their plans for 2018. The Bank’s review of MoV M&E systems and the Executive Transformation Program (ETP) in April 2018 concluded that the M&E systems were being used to track and inform project implementation (Intermediate Results Indicator (IRI) 3.1), and that MoV capacity to implement its ministry-wide work plan had improved (IRI 3.2).

Preliminary data suggests that progress towards PDO achievement continued in 2018, with some notable exceptions that require additional time. The most significant progress has been made on the village innovation platforms, which is allocated approximately 90% of overall financing in phase 3 of the project. As of November 17, MoV had disbursed 62% of Village Innovation Grants (VIGs) and implemented the Village Innovation Exchanges in 69% of project districts.
(298 of 434 districts) and was on track to meet the 2018 target that 80% of districts have functioning village innovation platforms. Initial data also indicated female participation had increased to 42% (2018 target: 50%) and all five districts visited during the recent implementation support mission reported increased capacity to implement village development priorities (2018 target: 70%). A preliminary review of capacity building support under Component 3 conducted in September 2018 concluded that in 2018 MoV continued to improve its capacity to use M&E data for project decision making and improved its capacity to implement its ministry-wide annual work plan. Less progress, however, has been made on the activities that aim to increase capacity of village Technical Service Providers (TSPs) and ensure villages have access to comparative development data for planning purposes, which together account for about 7.5% of project financing during phase 3 of the Project. Delays in implementation of these activities means that MoV needs additional time to reach its 2018 targets for IRIs 1.4, 2.3, 2.4 and 2.5. Together these results from 2017 and preliminary results from 2018 indicate that the project is making progress towards achievement of its development objective but that additional time is required to achieve some important project targets.

The project’s relevance remains substantial. The recent Indonesia Performance and Learning Review (PLR) confirmed that the Project is a critical plank to the Bank’s support for human capital investment and Village Law implementation under Engagement Area 4: Local Service Delivery and Infrastructure (Objective 8). The project’s relevance was also demonstrated by the MoV showcasing the Village Innovation Program (VIP) to 334 participants from 41 countries during the World Bank Annual Meetings.

Overall Implementation Progress is Moderately Satisfactory. The rating was upgraded in the Bank’s Implementation Status and Results Report (ISR) of October 8, 2018, to reflect progress on implementation of activities under Components 1 and 2, improvements to financial management, progress on disbursements, timely submission of audits as well as continuing compliance with applicable safeguards and legal covenants. Most critically, in the second half of 2018, MoV accelerated implementation of the village innovation training for the district innovation platforms under Component 2, thereby enabling the Project to accelerate execution of the VIGs and implementation of the district-level Village Innovation Exchanges under Component 1. As of November 5, MoV had disbursed 62% of the VIGs and implemented the Innovation Exchanges in 57% of project districts (248 of 434 districts). It has also improved financial management and project management over the past 12 months and is on track to further strengthen these aspects of project implementation before the next ISR in March next year.

As of December 1, 2018, loan disbursements totaled US$591.31 million, or 91% of the project loan amount.

PROPOSED CHANGES

The Government of Indonesia has requested that the Bank extend the Project and Loan closing date by twelve months, from December 31, 2018 until December 31, 2019. The restructuring will not affect the PDO, project components, institutional arrangements, implementing agency, or procurement or financial management arrangements. As noted above, this one-year extension is required to complete existing activities and achieve the PDO. The one-year extension will necessitate adjustments in the disbursement projections and some dates for achievement of the final targets in the Results Framework. It will also provide an opportunity for the Government to support replication of village innovations relating to human capital and stunting reduction in 2019, including the Human Development Workers that another Project supported the Government to pilot in 2018.

III. DETAILED CHANGES
## LOAN CLOSING DATE(S)

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<tr>
<th>Ln/Cr/Tf</th>
<th>Status</th>
<th>Original Closing</th>
<th>Revised Closing(s)</th>
<th>Proposed Closing</th>
<th>Proposed Deadline for Withdrawal Applications</th>
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