



Country Assistance Program Evaluation

CAP: INO 2005-16

Country Assistance Program Evaluation for Indonesia

December 2005

Operations Evaluation Department
Asian Development Bank

CURRENCY EQUIVALENTS

Currency Unit – rupiah (Rp)

		December 1989	December 1994	December 1998	December 2000	October 2002	September 2003	January 2005
Rp1.00	=	\$0.000557	\$0.000456	\$0.000135	\$0.000106	\$0.000111	\$0.000118	\$0.000108
\$1.00	=	Rp1,794	Rp2,195	Rp7,425	Rp9,465	Rp9,012	Rp8,493	Rp9,241

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AFC	–	Asian financial crisis
AIAT	–	assessment institute for agricultural technology
BAPEDAL	–	Badan Pengendalian Dampak Lingkungan (Environmental Impact Management Agency)
BAPPENAS	–	Badan Perencanaan Pembangunan Nasional (National Development Planning Agency)
BRI	–	Bank Rakyat Indonesia
BTOR	–	back-to-office report
CAPE	–	country assistance program evaluation
CBUIM	–	Capacity Building for Urban Infrastructure Management
CDF	–	community development forum
CEA	–	country environmental analysis
CERD	–	Community Empowerment for Rural Development
CG	–	central Government
CGI	–	Consultative Group on Indonesia
CLGS	–	Community and Local Government Support
COREMAP	–	Coral Reef Rehabilitation and Management Project
COS	–	country operational strategy
CPI	–	corruption perception index
CSO	–	civil society organization
CSP	–	country strategy and program
DAU	–	Dana Alokasi Umum (revenue sharing mechanism)
DFL1	–	First Development Finance Loan
DFL2	–	Second Development Finance Loan
DGURD	–	Directorate General of Urban and Rural Development
DHS1	–	Decentralized Health Services
DHS2	–	Second Decentralized Health Services
DMC	–	developing member country
DO	–	development objective
DOA	–	Department of Agriculture
DPR	–	Dewan Perwakilan Rakyat (House of Representatives)
EA	–	executing agency
EDP	–	external development partner
ENRM	–	environment and natural resources management
FGR	–	Financial Governance Reform
FGSSR	–	Financial Governance and Social Security Reform
FSA	–	Financial Services Authority
FSPL	–	Financial Sector Program Loan

FSPL2	–	Second Financial Sector Program Loan
GAI	–	gender assessment for Indonesia
GDP	–	gross domestic product
GTZ	–	Deutsche Gesellschaft für Technische Zusammenarbeit (German Agency for Technical Cooperation)
IA	–	implementing agency
IBRA	–	Indonesian Banking Restructuring Agency
IMF	–	International Monetary Fund
IP	–	implementation progress
IPM	–	Integrated Pest Management
IRM	–	Indonesia Resident Mission
JBIC	–	Japan Bank for International Cooperation
LF	–	logical framework
LIBOR	–	London interbank offered rate
LG	–	local government
LTSF	–	long-term strategic framework
M&E	–	monitoring and evaluation
MDG	–	Millennium Development Goal
MF	–	Ministry of Forestry
MfDR	–	Managing for Development Results
MIC	–	middle-income country
MMUD	–	Metropolitan Medan Urban Development
MOF	–	Ministry of Finance
MOHA	–	Ministry of Home Affairs
MOU	–	memorandum of understanding
MPW	–	Ministry of Public Works
MREP	–	Marine Resource Evaluation and Planning
MSS	–	minimum service standard
MTR	–	midterm review
MTSF	–	medium-term strategic framework
NBFI	–	nonbank financial institution
NDP	–	national development plan
NGO	–	nongovernment organization
NPL	–	nonperforming loan
O&M	–	operation and maintenance
OCR	–	ordinary capital resources
OECD	–	Organisation for Economic Cooperation and Development
OED	–	Operations Evaluation Department
P4K	–	Proyek Peningkatan Pendapatan Petani Kecil (Income Generating Project for Marginal Farmers and the Landless)
PCR	–	program and/or project completion report
PDAT	–	Participatory Development of Agricultural Technology
PFI	–	participating financial institution
PFIII	–	Poor Farmers Income Improvement through Innovation
PG	–	provincial government
PHC	–	primary health care
PIU	–	project implementation unit
PLN	–	Perusahaan Listrik Negara (State Electricity Enterprise)
PPAR	–	program and/or project performance audit report
PPMS	–	project performance management system
PPR	–	project performance report
PPTA	–	project preparatory technical assistance

PRA	–	participatory rapid appraisal
PRC	–	People’s Republic of China
PROPENAS	–	Program Pembangunan Nasional (national development program)
PRS	–	Poverty Reduction Strategy
PSA	–	private sector assessment
PSRP	–	Power Sector Restructuring Program
REPELITA	–	Rencana Pembangunan Lima Tahun (Five-Year Development Plan)
RIG	–	Rural Income Generation
RRP	–	report and recommendation of the President
SCBD	–	Sustainable Capacity Building for Decentralization
SDP	–	sector development program
SERD	–	Southeast Asia Department
SES	–	special evaluation study
SJFC	–	South Java Flood Control
SME	–	small and medium enterprise
SOE	–	state-owned enterprise
SSN	–	social safety net
SUSENAS	–	National Socioeconomic Survey
TA	–	technical assistance
TI	–	Transparency International
UNDP	–	United Nations Development Programme

NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December. Before 1995, the FY of the Government ended on 31 March.
- (ii) In this report, “\$” refers to US dollars.

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EXECUTIVE SUMMARY

In the past decade, Indonesia experienced extraordinary changes that impacted both the country's economic performance and the performance of the Asian Development Bank's (ADB) operations in the country. Until 1997, steady economic growth and declining levels of poverty prevailed. Indonesia was considered as one of Asia's emerging tigers. The Asian financial crisis (AFC) resulted in sharp economic contraction, increased poverty, significant devaluation of the currency, and bankruptcy of much of the banking and corporate sectors. Amid these economic challenges, Indonesia embarked on a transition from an authoritarian to a democratic system. The democratic and decentralized decision-making system gave greater voice to civil society and exposed significant governance and corruption problems, which have been widely reported in the press. Decentralization laws were approved, but the necessary governance systems and local institutional capacity were not built. The decision-making system was subject to change, with five presidents heading the Government between 1998 and 2004. After several difficult years, the country regained some social, macroeconomic, and political stability with the election of the present government in 2004. In 2003, Indonesia graduated from the International Monetary Fund stabilization program. In the recent years, the Government has focused on debt management and this has taken a toll on the public investment expenditure for public goods. Although many economic management and governance challenges remain, achieving macroeconomic stability after such severe economic shocks, current high energy prices, and political changes represents a considerable achievement.

This country assistance program evaluation (CAPE), the first prepared for Indonesia, focuses on the responsiveness of ADB's country strategy and program (CSP) to the changes and challenges between 1990 and 2004. The CAPE is designed to evaluate the performance of ADB operations in Indonesia, rather than to assess the performance of the Government and the Indonesian economy. The CAPE used multiple instruments, including (i) a focus on selected thematic areas, particularly responding to the AFC, governance, and decentralization; (ii) participatory evaluation of selected ongoing projects; and (iii) sector-based portfolio analysis.

Indonesia is an important client of ADB. Based on cumulative approvals, Indonesia is ADB's largest borrower and largest recipient of technical assistance (TA). However, in 2003 and 2004, annual loan approvals, at about \$200 million, were at their lowest levels since 1978 and well below the \$1 billion level that was the norm in the 1990s. The decline in lending reflects political and economic uncertainties, the uncertainties associated with the move to decentralization, a limited range of ADB lending instruments, and the perceived high transaction costs associated with ADB operations. ADB was not alone in seeing a sharp fall in lending to Indonesia. Support from the World Bank showed a similar pattern. ADB's public sector operations in 2005 recovered to about \$800 million in loans and \$300 million in grants for emergency operations. Private sector operations in Indonesia resumed for the first time after the AFC with the approval of a \$350 million loan. It remains to be seen whether these levels of support are sustainable. Despite the recent low lending levels, the financing needs of the country are substantial. In 2005, the Government and the Consultative Group on Indonesia (CGI) agreed that the CGI would provide \$3.4 billion for financing infrastructure and other needs of the country.

Although Indonesia has access to the international capital markets, these funds are expensive. The Government issued a total of \$2.9 billion in bonds in 2005. The latest issue was at approximately 265 basis points over the London interbank offered rate (LIBOR) equivalent, compared with ADB's spread of 40 basis points over LIBOR. Part of this additional cost, at a time that ADB lending is at a historic low, could be considered as a proxy of the perceived

transaction costs associated with borrowing from ADB—time required for processing and implementation, the conditionalities involved, ADB-driven agendas, strict procurement procedures, and safeguard requirements. These transaction costs of doing business with ADB should be addressed by ADB management within the context of the Medium-Term Strategy (2006–2010), the Middle Income Country and Ordinary Capital Resources Partnership Framework, and the Innovation and Efficiency Initiative to provide better services to a major client.

Government and ADB Relationship. The Government and ADB had a satisfactory partnership during most of the CAPE review period. ADB's strengths in this partnership were adapting to the changes in the national development plans (NDPs), providing quick-disbursing funds in times of need, and focusing on areas where a large number of poor reside. ADB has now recognized the need to reduce transaction costs and improve results by delegating more authority to stronger developing member countries. Since Indonesia is one of ADB's major clients, consideration should be given to addressing its concerns about what ADB should do to improve the partnership as the country rebuilds its capacity for systematic planning, decision making, and allocation of resources to local governments (LGs). The Operations Evaluation Department's (OED's) consultation during the preparation of the CAPE revealed the following areas wherein the Government felt that ADB should improve its side of the partnership relationship (i) providing longer time frames for project preparation to accommodate the complex decentralized system, (ii) using appropriate project-readiness criteria to reduce the commitment fees paid by the Government, (iii) improving portfolio management by placing greater emphasis on the implementation and restructuring of ongoing operations, (iv) increasing government ownership of policy reforms and providing sufficient flexibility to respond to contextual changes, (v) improving the effectiveness of TA by utilizing a more demand driven approach, (vi) strengthening the skills mix and allocating more experienced staff to the Indonesia Resident Mission (IRM), (vii) increasing private sector operations and supporting the development of an enabling environment for the private sector, and (viii) developing the capital market by introducing new products.

Poverty and Millennium Development Goals. During Indonesia's period of rapid economic growth in the 1990s, poverty declined dramatically. Despite this progress, a large proportion of people still live on incomes just above the poverty line, and inequalities between regions and ethnic groups remain. The proportion of the population living on less than \$1 a day ranges from 41.8% in Papua to 3.4% in Jakarta. Non-income poverty also declined during the high-growth period. Oil revenues from the 1970s to the 1980s financed increased health and education expenditures. In the two decades before the crisis, the infant mortality rate fell by half, and universal primary school enrollment was achieved. However, problems remain regarding access to basic health, sanitation, and education facilities, especially for women, and in the outer islands. While some millennium development goals (MDGs) (e.g., primary schooling) are on track to meet the targets for 2015, faster progress is needed for others (e.g., dietary energy consumption and child mortality). Disaggregated data show considerable variation across regions and income classes in terms of MDG achievements. LGs are responsible for delivering many services that impact directly on MDGs, but many have weak governance structures and limited administrative and fiscal capacities.

Response to the Asian Financial Crisis. During the crisis (1997–2000), ADB approved a total of \$3.7 billion, 65% of which was for program loans. While staying engaged was appropriate, ADB lacked the modalities to address the crisis. ADB's support for the international rescue effort led by the International Monetary Fund was important, and this required approving loans quickly. ADB performed well in providing substantial support when it was needed. ADB approved several large program loans with ambitious attached reform agenda in areas like finance, energy, and

social sectors. A notable positive feature of some of these interventions was the inclusion of components to help protect the poor from the worst impacts of the AFC. Given the time pressure, insufficient analysis was done on the time frame needed to achieve these reforms and on the realism of enacting legislation under a parliament that had assumed more power in a more democratic political economy. This led to delays in disbursements and difficulties in implementing the agreed upon reform agenda. ADB subsequently adopted a more appropriate lending modality for supporting countries facing similar situations. ADB supporting Indonesia during the AFC was appropriate, but difficulties with available modalities lessened the impact of its performance.

Governance and Anticorruption. During the CAPE review period, the Government and its external development partners (EDP) made anticorruption part of the development agenda. ADB made major efforts to address governance and anticorruption issues and stationed a governance specialist in IRM. Addressing governance and anticorruption issues is a challenging task that requires sustained involvement over a long period of time. ADB has been involved in many activities in these areas. Some of ADB's anticorruption activities are not reported in public documents. While some outputs have been produced, ADB's contributions to governance and anticorruption have been fragmented. These activities need to be consolidated under a common results-oriented framework that places governance in the mainstream of ADB's operations in Indonesia. Indonesia is still experimenting with aspects of improved governance (i.e., corporate, judicial, and anticorruption initiatives). There are many potential areas in which ADB can engage in the framework of government-driven efforts to improve governance and tackle corruption. Given the long-term nature of governance initiatives, it is premature to draw firm conclusions related to sustainability of ADB's governance-related initiatives. Based on the interim positive outcomes, the rating of ADB's governance and anticorruption activities is assessed as *efficacious bordering on partly efficacious*.

Decentralization and Capacity Building. Decentralization has not yet resulted in institutional or procedural clarity or greater transparency at the LG level. ADB provided TA resources and some innovative loans to address the capacity-building needs related to decentralization. However, ADB was unprepared for the rapidly changing nature of the client and the need for more administrative and staff resources in IRM. Based on the diffused outcomes of ADB's decentralization efforts and limited impact of related knowledge products, the outcomes of this thematic area are assessed as *partly efficacious*.

Sector-Wise Performance. ADB has financed projects in 10 sectors in its Indonesian portfolio. No sector is dominant. Project outcomes vary by sector. Of the 111 loans approved during the CAPE review period, 58 had evaluation reports, 42 of which were self-evaluated. Based on the assessment of these 58 reports, ADB has a comparative advantage in lending for the education, transport and communications, health, and finance sectors with a highly satisfactory rating. These sectors account for 46% of total lending. These evaluation findings suggest that ADB should build on

Ratings of Completed Projects by Sector in 1990–2004					
Sector	Rating	Sectoral Share of All Loans Approved ^a	GS/HS/S	PS	US
			%	%	%
Agriculture and Natural Resources	PS	14.4	43.8	50.0	6.3
Education	HS	11.0	90.0	10.0	0.0
Energy	S	19.4	60.0	40.0	0.0
Finance	HS	16.1	75.0	25.0	0.0
Health, Nutrition, and Social Protection	HS	6.8	75.0	25.0	0.0
Industry and Trade		2.6	0.0	0.0	
Law, Economic Management, and Public Policy		7.4	0.0	0.0	0.0
Multisector		1.9		0.0	
Transport and Communications	HS	11.9	87.5	12.5	0.0
Urban, Water Supply, Sanitation, and Waste Management	S	8.5	62.5	37.5	0.0
Total		100.0			

GS = generally successful, HS = highly successful, PS = partly successful, S = successful, US = unsuccessful.
^a Up to July 2005.
 Source: Asian Development Bank.

past success and target a substantial part of its assistance to support these sectors. Performance in the agriculture sector, the sector with largest number of loans and about 14% of the lending volume, has been weaker. ADB should continue to assist this sector only if the Government strongly requests it to do so, and specific measures can be identified to improve performance.

Portfolio. The quality of ADB's Indonesian portfolio has fluctuated over time and has been a key concern to both ADB and the Government. The disbursement ratio was low and the proportion of loans at risk was almost double the ADB average from 2001 to 2004. Major efforts were taken to improve portfolio quality. About 56 slow-moving or poorly performing projects were restructured, and excess loan amounts were canceled between 2002 and 2004. Remedial measures were successful in reducing the number of at-risk projects in 2005. Since the CSP 2002, more consideration has been given to designing and implementing operations suited to decentralization. IRM capabilities are being gradually strengthened to better manage the portfolio. Continuing efforts will be needed to further improve portfolio management, including further strengthening of IRM.

Technical Assistance. During the CAPE review period, 16% of ADB TA grant funds were allocated to Indonesia. The usefulness, impact, and sustainability of many TA-funded outcomes is questionable. This is an ADB-wide issue and is not related only to Indonesia. Issues relate to ADB-driven TAs and lack of country ownership, unclear accountability of consultants to the executing agency, overly ambitious TA objectives, inadequate ADB staff supervision, and poor consultant performance. Improving TA products requires action in many areas. This is the subject of an OED Special Evaluation Study on Effectiveness of TA, and of the TA Reform Task Force of the Strategy and Policy Department.

Overall Assessment. The CAPE evaluates the overall performance of the ADB strategy and program in Indonesia as *partly successful* based on its assessment of the five evaluation criteria.

Relevance. Top-down assessment of relevance evaluated four responsiveness criteria. The responsiveness of the country strategies to the NDPs was assessed by period. Before the crisis (1990–1997), ADB strategy in Indonesia was highly relevant and responded well to the NDPs and the stable operational environment. During the crisis and the instability that followed, ADB responded quickly and was relevant but lacked the instruments and staff resources to be highly relevant. In the uncertain operating environment of the transition years (2001–2004), ADB was relevant but was slow to channel adequate resources, delegate authority, and develop new modalities to suit the changed nature of the client. Responsiveness of strategy to ADB priorities was rated highly relevant, and its responsiveness to country development issues was rated as relevant. The program was also rated as relevant to the strategy. For the bottom-up assessment, the evaluation reports of completed projects show that ADB was generally relevant, with the combined rating of 20 highly relevant, 34 relevant, and 4 partly relevant completed operations. OED's review of ongoing projects found that most were relevant, although changes in project scope and design were needed, especially during the crisis. Based on these considerations, the CSP is assessed as *relevant*.

Efficacy. The top-down assessment of ADB's strategic thrusts is derived by combining the five components of the strategy that were rated as (i) efficacious bordering on partly efficacious for governance and anticorruption results, (ii) partly efficacious for decentralization and capacity development outcomes, (iii) efficacious for human and social development effects, (iv) partly efficacious for environment and natural resources management outcomes, and (v) efficacious for long-term economic growth results. The bottom-up partly efficacious rating is

based on the results of completed and ongoing projects. Mostly self-evaluated completed projects (52% of the total projects) predominantly approved prior to the crisis indicated an efficacious rating. However, the portfolio became weaker after the crisis, and the portfolio of ongoing projects was assessed as partly efficacious, given the projects at risk being double the ADB average, and the need to partially cancel 56 projects from 2002 to 2004 due to problems of implementation. Overall efficiency is rated as *partly efficacious*.

Efficiency. For the CAPE review period, the portfolio was assessed as partly efficient. It was efficient before the crisis, but portfolio performance predictably weakened during and after the crisis and with decentralization. The completed projects were efficient bordering on partly efficient. Many ongoing projects have encountered delays, underutilization, and administrative problems, especially due to decentralization, and are partly efficient. The overall rating for all projects is *partly efficient*.

Sustainability. The CAPE did not assess the sustainability of ongoing projects. Of the 49 completed projects with ratings for sustainability, 4 were highly sustainable, 23 were likely sustainable, 21 were less likely, and 1 was unsustainable. Many of the completed physical and social infrastructure, urban development, and financial sector operations have been rated successful, and their sustainability is likely. However, the sustainability of some community and rural development projects beyond the life of the projects is doubtful. Overall sustainability is assessed as *likely bordering on less likely*.

Institutional Development and Other Impacts. The CAPE did not assess the institutional development impacts of ongoing projects. Of the 42 projects with program and/or project completion reports rating this criterion, 2 had substantial impacts, 15 had significant impacts, 20 had moderate impacts, and 5 showed negligible impacts. Based on the weighted average of 1.3, institutional and other impacts for projects, and the modest contribution of ADB TA portfolio, the institutional development and other impacts are assessed as *moderate*.

ADB Performance. In the 1990s, ADB's strategy was consistent with Indonesia's NDPs and the institutional strategic priorities of ADB. This comprehensive approach led to a substantial lending program. During the AFC, ADB rightly stayed engaged to support the recovery effort and the transition to decentralization. However, this engagement adversely affected portfolio performance, with an increase in problem loans and excessive commitment fees paid by the Government. ADB's internal practices were slow to react to a rapidly changing client, to augment staff resources and skills, and to develop new modalities. Since the CSP 2002, ADB has given more consideration to designing and implementing operations suited to decentralization. Staff resources are being strengthened at IRM to manage the portfolio. ADB has become more vigilant about detecting corruption in its operations. ADB is an active member of the CGI and has contributed to successful governance-type initiatives. However, EDPs consider working with ADB rather cumbersome. Both the Government and EDPs noted that the World Bank resident mission in Jakarta had more authority and accountability, had considerably more staff resources, and was better able to respond quickly and substantially to Government requests. Based on the above, ADB's performance is assessed as *partly satisfactory*.

Recommendations

ADB's operations in the last few years in Indonesia have been challenging. The recommendations of the CAPE are focused on the near-term considerations for the formulation and implementation of the next CSP. The recommendations reflect lessons from the past, experience of ongoing operations, and the voice of the Government. Six recommendations are presented:

- (i) The preparation of the CSP should identify niches where the Government wants ADB to play a major role in addressing key development constraints in the areas of (a) building the systems and capacity necessary to make decentralization work effectively, (b) improving governance and anticorruption initiatives, (c) increasing public and private sector investment for the provision of public goods, and (d) building an enabling environment for the private sector.
- (ii) The next CSP should select key focus areas based on a multidimensional approach that includes consideration of ADB's sectoral track record, mainstreaming governance in ADB operations, and geographic location. The areas of focus must reflect government priorities and the programs of other EDPs.
- (iii) The coverage of the CSP must be consistent with available ADB resources, both budgetary and staff. This will require giving consideration to (a) redeploying staff that do not have expertise in the key focal areas to free up positions for staff with the required skills, (b) strengthening the staff skills mix at IRM to allow further delegation of decision-making authority and projects, and (c) stationing an adequate number of international staff with the requisite expertise for each area identified as a focal area in the CSP as well as to manage the existing portfolio.
- (iv) ADB needs to find ways to reduce the transaction costs of monitoring for the Government and executing agencies by using validated country information systems, coordinating with EDPs, and limiting the amount of data collected to what is useful for senior managers in the Government and ADB.
- (v) ADB should address the areas identified by the Government wherein improvements in ADB policies, practices, and procedures are required to provide better services to an important client. The Southeast Asia Department can address some of these issues in the next CSP (e.g., use of appropriate project readiness filters; improving portfolio management; strengthening IRM, improving the results achieved by TAs). Other issues requiring changes at the institutional level need to be addressed in the Medium-Term Strategy (2006–2010), the Middle-Income Country and Ordinary Capital Resources Partnership Framework, and the Innovation and Efficiency Initiative (e.g., lowering transaction costs, greater use of country systems).
- (vi) The next CSP should identify ways to catalyze private sector investment by promoting an enabling environment for the private sector, creating demonstration effects through increased ADB private sector operations and cofinancing, and introducing new and more attractive products.

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INDONESIA

COUNTRY ASSISTANCE PROGRAM EVALUATION

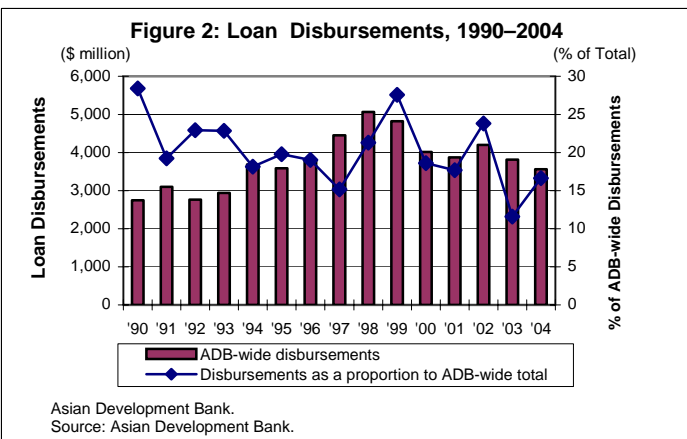
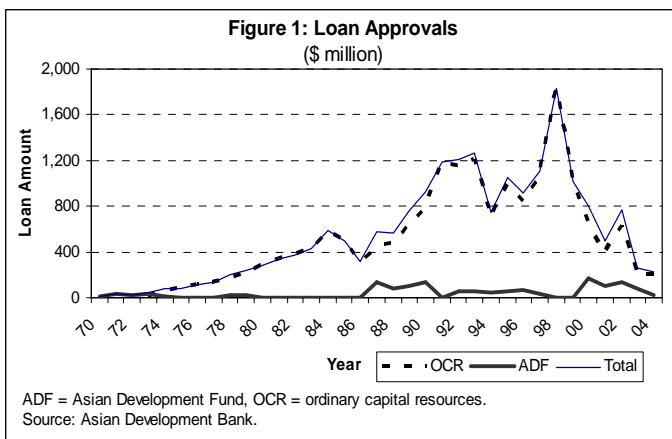
POVERTY COUNT AND GEOGRAPHICAL REACH OF ADB ASSISTANCE



I. INTRODUCTION

A. Background

1. Indonesia, a founding developing member country (DMC) of the Asian Development Bank (ADB), became its largest borrower in the 1970s. Despite a sharp drop in annual lending after 2000, Indonesia still was ADB's largest borrower at the end of 2004 with 265 public sector loans totaling \$19.5 billion. Indonesia accounted for 18% of ADB's cumulative lending, and 23.1% of cumulative ordinary capital resources (OCR) lending. Since the Asian financial crisis (AFC) that erupted in 1997, Indonesia has undergone massive economic, political, and administrative changes. ADB's annual loan approvals to the country fell from a peak of \$1.8 billion in 1998 to \$0.5 billion in 2001 to \$0.2 billion at end 2004—the lowest level since 1978 (Figure 1). Disbursements to Indonesia as a proportion of ADB's overall disbursements have been fluctuating with a declining trend from 29.1% in 1990 to 12.0% in 2003. However, the figure increased to 17.2% in 2004 (Figure 2) due to the cancellation of unused loan amounts. Indonesia's portfolio has had problems with "at-risk" projects being more than double the ADB average of 14% at the end of 2004.¹ In 2005, the Consultative Group on Indonesia (CGI), which includes ADB, has pledged \$3.4 billion in loans and grants to the country for financing infrastructure and other needs. Indonesia needs an estimated \$72 billion for infrastructure investment in 2006–2010 (\$14.4 billion per year).² ADB lending will recover in 2005 to about \$800 million in public sector approvals, \$300 million in emergency assistance, and \$350 million in private sector approvals.



2. With about 17,000 islands, Indonesia is the world's largest archipelago. Its population of 235 million comes from diverse ethnic groups with Javanese as the largest group.³ Indonesia has a considerable natural resource endowment (e.g., petroleum, tin, natural gas, and a variety of other metals), and is one of the world's most important countries in biodiversity. In the past 15 years (1990–2004), Indonesia has experienced extraordinary changes. Following the sharp positive growth and declining poverty in the early 1990s, the country witnessed a sudden deterioration of its gross domestic product (GDP) and heightened poverty in 1997–2000. Its rapid economic expansion before 1997 was as dramatic as the deterioration that followed the AFC. During the crisis, the authoritative, centralized decision-making system that existed for decades suddenly

¹ There were substantial efforts to clean up the portfolio in 2004, with a focus on addressing implementation issues and the closure of poorly performing loans. Two of the eight projects considered "at risk" due to delayed effectiveness became effective in March 2005. While the other at-risk projects are expected to be closed or upgraded in 2005, five other candidates were emerging for an at-risk rating.

² Government of Indonesia. 2005. *Moving Forward: Maintaining Sustainable Growth with Public-Private Partnership*. Istanbul.

³ About 6,000 of the islands are inhabited. The key ethnic groups are Javanese (45%), Sundanese (14%), Madurese (7.5%), coastal Malays (7.5%), and others (26%).

gave way to a democratic and decentralized one, which gave civil society a significant voice. The crisis also exposed key issues confronting this transition regarding the lack of coordination among different levels of government and a serious corruption issue.⁴ To understand the analysis and conclusions of the country assistance program evaluation (CAPE), a basic familiarity with Indonesia's recent economic history is needed. Appendix 1 provides a brief history and a summary of key changes in the country.

3. Due to the major changes in Indonesia over the past decade, ADB staff at headquarters and in the Indonesia Resident Mission (IRM) asked the Operations Evaluation Department (OED) to assess ADB's country strategy and program (CSP). This CAPE, the first prepared for Indonesia,⁵ focuses on the responsiveness of ADB operations to these changes and challenges. Further, it recommends ways to improve the design of the CSP for 2006 and identifies lessons for current and future operations.

B. Evaluation Purpose and Methodology

4. The key objective of the CAPE is to assess the development effectiveness of ADB's assistance program. It evaluates the performance of past strategies, as well as the management of the portfolio, to draw lessons and recommendations to guide future CSPs.

5. The CAPE focuses on ADB operations from 1990 to 2004. Exogenous factors, such as the 1997 AFC and the 2004 tsunami emergency that shaped ADB's responses and impacted the development effectiveness of its operations, are given due consideration. The CAPE analyzes whether the right things were decided at the right time and in the right manner. Lessons are drawn from the experience of staying engaged with a long-standing client during difficult times. To make the recommendations forward looking and gain lessons from the experience in the current context, the CAPE assesses completed and ongoing projects and/or programs. It examines the working relationship between ADB and the Government of Indonesia, and identifies opportunities to improve the effectiveness of ADB's assistance. The CAPE is designed to evaluate the performance of ADB operations in Indonesia, given the country context, rather than assess the performance of the Government and the Indonesian economy.

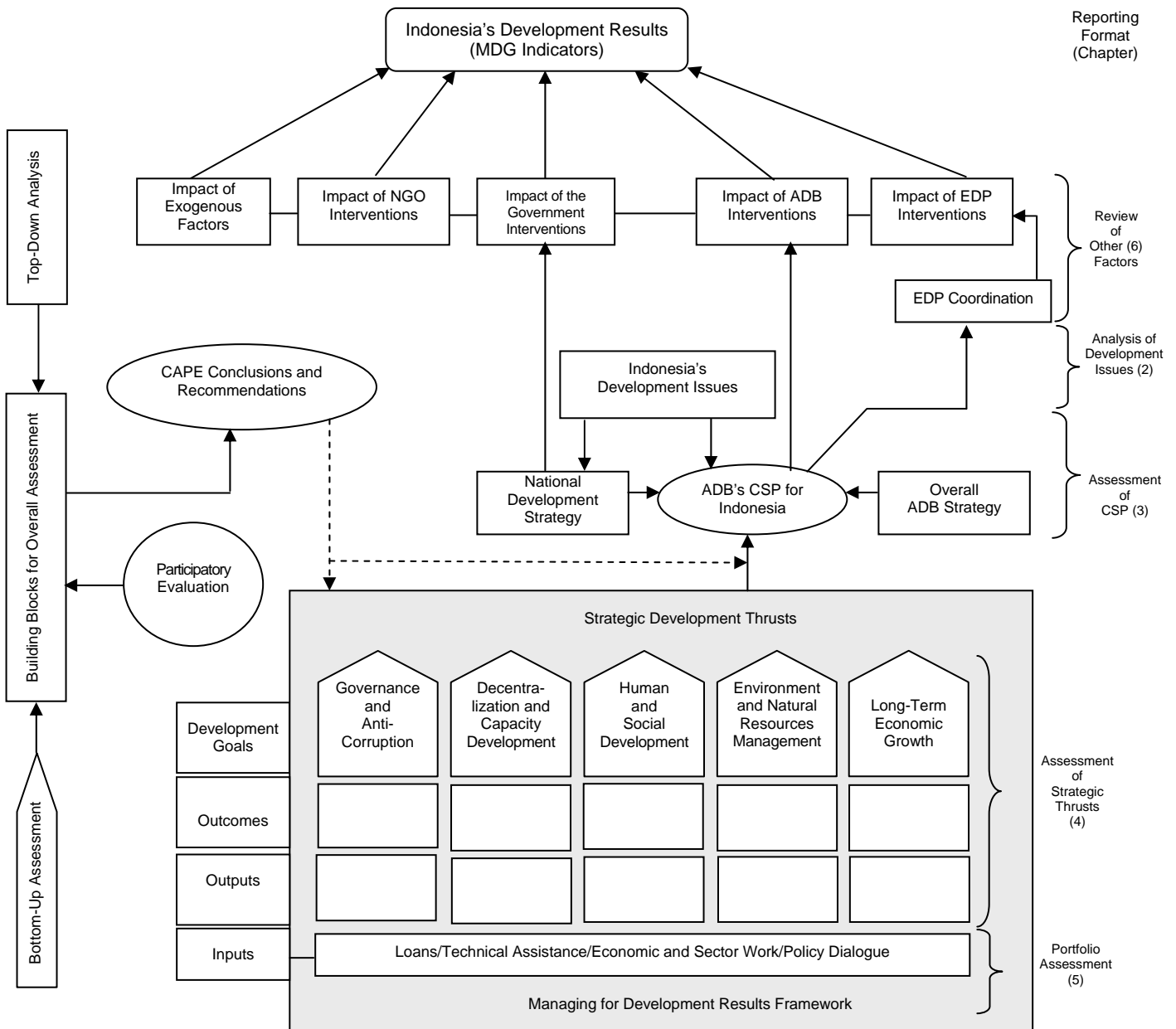
6. The preparation of the CAPE was challenging due to the major changes in Indonesia during the past decade. The CAPE gathered substantial primary information. The 16 independent evaluations that were available were too limited to understand the overall impact of 111 projects and/or programs, 179 advisory technical assistance (TA) grants, and other operations within the review period.⁶ The diversity of the country, where ADB operations are spread throughout many locations, made the aggregation of results in the CAPE difficult. Because of these challenges, the CAPE used multiple instruments (Appendix 2), including (i) an overall focus on thematic areas, (ii) participatory evaluation of selected ongoing projects, and (iii) sector-based portfolio analysis. The evaluation framework (Figure 3) uses a top-down approach to analyze the CSP, and a bottom-up approach to assess the portfolio using a Managing for Development Results (MfDR) framework.

⁴ This report uses the word transition to denote this change in regime, rather than to depict a transition economy.

⁵ In 1993, a brief country synthesis of postevaluation findings for 1987–1992 was prepared. Although the scope was limited, it concluded that the effectiveness of ADB's assistance varied from sector to sector. Infrastructure projects generally were successful, while agriculture projects performed poorly. It also highlighted the need for the Government to fund operation and maintenance to ensure sustainability of completed projects.

⁶ Five of the project and/or program performance audit reports (PPARs) were prepared simultaneously with the CAPE.

Figure 3: CAPE Evaluation Framework



ADB = Asian Development Bank, CAPE = country assistance program evaluation, CSP = country strategy and program, the Government = Government of Indonesia, EDP = external development partner, MDG = Millennium Development Goal, NGO = nongovernment organization.
 Source: CAPE team.

7. ADB operations in Indonesia constitute a very small part of the Government's total budget expenditures. ADB commitments averaged 3.4% of Indonesia's expenditures in 1990–1997 (before the crisis), 5% in 1998–2000 (during the crisis), and 1.2% in 2001–2004 (after the crisis). The disbursement of the committed funds averaged 2.1%, 4.2%, and 1.8%, respectively, in the same three periods. Although ADB's contribution to Indonesia's expenditures was highest during the crisis period, it was still small compared to the overall government expenditure. As a result,

assessing the impact of ADB operations becomes difficult, because the changes in impact indicators cannot be attributed only to the implementation of ADB program. Attribution is especially difficult because ADB lending was spread over many geographic areas and across many sectors where the Government, private sector, and the other external development partners (EDP) also operate. The CAPE, therefore, focuses on medium-term outcomes of ADB strategic thrusts highlighted in the CSP.

8. Chapter 2 describes the key development issues, the country context in which ADB operated, and the status of Indonesia's millennium development goals (MDG). Chapter 3 assesses the relevance of the CSP and draws lessons from its focus on poverty reduction. Chapter 4 assesses the efficacy of the strategic thrusts identified in the last CSP, using the outcomes and outputs of the MfDR framework. The focus of the CAPE's top-down analysis is based on a thematic approach adopted in the last CSP. Chapter 5 assesses the efficiency of ADB inputs of portfolio design, implementation, and management using a bottom-up sector approach. Chapter 6 reviews the impacts of ADB, Government, other EDPs, nongovernment organization (NGO) interventions, and exogenous factors on Indonesia's development results. Chapter 7 presents the overall assessment of ADB's program using the five key evaluation criteria (relevance, efficacy, efficiency, sustainability, and institutional development and other impacts),⁷ encompassing a mix of the top-down and bottom-up approaches (Appendix 2, Figure A2.1). Chapter 8 concludes with lessons and recommendations to support improvements in the performance of future strategies and operations.

9. The draft CAPE was circulated for interdepartmental comments within ADB and forwarded to an external reviewer outside ADB, and all comments received were considered carefully in revising the draft. It was also sent to relevant agencies of the Government of Indonesia for comment. Subsequently, workshops were held in Jakarta to discuss the draft report with Government officials and with the representatives of other development agencies. Indonesia's views on ADB as a development partner are reflected in the CAPE based on the discussions the CAPE team leader and OED management had with the high-ranking government representatives. The key CAPE findings were disseminated to the Southeast Asia Department (SERD) at their retreat and their comments incorporated in the preparation of the final draft of the CAPE. Finally, the applicability of the recommendations was discussed with the management of the relevant regional department in ADB—SERD.

II. ANALYSIS OF DEVELOPMENT ISSUES

A. Country Context

10. From 1990 to 1996, Indonesia's GDP grew at 7–9% per year and Indonesia was considered as one of Asia's emerging tigers. At the peak of the AFC, GDP fell by 13% in 1998, the poverty incidence reached 23%, and inflation climbed to 80% (Appendix 3). Much of the banking and corporate sectors went bankrupt. After several difficult years, the country regained some social, macroeconomic, and political stability (Appendix 1). In 2003, Indonesia graduated from the International Monetary Fund (IMF) stabilization program—the last of the AFC victims to do so. Although external public debt declined from 103% of GDP in 1999 to 59.8% in 2004, weak tax collection still constitutes a major fiscal challenge, despite the improvements in 2004.⁸ To reduce its vulnerability to foreign debt, the Government increased its foreign debt repayments to \$5.2 billion in 2004 compared with \$2.6 billion in 2003. The focus on debt management took a toll on the public development spending, which stagnated at 2–3% of GDP from 2000 to 2004 compared to 7–8% prior

⁷ The components of ADB program are assessed, because past CSPs did not contain an MfDR framework and the related indicators that would allow the analysis of ADB program as a whole.

⁸ The budget deficit was reduced from 1.9% in 2003 to 1.4% of GDP in 2004.

to 1997.⁹ With improved market confidence and more favorable macroeconomic indicators, the country sold \$1 billion worth of bonds in early 2004, followed by a total of \$2.9 billion worth of bonds during 2005.¹⁰ The most recent Government bond issue was at approximately 265 basis points over the London interbank offered rate (LIBOR) equivalent.

11. Despite the recent macroeconomic progress, accessibility to basic services, especially among the poor, remains a problem. Government spending on education and health as a percentage of GDP is 1%, which is less than in other Asian countries. In terms of key social indicators, Indonesia generally fares worse than its neighbors, though it is comparable to other countries with large populations (Table 1).

Item	PRC	IND	INO	MAL	PHI	THA
Life Expectancy (2000–2005)	71.0	63.9	66.8	73.1	70.0	69.3
Infant Mortality (per 1,00 live births)	31	67	33	8	29	24
Population with Sustainable Access to Improved Water Source (%) (2000)	75	84	78	—	86	84
Population with Sustainable Access to Improved Sanitation (%) (2000)	40	28	55	—	83	96
Adult Literacy (% ages 15 and above)	90.9	61.3	87.9	88.7	92.6	92.6
Poverty Incidence ^a (1990–2001)	4.6	28.6	27.1	15.5	36.8	13.1
Gender-Related Development Index Rank (2003)	64.0	98.0	87.0	50.0	63.0	57.0

— = data not available, IND = India, INO = Indonesia, MAL = Malaysia, PHI = Philippines, PRC = People's Republic of China, THA = Thailand.

^a Defined as percentage of the population having household incomes below the national poverty line.

Source: United Nations Development Programme. 2004. *Human Development Report 2004*. New York.

12. While recovering from the AFC in 1999, Indonesia introduced ambitious decentralization reforms with the enactment of laws that conferred equal authority and responsibilities on local governments (LGs) irrespective of their human and fiscal capabilities. As a result, the cumulative share of LG's total public spending (mostly including recurrent expenditure) doubled. The speed and complexity of the decentralization created inconsistencies and gaps in the policy framework. Although subsequent Law 33 elaborated the delineation of responsibilities in 2004, it did not fully resolve the issues relating to assignment of expenditures, many of which are to be addressed by supporting regulations that are under preparation.

13. The simultaneous democratization process that occurred added to the confusion created by the decentralization laws. Instead of the responsive parliament that endorsed the authoritative regime

Funding Source	1996–1998	1999–2001	2002–2004
Asian Development Bank	1,288	773	418
Japan Bank for International Cooperation	1,589	866	547
World Bank	870	1,123	402

Sources: Asian Development Bank, Japan Bank for International Cooperation website and Jakarta Office, and World Bank annual report.

of the previous era, the decision-making power was transferred to an elected national assembly and many elected LG parliaments. In this context of uncertainty, coordination of the planning and resource allocation function was taken away from the previously highly centralized and powerful planning agency. It is conceivable that systematically addressing

these decentralization issues will take about a decade to finally find a compromise between the previous authoritative regime and a regime that has been quite indecisive. It is not surprising that, during this transition, EDPs have found it challenging to support the Government's development agenda with traditional project investments or program loans. Similar to ADB, the lending levels of others like the Japan Bank for International Cooperation (JBIC) and the World Bank also dropped substantially during the postdecentralization period (Table 2).

⁹ Development expenditure is defined to be capital expenditure of the central Government excluding the capital transfers to the local governments. This is different from total public capital expenditure for the country, which shows that the average for 2000–2004 is 7.0% for Indonesia, compared to 8.6% for Malaysia, 3.6% for Thailand, and 2.9% for Philippines.

¹⁰ According to the Bank Indonesia, the implications of such sovereign bond issues in the international market are (i) market acknowledgement of the creditworthiness of the country, (ii) benchmarking of credit risk assessment, (iii) expansion of foreign exchange reserves that are not allocated to specific expenditures, and (iv) diversification of financing sources.

14. In addition to the changes in the legal, regulatory, and fiscal environments, the political environment also experienced considerable change with five presidents heading the Government between 1998 and 2004. Such an unstable environment was not conducive for development of a fully government-owned development strategy that ADB could support. In the postdecentralization era, the Government had not clearly identified its investment needs until 2004.¹¹ This lack of country ownership of the programs of EDPs has weakened the implementation of ADB's existing strategy in Indonesia. Country ownership is widely acknowledged as an important ingredient of good portfolio performance and of the achievement of development results. Although country ownership is difficult to clearly define, the postdecentralization era has lacked country ownership according to generally accepted definitions.¹² Indonesia can learn from the good practice examples of other DMCs such as the People's Republic of China (PRC) and Bhutan.¹³ In both these countries, the centralized planning mechanism is quite efficient and has led to government ownership. The PRC system is described in Box 1. In Bhutan, too, the Government is very clear on what type of assistance and support it needs from ADB. Indonesia's previously strong central planning system was dismantled. The transition to an improved system of planning will take time to develop and mature.

Box 1: Characteristics of Country Ownership in People's Republic of China Operations

One of the Asian Development Bank's (ADB) best performing portfolios is in the People's Republic of China (PRC). Strong country ownership contributes to this good performance. Key elements of the PRC's system that create strong country ownership include the following: (i) borrowing priorities are determined by the Government and ADB's operations are aligned with government priorities as identified in the PRC country strategy and program (CSP); (ii) the sectors and types of projects for which the PRC seeks financing are jointly determined by the National Development and Planning Commission and the Ministry of Finance (MOF) before a project can be included in the PRC CSP; (iii) executing agencies (EA) are responsible for undertaking detailed project preparation and must have a clear plan to mobilize the needed counterpart funding before a decision is made to borrow—generally, ADB finances less than half of the total project cost; (iv) ADB loans are onlent by MOF to the EA on the same terms and conditions; there is clear accountability of the EA to repay the ADB loan—MOF often requires the provincial government to issue a guarantee; (v) budget-dependent EAs are generally not allowed to borrow from ADB—most projects must generate a cash flow to repay the loan; (vi) feasibility studies are prepared by the EA and undergo a rigorous independent check by government agencies; (vii) local consultants financed by the EA using its own funds do most of the project preparation, design, and project implementation supervision; (viii) following national regulations, local environmental protection bureaus sign off on domestically prepared environmental impact assessments; (ix) resettlement is planned according to local regulations, and the associated costs are included in the project cost estimates; and (x) EAs establish and adequately staff project offices by competent professionals who are involved in project preparation before external development funds are made available.

15. Given the stability of the current Government, it is possible to move a government planning system that strengthens both government ownership, local accountability, and the achievement of development results. This may require giving a more prominent mandate to the provincial governments (PGs) and building their capacities in (i) coordinating and prioritizing investments, and (ii) monitoring governance and service delivery. Mobilizing effective EDP support will hinge on the finalization of the borrowing strategy the new Government has worked on during its first year in office.

16. Indonesia's geographic dispersion makes delivering social services difficult. Fiscal difficulties make remedying this situation problematic even with the support of EDPs, unless the private sector plays a larger role in providing social and physical infrastructure. Private sector participation, in turn, hinges on reducing corruption and improving governance. Foreign private investment has been largely absent in Indonesia since the crisis¹⁴ due to weak regulatory and

¹¹ The Government's Medium-Term Development Plan developed in 2004 estimated the annual investment plans.

¹² The current World Bank definition of country ownership highlights four criteria: (i) the locus of initiative must be in the government, (ii) key policymakers must be intellectually convinced, (iii) there must be evidence of public support from the top political leadership, and (iv) there must be broadbased stakeholder participation.

¹³ ADB. 2005. *Country Assistance Program Evaluation for Bhutan*. Manila.

¹⁴ The capital and financial balance became positive in 2004 for the first time since the crisis due to the portfolio investments and direct investments (mainly from loans).

judicial processes, poor physical infrastructure, and lingering uncertainties resulting from decentralization. The new Government has highlighted the need to improve governance, economic growth, and infrastructure quality. However, quick passage of difficult reforms is uncertain, as the President and his coalition partners constitute a minority in the House of Representatives (Dewan Perwakilan Rakyat [DPR]). The more extensive power of the DPR now compared with 5 years ago also attests to the spread of democracy.

B. Status of Millennium Development Goals

17. During the period of Indonesia's rapid economic growth, poverty declined dramatically. However, a large proportion of people still lived on incomes just above the poverty line, leaving them vulnerable to shocks created by the AFC. Per capita income in purchasing power parity dollars increased from \$817 in 1965 to \$3,346 in 1995. Meanwhile, the proportion of the poor fell from about 70% in mid-1960s to 40% in 1976 and 16% in 1996. During the crisis, many people living close to the poverty line fell back into poverty. The incidence of poverty soared from 14.7% in early 1997 to a peak of 23.5% in early 1999. With macroeconomic stability restored and inflation reduced, the poverty incidence gradually fell to precrisis levels (from 19.1% in 2000 to 16.6% in 2004, including 12.6% urban and 19.5% rural).¹⁵ Indonesia is on the track to attain the MDG for income poverty at the national level. The percentage of the population living on incomes below \$1 per day declined from 20.6% in 1990 to 9.9% in 2000 to 7.2% in 2002 (Appendix 4), easily achieving the national target set for 2015 (10.3%). However, about half the population still lives on incomes slightly above the poverty line.¹⁶ The proportion of population living below \$2 a day fell from 71% in 1990 to 54% in 2002.

18. Aggregate data obscures inequalities between regions and ethnic groups. In Java, for example, the incidence of poverty and the number of people living below the rural poverty line were higher in 2003 than in 1996, in contrast to the rest of the country (Table 3). Some have disputed whether the post-1999 improvement actually occurred, pointing to wage and employment data that imply the poor are still worse off than before the crisis, with little improvement since 2000.¹⁷ Especially in Java, real agricultural wages in the latter part of 2003 were estimated to be well below 1967 levels.¹⁸ The segment earning less than \$1 a day ranges from 41.8% in Papua to 3.4% in Jakarta. Of the 36 provinces surveyed, 39% of the provinces had not reached the MDG target by 2002.

Table 3: Incidence of Poverty in Rural Indonesia, 1996 and 2003

Item	Percentage Below the Poverty Line		Numbers Below the Poverty Line (millions)	
	1996	2003	1996	2003
Java	18.4	19.8	12.3	12.9
Outer Islands	21.7	20.7	12.6	12.2
Indonesia	19.9	20.2	24.9	25.1

Sources: Statistics Indonesia, formerly Central Bureau of Statistics, 2002 and 2004.

19. Non-income poverty was reduced in the high growth period. Booming oil revenues in the 1970s financed increased government expenditures on new health and education systems that reduced the infant mortality rate (from 118 in the 1970s to 60 in the 1990s) and increased primary school enrollment (from 80% to 112% in the 2 decades before the crisis). Adult literacy increased from 57% in the 1970s to 80% in the 1990s. However, ensuring access to basic health, sanitation, and education facilities—especially for women—is still a problem. Some indicators, such as primary and secondary schooling (Appendix 4, Figure A4.1), are on track to meet the targets for 2015. However, faster progress is needed to achieve other MDG targets, such as dietary energy

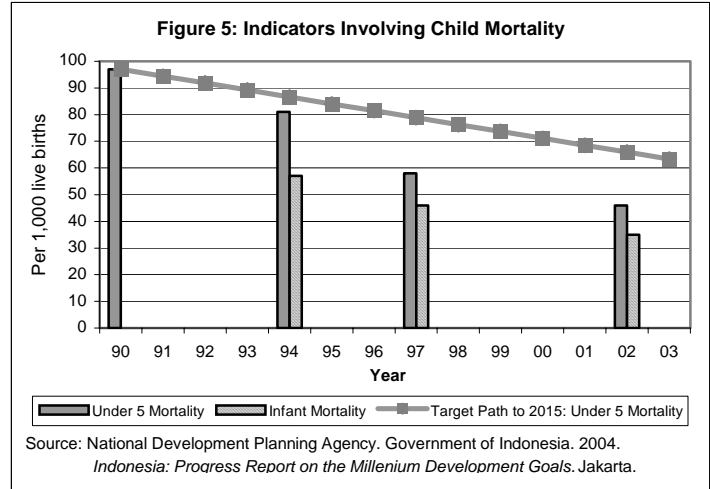
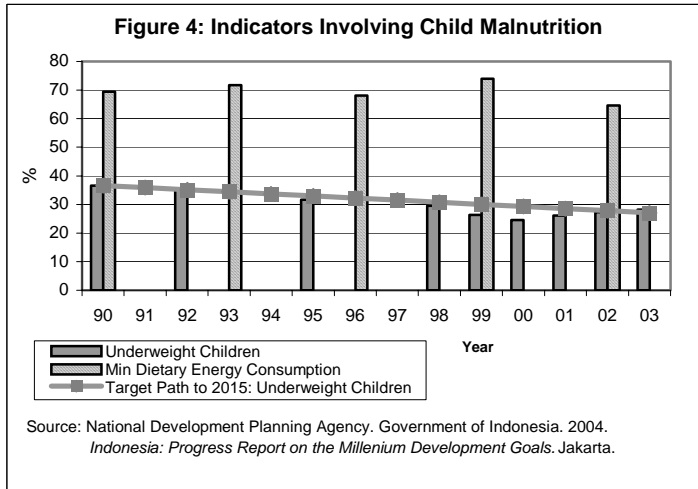
¹⁵ National Socioeconomic Survey (SUSENAS). 2003. Indonesia.

¹⁶ The poverty line used by the Central Bureau of Statistics until 1996 was revised upward in 1996, leading to a 25% higher headcount. Given this high degree of "bunching" around the poverty threshold, care must be taken before drawing the conclusion that Indonesia is no longer characterized by widespread poverty.

¹⁷ Papanek, Gustav F. 2004. *The Poor of Indonesia: The Impact of Economic Decline, Rapid Growth, and Crisis, 1952–2003*. Washington: United States Agency for International Development. Available at http://www.dec.org/search/dexs/index.cfm?fuseaction=dexs.citation&rec_no=127569

¹⁸ Java has 7% of the land, 60% of the population, and 60% of the poor.

consumption (Figure 4) and child mortality (Figure 5). The under-5 mortality rates vary widely between provinces—from 19 per live births in Bali to 103 in West Nusa Tenggara.¹⁹ The proportion of the population below the minimum level of dietary energy consumption has remained high, never declining below 60% nationally. Several indicators, such as the prevalence of malaria and maternal mortality ratio, are not monitored. Others for which disaggregated data is available show considerable variation across regions and income classes.



20. Addressing these aspects of poverty is a significant challenge given the fiscal constraints, particularly in a decentralized environment where LGs with weak governance structures, public finances, and administrative capacities provide basic services.²⁰

III. ASSESSMENT OF COUNTRY STRATEGY AND PROGRAM

21. The first part of this chapter presents the top-down assessment of the relevance of ADB's evolving country strategy in Indonesia. Relevance was assessed at four levels, considering the responsiveness of the (i) strategy to national development plan (NDP) priorities, (ii) strategy to ADB's priorities, (iii) strategy to country development issues, and (iv) country program to the country strategy. Summaries of key strategy documents reviewed, as well as the information about the content of Indonesia's NDP, are in Appendix 5. In addition, Appendix 5 discusses the developments in ADB's strategy as the institution moved away from being a project financier, adopted a medium-term development strategy, and later focused on the overarching goal of poverty reduction. Table A5.1 compares the country strategy with NDP, ADB's overall strategy, and Indonesia's development issues.²¹ It indicates that the strategies coincide.

22. In the second part of the chapter, the robustness of the strategy is analyzed and key lessons are identified for future CSPs. The discussion of robustness is based on five factors: (i) ability to focus or prioritize the strategy, (ii) timing and content of policy dialogue, (iii) stakeholder involvement, (iv) analytical basis for dealing with strategic gaps, and (v) continuity and flexibility. These factors affect the efficacy of the strategic thrusts, which is evaluated in Chapter 4. As such,

¹⁹ The period coverage for the data was 1994–2003.

²⁰ Table A4.2 (Appendix 4) shows the variation across provinces for the 7 goals, 8 targets, and 18 indicators for which data is available. Except for primary education and adult literacy, substantial variations are evident across provinces.

²¹ The top half of Table A5.1 presents the key development issues in the country during the preparation of each of the strategy documents, with the key priorities of the Government highlighted in the NDPs. The bottom half presents the main objectives of each ADB strategy document. The last row shows priority areas in the overall ADB strategy, such as the development of medium-term strategic framework and the long-term strategic framework, as well as the poverty reduction strategy.

these factors are considered only to identify lessons, rather than as part of the overall assessment, to avoid double counting the outcomes.

A. Relevance of the Country Strategy

1. Responsiveness of Country Strategy to NDP Priorities

23. During the period under review, ADB's stated strategy was evaluated as being "relevant." ADB's strategy in the early 1990s fully supported the approaches of the Five-Year Development Plan (Rencana Pembangunan Lima Tahun [REPELITA]) V. In line with the NDP, ADB supported economic restructuring to diversify into an economy not based on oil. During the crisis, it responded quickly within the framework of its limited modalities. In 2001, ADB strategy moved from a sector orientation to a thematic orientation, following the priorities identified by the NDP; but was not able to fully adjust to changing regime of the client. Appendix 5, Table A5.1 shows that several items in the strategy matched the NDPs before, during, and after the crisis.

2. Responsiveness of Country Strategy to ADB's Priorities

24. The stated country strategy for Indonesia was generally consistent with ADB's overall strategy, thus earning a rating of "highly relevant." It stressed some issues not emphasized directly in the NDP. The stated country strategy by the mid-1990s covered ADB's medium-term thematic priorities (i.e., poverty reduction and women in development) as additional strategy objectives. In addition, environment protection and sustainable growth were embedded in all strategy documents that were formulated since the medium-term strategic framework. Table A5.1 shows the compatibility of the country strategy with ADB's overall strategy. These additional objectives, however, were not linked effectively to the program with targets and goals. This might reflect a lack of country ownership. From Indonesia's point of view, issues identified in the NDP—not issues identified in ADB's policy documents—represented development priorities.

3. Responsiveness of Country Strategy to Country Development Issues

25. Before the crisis, ADB's country strategy was compatible to the development issues in the country to the extent they were consistent with the NDPs. During the crisis (1997–2000), ADB remained engaged with the Government, providing funds to support the Government's recovery effort and transition to decentralization. This decision, which the CAPE views as correct, affected the portfolio quality. ADB continued to lend about \$1 billion annually until 1999.²² Subsequently, as lending declined to about \$0.5 billion annually, complications with processing under decentralization became more evident. While staying engaged was appropriate, ADB lacked the modalities to address the crisis.²³ However, ADB's support for the international rescue effort led by IMF was important, and this required approving loans quickly. As such, the program loan modality was used to address the urgent need for liquidity support. ADB approved several large program loans or sector development programs (SDP), totaling \$2.8 billion, with attached ambitious reform agendas. Given the pressure to support the Government's budgetary needs during the crisis, insufficient analysis was done on the time frame needed to achieve these reforms and the realism of enacting legislation under a parliament that had assumed a more democratic role. The special evaluation study (SES) on crisis management²⁴ concluded that the investment components of the social safety net (SSN) program loans were highly relevant and appropriate. However, the study postulated that some of the long-term reforms under the policy loans might have been more

²² The World Bank program dropped sharply after initial crisis support.

²³ The Operations Manual (Section D4/BP, issued on 29 October 2003, paras. 18–19) discusses a special program loan modality that can be used to address crisis situations by providing large-scale lending as part of an international rescue effort. This modality was introduced 6 years after the crisis to address similar situations in the future.

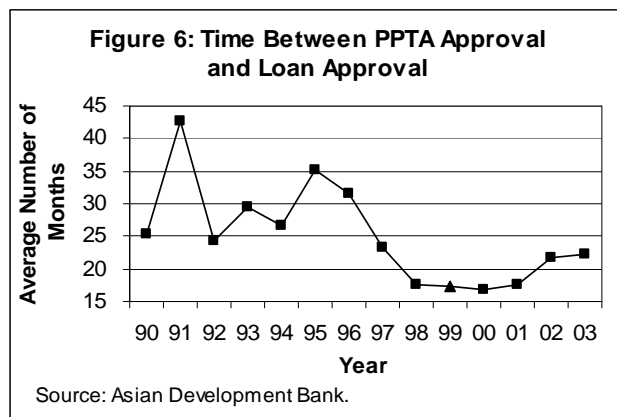
²⁴ ADB. 2001. *Special Evaluation Study of the Asian Development Bank's Crisis Management Interventions in Indonesia*. Manila.

effective had they been introduced under more appropriate conditions after the crisis. Portfolio cleanup efforts²⁵ were also done in 1998 and 1999 to cancel loans that had become irrelevant due to the crisis and to reallocate undisbursed funds. Funds were similarly redirected in the aftermath of 2004 tsunami that devastated Northern Sumatra and Aceh provinces. Such portfolio cleaning in response to the country context was useful in improving its quality, reducing the client's debt burden, and mobilizing funds to address crises.

26. The postcrisis period coincided with the big bang²⁶ approach to decentralization. ADB was unprepared for the flexibility required to adjust to the needs of a rapidly changing client. More administrative and staff resources are required to work in a decentralized regime. In hindsight, more effort and resources were needed to (i) adjust ADB's modalities, (ii) deploy adequate staff resources (especially at IRM), and (iii) decentralize ADB's routine decision making. ADB's program continued unabated without much change in modalities or reformulation of projects to better suit the situation. Moreover, ADB's checks and balances were insufficient to ensure that the funds were used for the intended purpose. Had ADB made necessary adjustments, it might have been more capable of accommodating a client that was changing its procedures, funding channels, and decision-making processes fundamentally. While the CAPE endorses ADB's decision to stay engaged during the crisis and decentralization period, the responsiveness of the strategy is assessed as "relevant" (rather than "highly relevant") due to ADB's slowness in adapting its modalities and the resource allocation processes. Making exceptions to standard ADB processes and procedures to suit one DMC client is difficult and time consuming. However, ADB needs more flexibility to work within the middle-income country (MIC) and/or OCR partnership framework.

4. Responsiveness of the Country Program to the Country Strategy

27. The responsiveness of the country program to the country strategy is assessed as "relevant". Program design had a tendency to emphasize short-term considerations, which captured emerging opportunities, rather than longer-term change following a focused strategic direction. There was a lack of link between the program and early strategies. Strategy documents from the 1990s and early 2000 established limited links between the program and objectives, which was symptomatic of the ADB-wide program or project divide in that period. The most recent strategy document (CSP 2002), however, showed an improvement in this area. Individual operations were mapped to each strategic focus.²⁷ The road maps contained in CSP 2002, while a step in the right direction, require more detailed operational planning and performance measurement indicators. They also need better monitoring systems. In matching the strategies with the ADB program (Appendix 5, Table A5.3), the CAPE found that 32 operations (loans and TAs) at various stages of the project cycle were consistent with the strategy. About half (15) were on schedule, 14 were behind schedule, and 3 were ahead of schedule. Some of the delays stem from the time needed to prepare loans, which prior to the crisis took 2 or more years (Figure 6).



²⁵ Portfolio cleanup refers to reduction in undisbursed loan balance through a combination of activities including (i) improving the pace and quality of policy implementation under program loans and having successful program completion, (ii) redesign and restructuring to improve the scope of project loans, (iii) removing impediments to more effective disbursement (especially through lessons learned from portfolio reviews), and (iv) partial cancellation of loan proceeds and closure of poorly performing loans.

²⁶ Big bang approach refers to radical decentralization that quickly moved the country from a centralized system to a decentralized one.

²⁷ ADB. 2002. *Country Strategy and Program (2003–2005): Indonesia*. Manila (Tables 5–11).

Appropriateness of modalities is another indicator of the relevance of program design to strategy. From a strategic perspective, no clear evidence is available to explain why sector loans were chosen instead of project loans, and vice versa. ADB's long-term strategic framework suggested innovative operating modalities,²⁸ which have not been applied to emerging themes in the Indonesian operations.

B. Key Lessons Identified Relating to ADB's Strategy in Indonesia

28. **Focus.** ADB's country strategy became too broad and diffused due to compromises between multiple agendas, partly driven by emerging country realities, NDP, and partly by ADB's strategic

Sector	1990–	1994–	1998–	2003–
	1993	1997	2002	2005
Agriculture and Rural Development	25	18	11	9
Energy	4	5	4	2
Transportation and Communication	11	11	3	4
Industry and Finance	6	3	6	8
Social Infrastructure	21	22	15	10
Total	67	59	39	33

Source: Asian Development Bank.

thrusts such as environment protection and gender and development. Although it was consistent with ADB's client orientation and stated objectives for the strategy, this approach was not operationally effective. More focus was required. The programs that emerged were not linked adequately to the country strategy. The stated strategy was too broad to be coherent to achieve sustainable and discernible results. The imperative of ADB's organizational

structure to deploy its staff and skills complement also might have driven the comprehensive coverage (Table 4). While ADB can cover many sectors, its lack of selectivity might have diluted the development effectiveness of a focused strategy. In areas such as environment and natural resources management (ENRM), more integrated program approaches are advantageous. A broader ecosystem-based approach might have brought more effective results than narrow, sector-based interventions. A discussion of such approaches was not easily discernible in the strategies.

29. More recent strategy documents have identified new focal areas. However, they require better integration of priorities to achieve strategic objectives. For instance, while the 2000 country operational strategy (COS) identified relevant focal areas, it treated them with a sector approach rather than integrating them thematically. Emerging government policies on decentralization could have been an anchor of the strategy, rather than being subsumed under the focal point of "balanced regional development."²⁹ Treating governance similar to other issues, such as regional development, social development, and environmental management, understates its overriding importance in the current Indonesian context. Governance should be integrated into all operations under a decentralized strategy. In the CSP 2002, governance was a focal point,³⁰ though it appears to be separate from other focal points (Appendix 5, Figure A5.1). Careful deliberation is needed to bring crosscutting issues such as governance into the mainstream of project design and implementation, accompanied by required capacities to monitor performance and evaluate impacts adequately.

30. **Timing and Content of Policy Dialogue.** While ADB's country strategy during the evaluation period focused increasingly on policy reform, success in this area has been mixed. This is not surprising, given the significant political and institutional changes that occurred. The success of reform measures hinges on correct timing and government ownership. In 1987, the existing regulatory framework induced rent-seeking and inhibited private sector entry. Appropriate to the circumstances, ADB strategy recommended further liberalization of the trade regime and greater private sector involvement in industry and was backed by government ownership in implementation of this strategy. In contrast, the lack of ownership by the Government limited the effectiveness of some financial sector reforms that were recommended before the crisis. Since limited staff resources were spent on sector analysis at the time, ADB was less prepared than it might have been when the

²⁸ Other operating modalities refer to new partnership modalities, DMC ownership of TA, regional funding mechanisms, and new private sector modalities.

²⁹ ADB. 2000. *Country Operational Strategy Study*. Manila.

³⁰ The governance capacity building project was chosen to deliver the strategic goal.

AFC hit. The crisis, however, presented an opportunity to focus on the governance agenda in addressing outstanding problems. At the time, governance reform, decentralization, social protection, poverty reduction, sustainable resource management, and other critical issues were assessed and included in policy dialogue. ADB was a key player during the crisis. After the crisis, however, the presumption that a changed political regime provided an opportunity for more concerted judicial and civil service reform appears to have been overly optimistic.

31. **Policy-Based Loans.** The imperative of quick-disbursing assistance, rather than a strategic sector reform agenda, drove the choice of policy-based loans and the program lending modality. The challenge in Indonesia and other AFC-affected countries was exiting from crisis management to implementing long-term development strategies. The passage of legislation has tended to be viewed as the fulfillment of an objective, giving insufficient weight to its follow-up application. ADB interventions need to better take account of this lesson when setting legislation as a policy condition. In addition, in an environment where Parliament has more independence, ADB needs to understand better the required time frame and roles of different stakeholders when proposing conditionalities that require the passage of legislation. In some instances, when the difficulties of enacting legislation are not recognized, policy issues drag on without adequate resolution.

32. During 1990–1997, ADB approved two program loans, which were disbursed without extending their closing dates. ADB approved seven program loans during 1998–2000. These were disbursed after a combined 26 extensions (Table A5.6). Since 2001, ADB has approved three program loans. One was closed after two extensions, while the other two are ongoing with one extension.³¹ This might reflect a lack of Government commitment, especially during the crisis, when the focus was on rapid processing to secure access to needed funds. EDP-driven conditionalities are seldom an effective way of achieving effective, sustainable reform.³² It raises the question as to how well ADB and other EDPs assessed and reacted to such noncompliance, and whether linking policy reform to certain conditionalities was appropriate at the time. ADB has lacked process-based approaches and instruments to deal with the democratization and decentralization as well to monitor outcomes. However, more recent loans, such as Loan 1964-INO(SF): Sustainable Capacity Building for Decentralization (SCBD) and Loans 1677/1678-INO: Community and Local Government Support (CLGS) SDP, provide independent monitoring TAs for this purpose. A key solution to this problem is multistakeholder process management, which aims to build strategic alliances around particular reform issues. The governance reform partnership supported by ADB is an innovative approach to mobilizing widespread effort and support.

33. **Analysis of Strategic Gaps.** The changed political context has generally improved the chance of favorable reform outcomes. The analytical basis in the early strategies was weak, but recent CSPs have shown improvements in this aspect. The importance of the link between thorough and consistent analysis of sector development issues and policy formulation is more widely recognized. Table A5.4 in Appendix 5 shows the analytical work, including that of EDPs, cited in country strategy documents between 1989 and 2002. Encouragingly, more emphasis has been placed since 2002 on covering strategic gaps. The recent analytical work in the form of environment,³³ governance,³⁴ gender and private sector assessments (PSA)³⁵ provides a sounder analytical basis for future strategies.

³¹ Loan 1866-INO: *State-Owned Enterprise Governance and Privatization Program* has recently been extended until December 2005. Information on loan and TA data—name, amount, and approval date is given in Appendix 15.

³² The appropriateness of imposing conditionality on DMCs is discussed in Quibria, M.G. 2004. *Development Effectiveness: What Does Recent Research Tell Us?* OED Working Paper, Manila: ADB.

³³ ADB. 2005. *Indonesia: Country Environment Analysis*. Manila.

³⁴ ADB. 2004. *Country Governance Assessment Report Republic of Indonesia*. Manila.

³⁵ ADB. 2005. *Indonesia: Private Sector Assessment Report*. Manila (Draft).

C. Strategic Focus on Poverty Reduction

34. The CAPE reviews ADB's contribution to poverty reduction in Indonesia. ADB's Poverty Reduction Strategy (PRS), approved in November 1999,³⁶ based its framework on three pillars: (i) good governance; (ii) social development; (iii) and pro-poor, sustainable economic growth. The ADB strategy in Indonesia addresses these three pillars as part of its strategic thrusts. The efficacy of these strategic thrusts is assessed separately in Chapter 4. To avoid double counting, the overall strategic focus on poverty is not assessed here. Nevertheless, ADB's contribution to poverty reduction in Indonesia is examined to derive lessons.

35. Much of ADB's work on infrastructure and social development contributed to reducing poverty indirectly before the crisis. ADB made special attempts to address poverty during the AFC. The Government and EDPs, including ADB, made a concerted attempt to implement a SSN program during the crisis to cushion its impact on the poor (Box 2).³⁷ These efforts were generally well received and widely considered appropriate to meet the needs at the time. However, poverty-oriented projects generally have had mixed results. A SES³⁸ found that only 14% of Indonesians attributed improvements in their situations to the poverty intervention projects, compared with an average of 27% in the six countries surveyed. The negative psychological impact of the crisis, targeting problems, or poorly designed projects might have been responsible for this result. In the SSN projects, estimates suggest only half the funding directly benefited the poor. During the participatory evaluation, LGs and community participants highlighted targeting problems, including the transparency and fairness of allocations. These varied by location, with the village head playing a central role. Better-off and more well-connected people usually benefit first from project initiatives. When resources are spread thinly, the better-off usually benefit disproportionately. To improve the targeting, communities suggested increasing the role of NGOs, as they were perceived to be impartial. Appendix 6 gives key findings on participatory evaluation.

Box 2: Social Safety Net Program

Social Protection Sector Development Program (SPSDP) and Health and Nutrition Sector Development Program (HNSDP), totaling \$600 million, aimed to provide a social safety net to the poor affected by the crisis. They supported continuing the operations of schools and maintaining adequate health supplies during the crisis. By providing funds directly to the beneficiaries through post offices, they also established new approaches and mechanisms for building social safety nets and minimizing waste.

The investment components of the programs were successful in meeting the needs of the crisis. The programs provided employment opportunities, subsidized rice, free school, and health care. Although the Asian Development Bank has finished its assistance to the program, the Government of Indonesia continues to fund the program.

Implementation of the policy component was slower than envisioned, due to the extensive conditionalities and the tight 12-month time frame for the second tranche release. The programs were implemented under the decentralized structure, and faced administrative problems and capacity constraints at lower levels of government. Since HNSDP followed SPSPDP, the feedback available from SPSPDP was incorporated in the design and scope of HNSDP.

36. Accurate targeting of poor households is not simple, especially in a crisis. Local officials distributing subsidized rice or allocating school fees during the AFC understandably adopted rather rough and ready eligibility criteria, or just gave everyone who demanded assistance a share. This approach persisted even after the crisis. An external study on poverty targeting³⁹ indicated that

³⁶ ADB. 1999. *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy*. Manila.

³⁷ ADB provided funding for eight provinces, while the Government budget funded 19 provinces (Soelaksono, et al, 2003. 5). For a thorough summary of this literature on these programs, see Perdana, A. and John Maxwell. 2004. *Poverty Targeting in Indonesia: Programs, Problems, and Lessons Learned*. CSIS Working Paper Series. Available: <http://www.csis.or.id/papers/wpe083>

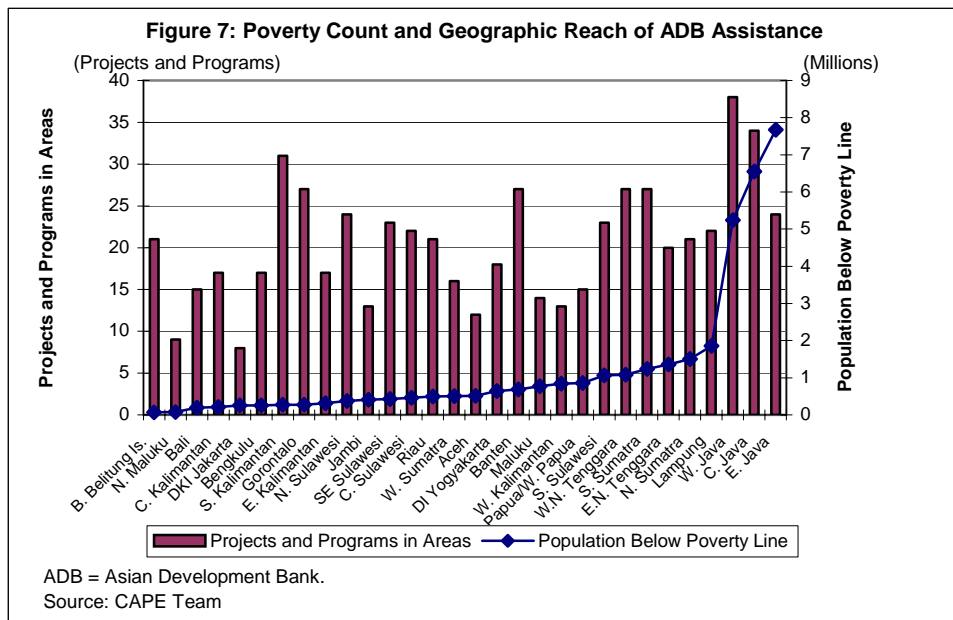
³⁸ ADB. 2002. *Special Evaluation Study on the Impact on Poverty Reduction of Selected Projects: Perceptions of Beneficiaries*. Manila. The study covered projects approved in 1980s and 1990s in the agriculture and social sectors in Bangladesh, Indonesia, Nepal, Papua New Guinea, Philippines, and Samoa.

³⁹ Perdana, A. and J. Maxwell. 2004. *Poverty Targeting in Indonesia: Programs, Problems, and Lessons Learned*. CSIS Working Paper Series. Centre for Strategic and International Studies. Indonesia. Available: http://www.csis.or.id/publications_paper_view.asp?id=43&tab=0. Quoted in E. Elgar. 2005. *Poverty Targeting in Asia*. John Weiss, ed.

providing nonluxury simple goods—for example, 25–30 watts of electricity or corn (not rice, which is a luxury good in parts of Java)—would improve targeting. Self-targeting via employment also can be ineffective, as the wages are attractive to the nonpoor who become about 60% of the beneficiaries. The cost of targeting to the Government—a significant transaction cost at 9% of total cost—and the poor has to be taken into account. Considerable data is available at the district level on human development indicators, as well as income and expenditure levels. Planners in the central Government (CG) and LGs, working closely together, should use this information to allocate funds and determine poverty reduction programs. Most LGs have little idea where they stand relative to national indicators (i.e., educational enrollments and infant mortality). LGs should have these data to transform the implementation of poverty reduction from a top-down endeavor into a cooperative one.

37. ADB activities were too widely dispersed. Integration of ADB operations in fewer areas would be more cost-effective to support and monitor, as well as more likely to achieve results on the ground. These benefits of geographical focus is more useful for projects that require identification and engagement of the poor. In addition, it would help build good governance as a fundamental requirement in areas that ADB wants to focus on. Many of the operations from 1990 to 2004 were spread out geographically throughout many provinces. However, some concentration was evident, with 16 provinces having over 20 projects (Appendix 5, Table A5.2). In line with the Government’s regional development emphasis, operations were extended to the outer islands during the mid-1990s. Appendix 7 shows ADB projects approved during the CAPE review period and the provinces they focused on during design. Fundamental conditions, such as good governance and capacity development, are prerequisites for achieving sustainable results in the current country context. The CSP 2002 introduced more geographic focus, though this needs to be refined to suit decentralization. That implies increased localization that lines up with local potential, needs, and capacities. Innovative thinking will be required in adopting localization, applying a range of criteria consistent with strategic priorities, which likely will feature prominently governance-related capacity and need-based poverty.

38. A scatter plot of average poverty incidence and location of ADB projects (from 1990 to 2004) shows no apparent correlation between the two variables (Appendix 5, Figure A5.2), although an upward sloping line was expected. A substantial number of ADB projects were in areas with low poverty incidence. However, the analysis also indicated that many ADB projects were in areas where the



population living in poverty was substantial. Figure 7 shows the geographic distribution of ADB projects compared with the number of people living in poverty in each province. Many ADB projects are in west and central Java, where the majority of the poor population lives, even though the poverty

incidence in these areas is relatively lower.⁴⁰ The number of projects in east Java is relatively low even if it has the highest number of poor, while in South Kalimantan and Gorontalo, the number of projects is disproportionately high compared with the number of people living in poverty. This suggests that ADB was not focusing on direct poverty targeting during the CAPE review period.

39. For the poor, the opportunity cost of participating in project interventions might be high, because they have to take time to travel and/or line up for rations and participate in discussions. The participatory evaluation found that a large subclass of the poor was not reached by project interventions, because ADB projects are often tailored to the productive poor. This group of beneficiaries has (i) land; (ii) capability or assets to repay credit; or (iii) education, authority, and confidence to take advantage of benefits. Project benefits seldom penetrate deep into the substrata of the village, and usually accrue to village elites. At the district level, the poverty reduction objective of ADB projects is often not understood. Project benefits might be dispersed to all, or captured by those best placed to benefit.

40. ADB introduced various poverty reduction measures through the CSPs and related programs. Between 1990 and 2004, poverty reduction was the strategic development objective of 23 projects with a cumulative loan amount of \$1.8 billion.⁴¹ The CSP 2002 introduced the geographic focus based on poverty intensity, financial resources of the LGs, and the level of human capital development. However, the geographic focus is still too broad, covering 18 provinces. A more focused strategy should be developed in close consultation with the Government (Ministry of Finance [MOF], National Development Planning Agency [BAPPENAS], Ministry of Home Affairs [MOHA], etc.) and other EDPs to ensure country's overall needs are met. Government is reluctant to encourage geographic focus due to possible adverse income distribution impacts it may create in specific areas where the EDP operations are focused. However, if EDPs collectively focus on all areas that need official development assistance, the income distribution impact concerns associated with a limited geographic focus would be minimized. The geographic coverage should be based on several considerations, including (i) need for ADB interventions; (ii) coincidence of environment and poverty nexus, where a multitude of issues converge; (iii) ability of the LG and PGs to participate based on fiscal capacity and willingness of the related administrations to bring the governance structure to a desired level for ADB operations; and (iv) other factors, including whether ADB has sufficient experience or the skill base to work in certain locations, such as conflict-ridden areas.

41. ADB prepared a comprehensive poverty assessment document.⁴² It concluded that protecting and expanding the core expenditures benefiting the poor, while also trying to improve the cost-effectiveness of social service delivery, are essential. The report recommended some redistributive land reform, and encouraged detailed study of the issue and its discussion with LGs and grassroots stakeholders. Further, the report included a valuable discussion about targeting, which is a difficult issue in Indonesia without resorting to means testing. ADB signed a 3-year poverty reduction partnership agreement in July 2001. This document stressed most of the policies discussed in the poverty assessment report, except the recommendation that "pro-poor growth in agriculture needed to be based on some degree of redistributive land reform in consultation with the LGs and grassroots stakeholders."

⁴⁰ Poverty data (urban plus rural) refer to 1996–2002 period except for (i) Aceh and Maluku (1996–1999), plus 2001 for Maluku; (ii) Bangka Belitung, Banten, and Gorontalo (2001–2002); (iii) North Maluku (2001); and (iv) Papua/West Papua (1996–2001).

⁴¹ In a country of 220 million people, this amounts to \$9 per person over a period of 15 years, indicating that the impact created by ADB is not really measurable at the national level.

⁴² ADB. 2000. *Poverty Assessment in Indonesia*. Manila.

42. The Government was preparing a PRS⁴³ during the CAPE Mission. The draft PRS recognizes weak governance as one of the primary causes of poverty, and calls for an efficient and service-oriented government and pro-poor budgeting. The emphasis is on (i) creation of opportunities, (ii) empowerment, (iii) human capital and capacity development, and (iv) social protection. District-level PRSs, based on participatory poverty assessments, are also being prepared. While EDPs acknowledged that the draft PRS contains good elements, they did not believe it represents a well-articulated strategy to address poverty in a country as large as Indonesia with widespread regional differences.⁴⁴ In 2004, the PRS program was incorporated into the Medium-Term Development Plan (2004–2009).

43. Studies have shown that factors other than growth directly influence the welfare of the poor.

Box 3: Impact of Agriculture on the Poor

- (i) Farmers' terms of trade have deteriorated relative to the 1993 base in several provinces outside Java;
- (ii) Insufficient access to land in densely settled islands, or lack of irrigation or infrastructure in other areas, meant that agricultural production was unable to sustain the households;
- (iii) Collapse of the off-farm and urban incomes during the crisis meant that the number of people dependent on agriculture and rural development increased;
- (iv) Conditions in the rural economy deteriorated due to the sharp decline in the Government's expenditure on infrastructure maintenance;
- (v) Reduction in the size of the civil service (especially the temporary employees) and research affected the agriculture extension services; and
- (vi) As a result of the crisis, collateral requirements increased for small and medium enterprise borrowing, affecting rural households.

Among the critical ones are (i) infrastructure, (ii) human capital, (iii) agriculture, (iv) price incentives, and (v) access to technology. Widespread agreement has been reached that in Indonesia, "agricultural growth, poverty reduction, and environmental sustainability are linked,"⁴⁵ and that an effective pro-poor growth strategy must take these links into account.⁴⁶ Conflict over natural resources emerged as an important issue from the participatory evaluation study. As population increases, the competition for resources, such as water, also increases. Communities often feel alienated from decision making about

what they have traditionally considered their resources. Agricultural productivity has affected poverty. Although the slowdown in agricultural growth pre-dated AFC, evidence suggests that the crisis aggravated the problems of the agriculture sector, and especially the poor (Box 3).

44. The participatory evaluation undertaken during the CAPE found that rural farmers had less understanding about the reforms than urban communities after the decentralization. Some rural farming groups still look to the Government to protect them against risk. Without the Government to share the risk, they are unaware with whom to partner. They are unable to seize new markets due to limited knowledge about global competition or the opportunities that global markets offer. Therefore, training and skills development is a high priority for farmers throughout the areas studied. Such skills development requires resources. ADB provided several loans for projects that addressed rural development and poverty reduction. The CAPE studied some of these to understand their impacts and issues. The key messages are summarized in Box 4, while more detailed information is provided in Appendix 8.

Box 4: Key Messages from Poverty and Rural Development Projects

- (i) **Multifaceted participatory approach and continuity.** The Rural Income Generation Project created social and community impacts due to its participatory and multifaceted approach. The Asian Development Bank (ADB) and the Government effectively managed the Coastal Community Development and Fisheries Resource Management Project, which is partly attributed to staff continuity. The benefits could have been maximized if these two projects been integrated, especially where they overlapped.
 - (ii) **Innovative channels.** The Poor Farmers Income Improvement Through Innovation (PFIII) Project sent funds directly to the account of the village organizations, bypassing possible leaks at other institutions. Using commercial bank accounts as the mechanism, a small adjustment had to be reflected in the budgetary process. The Government could replicate this innovative approach if it is successful.
 - (iii) **Effectiveness and economies of scale.** At \$56 million, the PFIII Project loan was relatively small. However, it covered 1,000 villages for ADB operation to be cost-effective. In terms of implementation, a more effective approach might have been to focus on 200 villages first to learn from it, as this was quite an innovative project.
- (See Appendix 8 for more details on these and other projects)

⁴³ It was submitted by the task force to the Poverty Reduction Secretariat on 28 May 2004.

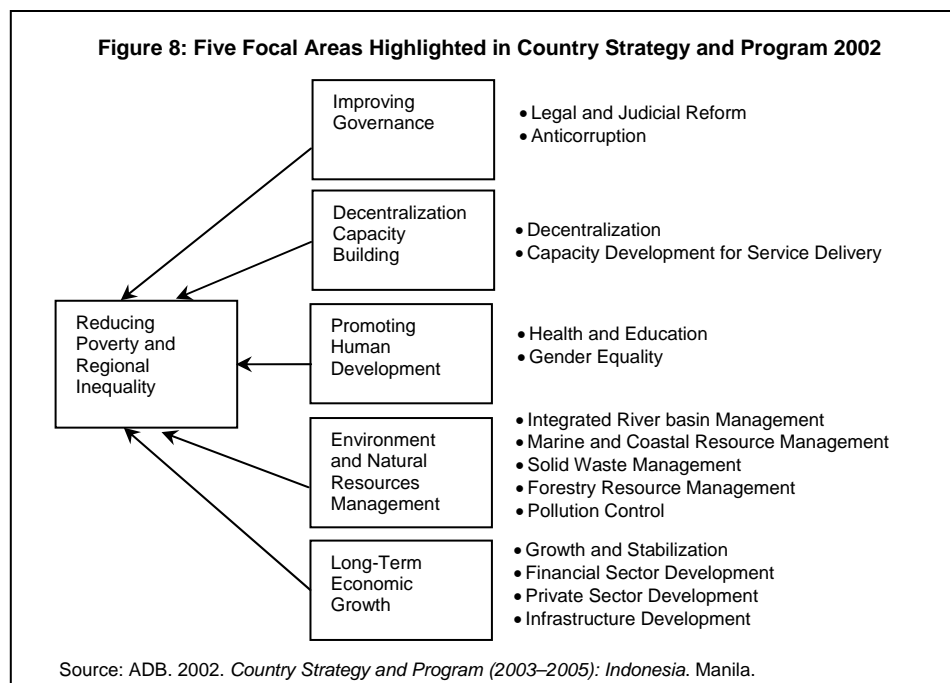
⁴⁴ ADB. 2004. *Midyear Meeting of the Consultative Group on Indonesia*. Manila.

⁴⁵ Balisacan, A.M., E.M. Pernia, and A. Asra. 2002. "Revisiting Growth and Poverty Reduction in Indonesia: What Do Subnational Data Show?" Economic Research Department. *Working Paper Series 25*. Manila: ADB.

⁴⁶ The COS 1994 emphasized the link between agriculture and poverty reduction.

IV. ASSESSMENT OF OUTCOMES AND OUTPUTS OF STRATEGIC THRUSTS

45. To assess the top-down efficacy of the ADB strategy, this chapter looks at the five thematic areas identified in the CSP 2002 as strategic thrusts in the same order as in the program (Figure 8). Assessing the impact of ADB operation in terms of these strategic thrusts is not possible given the problems of attribution. ADB's contribution is a very small part (2-4%) in terms of Government expenditure (para. 7). Given the lack of monitoring information that would have been available in a results-based CSP, tracking the outcomes of specific ADB operations is also difficult. Therefore, the CAPE assesses the overall outcomes of the thematic areas. When ADB's specific contribution under a particular strategic thrust is discernible, it is shown in the CAPE report in boxes.⁴⁷



A. Governance and Anticorruption

46. **Governance.** This first focal point of the last CSP is one of the most important topics that needed to be addressed in Indonesia. The CAPE discusses in paras. 47–52 the many related interim impacts and outcomes in the field of governance, as well as ADB's contribution toward these achievements to identify areas for improvement (Appendix 9).

47. Though the 1994 strategy contained a chapter on good governance,⁴⁸ good governance was said to be a key theme of ADB's interim operational strategy of 1998–2000,⁴⁹ which emphasized (i) policy and institutional reforms in key sectors, (ii) support for the implementation of the decentralization agenda and other governance reforms, and (iii) stronger poverty reduction and social protection measures. The CSP 2002⁵⁰ strengthened the focus on good governance, and ADB initiated a series of operations to address governance issues in the country. This has positively impacted in the inclusion of governance initiatives in recent ADB projects and operations, albeit in a somewhat fragmented manner. Recent ADB interventions in Indonesia have featured a

⁴⁷ See boxes 5, 6, 9, and 10.

⁴⁸ ADB. 1994. *Indonesia Country Operational Program Paper 1994–1997*. Manila (pp. 15–16, paras. 39–41).

⁴⁹ Although the interim operational strategy is mentioned in other strategy papers, a copy could not be located by the CAPE team despite an extensive search.

⁵⁰ ADB. 2002. *Country Strategy and Program (2003–2005): Indonesia*. Manila (Appendix 3, p. 117).

multitude of efforts on decentralization, anticorruption, and corporate governance. Some key features of these are described in Appendix 9. In a complex politico-administrative environment that resists change, the sustainable impact of short-term TA interventions is doubtful. Progress will be slow. The governance road map uses a project approach, addressing procurement and quality control of physical products. Instead, it should provide a guiding framework backed by a set of governance-related indicators. Table 5 provides examples of indicators for governance and related areas, which could be refined further for the country context in the next CSP.⁵¹

Governance Practices	Decentralization Frameworks	Service Delivery Mechanisms	Capacity Building Programs
(i) Transparency of public decision-making processes and its results (e.g., availability of information on government policies, budgets, procurements, contract awards, expenditures) (ii) Forms and extent of community participation in planning and decision making at various levels of government (iii) Increased external audits (iv) Number of irregularities revealed in audits that were promptly investigated (v) Quality of communication and collaboration with civil society organizations (CSOs) at all government levels	(i) Clarification of legal framework and refinement of regulations for local government (ii) Suitability of organizational set up and clarity of functions allocated to administrative and technical units (iii) Increased local capacity to mobilize own resources and promote private sector investment (iv) Emerging forms of inter-regional cooperation (i.e., between districts) for public service delivery (v) Improved local economic and social development policies and plans, and the extent to which they guide the budgeting process and subsequent implementation (vi) Consistency of fiscal management framework applied at regional levels	(i) Enhanced provision of basic social services (as indicated by budgetary allocations) (ii) Improved quality and targeting of service delivery to the poor in various sectors (health, education), as indicated by customer surveys (iii) Establishment of improved accountability mechanisms (direct: client, provider; indirect: client, policy maker, provider)	(i) Establish a baseline of existing capacities of various stakeholders (government technical agencies, CSO, village level councils, members of local governments (ii) Agreed strategy and program for capacity building on various levels and across stakeholders (iii) Performance indicators for measuring capacity enhancements over a given period (iv) Regular evaluations of capacity building progress

Source: Asian Development Bank.

48. ADB's Indonesian country governance assessment is a comprehensive report. It reviews the challenges and problems, actions taken by the Government, and inventory of needed reforms. The report also lists concrete recommendations in the governance fields. Although this is a good beginning, the recommendations should be refined, simplified, and developed into a mandatory checklist for all upcoming project preparations. ADB has taken a leadership role in helping the Government coordinate EDP support in corporate governance reform. It also contributed to the development of the Partnership for Governance Reform (Box 5).⁵²

Box 5: A Good Practice Innovation

The Partnership for Governance Reform, established after the Consultative Group on Indonesia meeting of 2000, is a unique collaboration among civil society, corporate sector, government, and multiple external development partners to promote a high-profile "center of excellence" on good governance through research, experimentation, capacity building, and advocacy. It has two components: a facility for policy dialogue, and an analysis and \$10 million governance trust fund. By enhancing discussion and analysis of governance issues, the facility acts as a catalyst for building domestic capability for, and ownership of, governance reforms. The trust fund disburses funds to Indonesian agencies to finance pilot projects to demonstrate new ideas. The partnership's activities included (i) developing the National Agenda on Legal and Judicial Reform, focused on the enforcement institutions; (ii) developing voter education; (iii) building capacity for the Election Commission; and (iv) supporting the activities of the multistakeholder Committee for Indonesian Civil Service Reform. The partnership is a good practice forum for tackling relevant governance issues.

⁵¹ The CAPE does not imply that ADB should take on all these areas of intervention. Prioritization, selectivity, and focus are required.

⁵² ADB contributed a total of \$ 1 million to the Partnership by providing TA 3813-INO and TA 4341-INO.

49. Law 22 on Regional Autonomy and Law 25 on Fiscal Balance between CG and LG were passed in 1999. Although 11 sectors⁵³ were decentralized beginning 1 January 2001, this has not delivered development results. Nevertheless, the initiation of reform has been an achievement itself. The new laws were prepared hastily within the small window of opportunity that opened during the crisis. As such, many features, including the assignment of responsibilities and financial transfers, are unclear. Ministerial decree (KEPMEN) 35 stipulates a policy framework for channeling external funds to LGs, which has become a critical issue. This framework has created major implementing issues. First, all LG project proposals had to originate from the LGs, though some of them do not have the capacity for this. Second, all subprojects had to be prepared fully before loan signing, implying long lead times. Third, external funding was prohibited to LGs with loan arrears to the CG until loan restructuring was done. Loan restructuring was delayed and took considerable time. Sectoral laws still need to be aligned with regional autonomy laws. Minimum service standards (MSS) have begun to emerge but slowly. LGs still largely are ignoring the role of PGs, which were to have an important coordinating and supervisory role. This has resulted in numerous conflicts between LGs, PGs, and the CG.

50. The mechanisms to transfer funds to LGs are (i) the general allocation grant—a block grant that all regions receive based on a formula and not on expenditure needs; (ii) the revenue sharing mechanism (Dana Alokasi Umum [DAU]), which reimburses regions with natural resources with a share of generated revenues; and (iii) special allocation grant intended to channel earmarked funds for specific purposes. The DAU was to provide funding for the decentralized obligatory funds and, at the same time, equalize between LGs. This has not been achieved, as the formula for the block grants includes parameters obstructing equalization, such as civil service wage bill. Further, the DAU is determined without links to expenditure needs. Thus, poor regions are left underfunded and largely dependent on the DAU, while a few rich regions get more DAU than they need. LGs adopted a hold-harmless clause⁵⁴ in 2002, which makes reducing the DAU before 2008 politically difficult. The underfunding created strong incentives for LGs to impose distorted local taxes and levies, which deter private investments. The establishment of the Regional Representative Council was intended to give poor regions a stronger voice at the national level, particularly on LG financing issues. However, the Council has not had a major impact on how LGs are financed or how much they receive. LGs expressed frustration over not having been consulted appropriately on the decentralization laws in 2004. The lack of clarity in these funding channels, combined with political uncertainties, has slowed down many EDP-sponsored operations.⁵⁵

51. The World Bank Governance Indicators (Appendix 9, Table A9.3) show mixed results in terms of governance outcomes. Indonesia ranks poorly in all six indicators compared with other countries. While voice and accountability has improved since 1998, political stability deteriorated after the end of an authoritarian regime. Government effectiveness improved in 2004, as did regulatory quality and control of corruption. Further progress is needed on all dimensions of governance. The sustainability of the improvements suggested by the data in 2004 remains unclear.

52. Reforms, however, have not been initiated for effective civil service management. The education level and professionalism of the civil service are poor. Widespread corruption inhibits the reform process. The Government has begun a review of necessary civil service reform to convert the bureaucracy into a responsive, efficient, and performance-oriented service. However, progress

⁵³ The sectors are urban development, health, education and culture, agriculture, communications, industry and trade, capital investment, environment, land cooperatives, manpower affairs, and management of natural resources. The number of sectors was increased to 16 with the revised Law 33 of 2004.

⁵⁴ The hold-harmless clause ensures that the previous amount of the allocation is protected against decreases under a mandated formula for a set period (until 2008 in the case of the DAU).

⁵⁵ ADB initiated a major operation on LG finance and governance sector reform in 2005.

on this difficult agenda has been limited, and will require time and support from the EDPs. The Indonesian civil service (40% women) is not large, and is quite decentralized (68% of civil servants are at the LG level; 9% at the provincial level).⁵⁶ About 2.4 million civil servants (mostly teachers and health workers) were transferred to LGs in 2001 during decentralization.

53. **Anticorruption.** Law 31/1999 on the Eradication of Criminal Acts of Corruption mandated the establishment of an anticorruption commission. TA 3381-INO: Establishment of Anticorruption Commission helped in preparation of the law and manuals for capacity building, as well as supported public awareness through workshops and multimedia techniques. The TA completion report rated the TA partly successful, because of insufficient ownership and interest on the part of the counterpart staff, which delayed the establishment of the Commission for Eradication of Corruption until end of 2003.⁵⁷

54. Table 6 presents Transparency International's (TI's) corruption perception index for Indonesia since 1995. Corruption in Indonesia, which was perceived to have been going on before the crisis,

Item	CPI Score ^a	Surveys Used	Country Rank	No. of Countries
1995	1.94	7	41	41
1996	2.65	10	45	54
1997	2.72	6	46	52
1998	2.00	10	80	85
1999	1.70	12	97	99
2000	1.70	11	86	90
2001	1.90	12	88	91
2002	1.90	12	96	102
2003	1.90	13	122	133
2004	2.00	14	137	146

CPI = corruption perception index.
^a Nearer 0, higher the degree of perceived corruption.
 Source: Available: <http://www.transparency.org>

became worse during the crisis and moved toward the precrisis score only in 2004, according to the index. Except in 1996, Indonesia has ranked in the top 10% of most corrupt countries for the past decade. However, with the recent reforms, 50% of the respondents (as opposed to 20% average for all 45 countries surveyed) are optimistic that corruption in Indonesia will drop in the next 3 years. Political parties, parliament, customs, court, police, and tax system in Indonesia are perceived as the most corrupt institutions, according to the TI's Corruption Barometer (Appendix 9, Figure A9.1). Encouragingly, public revenue and expenditure are now made public. For

the first semester of FY2004, the investigations report of the audit board⁵⁸ reveals information about institutions audited, and details questionable expenditure and unaccounted for revenue. While making this information public is useful, finding the reasons behind these anomalies and holding the relevant institutions and people accountable are also required.

55. IRM has taken special steps to detect fraud, especially for projects it implemented (45% of the portfolio in 2004). It does not accept documents at face value. This has led to relatively more sanction cases reported to the Office of the Auditor General than from other DMCs. Promising examples are evident of broader community participation in decision making and enhanced transparency at the micro level. The focus groups consulted emphasized the importance of new village-level bodies, which are expected to reduce the opportunities for corruption by opening up village-level decision making and budgetary control to wider scrutiny. Corruption is now discussed openly in Indonesia, a first step in seriously addressing a systemic issue.

56. A report prepared for Indonesia under the joint ADB and the Organisation for Economic Cooperation and Development (OECD)⁵⁹ initiative identified 29 steps to combat corruption (Appendix 9, Table A9.2). The report indicated that the legal and institutional bases for 22 of the 29 steps were in place to varying degrees. The bases for the remaining seven measures are still being debated in parliament, or have not been enabled. How the laws identified in the action plan will be interpreted and enforced remains to be seen.

⁵⁶ Soeprijadi, P., P. Rimmel, and A.L. Klausen. 2004. Civil Service Reform Most Urgent Task for Government. *Jakarta Post*. Indonesia. Public employment in Indonesia accounts for 5.5 % of the labor force.

⁵⁷ ADB is helping the Committee for Eradication of Corruption to implement its mandate under TA 4341-INO.

⁵⁸ Audit Board: Republic of Indonesia. 2004. *Auditing Results, Audit Board of the Republic of Indonesia, 1st Semester, Fiscal Year 2004. Audit Result Notes*. Jakarta.

⁵⁹ ADB and OECD. 2004. *Anti-Corruption Policies in the Asia and the Pacific*. Manila.

57. Following one investigation (Appendix 9), the Ministry of Settlements and Regional Infrastructure, now the Ministry of Public Works (MPW), agreed to study the procurement processes and controls of the Directorate General of Urban and Rural Development. ADB provided TA 3842-INO: Strengthening the Capacity of the Ministry of Settlements and Regional Infrastructure to Combat Fraud and Corruption for this purpose. Based on its recommendations, ADB and MPW signed a memorandum of understanding (MOU) in June 2004. Subsequently, another more generalized version of the MOU is being prepared for adoption by ADB and MOF, and possibly the World Bank and JBIC. The general MOU calls for (i) greater transparency and public disclosure, (ii) civil society oversight, (iii) protection against fraud and collusion, (iv) outsourcing of procurement, (v) monitoring and construction supervision, (vi) enhanced project monitoring, (vii) complaints handling system, and (viii) sanctions and remedies.

58. ADB made other efforts to prevent corruption within its normal operating procedures. Since ADB adopted its anticorruption policy, Management has directed staff to include mitigation measures against corruption in projects. OED's review of project documents at various stages of preparation shows that 26 of 30 documents discussed the need to guard against corruption, and instruments and mechanisms have been suggested to mitigate corruption (Appendix 9, Table A9.1). Of the 16 Indonesian program and/or project performance audit reports (PPAR) undertaken since ADB's approval of the anticorruption policy in 1998, three mentioned corruption-related cases.⁶⁰ However, the PPARs caution that, in most cases, the corruption issues are based on circumstantial evidence and that allegations are difficult to prove. Subsequent investigations by the Office of the Auditor General sanctioned some of the contractors identified in one evaluation. Allegations of corruption are more likely to be reported in internal ADB documents, such as the back-to-office reports (BTOR) than in public documents (Appendix 9).

59. Like other EDPs, ADB did not focus much on governance and anticorruption agenda before the crisis, despite the perception that corruption was rampant. During the crisis, although the need to address these issues was recognized, the necessary modalities and resources were not available as the main focus was poverty reduction. During the difficult transition period, ADB has provided assistance in many ways to help reduce corruption and increase good governance. Based on these initiatives, which have shown interim positive outcomes, the strategic thrust on governance and anticorruption is assessed as *efficacious*. However, due to the systemic nature of the underlying problems and the time needed for reform, an assessment of the sustainability of outcomes and their impacts is premature. Future efforts in this area need to be coordinated, streamlined, and continued to attain a higher impact. Such efforts will require substantial resources in terms of capacity development, implementation supervision, and building staff skills to scrutinize allegations and take legal action.

B. Decentralization and Capacity Development

60. **Decentralization.** Indonesia had been discussing decentralization for nearly 2 decades. After trying to implement it on a pilot basis, the country legislated decentralization in 1999. Policy formulation and lawmaking on decentralization proceeded without establishing the regulations that would delimit the impact. Far-reaching legislative changes, resulting in a complete overhaul of the administrative system, took place within a very short political window of opportunity. Lower levels of government were democratized, and governance authority and responsibilities for service delivery were shifted to more than 400 LGs almost overnight. While this big bang approach to

⁶⁰ These are ADB. 2004. *Project Performance Audit Report on the Rural Water Supply and Sanitation Sector Project (Loan 1352-INO) in Indonesia*. Manila; ADB. 2004. *Project Performance Audit Report on the Second Development Finance Project (Loan 1223-INO) in Indonesia*. Manila; and ADB. 2001. *Project Performance Audit Report on the Integrated Irrigation Sector Project (Loans 1017-INO/1018-INO[Sf]) in Indonesia*. Manila.

decentralization was well-intentioned, Indonesia's lack of readiness to manage the process led to an arduous transition period from which the country has not emerged.

61. Initially, ADB did not demonstrate the flexibility needed to change its project designs to suit the decentralized system that had emerged. Some projects conceived before the reform, such as the Metropolitan Medan Urban Development (MMUD) Project, provided the opportunity for local communities to get involved and for LG to provide oversight during implementation. However, the project continued under the traditional implementation arrangements.⁶¹ In other projects, such as Loan 1573-INO: Second Junior Secondary Education Project, some flexibility was seen in adjusting the design to the decentralized context. This might have been because, in December 1999, some project implementation units (PIU) had refused central PIU's guidance in implementation. Thereafter, some modifications were made to the project design and procedures including (i) recasting the budget in 1998 and 1999; (ii) establishing subproject offices in districts⁶² and related capacity building in 2000 and 2001; and (iii) increasing consulting support for training, and streamlining project components toward the districts. Frequent changes in local personnel undermined capacity building at the district level. The BTORs of 2003 showed more urgency for district-level participation, stating that PIUs should start involving district supervisors in as many of the projects as possible.

62. The next generation of projects formulated under decentralization concentrated on improving service delivery mechanisms and standards, predominantly in education and health. Project designs, such as those for Loan 1863-INO(SF): Decentralized Basic Education Project and Loan 1810-INO(SF): Decentralized Health Services (DHS1) Project,⁶³ tried to adapt to the decentralized framework. However, the capacities to follow the strategies were not available at the district level. This led to frequent rejections of draft health plans devised by participating districts—some districts are said to have copied the plan from neighboring areas—and significant delays in the disbursement of funds. While the second generation projects incorporated greater local authority to decide the focus area, the CG's sector departments still predetermined the projects' scope (i.e., the modalities of assistance, the institutional setup, and the implementation mechanisms) with little participation in project design by LGs (districts and municipalities) and civil society organizations. Many of these new generation projects were community-based, and achieved significant success at the community level. Participatory evaluation suggests projects with a strong participatory component have been effective in supporting village-level decentralization (Appendix 6). In these community projects, project processes have played an important part in promoting greater transparency and community authority in decision making, and made communities feel empowered to challenge village government for greater political and financial accountability.

63. Despite the success at the village level, greater transparency at the LG level is not evident. ADB projects should build on the success of village-level activities to promote mid-level initiatives through user groups or village organizations, or to promote links between LG and village-level initiatives, thus scaling up accountability processes and sequencing reform measures better. This will be a slow process that will require addressing governance, higher transaction costs, and capacity development issues. These fundamental changes cannot be achieved through large-scale projects, but instead through projects focused on limited areas where the implementation is subject to monitoring and learning by doing.

⁶¹ In June 1999, a BTOR identified the need to intensify capacity development for LGs. This was not mentioned in subsequent BTORs. Marginal changes were made in other projects such as Loans 1605-INO: *Central Sulawesi Integrated Area Development and Conservation Project*, and 1613-INO: *Coral Reef Rehabilitation and Management Project*.

⁶² Within the same geographic coverage, districts were expanded to 35 in 2000 and 46 in 2001.

⁶³ In Loan 1863-INO(SF), although 70% of the loan period had elapsed by the end of 2004, only 32% of funding was disbursed; and for Loan 1810-INO(SF), 44% of the loan period had lapsed but only 22% of the funds were disbursed.

64. Communities were frustrated by their lack of success in influencing initiatives under the CLGS SDP, which were intended to facilitate greater community involvement in larger subdistrict-level infrastructure projects. Instead, these are delivered through partnerships between the contractor and LG, much as they were before decentralization. ADB project successes, therefore, remain largely localized and isolated. Community empowerment processes might fade away once project is finished. ADB's district-level project approach did not recognize the complexity of existing institutional arrangements and underlying dynamics, which more often than not resist change.

65. Parallel institutional development through ADB community development-type projects at the village level was a key area of concern for communities during the participatory evaluation study. Some study areas have long traditions of community self help for infrastructure provision and maintenance (Java in particular) through village-level institutions and initiatives. In other study areas (East Lombok, for example), some communities expressed satisfaction with existing community institutions. ADB projects sometimes promote parallel institutions at the village level through, for example, the Community Empowerment for Rural Development Project and potentially the Poor Farmers Income Improvement through Innovation Project's village investment committees. These can undermine the authority and legitimacy of well-functioning village institutions. Some projects have isolated delivery systems, organizations, and procedures, which are unrelated to local sector planning. Although these are meant to safeguard the project from malfunctioning systems, their systemic capacity building effort is not replicable. Thus, sustainability of the more successful community components will be limited if local level reforms in development planning, financial management, and accountability mechanisms do not coincide with the progress in project initiatives.⁶⁴ By working closely with the LG in implementing community activities, the CLGS SDP has addressed this concern in part. This could serve as a model for future ADB assistance that reinforces, rather than circumvents, institutions important to the long-term decentralization and democratization process in Indonesia (Box 6). What is needed is a third generation of projects founded on community demand, yet encompassed within the existing community decision-making process and the LG's legislative and administrative system. These projects should be coordinated and supported at the provincial level.

Box 6: Support to the Decentralization Process

The Community and Local Government Support (CLGS) Sector Development Program (SDP) provides an opportunity to learn about the effectiveness of project design. Component A is for community-deliberated implementation of village infrastructure, while Component B finances the district level infrastructure. The district community development forum (CDF) established under the program are to identify the infrastructure. It also addresses governance-related issues of participation, transparency, and accountability.

The CLGS SDP has helped to build some capacities among village communities to identify, plan, implement, and manage small-scale infrastructure projects (Appendix 6). The program's integration with existing village institutions is somewhat weak. Now, with the program closing, the communities hope to secure new sources of funding to continue rehabilitating village infrastructure. However, this still depends heavily on the village head's receptiveness to greater transparency and community involvement.

Although impact at the village level is discernible, the impact at the local government level has not been achieved. For participatory implementation of Component B, the CDF makes the decisions. In some cases, CDFs have not been established. In others where they exist, the program implementation purposes are still separated from the existing institutional setup. Therefore, the improved governance processes that are encouraged in this CDF have not been brought into the mainstream. The Regional Planning Agency, though responsible for planning and evaluation, has no mandate for implementation. The Community Development Agency charged with community development did not have a role to play.

Program designs need to reflect more clearly the involvement of local institutions, especially at the early stages. Project impacts need to be more focused and framed better. Of three subgoals (poverty reduction, supporting decentralization, and empowering local community to participate in development), only the third one has been addressed well. Poverty reduction effects are doubtful, as little sustainable employment has been created. Monitoring and evaluation of impacts are difficult, because baseline data does not exist.

⁶⁴ Subsequent to the Paris Declaration (<http://www1.worldbank.org/harmonization/Paris/FinalParisDeclaration.pdf> [March 2005]) to harmonize project implementation arrangements, ADB has committed to minimize the use of parallel structures for project implementation and to use joint PIUs with other development partners where possible. These measures will also reduce the transaction costs to the Borrower. However, the SES on Role of PIUs (ADB, 2005. *Special Evaluation Study on the Role of Project Implementation Units*. Manila) concludes that, "in the foreseeable future, PIUs shall continue to be a generally legitimate and justifiable implementation mechanism for capital investment projects, which comprise the majority of ADB's loan portfolio, because PIUs generally enable efficient and timely implementation."

66. ADB has tried to support its new and important projects, such as the CLGS SDP, with additional resources. A TA performance audit report⁶⁵ is evaluating the four TAs attached to the CLGS SDP (TAs 3177, 3178, 3179, and 3326-INO). Its findings indicate that, because the four TAs were approved at a time of political and administrative change, more conceptual and implementation support was needed. TAs 3179 and 3326 were relevant and created useful impacts. However, due to the rapid changes created by decentralization, TAs 3177 and 3178 were seen as not relevant at the time of evaluation, and their influence on decentralization agenda was marginal. Due to resource constraints, the significant involvement of LGs envisaged in the design was limited to discussions of TA outputs in a few local workshops and participation of local representatives in two national-level workshops. ADB needs to consider different assistance modalities to support decentralization capacity development. Stronger supervision also is required, which IRM is best suited to provide. Several other TAs supported decentralization; their accomplishments are in Appendix 9 (Table A9.4). These TAs generated specific instruments, such as (i) clarification of service standards; (ii) institutional arrangements, such as performance-based operating contracts; and (iii) regional public expenditure reviews for decentralized practice. However, whether and how the outputs would be converted into policies and regulations is unclear.

67. **Capacity Development.** Decentralization generated significant capacity development needs for LGs and CG, as well as for other stakeholders from civil society to comply with new functions and utilize increased opportunities for participation in public policy making and governance. Particular capacity development requirements exist in crosscutting areas, such as (i) local development planning, (ii) budgeting and financial management, (iii) human resources management, and (iv) institutional development. These are of overriding importance for the improvement of governance processes. In general, the LGs and PGs have not received the required support to strengthen capacity to fulfill their new responsibilities. Exchange of experience between regions about innovative approaches is slow and incomplete, because relevant institutions (e.g., LG associations) are not acting as effective representatives of local level needs or as successful lobby groups. LGs' accountability to their constituents has to be strengthened, and citizens' awareness of their rights must be increased. The professional development of the civil service and related human resource management is another pressing issue. All of those issues suggest a considerable need for more systemic capacity development. However, given the budgetary constraints, it will take a substantial amount of time to build these different capacities to the required level.

68. National organizations have to recognize that a new, more complex type of coordination across different government levels is needed under decentralization. The CG agencies should act as facilitators of LG in executing their functions, and should monitor service delivery standards. PGs should develop the ability to coordinate and prioritize investment in the LGs under them. The LGs, in turn, have their own capacity development needs. Their lack of capacity affects the progress of decentralization and project implementation at the operational level. Broad strategies responsive to local needs, as well as capacity development services to satisfy the emerging capacity requirements, are essential. The extent of capacity development support needed was not clear at the early stages of decentralization, but ADB articulated this need well later at the CGI meeting in 2003 (Box 7). While the analysis of support needed was

Box 7: Support Needed for Decentralization

- (i) Transparent and participatory process of reviewing the decentralization laws;
- (ii) Strengthening interagency coordination and decentralization process management;
- (iii) Establishment of an effective monitoring and evaluation system;
- (iv) Mechanisms to supervise damaging local government regulations and taxes;
- (v) Ability to safeguard national standards and priorities;
- (vi) Thorough review of the fiscal equalization arrangements to reduce imbalances;
- (vii) Pro-poor and gender-sensitive budget and expenditure policy; and
- (viii) Implementation of demand-driven capacity building initiatives to support decentralization and civil service reform at all government levels.

⁶⁵ ADB. 2005. *Technical Assistance Performance Evaluation Report on Capacity Building to Support Decentralization in Indonesia*. Manila (Draft).

comprehensive, ADB acknowledged that it could not support everything and would have to focus on the most urgent issues in cooperation with other EDPs.

69. During the CAPE review period, ADB provided \$32.6 million grant funds (44 advisory TAs) for advice on capacity development for governance, decentralization, and service delivery (Appendix 10, Table A10.1). In addition, ADB approved 32 loans for \$3.2 billion with similar objectives. However, ADB did not have conceptual guidelines on how to design capacity development strategies in its support to projects until 2004. Throughout ADB, capacity development mostly had been interpreted as human resource development, which had been addressed through training measures or the funding of expert advisers. This approach fell short of a more strategic orientation to the projects' objectives at the institutional level. Often, the quality of diagnostic work was poor and capacity-related performance improvement indicators also were not defined well. Even recent projects, such as Decentralized Basic Education, DHS1, and Loan 2074-INO: Second Decentralized Health Services (DHS2), are implemented as training opportunities without performance indicators.⁶⁶ Box 8 highlights key weaknesses in the current approach to capacity

Box 8: Key Weaknesses in Past Capacity Development Efforts

- (i) **Capacity substitution.** In some projects, inputs (human and technical) substitute for local resources, which are insufficient.
- (ii) **Lack of institutional diagnostics.** Institutional context and needs analysis were not undertaken due to lack of ownership.
- (iii) **Untapped synergy.** Different projects in same location were not coordinated to reinforce capacity development opportunities.
- (iv) **Short duration.** Insufficient time made accessing wider government systems and bureaucratic culture difficult.
- (v) **Absence of targets and monitoring.** Capacity development initiatives often did not have monitoring to ascertain impacts.

development. ADB has adopted capacity development as a new thematic area, recognizing that sustainable capacity development requires the mobilization of resources for the capacity development process (not one-time training) based on organizations (rather than individuals). The new approach is described further in Appendix 10.

70. Nevertheless, some of the training was useful. Loan 1572-INO: Capacity Building for Urban Infrastructure Management (CBUIM) Project, a large-scale capacity development project conceived in the mid-1990s, was a large training program involving 14 cities and thousands of participants. Since decentralization, the curriculum was adjusted to reflect new legal and institutional conditions. It provided a comprehensive set of training materials for future application in urban infrastructure management. This component can be considered successful. In various municipalities, efforts are under way to establish alumni associations and to organize local follow-up training provided that budgetary requirements can be met.

71. Due to the lack of focus on institutions and the resulting weaknesses that existed, project-related institutional mechanisms and procedures were installed outside the systems at the local level. In counterpart organizations, sometimes only administrative capacity (i.e., keeping track of project operations) was strengthened, while consultants handled project management to minimize disbursement delays and comply with reporting requirements. Frequently, the lack of an exit strategy for projects limited post-project sustainability. Separate funding streams and decision-making systems have created problems in bringing projects into the mainstream of the LGs' own sector programs.⁶⁷

⁶⁶ The prevailing understanding about capacity development is illustrated by the following passage from DHS2: "Capacity-building activities at all levels of government will provide much needed managerial and clinical skills to deliver quality primary health care (PHC) services and address the needs of the poor. At least 50% of the participants in DHS2-funded training programs will be women. Investments in PHC facilities, vehicles and equipment, and the provision of essential drugs will complement capacity-building inputs of the DHS2."

⁶⁷ Attempts by the Ministry of National Education (Directorate General of Higher Education) to initiate a policy requiring the proponents of education projects to allocate 15% of total project budget as a collateral funding to be used for project maintenance do not solve the issue, since it only supports a temporary solution.

72. **Service Delivery.** Capacity development must go together with the delivery of essential public services. This has been a tenet of ADB strategy. A series of programs to enable LGs to deliver public services has been formulated over the past few years, focusing on service sectors for which good practice models are being introduced:

- (i) Almost one third of LGs were supported through the DHS1 Project to increase the quality and effectiveness of health and family planning services.
- (ii) Investments were made to improve the quality of basic education, increase parents' participation in school management, and reduce the number of dropouts.
- (iii) An innovative program to support about 30 LGs to work in partnership with poor urban communities to build or upgrade houses and formalize their tenure.
- (iv) In small-scale infrastructure, a participatory approach to irrigation development and rehabilitation and water resources management in 25 districts was supported to increase the income of the rural poor.

73. ADB supported the clarification of the obligatory functions and related MSS in different areas through TA to (i) develop and test MSS for the education sector, and (ii) work with MOHA to identify the capacity development needs of the regions for the introduction and implementation of MSS. Based on this experience, practical guidelines will be formulated to incorporate MSS in planning and budgeting, organizational and human resources development, and monitoring and evaluation (M&E). The TA design fulfills an important need to advance decentralized service delivery mechanisms.

74. ADB TAs are grant-funded and necessarily limited. Since securing grant funding on the scale required to increase the capacity of the LGs is beyond the scope of ADB TA, the Government must

Box 9: Sustainable Capacity Building for Decentralization

This project, launched in 2003, considers a more comprehensive approach for capacity development (CD). It covers CD in over 40 local governments (LG). The ambitious design aims to establish a permanent post-project institution to coordinate CD support for LGs by central Government agencies. A national capacity building resource center and clearing house will ensure quality control through accreditation of training courses and certification of capacity building trainers, products, and services. An information and communications technology-based regional network system will provide distance learning facilities and forums to exchange essential information for buyers and sellers of CD services, as well as archives for CD best practice, publications, and other resources.

fund these initiatives. Successful capacity change has been shown through case studies.⁶⁸

The Government has begun to realize the importance of borrowing for institutional development. New projects, such as the SCBD Project, are providing long-term capacity development (Box 9). SCBD's approach to capacity development action plans is innovative and addresses many of the weakness apparent in earlier capacity development projects. However, it does not lend itself to easy

replication by LGs, and lacks the flexibility for LGs to devise capacity development plans according to their own needs. Prestructured capacity packages approach being used is more appropriate to meet CG requirements for uniformity and ease of control than local demands for capacity development.⁶⁹

75. ADB,⁷⁰ with the German Agency for Technical Cooperation (Deutsche Gesellschaft für Technische Zusammenarbeit [GTZ]) and United States Agency for International Development,⁷¹ conducted a capacity development needs assessment for LGs. This provided a major input to National Framework for Capacity Building to Support Decentralization.⁷² The framework postulates capacity development interventions at three levels: (i) strengthening policies and regulatory

⁶⁸ Land, Anthony. 2004. *Developing Capacity for Participatory Development in the Context of Decentralization – Takalar District, South Sulawesi Province, Indonesia*. Discussion Paper 57B,E, European Centre for Development Policy Management.

⁶⁹ An October 2004 BTOR for the project indicates delays in finalizing capacity building action plans in the 14 phase 1 districts and front-end delays in finalizing the recruitment of service providers and procurement of information communication technology equipment.

⁷⁰ TA 3177-INO: *Capacity Building to Support Decentralized Administrative Systems*.

⁷¹ Rohdewohld, Rainer. 1999. *A New Framework for Local Governance*. GTZ Discussion Paper. Indonesia. Available: <http://www.gtzsfdm.or.id>

⁷² Minister of Home Affairs/State Minister for National Development Planning/Head of BAPPENAS. 2002. *National Framework for Capacity Building to Support Decentralization*. Jakarta.

frameworks at the systems level; (ii) improving organizational structures, decision-making procedures to facilitate more participation of civil society, and management systems to deliver MSS at the institutional level; and (iii) upgrading professional skills and attitudes, and motivational changes as needed, at the individual level. The framework is an innovative approach for capacity development, which should improve the institutional setup (especially in the public sector) if properly implemented. In doing so, the diagnosis and action plans must take into account the complex dynamics of developing a sense of vision and mission, strengthening leadership, improving policy institutions, and addressing incentives. EDPs would have to support funding for these initiatives.

76. The efficacy decentralization theme was assessed during the postcrisis transition period. Given that the outcomes achieved in this difficult area were diffused and preliminary, though steps in the right direction, ADB's strategic thrust in terms of decentralization and capacity building is assessed as *partly efficacious*. ADB, in partnership with other EDPs, should support the development of these initiatives to create a discernible impact in the future.

C. Human and Social Development

77. From 1990 to 2003, ADB approved 15 projects on education totaling \$1.5 billion, representing 11% of public sector loans. The 24 TAs for education, totaling \$11 million, represent 6% of all TAs. During the same period, ADB approved 10 health loans for \$937 million, which represent 7% of public sector loans. Over half of this amount went to financing health-related safety nets in 1998 and 1999. The 24 TAs for health, worth \$19 million, accounted for 11% of all TAs. Most of these were advisory TAs (14 TAs totaling \$13.2 million), which involved capacity building and M&E to accompany the assistance during the crisis.

78. **Health.** Indonesia expanded health services coverage substantially during the CAPE review period. The mortality rates of children under 5 have been falling faster than targeted since 1997. In 2002, the rate was 46 per 1,000 live births, only 13.7 above the 2015 target. By 2000, Indonesia reached the target set at the 1990 World Summit for Children. However, the variation in under-5 mortality rates between provinces is very wide, ranging from 19 in Bali to 103 in West Nusa Tenggara for 2002 and 2003. Despite these achievements, the infant mortality rate in Indonesia still exceeds those of most members of the Association of Southeast Asian Nations. By September 2003, the number of HIV or AIDS⁷³ cases was estimated at about 130,000, with an additional 80,000 infected. Malaria prevalence was 850 per 100,000 people, while malaria-specific deaths were 11 per 100,000 for men and 8 per 100,000 for women.

79. Recent projects supported Government's efforts to decentralize and streamline the planning and management of health services by (i) emphasizing community participation in identifying needs, (ii) defining solutions, (iii) implementing programs, and (iv) monitoring implementation and outputs. An integrated health planning and budgeting system has been implemented at the district level. Local hospitals progressively have become autonomous managerial units with the ultimate objective of becoming self-sufficient, subject to locally appropriate criteria for cross-subsidization. In general, ADB health projects were well formulated, with project designs incorporating inputs from workshops, coordination meetings between ADB missions and other related institutions, sector analyses, and background work. The beneficiaries also were consulted to get a better understanding of their problems and needs. In terms of the geographic allocation of projects, postcrisis health projects covered more low-income provinces outside Java⁷⁴ than did education projects.

⁷³ Human immunodeficiency virus or acquired immunodeficiency syndrome.

⁷⁴ For example, Aceh, Riau, Bengkulu, Bali, Central Sulawesi, North Sulawesi, and Southeast Sulawesi.

80. Projects, such as Loan 1471-INO: Family Health and Nutrition Project, were designed to create an effective demand for health services by advising consumers on available services. The aim was to increase their utilization, consequently improving cost efficiency. The results from this project were mixed. The demand from the beneficiaries seemed higher for the income-generation component of the project, compared with more direct health activities, such as the outreach programs, equipment purchases for village health clinics, etc. The seed capital provided by the project generated the greatest benefits, with a portion of the profits being used to construct latrines, mosquito nets, and other private health investments. A more practical needs assessment for curative interventions might be needed.

81. The project completion report (PCR) for Loan 1299-INO: Rural Health and Population Project noted that public health practitioners tend to spend part of their time in the more financially rewarding private practice at the expense of their public duties. Policy makers have to address the development of an effective incentive system to keep senior health professionals in the public health sector, possibly based on an efficient private-public mix in service delivery that reduces the compensation disparity. The PCR suggested that a more strategic use of the private sector could improve the quality of health care and reduce the need for LGs to provide health services directly, thus allowing the Government to assume regulatory and quality control functions more effectively.

82. **Education.** Indonesia has achieved the Government target for universal primary education for children 7–12 years old, slightly overshooting annual MDG targets from 1994 to 1999. Indonesia's MDG target (6 years of primary and 3 years of junior secondary education) is more ambitious than the international target. This indicator does not vary much across rural and urban segments and poverty quintiles. The net enrollment rate at the junior secondary level rose steadily from 41.9% in 1992 to 61.7% in 2002, a considerable increase of 20 percentage points in just a decade. Although school enrollment targets have been met, education quality remains a major challenge. Eighth graders in Indonesia performed well below most of their Asian neighbors on international tests in 2001, ranking 34th of 38 countries in mathematics and 32nd in science.

83. Health and education projects tend to focus more on the delivery of inputs rather than the sustainability of outputs. A lack of operation and maintenance (O&M) funds affects the longer-term performance. Unfortunately, the design of certain projects (not limited to the education sector) lacked definite plans for sustaining activities after project completion.⁷⁵ The PCR on Loan 1319-INO: Vocational and Technical Education Project proposed that future project designs set aside an endowment fund that could be used for O&M, or incorporate income-generating activities (such as the sale of products, curriculum guides, and training packages) to finance maintenance of buildings and equipment. A SES on the provision of primary education⁷⁶ recommended that ADB support madrasah schools in Indonesia, especially in the poorer provinces. Madrasahs serve the poorer families, although at a high cost to them. Often, less-than-optimal use of facilities, textbooks, and other materials results from (i) inadequate consultations with the users of the inputs, as in the case of Loan 1359;⁷⁷ (ii) centralized procurement that tends to standardize specifications, volume, and timing of purchase, as in the case of textbooks under Loan 1442-INO: Basic Education Project; and (iii) poor design, which affected the construction of science and mathematics centers under Loan 1442 in the absence of a Ministry of Religious Affairs decree specifying the functions and responsibilities of these centers, and identifying a source of funding for its continued operation.

⁷⁵ For example, O&M for university equipment and facilities financed under Loans 1013 and 1253, and the common learning resource centers under Loan 1442.

⁷⁶ ADB. 2003. *Special Evaluation Study on the Government and Nongovernment Provision of Primary Education in Bangladesh, Indonesia, and Nepal*. Manila.

⁷⁷ Science laboratories were underused due to the high cost of science consumables; the time constraints faced by teachers in setting up the science activities; and the lack of apparent need since national exams test only theoretical, rather than practical, science knowledge.

Similarly, the libraries built under Loan 1359 had design problems; classroom-based cupboard libraries might have been more appropriate. The relevant PCRs and SES recommended the decentralization of textbook selection and procurement at the district or madrasah level. Further, they proposed the preparation of preventive O&M plans for project facilities and equipment to increase their utilization efficiency and sustain their working life.

84. **Gender Equality.** Although Indonesia has improved social infrastructure significantly over the past quarter century, deeply rooted gender inequalities remain, especially in earning capacity, employment opportunities at higher echelons. Although women constitute 41% of the labor force, their earning capacity is about one third of that of the men (Table 7). They have less than one third access to land titles, and are less literate than men. The participatory evaluation indicated that men dominate decision making in the communities and households. Women show an increasing interest in activities that directly affect them, such as health care. Under the decentralized regime, ADB tries to bring gender into the mainstream of its operations. It provided TA to a few locations to (i) promote gender-sensitive policy making, (ii) strengthen institutions such as the State Ministry on the Role of Women, and (iii) improve collection of gender disaggregated data. However, these efforts were insufficient to achieve the required institutional and cultural changes (Appendix 11). ADB recently led the preparation of a gender assessment for Indonesia with support from the EDP community. This assessment highlighted several important areas to focus on in the future, such as (i) integrating gender analysis into planning documents for the medium to long term; (ii) tracking key gender issues at the subnational levels, and providing incentives to those implementing gender-sensitive reforms; and (iii) promoting capacity building for candidates, parties, NGOs, and civil society to promote greater roles for women in decision making.

Indicator	Female	Male
Labor force participation rate (%), 2002	41	59
Share in estimated earned income (%), 2002 ^a	33.9	66.1
Registration of Land Title by Land Type (%), 2002		
Urban	14.3	76.9
Sub-Urban	27.4	67.4
Rural	20.4	66.7
Adult literacy rate (%), 2002 ^a	83.4	92.5
Head of household (%), 2002	12.4	87.6
Life expectancy at birth (years) 2002 ^a	68.6	64.6
Mean years of schooling (years), 2002	6.5	7.6
Gross enrollment ratio in all levels (%), 2002 ^a	64	66
Ratio of female to male monthly salary by education level (%), 2002		
Did not graduate from primary school	0.51	1
Primary school graduate	0.61	1
Junior secondary school graduate	0.71	1
Senior secondary school graduate	0.79	1
Graduate of a course beyond senior secondary school	0.73	1
Share in total number of civil servants (%), 2002	38.7	61.3
Share in total number of civil servants, by sector (%), 2002		
Education	51.4	30.3
Health	11.6	5.1
Share of female legislators, senior officials, and managers in total civil service structural positions (%), 2002	16.6	83.4
Share of parliamentary seats in both houses (%), 2004	13	87
Share of parliamentary seats in province (%), 2004	9	91

Source: United Nations Development Programme (UNDP) Human Development Report.

85. Based on the mixed achievements described in this section, the human and social development strategic thrust is assessed as *efficacious*.

D. Environment and Natural Resources Management

86. Indonesia is home to extensive reef systems, rainforests, and habitats for thousands of unique species. However, according to ADB's draft country environmental analysis (CEA), deforestation and marine resource depletion have accelerated (Appendix 12). Emissions and toxic wastes also have increased. Treatment of industrial waste, sewage, and solid waste is limited. The state of the country's environment worsened during the CAPE review period.

87. Indonesia, with an environmental sustainability index score of 48.8 (the score ranged from 29 to 75 for all countries), ranks 75th among 146 rated countries. It is above the midpoint attained by 23 DMCs. The CEA found that the deforestation rate accelerated from 1.3 million hectares per year between 1995 and 1997 to 1.7 million hectares per year from 1999 to 2000. The same trend was true for marine resources. Carbon dioxide emissions doubled from 1980 to 1999. Only 25% of industrial wastewater is treated before being discharged into the surrounding rivers and seas. In

2002, toxic and hazardous waste was 136% over 1986 levels. Indonesia has one of the world's worst sewage service coverage: the service is available in seven cities and benefits less than 10% of these cities' population. Around 20% of solid wastes produced are not collected, while much of what is collected is not disposed of properly.

88. The State Ministry of Population and the Environment (now the Ministry of Environment) was established in the 1980s. Although various policy foundations and an array of legislative instruments were designed and ratified, they were not implemented or rigorously enforced. In 1990, the Government initiated a number of programs to improve environmental quality,⁷⁸ though these programs faltered with the AFCs. The Ministry of Environment is revitalizing them, and initiating a good environmental governance program for LGs. The Government approved regulations in 2004 providing opportunities for LGs to manage river basins and control water pollution, as well as to clarify fisheries, coastal, and marine issues under decentralization.

89. In the early 1990s, environment was not a major consideration in the development strategies of ADB or the Government. However, both increasingly realized that rapid economic growth was creating environmental impacts that would undermine the sustainability of continued growth. Environmental considerations became a mainstream item in REPELITA VI and ADB's operational strategy of 1994. The COS 2002 went further in (i) clearly bringing ENRM into the mainstream; (ii) tying it with the development of transparent, market-oriented, and participatory systems; and (iii) expanding livelihood options for those dependent on natural resources. From 1990 to 2003, 42% of ADB's public sector lending portfolio (totaling \$5.6 billion) and 21% of the TAs (totaling \$22.4 million) were geared to environmental considerations, though not specifically categorized as such. ADB's ENRM-related projects are spread over many regions. The CAPE team found that several ADB projects are highlighting environmental considerations and factoring them into decision making, particularly at the community level. Decentralization increased community involvement, and the awareness of sustainable ENRM became greater.

90. Water quality and flooding affect Indonesians living along riverbanks. Upland activities in watersheds, such as forestry, land clearing, and release of untreated sewage and garbage contribute to the problems. During the CAPE review period, ADB lent \$2 billion and provided TAs totaling \$10 million for river basin operations throughout Indonesia, including flood control, irrigation, conservation, etc. However, this portfolio has not embraced an integrated management (watershed) approach. While the design on paper presents an integrated view, often focus becomes dominated by management of physical structures (e.g., flood control, irrigation channels, and diversions) in the lower reaches of a watershed. Initiatives upstream are assigned to third parties not associated directly with projects, such as Ministry of Forestry (MF). Progress is not effectively delivered, monitored, or reported (Appendix 12, Box A12.1).⁷⁹

91. Indonesia has many marine and coastal resources. The Government recognizes that increasing development pressure on the coastal zone is a serious problem. Indonesia has signed various United Nations Conventions.⁸⁰ ADB has provided considerable assistance to the sector, and initiated capacity development at regional level before the crisis (Appendix 12). Initial feedback from the field on Loan 1613-INO: Coral Reef Rehabilitation and Management Project (COREMAP) and Loans 1570/1571(SF)-INO: Coastal Community Development and Fisheries Resource Management projects suggests they have increased awareness of the importance of these resources, and have

⁷⁸ These included Clean River (Prokasih-1990), Blue Sky (1992), and Industrial Pollution Performance Rating—PROPER (1995) programs.

⁷⁹ During CAPE team discussion, stakeholder feedback indicated that short-term sustainability (2–5 years) will be assured, but long-term sustainability (+5 years) will be impossible due to persistent poor land use in the upper watershed.

⁸⁰ These include the United Nations Convention on the Year of the Oceans (1998) and United Nations Law of the Sea Conference (1985). In addition, the 17 Asia Pacific Economic Cooperation countries, including Indonesia, agreed in 1998 to curb coastal pollution, sustain fish stocks, and share research into global climate change.

demonstrated that they can be rehabilitated and managed in a sustainable manner. Several positive lessons (Box 10) can be identified in terms of EDP coordination, integrated approach and community participation, and raising awareness.

Box 10: Loan 1613-INO: Coral Reef Rehabilitation and Management Project

The Coral Reef Rehabilitation and Management Project (COREMAP), approved in 1996, aims to address the degradation of coral reef resources. Phase 1 of the Project, spread over 15 years ending June 2003, (i) established a viable framework for a national coral reef management system; (ii) initiated a coral reef research, information, and monitoring system; (iii) designed and tested pilot community-based coral reef management plans in Riau; and (iv) prepared and designed phase 2 project. It integrated the involvement of several external development partner agencies, and presents a good example of multi-interest cooperation toward the maximization of resources and minimizing duplication. Despite problems with counterpart staff and funds, the Project built a dedicated local team in two major Government organizations that cooperated to execute the program. With a well designed and executed awareness campaign, the pilot project has generated the potential to evolve into a series of widespread community-based COREMAP initiatives. The Project has improved coral reef health in some areas, and contributed to a decline in fish bombing and use of chemicals to capture ornamental reef fish. Phase 2, approved in 2002, is about to start implementation. However, COREMAP does not integrate the influences of upland activities on reef resources. This might compromise its accomplishments in more developed areas of the country.

92. Indonesia has the world's second largest tropical forest, which is home to much biodiversity. Recognizing this uniqueness, the Government ratified several international conventions in the early 1990s⁸¹ and promulgated a number of supporting authorities and laws. It issued its first National Biodiversity Action Plan in REPELITA VI, which was updated by the BAPPENAS in 2003. Despite such recognition, and the establishment of an apparent foundation for forest policy reform, progress remains elusive. Deforestation continues to increase. The MF is responsible for managing the forests, including national parks, mangroves, and marine-protected areas.⁸² ADB has not been involved directly with MF, and maintains a hands-off attitude given difficulties in cooperation, exchange of information, and perceived corruption in the sector.⁸³ Nevertheless, ADB lending programs in ENRM (such as flood control projects) do depend on MF for completion of subcomponents.

93. Indonesian cities face serious air pollution problems. Between 1995 and 2001, the number of vehicles in Indonesia grew from 12 million to almost 21 million. Many lack catalytic converters required for cleaner emissions. ADB has not been involved directly in air pollution control interventions. ADB was engaged indirectly through Loan 1449-INO: BAPEDAL Regional Network Project, which addressed air pollution issues at a policy level. ADB also supported urban initiatives (e.g., Loan 1587-INO: MMUD Project), which improved traffic flow accompanying road improvements and helped reduce the accumulation of vehicle emissions in cities. However, a fuel subsidy that used to encourage greater use of cars and increased the new vehicles being put on the road negated this. Beyond 2004, direct air pollution projects are in the pipeline (e.g., TA 4026-INO: Clean Vehicle Fuel for Blue Skies and TA 4361-INO: Urban Air Quality Improvement Sector Development Program).

94. Indonesia's water quality is deteriorating in rural and urban areas due to lack of sewerage treatment, dumping of untreated liquid waste, and sedimentation caused by a lack of upper watershed management. ADB's activities in water pollution control have been integrated as subcomponents under selected urban development initiatives (e.g., Loan 1111-INO: Bogor and

⁸¹ For example, Convention on Biodiversity, CITES Convention, Ramsar Convention.

⁸² ADB's poverty assessment discussed the scope for land distribution in relation to the 75% of Indonesia's 1.9 million square kilometers of land under the control of MF. Of the country's land, 45% is closed canopy and 30% is forestry, comprising lands that have lost their forest cover. Some of the latter lie on the gentle slopes and are suitable for agriculture.

⁸³ A number of ADB staff raised this issue with the CAPE team. Representatives of EDPs and various Government ministries raised the same issue regarding working with MF.

Palembang Urban Development Project), except for Loan 1158-INO: Water Pollution Control Project. The latter project, approved in 1992, was premature. The facility was poorly designed, improperly located, and failed to ratify tariffs. Neither effective stakeholder consultation nor appropriate O&M planning was carried out. The treatment plant was abandoned after completion in 1997, as it was not considered commercially viable given that pollution regulations were not enforced. In 2004, the management contract was handed over to a private entity, and the facility is being used at 75–80% capacity by 32 industries.

95. Indonesia remains in need of wastewater treatment facilities in the urban, peri-urban, and industrial areas. However, the enabling environment remains weak. Enforcement is lacking, and the tariff structure remains ineffective. Export-oriented industries and higher-income residential estates are installing wastewater treatment facilities. Many of the small- to medium-sized industries and municipalities continue to release untreated wastewater into rivers and coastal areas. An effective tariff system has not been developed to support O&M needed to sustain such facilities. A strong link should be developed between sanitation, drinking water, and health sector initiatives.

96. With economic growth, higher volumes of industrial and domestic waste are being generated. The Government adopted an integrated urban infrastructure development program approach in 1985 that aimed to improve solid waste management in urban areas with the objective of decentralizing authority. ADB's focus has been to improve domestic solid waste, sanitation services, and management infrastructure through subcomponents within health and sanitation and urban development and housing projects. Some projects have not been sustainable (Box 11).

97. Appendix 12 describes the design and implementation of ADB's ENRM projects in integrated river basin management, marine and coastal resource management, solid waste management, and pollution control. Although ADB has initiated several environment-related activities, they have not always been implemented to achieve the desired impacts due to (i) cancellation of project components, (ii) absence of an integrated approach, (iii) lack of sustainability beyond project implementation, (iv) weak ownership of ENRM, and (v) lack of institutional capacity for enforcement of regulations. Given the absence of clear outcomes and the diffused focus, efficacy of ADB's thrust for ENRM is assessed as *partly efficacious*.

**Box 11: Loan 1111-INO:
Bogor and Palembang Urban Development Project**

Solid waste management was included as one of six subcomponents in this project. In Bogor, the solid waste site is permanently closed, the old city site is in use, service vehicles procured under the project are no longer functional, and two other completed dump sites are used as open dumps with no environmental controls. In Palembang, one of two disposal sites is closed. The other site, now a prime disposal area, operates as open dump with no environmental controls. Bulldozers provided are not functioning, and leachates eroded metal waste containers earlier than expected. Handcarts in both cities have limited lifespan. Sustainability was to be ensured by adequate post-project operation and maintenance. This has not occurred. Service revenues are well below cost, and tariffs have not been increased. The lack of environmental controls on dumpsites has a negative impact on surrounding areas.

E. Long-Term Economic Growth

98. This section discusses the efficacy of ADB's contribution to the financial sector, private sector, and infrastructure sector. Indonesia's precrisis growth record was impressive, and Indonesia was recognized as part of the Asian economic miracle. ADB contributed mainly by supporting infrastructure development and strengthening the financial sector. With the financial crisis, Indonesia's economy and financial sector collapsed in the short term, private sector investors withdrew, and many infrastructure investments were postponed. The country had to focus urgently on a macroeconomic stabilization program, a restructuring of the financial sector, and measures to regain the confidence of private sector investors. With the support of IMF, which guided the macroeconomic stability efforts and the engagement of institutions including ADB, World Bank, JBIC, and others, the country's macroeconomic condition has become relatively stable.

99. More information is provided in Appendix 1. Paras. 102–131 consider ADB strategic thrusts for long-term economic growth through financial sector, private sector, and infrastructure

development. In terms of effectiveness of ADB efforts, substantial infrastructure outcomes (30.9% of total lending) in these categories were evident. The outcomes in the financial sector (18.6% of total lending) were more moderate, while the private sector (0.9% of total lending) outcomes were negligible. As such, the long-term economic growth is assessed as *efficacious*.

100. **Macroeconomic Status.** By 2004, the economy had stabilized after emerging from the AFC and political transformation. GDP growth reached 5.1% in 2004 and is expected to be 5.5% in 2005. The IMF program concluded, the Government declared that the crisis was ending, and the political situation stabilized with the election of President Yudhoyono in 2004. The inflation rate fell to 6.4%, and the exchange rate stabilized below Rp10,000 per dollar. The interest rate also stabilized, reaching 17.29% for 3-month Bank Indonesia promissory notes. With the current account surplus of \$5 billion, the foreign exchange accumulation reached \$36 billion. The budget deficit fell from 1.9% in 2003 to 1.4% of GDP in 2004. The budget deficit was increasingly financed using the domestic bond market. The public debt fell from 91.6% of GDP in 2000 to 59.8% in 2004, of which 31.6% is external. Official development assistance accounts for 73% of the external debt, divided equally between multilateral and bilateral creditors. The rating agency Standard & Poor's raised its foreign exchange rating to B+ in December 2004, up from B in October 2003 and B- in October 2000, giving Indonesia a positive outlook. The Jakarta Stock Exchange index rose to 880 in November 2004, up from 650 at end 2003. Despite this regained macroeconomic stability, foreign direct investment remained low. Although capital and financial balances became positive for the first time since the crisis, foreign investors still appear hesitant, because of weak governance, high levels of corruption, lack of transparency in tax and customs procedures, and poor infrastructure. The resulting ambiguous, inconsistent, overlapping regulations, and weak institutions have made conditions for investment cumbersome and unpredictable.

101. Global oil prices, which reached record levels in the second half of 2005, pose serious political and economic risks that could hinder economic recovery.⁸⁴ Despite oil and nonoil energy resources to draw from, the economy has been sensitive to rising crude prices. Indonesia has turned from a net oil exporter to a net fuel importer since early 2004 due to underinvestment in oil production over the past decade, as well as rapid demand growth backed by subsidies on domestic fuel consumption. Rising global oil prices have generated pressure on the country's fiscal position, undermining investor confidence and eroding some key economic variables.⁸⁵ The country's fiscal maneuverability and debt position are expected to deteriorate if the rupiah weakens further, and interest rates and higher oil prices persist. In response to the fiscal and financial implications of higher oil prices, the Government has (i) tightened monetary conditions to curb the weakness in the rupiah and rising inflation, (ii) implemented an energy conservation campaign, and (iii) agreed to cap fuel subsidies at Rp113.7 trillion in 2005.⁸⁶

102. **Infrastructure.** The country's geography and unevenly distributed population complicates infrastructure provision. Interisland shipping, river transport, roads transport, and civil aviation play complementary roles in a complex domestic transport system that serves densely populated Java, the rugged and sparsely populated terrain of Papua, and the hundreds of populated small islands in the Malukus and Nusa Tenggara. Electricity supply systems outside the Java-Bali grid are highly fragmented. Primary energy resources are far from the main demand centers. The electrification rate (the share of households electrified) increased from 26.9% in 1990 to 57% in 2003. However, 90 million people (mostly poor) do not have access to power. The proportion of rural villages

⁸⁴ The impact of higher oil prices will likely remain because of (i) market concerns about supply constraints amid rapidly rising global demand; and (ii) a lag in new, large sources of supply coming onstream.

⁸⁵ These include (i) depreciation of the rupiah, (ii) increase in interest rates, (iii) decline in foreign exchange reserves, and (iv) increase in annual inflation.

⁸⁶ The series of monetary tightening measures include (i) increased short-term interest rates, (ii) increased bank reserve requirements, (iii) increased rates for guaranteed dollar deposits, and (iv) preparation of a new swap facility and tighter supervision of foreign exchange transactions.

electrified more than doubled from 38.6% in 1990 to 86% in 2003. The State Electricity Enterprise's (Perusahaan Listrik Negara [PLN]) quality of service, as measured by outages and voltage stability, has improved significantly, though it still varies considerably from region to region. Quality of service is generally poorer outside Java-Madura-Bali. In January 2003, PLN listed 14 regions as having peak loads significantly in excess of their available capacity.

103. The rapid economic growth before the crisis overshadowed the need for reforms in the infrastructure sector. As a result, adequate public policies in infrastructure were not put in place, and corruption went unchecked. Although considerable progress has been made, particularly in the energy and telecommunications sectors, the reforms have been insufficient, scattered, and uncoordinated. The issues are usually addressed through a single sectoral view, disregarding the common issues that transcend sectors: (i) poor public management, (ii) insufficient user charges, (iii) inadequate financing, (iv) lack of credibility to mobilize private sector investments, (v) difficult decentralization challenges, and (vi) weak governance. The financial crisis contributed to the severity of the current infrastructure woes. Infrastructure spending (including by the private sector), which amounted to 7% of GDP before the crisis, dropped to 2–3% in 2000. The proportion of budgets allocated to maintenance was cut.

104. Although the road network comprised 310,026 kilometers (km) in 2000, roughly 5% of the population was not reached by roads, and an additional 3% lacked reliable access to motorized transport. In 2004, the network was 324,000 km. The national roads are mostly in sound condition, while provincial roads are less well maintained. More than half of the extensive network of district roads is in poor condition.⁸⁷

105. During 1990–1997, ADB provided 17 project and sector loans for the transport and energy sectors, totaling \$3.4 billion (41% of lending). ADB supported the road improvement plans of consecutive REPELITAs, and approved the 10th and 11th road projects in 1989 and 1991, respectively. The components of these projects covered 19 provinces, 13 of which were in eastern Indonesia. A PPAR⁸⁸ reported that the overall performance of the road betterment projects were good, and most road sections carry significant volumes of traffic with benefits accruing through cost savings to road users. ADB also supported the improvement of district roads through projects such as Loan 1232-INO: Third Local Roads Project, which was approved in 1993 to cover the existing road networks of 70 districts within central and east Java, Bali, and Yogyakarta. The PPAR⁸⁹ found that the road improvement and periodic maintenance targets were nearly met or exceeded, resulted in significant cost savings, and were implemented on schedule. The sector approach that was used allowed flexibility in selecting road links, which enhanced the overall economic benefits. Similar experiences in other road projects demonstrate that ADB had a comparative advantage in this sector.

106. Many early road projects did not address needed improvements in road safety, which is poor in Indonesia. Measures to address road safety problems under more recent projects (Loans 1335, 1428, and 1798)⁹⁰ have included improvements in vehicle inspection and testing, and elimination of black spots. However, these have not created the needed impact. Road safety is an area that should be covered in future ADB road projects. Another key issue has been the maintenance and rehabilitation of transport infrastructure, including routine and periodic maintenance programs, facilities, and services throughout Indonesia. Several projects, including the Third Local Roads Project, did not produce the intended improvements in maintenance capacity. The road system requires about \$700 million per year to prevent its deterioration. Given the Government's tight budget, external assistance is needed to sustain road maintenance and improvement activities.

⁸⁷ For example, road budget for maintenance dropped from 30% of recurrent expenditure in 1985 to 10% in 2000.

⁸⁸ ADB. 2002. *Project Performance Audit Report on the Tenth and Eleventh Road (Sector) Projects in Indonesia*. Manila.

⁸⁹ ADB. 2002. *Project Performance Audit Report on the Third Local Roads Project in Indonesia*. Manila.

⁹⁰ Loan 1335-INO: *Eastern Islands Roads (Sector) Project*, Loan 1428-INO: *North Java Improvement Project*, and Loan 1798-INO: *Road Rehabilitation (Sector) Project*.

107. After 1997, ADB's strategy for the road sector was to focus on capacity enhancement and optimizing the returns from existing road investments. ADB also tried to maintain a balance between assistance for more developed islands of Java, Bali, and Sumatra, and the eastern islands of Indonesia. In line with the evolving needs of the country, ADB provided assistance for urban road improvements, addressing important policy and operational concerns on environmental and social impact assessment, road maintenance (particularly for district roads), and development of an appropriate framework for private sector participation.

108. The most recent project in the transport sector was Loan 1798-INO. This was delayed significantly due to decentralization, which exposed the lack of experience of provincial Directorate General of Regional Infrastructure offices in project development and management, and the poor quality of the design and construction of roads and bridges subprojects. The high volume of small road and bridge subprojects also raised the transaction costs for this loan, increasing the need for consultant assistance.

109. ADB has considerable experience in designing and implementing energy sector projects in Indonesia. ADB financed Loan 1032-INO: Power XX Project in 1990 and continued to provide support to the power sector until the Power XXIII Project was approved in 1993. Following this, ADB focused on power development in the regions through Loans 1320-INO, 1397-INO, 1673-INO, 1982-INO, and 1983-INO.⁹¹ ADB power projects often met output targets. Since 1989, ADB investment projects have added 2,480 megawatts of generation capacity, about 5,000 circuit kilometers (c-km) of high-voltage transmission lines, and about 20,000 c-km of low- and medium-voltage lines. Loan 1357-INO: Gas Transmission and Distribution Project was designed to develop a small state-owned enterprise (SOE) into a business entity that is professionally managed. It has successfully achieved public-private partnership, raised finances in the international market, and participates in trans-boundary trade in the region.

110. During the crisis, ADB's lending program included one project in the transport sector and two projects in the energy sector. The two power projects⁹² were part of ADB's response to the financial crisis, designed to restructure the power sector. ADB saw the crisis as an opportunity to initiate difficult and challenging reforms under the Power Sector Restructuring Program. The reforms were intended to move toward an electricity market with multiple buyers and sellers, especially in the Java-Bali region. The reforms also aimed to build capacity for establishing competitive electricity markets. Prolonged difficulties in fulfilling conditionalities delayed both loans. In its eagerness to obtain quick-disbursing funds, the Government might have made commitments without weighing fully the underlying implications or the implementation difficulties in a compressed time frame. The Constitutional Court annulled the Electricity Law 20/002 in 2004. Political concerns and the increase in the price of crude oil, which is a significant revenue source for Indonesia, also appear to have dampened the Government's enthusiasm to push ahead with major reforms.

111. The impact evaluation study on power sector in Indonesia⁹³ concluded that ADB contributed to PLN's relative operational efficiency through policy dialogue and reducing system losses from 25% in 1985 to 12% in 1996. During the same period, the accounts receivable dropped from 2.1 months equivalent to 1.4 months. While traditional loans have developed the power system significantly, sector reform assistance has not had the same success. The key issues identified by the SES as

⁹¹ Loan 1320-INO: *Sumatra Power Transmission Project*, Loan 1397-INO: *Power Development and Efficiency Enhancement Project*, Loan 1673-INO: *Power Restructuring Program*, Loan 1982-INO: *Renewable Energy Development Sector Project*, and Loan 1983-INO: *Power Transmission Improvement Sector Project*.

⁹² Loan 1673-INO: *Power Sector Restructuring Program* and Loan 1674-INO: *Capacity Building for Establishment of a Competitive Electricity Market*.

⁹³ ADB. 2003. *Impact Evaluation Study of Asian Development Bank Assistance to the Power Sector in Indonesia*. Manila.

relevant to the future power sector operations are highlighted in Box 12. Energy sales continue to grow quickly in Indonesia, and the power system will not be able to support future demand without reinforcement and investment. PLN's weak financial position jeopardizes its ability to maintain its completed projects adequately. This, in turn, affects the sustainability of ADB projects. Government measures to raise tariffs since 2002 to enable PLN to achieve an 8% rate of return on revalued assets by 2005 give room for optimism in this area.

112. The participatory evaluation found that infrastructure sector investments, particularly road investments, were generally well received by LGs and communities. Evidence from the field suggest that, when implemented well, these investments make a durable contribution to local development. Infrastructure projects are understood by the executing agency (EA), and have clear institutional champions and clear lines of responsibility. Nevertheless, the study indicated that some investments relied excessively on physical infrastructure and hardware provision at the expense of project "software" (Appendix 6).

113. Four major areas ADB has focused on regarding infrastructure policy reform include meeting user demand, introducing competition, using pricing to achieve economic efficiency, and improving physical efficiency (Appendix 13). In the future, ADB should support the preparation of infrastructure development plans, particularly integrated gas and power sector planning, and optimizing the energy mix for the country as described in Appendix 13. At the Infrastructure Summit in January 2005, ADB stressed that it is well positioned to support infrastructure efforts through its public and private sector arms. ADB's willingness to provide infrastructure financing should be contingent on addressing needed reforms.

114. From 1990 to 1997, ADB assistance to the urban development sector was oriented toward (i) improving the provision of drinking water, (ii) constructing and rehabilitating urban roads, (iii) developing a sanitation system, and (iv) improving low-income communities and market infrastructure. Some projects also addressed other issues, such as reducing poverty, stimulating local economic development (Loan 1292),⁹⁴ and creating job opportunities (Loan 1198⁹⁵ and Loan 1352⁹⁶). However, their impact was indirect, thus making an assessment of their achievement difficult. Projects approved before 1997, but implemented during the crisis (Loans 1527,⁹⁷ 1572 [CBUIM Project], and 1587 [MMUD Project]), had their targets adjusted to be more responsive to the adverse conditions that prevailed. Since 1997, the only urban development project approved was for Loans 2072/2073,⁹⁸ the first program to cover 30 LGs.

115. Early PCRs in the sector indicated that most urban development projects were judged as relevant, although their efficacy, efficiency, and sustainability varied. Interagency coordination is critical in these projects, given the multisectoral activities involved. In addition to service delivery, many projects focused on supporting urban institutions through human resource development. The

Box 12: Key Issues for Future Power Sector Operations

- (i) Policy-based lending to the sector had a limited impact on the speed and scope of sector reforms. Implementation of structural reforms cannot keep up with the speed at which program loans are intended to be disbursed. New lending modalities, such as hybrid loans or cluster program loans, each tied to specific milestones of sector reforms, might be considered.
- (ii) Significant cost underruns in power projects suggest a systemic weakness in project cost estimation, and needs to be corrected.
- (iii) Although private sector is expected to invest in future power generation, the State Electricity Enterprise (PLN) still needs to finance generation outside of Java-Bali area.
- (iv) When Asian Development Bank (ADB) assistance to the power sector focuses outside the Java-Bali area, special consideration should be given to the weak technical, financial, and managerial capabilities of local governments.
- (v) In the past, the success of ADB operations has been contingent on the appropriateness of Government policies, and ADB's efforts to reconcile them with its sector strategy, especially during country programming.
- (vi) The Electricity Law 20/2002 provided long-term vision for power sector restructuring through the PLN, independent regulation, competition, and private sector participation. This law was revoked in 2004 on the grounds that its key provisions about allowing a competition violated the 1945 Constitution. A new law is being drafted.

⁹⁴ Loan 1292-INO: *Eastern Islands Urban Development Sector Project*.

⁹⁵ Loan 1198-INO: *Central Java and D.I. Yogyakarta Urban Development (Sector) Project*.

⁹⁶ Loan 1352-INO: *Rural Water Supply and Sanitation Sector Project*.

⁹⁷ Loan 1527-INO: *Capacity Building of Water Supply Enterprises for Water Loss Reduction Sector Project*.

⁹⁸ Loans 2072/2073-INO: *Neighborhood Upgrading and Shelter Sector Project*.

urban development TAs focused on capacity building of LGs or local enterprises in a decentralized environment. Key lessons identified during design and implementation of recent urban development projects are summarized in Box 13; while others are detailed in Appendix 13.

116. **Financial and Private Sectors.**

Before the crisis, the financial sector grew rapidly, supported by wide ranging deregulation that began in 1988. With competitive US dollar credit flowing in, the banking and corporate sectors borrowed heavily, backed by rupiah earnings. Due to the lagging institutional and policy reforms, public sector institutions could not oversee and monitor these changes effectively. Poor governance in public and private financial institutions compromised precrisis financial sector controls. In hindsight, pressure from EDPs to expose corruption and allow freedom of the press could have helped to mitigate some of the worst impacts of the crisis. As it was, these conditions contributed to the disastrous impact of the AFC on the Indonesian economy in 1997.

- | Box 13: Lessons from Urban Development Projects | |
|--|--|
| (i) | Some local governments mistakenly considered integrated urban development projects as providing physical infrastructure. The Asian Development Bank projects should emphasize the balance between capacity development, physical infrastructure, and income-creating activities of the projects. |
| (ii) | Projects were complex and geographically spread out. The executing agency's limited monitoring and supervision capacity was strained in implementing them. Inadequate project preparation and lack of resources limited the achievements of the project. Appraising one of many subprojects led to inaccurate demand projections, resulting in idle capacity and inaccurate knowledge about social, cultural, and institutional capacity of the local governments. |
| (iii) | The limited budget and inadequate staff capacity in project management units led to lack of coordination and, in some cases, poor quality of works. Although it was agreed during project preparation that sufficient funds would be allocated for operation and maintenance, the funds allocated were well below levels needed to operate services effectively, causing a serious service delivery problems. |
| (iv) | Sanitation projects are difficult to promote. Health and education and demand management components need to be included as integral part of future sanitation projects. |
| (v) | Need to develop simple and appropriate technology to distribute drinking water to low-income people in rural areas. |

117. In November 1997, 16 failed banks were closed. The following year, the rupiah devaluation reached 700%, and rupiah interest rates rose to 80% per year. Capital inflows stopped. Instead, capital outflows reached record levels, and the Jakarta Stock Exchange collapsed. Many state and privately owned banks, as well as nonbank financial institutions (NBFI), became insolvent (Appendix 14). During the crisis, the private sector in Indonesia mirrored the tumultuous events and developments in the financial sector, especially the large corporate groups that dominated the economy and the banking system. The devaluation of the rupiah brought the banks down, but not their owners. Rescuing the banks was left to the Government, rather than the owners.

118. The Government was forced to provide a blanket guarantee for the entire banking system, and to inject massive liquidity and capital into banks. Banking sector nonperforming loans (NPLs) exceeded 50%. The crisis revealed massive governance issues, as well as a weak legal system. Improvements were needed in public, private sector and corporate governance, financial transparency, and legal sector transformation. The Indonesian Banking Restructuring Agency (IBRA) took over the majority of failing banks and their NPLs. In response to the crisis, ADB, as part of the IMF's rescue effort, provided its largest loan to Indonesia—the \$1.4 billion Loan 1618-INO: Financial Governance Reforms: Sector Development Program (FGR Program) to support bank consolidation, transfer of NPLs to IBRA, and bank restructuring. The cost of this process was estimated to be about \$50 billion. Many EDPs assisted this consolidation process, including ADB, the Australian Agency for International Development, and the World Bank. TAs were provided to MOF, the Ministry of State-Owned Enterprises, and IBRA. IBRA was closed in February 2004 after recovering 28% of the entrusted assets.

119. After the crisis, the economy has become relatively stable. Domestic and foreign investment levels have remained low, and consumption spending has driven economic growth. With the closure of IBRA, the gap in the blanket guarantee was filled with the law on deposit insurance approved in June 2004 to cover small depositors (below Rp100 million) at a risk-based premium structure. The banking sector is lending moderately to the corporate sector, which is still in the process of restructuring. High margins indicate the risks and uncertainty that banks face. Consumer lending has increased rapidly, and may create a new bubble. Thus, preventive measures, such as margin requirements, might be

needed. Lending to small and medium enterprises (SME) has remained an untapped market. After the crisis, IMF's successive letters of intent were used to obtain reform commitment and delivery from the Government. Several unfinished reforms remain, like the rationalization of the regulatory and supervisory framework for the NBFIs for example. In October 2004, the new Government took a key step toward consolidating the pension, insurance, and finance company supervisory functions with the Capital Market Supervisory Agency, opening the way to an integrated financial services authority.

120. Before the crisis, the private sector in Indonesia accounted for 60–70% of GDP. After the crisis, the percentage fell to a low 30% in 2000 before climbing back to 40% by 2003. At the height of the crisis, about 75% of the corporate sector was burdened with debt issues. The companies in resource-based industries and agriculture-based SMEs were the least affected. Although the corporate sector is beginning to utilize its productive capacity, foreign direct investment has dropped substantially compared with the precrisis period. Many foreign investors have left the country, and new investors have stayed away, resulting in the closure of about half the industrial estates. Many factors have affected this outcome, including (i) inefficiency and governance issues in the judicial and regulatory systems; (ii) uncertainties and ambiguities introduced by decentralization; (iii) infrastructure weaknesses; and (iv) the political situation, which has stabilized.

121. Private sector participation in the economic recovery hinges on the removal of corruption and poor governance practices, which are still believed to be entrenched in the political and administrative system. Foreign investment continues to avoid Indonesia due to the threat of terrorism, corruption, weaknesses in the legal system, relatively high labor costs, and difficulties dealing with the bureaucracy. The outflow of capital continues. In 2003, investors withdrew \$597 million from the country, bringing the net outflow to \$13.6 billion since 1999. Even as global commodity prices increase, Indonesia's valuable natural resources, including natural gas and minerals, remain untapped due to doubts about the legal system and security concerns. However, the successful completion of national elections in 2004 increased optimism that a recovery from the economic and political turmoil of the past 6 years is on the horizon. Indonesia faces a challenge in trying to rebuild investor confidence and strengthen the public and corporate governance to create an enabling climate for private sector investment.

122. Complementing the Government's financial reform packages of 1987 and 1988, ADB provided the Financial Sector Program Loan (FSPL) and the Second Financial Sector Program Loan (FSPL2) to support the liberalization of the financial sector. Subsequently, the financial sector grew rapidly, increasing the number of commercial banks from 111 in 1988 to 240 in 1994. The PPAR for this FSPL argued that the rapid growth in the banking sector was not matched by effective regulations and institutional supervisory capacity, undermining the sustainability of the system. While some of the institutions were established after the reforms, others were not established until FSPL2.⁹⁹ The FSPL2 aimed to ensure that prudential legal, regulatory, and supervisory safeguards were put in place. In addition, it sought to revive the capital market, particularly the bond market. While the program was implemented more or less as designed by putting the envisaged legislations in place, enforcement of the reforms was less successful.¹⁰⁰ For example, new guidelines were issued in June 1993 easing the original requirements, such as capital adequacy ratio and loan-loss provisions imposed under FSPL2. In 1996, the PCR highlighted issues for further policy dialogue.¹⁰¹

⁹⁹ Some argued that the FSPL reforms were responsible for the high inflation and subsequent need for tight monetary policy. The key institutional concerns needing attention were (i) high concentration of banks, (ii) thin money markets, (iii) lack of reliable information based on clear accounting and auditing standards, (iv) underdeveloped capital markets, (v) NBFIs, and (vi) outdated commercial and company law.

¹⁰⁰ The PCR reported that of the 42 technical and policy reform measures in the policy matrix, 13 were substantially or partly implemented.

¹⁰¹ The issues included (i) management of monetary policy, and the use of exchange rate adjustments as an additional tool for macroeconomic stabilization in an increasingly globalized financial market; (ii) diversification and deepening of the capital market to tap the potential domestic savings; and (iii) stricter enforcement of regulations in the financial sector to boost regulators credibility and depositor and investor confidence.

123. In hindsight, if the PCR recommendation had been known earlier and heeded, the pain of financial crisis might have been eased. However, the PCR was circulated in September 1996, more than 3 years after FSPL2 was closed in March 1993. A lack of timely learning from experience is apparent. Timely lessons that could be fed into the strategy would have strengthened ADB's position in policy discussions. The 1994 strategy focused on the increased role of the private sector. The financial sector remained vulnerable until it collapsed in 1997. This shows the importance of paying attention to enforcement of regulations, rather than assuming that the initial reforms are sufficient.

124. The \$1.4 billion FGR Program supported the (i) consolidation of banks; (ii) transfer of NPLs to IBRA; (iii) bank restructuring; (iv) establishment of a credible information base for restructuring the banks; (v) capacity strengthening for Bank Indonesia, Financial Education and Training Agency of the MOF, and the State Audit Board; (vi) review of the anticorruption law; and (vii) greater transparency and accountability for public sector operations. ADB performed well by responding rapidly during the crisis. The FGR Program was processed expeditiously, facilitated by ADB's fielding of high-level missions, modifications to routine guidelines, and waiver of certain review and coordination meetings within ADB. While the first two tranches were released without much delay, the final tranche (\$350 million) was delayed for 2.5 years, mainly due to the late enactment of anti-money laundering law.¹⁰² The SES on crisis management concluded that the FGR Program generally was highly relevant to its stated objective of improving financial sector governance, which was at the epicenter of the crisis. However, SES found that some activities, such as bond market reforms and secondary mortgage facility, were not appropriate at the time and were distracting in the context of the crisis. Because of the Government's eagerness to borrow, it might have accepted deadlines that normally would be considered unrealistic. The implementation delays also reflected the weak capacity of the implementing agencies (IA), as well as the numerous changes in personnel.

125. Loans related to the FGR Program were part of the \$45 billion IMF-led crisis package meant for bank restructuring. The lack of data sharing and interaction between international financial institutions, based on each institution's disclosure policies, hampered initial coordination efforts. Later, disclosure policies were amended to allow reasonable sharing of information in an emergency situation among international financial institutions working on a similar agenda.¹⁰³ During bank restructuring, a major scandal erupted in August to September 1999 related to bad debts IBRA had taken over from a commercial bank. The country economic review 2000 reported that the scandal not only revealed the entrenched nature of corruption in Indonesia, but also cast a shadow over the entire recapitalization process and resolution of interbank claims. Due to the scandal, ADB and other international financial institutions deferred new loans until the allegations were investigated and measures were taken to prevent future incidents of this nature. Under a separate loan (Loan 1223-INO: Second Development Finance Loan), ADB had lent money to the concerned commercial bank and was exposed to a risk of damaged reputation and credibility.

126. After the crisis, ADB supported continued reforms in the financial sector and in corporate governance with two loans totaling \$650 million. Both were focused on areas needing reforms and were well received. The first State-Owned Enterprise Governance and Privatization Program (Loan 1866-INO) aimed to (i) improve resource allocation in the public sector, (ii) increase SOE profitability, and (iii) promote private sector participation in SOE activities. ADB's COS 2000 emphasized assistance for SOE reform. Issues related to SOE reform continue to change rapidly.

¹⁰²Of the other two loans approved at the same time, Loan 1619-INO for \$47 million was canceled as the secondary mortgage facility was not feasible under the new Central Bank Law of 1999, and the TA loan (1619-INO) of \$50 million was ongoing as of December 2004 with \$35.3 million disbursed and about \$7 million cancelled.

¹⁰³Although the IMF now discloses information to the public, sharing major details of the lending program with the other financial institutions that bring in part of the rescue package would be more useful than waiting until the decisions are finalized and the public is informed about them.

National and regional political influences hinder reform agendas. ADB needs to monitor and evaluate these shifts better, and assign more importance to external audits of SOEs and the Ministry of State-Owned Enterprise.

127. The second loan was a cluster loan for Loan 1965-INO: Financial Governance and Social Security Reform (FGSSR) Program. Phase 1 was to support a broad framework for strengthening the financial sector, as well as to improve social protection through improved governance, supervision and regulation of pension funds, and mandatory social insurance programs. Disbursements were slow, partly because of the lack of coordination and clarity in the Government and partly because of a design flaw. Democratization has increased the separation between the executive (the Government) and the legislative (DPR) branches. ADB loan designs need to reflect this reality better. The preparation for the FGSSR was quite well researched, including in areas of NBFIs reforms. However, ADB appears to have misinterpreted the extent of ownership on the Financial Services Authority (FSA) agenda, which was not supported by all stakeholders. While the Directorate General of Financial Institutions group in MOF was committed, Bank Indonesia remained aloof to the idea. At best, the Government was interested to research various FSA-style possibilities for integrated financial sector regulation. Due to the FSA issue, the other good research and design features for NBFIs reform were pushed to the background.

128. ADB provided a program loan (1738-INO)¹⁰⁴ to encourage a more diversified and efficient industrial structure through (i) strengthening competition, (ii) promoting investment and facilitating trade, and (iii) rationalizing assistance to SMEs. However, the final subtranche of this loan was canceled in 2005 after a delay of more than 2 years, mainly because of the delay in the enactment of the investment law. This reflects the absence of consensus on actions to improve the investment climate. The CAPE believes that this matter must be addressed satisfactorily if private sector-led, long-term economic growth is to be achieved.

129. ADB's focus on advisory TAs for the financial sector improved over the years, and these have had a substantial impact on the sector (Appendix 14). ADB's performance on the development finance loans was marginal, as is described in Appendix 14.

130. ADB's private sector loans to Indonesia during 1990–2003 were financed before the financial crisis. This portfolio, totaling \$118 million, was not diverse. It focused on a few finance companies (22% of the portfolio) and on one major conglomerate group (78% of the portfolio), which later was allegedly infected by corruption.¹⁰⁵ In lending to these borrowers, ADB took substantial risks in terms of exposure and reputation. ADB's outstanding private sector portfolio totals \$11.6 million (10% of the original portfolio) on two loans to a conglomerate. The reduction in the portfolio is the result of write offs, restructurings, debt-for-equity swaps, and some discounted market sales. To recover the investments, ADB has had to invest significant staff and management time in the headquarters and IRM. ADB was too passive with its debtors, and was reluctant to take legal action to recover bad debts.¹⁰⁶

131. ADB's 2005 PSA analyzed well the key impediments to the Private Sector Department. The CAPE agrees with its conclusion that regulatory and governance reforms should be the central tenet of ADB's Private Sector Department strategy. While the CAPE acknowledges that improving physical infrastructure is necessary for the private sector to operate efficiently, ADB and other EDPs alone cannot provide the funds needed. If the enabling environment is appropriate, the private sector will provide some of the infrastructure financing. ADB and other international

¹⁰⁴ Loan 1738-INO *Industrial Competitiveness and Small and Medium Enterprise Development Program*.

¹⁰⁵ ADB was not alone in lending to this group. By 1998, the group's debt exceeded \$1.5 billion, owed to more than 300 foreign banks.

¹⁰⁶ Under private sector development operations carried out by ADB's public sector window, TAs were implemented to improve the legal system.

financial institutions could act as catalysts by providing partial guarantees to mitigate some of the risks facing the private sector investments. To mitigate these risks, ADB must support the Government in establishing an enabling environment through policy dialogue supporting necessary reforms. With gradual improvements in the enabling environment, ADB also could explore bond issues. These approaches should be made clear in ADB's strategy for private sector development. Several other areas have been identified for ADB, including (i) developing a stabilization, regulatory, and fiscal framework; (ii) strengthening dispute resolution mechanisms; and (iii) reducing government interventions in the markets. While these are useful endeavors, prioritizing and sequencing reforms and necessary preconditions are required.

V. ASSESSMENT OF THE PORTFOLIO

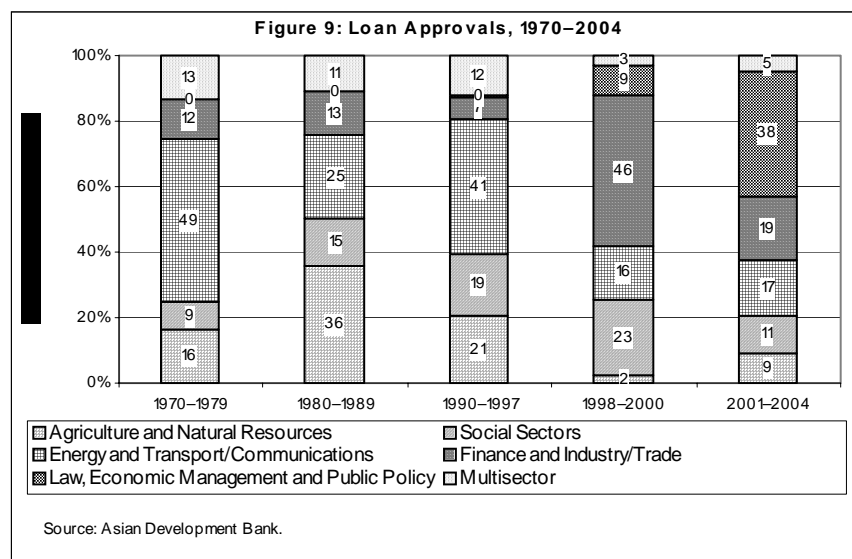
A. Program Characteristics

132. An analysis of the distribution of loans and investments to Indonesia between 1969 and 2004 by fund source and loan value shows that 92.3% was for public sector operations (236 projects and programs) supported by OCR funds, 7.3% for public sector operations financed by the Asian Development Fund, and 0.4% was financed by private sector loans investments (24 loans and equity investments). Of the 236 public sector projects and programs (265 loans), 22 comprised blend projects and/or programs, 5 were SDPs, and 2 required supplementary assistance. During the period under CAPE review (1990–2004), public sector operations involved 104 projects and programs (including 17 blend loans and 5 SDPs). In addition, 16 private sector operations were approved during the CAPE review period.

1. Public Sector Lending Program

133. Lending in 1990s more than doubled from the previous decade, growing from \$5 billion in the 1980s to more than \$11 billion in the 1990s (Appendix 15). With the newly decentralized regime, however, loan approvals declined substantially—to \$0.80 billion in 2000, \$0.50 billion in 2001, and \$0.77 billion in 2002. In 2003, only six loans (totaling \$0.26 billion) were approved for three projects on the last Board day of the year. In 2004, one project was approved on 13 December 2004 for \$225 million for the State Audit Reform Sector Program.¹⁰⁷ The public sector lending will recover to \$0.8 billion in 2005.

134. The three sectors receiving the most public sector lending from 1969 to 2004 were (i) energy, transport, and communications (30.7%); (ii) agriculture (19.6%); and (iii) social sectors (17.6%). The sector composition varied over time (Figure 9). In the 1970s, about half of the public sector lending was for energy, transport, and communications; followed by agriculture and natural resources (16.5%); finance and industry and trade (12.4%); and multisector (13.2%). In the 1980s, the energy and transport share in the portfolio fell to 25%, while the agriculture

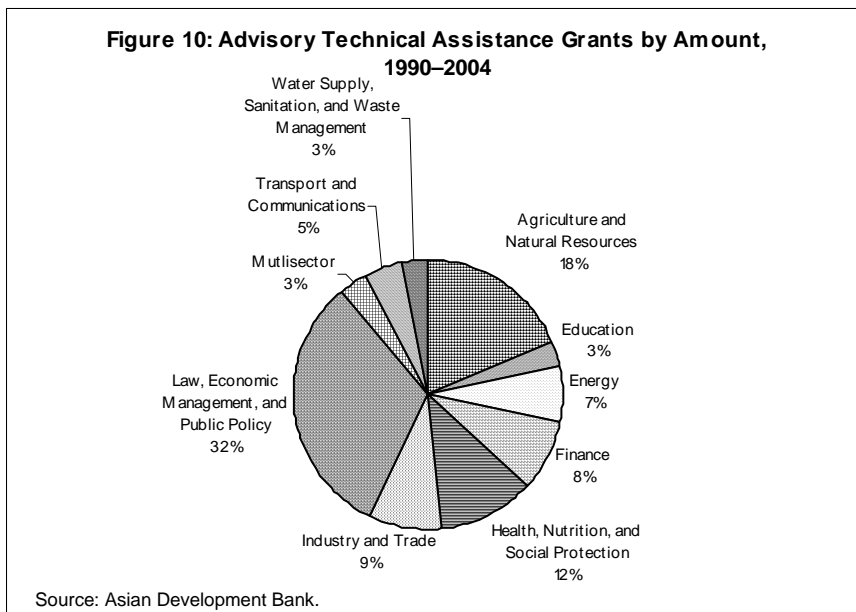


¹⁰⁷Four loans were ready for negotiation, but these did not proceed due to uncertainties related to processing loans in a decentralized environment and delays caused by the establishment of a new Government.

and natural resources shares rose to 35.1%. The social sectors share increased to 14.9% from 8.8%. During 1990–2004, the sector composition shifted markedly before and after the AFC. Before the crisis (1990–1997), the average share of energy, transport, and communications was 40.9%. The social sectors and agriculture and natural resources shares were 19.1% and 20.6%, respectively. During (1997–2000) and after (2001–2004) the crisis, the share of agriculture and natural resources and energy, transport, and communications sectors dropped below 20%. From 1970 to 1997, the share of finance and industry in the portfolio was less than 10%. However, with the onset of the crisis and the resulting crisis-support program loans, the financial sector share rose to 46.4% during the crisis and averaged 19.1% in the subsequent years. With the emphasis on governance and decentralization, the share of other categories increased to 8.8% during the crisis, compared with 0.5% before the crisis and 38% after the crisis.¹⁰⁸

2. Public Sector Nonlending Program

135. Indonesia has been one of the largest beneficiaries of TAs. Over the years, it has absorbed about 9% of all ADB-administered TA funds (\$230 million) for 227 advisory TAs and 248 for project



preparatory technical assistance (PPTA) grants (Appendix 15). Of this, \$117 million for 174 advisory TAs and \$75 million for 134 PPTAs were approved between 1990 and 2004. During 1990–2004, 12% of the advisory TA funds (Figure 10) supported infrastructure (energy, transport, and communications), which accounted for 31.3% of the lending. Of the advisory TA funds, 25% supported agriculture and natural resources, which accounted for 14.4% of the lending. In addition, 32% of TA funds

supported law, economic management, and public policy. This reflected crosscutting themes, such as environment, governance, and capacity building that generally are addressed using advisory TAs rather than loans.

3. Private Sector Operations

136. The first private sector operation in Indonesia consisted of a \$1 million line of equity to the Development Bank of Indonesia (BAPINDO) and an investment loan of \$0.4 million to a company. In total, ADB approved 24 private sector loans and equity investments. Of these, four operations were canceled after approval. For the other 20 loans, ADB funding amounted to \$169 million (Appendix 16), while disbursements as at 31 December 2004 reached \$157 million. During the CAPE review period, ADB lent to seven private sector projects worth a combined \$111 million, while disbursements totaled \$109 million. ADB's portfolio during this period was almost exclusively finance companies and one conglomerate. Like many foreign commercial banks, ADB has not lent to the Indonesian private sector since the crisis in 1998.

¹⁰⁸However, governance issues now receive increased emphasis in most sectors as well.

B. Monitoring and Evaluation

137. The absence of monitoring as an effective management tool for taking corrective action is one of the weakest links in ADB's project cycle, a problem that extends well beyond Indonesia. The use of project logical framework (LF) became mandatory in ADB project designs in 1995. A LF should be a results-based tool to monitor and manage project progress. Using a LF in this manner is not apparent from many ADB operations. Changes in project scope usually are not reflected in updated LFs. Some LFs reflected project designs encumbered by a range of significant potential risks, yet were approved without mitigation measures. In others, the project performance report (PPR) built on the LF were given inadequate attention, as project officers did not always update them to reflect the problems encountered and the realities on the ground. Incentives for PIUs or project officers to use the monitoring information to guide project implementation are absent. The project performance management system action plan initiated efforts to (i) update the LF structure and provide better instructions, (ii) provide training for LF preparation and identify meaningful indicators, and (iii) ensure that heads of regional departments approve the LF. Across ADB, the quality of project frameworks improved somewhat in 2004.

138. BAPPENAS undertakes M&E for ADB-funded projects, discussing each project quarterly with project management to identify issues. However, the opportunity to learn pragmatically is hindered by the limited interaction with those in the field. Self-evaluation at project completion (by the Government and ADB) is viewed more as a requirement than a proactive learning opportunity. A 2004 World Bank study¹⁰⁹ attributed the lack of a results-oriented M&E in Indonesia to the absence of systematic use of information in decision making, rather than inadequate information. For example, some key government strategy documents (e.g., the PRS) do not present clear goals or targets, thereby limiting an objective confirmation of progress. Although national data on poverty outcomes and impacts is a fairly robust, it is not being used systematically to shape the decision-making process. M&E systems and practices are geared largely toward tracking compliance with rules and regulations. Parallel data collection systems cater to individual projects. The World Bank study recommended eight areas for M&E reform (Appendix 5), including support for integrated sector or district information collection. Further, it recommended joint evaluations to minimize government transaction costs in complying with multiple, separate EDP M&E requirements, and focusing attention on outcomes rather than individual EDP contributions.¹¹⁰

139. During 1990–2004, 104 public projects were approved. Of those, 74 were completed financially and 58 PCRs were prepared. PCR quality has improved over time, with OED providing guidelines and support through in-depth PCR review. In the latest sample of 16 Indonesian PPARs, the PCR ratings were all confirmed or upgraded (Table A17.1, Appendix 17). The timing of PCRs sometimes was delayed. For example, Loan 1339-INO¹¹¹ was approved in 1994, completed in February 2002, and financially closed in November 2002. Due to staff constraints, the PCR is scheduled for mid-2005. The PCRs for FSPL and Loan 1675-INO: Health and Nutrition SDP were delayed similarly. The emphasis on timely completion of PCRs has been renewed. As a result, several delayed PCRs were completed in 2004.¹¹²

¹⁰⁹Hauge, Arild. 2004. *Monitoring and Evaluation for Results Within Government of Indonesia - Report of a Rapid Assessment for World Bank East Asia/Pacific Department*.

¹¹⁰The study also highlighted the need to (i) overcome deeply entrenched aspects of the government service culture; (ii) sustain governance; and (iii) reform public sector management through awareness building, institutional liaison, systems adjustment, and skills formation.

¹¹¹Loan 1339-INO: *Capacity Building Project in the Water Resources Sector*.

¹¹²Nine PCRs were completed in 2004 for Indonesia.

140. Before the CAPE, only 11 (or 10%) of the 104 public loans approved for Indonesia during 1990–2004 were independently evaluated by OED. Five PPARs were undertaken during the preparation of the CAPE. Little evidence suggests that the lessons identified in PPARs have been incorporated in the design of new projects. The combined assessment results of PCRs and PPARs are in Table 8. It shows that ADB has a comparative advantage in providing loans for education, transport and communications, health and social protection, and finance projects. Therefore, ADB should continue to target a substantial part of its assistance in Indonesia to support these sectors. Performance has been weaker in the agriculture sector, which had a 44% success rate. Five of the urban sector projects classified as multisectoral under the new sector classification were included with water supply, sanitation, and waste management as they provide substantial contribution to that sector.

C. Sector Performance

141. Sector performance is summarized in Table 8, and detailed in Appendix 18. For each sector, the proportion of successful PCR or PPAR rating is presented for projects or programs with evaluation reports. For those without PCRs or PPARs, three evaluation criteria (relevance, efficacy, and efficiency) are discussed, using the information in BTORs and PPRs. Sustainability and other impacts are not assessed, as it is too early to judge these criteria.¹¹³ The latest sector strategy and sector performances are reported in paras. 142–149.

Sector	Rating	Sectoral Share of All Loans Approved ^b %	GS/HS/S		Partly Successful/Less than Successful		Unsuccessful		Total	
			No.	%	No.	%	No.	%	No.	%
			Agriculture and Natural Resources	PS	14.4	7	43.8	8	50.0	1
Education	HS	11.0	9	90.0	1	10.0	0	0.0	10	100.0
Energy	S	19.4	3	60.0	2	40.0	0	0.0	5	100.0
Finance	HS	16.1	3	75.0	1	25.0	0	0.0	4	100.0
Health, Nutrition, and Social Protection	HS	6.8	3	75.0	1	25.0	0	0.0	4	100.0
Industry and Trade		2.6	0	0.0	0	0.0	1	100.0	1	100.0
Law, Economic Management, and Public Policy		7.4	0	0.0	0	0.0	0	0.0	0	0.0
Multisector		1.9	1	50.0	0	0.0	1	50.0	2	100.0
Transport and Communications	HS	11.9	7	87.5	1	12.5	0	0.0	8	100.0
Urban Sector, Water Supply, Sanitation, and Waste Management	S	8.5	5	62.5	3	37.5	0	0.0	8	100.0
Total		100.0	38	65.5	17	29.3	3	5.2	58	100.0

GS = generally successful, HS = highly successful, S = successful.
^a Up to July 2005.
Sources: Asian Development Bank's loan documents and Postevaluation Information System databases.

142. **Education.** The latest CSP focused on the (i) quality and access to decentralized education, (ii) participation of civil society in school planning and management, (iii) targeting poor communities, and (iv) investments in information technology. During the CAPE review period, 14 loans were approved for the education sector. Their focus ranged from basic education to specialized vocational and technical education to Madrasah Aliyahs religion-based education system projects. The latter projects tend to benefit many of the poorer students, and ADB has provided more assistance to these Madrasah Aliyahs projects than have other EDPs. Of the 12 completed projects, 10 had PCRs. The combined rating for seven PCRs and three PPARs showed a successful rating of 90%, making the sector the most successful, according to the evaluation of completed projects. The four projects without evaluations were assessed as being highly relevant. Loans 1519 and 1573,¹¹⁴ which were completed but did not have PCRs yet, effectively expanded the coverage of beneficiaries. However, the quality of some programs was weak or could not be assessed due to inadequate or late monitoring. The BTORs indicate efficiency problems due to poor management, lack of O&M, problems associated with

¹¹³ PPR ratings for implementation progress and development objectives are presented for each project without a PPAR or PCR. Although several BTORs document substantial implementation and design issues, the PPR rating for these projects often were given as satisfactory and only occasionally reported partly satisfactory, even when the projects were canceled, implying an upward bias in the PPR ratings.

¹¹⁴ Loan 1519-INO: *Development of Madrasah Aliyahs Project* and Loan 1573-INO: *Second Junior Secondary Education Project*.

decentralization, and frequent staff turnover. The BTORs for the two ongoing projects suggest modest outcomes for Loan 1792, and the need to shift the focus from physical facilities to the quality of basic education for Loan 1863. Documentation for these ongoing projects noted irregularities in financial management. Overall, the review period operations in the education sector are rated as successful.

143. **Transport and Communication.** The strategy was to focus on maintenance, rehabilitation, and selective development of strategic transport systems, recognizing the need for balanced distribution between resource-rich and poor provinces, decentralized administration, and private-public partnerships.¹¹⁵ The only transport project approved after the crisis was Loan 1798, which was relevant to the balanced development strategy. However, it produced substandard quality outputs due to inefficient delivery of outputs. Of the other 11 projects approved from 1990 to 1997, eight had PCRs/PPARs. Their combined ratings indicated an 87.5% success rating. The transport and communications sector is among the most successful sectors in terms of project performance. Two of the completed projects do not have PCR ratings, as they were canceled due to a fall in traffic in ports and airports. The remaining project, Loan 1220,¹¹⁶ encountered delays and security problems in the Ambon area. Overall, the review period operations in the transport and communications sector are rated as highly successful.

144. **Finance.** The small sample of four loans with evaluation ratings indicated a 75% success rate. The recent financial sector strategy focuses on (i) improving governance through disclosure and transparency; (ii) strengthening supervision and regulation, and aligning them with international best practices; and (iii) developing a municipal financial system. Since the crisis, one program loan (FGSSR Program) was relevant to the strategy, though trying to discern the outcomes of this loan is premature. The crisis support to the sector comprised an SDP (FGR Program), which was rated successful, and a TA loan (Loan 1620),¹¹⁷ the scope of which had to be changed due to inadequate coordination with the Government and EDPs during preparation. The SES on crisis support loans noted that the Government's lack of implementation experience, combined with IRM's lack of authority to approve disbursements, delayed implementation of the TA loan. As this was a TA loan (not a grant), and given the lack of capacity, more flexibility should have been built into the implementation arrangements. Overall, the review period operations in the financial sector are rated highly successful.

145. **Health, Nutrition, and Social Protection.** ADB supported the improvements in health services and to guarantee universal access to essential health and family planning services. ADB provided seven health and nutrition projects, including two decentralized basic health services and two SDPs. Four of these had PCRs, three (75%) of which showed a successful rating. The other three were relevant to ADB and national priorities. However, these projects raised issues concerning lack of incentives for private sector support (Loan 1523),¹¹⁸ as well as inadequate coordination between central and district level for some components (DHS1 Project). The design of DHS2 Project was improved based on this experience with decentralization difficulties. The efficacy of the unrated projects was mixed. Some (Loan 1523) exceeded targets; while in others, LGs focused more on civil works than on capacity building. Loan 1523 became more efficient after the midterm review. Material in the file for Loan 1810 indicated efficiency issues due to lack of capacity at the regional level. An assessment of DHS2 Project, which became effective in March 2005, is

¹¹⁵This strategy is premised on linking production areas, particularly in the eastern islands, through the improvement of road network quality, and capacity strengthening through advisory services and training.

¹¹⁶Loan 1220-INO: *East Indonesia Airports Project*.

¹¹⁷Loan 1620-INO: *Financial Governance Reforms: Sector Development Program and a Proposed Equity Investment in a Secondary Mortgage Facility*.

¹¹⁸Loan 1523-INO: *Intensified Communicable Diseases Control Project*.

premature. Overall, review period operations in the health, nutrition, and social protection sectors are rated successful.

146. **Energy.** ADB's energy strategy focuses on the delivery of policy reforms, investments, and capacity building. The two loans approved since the crisis were sector projects, which coincided with this strategy, combining policy reforms with several subprojects. Their effectiveness is difficult to determine, as escalating costs and social safeguard conditions have delayed implementation. From 1990 to 1999, ADB approved nine energy sector projects, five of which had PCRs that produced a combined success rating of 60%. Of the remaining four, two were completed in 2004, though they were subject to partial cancellation due to the absence of sufficient counterpart funding (Loan 1397) and postponement of information technology inputs (Loan 1674). The other two ongoing loans were approved before the crisis, and their outputs have been delayed due to financing difficulties. However, the projects are being implemented more effectively recently. Overall, review period operations in the energy sector are rated successful.

147. **Water Supply, Sanitation, and Waste Management.** ADB's latest strategy was intended to provide (i) sector reform assistance (tariff structures and regulatory streamlining to attract private sector inputs), (ii) operational support, and (iii) development capital to water supply enterprises. Assistance also was intended for rural and urban fringe communities not covered by water supply enterprises. Despite this strategy, ADB has not approved water supply and sanitation projects since the AFC until 2005. A small sample of three evaluation reports available on previous projects indicates only one was partly successful. Loan 1352 was rated partly successful bordering on unsuccessful in the PPAR due to the many implementation weaknesses. The fourth project approved in 1997 was canceled less than a year after effectiveness due to the EA's inability to implement the project. Given the low success rate, ADB has not lent to this sector since the crisis.¹¹⁹ Five of the urban development projects should be included with this group as they also focus on water supply, sanitation, and waste management. Of these, four were rated as successful. The combined success rate for the group is 63%. Overall, review period operations in urban, water supply, sanitation, and waste management sector are rated successful.

148. **Agriculture.** Of the 48 agriculture and natural resources projects approved since 1990, 34 were for agriculture and 14 were oriented toward natural resources management. PCRs are available for 16 projects. The overall successful rating of these projects is 37.5%, much lower than most other sectors, and basically sustained the poor performance record first noted in the 1993 country synthesis of postevaluation findings (footnote 5). While the agriculture projects achieved a success rate of 41%, natural resources management showed only a 25% success rate. Within the agriculture sector, the subcategory for four irrigation projects showed a 25% success rate. The tree crop and farmer development projects showed a 50% success rate. The Government gives much emphasis to agriculture given its link to poverty reduction and employment. The BTORs of many of the ongoing projects indicated that they were relevant to ADB or national strategies. However, they mentioned design problems leading to cancellation of components, which reduced projects' efficacy. Loan 1570/71 on coastal resource management has adjusted well with better participation and consultation, and appeared to perform better than the generally weak natural resources management projects. Implementation of many of the projects in the sector was delayed due to issues relating to decentralization, compensation, counterpart funds, and consultant recruitment.

¹¹⁹Loan 2163-INO: *Community Water Services and Health Project*. It addresses key issues and lessons of similar projects relating to the capacity of LGs, ownership of communities, financing of investment, and the need for behavioral change associated to hygiene. Sanitation and hygiene behavioral change led to inconsistent use of facilities and reduced the positive impacts. An emergency grant of \$16.5 million (from bilaterals) was included to expand the project scope in two affected provinces. Another TA for \$900,000 was approved in October 2004 for the preparation of an additional water supply and sanitation project.

Overall, the review period operations in the agriculture and natural resources sector are rated as partly successful.

149. **Law, Economic Management, and Public Policy.** ADB's agenda in this area included supporting (i) good governance initiatives for fiscal decentralization, (ii) improved public expenditure management, (iii) anticorruption institutions and legal and judicial reforms, and (iv) strengthened audit and public procurement. Under the financial governance agenda, support was intended for commercialization of public service obligations and gradual privatization of public service companies. The corporate governance strategy included reforming the company registration system and adopting a code for good corporate governance by private companies. This category had five projects: 1 focusing on financial governance, 1 on privatization, and 3 on capacity development. Loan 2126-INO: State Audit Reform Sector Program was relevant. However, an assessment of its performance is premature, as it became effective in December 2004—1 year after approval. Loan 1866 on privatization and corporate governance was also quite efficacious. However, the Government commitment to the project fluctuated over time, and the prolonged policy approval has weakened its efficiency. Of the three capacity building projects, two (CBUIM and SCBD projects) were highly relevant—the CLGS SDP Program, though a part of the crisis support, was more relevant to capacity building. The results on efficacy were mixed, with some projects exceeding targets (Loan 1572) and others with interim outcomes (Loan 1677). Efficiency issues were similar to those in other sectors. Overall, during the review period, the operations in the law, economic management, and public policy sector are rated as successful.

D. Design and Implementation Issues

150. The CAPE identified several design and implementation issues that affect the quality of the current and future portfolio. These were identified based on selective observations in some locations where projects were being implemented, rather than through an overall assessment of each project. Because of concerns about the applicability to the entire portfolio, this material is not used in the assessment process, but is presented here to draw lessons as needed for future operations.

151. Attempts to integrate projects in the Indonesian portfolio by geography or by theme are not apparent. Support provided by ADB sometimes was uncoordinated. The country portfolio has evolved in a piecemeal fashion in response to the changing priorities of ADB or the Government. The desire of many line agencies for aid-financed projects in the past, as well as the agendas of ADB's sector division, exacerbates this problem. ADB's 2002 reorganization, which attempted to generate greater country focus, should make addressing this problem easier in the future.

152. At times, project designs hinge on inappropriate assumptions based on out-of-date information. For example, the changing nature of the farm households in Indonesia was not embedded in the design of some projects. Many rural households now run diversified businesses, and income from farming itself might account for only a part (in some areas quite a small part) of household income. Yet, many projects appear to assume that beneficiaries were solely employed in food production or tree crop cultivation. Combined with the IA's top-down approach to project implementation, this assumption probably affected the intended beneficiaries' commitment. This weakness exists in other areas as well. Better use of the design and monitoring framework would give project design the flexibility to adjust to changing circumstances.

153. Problems were experienced in the recruitment and monitoring of consultants. Many projects appear to be "consultant-intensive," and delays in recruiting consultants usually slow project implementation. It is difficult to judge whether the heavy reliance on consultants reflects genuine inadequacies on the part of the Indonesian EAs (not enough staff with the necessary technical

competencies) or whether there is an opinion within ADB that international consultants are necessary, or the allocation of substantial funds for consulting contracts presents opportunities for kickbacks. ADB staff resources for monitoring consultant performance are limited and as an institution, ADB does not have a good system for evaluating consultant performance. By building a cadre of long-term consultants familiar with each sector, the country might establish the continuity that has been lacking. The heavy reliance on consultants and establishment of separate project management units hinder Government's close involvement with project implementation and building local capacity. The previous top-down implementation can also affect project continuity if LGs and beneficiaries are not committed to continue the project, or lack resources to do so.¹²⁰

154. Most LG employees in Indonesia and the great majority of the rural population have weak or nonexistent English language skills. Many of the poor are not fluent in the national language. Thus, effective communication between ADB staff and other stakeholders is often hampered.¹²¹ These communication problems are not taken into account adequately in project design. The local staff of IRM have a competitive advantage in communication in Bahasa Indonesian compared with headquarters staff.

155. Some projects have been handled by several project officers during implementation, partly due to staff turnover and ADB reorganizations. This seems to have been especially the case with projects that have experienced implementation difficulties and slow disbursement. As experienced ADB officers move to more senior positions and newer projects, relatively junior staff, often with little experience in Indonesia, take over the responsibility of ongoing projects.¹²² Frequent changes of staff on the Indonesian side can aggravate this problem in some instances. Project implementation and M&E procedures inevitably are adversely affected.

156. The application of ADB's involuntary resettlement policy in Indonesia has been a major cause of delays and/or cancellation of components in several projects (e.g., South Java Flood Control and MMUD). The EAs and their contractors are confused about the safeguard requirements and noted that the requirements differed from government procedures. ADB needs to ensure adequate understanding during stakeholder consultation. The safeguard policies are viewed as a major transaction cost associated with doing business with ADB.

E. Efficacy of the Portfolio

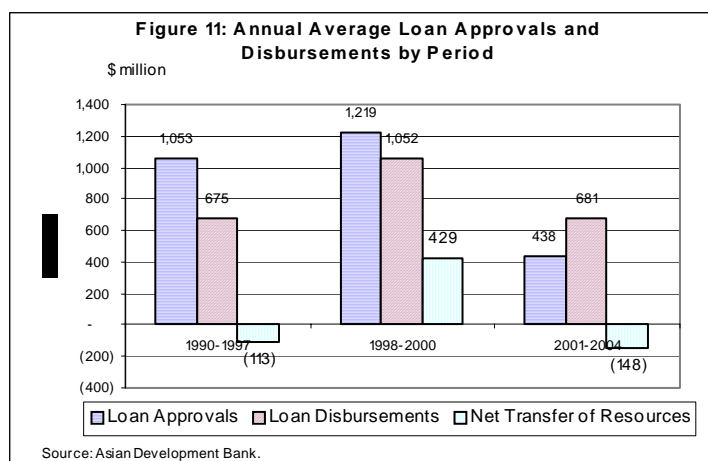
157. The CAPE rates the bottom-up efficacy of the portfolio as *partly efficacious*. The quality of ADB's portfolio in Indonesia, which has fluctuated from time to time, has been a major concern since the financial crisis. At-risk projects were almost double the ADB average at the end of 2004 (footnote 1). New annual approvals dropped to a low of \$0.2 billion in 2004, an indication that ADB is losing relevance as a major development partner of Indonesia. The country portfolio performance reviews emphasized project implementation problems before the crisis. After the crisis, the emphasis was on identifying unutilized loan amounts and recommending cancellation. The country portfolio performance review missions during the crisis were effective in improving the portfolio, resulting in the cancellation of \$1.37 billion in poorly performing or unneeded loans. The annual disbursement ratio fluctuated between 17% and 30% from 2001 to 2004. In 2003, only 56% of the projected \$789 million was disbursed. However, the disbursements in 2004 exceeded the much lower target of \$444.6 million by 33%.

¹²⁰In the Rural Income Generation Project, the envisaged graduation of "self-help groups" into "normal" borrowers from the mainstream of Bank Rakyat Indonesia credit programs once the project is completed is far from clear.

¹²¹The Government requested that ADB documents concerning Indonesia, especially legal ones (i.e., Loan Agreement), be translated to the local language for better understanding of requirements.

¹²²For example, 6–7 ADB officers were responsible for Loan 1863-INO in less than 4 years of implementation.

158. More recently, attention was directed to upgrading project management quality, improving budget process and disbursements, and using project-readiness filter for new projects. As a result, the disbursements have picked up in the last few years similar to the precrisis years (Figure 11). Given the low approvals and prepayment of the expensive pool-based OCR loans, the net resources transfer has been negative. Improving the efficacy of the portfolio requires enhancing the Government ownership,¹²³ improving commitment, and delegating more projects to LGs and IRM.



159. Indonesia has one of the largest TA budgets in the ADB portfolio. The efficacy of its performance needs to be improved through stronger Government ownership and involvement in preparation, increased resources allocated for ADB supervision of results, ensuring sustainability of knowledge and institutional development, and disseminating reports, particularly to others working on the same issues.

160. The 2004 annual report on loan and TA portfolio performance prepared by OED found that the Indonesia portfolio at the end of 2004 consisted of 39 public sector loans covering 32 projects with a net loan amount of \$3.4 billion. This reflected the closure of 18 loans during the year in an attempt to clean up the portfolio. Twelve loans, or 32.6% of the portfolio by loan amount, were in the at-risk category. That was lower than the 38% of at-risk loans in 2003, but higher than 12% for the Philippines and 17% for ADB. The combined rating for implementation progress and development objective shows 12 problem loans, compared with 15 in 2003, 11 in 2002, and 28 in 2001. Similar to the past few years, Indonesia's portfolio rating was below the ADB average. Efforts to improve portfolio management continued in 2005, particularly at IRM. As a result, the number of projects rated at risk has declined. OED is concerned about the accuracy of ADB's at-risk project rating, a concern that extends beyond Indonesia. The total number of ADB-supported projects categorized as at-risk maybe underestimated. ADB staff may not be using this portfolio management tool in the way that it was intended to flag potential problems so that remedial measures can be taken.¹²⁴

F. Efficiency of the Portfolio

161. The portfolio is assessed as *partly efficient*. After the crisis, the average period from loan approval to signing increased from 1.8 months in 2001 to 3.5 in 2004. Similarly, the average time from signing to effectiveness increased from 2.5 months in 2001 to 3.4 months in 2004.¹²⁵ Likewise, the loans with extensions as a percentage of active effective loans increased from 39% to 47%, well above the ADB average of 28%. Even after loan effectiveness, substantial delays were encountered in disbursements which, together with delays in effectiveness, meant that the Government had to pay excessive commitment fees.¹²⁶ The undisbursed loan amount for Indonesia increased from \$3 billion in 1990 to \$5.4 billion in 1996 as the portfolio grew. During the crisis, this amount increased to

¹²³Elements of strong ownership are presented in para. 51 of the OED's Annual Evaluation Review (2005).

¹²⁴ADB. 2005. *Annual Report on Loan and Technical Assistance Portfolio Performance for the Year Ending 31 December 2004*. Manila.

¹²⁵However, both are below 2004 ADB averages.

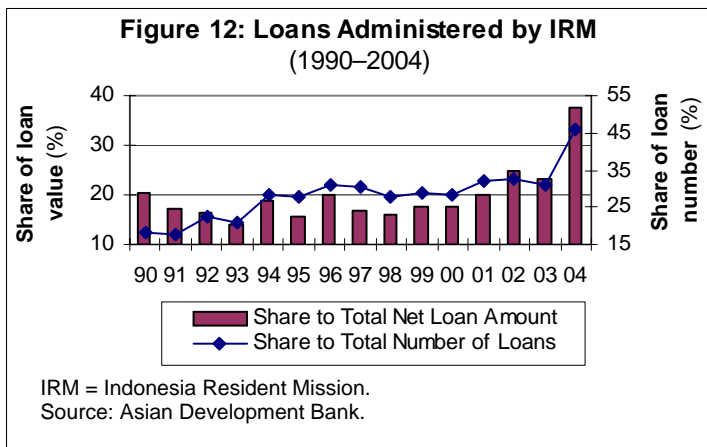
¹²⁶The Government paid about \$205.7 million in commitment fees on public sector assistance (OCR loans) during 1990–2003. Commitment fees paid by the Government averaged about \$10.54 million from 2003 to 2004.

\$6.8 billion in 1998, before gradually dropping to \$5.4 billion in 2004. During 2000–2004, more than one third of the funds were undisbursed, undermining portfolio efficiency.

162. In view of the large commitment fees paid by the Government, ADB, Government, JBIC, and World Bank (the joint country portfolio performance review partners) agreed that a “project-readiness filter” would be used to ensure that projects are properly prepared before loan agreements are signed.¹²⁷ However, as counterpart funds are rarely available before loan approval, implementing the project-readiness criteria has been difficult. More work is required to develop a practical set of project-readiness filters.

163. Traditionally, the regional department that covered Indonesia allocated a large portion of staff time to loan processing (e.g., 58.5% in 1995) rather than administration. This proportion fell to an average of 34% from 2002 to 2004 due to the increased emphasis on results management and the reduction in the size of the lending program. Despite this improvement, given the implementation difficulties in Indonesia, more effective administrative effort is needed throughout the life of the operations, especially at IRM.

164. While IRM is one of ADB’s largest resident missions, it needs to be strengthened by redeploying staff from headquarters and strengthening the skills of the national staff. The need to strengthen IRM reflects (i) the challenging needs of the client due to decentralization, and (ii) the



wide geographic coverage of project locations. Close interaction is required at LG and CG levels. Timely and frequent communication and familiarity with the Indonesian language deepen the value added of ADB’s interaction. Staff resident in the country who understand the culture, institutions, policies, and Government priorities are best placed to support ADB operations and build relationships with the Government. Dedicated, high-caliber, experienced national officers with specialized knowledge of their sectors, should handle more project administration.

Until 2003, about 30% of loans were delegated to IRM but this figure increased to 50% in 2004 (Figure 12). The number of projects handled by IRM international staff fluctuated during the CAPE review period. While IRM staff handled five projects in 1994, when decentralization laws became effective in 2001, the three international staff at IRM administered an average of 6.3 projects each. This was excessive, given the nature of the portfolio, and adversely affected the quality of implementation. The ratio had fallen to 2.7 projects per international staff in 2004.

165. Since 2004, some IRM national officers have taken on project administration responsibilities. Many of the 14 national officers and 26 administrative staff hired in the past as junior officers were promoted after ADB adopted its resident mission policy. While they had hands-on experience processing implementation documents and administering disbursements, their skills

¹²⁷The criteria were designed to ensure that (i) M&E performance indicators, including baseline data, would be in place before loan negotiations; (ii) funding for the first year of implementation will be allocated in the budget, and that firm arrangements will be in place for financing before ADB Board approval; (iii) land acquisition and resettlement for the first year of civil works is in place before Board approval; (iv) project management units or PIUs will be established and staffed before loan negotiations; (v) procurement and financial management systems, including audit arrangements, will be in place before loan negotiations; and (vi) proposals for consulting services and bidding documents for the first year of implementation will be ready before loan negotiations.

in specific specializations pertaining to the projects assigned to them needs to be built up. Their awareness of comparable projects across countries, and over time, also needs to be strengthened to enable them to better draw applicable lessons better for implementation. Two international long-term consultants (retired ADB staff) and four local consultants with responsibility for improving portfolio quality lately have supplemented IRM's staff complement.

166. The IRM has about 54 staff, of whom 48 are permanent, including 8 professional staff. By comparison, the World Bank utilizes considerably more staff resources in managing its portfolio, which was similar in size to ADB's in 2004. The World Bank office in Indonesia has 175 staff, of whom 97 are permanent, including about 40 professional staff (both national and international). Among the World Bank staff in Indonesia, 78 are long-term consultants, including 35 who are financed from trust funds. There are clear differences in the role and function of ADB and World Bank resident missions. Feedback from the Government and EDPs indicate that the World Bank Jakarta office was more responsive.

VI. REVIEW OF OTHER FACTORS

A. Exogenous Factors

167. From mid-1997 to 2000, three crises had an adverse impact on the country and ADB's operations in Indonesia (Appendix 1). As a result of the AFC, much of the banking and corporate sectors went bankrupt, foreign capital pulled out, and there was an economic crisis. President Soeharto stepped down in May 1998 after holding power for 32 years, resulting in a political crisis that fragmented and destabilized the Government. Against this backdrop, a third crisis emerged—an administrative crisis that stemmed from the big bang decentralization initiated by President Habibie to aid his political credibility for establishing a reform-minded administration. This sudden move to overhaul the administrative system included the democratization of lower levels of government, as well as the transfer of governance authority and responsibility for service delivery to more than 400 LGs almost overnight. This occurred without building the needed capacity or readiness, which resulted in an unprecedented administrative challenge. With the rules changing so rapidly, uncertainty pervaded in the Government, the business world, EDPs, and civil society. The country entered a prolonged transition period, from which it is only gradually emerging. The CAPE recognizes these uncertainties created risks that were difficult to foresee and mitigate. They had an adverse impact on ADB's portfolio, and must be kept in mind when interpreting the CAPE's findings.

168. Natural disasters were another set of exogenous factors that impacted ADB's program in Indonesia. The first major natural disaster was the massive earthquake of December 1992 that devastated Flores Island of eastern Indonesia. The second was the tsunami that devastated Aceh and North Sumatra in December 2004. The third was the March 2005 earthquake in Sumatra. ADB and other EDPs provided emergency assistance in all three instances. For Flores, ADB financed the reconstruction of roads, bridges, and water supplies. The PPAR for Flores Emergency loan concluded that measures applicable to other disasters may be helpful to coordinate activities after the earthquake and tsunami disasters.¹²⁸

169. In response to the 2004 tsunami devastation, ADB approved \$300 million for relief efforts.¹²⁹ An additional \$65 million was reallocated from other projects. The scope of projects processed for tsunami-affected areas was expanded to cover (i) livelihood restoration, (ii) social

¹²⁸ ADB. 2000. *Project Performance Audit Report on the Flores Emergency Reconstruction Project in Indonesia*. Manila.

¹²⁹ ADB established a \$600 million EDP tsunami fund and identified \$175 million funds that can be redirected from ongoing projects. It also committed \$1 million toward the development of an early warning system for the Indian Ocean.

services provision, (iii) community and physical infrastructure rehabilitation, and (iv) fiduciary governance to ensure effective delivery. Given the degree of devastation, the projects will be flexible in the design of subcomponents and according to support provided by other EDPs. ADB discussed with OECD and TI means to prevent corruption in delivering relief and reconstruction assistance to tsunami-affected areas.¹³⁰

170. ADB has responded rapidly and effectively to the natural disasters. ADB is not geared to respond to civil conflicts and terrorist attacks that have affected Indonesia at different times. ADB's portfolio and strategy are affected by the withdrawal of other EDPs and foreign private sector investors following such attacks. The CAPE gives consideration to these significant, adverse exogenous factors when interpreting its findings.

B. Government

171. Throughout the CAPE review period, the Government responded to the country's changing needs. In the early 1990s, the NDP focused on diversifying the economy toward non-oil exports. In the mid-1990s, the focus shifted toward balanced regional growth and infrastructure development. During the crisis, it was responsive to the urgent needs of the financial sector, and implemented SSN programs. Since the crisis, with new levels of democratization emerging, the Government introduced a white paper on "Economic Policy Package, Pre and Post IMF."¹³¹ This paper emphasized the formulation of an institutional, legal, and regulatory framework to achieve fiscal consolidation, and development of a plan on governance-related issues. Several of these reforms have been initiated. With the Government taking ownership of initial reforms and responding positively to monitoring of IMF letters of intent, the country has regained macroeconomic stabilization and growth. During the 1990s, ADB program could relate to the Government strategy and planning that was undertaken by the central planning agency. With the advent of decentralization, this ease of relating to the Government agenda began to diminish. Administrative and financial relationship between the CG, PG, and LGs, became unclear and led to disagreements between MOF, MOHA, and LGs. The performance of ADB operations have encountered implementation problems stemming from this lack of coordination, delays in consultant hiring, and insufficient commitment of counterpart funds.

172. The uncertainty of Government regulations and procedures for financial allocation and administrative responsibilities since decentralization stalled much of the development lending. Planning mechanisms in the Government have to be reformulated. The CG, especially BAPPENAS, should play a facilitating role and help build the LG capacity to plan effectively and MOF should align revenue and expenditure responsibilities. Sectoral departments should provide implementation training and support. The PGs should be given more responsibility to coordinate LG needs, while the CG should help establish minimum standards and appropriate monitoring indicators.

C. Asian Development Bank Performance

173. ADB has formulated many new initiatives in response to the changes in the economic, political, and administrative regimes. As these are ongoing, they cannot be evaluated fully. However, the CAPE gathered preliminary information on their implementation through participatory evaluation and field visits. In general, ADB's evolving strategy appears to be moving in the right direction, although sustainability and replication are concerns. In the past, ADB was responsive to the issues highlighted in the NDP, and formulated its strategy accordingly. However, this broad

¹³⁰ADB/OECD/TI. 2005. *Curbing Corruption in Tsunami Relief Operations*. Manila.

¹³¹Government of Indonesia. 2004. *Economic Policy Package Pre and Post-IMF*. Jakarta.

strategy did not prioritize, leading to inadequate focus and selectivity in the composition of lending programs. In the face of the crisis, ADB rightly stayed engaged, and supported the Government's recovery effort and transition to decentralization. ADB supported the SSN program, a generally well received and appropriate decision. However, ADB's support for the Government during the crisis adversely affected its portfolio, especially with the use of large program loans that included some conditions that were too ambitious for the time frame. ADB's internal practices were slow to react to a rapidly changing client and to develop new modalities.

174. To improve portfolio quality, slow-moving or poorly performing projects were restructured or canceled, a positive feature of portfolio management. Since the CSP 2002, ADB has given more consideration to designing and implementing operations suited to decentralization. Staff resources are being strengthened at IRM to manage the portfolio. OED consultations with the Government revealed ways in which ADB could become a more relevant partner (Box 14). IRM needs a stronger cadre of local staff with appropriate skills to respond to day-to-day project implementation issues. Closer monitoring would be easier and more cost-effective if ADB's operations had better sectoral, strategic, and geographic focus. IRM should have a higher profile with government decision makers and establish closer informal contacts with high level government officials. ADB has also become more vigilant about detecting fraud and malpractice. ADB is an active member of the CGI and has contributed to successful governance-type initiatives, but EDPs consider working with ADB on joint or parallel financing schemes rather cumbersome compared with the World Bank. ADB's performance is assessed as *partly satisfactory*, with the potential to improve to satisfactory if the momentum for change and flexibility are maintained.

Box 14: Government's Views on How ADB Can Become More Relevant

Longer Time Frame for Project Preparation. Compared with the pre-decentralization era, a longer project preparation period is required to consult with different local stakeholders and build consensus on project design aspects between various institutions including technical ministries, the Ministry of Finance, local governments, and the Asian Development Bank (ADB).

Quality at Entry and Project Readiness. The Government accords high priority to quality at entry and project-readiness criteria, and would like to negotiate loans only if the project design has matured. This would ensure that the Government does not pay unnecessary commitment fees.

Improving Portfolio Management. ADB should place more emphasis on supervising implementation of the ongoing portfolio and restructuring problem projects. The problems of ongoing projects should be addressed by adapting the approaches to the evolving context, rather than cancelling loans and designing new projects. The Indonesia Resident Mission (IRM) could play a larger role in portfolio management.

Increase Government Ownership of Policy Reforms. Program loans must be grounded on government ownership and leadership. Conditionalities must be realistic and should not include items that require legislative actions, which are beyond the control of the administrative branch of Government. Flexibility to negotiate conditionality, given the context of the country, should be allowed.

Improving the Effectiveness of Technical Assistance. There needs to be a demand-driven approach to identifying technical assistance (TA) with adequate inputs from the executing agencies (EAs) on the selection, contracting, and supervision of consultants. Excessive reliance on international consultants who are not familiar with the local context and consultants working to fulfill ADB terms of reference rather than the requirements of the EA must be avoided, as they diminish the country ownership of TA grants and undermine their utility.

Roles of the Indonesia Resident Mission. Government and external development partners (EDPs) emphasized the importance of resident mission-based operations management, delegation of responsibilities, and staffing (sector contact points). As several EDPs have moved toward country-based decision making, ADB should do the same to facilitate EDP coordination. The staff of IRM need to have the skills and experience to spearhead initiatives and interact effectively with other stakeholders.

Supporting the Enabling Environment for the Private Sector. ADB should increase its private sector operations in Indonesia, involving the strengthening of the enabling framework (legal, regulatory, and governance issues); financing private sector projects; and helping to catalyze private sector investments.

New Products and the Capital Market. ADB should be more innovative and offer a wider range of products to meet the needs of one of its major clients, for example issuing local currency bonds and providing local currency loans to reduce currency mismatch issues.

D. External Development Partners

175. From 1967 to 1991, the Inter-Governmental Group on Indonesia, chaired by the Government of the Netherlands, coordinated multilateral and bilateral aid assistance to Indonesia.

Japan,¹³² World Bank, and ADB provided 80–90% of such assistance. Australia, Canada, France, Germany, United Kingdom, United States of America, and United Nations agencies financed the remainder. In 1992, the Inter-Governmental Group was replaced by the CGI, chaired by different EDPs at various periods. The CGI seeks to harmonize aid efforts in support of the Government's development agenda through annual meetings and quarterly progress reviews.

176. ADB's share of official assistance varied between 12% and 18% before the crisis, and increased from 20% in 1998 to 56% in 2002. World Bank lending as a percentage of multilateral lending fluctuated during the 1990s, and fell sharply with the onset of decentralization. ADB's share of multilateral loans increased throughout the 1990s, peaking at 83.5% in 2002 (Figure 13).

177. In the early years of the evaluation period, there was less interaction and discussion between aid agencies concerning proposed programs and projects. ADB's Bank Operational Strategy for Indonesia in 1989 stated that "not all of the agencies appear willing to be as forthcoming or specific about their future project intentions. The apparent fears about interagency 'poaching' of projects, together with an actual willingness among some to 'poach,' tend to limit the amount of information that some are willing to divulge... it tends to compromise the amount of genuine coordination that can be undertaken."¹³³ Despite improved coordination since the crisis, this characteristic still lingers on today. The recent World Bank country assistance strategy states "There is now a wide recognition that broadbased genuine partnerships that focus on the problems to be solved, and that bring together all relevant stakeholders with something to contribute to the solution are more likely to succeed than earlier 'expert-driven' approaches that show what each institution intends to do in a certain sector."¹³⁴ If the Government leads EDP coordination in different sectors, themes, or geographical areas, partnerships among EDPs would be likely to develop. Other areas for cooperation include crosscutting topics such as procurement, management, gender equality, environment, and evaluation.

178. There has been relatively little cofinancing mobilized by ADB in Indonesia compared to other countries. For the CAPE review period (1990–2004), the ratio of total cofinanced amount to ADB loan approval was 19% compared to 73% for Philippines, 56% for PRC, 30% for India, and 46% for Pakistan (Table 9). Cofinancing fell substantially

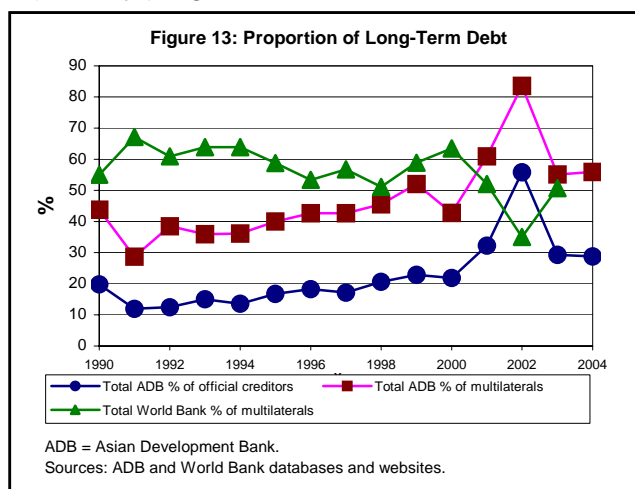


Table 9: Cofinancing Mobilized by Asian Development Bank for Selected Countries by Period
(% and \$ million)

Period	PRC	India	Indonesia	Nepal	Pakistan	Philippines	Thailand	Viet Nam
Ratio of Total Cofinancing Mobilized as a Proportion of Annual Loan Approvals (%)								
1990–1997	18.0	50.2	22.9	32.6	82.1	66.8	51.1	27.7
1998–1999	59.6	0.0	24.6	8.3	3.2	104.7	125.8	38.8
2000–2004	100.9	17.3	1.5	36.6	14.7	64.9	787.5	87.2
1990–2004	56.2	30.1	19.3	31.4	46.2	73.1	80.4	54.6
Average Annual Cofinancing Mobilized (\$ million)								
1990–1997	148.7	353.1	244.5	27.1	444.7	251.9	159.9	45.9
1998–1999	733.8	—	351.6	6.4	6.5	493.8	625.0	73.6
2000–2004	1,107.1	235.1	7.8	39.0	129.1	167.4	63.0	222.2
1990–2004	546.2	266.7	179.9	28.3	281.1	256.0	189.6	108.4

Note: Includes private sector loans.
Source: Asian Development Bank databases.

¹³²Processed as either JBIC loans or Japan International Cooperation Agency TA and grants.

¹³³ADB. 1989. *Bank Operational Strategy for Indonesia*. Manila.

¹³⁴World Bank. 2003. *Indonesia Country Assistance Strategy*. 43.

after 2000 as ADB loan approvals declined. Given Indonesia's need for funds cofinancing should be pursued more aggressively in ADB's Indonesian operations.

179. ADB cofinanced the Rural Income Generation Project with the International Fund for Agricultural Development, which has extensive experience in working with the poor. More recently, multilateral and bilateral efforts focused on, among others, a regional public expenditure review established to resume development activities in Aceh, where insurgency-related violence erupted in 1989. This was eventually suspended due to security problems. In the aftermath of the 2004 tsunami that devastated Aceh, the United Nations took the lead in coordinating emergency relief efforts. The 14th CGI has focused on tsunami recovery efforts.

180. ADB's attempts to coordinate with other EDPs usually revolved around annual country programming missions, fact-finding and appraisal missions for specific projects, or country portfolio reviews. With the establishment of IRM, formal and informal interaction with other EDPs' resident representatives improved. During CAPE team discussions with several bilateral agencies, they rated ADB as satisfactory or partly satisfactory (as opposed to highly satisfactory or unsatisfactory) in terms of sharing information, being open to joint or parallel financing, and working together with EDPs. At times, ADB was not represented in EDP meetings on some topics, as IRM lacked the necessary expertise. World Bank's recent country assistance strategy complemented ADB's CSP. Following review of the CSP, other bilateral agencies, including the Netherlands and the United Kingdom Department for International Development, expressed interest in cofinancing some ADB activities. Most agencies prefer interactions and collaborations to start early in the operations cycle and at times ADB's information has come only at later stages.

181. Some harmonization is evident between EDPs on thematic and sectoral specializations adopted by key EDPs, as well as on cofinancing schemes for projects with shared and parallel objectives. For instance, IMF focused on achieving macroeconomic stability, while the Japan International Cooperation Agency prioritized efforts to reduce social and economic inequality. Working groups also were formed to address coordination on specific priority programs. These included the Partnership for Governance Reform,¹³⁵ as well as groups on decentralization led by the GTZ, basic education (chaired by ADB), poverty reduction, aid effectiveness, etc. The current CSP documented activities of key funding agencies by sector and thematic areas, as well as the fit of ADB's projects into the overall strategy.

182. Improved electronic access to project-specific information would facilitate sharing of information and transparency. A web site on Accessible Information on Development Activities (AiDa) integrates basic information¹³⁶ about planned, current, and completed projects available on individual EDP web sites. Expanding the information available to include key implementation issues and lessons would improve its usefulness. Aid harmonization and alignment are being championed by OECD. Specific targets are given in the Paris Declaration, culminating in an annual High-Level Forum on Harmonization Alignment for Aid Effectiveness. Further progress is needed by ADB and other EDPs to capture the benefits of harmonization and to reduce the transaction costs borne by the Government that are outlined in the Paris Declaration.

E. Nongovernment Organizations and Civil Society

183. Since democratization and decentralization, the influence of NGOs on the development results has been growing in Indonesia. In an environment promoting governance, anticorruption,

¹³⁵Sponsored jointly by ADB, United Nations Development Programme (UNDP), and World Bank.

¹³⁶Hosted by the Development Gateway Foundation, OECD, UNDP, and World Bank. Information includes the activity name, loan amount, date of approval, and status.

and decentralization, NGO involvement needs to be nurtured and facilitated to seek public opinion and to gain support for the necessary reforms. Indonesia has many NGOs, and many are involved in the development process in the country. Several international NGOs, including environmental advocacy groups, civil rights groups, and those working on emergency aid, have representatives in Indonesia. Periodically, ADB interacts with local and international NGOs through annual consultation forums. NGOs have expressed their views on ADB operations through these forums, media, and the Internet. ADB has sometimes sought NGO feedback when preparing policy and project documents. Some NGOs are dissatisfied with this approach, and request more openness and opportunities to get involved directly in ADB's agenda in Indonesia. A few ADB projects have had positive experiences working with NGOs. With the proliferation of NGOs, the authenticity and motivation of particular NGOs must be considered before involving them in implementing ADB operations. Like the EDPs and the Government, some NGOs have issues related to governance and anticorruption.

184. During consultations with the CAPE Mission, NGOs expressed several concerns regarding ADB's development agenda in Indonesia. Policy-based loans have generated more controversy than other ADB loans since they target changes in the structure of the economy, industry, or sector. Policy impacts often mean privatization, deregulation, or liberalization. A number of these loans included objectives such as managing labor redundancies, building acceptance for water and electricity tariff adjustments, and reducing state assistance to small businesses. In documentation prepared for annual meetings, NGO concerns included (i) restructuring and privatization, leading to labor rationalization; (ii) tariff adjustments, resulting in major social dislocation; (iii) restructuring of the power sector, including an ADB policy on a single buyer model and state-guaranteed capacity expansion, and determining a regional best practice for eliminating take-or-pay contracts with independent power producers; (iv) privatization of water management benefiting a few large foreign water companies, which would turn water into a profit-oriented business and block access to clean water by the poor; and (v) the sustainability of many ADB projects given unsatisfactory maintenance and projects where no major socioeconomic benefits were found. NGOs also have more project-specific concerns, mainly addressing environmental, social safeguard and indigenous people issues, community participation, and corruption. Active NGO participation allow scrutiny and voicing of peoples' concerns and should be encouraged, listened to, and addressed. New modalities are needed to encourage and facilitate such discussions to address legitimate complaints and to better harness the energy and skills of civil society to improve the delivery of successful development results.

VII. OVERALL ASSESSMENT

185. This chapter provides an assessment of the ADB program in Indonesia based on the standard evaluation criteria: relevance, efficacy, efficiency, sustainability, and institutional development and other impacts.

A. Relevance

186. Top-down and bottom-up approaches were used (Appendix 17, Table A17.2). Top-down assessment evaluated four responsiveness criteria. First, the responsiveness of the country strategy to NDP priorities concluded that the strategy was rated as relevant (para. 23) for the 1990–2004 review period. This was analyzed by period. Before the crisis (1990–1997), it was highly relevant; during and after the crisis, it was rated as relevant. Given its long-standing relationship with the client, ADB had the ability to respond well to the stable operational environment. During the crisis (1997–2000) and the instability that followed, ADB responded quickly to assist Indonesia during its difficult time within the framework of its existing modalities. In hindsight, however, new instruments were needed to address the emergency situation. During the

transition years (2001–2004), Indonesia's operating environment changed with sudden decentralization. ADB took time to develop new modalities to suit the new realities of a client that was changing its fundamental procedures, funding channels, and decision-making processes. Second, the responsiveness of the country strategy to ADB's priorities was rated as highly relevant (para. 24). Third, its responsiveness to country development issues was rated as relevant (para. 26), given ADB's lack of flexibility to adjust to the new country context. Fourth, responsiveness of the country program to the strategy was relevant (para. 27). Based on these criteria, the overall top-down assessment is rated as relevant.

187. The bottom-up approach, using the available evaluation information of completed projects, showed that ADB projects were relevant. Of the 58 PCRs and PPARs with a relevance rating, 20 were assessed as highly relevant, 34 as relevant, and 4 as partly relevant, resulting in an overall top-down assessment of relevant (Table A17.3). OED's review of ongoing projects also concluded that most were relevant, although changes in project scope and design were needed during implementation, especially during the crisis. Combining top-down and bottom-up assessments, ADB's Indonesian operations are assessed as *relevant*.

B. Efficacy

188. The top-down assessment of ADB's strategic thrusts is derived by combining the five components of the strategy that were rated as (i) efficacious bordering on partly efficacious for governance and anticorruption results (para. 59), (ii) partly efficacious for decentralization and capacity development outcomes (para. 76), (iii) efficacious for human and social development effects (para. 85), (iv) partly efficacious for ENRM outcomes (para. 97), and (v) efficacious for long-term economic growth results (para. 99). The bottom-up partly efficacious rating is based on the results of completed and ongoing projects. Mostly self-evaluated completed projects (52% of the total projects), mostly approved prior to the crisis, indicated an efficacious rating. However, the portfolio became weaker after the crisis, and the portfolio of ongoing projects was assessed as partly efficacious given the at-risk projects being double the ADB average, and the need to partially cancel 56 projects from 2002 to 2004 due to problems of implementation. Combining the efficacy ratings of the strategic components and those of the evaluated and the ongoing projects, the ADB strategies and programs are rated as *partly efficacious*.

C. Efficiency

189. For the CAPE review period, the portfolio was assessed as partly efficient (para. 161). It was efficient before the crisis, but its performance predictably weakened after the crisis and decentralization, with the low disbursements and increased delays and implementation issues. The completed projects were efficient bordering on partly efficient with a weighted average rating of 1.6 for efficiency (out of a maximum score of 3). Many of the ongoing projects have encountered delays in implementation, underutilization, and administrative problems, especially due to decentralization, and are partly efficient. Appendix 18 summarizes the problems of achieving efficiency for ongoing projects, as well as for those that do not have PCRs. The summary rating is *partly efficient*.

D. Sustainability

190. The CAPE did not assess the sustainability of ongoing projects. Of the 49 completed projects with ratings for sustainability, 4 were highly sustainable, 23 were likely sustainable, 21 were less likely, and 1 was unsustainable. Many of the completed physical and social infrastructure, urban development, and financial sector operations have been rated successful, and their sustainability is marginally likely. The sustainability of community and rural development

projects beyond the life of the projects is doubtful; however, these account for 5% share of the funds for which ratings are available. Overall sustainability is assessed as *likely bordering on less likely*.

E. Institutional Development and Other Impacts

191. The CAPE did not assess the institutional development and other impacts of ongoing projects. Of the 42 completed projects with rating for this criterion, 2 had substantial impacts, 15 had significant impacts, 20 had moderate impacts, and 5 showed negligible impacts. Based on the weighted average of 1.3, institutional and other impacts, and the contribution of ADB TA portfolio, the institutional development and other impacts are assessed as *moderate*.

F. Overall Assessment

192. The overall rating of ADB's Indonesian CSPs and operations was determined using the rating values of the evaluation criteria described in paras. 186–191 and weights for relevance (0.20), efficacy (0.25), efficiency (0.20), sustainability (0.20), and institutional development and other impacts (0.15). The rating matrix is given in Appendix 17, Table A17.2. The weighted average of 1.53 for the evaluation of the ADB strategy and program in Indonesia gives a *partly satisfactory* rating. The CAPE review period was one in which Indonesia underwent major economic shocks associated with the AFC and major changes in the political economy related to the moves to democracy and decentralization. Changes of this magnitude created risks and uncertainty that adversely affected the performance of ADB operations. The CAPE also identified weaknesses in ADB's performance and received feedback from the Government on areas where ADB needed to make changes to improve development results and strengthen the ADB-Indonesian partnership. A continuation of this partly satisfactory rating for ADB's program in one of its major clients is not acceptable. The CSP should identify ways to improve the relevance, effectiveness, efficiency, and sustainability of ADB's future Indonesian operations. This could include (i) learning lessons from past experience, (ii) developing more appropriate instruments and modalities, (iii) deploying adequate staff and budgetary resources to support a more focused agenda, and (iv) giving due consideration to the client's view of how ADB can improve.

VIII. LESSONS, CONCLUSIONS, AND RECOMMENDATIONS

193. During the CAPE review period, Indonesia experienced significant turbulence, and it emerged as a more democratic, more complex country. The transition to a decentralized system is continuing. The level of ADB's support for Indonesia in the postcrisis period is a fraction of its precrisis levels. Yet, the country's need for support is clear, given the variation in achievement of MDG targets across LGs, as well as the lack of private sector investment. ADB's current level of engagement with Indonesia is inconsistent for an organization that views itself as the premier development institution in the Asian and Pacific Region. Understanding the strengths and weaknesses of ADB's engagement and drawing lessons of experience would help address this important strategic issue. The CAPE has identified several lessons.

A. Lessons

1. Lessons for Operations

194. **Use ADB's Comparative Advantages.** Evaluation results indicate that ADB has a comparative advantage in providing loans for transport and communications, social infrastructure, and finance. Subject to the Government indicating that these continue to be priorities for ADB assistance, ADB should continue to target support for these sectors. Performance in the agriculture

sector, the sector with largest number of loans accounting for about 14% of the lending volume, has been weaker. ADB should continue to assist this sector only if the Government strongly requests it to do so, and specific measures can be identified to improve performance.

195. Address Poverty Reduction Directly and Indirectly. Economic growth and job creation are essential to reduce poverty. Good infrastructure is essential for efficient economic growth. Studies have established links among poverty, infrastructure, and growth.¹³⁷ These studies confirm that infrastructure is a necessary, though not a sufficient, condition for poverty reduction. The indirect impact on poverty reduction should be an adequate justification for ADB infrastructure assistance, particularly for infrastructure located in areas with a high relative incidence of poverty, without making project design overly complex by including subcomponents that aim to reduce poverty directly. Such subcomponents increase the transaction costs of the main project. They might divert the attention of the EA to an agenda unfamiliar to them, thus resulting in poorer-than-expected project performance.

196. Develop Synergies through Geographic Targeting. During the CAPE review period, ADB operations were dispersed throughout the country. There are two fundamental advantages to reducing the geographical coverage. First, it would reduce the transaction costs and complexity of implementation and management of operations. Second, providing essential physical and social infrastructure in the same LGs where support has been provided for strategic priorities such as capacity building for governance would improve the potential for sustainability of outcomes.

197. Focus on Governance and Creating an Enabling Environment for the Private Sector. Despite the progress that has been achieved in the various dimensions of governance, much remains to be done. Indonesia is still experimenting with various aspects of improved governance (i.e., corporate, public, judicial, anticorruption initiatives, central-local relations). ADB has devoted substantial attention to governance issues in Indonesia by placing a governance specialist at IRM, and by including governance-related activities that are piloting new approaches in collaboration with some EDPs. Governance reform, however, is a long-term initiative requiring considerable experimentation and learning-by-doing. Results cannot be expected immediately. Some of ADB's initiatives have established good governance practices at the village level, though these do not appear to be sustainable beyond the project life. Governance should be mainstreamed in ADB operations. This broader approach will require, among other things, LGs and communities to get involved in project planning, participation in implementation, and monitoring outcomes. The policy agenda needed to attract private sector investment includes legal, regulatory, civil service, and anticorruption reforms. There are many potential elements of this policy agenda in which ADB can engage. The key to success is strong government ownership—ADB should identify areas where the Government has indicated that it wishes to engage. To complement the technical work and to facilitate these difficult reforms, process-based approaches should be used to raise public awareness and mobilize support for fundamental reforms. Such process-based approaches require facilitation and negotiation skills, which are scarce among both ADB and government staff.

198. Provide Lending for Project Preparation. ADB should work with the Government to reduce the payment of excessive commitment fees. This will involve developing a set of project-readiness filters and allowing sufficient time for project processing to ensure that loans are not submitted for Board consideration prematurely. In Indonesia's decentralized system, adequate project preparation time must be allowed for community participation, better coordination with all

¹³⁷OED's impact evaluation study included projects from Indonesia as case studies, which show that rural roads that bring better access to social services reduce non-income poverty (ADB. 2002. *Impact of Rural Roads on Poverty Reduction: A Case Study-Based Analysis*. Manila). Another study found that, as road capital is accumulated, the link between economic growth and poverty reduction becomes stronger (Kwon, Eunhyung. 2000. *Infrastructure, Growth, and Poverty Reduction in Indonesia: A Cross-Sectional Analysis*. Manila: ADB).

concerned agencies and levels of government, and detailed design to develop bidding documents. Since PPTA grant resources are inadequate for such detailed preparation, it would be useful to separate government borrowing into two stages after the preliminary work on feasibility and safeguard issues has been finalized. The first loan would be a small engineering-type loan to prepare detailed design and bidding documents (which would have normally been included together with the loan for project implementation) and for project supervision. The second loan would generate the project outputs. In this manner, the commitment fees for the larger loan could be deferred until the project-readiness criteria have been fully achieved.

2. Lessons for Policy Dialogue

199. Based on the past CSP formulation and implementation, several lessons can be learned that are relevant for discussion during policy dialogue in future strategy preparation. These challenges should be discussed (paras. 200–204), and if the Government welcomes ADB involvement, ADB should support selected policy initiatives. For ADB, this means finding a difficult balance between deploying scarce resources to ensure the effectiveness of operational outcomes and supporting an important policy agenda during a period characterized by risk and uncertainty. This is a challenging agenda, and priorities should be established during the CSP to focus ADB's activities. These issues are difficult to address, requiring time and sequential steps built into the operations that support these efforts. ADB's staff and budget resources may restrict the number of areas in which ADB can engage effectively.

200. **Support Financial Flows to Local Governments.** As would be expected during periods of massive change, the administrative and financial relationships between the CG and the LGs lack clarity. Clear and cohesive administrative procedures are needed to facilitate investment. The financial allocation systems should be strengthened to provide incentives for LGs to follow national policies and MSS.¹³⁸ The ability of different LGs to absorb the changes will vary. Ways of passing loan and TA funds to LGs will be required once the issue of LG borrowing and assignment of responsibilities has been resolved. If requested, ADB could support the Government in this effort. The key to success is ensuring that the administrative processes developed are owned by the Government. Successfully addressing this issue will be essential if the CSP envisions substantial amounts of ADB lending to support LG projects.

201. **Augment the Role of Provincial Governments.** Decentralization has not sufficiently considered the role of the PGs. The spatial distribution of schools, hospitals, and markets should be coordinated across LG boundaries. Similarly, the provincial road network has to be coordinated across LGs for cost-effective transportation. Watershed or river basin management cannot be confined by district boundaries. Coordination between LGs is an important element of the decentralization process that was not covered in the previous legislative reforms. This needs to be rectified.¹³⁹ The PGs should be given the mandates to coordinate and prioritize projects between districts in their provinces and to monitor development effectiveness, governance, and the delivery of LG services according to stipulated MSS.

202. **Support the Strengthening of ENRM Capacity and Voluntary Enforcement.** Although Indonesia's ENRM policies and legislation are adequate on paper, implementation of regulations and enforcement of the laws is weak. This might continue at the LG level, due in part to multiple agendas of policy makers and their lack of awareness and knowledge of ENRM principles. Capacity development is needed to equip local officials to assume their new ENRM responsibility, and to

¹³⁸ ADB prepared a program loan addressing this agenda. A program loan on LG finance addresses the clarity and consistency of the guidelines for LG finance. However, these efforts must be coordinated with the PGs, and ownership built at the LG level.

¹³⁹ A partial attempt was taken at the end of the 2004 parliamentary session, which enacted Law 33. However, this did not provide sufficient clarity.

identify and cultivate champions for sustainable development. Given the weaknesses in the judicial system and the lack of enforcement, voluntary compliance should be strengthened by applying low-cost, community-based enforcement mechanisms that (i) publicize the presence of “observers,” (ii) publicly identify violators, and (iii) provide incentives for local enforcement officials to act by tracking the outcome of prosecutions. To facilitate this effort, information about environmental mismanagement and its impact should be made public.

203. Define an Agenda for Good Governance and Anticorruption. Despite the progress that has been made, many challenges remain in the areas of governance. Corruption and collusion remain problems. Decentralization might have exacerbated these problems as individual government officials and the private sector might collude to deprive the Government of revenues. Such perceptions damage confidence in LG institutions and policies.¹⁴⁰ There are many competing ideas on how to address governance and corruption issues. Some argue that pressure from outside is needed to support change from within.¹⁴¹ EDPs, according to this argument, must withhold lending if necessary to curb corruption. However, this has to be balanced with a carrot-and-stick approach. Others argue that change from within will come only when a middle class voice has emerged. However, a large middle class does not exist in Indonesia.¹⁴² Still others note that piecemeal legal or institutional reform, or new oversight layers, might not be enough to combat corruption and improve governance.¹⁴³ New alliances that unite civil society, the independent business community, and international actors are needed to define a clear good governance and anticorruption agenda. Given the enormity of the challenge, ADB should discuss with the Government an action plan where stakeholders, including EDPs, advocacy groups, and civil society can play a role including the Partnership for Governance Reform.

204. **Use Technical Assistance Effectively.** During the CAPE review period, about 16% of ADB’s TA grant funds were allocated to Indonesia. A major portion of these funds was used for traditional delivery of training, and for analytical work on sectors and themes. However, the usefulness, impact, and sustainability of much of the TA-funded outputs is questionable. The unsustainability of TA outcomes is an ADB-wide issue that concerns not only Indonesia. Improving TA products requires action in many areas including more strategic selection of topics to be supported by TA, increasing the ownership of TAs by EAs, improving ADB supervision, and the recruitment of better consultants. The OED SES on improving the effectiveness of TA and the Task Force on TA Reform will provide recommendations to address problems in achieving development results through the use of TA.

B. Conclusions

205. The analysis and lessons emerging from the previous chapters converge on a set of recommendations for ADB’s future work in Indonesia. Section C summarizes the recommendations and the parties responsible.

1. Identify Key Strategic Outcomes

206. Political economy context of ADB’s operations in Indonesia has been challenging and it has given rise to several important outcomes that are desirable during the period of the next CSP. The

¹⁴⁰Smith, J., et al. 2003. *Illegal Logging, Collusive Corruption, and Fragmented Governments in Kalimantan, Indonesia*. International Forestry Review 5 (3). 293–302.

¹⁴¹Makarim, Nono Anwar. 2001. Asia Program Special Report 100. *A Path through the Rainforest: Anti-Corruption in Indonesia*. Available: <http://www.wilsoncenter.org>

¹⁴²Khan, Mushtaq H. 1997. *The Role of Civil Society and Patron-Client Networks in the Analysis of Corruption*. Paper presented at the OECD-UNDP Conference, Paris, 24–25 October. Available: <http://magnet.undp.org/Docs/efa/corruption/Chapter07.pdf>

¹⁴³Cole, William. 2001. Asia Program Special Report 100. *Roots of Corruption in the Indonesian System of Governance*. Available: <http://www.wilsoncenter.org>

preparation of the CSP should identify niches where ADB has past experience and the Government wants ADB to play a major role in addressing key development constraints. The CAPE identifies four of the key strategic outcomes for the CSP to concentrate on. First is to build capacity at different levels of government to work within the newly democratized and decentralized regime. While this agenda would have to continue for years, ADB support in this area should aim to create sustainable outcomes at both the village and LG level. Second, based on ADB's prior positive initiatives in the areas of governance and anticorruption, ADB should strive to mainstream governance and anticorruption in all ADB operations (para. 197). Third, given the low level of public development expenditure for the provision of public goods in the recent years (para. 10) and the need to invest in physical and social infrastructure to reduce the disparity of MDG achievements among the LGs, ADB should support the government public expenditure program, though disbursements linked to milestones defining output and outcomes. Finally, ADB should take advantage of the existence of private and public sector arms within the same institution to work collaboratively to create an enabling environment for the private sector and augment private sector lending (para. 212). In supporting these outcomes, the strategy should highlight the risks and uncertainties involved in working in the current environment.

2. Narrow the Focus of ADB Inputs

207. Compromises among multiple agendas made ADB's Indonesian input strategy diffused in terms of issues and geography. To deliver results, ADB needs to focus its efforts using a three-pronged approach. First, the focal sectors should be narrowed to areas accorded a high priority by Government and where ADB has a comparative advantage and proven track record of achieving good results, such as physical and social infrastructure. Second, the selection should address a limited number of strategic policy areas wherein ADB has begun to break new ground (e.g., governance, anticorruption) and where the Government wishes to engage with ADB as a development partner. These two dimensions should be combined to optimize the results, mainstreaming good governance in all ADB operations. A third dimension that could be considered would be to limit the geographic coverage of ADB's program. Although attempts have been made to limit the coverage area, this has been difficult due to government concerns about equity. This concern can be addressed through systematic planning of which areas the Government believes that each EDP could focus on. The geographic coverage should be based on several considerations, including (i) the need for ADB interventions in the area; (ii) the environment and poverty nexus, where a multitude of issues converge;¹⁴⁴ (iii) fiscal capacity of the LG and PGs; (iv) willingness of the related administrations to bring governance to a desired level for ADB operations; and (v) other factors, such as whether ADB has sufficient experience or the skills base to work in conflict-ridden areas or other locations with security concerns. Any decisions on focusing and targeting ADB's Indonesian program would need to be undertaken in close consultation with the Government and other EDPs to ensure adequate coordination and coverage and strong government ownership.

3. Allocate Adequate Resources to Strategic Focal Areas

208. ADB's efforts extended to achieve the key strategic outcomes (para. 206) need to be piloted, monitored, and adjusted to achieve results. ADB resources—budget and staff—should be placed strategically to achieve this objective. ADB must be able to channel its internal resources flexibly and quickly to the highest priority areas in each CSP, rather than relying on the availability of staff to determine the extent of involvement. In addition to staff to manage the existing portfolio, an adequate number of international staff members should be stationed at IRM for each of the key

¹⁴⁴ The World Resources Institute 2005 report noted that income from ecosystems can facilitate the economic empowerment of the rural poor if they can manage the ecosystem to support stable productivity over time. Unfortunately, the poor are rarely in a position of power over natural resources due to an array of governance failures.

areas selected in the CSP. Institutional flexibility will be needed to reduce the staff in areas that are not selected as priorities, and to redeploy them in other regional departments.

4. Monitor Medium-Term Outcomes

209. ADB aligned its strategy with the country priorities in the NDP. However, the absence of strong links between the strategy and the program, as well as the lack of systematic monitoring information, make it difficult to ascertain the outcomes of these strategies. Although OED reports concerning many DMCs have recommended improving monitoring, there has been little progress in this area. ADB's ongoing initiative in strengthening design and monitoring framework indicators is a step in the right direction. Monitoring medium-term outcomes¹⁴⁵ is needed to help manage risk and uncertainty. However, monitoring is often ignored due to its high cost and its lack of recognition as a useful management tool. To improve monitoring, ways must be found to reduce transaction costs—particularly those that fall on the EAs—and to focus on monitoring data that can actually be used for management purposes. This CAPE recommends a three-pronged approach: (i) only selective indicators should be collected to assess the outcomes of the strategy, rather than the achievements of individual projects; (ii) the information collected should have value to clients for management purposes; and (iii) the indicators should be based on available country information systems, the validity of which should be ascertained in advance.

5. Strengthen ADB's Role as a Development Partner

210. While appreciating ADB's role as a development partner, the Government feels that ADB could make changes to become a more effective one. Although Indonesia has access to the international markets, such funds are expensive. The most recent government bond issue was at approximately 265 basis points over the LIBOR equivalent, compared with ADB's spread of 40 basis points over LIBOR. Part of the additional cost that the Government is willing to pay to access the international markets, at a time that ADB lending is low, could be considered as a proxy for the perceived transaction costs associated with borrowing from ADB.¹⁴⁶ This perceived high transaction costs may include the time lag in processing and implementation, potential commitment fees, conditionalities involved, stricter procurement procedures, and safeguard requirements. ADB strategies, systems, and procedures have not kept pace with the changing nature of the client. ADB has now recognized the need to reduce transaction costs and improve results by delegating more authority to stronger DMCs.¹⁴⁷

211. Indonesia is one of ADB's major clients. Therefore, consideration should be given to addressing its concerns about what ADB should do to improve its partnership with the country. The following areas were identified wherein the Government felt that ADB can improve its side of the partnership: (i) providing longer time frames for project preparation to accommodate the complex decentralized system; (ii) developing appropriate project-readiness criteria with the Government to reduce commitment fees; (iii) improving portfolio management by placing greater emphasis on implementation and restructuring of ongoing operations; (iv) increasing government ownership of

¹⁴⁵Given the limited extent and the spread of ADB's program compared with Indonesia's budgetary expenditure (2–4% of overall Government expenditure) in the last 15 years, it is not feasible to measure or to attribute the impact of ADB lending in the country.

¹⁴⁶The additional cost in the international bond market also includes what the Government is willing to pay to reestablish itself in the international capital markets.

¹⁴⁷Work on this is under way in the partnership framework with MIC and OCR countries. This exercise aims to enhance ADB's relevance, responsiveness, and effectiveness in the changing regional socioeconomic context by (i) capturing the client countries' expectations of ADB's roles and functions in the emerging regional contexts, and (ii) updating ADB's partnership framework and modalities. In addition, ADB's ongoing Innovation and Efficiency Initiative aims to make and keep ADB more client- and results-oriented, efficient, and effective through improvements in its business model that remove bottlenecks constraining its capacity to respond better and more quickly to its clients.

policy reforms and providing sufficient flexibility to respond to contextual changes; (v) improving the effectiveness of TA by utilizing a more demand-driven approach wherein the EAs can provide greater inputs in TA design, consultant selection, and supervision; (vi) strengthening ADB's staff skills mix and allocating more experienced staff, particularly at IRM, to facilitate faster responses and better understanding of country characteristics and complexities; (vii) increasing private sector operations and supporting the development of an enabling environment for private sector operations; and (viii) developing the capital market by introducing new products. Identifying specific ways to address these issues is far beyond what can be accomplished in one CAPE. Management needs to address these issues a part of ADB's broader reform agenda.

6. Promote Private Sector Investments

212. According to the Government, official development assistance will finance less than one quarter of the estimated infrastructure needs of the next 5 years. The Government is looking to revive private investment. ADB operations should be designed to prove a catalytic effect to mobilize private investment. ADB's precrisis private sector portfolio was small and concentrated, and did not create a discernible impact. Public sector loans and TAs supported some improvements in the enabling environment for the private sector. Yet, foreign investment is still limited due to country risk, the threat of terrorism, corruption, and the weak legal and regulatory system. ADB's Indonesia PSA recommended that regulatory and governance reforms be the central tenet of ADB's private sector development strategy. This CAPE agrees with that assessment. In addition, two other initiatives are required. ADB's private sector lending and equity investments in Indonesia should increase. ADB should proactively seek opportunities to support private sector operations that have a demonstration effect. ADB should also develop new products, such as those that utilize its comparative advantage in taking long-term political risks (e.g., providing political risk guarantees to private sector investors) and instruments that promote the development of the capital market (e.g., local currency bonds).

C. Recommendations

213. Based on the work undertaken, the recommendations of the CAPE are shown in Table 10.

Table 10: Recommendations

Recommendation	Responsibility
1. The preparation of the CSP should identify niches where the Government wants ADB to play a major role in addressing key development constraints in the areas of (a) building the systems and capacity necessary to make decentralization work effectively, (b) improving governance and anticorruption initiatives, (c) increasing public and private sector investment for the provision of public goods, and (d) building an enabling environment for the private sector.	SERD and the Government
2. The next CSP should select key focus areas based on a multidimensional approach that includes consideration of ADB's sectoral track record, mainstreaming governance in ADB operations, and geographic location. The areas of focus must reflect government priorities and the programs of other EDPs.	SERD and the Government
3. The coverage of the CSP must be consistent with available ADB resources, both budgetary and staff. This will require giving consideration to (a) redeploying staff that do not have expertise in the key focal areas to free up positions for staff with the	SERD and BPMSD

Recommendation	Responsibility
required skills, (b) strengthening the staff skills mix at IRM to allow further delegation of decision-making authority and projects, and (c) stationing an adequate number of international staff with the requisite expertise for each area identified as a focal area in the CSP as well as to manage the existing portfolio.	
4. ADB needs to find ways to reduce the transaction costs of monitoring for the Government and EAs by using validated country information systems, coordinating with EDPs, and limiting the amount of data collected to what is useful for senior managers in the Government and ADB.	SERD and EAs
5. ADB should address the areas identified by the Government wherein improvements in ADB policies, practices, and procedures are required to provide better services to an important client. SERD can address some of these issues in the next CSP (e.g., use of appropriate project readiness filters; improving portfolio management; strengthening IRM, improving the results achieved by TAs). Other issues requiring changes at the institutional level need to be addressed in the Medium-Term Strategy (2006–2010), the MIC and OCR Partnership Framework, and the Innovation and Efficiency Initiative (e.g., lowering transaction costs, greater use of country systems).	SERD, SPD, RSDD, and OCO
6. The next CSP should identify ways to catalyze private sector investment by promoting an enabling environment for the private sector, creating demonstration effects through increased ADB private sector operations and cofinancing, and introducing new and more attractive products.	SERD, and ADB Management

ADB = Asian Development Bank, CSP = country strategy and program, EA = executing agency, EDP = external development partner, IRM = Indonesia Resident Mission, MIC = middle-income country, OCO = Office of Cofinancing Operations, SERD = Southeast Asia Department, TA = technical assistance.

Source: Country assistance program evaluation team.

COUNTRY CONTEXT

1. This appendix comprises three parts. Section A presents a brief history of Indonesia before the country assistance program evaluation (CAPE) review period (1990–2004). Section B discusses significant socioeconomic changes in the country in the years before, during, and after the crisis. Section C describes the stabilization efforts after the crisis, and achievements to date.

A. History

2. Indonesia proclaimed independence on 17 August 1945 after about 350 years of Dutch rule. Founding President Soekarno focused on political development to unify the country. Through the second half of the 1950s and into the 1960s, the Government incurred massive budget deficits and inflation soared (annually over 600%). The economy stagnated, and was close to collapse by the mid-1960s. In 1966, Soeharto emerged from this upheaval as the President and established the New Order regime. Over the next 3 decades under his leadership, Indonesia achieved sustained economic growth averaging about 7% per year.

3. From the 1970s to the early 1980s, Indonesia's economy depended heavily on oil exports to finance major public investment and growth-oriented policies. Basic food production emerged as a priority, and foreign investments in manufacturing and mining were encouraged. Gross domestic product (GDP) growth accelerated from 6% in the latter half of 1960s to 8% in the 1970s. Rapid oil price increases in 1973 and 1979 led to an acute tightening of domestic resources, faltering GDP growth, and a deterioration of external accounts. Given the paucity of public savings, external assistance was required for development expenses. The Government of Indonesia reacted dramatically with the intention of ensuring macroeconomic stability and adopting market-based policy measures to restructure the economy. Growth was restored, and the share of oil and gas exports fell from over 70% in 1983 to 40% in 1988. As a result, the revenue base broadened substantially. However, external debt rose to \$57 billion, and the debt service ratio climbed to 40% by 1989.

B. Socioeconomic Changes in the Country Since 1990

4. **Prelude to the Crisis (1990 to Mid-1997).** In the early 1990s, Indonesia's macroeconomic policy had to cope with an overheated economy, fueled by booming exports and rising investment. Economic growth rates of over 7% slowed to 6.4% by early 1990s, the economy began to cool down, and inflation slowed. The managed depreciation of the rupiah, combined with high interest rate differentials between local and international markets, elicited a substantial inflow of foreign private capital. Per capita income reached \$1,100 in 1995, a four-fold increase from 1967. The Government also initiated several development programs targeting the poor, including the successful but controversial transmigration program.¹

5. During the authoritarian rule of Soeharto's New Order regime, governance issues were neglected. A bureaucracy dominated by technocrats vigorously pursued modernization of the economy. The military enjoyed a dual function of maintaining security and political stability. Political parties were streamlined by unifying them into one nationalist and another Islamic block. Meanwhile, power effectively rested with a functional group (*Golkar*) that included all civil servants, and served as Soeharto's machine for maintaining power. The depoliticization of society reduced the role of the population to a "floating mass", which voted in favor of the New

¹ The Asian Development Bank (ADB), unlike the World Bank, was not directly involved in the transmigration program. Some of the development activities ADB financed did impact transmigrators, however.

Order regime every 5 years.² The cronyism based on corruption, collusion, and nepotism exacerbated corruption, leading to a high-cost economy. Under these circumstances, political processes did not empower local governments (LG),³ and excessive centralization of decision making rendered local participation meaningless. Local accountability through effective checks and balances was virtually absent. As such, local governance could not be responsive to local needs. Although the regime effectively delivered nationwide development based on infrastructure through its Presidential Instruction to the LGs, it did not succeed in resolving regional disparities.

6. **During the Crisis (1997–2000).** Mid-1997 to 2000 was devastating for Indonesia. The Asian financial crisis (AFC) of July 1997, which engulfed Southeast Asia, swiftly became a financial crisis in Indonesia. The currency depreciated steeply, technically bankrupting manufacturing companies with foreign exchange debt-service obligations. As a result, banks were saddled with large amounts of nonperforming loans. The Government's poor performance in restoring economic stability eventually delegitimized Soeharto's regime. At the peak of the crisis, GDP dropped by 14% in 1998, poverty incidence reached an alarming 24%, and inflation soared to a staggering 80% (Appendix 3). Much of the banking and corporate sectors went bankrupt. Amid this economic crisis, President Soeharto was forced to step down in May 1998 after holding power for 32 years. Subsequently, the Government became fragmented and politically unstable. Indonesia had three heads of state in 3 years, East Timor province broke away, and separatist movements in Aceh and Irian Jaya (now Papua) provinces were resurgent.

7. Indonesia had discussed decentralization for nearly 2 decades, and even tried to implement it on a pilot basis.⁴ However, the Government did not legislate decentralization until 1999. After the fall of President Soeharto, a political environment conducive to substantial political and administrative decentralization emerged. The process of decentralization, policy formulation, and lawmaking went on without establishing the regulations that would delimit the impact. The Government's intent behind the new laws remained unclear. President Habibie—lacking a firm power base and facing parliamentary and presidential elections scheduled for the summer 1999—seemed to be trying to build his political credibility as head of a reform-minded administration to improve his election prospects. Therefore, the initiation of decentralization would have to be interpreted as a short-term political maneuver, rather than a comprehensively planned restructuring of central-local relations.⁵ The far-reaching changes—nothing less than a complete overhaul of the administrative system, including the democratization of lower levels of government—shifted governance authority and responsibilities for delivering services to more than 400 LGs (districts and municipalities). While this big bang approach to decentralization was well intended, the lack of readiness to manage the change process led to an arduous transition period, from which the country is just emerging.

² Political scientists working on Indonesia used the term “floating mass” to depict the people (the mass) that were supposed to gently follow (float) in appreciation of political stance adopted by the Soeharto regime as its means to guide the people toward development. This kept them out of politics and ensured the stability of the New Order system.

³ LGs are district and municipality level governments, which are sometimes referred to as regional governments in the Indonesian context. Indonesia has more than 400 LGs at the end of 2004.

⁴ Decentralization resurfaced with Law 5/1974 introducing “real and responsible local autonomy.” The law characterized autonomy of the regions more as an obligation than a right, an obligation of the regions to participate in whatever development programs the state initiated for the well-being of the population. Under that law, the regions had to prove they were ready to implement their new functions. However, the law was never adopted fully as implementing regulations started to surface only in 1992. An experimental implementation of the law in 26 districts finally took off in 1996. However, this process was burdened with difficulties, because the central Government did not hand over the personnel and facilities the regions needed to perform their new tasks properly.

⁵ Rohdewold, R. 1999. *A New Framework for Local Governance*. GTZ Discussion Paper. Available: <http://www.gtzsfdm.or.id>

8. **Transition Years (2001–2004).** From 2001 to 2004, Indonesia underwent a true transition. This was different from the transition that occurred in the former Soviet Union. Nevertheless, it was a transition from an autocratic government to a more democratic one. With the rules of the regime changing so rapidly, uncertainty pervaded the Government, business world, and civil society.⁶ Law 22 on Regional Autonomy and Law 25 on Fiscal Balance Between the Center and the Regions (districts and municipalities), which deal with the political and financial authorization of decentralization, were passed in 1999. Eleven sectors⁷ were selected for decentralization, a process that was supposed to begin from 1 January 2001. In practice, they still had not become fully effective at the time of the CAPE. A 2-year transition, with a focus on capacity building, was envisaged for the formulation of the required implementing regulations, as well as preparation of the regions for their new tasks.⁸ To facilitate the transition, a State Ministry of Regional Autonomy was established in May 2000. By August 2000, this ministry was subsumed as a directorate general within the Ministry of Home Affairs.⁹

9. The necessary institutions for a decentralized market economy were not in place at the time of the main CAPE Mission from August to October 2004. The Government appeared to be indecisive and ambiguous about which institutions and capabilities were needed for this leap from a top-down to a bottom-up approach. The uncertainty relating to the first democratic elections prolonged the uncertainty. Many observers within and outside the country see the transition as an opportunity to introduce necessary reforms and build appropriate institutions to improve transparency and efficiency.

10. After several difficult years of economic crisis and political uncertainties, the country recently regained some social, macroeconomic, and political stability. While GDP growth increased from 0.3% in 1999 to 4.7% in 2004, poverty incidence dropped from 19.1% in 2000 to 16.6% in 2004, according to the National Socioeconomic Survey (SUSENAS). Inflation eased to about 7%, and Indonesia graduated from the International Monetary Fund (IMF) stabilization program at the end of 2003—the last of the AFC victims to do so. Although external public debt declined from about 103% of GDP in 1999 to 59.8% in 2004, a stagnant tax collection effort still constitutes a major fiscal challenge. The country obtained attractive terms on its \$1 billion bond issue in early 2004, indicating market confidence in the economy.

11. The security situation in the country still causes concern as sporadic terrorist activities have not completely abated. Conflicts in Ambon and Aceh, as well as ethnic tensions in areas of Sulawesi and West Papua, continue. Although the tsunami of December 2004 killed many in Aceh province, the overall economy will not be affected much by it, as Aceh accounts for about 2% of the country's GDP and population. However, the number of poor people will increase by an estimated 1 million as a result of this tragedy.¹⁰ On a more positive note, the three rounds of elections in 2004 were peaceful and well managed. New President Yudhoyono is expected to deliver on a number of promises, especially regarding good governance and economic growth. However, quick passage of difficult reforms is uncertain as the President and his coalition

⁶ This report uses the word transition to denote this change in regime, rather than to depict the standard transition economy.

⁷ The sectors were urban development, health, education and culture, agriculture, communications, industry and trade, capital investment, environment, land cooperatives, manpower affairs, and management of natural resources. These were defined to include 16 sectors subsequently.

⁸ The originally planned date for Laws 22 and 25 to come into effect was May 2001. It was brought forward to January 2001 to match the new cycle of the budget year.

⁹ Under Presidential Decree 157/2000, an interdepartmental team was established and chaired by the Ministry of Home Affairs, and coordinated the preparation of implementing regulations and consulted with LGs.

¹⁰ ADB. 2005. *Initial Assessment of the Earthquake and the Tsunami in South and Southeast Asia*. Manila.

partners only constitute a minority in the House of Representatives (DPR). Further, the extensive power of the current DPR, compared with the quasi-power it had only 5 years ago, is a testament to the country's democratization.

C. Stabilization Efforts

12. Before the crisis, GDP in Indonesia grew by 7% from 1966 to 1996 on average per year, driven mainly by the shift from a dominant agriculture base to an industry base, as well as gains in productivity. While the share of agriculture dropped from 51% in 1960s to 17% in 1997, the share of industry rose from 28% to 42% in the same period. Investment in infrastructure increased access to rural areas, while oil revenues were geared to spread the education and health systems. These factors contributed to continued growth. The crisis that began in July 1997 shocked the economy with the massive depreciation of its currency, unemployment, and rising inflation. With the support of the IMF and multilateral development banks, Indonesia maintained an open current account regime during the financial crisis. By January 1998, the rupiah was in free fall, reaching Rp17,000 per \$1—a devaluation of 700% from Rp2,500 per \$1 in just 6 months. Indonesian companies, including state-owned banks, that borrowed US dollars, while earning only rupiah income, suddenly became insolvent. Capital fled the country due to the AFC, as well as Indonesia's own rapidly developing political crisis. The combination of these crises set Indonesia apart from other Asian countries that experienced principally a financial and economic crisis.

13. Economic growth rebounded to 3.7% in 2002, 5.0% in 2003, and 5.1% in 2004. By December 2003, the Government had sufficient confidence to declare that the crisis was ending. The IMF-led crisis program also ended after 6 years. With presidential and parliamentary elections in 2004, the political crisis also came to a close. Unemployment declined from 8.5% in August 2003 to 7.4% in May 2004. The rupiah gradually appreciated in 2003, and the exchange rate has hovered around Rp8,300–8,600 per \$1 since mid-2003. Inflation fell from 15% in 2002 to 6% in September 2004. With the election of President Yudhoyono, the Jakarta Stock Exchange index rose to 880 in November 2004, up from 650 at the end 2003. Despite this regained macrostability, foreign direct investment continues to decline because of weak governance, lack of transparency in tax and customs procedures, and poor infrastructure. The transitional nature of the economy—with the resulting ambiguous, inconsistent, overlapping regulations, and weak institutions—have made investment conditions cumbersome and unpredictable.

14. **Fiscal and Debt Situation.** The latest country economic review¹¹ for Indonesia presents a hopeful outlook for Indonesia's economy. It reports that the Government is raising money through new bond issues to finance the Rp650 trillion in bonds that were issued during the crisis for bank restructuring finance. The Government sold \$1 billion in foreign bonds with 10-year maturity. The remaining Rp23 trillion was raised by domestic bond issues. The total stock of external debt in 2003 amounted to \$135 million, of which the public portion was about \$80 million. The public debt burden is expected to drop to 50% of GDP during 2005–2007, compared to 90% during the crisis. Most of the outstanding domestic debt at the end of 2003, amounting to Rp624 trillion, was also public debt.

15. These high debt levels, coupled with the stagnant tax effort, constitute a major fiscal challenge to improving accessibility to basic services. Improving this situation is problematic unless private sector investments are tapped. Rising oil prices have not made much difference to the country, because of the fuel price subsidy and falling oil production. The unfavorable

¹¹ ADB. 2004. *Country Economic Review: Indonesia*. Manila.

regulatory framework has kept away foreign investments, bringing oil production down to less than 1 billion barrels per day from more than 1.3 billion barrels per day in 1999. The new Government's decision to reduce fuel subsidies in 2005 was a bold initiative. The reduction in state subsidies increased fuel prices by an average of 29% beginning March 2005, triggering public protests. However unpopular, the reduction in the fuel subsidy bill would shrink the budget deficit by around Rp40 trillion.¹² The fuel subsidy was further reduced in October 2004.

16. Reductions in fuel subsidies, which would boost investor confidence in the country, simultaneously would have to protect those in the lower-income brackets to prevent social unrest. The Government is developing compensation programs for the poor, who will be the worst affected by consequent cost rise. A reduction in subsidies also is expected to lead to higher interest rates to control inflation, which would slow growth. The Government should develop a more coherent policy to resolve its domestic energy problems. Little improvement has been seen in the oil sector and in new development. The recent national energy policy also outlined a plan to align the country's energy prices, particularly fuel, to market levels by 2010.

¹² The reduction in the subsidy is derived from the actual 2004 subsidy level (Rp59.4 trillion) as a benchmark based on the report by Virtual Information Center's Special Press Summary: *Fueling Unrest in Indonesia*. Available: <http://indahnesia.com/DB/Story/Item.php?code=20041201>

EVALUATION DESIGN AND TOOLS USED

1. Given Indonesia's uniqueness and complexity, the country assistance program evaluation (CAPE) team assembled sector and thematic specialists with in-depth knowledge of the country. While some sector specialists were Indonesians, other thematic specialist had lived in Indonesia for many years. Most were fluent in the local language. Resource constraints and the three elections in 2004 necessitated that the main fieldwork be carried out intermittently between August and October 2004, accommodating the second and third electoral rounds. The team leader, an experienced evaluator, provided the necessary guidance to the team, coordinated the desk and fieldwork, and finally integrated these into a cohesive report. An evaluation design matrix guided the evaluation. The CAPE team also adopted a series of logical, mutually reinforcing steps to gather and validate the information through triangulation. This appendix describes the evaluation tools used.

2. To gather and validate information, the CAPE took the following steps:

- (i) Key issues were identified from all relevant Asian Development Bank (ADB) documents describing project design and program expectations, including 4 country strategies and programs, 111 reports and recommendation of the President, 179 advisory technical assistance (TA) grants, and about 150 regional TAs with Indonesia as one of the countries covered. In addition, 58 program or project completion reports, 68 TA completion reports, and 16 program or project performance audit reports (PPARs) provided self- or independent evaluation of the outputs and outcomes of completed operations.¹
- (ii) Secondary data relevant to the development issues confronting Indonesia were collected from ADB, Government of Indonesia, other development agencies, nongovernment organizations, and academic groups (Appendix 19).
- (iii) Information on implementation was gathered from back-to-office reports, consultant reports, and key informant interviews with ADB staff in the Indonesia Resident Mission and at headquarters, and with government officials in Jakarta.
- (iv) CAPE team members visited about 25 project locations on six major islands² for a more in-depth look at selected projects and to gather information from other stakeholders, including local government officials, project beneficiaries, nongovernment organizations and civil society organizations, as well as religious heads, school teachers, village leaders, and other key informants.³
- (v) A special participatory evaluation team collected information from selected districts around the country where a multitude of projects coincided. In this way, the information gathered in one source was validated by using the data gathered from one or more of the other sources.

3. The participatory evaluation was intended to contribute a grassroots or bottom-up perspective on development challenges, as well as on ADB's assistance, from project beneficiaries and participants in project processes. The participatory evaluation adds value to the overall CAPE process by contributing a "lived" perspective on development assistance, and by validating and reinforcing findings from other CAPE building blocks. Fieldwork for the participatory evaluation was conducted in four locations,⁴ representing a wide spectrum of the physical, environmental, and social conditions and particular areas—rural, urban, and peri-

¹ The Operations Evaluation Department also began preparing a TA performance audit report in 2004.

² These were Bali, Java, Kalimantan, Lombok, Sulawesi, and Sumatra.

³ Fieldwork consultants N. Basira, Y. Bunyamin, E. Demal, Husnuzzonni, A. Rohandi, R. Sandonoer, Yuniarto, R. Yuwono, and L. Zahara provided support to the CAPE team during the field visits.

⁴ These were East Lombok district, West Nusa Tenggara; Kapuas district, Central Kalimantan; Palembang City, South Sumatra; and Semarang district, Central Java.

urban. These also had past and ongoing ADB projects from a broad range of sectors, with a significant community component, or a physical or service component to which community discussants could clearly attribute impacts. About 60 participatory rapid appraisals and numerous key informant interviews were held over two phases. First, a pilot participatory evaluation was conducted with other team members to find synergies and complementarity by working with different levels of stakeholders. The second phase was conducted after feedback was obtained from other team members, enabling the participatory evaluation team to direct their focus group discussions and participatory rapid appraisals better.

4. Given the numerous operations under review, and because operations are implemented in multiple locations, comprehensive analysis of each operation was impossible. The CAPE review period was characterized by phenomenal change. Lessons drawn from past operations



Figure A2.1: CAPE team undertook participatory evaluation studies.

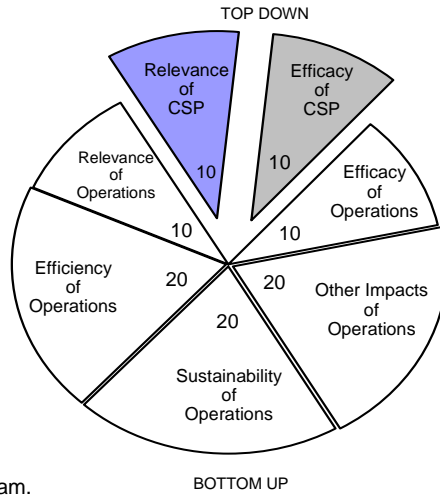
that would be relevant to the current context would be limited. Therefore, instead of evaluating each project in-depth,⁵ the CAPE focused on particular operations of more relevance to the current context. Since most of these operations are ongoing, comprehensive evaluations of their outputs

and outcomes are not possible. The CAPE uses examples from particular operations, especially regarding process, procedure, and interim output to identify lessons. However, this does not assume that all or most locations related to that particular operation would be subject to a particular lesson, be it positive or negative. That a specific lesson or an issue was identified in a particular project in a selected location would not lead to the conclusion that the entire project was subject to the same. The CAPE had to make a tradeoff between the accountability function of evaluation (it would have taken several more years to evaluate relevant ongoing projects) and the forward looking lesson identification function. The CAPE consciously leaned toward the lesson identification role to give relevant feedback to the upcoming country strategy and program.

5. For the overall assessment, the top-down, bottom-up assessment was done as described in the main text (para. 6) of this report. This is shown in Figure A2.1.

⁵ The Operations Evaluation Department provides an in-depth evaluation of individual programs, projects, etc., under the routine preparation of PPARs.

Figure A2.1: Overall Assessment Rating



CSP = country strategy and program.
 Source: Asian Development Bank.

KEY INDICATORS

Table A3.1: Macroeconomic Indicators

Item	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
A. Income and Growth															
1. GDP per Capita (Rp thousand, current prices)	1,176	1,371	1,523	1,750	1,995	2,334	2,703	3,150	4,676	5,302	6,752	8,081	8,828	9,572	10,642
2. Growth of GDP (in constant prices)	9.0	8.9	7.2	7.3	7.5	8.2	7.8	4.7	(13.1)	0.8	4.9	3.8	4.4	4.9	5.1
a. Agriculture	3.1	2.9	6.3	1.7	0.6	4.4	3.1	1.0	(1.3)	2.2	1.9	4.1	3.2	4.3	4.1
b. Industry	11.5	11.7	8.2	9.8	11.2	10.4	10.7	5.2	(14.0)	2.0	5.9	2.7	4.3	4.0	3.9
c. Services	9.8	9.3	6.8	7.4	7.1	7.6	6.8	5.6	(16.5)	(1.0)	5.2	5.0	5.0	6.2	7.0
3. Structure of Output (% of GDP at current prices)															
a. Agriculture	19.4	18.3	18.7	17.9	17.3	17.1	16.7	16.1	18.1	19.6	15.6	15.6	16.0	15.9	15.4
b. Industry	39.1	40.4	39.6	39.7	40.6	41.8	43.5	44.3	45.2	43.4	45.9	46.8	44.6	43.6	43.7
c. Services	41.5	41.3	41.7	42.4	42.1	41.1	39.9	39.6	36.7	37.0	38.5	37.6	39.3	40.5	40.9
B. Savings and Investments (% of GDP at current prices)															
1. Gross Domestic Saving	32.3	33.5	35.3	32.5	32.2	30.6	30.1	31.5	26.5	19.5	31.8	31.5	26.8	24.9	25.3
2. Gross National Saving	27.7	29.1	30.9	28.7	29.5	27.7	27.4	28.6	20.9	11.8	25.2	27.9	23.9	21.0	21.9
C. Money and Inflation															
1. Consumer Price Index (annual change, %)	—	9.3	7.6	9.7	8.5	9.5	7.9	6.2	58.5	20.3	9.3	12.5	10.0	5.1	6.1
2. Money Supply (M2) (Rp billion, as of EOP)	84,630	99,058	119,053	145,202	174,512	222,638	288,632	355,643	577,381	646,205	747,028	844,054	883,908	955,692	1,033,527
D. Government Finance (% of GDP)															
1. Overall Budgetary Surplus (deficit)	(0.8)	(0.7)	(1.1)	(0.5)	1.0	2.2	1.0	0.5	(1.7)	(2.5)	(1.1)	(2.4)	(1.5)	(1.7)	(1.1)
E. Balance of Payments (\$ million, calendar year)															
1. Direct Investment	1,093	1,482	1,777	2,003	1,500	3,742	5,594	4,525	(241)	(1,866)	(4,550)	(2,977)	(145)	(597)	1,043
2. Percent of GDP															
a. Exports	23.4	23.1	24.3	23.2	22.7	23.5	22.1	26.1	52.8	36.6	39.6	34.9	29.6	26.9	27.9
b. Imports	(18.8)	(19.4)	(19.2)	(18.0)	(18.3)	(20.2)	(19.5)	(21.4)	(33.5)	(21.9)	(24.5)	(21.1)	(17.8)	(16.6)	(19.6)
c. Current Account Balance	(2.6)	(3.3)	(2.0)	(1.3)	(1.6)	(3.2)	(3.4)	(2.4)	4.3	4.1	4.8	4.2	3.9	3.4	1.1
F. International Reserves (\$ million; as of EOP)	8,520	10,250	11,394	12,354	13,199	14,787	19,281	17,396	23,517	27,257	29,268	28,018	32,047	36,253	36,303
G. External Indebtedness															
1. Total Debt Outstanding and Disbursed (\$ million; as of EOP)	69,872	79,548	88,002	89,172	107,824	124,398	128,937	136,161	151,236	151,201	144,407	134,045	131,755	134,389	—
2. External Debt as % of GNI	64.0	71.6	72.2	58.7	62.6	63.4	58.3	65.0	167.9	116.9	103.7	97.8	78.8	67.5	—
3. Debt Service as % of Exports of Goods and Services	33.3	34.2	32.6	33.6	30.7	29.9	36.6	30.0	31.7	30.0	22.5	23.6	24.8	26.0	—
H. Debt Service (\$ million; transactions during the year)															
1. Principal Repayments on Long-Term Debt	5,812	6,537	7,781	9,138	8,951	10,197	14,896	13,011	11,203	11,711	9,296	7,881	10,548	12,889	13,821
2. Interest on Long-Term Debt	3,413	3,769	3,771	4,112	4,174	4,935	5,114	5,116	5,601	4,599	5,702	4,566	3,183	3,392	4,697
3. Interest on Short-Term Debt	506	816	737	840	1,142	1,284	1,533	1,610	1,324	989	1,157	864	600	638	—
I. Exchange Rate (Rp/\$, average of period)	1,843	1,950	2,030	2,087	2,161	2,249	2,342	2,909	10,014	7,855	8,422	10,261	9,311	8,577	8,939

— = not available, ADB = Asian Development Bank, EOP = end of period, GDP = gross domestic product, GNI = gross national income, Rp = rupiah.

Source: ADB. 2005. *Key Indicators 2005*. Manila.

Table A3.2: Country Social Indicators

Item	1990	1995	1998	2004 or Latest Year
A. Population Indicators				
1. Population (million)	179.4	194.8	201.6	218.1
2. Annual Population Growth Rate (% change)	2.0	1.7	1.5	1.4
3. Urban Population (% of Total)	30.9	35.9	38.3	45.5 (2003)
B. Social Indicators				
1. Fertility Rate (births per woman)	3.0 (1991)	2.8	2.8 (1997)	2.4 (2000–05)
2. Maternal Mortality Rate (per 100,000 live births)	450	390 (1994)	334 (1997)	307 (2002–03)
3. Infant Mortality Rate (below 1 year per 1,000 live births)	68.0	57.0 (1994)	46.0 (1997)	31.0 (2003)
4. Life Expectancy at Birth (years)	59.8	64.0	65.6	66.5 (2003)
a. Female	61.5	65.8	67.5	68.8 (2003)
b. Male	57.9	62.2	63.7	64.9 (2003)
5. Adult Literacy (% , ages 15 and above)	81.6	83.8	85.7	87.9 (2003)
a. Female	75.0	78.0	80.5	83.4 (2003)
b. Male	88.0	89.6	91.1	92.5 (2003)
6. Literacy rate of 15-24 years olds (%)	96.6 (1992)	97.5	98.3	97.6 (2003)
a. Ratio of literate females to males, 15-24 years (%)	97.9 (1992)	99.0	99.5	99.0 (2003)
7. Combined Gross Enrollment Ratio for Primary, Secondary, and Tertiary Schools (%)	61.0 (1993)	62.0	65.0 (1997)	66.0 (2002/03)
a. Female	58.2 (1993)	59.1	61.0 (1997)	65.0 (2002/03)
b. Male	63.7 (1993)	61.3	68.0 (1997)	67.0 (2002/03)
8. Net Primary School Enrollment (% , aged 7-12 years)	88.7 (1992)	91.5	92.1	92.0 (2002/03)
a. Ratio of girls to boys in primary education	100.6 (1992)	100.2	100.1	98.0 (2002/03)
9. Net Junior Secondary Enrollment (% , aged 13-15 years)	41.9 (1992)	51.0	57.0	54.0 (2002/03)
a. Ratio of girls to boys in junior secondary education	101.3 (1992)	101.1	103.2	99.0 (2002/03)
10. Ratio of Females to Males in Tertiary Education (%)	85.1 (1992)	83.6	81.8	80.0 (2002/03)
11. Child Malnutrition (%) ^a	44 (1989)	31.6	29.5	28.2 (2003)
12. Population with Access to Safe Water (%)	51.0 (1988–91)	62.0 (1990–96)	74.0 (1990–98)	75.0 (2003)
13. Population with Access to Sanitation (%)	44.0 (1988–91)	51.0 (1990–96)	53.0 (1990–98)	58.8 (2003)
14. Public Education Expenditure (% of GDP)	1.0	—	1.4 ^b (1995–97)	1.2 (2000–02)
15. Public Health Expenditure (% of GDP)	0.6	0.8 (1994)	0.6 (1996–98)	1.2 (2002)
16. Human Development Index	0.515	0.679	0.670	0.697 (2003)
a. Rank/Out of Total	108/173	96/174	109/174	110/177
17. Gender-Related Development Index	—	0.651	0.664	0.691 (2003)
a. Rank/Out of Total	—	88/163	90/143	87/140
C. Poverty Indicators				
1. Population Below Income Poverty Line				
a. Proportion of population below national poverty line	15.1	17.7 (1996)	23.4 (1999)	16.7
b. Proportion of population living below \$1 per day	20.6	7.8 (1996)	12.0 (1999)	7.5 (1990–2003)
c. Proportion of population living below \$2 per day	64.0 (1993)	59.0 (1996)	76.0	52.4 (1990–2003)
d. Share of poorest quintile in national consumption	9.3	8.7 (1996)	9.6 (1999)	9.1 (2002)
2. Proportion of Population Below Minimum Level of Dietary Energy Consumption	69.5	68.6 (1996)	73.9 (1999)	64.6 (2002)
3. Poverty Gap (incidence x depth of poverty)	2.7	3.9 (1993)	4.3 (1999)	3.0 (2002)
4. Poverty Severity Index	0.74	—	—	0.78
5. Inequality (Gini Index)	0.32	—	—	0.34 (2002)
6. Human Poverty Index	—	20.2	27.7	17.8 (2003)
a. Rank/Out of Total	—	—	46/85	41/103

— = not available, ADB = Asian Development Bank, GDP = gross domestic product, UNDP = United Nations Development Programme.

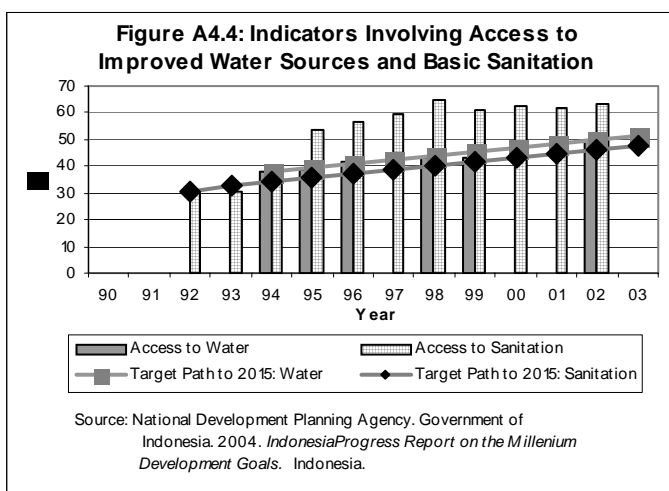
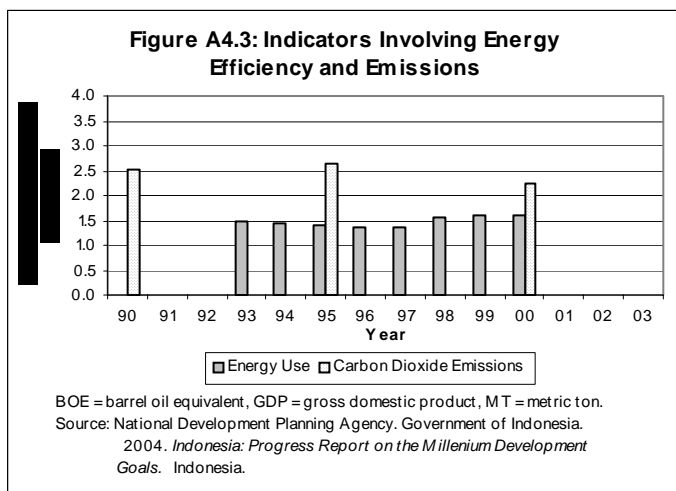
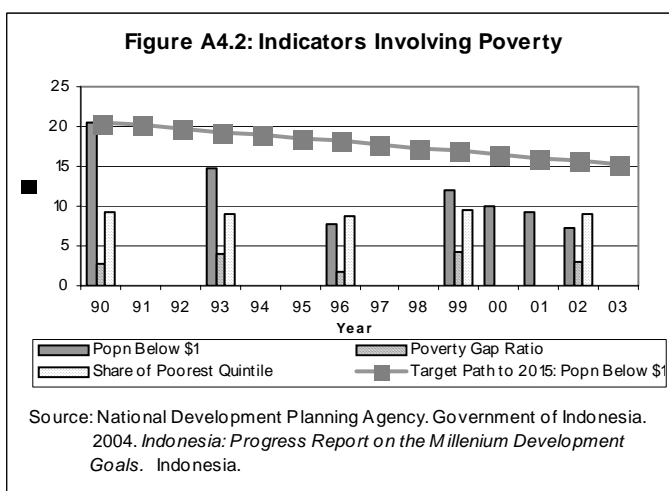
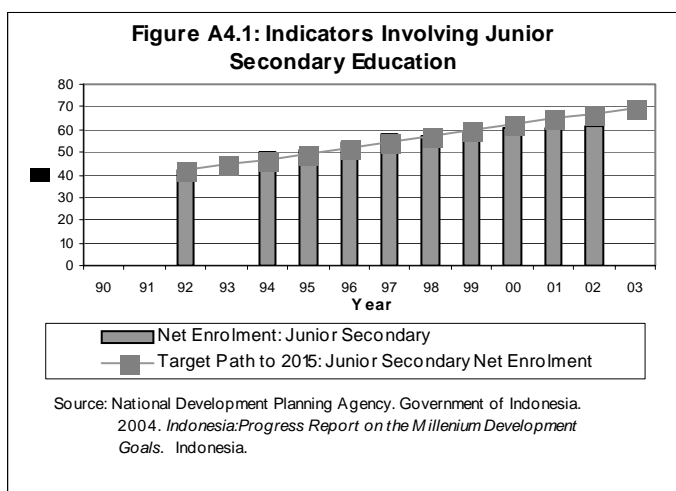
^a Prevalence of underweight children under age 5 (%).

^b As percent of gross national product.

Sources: UNDP, Human Development Report (1993, 1998, 2000, and 2005); Government of Indonesia, Progress Report on the Millennium Development Goals 2004; World Bank, World Development Indicator Online, ADB Statistical Database System Online; ADB, Country Strategy and Program, 2002; and ADB Country Strategy and Program Update, 2003

STATUS OF MILLENNIUM DEVELOPMENT GOALS

1. Millennium development goals refer to measurable goals and targets that seek to address poverty, hunger, disease, illiteracy, environmental degradation, and discrimination against women over 25 years from 1990 to 2015. These millennium development goals were based on the declaration made at the United Nations Millennium Summit in New York in September 2000. The goals provide a framework for the United Nations system to work coherently together toward a common end. Of the 191 United Nations member states that adopted the declaration, 42 are developing member countries of the Asian Development Bank. The declaration identifies 8 overall goals, 18 related targets, and 48 indicators. Developing countries such as Indonesia are expected to adopt the first 7 goals and 11 targets.¹ Statistical information on the progress of these targets is in Table A4.1. Table A4.2 shows the progress toward achieving target, the disparities in the disaggregated data, and information available from other sources.



¹ Goal 8 and the seven associated targets call for (i) an open, rule-based, nondiscriminatory trading system; (ii) relief for debt problems of developing countries; (iii) commitment of more generous aid to poverty reduction; (iv) addressing the special needs of landlocked countries and small island nations; (v) access to essential affordable drugs and better technologies with the help of the private sector; and (vii) development of implementation strategies for youth unemployment.

Table A4.1: Progress Toward the Millenium Development Goals and Targets

Target	Goal	Indicators	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	15		
Goal 1: Eradicate Extreme Poverty and Hunger																			
1	Halve between 1990 and 2015 the proportion of people whose income is less than \$1 a day	*	Proportion of population living below \$1 per day (PPP-values) (%) - Path to 2015	20.6	20.2	19.8	19.4	19.0	18.5	18.1	17.7	17.3	16.9	16.5	16.1	15.7	15.2	10.3	
		1.	Proportion of population living below \$1 per day (PPP-values) (%)	20.6			14.8				7.8			12.0	9.9	9.2	7.2		
		2.	Poverty gap ratio (incidence x depth of poverty) (%)	2.7			3.9				1.8			4.3			3.0		
		3.	Share of poorest quintile in national consumption (%)	9.3			9.1				8.7			9.6			9.1		
2	Halve between 1990 and 2015 the proportion of people who suffer from hunger	*	Prevalence of underweight children (% of children under 5 years old) - Path to 2015	36.6	35.9	35.1	34.4	33.7	32.9	32.2	31.5	30.7	30.0	29.3	28.5	27.8	27.1	18.3	
		4.	Prevalence of underweight children (% of children under 5 years old)	36.6		35.5				31.6			29.5	26.4	24.6	26.1	27.3	28.2	
		5.	Proportion of population below minimum level of dietary energy consumption	69.5			71.7				68.1			73.9			64.6		
Goal 2: Achieve Universal Primary Education																			
3	Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	*	Net enrolment ratio in primary education (% of children aged 7–12 years) - Path to 2015			88.7	89.2	89.7	90.2	90.7	91.2	91.6	92.1	92.6	93.1	93.6	94.1	100	
		6.a	Net primary enrolment ratio (% of children aged 7–12 years)			88.7		92.1	91.5	91.5	92.3	92.1	92.7	92.3	92.9	92.7			
		7.	% of grade 1 cohort reaching grade 5	75.6	74.7	74.3	75.6	77.5	80.2	81.0	80.9	82.2	81.8	82.6	81.9	82.2			
		*	Net enrolment ratio in junior secondary education (% of children aged 13–15 years) - Path to 2015			41.9	44.4	47.0	49.5	52.0	54.5	57.1	59.6	62.1	64.6	67.2	69.7	100	
		6.b	Net enrolment ratio in junior secondary education (% of children aged 13–15 years)			41.9		50.0	51	54.5	57.8	57	59.2	60.3	60.5	61.7			
		8.	Literacy rate, 15–24 years old (%)			96.6		97.6	97.5	97.7	98.1	98.3	98.4	98.4	98.3	98.7			
Goal 3: Promote Gender Equality and Empower Women																			
4	Eliminate gender disparity in primary and secondary education, preferably by 2005 and to all levels of education no later than 2015	9.	Ratio of girls to boys: primary education, 7–12 years (%)			100.6		99.9	100.2	99.8	99.7	100.1	100.1	100.3	100.3	100.1			
		10.a	Ratio of girls to boys: junior secondary education, 13–15 years (%)			101.3		100.1	101.1	103.4	101.7	103.2	102.5	104.2	104.8	102.6		100.0	
		10.b	Ratio of girls to boys: senior secondary education, 16–18 years (%)			98.0		95.2	94.7	96.1	99.6	99.9	103.2	103.7	100.1	97.1			
		11.	Ratio of females to males: tertiary education (%)			85.1		82.2	83.6	85.3	79.5	81.8	90.0	89.9	87.1	92.8		100.0	
		12.	Ratio of literate females to males, 15–24 years (%)			97.9		98.8	99.0	99.1	99.2	99.5	99.4	99.4	99.6	99.8		100.0	
		13.	Share of women in wage employment in the nonagricultural sector			29.2		36.7	36.0	28.3	28.3	37.6	31.2	30.9	30.3	28.3			
		14.	Proportion of seats held by women in the National Parliament (%)			12.5						12.5		8.8					

Target	Goal	Indicators	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	15		
Goal 4: Reduce Child Mortality																			
Target 4	Reduce by two thirds between 1990 and 2015 the under-5 mortality rate	*	Under-5 mortality rate (number of probable deaths per 1,000) - Path to 2015	97.0	94.4	91.8	89.2	86.7	84.1	81.5	78.9	76.3	73.7	71.1	68.5	66.0	63.4	32.3	
		15.	Under-5 mortality rate (per 1,000)	97.0				81.0				58.0					46.0		
		16.	Infant mortality rate (per 1,000 live births)					57.0				46.0					35.0		
		17.	Proportion of children immunized against measles before their first birthday (timely immunization coverage) - IDHS		44.5			54.6				60.0					68.0	72.0	
Goal 5: Improve Maternal Health																			
Target 6	Reduce by three fourths between 1990 and 2015 the maternal mortality ratio	*	Maternal mortality ratio (per 100,000 births) - Path to 2015	450.0	436.5	423.0	409.5	396.0	382.5	369.0	355.5	342.0	328.5	315.0	301.5	288.0	274.5	112.5	
		18.	Maternal mortality ratio (per 100,000 births)					390.0				334.0					307.0		CSPU 03
		19.	Proportion of births attended by skilled health personnel (%)			40.7		47.2	49.7	49.2	56.3	56.0	63.1	66.9	66.6	68.4			
Goal 6: Combat HIV/AIDS, Malaria, and Other Diseases																			
Target 7	Have halted by 2015, and begun to reverse, the spread of HIV/AIDS	20.	HIV prevalence among pregnant women 15–24 years old (%)												0.05–0.07				
		21.	Proportion of contraceptive users (married women ages 15–49 years) reporting condom use (%)			1.3		1.0	0.8	0.8	0.8	0.7	0.6	0.4	0.4	0.4			
		22.	Number of children orphaned by HIV/AIDS												18,000				
Target 8	Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases	*	Malaria prevalence rates, per 100,000 people - Path to 2015																
		24.	Malaria prevalence rates, per 100,000 people												850				
		23.a	Death rates associated with malaria, men, per 100,000												11				
		23.b	Death rates associated with malaria, women, per 100,000												8				
		*	Tuberculosis prevalence rates, per 100,000 people - Path to 2015																
		26.	Tuberculosis prevalence rates, per 100,000 people										786				609		
		25.	Death rates associated with tuberculosis, per 100,000										68				59		
27.	Directly Observed Treatment - tuberculosis success rate (%)	90	85	76	78	68	51	47	74	77	76	84	86						
Goal 7: Ensure Environmental Sustainability																			
Target 9	Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources	28.	Proportion of land area covered by forest				67.7								64.2				
		29.	Ratio of area protected to maintain biological diversity, to surface area (% of total land area)												26.4		16.0		
		30.	Energy use (barrel oil equivalent per Rp million GDP)				1.5	1.4	1.4	1.4	1.4	1.6	1.6	1.6					
		31.	Carbon dioxide emissions (kg per capita)	2.5						2.7					2.3				

Target	Goal		Indicators	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	15	
Target 10	Halve by 2015 the % of people without access to safe drinking water and basic sanitation	32.	% of population with sustainable access to an improved water source					38.2	38.5	41.5		43.1	43.4			50.0			
		33.	% of population with sustainable access to basic sanitation			30.9	30.2	33.9	53.4	56.4	59.3	64.9	61.1	62.7	61.5	63.5			
Target 10A	Halve by 2015 the proportion of people without sustainable access to safe drinking water	*	% of population with sustainable access to an improved water source, rural - Path to 2015					30.9	32.5	34.2	35.8	37.5	39.1	40.8	42.4	44.1	45.7	65.5	
		32.a	% of population with sustainable access to an improved water source, rural					30.9	30.8	34.3		35.9	35.6			40.8			
		*	% of population with sustainable access to an improved water source, rural - Path to 2015					52.1	53.2	54.4	55.5	56.7	57.8	58.9	60.1	61.2	62.4	76.1	
		32.b	% of population with sustainable access to an improved water source, rural					52.1	52.6	54.4		55.2	55.5			61.4			
Target 10B	Halve by 2015 the proportion of people without sustainable access to basic sanitation	*	% of population with sustainable access to improved sanitation rural - Path to 2015			19.1	20.9	22.6	24.4	26.1	27.9	29.7	31.4	33.2	34.9	36.7	38.4	63.1	
		33.a	% of population with sustainable access to improved sanitation, rural			19.1	18.5	21.2	44.0	46.8	49.0	55.6	50.8	52.3	50.3	52.2			
		*	% of population with sustainable access to an improved sanitation, urban - Path to 2015			57.5	58.4	59.3	60.3	61.2	62.1	63.0	64.0	64.9	65.8	66.7	67.7	80.6	
		33.b	% of population with sustainable access to improved sanitation, urban			57.5	54.9	59.2	71.1	73.5	76.9	80.4	77.0	77.4	76.2	77.5			
Target 11	By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers	34.	Proportion of households who own or rent their homes			87.7			85.1			87.3			83.5				
		35.	Proportion of households possessing a land ownership certificate													32.3			

* = indicators not identified in the Indonesia country strategy and programs, AIDS = acquired immunodeficiency syndrome, GDP = gross domestic product, HIV = human immunodeficiency virus, IDHS = Indonesia demographic and health survey, kg = kilogram, PPP = purchasing power parity, Rp = rupiah.

Source: National Development Planning Agency, Government of Indonesia. 2004. *Indonesia: Progress Report on the Millenium Development Goals*. Indonesia.

Table A4.2: Indonesia's Progress on its Millenium Development Goals

Heading	Millenium Development Goal/Target/Indicator	Attainment of Target by 2002	Disaggregation	Comments on Other Indicators ^a
Goal 1	Eradicating Extreme Poverty and Hunger			
Target 1	Halve between 1990 and 2015, the proportion of people whose income is less than \$1 a day			
Indic. 1	Proportion of population living below \$1 per day (PPP-values) (%)	The 2002 rate was 7.2%, well within the target of 15.7% for that year or even the 2015 target of 10.3%.	Great variability across provinces, ranging from 41.8% for Papua to 3.4% for Jakarta in 2002. About 39% of the 36 provinces surveyed failed to reach the MDG target of 15.6% for 2002.	Proportion of population living below PPP\$2 per day fell from 71% in 1990 to 54% in 2002, on track to achieving the 2015 target of 35%. This represents the portion of the population vulnerable to economic shocks.
Target 2	Halve between 1990 and 2015 the proportion of people who suffer from hunger			
Indic. 2	Prevalence of underweight children (% of children under 5 years old)	Steadily decreased since 1990, although a slightly rising trend was observed beginning 2001.	Rural boys were most vulnerable, accounting for the biggest share among malnourished children. Provincial data was highly disparate, ranging from 17% in Yogyakarta to 42.3% in Gorontalo province in 2002.	Severe malnutrition increased slightly from 6.3% in 1989 to 8% in 2002. Indonesia still has some way to go before reaching the poorest and most disadvantaged groups.
Indic. 3	Proportion of population below minimum level of dietary energy consumption	Remained very high, never declining below 60% at the national level. Overall, could not be considered on track to achieve MDG target.	Central Java and Yogyakarta recorded the highest rates (72.4% and 71.4%, respectively) in 2002, while West Sumatra and South Sulawesi had the lowest (50% and 53.2%, respectively), but in all cases not falling below 50%.	
Goal 2	Achieving Universal Primary Education			
Target 3	Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling			
Indic. 4	Net primary enrolment ratio (% of children aged 7–12 years)	Registered high levels of access to primary schooling, even slightly overshooting annual MDG targets from 1994 to 1999.	No significant differences between rural and urban areas and across poverty quintiles. However, province-wise, 16 of the 36 provinces had ratios lower than national rate of 92.7% in 2002.	Primary gross enrolment rate in 2002 was 112%, significantly higher than the 94% net enrolment rate. This indicates a high number of underage (<7 years) and overage pupils (> 12 years). Per Ministry of National Education, 10.3% and 4.9% of primary school pupils are underage and overage. Junior secondary is counted as part of basic education in Indonesia, forming the last 3 years of a 9-year period. Net enrolment at this level rose steadily from 41.9% in 1992 to 61.7% in 2002, a considerable 20-percentage-point increase, but below targets beginning 2000.
Goal 3	Promoting Gender Equality and Empowering Women			
Target 4	Eliminate gender disparity in primary and secondary education, preferably by 2005 and to all levels of education no later than 2015			
Indic. 5	Ratio of girls to boys: primary education, 7–12 years (%)	Achieved the 2015 goal of achieving gender parity in primary education, with the ratios being close to 100% throughout the 1990 to 2003 period.		
Indic. 6	Ratio of girls to boys: junior secondary education, 13–15 years (%)	Especially for 1996–2002, ratios were more than 100%, indicating a slightly higher proportion of enrolled females than males.		
Indic. 7	Ratio of girls to boys: senior secondary education, 16–18 years (%)	Ratios fluctuated a lot, but stayed close to 100%.		

Heading	Millenium Development Goal/Target/Indicator	Attainment of Target by 2002	Disaggregation	Comments on Other Indicators ^a
Indic. 8	Ratio of females to males: tertiary education (%)	Ratios showed no definite trend.	Downtrend noted in 1997 and 1998 probably was due to the economic crisis, which might have affected families' willingness to pay for females' tertiary education.	
Indic. 9	Ratio of literate females to males, 15–24 years (%)	Increased, practically achieving 100% parity in 2002.	No large differences between men's and women's literacy rates in all poverty quintiles and between urban and rural areas.	If older population groups were to be included (15 years and older), then greater female illiteracy would be noted, as well as a larger rural-urban gap (becoming 94.5% in urban areas and 89.1% in rural areas).
Indic. 10	Proportion of seats held by women in the National Parliament (%)	Women held a low 12% of seats in the National Parliament between 1992 and 1997, which decreased to 9% in 1999		
Goal 4	Reducing Child Mortality			
Target 5	Reduce by two thirds between 1990 and 2015 the under-5 mortality rate			
Indic. 11	Under-5 mortality rate (per 1,000)	Falling more rapidly than targeted since 1997. Rate was 46 per 1,000 live births in 2002, not too far from the 2015 target of 32.	Rates between provinces varied widely, ranging from 19 in Bali to 103 in West Nusa Tenggara for 2002–2003.	
Indic. 12	Infant mortality rate (per 1,000 live births)	Exhibited rapidly declining trend, reaching 35 per 1,000 live births in 2002.	Similar variations to that for the under-5 mortality rate could be observed.	Rate in Indonesia still exceeded those of other ASEAN countries. It was 4.6 times higher than in Malaysia, 1.3 times the Philippines, and 1.8 times Thailand.
Goal 5	Improving Maternal Health			
Target 6	Reduce by three fourths between 1990 and 2015 the maternal mortality ratio			
Indic. 13	Maternal mortality ratio (per 100,000 births)	No data series on maternal mortality. Based on special studies, however, UNDP stated that Indonesia is unlikely to achieve target unless extra efforts were made to reduce the maternal mortality ratio of 307 in 2002.		Ministry of Health estimated that, among 5 million deliveries annually, 20,000 women die due to complications related to pregnancy and delivery.
Indic. 14	Proportion of births attended by skilled health personnel (%)	Rose steadily from 40.7% in 1992 to 68.4% in 2002.	Southeast Sulawesi registered the lowest rate at 34.9%, in contrast with the highest rate of 96.2% for Jakarta.	Some 89.2% of wealthy women deliver with the help of trained providers, while only 21.3% of poor women do.
Goal 6	Combating HIV/AIDS, Malaria, and Other Diseases			
Target 7	Have halted by 2015, and begun to reverse, the spread of HIV/AIDS			
Indic. 15	HIV prevalence among pregnant women, 15–24 years old (%)	By end-September 2003, 1,239 AIDS and 2,685 HIV cases had been recorded.		Ministry of Health estimated that 90,000-130,000 Indonesians already have HIV.
Indic. 16	Proportion of contraceptive users (married women ages 15–49) reporting condom use (%)	Very low, and has remained below 1% since 1994.	Papua and Yogyakarta reported the highest rates at 2.5% and 2.0%, not even reaching 5%.	
Target 8	Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases			
Indic. 17	Malaria prevalence rates, per 100,000 people	No data series on malaria prevalence. Only estimate was 850 in 2001.	Rates were as high as 20% in Gorontalo, 13% in NTT and 10% in Papua.	
Indic. 18	Death rates associated with malaria, per 100,000	No data series on malaria mortality rate. Only estimate was 19 in 2000.		

Heading	Millenium Development Goal/Target/Indicator	Attainment of Target by 2002	Disaggregation	Comments on Other Indicators ^a
Indic. 19	Tuberculosis prevalence rates, per 100,000 people	No data series on tuberculosis prevalence. First estimate was 786 in 1998, which went down to 609 in 2002.		Special surveys revealed significant heterogeneity by location. Median annual risk of infection was at 2.5%.
Indic. 20	Death rates associated with tuberculosis, per 100,000	No data series on tuberculosis mortality rates. Initial rate was 68 in 1998, declining to 59 in 2002.		
Indic. 21	DOTS (Directly Observed Treatment) - tuberculosis success rate (%)	Rate was fairly high in 1990 at about 90%, but declined to its lowest rate of 47% in 1996. While the rate is again rising it has yet to reach its 1990 level.		Indonesia's international commitment of 70% case detection (not cure) of new TB cases by 2005 (pledged to a different group) could probably be achieved only in 2013, given the current trend of only 29.3% of new cases being detected.
Goal 7	Ensuring Environmental Sustainability			
Target 9	Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources			
Indic. 22	Proportion of land area covered by forest	Declined from 67.7% in 1993 to 64.2% in 2001, owing to illegal logging.		
Indic. 23	Ratio of area protected to maintain biological diversity, to surface area (% of total land area)	No data series on protected areas to maintain biodiversity. Only an estimate in 2000, 26.4% of the total land area.	Papua and Sulawesi had the highest ratios of protected areas at 41.3% and 32.8%, respectively, while Java-Bali had the lowest proportions at 9.5%.	
Indic. 24	Energy use (barrel oil equivalent per million rupiah GDP)	Increased from 1.36 in 1997 to 1.61 in 2000. This indicates diminished energy efficiency.		
Target 10	Halve by 2015 the % of people w/o access to safe drinking water and basic sanitation			
Indic. 25	% of population with sustainable access to an improved water source	Sustained uptrend, starting from 38.2% in 1994 to 50% in 2002.	Access of rural families had mainly been below targets but increasing, albeit at lower levels, from 30.9% in 1994 to 40.8% in 2002. Urban families had relatively higher access, starting from 52.1% in 1994 to 61.4% in 2002 and meeting annual MDG targets except in 1998 and 1999.	The quality of water supplied to communities by regional drinking water companies does not comply with health standards—it can be drunk only after being boiled.
Indic. 26	% of population with sustainable access to basic sanitation	Fluctuated, although definitely improved, from 30.9 in 1992 to 63.5% in 2002.	Rural access to sanitation was far below half of urban access in 1990. Rural access was only 19.1% in 1992, peaked in 1998 at 55.6% but went down to 52.2% by 2002.	
Target 11	By 2020, significantly improve the lives of at least 100 million slum dwellers			
Indic. 27	Proportion of households who own or rent their homes	Fluctuated over the years, with the latest data being 83.5% in 2001, a slight decline from 87.7% in 1992.		
Indic. 28	Proportion of households possessing a land ownership certificate	32.3% of households had a land ownership certificate in 2001.	51% of urban households had this certificate in 2001, compared to only 22% in the rural areas.	

AIDS = acquired immunodeficiency syndrome, ASEAN = Association of Southeast Asian Nations, HIV = human immunodeficiency virus, MDG = Millennium Development Goal, NTT = Nusa Timor Tenggara, PPP = purchasing power parity, TB = tuberculosis, UNDP = United Nations Development Programme.

^a Indicators not identified in Indonesia country strategy and programs.

Source: National Development Planning Agency, Government of Indonesia. 2004. *Indonesia: Progress Report on the Millenium Development Goals*. Indonesia.

SUMMARIES OF STRATEGIES AND DETAILS OF THEIR ASSESSMENT

1. This appendix summarizes the Asian Development Bank's (ADB) overall strategy documents, national development plan (NDP) for Indonesia for the country assistance program evaluation (CAPE) review period, and four country strategies reviewed by the CAPE team. The appendix also compares country development trends and issues with the highlights of the national and ADB strategy documents (Table A5.1).

A. National Development Strategy in Indonesia

2. Indonesia began adopting the five-year development plans (REPELITAs) in 1969 under President Soeharto's New Order Government. The REPELITA V (1989–1993), launched in April 1989, was the last development plan in the country's first 25-year development cycle. It continued to focus on restructuring the economy initiated under the previous REPELITA. The plan aimed to maintain rapid increases in non-oil exports. It also redefined development priorities, enhancing focus on human resource development, and advocated a more restrictive role for the public sector. Further, the plan encouraged public sector savings to reduce dependency on external borrowing.

3. The second long-term (25-year) development plan formally began in April 1994 with the adoption of REPELITA VI (1994–1998). It focused on (i) achieving balanced regional development, (ii) improving human capital, (iii) using nonrenewable resources optimally, (iv) managing renewable natural resources, (v) improving public sector efficiency, and (vi) expanding the role of the private sector. The preparation of REPELITA VII, which had been scheduled for 1999, was postponed due to the economic crisis. Instead, a national development program (PROPENAS) was prepared in a more participatory manner and adopted in October 2000. Rather than the previous sector approach, PROPENAS applied a thematic approach. In this strategy, good governance and rule of law became the central themes. It also aimed for (i) national cohesion and social stability, (ii) accelerated economic recovery and sustainability, (iii) social sector and human welfare development, (iv) strengthening regional autonomy, (v) promoting rural and urban development, and (vi) intensifying poverty programs. However, lack of experience and capacity in local governments (LG), inability of the central Government to supervise programs under decentralization, and restricted budgets in the public sector presented substantial difficulties in implementing this agenda. A new medium-term plan has not been adopted in the past 5 years.

4. The white paper entitled *Economic Policy Package, Pre and Post IMF*,¹ adopted in September 2003 at the time of Indonesia's graduation from the International Monetary Fund (IMF) program, emphasized the formulation of a sound policy, institutional, legal, and regulatory framework to achieve fiscal consolidation. It laid out a concrete time frame for a number of long-delayed institutional reforms in the justice sector, including the establishment of the Anticorruption Commission and the Judicial Commission, as well as revision of the law on the Attorney General's Office. The transition plan² focused on governance-related issues, such as dispute resolution between LGs and the center (and among LGs), reforming the civil service and the judiciary, and efficient implementation of decentralization. To its credit, the Government of Indonesia has taken actions in the past year on 75% of the reforms. However, the new Government will be responsible for implementing these reforms and achieving the intended outcomes.

¹ Government of Indonesia. 2004. *Economic Policy Package Pre and Post-IMF*. Jakarta.

² Government of Indonesia. 2004. *Transitional National Development Plan* (Rencana Pembangunan Nasional Transisi). Draft.

Table A5.1: Strategy and National Development Plan

Bank Operational Strategy 1989	Country Operational Strategy 1994	Country Operational Strategy 2000	Country Strategy and Program 2002
<p>Development Trends and Issues</p> <ul style="list-style-type: none"> • Recovery of GDP growth since the stagnation of early 1980s • Reduction in the inflation rate from 10% in the first part of 1980s to 8% in 1986–1988 • Substantial growth in non-oil gas sector • Lack of public saving, leading to heavy reliance on external assistance (2)^a • Rising debt-to-export ratio, from 124% in late 1970s to 283% in 1986–1988 (1) 	<p>Development Trends and Issues</p> <ul style="list-style-type: none"> • Improved macroeconomic situation following the restructuring of the economy • Vigorous demand pressures due to booming exports and increased investment activities • Deceleration of growth rates from 7% in 1991 • Increased private capital flows, driven by low inflation and high interest rate differentials 	<p>Development Trends and Issues</p> <ul style="list-style-type: none"> • Fundamental political transition from centralized rule to decentralized multiparty democracy • Reversal of the recession with modest GDP growth • Recovery of macroeconomic stability with low inflation (2% at the end of 1999) and reduced volatility in the rupiah exchange rate • Reduction in poverty incidence to pre-crisis level of 18% • Lack of efficient, low-cost transport service, which offers little support to business development, particularly since they were neglected during the crisis 	<p>Development Trends and Issues</p> <ul style="list-style-type: none"> • Modest GDP growth of 3–4% though unable to support rapid poverty reduction • Improving macroeconomic stability with moderate inflation • Reduced, yet large, debt burdens (i) • Fiscal challenges driven by weak revenue mobilization and substantial debt service needs (ii) • Major shift in the fiscal and administrative responsibilities from the central to local governments, resulting in a transitory status in institutional arrangements (iii) • Poor accessibility of public services to the poor (iv)
<p>NDP Priorities</p> <p>The REPELITA V (1989–1993) launched in April 1989 focused on economic objectives and social objectives:</p> <ul style="list-style-type: none"> • Economic objective was to create a consolidated economy, with a vigorous industrial sector supported by a solid agricultural foundation (6) • Social objective was to promote development with equity (3) • Plan continued to focus on restructuring the economy: <ul style="list-style-type: none"> ◦ Maintain the rapid (15% per year) increases in non-oil exports (1) ◦ More restrictive role for public sector (5) ◦ Increase public sector savings to reduce need for external borrowing (2) • Promote human resource development (4) 	<p>NDP Priorities</p> <p>The REPELITA VI (1994–1998) of April 1994 had the following priorities:</p> <ul style="list-style-type: none"> • Achieving balanced regional development (13) • Quantitative and qualitative improvement of human capital (7) • Optimal utilization of nonrenewable resources (8) • Sustainable management of renewable natural resources (9) • Improved public sector efficiency • Expansion of private sector role 	<p>NDP Priorities</p> <p>The PROPENAS adopted in 2000 had the following priorities:</p> <ul style="list-style-type: none"> • Ensure national cohesion and social stability • Achieve good governance and rule of law (10) • Accelerate economic recovery and strengthen the foundations for sustained growth (11) • Develop the social sectors and human welfare (12) • Strengthen regional autonomy, rural and urban development, and structural poverty programs 	<p>NDP Priorities</p> <p>(The PROPENAS 2000 applies to this period as well.)</p> <p>The PROPENAS adopted in 2000 had the following priorities:</p> <ul style="list-style-type: none"> • Ensure national cohesion and social stability • Achieve good governance and rule of law (16) • Accelerate economic recovery and strengthen the foundations for sustained growth (18) • Develop the social sectors and human welfare (15) • Strengthen regional autonomy, rural and urban development, and structural poverty programs (17)
<p>Country Strategy Objectives</p> <p>The objectives of ADB's COS prepared at the end of 1989 were to be fully supportive of the development approaches of REPELITA V. The six strategic objectives that cut across all sectors were:</p> <ul style="list-style-type: none"> • Promotion of non-oil/liquefied natural 	<p>Country Strategy Objectives</p> <p>The objectives of ADB's COS prepared at the end of 1994 were to:</p> <ul style="list-style-type: none"> • Support achievement of more efficient growth through improvement in infrastructure, development of productive human resources and preventing 	<p>Country Strategy Objectives</p> <p>The focal points of ADB's COS prepared at the end of 2000 were:</p> <ul style="list-style-type: none"> • Creating and strengthening basic institutions through improving the many relevant dimensions of governance (10) • Supporting sustainable recovery 	<p>Country Strategy Objectives</p> <p>At the end of 2002 ADB's strategic focus was to:</p> <ul style="list-style-type: none"> • Improve governance through emphasis on anticorruption and legal and judicial reform • Meet local needs through decentralization by identifying local development and geographic focus (14)

Bank Operational Strategy 1989	Country Operational Strategy 1994	Country Operational Strategy 2000	Country Strategy and Program 2002
<ul style="list-style-type: none"> gas exports (1) • Domestic resource mobilization (2) • Employment generation (3) • Basic needs and human resource development (4) • Increased private sector participation (5) • Improving the efficiency of existing investment, while optimizing resource utilization (6) 	<ul style="list-style-type: none"> environmental degradation (9) • Enhance the quality of human resources to support economic development through productivity improvement (7) • Enhance the management of natural resource endowment (8) 	<ul style="list-style-type: none"> and pro-poor growth by enabling and encouraging private sector development (11) • Improving regional equity through balanced regional development, especially targeting rural and less developed islands (13) • Investing in human and social development (12) and enhancing the role of women (A) • Strengthening environment management for sustainable use of natural resources and preventing adverse environmental impacts (B) 	<ul style="list-style-type: none"> • Promote human development by improving access to, and quality of, social services and addressing gender inequities (15) (iv) • Mainstream environment management and sustainable use of natural resources by developing transparent (C), market-oriented, and participatory systems • Expand livelihood options for those dependent on natural resources • Increase the potential for poverty-reducing growth through investments in infrastructure, especially for pro-poor growth (18) • Strengthen corporate governance and expand private sector development (16)
	<p>ADB MTSF</p> <ul style="list-style-type: none"> • Emphasize combining agriculture with poverty reduction • Play a catalytic role in the financial and industry sectors given availability of commercial financing • Improve its policy and institutional framework for the energy sector, while taking account of environmental consequences • Provide continuing support for transport sector policy reform, institutional strengthening, investment planning, and programming • In urban development, support decentralization, encouraging private sector provision of services • In health sector, balance curative health care with preventive and promotive health care • Construct hospitals will more cognizance of demographic and epidemiological transitions 	<p>ADB PRS</p> <ul style="list-style-type: none"> • ADB adopted thematic priorities relating to sustainable poverty reduction and redressing unequal regional development • Focal points of the program and project development were: <ul style="list-style-type: none"> ○ creating basic institutions, improving governance ○ encouraging a pro-poor, pro-jobs sustainable recovery ○ balancing regional development for regional equity ○ human and social development ○ mainstreaming environmental management and providing for sustainable development • Continue to support regional cooperation and the activities of the Regional Economic Monitoring Unit 	<p>ADB LTSF</p> <ul style="list-style-type: none"> • Program contains a mix of poverty-reduction projects and other development initiatives • Maintain geographic focus and a unified program with the international development partners • Support governance through anticorruption, legal, and judicial reform (16) • Support decentralization through local capacity building, rural development, urban governance, and provision of basic urban services (17) (iii) • Address human development through decentralized health care, higher technical education, and gender mainstreaming • Support environment and natural resources management through marine and coastal resource management, air quality, and water resource management (C) • Support road infrastructure, interisland transport, and power sector • Support private sector development through corporate and financial governance, SME development; and promote private sector operations in infrastructure

ADB = Asian Development Bank, COS = country operational strategy, GDP = gross domestic product, LTSF = long-term strategic framework, MTSF = medium-term strategic framework, NDP = national development plan, PROPENAS = national development program, PRS = poverty reduction strategy, REPELITA = 5-Year Development Plan, SME = small- and medium-size enterprise.

^a Numbers correspond to matching strategic priorities in the development issues and national development plan. The letters correspond to matching items in the country strategy and ADB institutional priorities.

Source: Asian Development Bank.

B. Asian Development Bank's Overall Strategy

5. With the establishment of the Strategic Planning Unit in July 1991, ADB formally introduced a process of strategic planning. Learning from experience that a good policy environment was a necessary condition for better project implementation, ADB redefined its role to become a project financier and a catalyst for policy change and capacity development. It identified three broad functions: (i) banking to mobilize resources (concessional and nonconcessional), (ii) developmental, and (iii) promoting regional cooperation. The development agenda should emphasize that development must look beyond growth to reducing poverty and promoting greater equity; enhancing progress in education, health, nutrition, and population planning; and protecting the environment. In this context, a series of medium-term strategic frameworks (MTSF) identified ADB's strategic thrusts to guide individual strategies for developing member countries (DMC). These included (i) economic growth, (ii) human development, (iii) poverty reduction, (iv) women in development, and (v) environment protection. To implement the MTSF, four priority areas were identified: policy support; capacity building for development management; strengthening productive capacity, infrastructure, and services; and regional cooperation. However, the strategy noted that to take full account of DMC diversity, individual country strategies and programming should be placed at the heart of forward planning. At the same time, a stronger link should be forged between country strategies and ADB's development objectives.

6. In 1999, ADB adopted poverty reduction as its overarching goal. The framework for the Poverty Reduction Strategy (PRS), approved in November 1999,³ was based on three pillars: (i) good governance; (ii) social development; and (iii) pro-poor, sustainable economic growth. Together, these three pillars aimed for socially inclusive development. The PRS included the thematic priorities of environment, gender equity, private sector development (PSD), and regional cooperation. To implement the strategy, it recommended that poverty partnerships should be formed between ADB and DMCs beginning 2000 to establish a program of targets for operational activities. At least 40% of its public sector lending was to be devoted to poverty interventions by 2001, with substantial increases in lending for core poverty interventions by 2002.

7. The recently completed review of ADB's PRS⁴ recognized that the achievement of socially inclusive growth required that DMCs enhance their capacity for strategy formulation, policy reforms, and implementation of national PRSs. Therefore, it recommended that ADB add capacity development to its crosscutting thematic priorities. The review also recognized that the ADB-wide 40% lending target for poverty intervention was inconsistent with individual country focus, as it ignored or prejudged individual country assessment of the binding constraints on poverty reduction. For instance, the financial crisis and the change in the political and administrative regimes in Indonesia during the period under review would certainly have been binding constraints. The PRS also narrowly defined the poverty intervention projects as those designed to disproportionately benefit the poor. However, broader, nontargeted interventions geared for economic growth could have led to a potentially larger impact on poverty reduction. The review found that the PRS targets stressed the importance of inputs, prioritizing a sector approach, rather than aiming for development objectives and outcomes. Subsequently, a PSD strategy⁵ was formulated in 2000, emphasizing strengthening the capacity of DMCs to create an effective enabling environment for the private sector, and encouraging innovative public-private partnerships.

³ ADB. 1999. *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy*. Manila.

⁴ ADB. 2004. *Review of the Asian Development Bank's Poverty Reduction Strategy*. Manila.

⁵ ADB. 2000. *Private Sector Development Strategy*. Manila.

8. The long-term strategic framework (LTSF) of 2001–2015, prepared in March 2001, provided a new vision and mission to ADB for its previously adopted poverty reduction and PSD strategies, as well as other policies, such as governance and international development goals.⁶ In line with the PRS, the long-term strategic agenda was divided into three core areas of interventions: (i) sustainable economic growth, (ii) inclusive social development, and (iii) governance for effective policies and institutions. These core areas were to be implemented by promoting the role of PSD, supporting regional cooperation and integration, and addressing environmental sustainability. To implement this strategy, it identified four strategic operating principles:

- (i) ensuring country leadership and ownership of the development agenda;
- (ii) taking a long-term approach to development assistance that implies selectivity, long-term targets, and performance benchmarks for measuring development impacts;
- (iii) enhancing strategic alliances and partnerships, and selecting sectors and areas where ADB plans to maintain a long-term focus with country-based coordination; and
- (iv) measuring development impacts of operations through indicators for short- to medium-term targets toward achieving long-term development goals.

9. The first phase of the LTSF was to be achieved through the MTSF (2001–2005),⁷ which strives to make ADB more efficient and responsive to its clients needs. To achieve this, changes were made to identify a more efficient business process and flexible modalities, and to reorganize ADB's organizational structure to provide clear accountability for operations in each DMC. It also emphasized developing knowledge products for better analysis of strategic and operational needs, stressing the importance of being a learning organization and building on experience across DMCs. To improve internal resource management, performance-based allocation of ADB resources also were used to assess better the delivery of country strategy and program (CSP).

10. Following the September 2000 Millennium summit, 191 United Nations member countries, including 42 DMCs, adopted millennium development goals (MDGs) targets addressing poverty and established indicators for measuring the progress toward these targets. Subsequently, ADB endorsed the MDGs in April 2002. ADB stipulated that its PRS, LTSF, and MTSF would form the basis for achieving the eight MDGs, which are to be measured by 18 different indicators.

C. Asian Development Bank's Strategy in Indonesia

11. The basic impetus for developing a strategic framework is to prioritize the many development challenges; and to assemble a coherent composition of required policy reforms, related sector approaches, and assistance modalities. ADB began preparing the country operational strategy (COS) in the 1980s. The first phase of the strategy for Indonesia, prepared in 1987, was influenced by events in the international oil market. Accordingly, ADB assisted the Government's efforts at short-term economic stabilization to recover from a steep decline in oil prices by providing quick-disbursing assistance to buttress Indonesia's balance of payments position. Recognizing that the demand for investment projects would not grow rapidly, ADB shifted from large-scale import and capital-intensive projects to more labor-intensive, small- to medium-scale projects with shorter implementation periods.

⁶ ADB. 2001. *Moving the Poverty Reduction Agenda Forward in Asia and the Pacific. The Long-Term Strategic Framework of the Asian Development Bank (2001–2015)*. Manila.

⁷ ADB. 2001. *Medium-Term Strategy (2001–2005)*. Manila.

12. The operational strategy study of 1987 provided a sound analysis of the country's vulnerability to external factors (i.e., the weakening oil market and declining prices for primary export commodities), as well as the need to address long-neglected efficiency and structural issues. Policy reforms were to (i) reduce the country's dependence on the oil and gas sector through diversification of the economy, primarily in the industrial sector; (ii) support further liberalization of the trade regime through removal of trade barriers and subsidies; (iii) simplify regulation and licensing arrangements; (iv) increase involvement of the private sector in industrialization; and (v) deepen the financial sector and capital market. Tactically, ADB maintained a broad overview of all sectors to ensure "that investments are balanced and that bottlenecks to growth do not arise,"⁸ a statement which indicated more the absence of a clear-cut strategy than the deliberate pursuit of a strategic approach. Agriculture continued to be accorded the highest priority in ADB's lending program, given its importance in gross domestic product as an export sector, as well as a source of employment and income for a majority of the population.

13. During the period under review, ADB strategy closely reflected the NDPs, demonstrating its client orientation. The objectives of the second phase of ADB's COS, prepared at the end of 1989, were fully supportive of the development approaches of REPELITA V. ADB continued to focus on support for restructuring of the economy to diversify into an economy not based on oil, in line with the Government's development plans. Accordingly, ADB planned to (i) help broaden the production base by diversifying outputs from upland areas and outer islands; (ii) play a catalytic role in allowing the private sector to take a more dominant role; (iii) promote more balanced regional development; (iv) focus on nonprimary education; and (v) emphasize an integrated approach to basic and curative health needs, particularly to underserved areas.

14. The objectives of the third phase of ADB's COS, prepared by the end of 1994, were to (i) support the achievement of more efficient growth through improvements in infrastructure, (ii) enhance the quality of human resources to support economic development through productivity improvement, and (iii) strengthen the management of the natural resource endowment. The importance of ADB's overarching concerns about poverty reduction and improving the status of women were regarded as integral parts of these three objectives. A strategy paper on women in development, which offered rather general recommendations, supported this strategy for the first time. For each of the three strategic objectives, sectoral and subsectoral means were identified, thereby encompassing all the sectors usually covered by ADB. ADB's support for poverty reduction was expected to be attained through projects in which these key objectives played the primary role. The previous emphasis on growth was coupled with more efficient resource utilization. Despite the Government's policy to achieve balanced regional development (in REPELITA VI), ADB's strategy at that time did not advocate a geographic focus. Instead, it entailed ADB's involvement in densely populated industrial centers in Java and Sumatra, and in the less-developed and ecologically fragile eastern islands. The strategy also proposed new approaches and initiatives in sectors where ADB is more familiar, such as agriculture, and advocated more participatory approaches to attain sustainability.

15. During the Asian economic crisis that emerged in mid-1997, ADB is said to have adopted an interim operational strategy (IOS)⁹ in close cooperation with the other external development partners (EDP). The IOS was to support the Government's recovery program to provide social protection to the poor and to strengthen the decentralization program. In view of

⁸ ADB. 1987. *Operational Strategy Study for Indonesia*. Para. 169. Manila.

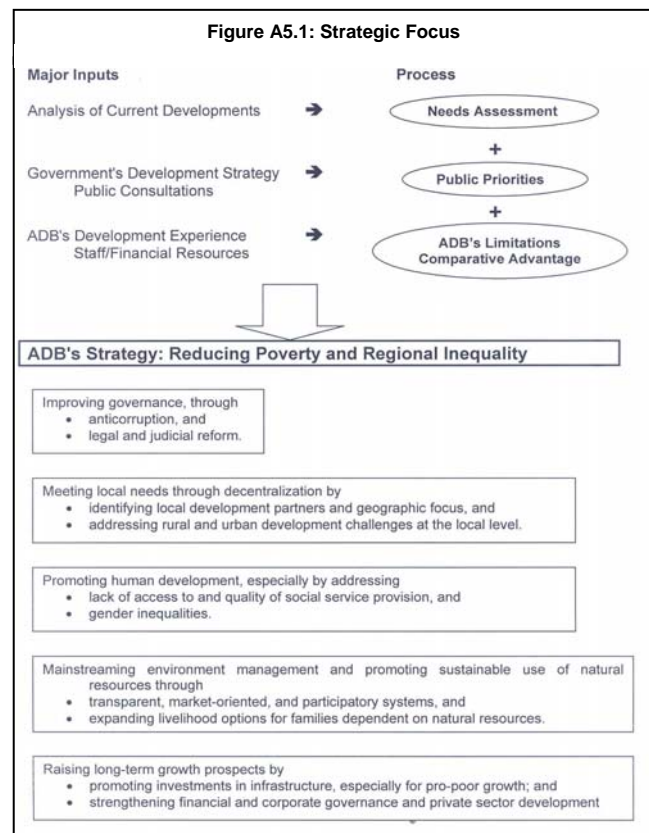
⁹ This document was not available for review. Information was derived from ADB. 2001. *Special Evaluation Study of the Asian Development Bank's Crisis Management Interventions in Indonesia*. Manila.

the banking and corporate sector crisis, the IOS prioritized the financial sector, complemented by reforms to restructure the banking sector and state-owned enterprises. Lending support comprised quick-disbursing loans that were supplemented by nonlending support, such as review of the existing loan portfolio, acceleration of disbursement mechanisms, and policy advisory support.

16. In the fourth phase of the operational strategy, the formulation process in 2000 evolved into what was later called the “Jakarta Consensus” among EDPs to shift away from a sectoral approach toward a greater focus on governance, decentralization, and environmental protection. Focal points of ADB’s strategy were (i) creating and strengthening basic institutions by improving governance; (ii) supporting sustainable recovery and pro-poor growth by enabling and encouraging PSD; (iii) enhancing regional equity through balanced regional development targeting rural areas and less-developed islands, as well as improving urban development and transport systems; (iv) promoting human and social development by improving health, education, and social protection, and enhancing the role of women; and (v) strengthening environmental management and preventing adverse environmental impacts. Although new themes emerged, the substance of sector investments did not differ much from past strategy.

17. In formulating the fifth phase of the strategy in Indonesia through the CSP at the end of 2002, the priorities and plans of the Government again played an important role. ADB’s strategic focus was to (i) improve governance, emphasizing anticorruption and legal and judicial reform; (ii) meet local needs through decentralization by identifying local development issues under a geographic focus; (iii) promote human development by improving access to, and quality of, social services, and addressing gender inequities; (iv) mainstream environmental management and sustainable use of natural resources by developing transparent, market-oriented, and participatory systems; and (v) raise long-term growth prospects by promoting investments and strengthening financial and corporate governance (Figure A5.1).

18. Table A5.2 show the frequency of project locations.



Province	Number of Projects	Province	Number of Projects
Aceh	12	Maluku	14
Bali	15	North Maluku	9
Bangka Belitung	21	Nusa Tenggara East	20
Banten	27	Nusa Tenggara West	27
Bengkulu	17	Papua	2
Gorontalo	27	Papua, West	13
Jakarta	8	Riau	21
Jambi	13	Sulawesi, Central	22
Java, Central	34	Sulawesi, North	24
Java, East	24	Sulawesi, South	23
Java, West	38	Sulawesi, Southeast	23
Kalimantan, Central	17	Sumatra, North	21
Kalimantan, East	17	Sumatra, South	27
Kalimantan, South	31	Sumatra, West	16
Kalimantan, West	13	Yogyakarta	18
Lampung	22	Nationwide	9

Note: Project location was derived from the reports and recommendation of the President, but when provinces are not specified, supplementary information from other sources was used. As of June 2005, Papua and West Papua were considered as two provinces in Irian.

Source: Asian Development Bank.

Table A5.3: Programmed and Actual Assistance

Country Strategy and Program Completed 2002				Actual ADB Assistance to Indonesia					Approved Amt Less CSP Amt ^a	Status vis-à-vis Workplan
Project Title	Modality	Planned Amount (\$)	Plan	Loan/TA No.	Loan/TA/Grant Title	Type	Actual Amount (\$)	Date Approved		
Table 5: Governance										
Support for Public Audit Reforms	Loan	100,000,000	2003	2126	State Audit Reform Sector Program	OCR	200,000,000	13-Dec-04	125,000,000	Behind
Support for Public Audit Reforms	Loan		2003	2127	State Audit Reform Sector Program	ADF	25,000,000	13-Dec-04		Behind
				4107	Support to State Audit Reform	PPTA	700,000	09-May-03		
				4473	Support for the Implementation of the State Audit Reform Program	ADTA	1,300,000	13-Dec-04		
				4474	Support for the Implementation of the State Audit Reform Investment	ADTA	3,700,000	13-Dec-04		
Capacity Building for Anticorruption Commission	ADTA	250,000	2003	4341	Strengthening the Capacity of the Commission for Eradication of Corruption in Indonesia	ADTA	250,000	21-May-04	0	Behind
Implementation of Fiscal Decentralization	ADTA	600,000	2003	4282	Local Government Financing	ADTA	600,000	18-Dec-03	0	On time
Policy Issues in Decentralization	ADTA	500,000	2004	4543	Sustaining Decentralization and Local Governance Reforms	ADTA	900,000	23-Dec-04	400,000	On time
Access to Justice for the Poor	ADTA/PPTA	700,000	2005	4251	Improvement of the Administration of the Supreme Court	ADTA	500,000	13-Dec-03	(200,000)	Early
Strengthening Civil Society for Local Governance	ADTA	700,000	2005	4161	Strengthening Civil Society Participation in the Design, Implementation, and Monitoring of Asian Development Bank Projects	ADTA	300,000	13-Aug-03	400,000	Early
Table 6: Meeting Local Needs Through Decentralization										
Shelter Sector	Loan	100,000,000	2003	2072	Neighborhood Upgrading and Shelter Sector Project	OCR	68,600,000	19-Dec-03	(11,400,000)	On time
Shelter Sector	Loan		2003	2073	Neighborhood Upgrading and Shelter Sector Project	ADF	20,000,000	19-Dec-03		On time
				4366	Institutionalization of Participatory Approaches to Shelter Provision	PPTA	50,000	02-Aug-04		
				4368	Financing Integrated Settlements Development	PPTA	800,000	03-Aug-04		
PSP Development Facility for Urban Infrastructure	TA Loan	10,000,000	2003	4144	Facilitating Private Sector Participation in Ports Infrastructure under Decentralization	ADTA	315,000	09-Jul-03		On time
Agricultural and Rural Sector Development Program	Loan	100,000,000	2004	2064	Participatory Irrigation Sector Project	ADF	19,000,000	19-Dec-03	(27,000,000)	On time
Agricultural and Rural Sector Development Program	Loan		2004	2065	Participatory Irrigation Sector Project	OCR	54,000,000	19-Dec-03		On time
				4551	Marine and Fisheries Sector Strategy Study	ADTA	880,000	23-Dec-04		

Country Strategy and Program Completed 2002				Actual ADB Assistance to Indonesia					Approved Amt Less CSP Amt ^a	Status vis-à-vis Workplan
Project Title	Modality	Planned Amount (\$)	Plan	Loan/TA No.	Loan/TA/Grant Title	Type	Actual Amount (\$)	Date Approved		
Community Water Services and Health	Loan	100,000,000	2004	4317	Community Water Services and Health Project: Meeting the Millennium Development Goals in the Decentralized Context	PPTA	150,000	27-Feb-04		Behind
Infrastructure for Productivity Enhancement in Tree and Other Crops	Loan	50,000,000	2005	4224	Productivity Enhancement for Tree Crops	PPTA	800,000	21-Nov-03		Behind
Rural Poverty Reduction	Loan	100,000,000	2005	4148	Sustainable Agriculture Development for Food Security and Poverty Reduction	PPTA	800,000	16-Jul-03		Behind
Urban Water Supply and Sanitation Sector 2	Loan	100,000,000	2005	4411	Water Supply and Sanitation	PPTA	900,000	12-Oct-04		Behind
Table 7: Social Services Provision										
Decentralized Health Services 2	Loan	100,000,000	2003	2074	Second Decentralized Health Services Project	OCR	64,800,000	19-Dec-03	0	On time
Decentralized Health Services 2	Loan		2003	2075	Second Decentralized Health Services Project	ADF	35,200,000	19-Dec-03		On time
				4156	Second Decentralized Health Services: Adapting the Project to New Regulations	PPTA	100,000	08-Aug-03		
Sustainable Social Protection	Loan	100,000,000	2004	4124	Sustainable Social Protection	PPTA	800,000	09-Jun-03		Behind
				4239	Decentralized Senior Secondary Education	PPTA	1,000,000	05-Dec-03		
				4387	Urban Nutrition	PPTA	400,000	08-Sep-04		
				4547	Madrasah Education Development	PPTA	1,200,000	23-Dec-04		
				3579	Support for Health Sector Policy Reforms (Supplementary)	ADTA	857,400	31-Mar-03		
				4094	Public Health and Nutrition	ADTA	500,000	11-Apr-03		
				4391	Support for Decentralized Education Management II	ADTA	500,000	14-Sep-04		
Table 8: Gender										
Gender Issues in Public Policies and Administration	ADTA	700,000	2004	4479	Gender Responsive Public Policy and Administration	ADTA	400,000	14-Dec-04	(300,000)	On time
Table 9: Environment and NRM Sector										
Clean Energy Use for Blue Skies	Loan	100,000,000	2003	4361	Urban Air Quality Improvement Sector Development Program	PPTA	700,000	20-Jul-04		Behind
Gas Generation from Waste	ADTA	500,000	2003	4333	Gas Generation from Waste	ADTA	500,000	03-May-04	0	Behind
Institutionalizing the Clean Development Mechanism	ADTA	600,000	2004	4137	Carbon Sequestration through the Clean Development Mechanism	ADTA	700,000	02-Jul-03	100,000	Ahead
Flood Management in Selected River Basins in Java	Loan	100,000,000	2004	4159	Flood Management in Selected River Basins	PPTA	1,250,000	12-Aug-03		Behind
Integrated Coastal Resources Management	PPTA	800,000	2004	4373	Integrated Coastal Fisheries Resource Management	PPTA	790,000	10-Aug-04	(10,000)	On time
Institutionalizing the Clean Development Mechanism	ADTA	600,000	2004	4501	Institutionalizing the Clean Development Mechanism	ADTA	750,000	17-Dec-04	150,000	On time

Country Strategy and Program Completed 2002				Actual ADB Assistance to Indonesia					Approved Amt Less CSP Amt ^a	Status vis-à-vis Workplan
Project Title	Modality	Planned Amount (\$)	Plan	Loan/TA No.	Loan/TA/Grant Title	Type	Actual Amount (\$)	Date Approved		
				4381	Integrated Citarum Water Resources Management	PPTA	1,000,000	26-Aug-04		

Table 10: Infrastructure

Subregional Transport Cooperation	ADTA	400,000	2003	4204	Subregional Transport Cooperation Initiative	ADTA	400,000	24-Oct-03	0	On time
Local Grids Development	Loan	100,000,000	2004	4286	Local Grids Development	PPTA	993,000	18-Dec-03		Behind
Private-Public Partnerships in Gas Trunkline Development	ADTA/PPTA	1,000,000	2004	4360	Gas Transportation Project through Public-Private Partnership	PPTA	910,000	20-Jul-04	(90,000)	On time
Interisland Transport	Loan	100,000,000	2004	4429	Social Development for the Interisland Transport Development	PPTA	150,000	09-Nov-04		Behind

Table 11: Financial and Corporate Governance and PS Development

Unified Registration System	ADTA	300,000	2003	4250	Unified Registration System	ADTA	300,000	13-Dec-03	0	On time
SOE Governance and Privatization Program 2	Loan	100,000,000	2004	4280	State-Owned Enterprise Restructuring	ADTA	600,000	18-Dec-03		Behind
Provincial SME Development	Loan	100,000,000	2004	4281	Provincial Small and Medium Industrial Sector Development Program	PPTA	800,000	18-Dec-03		Behind
				4550	Development of an Anti-Money Laundering Regime II	ADTA	500,000	23-Dec-04		

Not in CSP Strategic Sector Tables

				4176	Support for the Development of a Poverty Reduction Strategy Towards Achieving the MDGs	ADTA/SSTA	150,000	17-Sep-03		
				4413	Northeastern States Trade and Investment Creation Initiative	PPTA	500,000	12-Oct-04		
				4554	Analysis and Dissemination of Lessons from Poverty Reduction Program for Local Government	ADTA	150,000	14-Dec-04		
				4555	Strengthening the National Secretariat for Regional Cooperation	ADTA	296,500	23-Dec-04		

ADB = Asian Development Bank, ADF = Asian Development Fund, ADTA = advisory technical assistance, CSP = country strategy and program, OCR = ordinary capital resources, PPTA = project preparatory technical assistance, PSP = private sector participation, SME = small and medium enterprise, SOE = state-owned enterprise, SSTA = small-scale technical assistance, TA = technical assistance.

^a A negative figure meant the actual amount approved was less than the amount identified in the Country Strategy and Program 2003–2005.

Sources:

Columns 1 to 4: ADB. 2002. *Indonesia Country Strategy and Program (2003–2005)*. Manila.

Columns 5 to 9: ADB database on loans/TAs/grants to Indonesia.

Column 13: ADB. 2004. *Country Strategy and Program Update*. Manila; and ADB. 2001. *Country Strategy and Program Update*. Manila.

19. Since 2002, ADB has emphasized more covering strategic gaps. Table A5.4 shows the analytical work, including development partner source, cited in country strategy documents between 1989 and 2002.

Table A5.4: Analytical and Data Support for the Country Strategy Documents

Theme/Strategy Document	1989	1994	2000	2002	Theme/Strategy Document	1989	1994	2000	2002
General					Private Sector Development (including "sector")				
ADB	√	√	√	√	ADB			√	√
GOI	√	√	√	√	WB/IMF		x		
WB/IMF			√	√	Agriculture and Rural Development				
Bilateral Donors			√	√	ADB		√	√	
Others			√		GOI	√ & x	√		√
Poverty					WB/IMF	x			
ADB		√	√	√	Education and Training				
GOI	√	x	√	√	GOI			x	√
WB/IMF		x			WB/IMF			√	
Economic Growth					Others				x
ADB	√	√	√	√	Health, Nutrition, and Population				
GOI	√	√	√	√	GOI		√	x	√
WB/IMF	x			√	WB/IMF				x
Human Development					UN Agencies			x	
ADB				√	Others			x	x
GOI		√		√	Urban Development and Shelter				
Gender and Development (including "sector")					ADB				√
ADB			x	√	GOI				√
GOI		√	√ & x		Others				x
UN Agencies		√		x	Energy				
Others		√	x		GOI		√		
Good Governance (including "sector")					WB/IMF		x		
ADB			√	√	Transport				
GOI			√		ADB		x		√
UN Agencies			x		GOI	√	√		√
Others			√	√	Finance				
Environmental Protection (including "sector")					GOI				√
ADB		√	√ & x	√	SMEs				
GOI			x	√	ADB			√	√
WB/IMF	√	x			GOI	√			√
Others		√	x		UN Agencies	√			

ADB = Asian Development Bank, GOI = Government of Indonesia, IMF = International Monetary Fund,

SME = small- and medium-sized enterprise, UN = United Nations, WB = World Bank.

Note: √ refers to study while x refers to data or statistic.

Source: Asian Development Bank.

Table A5.5: ADB Operations (1990–2003), by CSP 2002 Objectives

CSP Objective	Loans				Technical Assistance ^a			
	Amount (\$'000)	%	No.	%	Amount (\$'000)	%	No.	%
Governance and Anticorruption	400,000	2.9	1	0.8	24,835	14.3	35	11.8
Decentralization and Capacity Building	3,749,411	27.2	48	38.1	48,555	27.9	79	26.7
Human Development	2,173,973	15.8	23	18.3	25,679	14.7	44	14.9
Environment and Natural Resource Manager	380,500	2.8	14	11.1	19,989	11.5	34	11.5
Long-Term Economic Growth	7,062,547	51.3	40	31.7	49,127	28.2	88	29.7
Other	0	0.0	0	0.0	6,079	3.5	16	5.4
Total	13,766,431	100.0	126	100.0	174,263	100.0	296	100.0

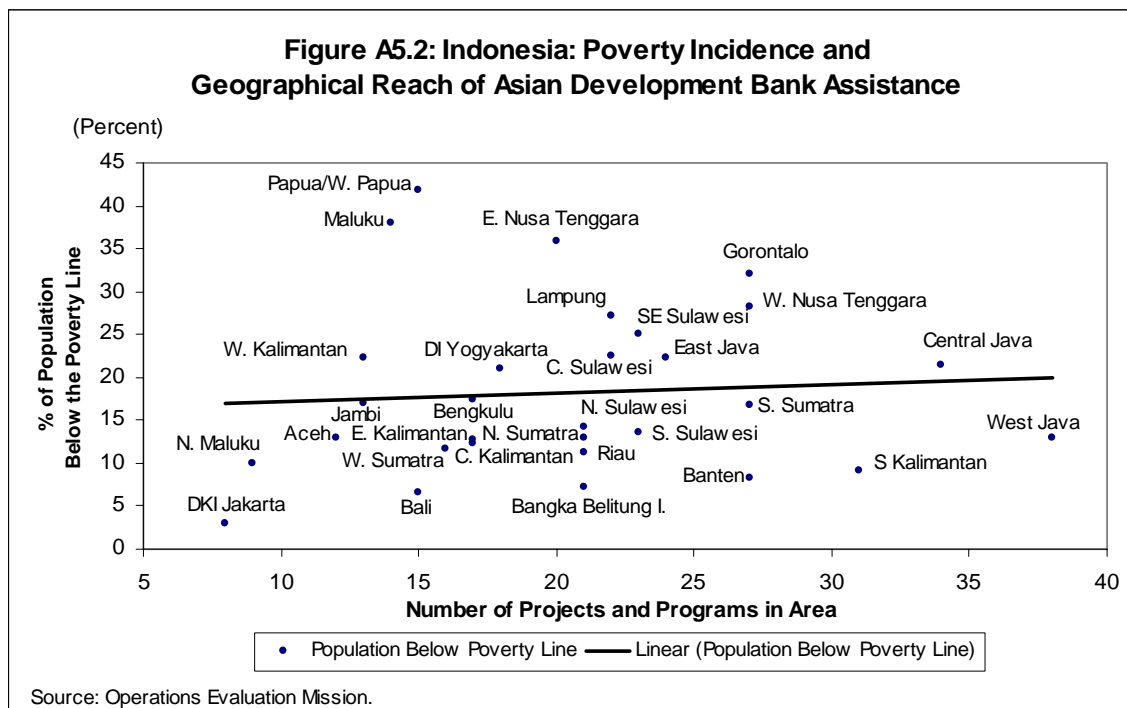
ADB = Asian Development Bank, CSP = country strategy and program.

^a Includes project preparatory technical assistance grants.

Source: Various ADB databases.

20. In an attempt to improve the impact of its strategy in DMCs, ADB introduced the concept of results-based CSP formulation in 2004. According to the interim guidelines issued, results-oriented country strategy formulation requires many steps.¹⁰ Most important among them are (i) assessing whether ownership is evident in the national NPRS to ascertain its compatibility with sustainable macroeconomic policy, and to assess whether its goals are consistent with the MDGs; (ii) developing indicators, such as national PRS targets, gross domestic product growth rates, infant mortality, etc., and including current baseline and associated time frames; (iii) understanding the issues and constraints to achieving the long-term strategic goals, and how these could be addressed; (iv) selecting and focusing on the outcomes that ADB can influence directly, considering other stakeholder involvement; and (v) prioritizing, selecting, and determining a cohesive operational program (lending and nonlending knowledge-based products) to facilitate these outcomes.

21. Figure A5.2 shows the scatter plot of average poverty incidence and the location of ADB projects from 1990 to 2004.



¹⁰ ADB. 2005. *Results-Oriented Country Strategy and Programming: Country Poverty Analysis, and Other Essential Steps and Processes*. Interim Guidelines. Manila.

**Table A5.6: Program Loans and Sector Development Programs Approved from 1990 to 2004
and Extensions of Closing Dates**

Loan No.		Amount (\$ million)	Approval Date	Closing Date	No. of Loan Extensions
1990–1997					
1014	OCR Food Crop Sector Program	150	13-Mar-90	31-Mar-92	0
1015	ADF Food Crop Sector Program	100	13-Mar-90	31-Mar-92	0
1160	OCR Second Financial Sector Program	250	19-Mar-92	31-Mar-93	0
	Subtotal	500			0
1998–2000					
1618	OCR Financial Governance Reforms: Sector Development -Program Loan	1,400	25-Jun-98	05-Jul-02	4
1619	OCR Financial Governance Reforms: Sector Development - Financial Governance Reforms Supp	47	25-Jun-98	18-Oct-01	3
1620	OCR Financial Governance Reforms: Sector Development - Capacity Building for Financial Gove	50	25-Jun-98	16-May-05	3
1622	OCR Social Protection Sector Development - Program Loan	100	09-Jul-98	18-Feb-00	0
1623	OCR Social Protection Sector Development - Project Loan	200	09-Jul-98	20-Nov-01	0
1673	OCR Power Sector Restructuring Program	380	23-Mar-99	11-Dec-02	4
1674	OCR Capacity Building for Establishment of a Competitive Electricity Market	20	23-Mar-99	22-Dec-04	2
1675	OCR Health and Nutrition Sector Development Program - Policy Loan	100	25-Mar-99	22-Dec-00	1
1676	OCR Health and Nutrition Sector Development Program - Project Loan	200	25-Mar-99	28-Jul-04	2
1677	OCR Community and Local Government Support Sector Development Program- Policy Loan	200	25-Mar-99	21-Dec-01	2
1678	OCR Community and Local Government Support Sector Development Program- Project Loan	120	25-Mar-99		1
1738	OCR Industrial Competitiveness and Small and Medium Enterprise Development Program	200	16-Mar-00	31-Dec-04	4
	Subtotal	3,017			26
2001–2004					
1866	OCR State-Owned Enterprise Governance and Privatization Program	400	04-Dec-01	31-Dec-05	1
1965	OCR Financial Governance and Social Security Reform Program (Phase I)	250	10-Dec-02	20-Dec-04	2
2126	OCR State Audit Reform Sector Program (Program Loan)	200	13-Dec-04	30-Jun-10	0
2127	ADF State Audit Reform Sector Program (Project Loan)	25	13-Dec-04	31-Dec-07	0
	Subtotal	875			3

ADF = Asian Development Fund, OCR = ordinary capital resources.

Source: Asian Development Bank.

SUMMARY FINDINGS OF THE PARTICIPATORY EVALUATION

A. Findings

1. This appendix discusses the findings of the participatory evaluation of the key themes used in structuring the study: (i) good governance, (ii) program and project delivery modalities, (iii) targeting of locations and beneficiaries, (iv) partnerships for program implementation, (v) the response to the crisis, and (vi) some critical aspects to livelihoods that emerged as important common concerns during the study.

1. Good Governance

2. **Support to Decentralization and Democratization.** Recent Asian Development Bank (ADB) project investments with a strong participatory component appear to have been effective in supporting village-level decentralization and democratization. This was particularly the case with (i) Loans 1677/78-INO: Community and Local Government Support (CLGS) Sector Development Program (SDP),¹ community component A, in East Lombok and Sumatra; (ii) Loans 1765(SF)/66-INO: Community Empowerment for Rural Development (CERD) Project in Kalimantan; and (iii) Loan 1909-INO(SF): Poor Farmers Income Improvement through Innovation (PFIII) Project in East Lombok, though this project is only in the pilot stage. With each of these projects, strong evidence is available from the community that project processes played an important part in promoting greater transparency and community authority in decision making. Further, the projects provided vehicles through which communities feel empowered and confident to demand greater political and financial accountability from village government. The impact of the CLGS SDP is discussed further in supplementary Appendix A.

3. Despite this success at village level, however, little evidence exists that improved local transparency and democratization is linked to higher levels. This could be because decentralization is still relatively new, and such initiatives have not developed yet—informally, through the initiative of existing groups, or formally, as a result of Government or external development partner-assisted projects. However, ADB projects might be able to build on the success of village-level activities to promote (i) mid-level initiatives, such as federations of user groups or village organizations; or (ii) links between local government (LG) reform-initiatives and village-level initiatives to scale up accountability and sequence reform measures better, making micro- and mid-level activities mutually reinforcing. Communities were frustrated by their lack of success in influencing component B initiatives under the CLGS SDP, which were intended to facilitate greater community involvement in larger subdistrict-level infrastructure projects. Instead, these were delivered through contractor and LG partnerships, much as they were before the reform period. ADB project successes, therefore, remain largely localized and isolated. Community empowerment processes could disappear once project investment funds are finished.

4. The complementarity of village-level institutions and ADB project institutions was a key area of concern for communities during the study. Some study areas have long traditions of effective community self help for infrastructure provision and maintenance (Java in particular) through village-level institutions and initiatives (supplementary Appendix A, case study 4). In other study areas (East Lombok), some communities were very satisfied with existing community institutions, which they felt were effective and important institutions in supporting better governance practices. ADB projects sometimes promote parallel institutions at the village level, which can undermine authority and legitimacy in well functioning village institutions with high levels of consent. The CERD Project and potentially the PFIII Project's village investment committees are two examples. These parallel institutions might undermine wider decentralization and democratization efforts by diverting funds from effective village institutions and marginalizing them, while providing no sustainable long-term alternative. The CLGS SDP partly addressed this concern by working closely with the village council in

¹ Appendix 15 gives details of loan name, amount, and date of approval.

implementing community activities. This could serve as a model for future ADB assistance that reinforces, rather than circumvents, institutions important to long-term decentralization and democratization in Indonesia.

5. **Local Government Role in Decentralization.** Coordination and information sharing between the center and districts is poor, a significant barrier to greater decentralization and local autonomy. In two out of the four study locations, information was scarce at LG level about where project funds come from. In all study locations, LG played little part in the design of ADB project activities. Knowledge about wider project objectives is often poor at district level as a result. District government's lack of opportunity to influence project design processes increases the likelihood that the activity will be inappropriate for local conditions. Knowledge also is lacking about new initiatives to promote an enhanced role for district governments in project proposals and design (*Keputusan Menteri Keuangan [KMK] Ministry of Finance Regulation 35, 2003*). Local district planning agencies are acutely aware of the current lack of capacity of district governments to carry forward such initiatives.



Figure A6.1: CAPE team discussions with local government officials.

6. Nevertheless, districts appear strongly committed to decentralization. District level officials need to be better informed and empowered, as they represent potentially dynamic support for decentralization and more efficient governance in the future. Small-scale, local-level decentralization initiatives are taking place under the district governments, which could be supported by ADB and others in the future under decentralization support packages.

7. **Corruption (Corruption, Collusion, and Nepotism).** Following the reforms, communities have an enhanced ability to oversee activities and control corrupt practices, at least at the village level. The focus groups consulted during the study emphasized the importance of new village-level bodies, as well as the qualitative shift that has taken place in the nature of village-level discussions. These changes have reduced significantly the opportunities for corruption by those in power, and opened up village-level decision making and budgetary control to far wider scrutiny than before. Corruption is now discussed openly, and was brought up frequently during the study by village participants without prompting from facilitators. Although opportunities for corrupt practices at the village level have not disappeared, they are significantly diminished. ADB project investments with a community-based component have played a strong supporting part in this change. The CLGS SDP and CERD projects in particular appear to have been catalysts.

8. Information sharing from LG to communities remains poor, which often fuels community resentment and suspicion of corrupt behavior at higher levels, where they have no direct regulatory function or power for oversight. The lack of information and dialogue can lead to claims of corruption, even in the absence of any clear evidence. In Bakungin village, central Kalimantan, for example, villagers complained during the study that LG authorities had deducted a tax arbitrarily from a project grant they were to receive. The villagers alleged that the deduction was corruption. Without a full explanation by authorities regarding what the deduction was for, community resentment and suspicion quickly developed. Better information systems about procedures, as well as clear information about community rights, would build greater trust and consent between LG and communities.

2. Project and Program Modalities

9. This section considers community experience with the two prevalent methods of delivery for ADB projects—those with a significant community-based, small-scale, participatory component; and more traditional, sector-based investment activities.

10. **Community-Based Activities.** Many recent ADB investment projects in the portfolio have significant small-scale, community-based components, which communities themselves are expected to implement. The CLGS SDP, CERD, and PFIII projects are three examples examined during the study. While the value of community-based or community-driven development processes is not in question, these modes of delivery for ADB investments remain problematic for the following reasons:

- (i) Although they are management-intensive and time-consuming, they remain bound by the requirement for all ADB investments to reach scale quickly for an appropriate economic return.
- (ii) They are often applied countrywide through a unitary model even though Indonesia's regional diversity requires investments to be tailored more closely to prevailing local conditions to be effective.²
- (iii) Local nongovernment organizations (NGO) often have a prominent role in the implementation of these projects, though they lack the financial, management, and human resource capacity to do this successfully on the scale and to the standards of ADB.

11. Even for ADB community-based projects considered successful, such as the CLGS SDP, implementation staff and consultants acknowledged that the sustainability of project community groups and committees has varied. A major objective of community-based projects is to build long-term capacity in the community for self initiative and self reliance. If project groups disappear after implementing a project, a more efficient and sustainable means of service delivery should be sought (e.g., through a government agency or contractor). Alternatively, community-based implementation should be done differently, perhaps on a smaller scale with a longer period for community capacity building, to make community benefits more tangible and sustainable. At the moment, ADB community-based projects are rolled out like more conventional projects with similar time horizons and with financial disbursement targets as the means of measuring project success.

12. More geographically focused or smaller investments for community-based projects (or both) might improve the performance and sustainability of the groups mobilized. However, this would increase management costs, possibly making loans uneconomical, according to current project performance measurement criteria. Revising the scale and nature of community-based projects, therefore, also would suggest a need to adjust the criteria against which they are evaluated.

13. A concern with scale is not necessarily compatible with good community-based practice, which is process-oriented and not bound by time and targets. ADB projects are delivered through an established project planning, implementation, and evaluation process. This process is heavily weighted toward outputs and quantitative targets, rather than more process-oriented targets. Project success is measured in economic, usually monetary, terms (e.g., economic internal rate of return), which undervalues social, community capacity building, and process objectives. Targets for community-based projects should be defined by community participants as part of the planning process, and should include community capacity measures as project goals.

14. Frequently, the delay between project design or community mobilization and project implementation is long, which is another factor working against the successful implementation of ADB community-based projects. This delay saps the motivation in participating communities, or allows much of the socialization that has occurred in project preparation to be lost or forgotten by the time projects start.

15. ADB does not appear to have sufficient human resource and technical expertise in community-driven development on a wide enough basis to oversee and manage such projects

² While this is partly attributable to ADB concerns with scale, it also reflects the Government's wish to spread investments evenly, as far as possible, across the country.

effectively. While all investments have a community dimension, perhaps partnerships could be developed with other agencies (bilaterals, NGOs) that enable each to contribute in areas in which they have expertise, experience, and comparative advantage. ADB's comparative advantage would appear to lie in supporting the wider enabling environment for development and poverty reduction—for example, in arterial roads and highways, electrification, and other related large-scale infrastructure investments.

16. Developing new partnerships with civil society organizations is necessary for ADB, particularly in the context of decentralization in Indonesia. However, these partnerships should supplement, rather than replace, existing relationships with government at the central and local levels. ADB has no alternative to working with government at the scale and coverage to which it is committed. The government reform process should remain the highest priority, with NGOs used to assist and support, not deployed as independent project implementers in opposition to LG. This is what appears to have happened with the street children's project component of the Health and Nutrition Sector Development Program in Palembang City, Sumatra (supplementary Appendix A, case study 2).

17. **Infrastructure Sector Investments.** More traditional infrastructure sector investments, particularly road investments, seem to be less problematic than community-based projects, and are generally well received by LGs and communities.³ Evidence from the field suggests that, when implemented well, these sector investments make a durable contribution to local development. Executing agencies (EA), such as the Ministry of Public Works, understand them. Therefore, these projects have a clear institutional champion and clear lines of responsibility. Sustainability of benefits also are more likely, as investments are in line with LG's established activities, and funds are made available for maintenance.

18. Nevertheless, the study indicated that some past investments relied too much on providing physical infrastructure and hardware, at the expense of project software. In Palembang City, the market rehabilitation project at Sekip Jaya, completed under the Bogor and Palembang Urban Development Project, reconstructed and expanded the market facilities. However, it alienated and marginalized local small-scale traders, who previously had relied on the facilities, in favor of larger traders from outside the community. No provision had been made to integrate local traders as users and stakeholders in the new market facilities. Under the same project in Palembang, at Palawan, ADB project support was used to rehabilitate a water supply enterprise building. However, the offices upstairs remained unfurnished and unused (supplementary Appendix A, photo in case study 3).



Figure A6.2: One of the many empty office rooms in the water supply enterprise transfer station building funded by ADB.

3. Program and Project Targeting

19. **Geographical.** ADB has a diverse portfolio spread widely across Indonesia. As a result of this extended project reach, ADB investments are sometimes spread so thinly that they take place in relative isolation. This occurs for investments under the same project and investments across sectors, where potential important synergies might be possible. In transport and agriculture, for example, road and transport service investments could support the mobility of

³ The demand from communities for irrigation and infrastructure investments is high, though this might reflect the composition of the groups engaged in the study and their perception of the types of development assistance ADB provides. Women and the very poor often have quite different priorities.

poor farmers in contacting and reaching buyers, independently from intermediaries. Communities and LGs suggested during the study that a more integrated project investment approach would be desirable. Further, they said they would like to see projects tailored better and more appropriately to local conditions. The wide geographic spread of ADB projects also makes project management difficult. Few economies of scale are possible in developing and delivering project training, or in monitoring and evaluating.

20. The divide between rural and urban Indonesia, as well as between the east and west of the country, is wide and growing. Communities involved in the study came from rural and urban areas, and levels of capacity, needs, and the potential for self-help differed widely. Rural areas had far less awareness of the reform process, and much stronger traditions of deference and reliance upon centralized services than in more urban areas. The challenge facing state services in rural, peri-urban, and urban areas is quite different too. Urban areas have a wide variety of service alternatives, and state services (in health, for example) are struggling to maintain relevance and effectiveness. Rural areas do not have viable alternatives to the state services. The widening gap in conditions across the country, and the differing needs of urban and rural services, has broad policy implications for the future in terms of ADB's geographic and sector-based targeting of assistance.

21. Group discussions identified increasing competition over environmental and natural resources as a critical issue, as well as the increased conflict potential this generates. Instead of a wide geographic spread of the portfolio, a possible future alternative might be to concentrate on environment conflict hotspots—where a number of problems converge in environmentally sensitive or important areas. Integrated program responses over a number of sectors could be adopted to maximize the potential impact of assistance.

22. **Poverty Reduction.** Evidence from the study appears to suggest that the better-off and better-connected are usually the first to benefit from project initiatives. When resources are spread thinly, the better-off are almost the only beneficiaries. This is true for the distribution of microcredit, and for support under the Social Safety Net (SSN) Program. Identifying and engaging the poor takes time and resources, which is another reason why poverty targeting does not seem to be effective when resources are limited. The chances of reaching the very poor with existing project modalities, therefore, would be increased if programs were concentrated in fewer areas. This would allow more resources to be channeled to targeted areas.



Resina in front of the small house she shares with her husband and two children.

Box A6.1: Unable to Participate in Project Benefits

Resina Wati lives in a small house with her husband and two children. Although she knew about the Community Empowerment for Rural Development Project, she does not participate as her family could not afford the monthly contribution of Rp5,000 to the savings fund. They have no land, and her husband works seasonally on other people's land as a laborer, as well as seeking work in nearby timber factories. He is not often successful in finding work, and they are heavily indebted as a result. The hardest period for them is before the harvest, and they are forced to borrow from neighbors for food for the children (from supplementary Appendix A).

23. The beneficiary groups of ADB and Government projects seldom penetrate deep into the substrata of the village. They usually sit with village elites, who are the traditional recipients of project assistance and are well connected and literate in securing access to benefits (supplementary Appendix A, case study 5). Interventions—ADB, Government, or otherwise—appear not to reach a large subclass of the poor for two reasons. First, ADB projects are tailored to the productive poor, i.e., those with land; the capability or assets to repay credit; or education, authority, and confidence to organize to take advantage of benefits.

While the very poor might be outside the reach of ADB assistance, ADB's poverty reduction strategy should make clear what segment of the poor its assistance is intended to reach. If the extreme, nonproductive, or structurally poor are a target group for ADB assistance, then a separate strategy and program, possibly quite different from current approaches, might be necessary to reach them. Their poverty might require land reform measures, for example, or initiatives to tackle ethnic discrimination. Women migrant workers also face many hardships and need state protection.

24. The second reason lies with LGs and the EAs of ADB projects, specifically their lack of understanding or familiarization with an ADB project's poverty reduction objectives. Poverty targeting is difficult. However, by the time many initiatives reach subdistrict and village levels, poverty targeting objectives often are lost or not understood. As a result, poverty reduction projects become just projects to be dispersed to all, or captured by those best placed to benefit. This was frequently the case with the SSN in the study communities, where the rice subsidy to poor families (in East Lombok, for example) often was divided up and shared with all households. ADB programs still rely upon LG for all kinds of targeting, though the targeting process is still deeply politically embedded.

25. **Gender and Development.** ADB has a strategic commitment to gender empowerment, and the impact of projects upon gender relations was a core concern of the study. In project and nonproject communities, men overwhelmingly still make major household and communal decisions. Women have some responsibility in those spheres that affect only them. In remote rural agricultural and fishing communities, women are particularly disadvantaged in terms of having the authority and status to make household and community decisions. Initiatives to promote greater gender empowerment could target these women as direct beneficiaries for capacity building in the future.



Figure A6.3: Gender empowerment through increased communication.

26. The problem diagnosis and needs analysis of men and women proved to be quite different. Women put a far higher premium on health services than men, and are far better informed about issues relating to health and household well-being. When discussing health service provision with groups in Kalimantan and central Java, men emphasized infrastructure needs—a new clinic roof, for example—while women identified the poor attendance of the health staff at the clinic as a problem. Women attributed this problem to a lack of incentives to attend. Women still widely lack decision-making authority in matters of health, particularly in rural communities and where any kind of household expenditure is incurred.

27. ADB projects enhanced the status of some of the women who participated. For example, women involved in the Coastal Community Development and Fisheries Resource Management Project⁴ in East Lombok appeared to have achieved a degree of autonomy and economic independence through project activities. In another example, women's groups mobilized under the CERD project in Kapuas, central Kalimantan,⁵ benefited materially and organizationally through women's craft activities, marketing, and an enhanced role in community decision making.

28. **Project Allocation.** Targeting mechanisms for the allocation of projects at district level, between subdistricts, between villages, and within villages are not clear and transparent. Senior officials usually make decisions about which villages should receive assistance under projects, with no transparent criteria or documentation about the allocation process. Decisions about the allocation of project resources to households at the village level

⁴ Tanjung Luar, East Lombok.

⁵ Mampulau, Kapuas, Central Kalimantan.

were similarly opaque, and often appeared to be dispensed based on patronage ties as part of wider-village level political systems. A group in Semarang district suggested an increased role for NGOs in decision making about beneficiaries of the SSN. The community perceived NGOs to be outside village political processes, and thus impartial.

29. Recent ADB projects, such as CERD, have built in measures to ensure poorer villages are selected for assistance, which appears to have been successful. However, problems remain with the allocation of benefits within those villages. Evidence from the study communities suggests that differences in poverty status are at least as acute within villages as between them.

4. Partnerships

30. This section considers the effectiveness of partnerships for project implementation with LG, civil society groups, and others.

31. **With Local Government.** The gap in understanding of project objectives between ADB project consultant implementers and LG EAs is often wide. The CERD Project in Kapuas district, Kalimantan, has a competent team of local consultants who have forged good links with communities, though they have a remote relationship with the district-level government EA. The consultants felt the Government does nothing but obstruct their work, and does not understand and is not committed to the project's community empowerment objectives. Resentment and mistrust were apparent on both sides. Although project design required the consultants and LG to work hand in hand, this did not appear to be happening. Consequently, the latent conflict and tension threaten prospects for long-term sustainability if the LG does not share a commitment to the community empowerment objectives. Increasingly, projects appear to have community empowerment language and objectives. When implemented, however, this language proves to have no substance. Instead, LG implements the projects as traditional hardware, output-focused operations.⁶

32. Project socialization often stops at the community level, which might be the reason for this lack of commitment to community empowerment objectives. Perhaps more time and effort could be spent on socialization of LG to community empowerment objectives. Ways also should be sought to ensure that LG EAs have a stronger role to play in these types of projects, and that activities are not left simply to consultant implementers. Clearly, socializing government is as important as the community, particularly because lower levels of LG often do not understand community-driven projects. As such, LGs are not committed to such projects, increasing the likelihood they will fail.

33. Better coordination of ADB projects at the district level might ensure that opportunities for synergies across projects are maximized. At the moment, regional planning agencies at the district level attempts to coordinate ADB projects, though it often lacks information from the center and is bypassed by projects going straight to local EAs. These EAs are, in turn, largely unaware of other initiatives that are being carried out, thus missing opportunities for fruitful synergies. Far better information management and dissemination is possible from Government at the center to the localities, between LG EAs, and from LG to communities.

34. **With Civil Society Organizations.** As discussed (para. 10.), local NGO partners appear unable to implement projects and programs on the scale required, and lack financial and managerial capacity to meet ADB project demands. Therefore, the quality of service delivery is often low, falling short of LG and NGO expectations. Bigger, intermediary NGO partners (international NGOs or umbrella forums) might have a role in overcoming the lack of capacity of local NGOs to implement large ADB programs. The relationship between LGs and local NGOs is often tense, and project modalities empowering one over the other often leads to distrust and paralysis.

⁶ This problem is compounded by design limitations of community-based projects, as discussed in para. 10.

35. NGOs, ADB, and Government lack experience working together, resulting in many misunderstandings of each other's expectations and approaches. Flexibility is important in defining the compatibility of agenda's, mutual areas of interest, and mutually beneficial relationships (supplementary Appendix A, case study 2).

36. **With Others.** Wider partnerships between multilateral, bilateral, and NGO agencies could make better use of the comparative advantages of each in helping Indonesia reach targets of the poverty reduction strategy program or millennium development goals. This would involve long-term coordination in particular sectors, with each partner providing support in those areas in which they have experience and expertise. Such an approach would require far greater coordination between multilateral, bilateral, and NGO actors than currently exists. The geographical division of Indonesia between multilateral and bilateral agencies is possible to concentrate experience and resources, and avoid duplication.

5. Response to the Crisis

37. ADB supported the SSN Program during the crisis, and it was generally well received



Figure A6.4: Roni (right) with the village head, and his rice, recently harvested through a CERD Project.

and widely considered appropriate to meet the needs at the time.⁷ LG and community participants in the study highlighted problems with the targeting of beneficiaries, however. The transparency and fairness of the allocation varied from place to place. The village head (*kepala desa*) played a central role in deciding who would receive rice and health subsidies, while head teachers were instrumental in choosing beneficiaries of school scholarships. Although data on the state of village households is available through the village health services family planning unit, this often was ignored, and allocations were made without clear and transparent criteria. Consequently, the study showed evidence that better-off community members benefited

significantly from the program, while the poorest did not receive any assistance at all (supplementary Appendix A, case study 5).

38. The crisis seriously dislocated community relations. As people became consumed with the search for livelihood, they had little time to spend on community initiatives. At the same time, community institutions that dispensed relief or assisted the needy became very important to the community. Traditional healers, for example, became important health service providers at the expense of state health services, as they were cheaper and provided flexible means of payment. The crisis demonstrated that community support mechanisms are important and effective during a crisis, and could be used to channel relief in the event of a similar crisis in the future.

6. Critical Aspects to Livelihoods

39. **Rural Development.** Rural communities could be described as still being in a state of flux following the reformasi era. They often have a far weaker understanding of reform, decentralization, and democratization than urban communities. Rural farming groups in Semarang district, for example, still look to Government to regulate their protection against

⁷ The SSN provided subsidized rice for the poorest, health cards for the poor for free health care, and education scholarships for poor children to enable them to continue school during the crisis. Payments were provided directly to beneficiaries through the post office. Although ADB assistance to the SSN has concluded, the Government continues to fund the program, partly through the reallocation of fuel subsidy funds.

risk, rather than seizing the opportunity that decentralization and deregulation provides to explore new markets for their vegetables on the neighboring island of Kalimantan. While they are aware of the market opportunity, they are unsure of whom to partner within without Government to share the risk. Farmers in Kalimantan, Lombok, and Java identified their lack of knowledge and information about global markets as a key restraint. They do not understand the threats they face from global competition, or the opportunities that global markets provide.

40. As an extension of this, farmers throughout the study locations identified poor marketing of their primary products as a major restraint to livelihood enhancement. They would like to be able to make connections to buyers in market centers, free from control by sales agents, as they see this as an important means of getting better prices for their crops or the resources that they collect. They are also acutely aware of the potential from value-added processing of primary products. However, they lack the training, skills, and networks to take advantage, and also lack information about the wider markets for processed products.⁸ Training and skills development is, therefore, a high priority for farmers throughout the study areas.



Figure A6.5: The Rawapening Lake—rice farmers and fishermen are primary users of the Lake.

41. **Indebtedness and Access to Credit.** The demand for accessible credit at reasonable interest rates is huge in rural and urban study areas. Existing credit institutions, such as Bank Rakyat Indonesia, serve the poor badly, as the poor are unable to meet the formal requirements for lending (collateral, documentation). Consequently, the rural and urban poor rely heavily on moneylenders for capital for small businesses, and for meeting household needs, such as education costs for children. All participants in the study were heavily in debt. ADB projects with a credit component (such as the Rural Income Generation project, observed in East Lombok)⁹ provide a short-term cash injection for those able to access these funds, though they are limited. The demand for small-scale credit at affordable interest rates is far wider. An ADB-supported microfinance institution might be able meet this demand in the future.

42. **Social Services.** During group discussions, women in all study locations consistently identified health as the key issue. Men and women identified children's education as a household priority. Group discussions showed that a large proportion of the household budget of the poor is invested in children's education, and many households take on significant debt to meet the costs of their children's education.

43. Rural and urban study locations had a wide variety of educational institutions available, private and government. Therefore, the quantity of educational institutions did not emerge as an important community issue from the study. However, group participants did identify consistently diversity in the quality of educational services available as a major concern.

44. **Migration.** Migration is a critical livelihood coping strategy in Indonesia. Migration patterns appear to be complex and not easily reduced to a fixed formula. Agents, who provide

⁸ Women in Kebumen village, beside the Rawapening Lake in Semarang district, central Java collect water hyacinth (*encheng gondok*) from the lake, dry it, and sell it on to sales agents. These traders process it into craftwork, such as baskets, and sell it in the urban centers of Semarang, Solo, and Yogyakarta. The women do weaving of their own, but do not know how to make the kinds of products that sell in the urban centers, and lack the connections to sell there. As a result, they end up selling the fibers to traders at very low prices (see supplementary Appendix A, case study 1).

⁹ Sukumulia village, East Lombok.

passports, flights, and jobs, control opportunities for work, particularly overseas in Malaysia, Singapore, and other Asian countries. However, they require a significant down payment, and often take a year's salary in payment. Working abroad, therefore, represents a significant long-term risk and investment by households, though the potential rewards are also significant. Many rural areas, Lombok for example, have an established tradition of providing labor in countries overseas. While the remittances sent back are an important income source for households and regional economies, they exacerbate stresses upon the household members who remain behind, particularly women who face increased burdens of work and household care responsibilities.

45. A second form of migration is from rural to nearby urban areas in Indonesia, which is largely speculative or relies upon networks of kin or village patronage to source jobs. Much of this migration is seasonal, built around the agricultural calendar. Migration between urban areas does not appear from the study to be widespread, as labor demand in more urbanized centers appears to be sufficiently high to keep people from seeking work opportunities further afield. The exception is for well-paid jobs in Asian or regional countries, such as Australia, Japan, and Singapore.

46. **Environmental Resource Conflicts.** Conflict over natural resources emerged from the study as an issue of increasing importance, particularly as the population increases and local and translocal interests compete over resources, such as water. The study shows that local communities often feel alienated from decision making about what they traditionally have considered to be their resources. Thus, international agencies have considerable scope to broker conflicts through better resource management planning and conflict mitigation measures (supplementary Appendix A, case study 1).

B. Conclusions

47. ADB projects and programs have been important in supporting the Government and people of Indonesia through a difficult recent period. ADB support to the SSN, through the Social Protection SDP, was an appropriately designed measure that enables some of the real needs of the poor during and immediately after the economic crisis could be met. Other crisis response measures, such as the street children's component to the Health and Nutrition SDP, were similarly well considered in recognizing problems and designing measures to meet the needs of the growing number of vulnerable children.

48. However, while both projects were well-conceived, they encountered serious obstacles to successful implementation. Some of the difficulties faced could be described as structural, rooted in the nature and design of ADB lending practice. Support to the safety nets program, like much ADB assistance, was targeted inappropriately. Though many of the needy appear to have received assistance, many of the less needy did too. The identification of beneficiaries depended on the impartiality of local officials, particularly the village head. However, allocations often were made along traditional lines of village patronage. The very poor, being largely outside of the mainstream of village politics, frequently were excluded. Support to street children was delivered through local NGOs, a relatively new partner for ADB. Still, the modalities for delivering this assistance were conventional, with tight time-bound targets and project success measured against financial disbursement. Local NGO implementers, who were not engaged in design, were largely alienated by attempting to deliver the program.

49. Recent ADB-supported projects with a community-based, participatory, and empowering agenda appear to have had been successful in supporting evolving village-level processes of decentralization, democratization, and good governance. The CLGS SDP and CERD projects are two examples. Both have given community groups confidence, authority, and a vehicle for pressing LG for more transparency and accountability in financial management, and a greater community role in decision making. Where these projects have met a receptive LG cadre, successes have been considerable, particularly in combating local-level corruption, collusion, and nepotism.

50. Limitations remain, however, even with these relatively successful projects. Transparency and an enhanced community role in decision making do not appear to have penetrated higher, mid-levels of government. As a result, initiatives remain small-scale, localized, and somewhat vulnerable. In addition, sustainability of project institutions and processes is not assured once funding assistance is finished. In some instances, project institutions conflict with established, and sometimes well functioning, government institutions. This creates a consequent risk that long-term progress toward decentralization could be undermined. Wherever possible, effective existing village-level institutions could be supported in the future.

51. Where district governments are responsible for the allocation of projects within their areas, a systematic, transparent basis for these allocations is not evident. With the targeting of beneficiaries (as described in relation to the SSN Program), allocations remain deeply embedded in village politics and patronage networks. By the time projects reach the village level, any poverty targeting objectives are often lost. The project resources are contested in a traditional way, with the poor badly placed to challenge village elites for access. Even for projects with an overt targeting mechanism built in, such as the CERD Project, beneficiaries seldom seemed to penetrate deep into the substrata of the village, with the very poor in particular excluded. This exclusion is also a function of the kinds of project activities that are developed. These are often aimed at the productive poor or those with some assets, education, or connections for credit programs. They require, for example, land or assets as collateral or as a minimum qualifying condition or training for skills development. Although the very poor might be outside the scope and mandate of ADB, this should be made explicit in ADB policy. That would allow targeting mechanisms to be applied more clearly and transparently.

52. ADB's concern with promoting gender equity as a goal is reflected in recently designed projects (such as CERD and Coastal Community Development and Fisheries Resource Management Project). Evidence suggests that project activities make a difference in the lives and community standing of participating women by giving them confidence, decision-making space, and opportunities for economic and human resource development. Few other investments have a gender empowerment dimension. If strengthening the economic, social, and political rights of women remains an objective, then future project investments need a much more proactive approach to changing the lives of women, particularly poor rural women, substantively.

53. Larger-scale sector investments, when applied through an effective LG institution such as the Ministry of Public Works, seemed to be well received by LG and communities. This is arguably where ADB's comparative advantage lies in providing development assistance, as the lending is suited best to ADB's administrative arrangements for managing, monitoring, and evaluating loans. The effectiveness of these kinds of investments would be enhanced greatly by more geographic focus. If investments were concentrated in particular areas of the country, management and monitoring would be easier, and more synergies with other ADB investments might be realized.

54. More geographic focus also might enable ADB to tailor investments far better to prevailing conditions, rather than rolling out projects and programs intended to be a universal fit to all. Indonesia's diversity, complexity, and growing gap between rural and urban needs would appear to suggest this will become more important in the future.

SUMMARY DESCRIPTION OF PROGRAMS AND PROJECTS (1990–2004)

Objectives	Components	Location
<p>Loan 2127(SF)-INO: State Audit Reform Sector Program (Project Loan) (closing 31 December 2007)</p> <p>Enhance the capability of the audit institutions by building upon past support and by introducing techniques and approaches that will allow the institutions to meet their immediate mandates by operating effectively and efficiency, and incorporating international best practices.</p>	<p>(i) Establishment of sector development project management in the form of an ILMU in BAPPENAS, which will be the Executing Agency for the investment component; (ii) introduction of new systems and practices for effective external audit; (iii) institutional enhancement and repositioning through new regulatory structures and practices for effective internal audit covering, as applicable, the IGs, BAWASDAs, and BPKP; (iv) assistance to a professional formal education and nonformal certification program for internal auditors; and (v) introduction of new practices for parliamentary oversight of public sector audit.</p>	<p>Nationwide.</p>
<p>Loan 2126-INO: State Audit Reform Sector Program (Program Loan) (closing 31 December 2007)</p> <p>(i) Improve the policy and legal framework for state audit institutions; (ii) strengthen external and internal audit functions by providing adequate resources to institutions in line with their legal mandate; (iii) put in the policy measures to enhance accountability and oversight of the audit function at all levels of government, and (iv) put in strategies to increase public awareness of the benefits of a well-functioning state audit system and what it can deliver.</p>	<p>(i) Rationalization of the policy, legal, and regulatory frameworks for state audit institutions; (ii) alignment and provision of resources to enable audit institutions to fulfill their mandate; (iii) enhanced oversight of audit recommendations, and of the central and regional audit function; and (iv) enhanced transparency and public awareness of the central and regional state audit function.</p>	<p>Not applicable</p>
<p>Loans 2074/2075(SF)-INO: Decentralized Health Services Project II (closing 31 December 2010)</p> <p>Improve the health status of people in eight provinces of Indonesia, concentrating on improving health services geared to women, children, and infants.</p>	<p>(i) Skills improvement of health personnel, (ii) upgrading health facilities and equipment, (iii) involvement of civil society in planning and monitoring of service provision.</p>	<p>Bangka Belitung; C and S Kalimantan; NTT; NTB; Gorontalo; S Sulawesi; S Sumatra.</p>
<p>Loans 2072/2073(SF)-INO: Neighborhood Upgrading and Shelter Project (closing 31 December 2009)</p> <p>Reduce income poverty and quality-of-life poverty in urban areas.</p>	<p>(i) Site development and distribution of tenure for local governments, and (ii) expansion of access to microcredit for shelter finance.</p>	<p>Banten, NTB, Riau, S. Sulawesi, N. Sumatra</p>
<p>Loans 2064(SF)/2065-INO: Participatory Irrigation Sector Project (closing 30 June 2011)</p> <p>(i) Decentralized management of irrigation systems on a sustainable basis, and (ii) increased yields of irrigated crops.</p>	<p>(i) Irrigation management, and (ii) water resources information and asset management.</p>	<p>Lampung; Banten; W, C and E Java; S Sulawesi.</p>
<p>Loan 1983-INO: Power Transmission Improvement Sector Project (closing 30 September 2008)</p> <p>(i) Remove supply bottlenecks in selected substations and transmission lines in Java-Bali, (ii) interconnect outer island power grids, and (iii) provide equipment and consulting services in support of a competitive electricity market.</p>	<p>(i) Subprojects to add transformation capacity in Java-Bali, (ii) subprojects to interconnect power grids in outer islands, (iii) market facilities needed to establish and operate a competitive electricity market.</p>	<p>Jakarta; W, C and E Java; E and S Kalimantan.</p>
<p>Loan 1982-INO: Renewable Energy Development Sector Project (closing 30 September 2008)</p> <p>Expand renewable energy use, thereby limiting emission of greenhouse gases.</p>	<p>(i) Subprojects to generate power using renewable energy sources, and (ii) consulting services to implement subprojects in this Project and Loan 1983.</p>	<p>W Kalimantan; N Sulawesi; Gorontalo; NTT.</p>

Objectives	Components	Location
Loan 1978-INO: Small and Medium Enterprises Export Development Project (closing 19 May 2009) Support the SME export sector directly via investment capital, and indirectly improve the appraisal capacity of banks and exporter's capacity to apply for bank credit.	(i) Credit line to finance capital expenditures of exporters; and (ii) TA to strengthen credit and project appraisal capacity of participating banks, and advisory services for SME borrowers to access the credit line.	E and C Java; C, N, S, and SE Sulawesi; Bali.
Loan 1965-INO: Financial Governance and Social Security Reform Program (closed 31 December 2004) (i) Improve governance, (ii) audit enterprises, and (iii) develop legal frameworks for anticorruption and anti-money laundering.	Policy: (i) advancement of core sector reforms, (ii) improvement of national social security, (iii) strengthening of corporate governance, and (iv) establishment of anti-money laundering regime.	Not applicable
Loan 1964-INO: Sustainable Capacity Building for Decentralization Project (closing 30 June 2009) Develop institutional capacity of ADB project regions in the (i) delivery of public services, (ii) maintenance of essential public facilities, (iii) promotion of equitable economic development, and (iv) management of poverty reduction program.	(i) Development and implementation of capacity-building action plans; (ii) capacity building of service providers; and (iii) coordination, management, and standard setting supported by information technology.	W, C, E Java; Lampung; S and N Sumatra; NTB; Yogyakarta; SE Sulawesi.
Loan 1962-INO: Coral Reef Rehabilitation and Management Project Phase II (closing 31 December 2009) (i) Enhance national and local capacity to manage coral reef resources, and (ii) rehabilitate and manage priority ecosystems.	(i) Institutional strengthening, including establishment of a network of coral reef information and training centers; and (ii) community-based resource management and development, including community livelihood generation.	Riau; N and W Sumatra.
Loan 1909-INO: Poor Farmers' Income Improvement Through Innovation Project (closing 30 June 2008) (i) Improve targeting of public investments to location-specific needs, (ii) increase access to innovation, and (iii) reorient agricultural research to needs of marginal rainfed areas.	(i) Poor farmer empowerment, (ii) development of national/local agricultural information resources, and (iii) support for agricultural innovation development and dissemination.	C Java; C Sulawesi; Gorontalo; NTB; NTT.
Loan 1866-INO: State-Owned Enterprise Governance and Privatization Program (closed 31 December 2004) (i) Improve resource allocation in the public sector, (ii) increase SOE profitability, and (iii) promote private sector participation in SOE commercial activities.	Policy: (i) Corporate governance, (ii) public service obligations, (iii) corporate restructuring and privatization, (iv) labor redundancies, and (v) procurement.	Not applicable
Loan 1863-INO: Decentralized Basic Education Project (closing 31 December 2008) (i) Improve poor children's access to basic education, (ii) develop districts' capacity to deliver basic education, and (iii) demonstrate effectiveness of block grant mechanisms.	(i) School development; (ii) district basic education development; and (iii) monitoring, evaluation, and reporting.	Bali; Jakarta; NTB.
Loan 1810-INO: Decentralized Health Services Project (closing 30 September 2006) (i) Strengthen local capacity in services delivery; and (ii) improve quality, cost efficiency, and sustainability of health and family planning services in the project areas.	(i) Advocacy and capacity building, (ii) health sector reforms, and (iii) investments in health and family planning services.	Aceh; Bali; Bengkulu; C, N and SE Sulawesi; Gorontalo; Riau
Loan 1798-INO: Road Rehabilitation Sector Project (closing 31 March 2005) (i) Support road and bridge rehabilitation works on priority sections, (ii) assist in reformulating and implementing road sector policies, and (iii) build capacity for road and bridge works.	(i) Periodic road maintenance and betterment; (ii) bridge rehabilitation or replacement; (iii) monitoring of, and support for, sector action plan; and (iv) capacity building in road and bridge works.	Bangka Belitung; Banten; Riau; Jambi; Bengkulu; S Sumatra; Lampung; W, C and E Java; S Kalimantan; N and SE Sulawesi; N Maluku

Objectives	Components	Location
<p>Loan 1792-INO: Technological and Professional Skills Development Sector Project (closing 30 June 2007)</p> <p>(i) Improve employability of higher education graduates, and (ii) strengthen policy regarding public-private partnerships in the higher education system.</p>	<p>(i) Strengthening capacity of higher education schools and retraining; and (ii) strengthening programs in priority disciplines, English language and information technology networks, and potential employer relations.</p>	Nationwide.
<p>Loan 1770-INO: Marine and Coastal Resources Management Project (closing 30 June 2007)</p> <p>(i) Strengthen local management capacity, (ii) improve access to spatial and biodiversity information, and (iii) improve socioeconomic and environmental conditions in the selected coastal habitats.</p>	<p>(i) Coastal marine resource planning and management, (ii) spatial data and information management, (iii) marine and coastal resources laws and enforcement, and (iv) small-scale natural resources management schemes.</p>	Bangka Belitung; Banten; N, W and S Sumatra; Riau; Gorontalo; Bengkulu; Lampung; W, C, S and E Kalimantan; N, C, S and SE Sulawesi; NTB; N Maluku.
<p>Loans 1765/1766-INO: Community Empowerment for Rural Development Project (closing 30 June 2007)</p> <p>(i) Strengthen the planning and management capacity of rural communities, and (ii) establish rural infrastructure to promote agricultural productivity and off-farm business enterprises.</p>	<p>(i) Capacity building for decentralized development planning, (ii) development of rural financial institutions, and (iii) improvement of rural infrastructure.</p>	C, E and S Kalimantan; C, N and SE Sulawesi; Gorontalo.
<p>Loan 1738-INO: Industrial Competitiveness and Small and Medium Enterprises Development Program (closed 31 December 2004)</p> <p>Encourage a more diversified and efficient industrial structure through deregulation and pro-competition policies, and provide level playing field for all enterprises, including SMEs.</p>	<p>Policy: (i) Strengthening competition, (ii) investment promotion and trade facilitation, and (iii) rationalization of assistance to SMEs.</p>	Not applicable
<p>Loans 1677/1678-INO: Community and Local Government Support Sector Development Program (closing 31 March 2005)</p> <p>(i) Improve access to basic services and stimulate local economic activity; (ii) support decentralization efforts; (iii) create employment opportunities; (iv) enhance participation in local development; and (v) improve transparency, governance, and monitoring procedures at local levels.</p>	<p>Policy: (i) Increased administrative and fiscal autonomy of local governments, and (ii) decentralization of environmental management. Investment: (i) Local infrastructure, (ii) rehabilitation and extension of public services into poor areas, and (iii) capacity building.</p>	Nationwide.
<p>Loan 1675/1676-INO: Health and Nutrition Sector Development Program (closed 31 December 2000)</p> <p>(i) Protect access by vulnerable groups to essential health, nutrition and family planning services, (ii) maintain the quality of services provided to the poor, and (iii) initiate policy reforms related to sustainable health and nutrition services delivery.</p>	<p>Policy: Alleviation of crisis' impact on vulnerable groups, and laying basis for longer-term sustainable health reforms. Investment: (i) Maintenance of basic services; (ii) special programs for infants, young street children, and pregnant or lactating women; (iii) expansion of nutrition surveillance system; and (v) family planning services.</p>	W, C and E Java; Jakarta; W and S Sumatra; S and N Sulawesi; Yogyakarta; Maluku; NTB; Lampung; Bangka Belitung; Banten.
<p>Loans 1673/1674-INO: Power Sector Restructuring Program (closed 31 October 2004)</p> <p>Establish a competitive market for electricity in Java-Bali that will increase economic efficiency of the power sector in that region.</p>	<p>Policy: (i) Restructuring the power sector, (ii) establishing competition, (iii) adjusting tariffs to ensure financial viability, (iv) increasing private sector participation, and (v) strengthening regulation.</p>	Not applicable
<p>Loan 1622/1623-INO: Social Protection Sector Development Program - Program Loan (closed 18 February 2000), Project Loan (closed 20 November 2001)</p> <p>(i) Protect access by vulnerable groups to essential social services, especially education and health; (ii) maintain the quality of social services provided to the poor; and (iii) initiate sustainable policy reforms related to the provision of key social services.</p>	<p>Policy: Alleviation of crisis' impact on vulnerable groups, and laying basis for longer-term sustainable reforms in social service delivery. Investment: (i) Assistance to primary and junior secondary students and schools; (ii) special programs for infants, young and street children, and pregnant women; (iii) managed care scheme in selected areas, and (iv) re-establishment of nutrition surveillance system.</p>	NTB; NTT; S Kalimantan; C, S and SE Sulawesi; W Papua; C, E and W Java; Gorontalo; Maluku; Jakarta; N Sumatra; Yogyakarta.

Objectives	Components	Location
<p>Loan 1618/1619/1620-INO: Financial Governance Reforms: Sector Development Program - Program Loan (closed 5 July 2002), Project Loan (closed 18 October 2001) and Capacity Building for Financial Governance (closed 31 October 2004)</p> <p>(i) Help restructure banking sector, (ii) improve financial and public sector allocation of resources, and (iii) respond to crisis exigencies.</p>	<p>Policy Loan: (i) Bank restructuring and financial governance reforms. Investment and Equity Loan: Canceled. TA loan: Support for commercial bank restructuring, improvements in governance, and institutional strengthening of various government agencies.</p>	Not applicable
<p>Loan 1613-INO: Coral Reef Rehabilitation and Management Project (closed 30 June 2003)</p> <p>Establish a viable framework for a national coral reef management system.</p>	<p>(i) Initiate a coral reef research, information, and monitoring system; (ii) design and test pilot community-based coral reef management plans in Riau; and (iii) prepare and design of Phase II Project.</p>	N and W Sumatra; Riau; N, S and SE Sulawesi; NTT; NTB; Maluku; W Papua.
<p>Loan 1605-INO: Central Sulawesi Integrated Area Development and Conservation Project (closing 30 September 2005)</p> <p>(i) Improve the socioeconomic welfare of villages surrounding the Lore Lindu National Park to reduce pressure on the Park's resources, and (ii) protect its biodiversity resources.</p>	<p>(i) Community development, (ii) park and buffer zone management, (iii) rural support and infrastructure services, and (iv) institutional strengthening.</p>	C Sulawesi.
<p>Loan 1587-INO: Metropolitan Medan Urban Development Project (closing 31 December 2005)</p> <p>(i) Improve urban infrastructure and municipal services in Metropolitan Medan; (ii) improve institutional capability and capacity of local governments and water enterprises.</p>	<p>(i) Rehabilitation and expansion of infrastructure; and (ii) institutional development for central, provincial, and local government agencies and water supply enterprises.</p>	N Sumatra.
<p>Loan 1586-INO: Eastern Islands Air Transport Development Project (closed 11 June 2003)</p> <p>Integrate key airports in the eastern region into Indonesia's air transport network.</p>	<p>(i) Upgrade Pontianak and Sorong Daratan airports, and new one at Samarinda; (ii) provide navigation equipment (iii) civil aviation safety improvement; and (iv) sector reforms.</p>	W and E Kalimantan; W Papua ; N Maluku.
<p>Loan 1583-INO: Rural Income Generation Project (closing 30 September 2005)</p> <p>Develop a sustainable mechanism for poverty reduction through self-help groups in livelihood development.</p>	<p>(i) Self-help group development, (ii) microfinance services, and (iii) institutionalization and management capacity building.</p>	W, C, and E Java; Yogyakarta; Bangka Belitung; Banten; Bali; NTB; Bengkulu; Riau; Lampung; S Sumatra; S Sulawesi and S Kalimantan.
<p>Loan 1579-INO: Northern Sumatra Irrigated Agriculture Sector Project (closed 31 October 2004)</p> <p>Raise agricultural productivity through improvements in irrigation systems and institutions.</p>	<p>(i) Irrigation improvement, (ii) agricultural support, and (iii) support to water user associations.</p>	Aceh; N and W Sumatra; Riau; Jambi.
<p>Loans 1573/1574(SF)-INO: Second Junior Secondary Education Project (closed 31 December 2004)</p> <p>(i) Reduce income barriers to participation, (ii) reach youths in remote areas and from culturally distinct communities, (iii) improve school facilities, and (iv) improve access to special schools for disabled students.</p>	<p>(i) Provision of grants to target students, (ii) establishment of "open" and single-stream schools, (iii) upgrading of school facilities, (iv) construction of dormitories and teacher housing in remote areas, (v) increase in student enrolment, and (vi) upgrading of staff and facilities of existing single-stream schools.</p>	S and E Kalimantan; Gorontalo ; N, C, and SE Sulawesi.

Objectives	Components	Location
<p>Loan 1572-INO: Capacity Building in Urban Infrastructure Management Project (closed 31 December 2003)</p> <p>Improve the ability of (i) local and provincial governments to deliver urban infrastructure services, (ii) nongovernmental institutions to participate in urban management, and (iii) national agencies to provide advisory services in local governments.</p>	<p>(i) Human resource development programs for urban managers, (ii) institutional development for more effective and cost-efficient provision of urban infrastructure, and (iii) policy development.</p>	<p>N Sumatra; Banten; Lampung; W, C, and E Java; Yogyakarta; C and S Kalimantan; N and S Sulawesi; NTB.</p>
<p>Loans 1570/1571(SF)-INO: Coastal Community Development and Fisheries Resource Management Project (closing 30 September 2005)</p> <p>(i) Promote sustainable management of coastal fisheries resources, and (ii) provide opportunities for increasing income and improving living standards of coastal villages.</p>	<p>(i) Coastal fisheries resource management, (ii) community development and poverty reduction, (iii) environmental improvement of small-scale fish landing centers, and (iv) institutional strengthening.</p>	<p>E and C Java; NTB; Riau.</p>
<p>Loan 1559-INO: Belawan, Banjarmasin, and Balikpapan Ports Project (closed 31 December 2002)</p> <p>(i) Support non-oil export trade initiatives by expanding capacity and improving operations in these ports; and (ii) integrate the outlying, resource-rich hinterlands by providing access to regional and global markets.</p>	<p>(i) Rehabilitation and expansion of container, general cargo, and passenger facilities at these ports; and (ii) action plan to improve sectoral efficiencies, and increase private sector participation.</p>	<p>N Sumatra; S and E Kalimantan.</p>
<p>Loan 1527-INO: Capacity Building of Water Supply Enterprises for Water Loss Reduction Sector Project (closed 31 March 2003)</p> <p>Develop sustainable water loss reduction programs.</p>	<p>(i) Institutional strengthening, including mapping of water supply systems, leak detection programs and community awareness; and (ii) physical infrastructure, including repair and replacement of meters, valves, service connections, and pipes.</p>	<p>Aceh; Banten; Bengkulu; Jambi; Lampung; Riau; N, W and S Sumatra; C and W Java; Yogyakarta.</p>
<p>Loan 1526-INO: Participatory Development of Agricultural Technology Project (closing 31 December 2005)</p> <p>Improve the capacity (i) of Agency for Agricultural Research and Development in the wake of decentralization and change in orientation; (ii) of eight regional assessment institutes to generate strategic technologies; and (iii) to accelerate adoption of location-specific, user-oriented technologies.</p>	<p>(i) Building regional participatory R&D and technology transfer, (ii) strengthening national strategic R&D capacity, (iii) enhancing R&D collaboration and communication, and (iv) institutional reforms and management development.</p>	<p>West Papua; E and W Java; Bali; C, S and E Kalimantan; Jakarta; W and S Sumatra; Bengkulu; Lampung.</p>
<p>Loan 1523-INO: Intensified Communicable Disease Control Project (closed 31 December 2004)</p> <p>Improve the capability of Ministry of Health in managing its communicable diseases control programs for tuberculosis, malaria, acute respiratory infections in young children, and vaccine-preventable diseases.</p>	<p>(i) Intensification of the four programs through improved service delivery interventions, (ii) district-level program management, and (iii) building effective alliances between public and private institutions to support these programs.</p>	<p>C and W Java; Banten; S Sumatra; S Kalimantan; C Sulawesi; NTT.</p>
<p>Loan 1519-INO: Development of Madrasah Aliyahs Project (closed 30 June 2004)</p> <p>(i) Upgrade the standards of public and private MAs, (ii) improve the delivery of their core curriculum; (iii) improve the access of poor students, and (iv) strengthen the institutional capability of the Ministry of Religious Affairs and MAs.</p>	<p>(i) Improving the quality of MAs, including implementation of the new core curriculum, teacher training programs, and establishment of model MAs; (ii) promoting equitable access to MAs, including provision of grants to youth from low-income households (majority to girls); and (iii) strengthening the institutional framework.</p>	<p>Nationwide.</p>
<p>Loan 1511-INO: Metropolitan Bogor, Tangerang, and Bekasi (Botabek) Urban Development (Sector) Project (closed 30 September 2003)</p> <p>(i) Improve urban infrastructure services in 13 rapidly growing cities and towns surrounding Jakarta; and (ii) improve the institutional capacity of their local governments and enterprises.</p>	<p>(i) Institutional development; and (ii) rehabilitation and expansion of water supply, roads and bridges, drainage, solid waste, sanitation, bus terminals, and improvement of low-income communities and market infrastructure.</p>	<p>West Java.</p>

Objectives	Components	Location
<p>Loan 1501-INO: Regional Development Account Project (closed 30 September 2002)</p> <p>(i) Provide long-term credit to local governments and enterprises; (ii) strengthen their technical and financial capacity; and (iii) support RDA as a revolving municipal facility now, and as a commercially-oriented wholesale financial facility in future.</p>	<p>(i) Financially sustainable investments in urban infrastructure and services (water supply, road transport terminals, local markets, wastewater and solid waste) initiated by local governments or enterprises; and (ii) institutional development.</p>	Nationwide.
<p>Loan 1479-INO: South Java Flood Control Sector Project (closing 30 September 2005)</p> <p>(i) Prevent regular flooding of houses and crops, (ii) mitigate environmental factors that harm health, (iii) minimize disruptions of services and commercial activities, and (iv) enhance incomes of poor in flood-affected areas.</p>	<p>(i) Flood control and protection, (ii) institutional strengthening of water resources services, (iii) flood warning system, (iv) monitoring of river characteristics, and (v) upper catchment land rehabilitation.</p>	W and C Java; Yogyakarta.
<p>Loan 1475-INO: Segara Anakan Conservation and Development Project (closed 30 September 2004)</p> <p>Conserve, develop, and sustainably manage the Segara Anakan environs.</p>	<p>(i) Water resources management and sedimentation control, including diversion of Citanduy and Cikonde Rivers; (ii) community development, including forest rehabilitation, soil erosion control, provision of pilot aquaculture ponds, provision of village improvements; and (iii) capacity building.</p>	W and C Java.
<p>Loan 1471-INO: Family Health and Nutrition Project (closed 31 December 2003)</p> <p>(i) Improve the health and nutritional status of the population; (ii) maintain this improved status through healthy lifestyles; and (iii) reduce the total fertility rate in the project area; with focus on health, nutrition, and family planning problems that can be addressed significantly by behavioral changes.</p>	<p>(i) Family partnership for health; (ii) quality improvement of health services; and (iii) project monitoring, evaluation, and research.</p>	Bengkulu; Jambi; N Sumatra; C and S Kalimantan.
<p>Loan 1469-INO: Integrated Pest Management for Smallholder Estate Crops Project (closing 31 December 2005)</p> <p>Promote adoption of cost-effective, environmentally-sound IPM practices by smallholder estate crop farmers.</p>	<p>(i) Capacity building for IPM, including training to upgrade plant quarantine standards; and (ii) IPM research program to provide IPM solutions and strengthen feedback between farmers, researchers, and crop protection services.</p>	Banten; Bangka Belitung; N and S Sumatra; Lampung, W, C, and E Java; Bali; NTB; W and E Kalimantan; S and SE Sulawesi.
<p>Loan 1449-INO: BAPEDAL Regional Network Project (closed 1 July 2004)</p> <p>(i) Establish institutional capacity at the regional level to set environmental standards, improve environmental awareness, and provide environmental management and support services; and (ii) strengthen BAPEDAL through human resource development at the regional and national levels.</p>	<p>(i) Establishment of regional BAPEDAL offices at Denpasar, Jakarta, Pekanbaru, and Ujung Pandang; (ii) provision of technical, managerial, and administrative courses for selected BAPEDAL staff; (iii) establishment of regionally appropriate environmental quality standards and pollution limits in the four regions; and (iv) development of a master plan for establishing local environmental impact management agencies.</p>	Bali; Jakarta; Riau; S Sulawesi.
<p>Loan 1442-INO: Basic Education Project (closed 15 August 2002)</p> <p>(i) Upgrade the quality standards of public and private primary and junior secondary schools; (ii) enhance access by all children, especially the poor and girls; and (iii) improve institutional capability.</p>	<p>(i) Improving the quality of basic education, including implementation of the new core curriculum, teacher training programs, and establishment of model schools; (ii) promoting equitable access to basic education, including provision of grants to youth from low-income households (majority to girls); and (iii) strengthening the institutional framework.</p>	Lampung; W, C, and E Java; S Kalimantan; NTB; Banten.

Objectives	Components	Location
<p>Loan 1433-INO: Industrial Technology and Human Resource Development (closed 5 February 2001)</p> <p>(i) Strengthen capabilities of IRD institutes and BPPIP in testing, certification, etc., consistent with internationally acceptable standards; (ii) promote self-reliance among IRD institutes; and (iii) improve their links and responsiveness to the needs of industry.</p>	<p>(i) Creation of an ISC within BPPIP that will assist small and medium industries regarding transfer and exchange of technology, promotion of business opportunities, etc.; (ii) preparation of a business plan for each IRD institute and the ISC, and (ii) provision of equipment and facilities, human resource development, technology support, and quality management.</p>	<p>W Java; Yogyakarta; Maluku.</p>
<p>Loan 1432-INO: Engineering Education Development Project (closed 12 December 2002)</p> <p>(i) Improve the quality, relevance, and capacity of engineering education; (ii) enhance access of the poor to engineering courses; (iii) ensure that engineering graduates will master relevant skills, knowledge, and work attitudes; and (iv) strengthen the institutional capacity of the Directorate General for Higher Education.</p>	<p>(i) Improvement of quality and relevance through industry-institution link, course and curriculum development, etc.; (ii) enhancement of capacity, access, and participation through financial assistance for women and poor students, etc.; and (iii) strengthening of institutional capacity to plan and manage engineering education.</p>	<p>NTT; NTB; W Sumatra; Banten; Lampung; Riau; Bali; Yogyakarta; Gorontalo; W, S, C, and E Kalimantan; Maluku; C and N Sulawesi.</p>
<p>Loan 1428-INO: North Java Road Improvement Project (closed 20 October 2003)</p> <p>(i) Remove existing or emerging road transport capacity constraints by reducing transport costs and improve road safety; and (ii) assist Government in the preparation of road infrastructure projects for possible consideration by ADB.</p>	<p>(i) Widening of nine road links within the Jakarta-Surabaya road, and (ii) consultants' services for supervision of civil works and provision of project preparatory studies.</p>	<p>W, C, and E Java.</p>
<p>Loan 1425/1426(SF)-INO: North Java Flood Control Sector Project (closed 31 December 2003)</p> <p>(i) Prevent regular flooding of houses and crops, (ii) minimize disruptions of services and commercial activities, (iii) enhance incomes of poor in flood-affected areas, (iv) encourage land use improvement in the upper river basin catchments by controlling sediment imbalances and expanding the monitoring of river water quality.</p>	<p>(i) Flood control and protection, (ii) institutional strengthening of water resources services, (iii) flood warning pilot project, (iv) monitoring river degradation, and (v) monitoring river water quality.</p>	<p>W and C Java.</p>
<p>Loan 1397-INO: Power Development and Efficiency Enhancement Project (closed 30 June 2004)</p> <p>(i) Enhance the efficiencies and reliability of the power transmission and distribution system; (ii) promote balanced regional development through expansion of the transmission network and development of hydropower potential; and (iii) promote human resource development in the power sector.</p>	<p>(i) Expansion of transmission in Java and Sumatra; (ii) installation of DCCs at Semarang, Solo and Yogyakarta; (iii) installation of a hydropower plant in Sumatra; (iv) human resource development; (v) provision of engineering design for hydropower plants in Central and South Sulawesi and in West Java, and engineering services.</p>	<p>Aceh; Bangka Belitung; Banten; W, C, and E Java; S Sumatra; S and C Sulawesi; Lampung; Riau; Bengkulu; Jakarta; Jambi; Yogyakarta.</p>
<p>Loan 1383-INO: Sumatra Urban Development (Sector) Project (closed 31 December 2003) and Loan 1384-INO: West Java Urban Development Sector Project (closed 28 February 2003)</p> <p>(i) Improve quality of life and public health in project areas; (ii) strengthen the role of central, provincial, and local governments and enterprises in subproject preparation, implementation, and monitoring; (iii) improve the operational performance of enterprises, including water loss reduction and financial management; and (iv) expand private sector and community participation in the provision of urban services.</p>	<p>(i) Subproject preparation, design and supervision; (ii) institutional development assistance; (iii) urban infrastructure investments, including water supply, drainage, sanitation, solid waste management, improvements in markets and low-income communities, and urban roads and bridges.</p>	<p>Aceh; Bangka Belitung; Banten; Bengkulu; Jambi; W Java; Lampung; Riau; W, S, and N Sumatra.</p>
<p>Loan 1378-INO(SF): Farmer Managed Irrigation Systems Project (closed 31 March 2003)</p> <p>Improve the productivity of irrigated agriculture in project areas</p>	<p>(i) Rehabilitation and improvement of existing farmer managed irrigation</p>	<p>NTB; N, C and S Sulawesi;</p>

Objectives	Components	Location
by increasing the implementation capacity of water user associations and local government implementing units.	systems with related infrastructure; and (ii) strengthening water user associations, and district and subdistrict irrigation and agricultural services.	W Java; Yogyakarta; Gorontalo.
Loan 1360-INO: Senior Secondary Education Project (closed 29 October 2002)		
(i) Improve the quality of senior secondary education, (ii) address imbalances in provision and standards of facilities and resources, and (iii) improve the capacity of the Ministry of Education and Culture to deliver senior secondary education.	(i) Quality improvement, including teacher training, curriculum evaluation, textbooks, and examinations development, etc.; (ii) enhancement of equity and access; and (iii) institutional development.	Nationwide.
Loan 1359-INO: Private Junior Secondary Education Project (closed 30 August 2002)		
(i) Improve the quality of private junior secondary schools; (ii) promote greater participation of poor students (especially girls) in junior secondary education; and (iii) strengthen the institutional framework that manages their delivery.	(i) Improvement of the quality of teaching, educational resources, and school management; (ii) provision of grants to poor students in depressed rural areas and low-income urban areas; (iii) upgrade private junior secondary schools and traditional Islamic boarding schools; and (iv) institutional strengthening.	W and E Java; Banten; Lampung; S Kalimantan; S Sulawesi.
Loan 1357-INO: Gas Transmission and Distribution Project (closing 31 May 2005)		
Increase the domestic use of natural gas by (i) accelerating its use as petroleum substitute, (ii) providing a common carrier gas transportation system, (iii) promoting private sector participation in the gas industry, (iv) establishing a supportive regulatory framework for the gas industry, and (v) strengthening institutions responsible for gas transmission and distribution.	(i) Supply and construction of an onshore transmission pipeline between Grisik and Duri, and a pipeline to Batam; (ii) supply and construction of ancillary and offsite equipment and facilities; (iii) consultancy services for design engineering, procurement and construction supervision; (iv) financial advisory services for restructuring Perum Gas Negara; and (v) institutional strengthening and human resource development.	S Sumatra; Riau; Bangka Belitung.
Loan 1352-INO: Rural Water Supply and Sanitation Sector Project (closed 1 November 2002)		
(i) Provide safe, adequate, and reliable water supply and sanitation services to selected low-income rural communities; (ii) support hygiene and sanitation education, water quality surveillance, and community management activities; and (iii) develop community awareness and active community participation in planning, design, implementation, and O&M.	(i) Water supply facilities, involving the construction of piped and nonpipled water supply systems and rehabilitation of existing ones; (ii) sanitation facilities, involving the construction of sanitary private and public latrines; and (iii) institutional support, including a hygiene and sanitation education, and water quality surveillance program.	C, E, S and W Kalimantan; Bengkulu; Aceh; Jambi; Lampung; N, S, and W Sumatra; Riau; Bangka Belitung; Banten.
Loan 1351-INO(SF): Sulawesi Rainfed Agriculture Development Project (closed 7 May 2004)		
(i) Increase the productivity and incomes of rain-fed farmers, (ii) protect and improve the fragile upland environment, (iii) create employment in rural areas, and (iv) improve the socioeconomic conditions of women beneficiaries.	(i) Farm development, including the development of selected estate crop, foodcrop, horticulture-based farming systems, as well as greening of slopes; (ii) rural infrastructure, such as roads, bridges, check dams, potable water supply, etc.; (iii) community development, and (iv) institutional strengthening.	S, C, N and SE Sulawesi; Gorontalo.
Loan 1339-INO: Capacity Building Project in the Water Resources Sector (closed 20 June 2002)		
Strengthen (i) policy making and coordination at national, provincial and river-basin levels; (ii) technical standards and practices; and (iii) management and human resources systems and skills of water resources management agencies.	Strengthening (i) the national policy and coordination framework, (ii) capacities of regional institutions for integrated water resources development and management, and (iii) strengthening the capacity of Directorate General of Water Resources Development.	N Sumatra; S Kalimantan; S and SE Sulawesi; Bali; NTB; Maluku; W Papua.

Objectives	Components	Location
<p>Loan 1335-INO: Eastern Islands Roads (Sector) Project (closed 3 July 2003)</p> <p>(i) Improve the national and provincial road network in Eastern Indonesia to enhance economic and social linkages; (ii) improve road safety by upgrading facilities and procedures for vehicle inspection and testing and redesign of accident-prone sections; (iii) strengthen planning of road development.</p>	<p>(i) Road and bridge works, including road betterment, periodic road maintenance, road upgrading and bridge replacement; (ii) vehicle inspection and testing, including the provision of testing centers, equipment, etc.; (iii) institutional strengthening.</p>	<p>W, C, E, and S Kalimantan; N, C, S, and SE Sulawesi; NTB; NTT; Maluku and N Maluku; W Papua; Gorontalo.</p>
<p>Loan 1327-INO(SF): Microcredit Project (closed 31 December 2001)</p> <p>(i) Increase income and employment in rural areas, (ii) reduce poverty, and (iii) improve the living standards of the poor including women.</p>	<p>Provision of credit line to SFIs for onlending to poor/near poor for the development of microenterprises. Also, strengthening of (ii) these SFIs; (iii) NGOs, to organize groups of the poor and provide skills training, and (iv) Bank Indonesia to monitor and supervise these SFIs and NGOs.</p>	<p>W, C, and E Java; NTB; S Kalimantan.</p>
<p>Loan 1321-INO(SF): West Lampung Emergency Reconstruction (closed 7 May 1998)</p> <p>Rehabilitate and reconstruct infrastructure and facilities damaged or destroyed by the February 1994 earthquake.</p>	<p>(i) Civil works, including rehabilitation or reconstruction of roads and bridges, public schools, bus stations, etc.; (ii) equipment; and (iii) consulting services.</p>	<p>Lampung.</p>
<p>Loan 1320-INO: Sumatra Power Transmission (closed 5 June 2001)</p> <p>(i) Expand the transmission network in Sumatra and develop the hydropower potential in South Kalimantan and East Timor, and (ii) improve transmission system availability through live line maintenance.</p>	<p>(i) Transmission in Southern, Northern, and Central Sumatra, (ii) Central-Southern Sumatra interconnection, (v) consulting services, (vi) engineering designs for the Kusan 3 hydropower project in South Kalimantan and the Iralalero hydropower project in East Timor, and (viii) live line maintenance.</p>	<p>S, N, and W Sumatra; S Kalimantan; Riau; Bangka Belitung; Aceh.</p>
<p>Loan 1319-INO: Vocational and Technical Education Project (closed 15 January 2001)</p> <p>(i) Improve the quality and relevance of VTE to enhance the labor market absorption of students, (ii) facilitate expansion of the VTE system in areas where industrial demand is high, and (iii) provide necessary support for managerial improvement.</p>	<p>(i) Teaching and learning improvement, (ii) supporting industrial growth through human resource development, and (iii) improving management practices.</p>	<p>Nationwide.</p>
<p>Loan 1299-INO: Rural Health and Population Project (closed 15 June 2001)</p> <p>(i) Raise the health status of the population; and (ii) reduce infant and maternal mortality rates, and total fertility rate through community-based rural health and family planning delivery systems, in selected areas in Sumatra.</p>	<p>(i) Improving the referral system at the district level; (ii) improving community-based rural health care services at the subdistrict and village levels; and (iii) strengthening community-based family planning and welfare activities, and safe motherhood program.</p>	<p>Aceh; Riau; S and W Sumatra; Lampung; Banten.</p>
<p>Loan 1292-INO: Eastern Islands Urban Development Sector Project (closed 15 July 2001)</p> <p>(i) Support urban infrastructure investment in 18 urban areas; and (ii) improve their planning and management, and enhance local revenue generation, financial management, etc.</p>	<p>(i) Urban infrastructure, and (ii) institutional support.</p>	<p>NTB; NTT; Maluku and N Maluku; W Papua.</p>
<p>Loan 1296-INO: Second Integrated Irrigation Sector Project (closed 21 November 2002)</p> <p>Optimize the utilization and performance of existing irrigation and drainage schemes to improve productivity of irrigated agriculture in four provinces of eastern Indonesia.</p>	<p>(i) Irrigation development, (ii) agricultural development, (iii) strengthened coordination and monitoring, and (iv) support for the government program on irrigation service fees.</p>	<p>N and SE Sulawesi; Bali; NTB ; Gorontalo.</p>

Objectives	Components	Location
Loan 1271-INO: Power XXIII Project (closing 30 September 2006) (i) Provide hydropower generating capacity for additional power supply, (ii) improve supply efficiency through system interconnection and waste heat recovery, and (iii) improve load pattern and end-use efficiency through DSM programs.	(i) Construction of Tanggari II and Musi hydropower schemes, (ii) reinforcement of transmission networks, (iii) installation of waste heat recovery equipment and waste heat-based generation equipment in selected diesel stations, (iv) implementation of DSM pilot programs; and (v) engineering design of Merangin hydropower scheme.	N Sulawesi; S Sumatra; Bangka Belitung; Gorontalo.
Loan 1258-INO(SF): Sustainable Agriculture Development in Irian Jaya (closed 22 December 2003) Assist indigenous farmers in increasing crop productivity through appropriate farming practices and technologies, and organizing traditional clans into self-help groups.	(i) Community development, extension, and training; (ii) agriculture development; (iii) rural infrastructure; (iv) environmental management and farming system research; and (v) consulting services.	W Papua.
Loan 1253-INO: Higher Education Project (closed 15 January 2001) (i) Improve the quality and efficiency of the higher education system, (ii) strengthen less-developed public universities, and (iii) increase the relevance and effectiveness of universities' research and public service programs.	(i) Regional university development, (ii) university networking, and (iii) higher education management strengthening.	W, C, and E Java; Jambi; Bengkulu; SE and C Sulawesi; NTB; NTT; Papua, and W Papua.
Loan 1251-INO(SF): Mangrove Rehabilitation and Management in Sulawesi Project (closed 31 December 1997) Maintain the ecological functions and economic benefits of mangroves to protect the coastal environment and reduce poverty among coastal communities.	(i) Finalization of national strategy and action plan for mangroves, (ii) spatial planning and mapping of project sites, (iii) social preparation and awareness program, (iv) trial rehabilitation, and (v) institutional strengthening.	C, S, and SE Sulawesi; Gorontalo.
Loan 1241-INO(SF): Flores Emergency Reconstruction Project (closed 31 July 1997) Reconstruct roads, bridges, and water resources facilities affected by the 12 December 1992 earthquake in Flores.	(i) Roads and bridges, and (ii) water resources.	NTT.
Loan 1233-INO: Second Telecommunications Project (closed 28 February 2001) (i) Expand the physical telecommunications network of central and south Sumatra and Sulawesi, and (ii) assist with sector reforms and human resource development.	(i) Network expansion, including the installation and commissioning of telephone exchange lines, outside plant, junctions, etc.; and (ii) consulting services and human resources development.	S Sumatra; S, C, SE, and N Sulawesi; Bangka Belitung; Banten; Bengkulu; Gorontalo; Jambi; Riau.
Loan 1232-INO: Third Local Roads Project (closed 16 May 2000) (i) Rehabilitate or upgrade the local road network in project areas; and (ii) finance periodic maintenance works, equipment and facilities for maintenance, and consultants' services.	(i) Civil works, (ii) road maintenance equipment, (iii) workshops and laboratories, and (iv) consultants' services.	C and E Java; Yogyakarta; Bali.
Loan 1223-INO: Second Development Finance Project (closed 14 March 1999) (i) Provide term financing to private investment oriented towards exports of non-oil manufactures, and (ii) improve the financial intermediation process.	Facility to relend the ADB loan to nine participating financial intermediaries, for onlending to eligible subprojects to finance the foreign exchange content of their investment costs.	Nationwide.
Loan 1220-INO: East Indonesia Airports Project (closed 30 June 2003) (i) Provide enhanced civil aviation infrastructure to support all-weather operations at project airports, (ii) remove existing infrastructure constraints to the growth of air services, and (iii) develop economic and tourism activities in the project areas.	(i) Upgrading of Manado and Ambon Airports, (ii) equipment, (iii) consulting services, and (iv) human resource development.	N Sulawesi; Maluku; Gorontalo.

Objectives	Components	Location
<p>Loan 1203-INO: Marine Resource Evaluation and Planning Project (closed 16 May 2000)</p> <p>(i) Improve marine and coastal planning and management capability in the project area, and (ii) strengthen the existing marine and coastal information system.</p>	<p>(i) Storage of databases and operational offices; (ii) aerial photographs, radar, and satellite imagery; (iii) equipment; (iv) consulting services; and (v) local and overseas technical training.</p>	<p>S Sumatra; E Java; Bali; E Kalimantan; S and N Sulawesi; Maluku; NTB; Gorontalo; NTT; W Papua; Bangka Belitung.</p>
<p>Loan 1198-INO: Central Java and DI Yogyakarta Urban Development (closed 28 November 2000)</p> <p>(i) Improve environment and living conditions in low-income, urban areas in Central Java and DI Yogyakarta, through basic infrastructure improvements; and (ii) strengthen the institutional capabilities of governments.</p>	<p>(i) Improvement of urban infrastructure; and (ii) institutional support, including resource mobilization, planning and programming, and in technical and administrative aspects of urban infrastructure management and development.</p>	<p>C Java; Yogyakarta.</p>
<p>Loan 1194-INO: Junior Secondary Education Project (closed 5 June 2000)</p> <p>Improve the quality, and enhance equity in, the delivery of junior secondary education in Indonesia.</p>	<p>(i) Educational improvement and access, (ii) teacher training, and (iii) institutional development.</p>	<p>Nationwide.</p>
<p>Loan 1187-INO(SF): Biodiversity Conservation Project in Flores and Siberut (closed 11 July 2000)</p> <p>(i) Conserve tropical forest ecosystems and biodiversity in two regions through the Integrated Protected Area System (IPAS) approach, and (ii) improve the capabilities of the institutions responsible for biodiversity conservation.</p>	<p>(i) IPAS development, including a survey, mapping, and planning of the two sites, environmentally benign development of the protected areas, and economic development of the buffer zones; and (ii) support services, including community awareness, mobilization, and extension programs.</p>	<p>NTT; W Sumatra.</p>
<p>Loan 1186-INO: Smallholder Tree Crop Processing Project (closed 30 September 2002)</p> <p>(i) Provide intermediate and advanced processing facilities to rubber and oil palm smallholders in project areas, (ii) organize smallholders into efficient processing groups, and (iii) provide institutional strengthening measures.</p>	<p>(i) Establishment of Group Processing Centers and provision of ancillary facilities for them; (ii) establishment of four crumb rubber factories and rehabilitation of two crude palm oil mills; and (iii) support services.</p>	<p>N and S Sumatra; Jambi; Riau; W, C, and S Kalimantan; Gorontalo; Bangka Belitung.</p>
<p>Loan 1184-INO(SF): Upland Farmer Development Project (closed 18 July 2002)</p> <p>(i) Improve the living standards of poor, upland farm households; and (ii) stabilize land and protect forest resources through soil and water conservation, and reduction in shifting cultivation.</p>	<p>(i) Sustainable farming systems development, including land development and introduction of ecologically sound farming systems and agricultural technologies; (ii) agricultural research and development; (iii) rural infrastructure; and (iv) institutional strengthening.</p>	<p>W Java; NTT; C Kalimantan.</p>
<p>Loan 1172-INO: Power XXII (closed 5 January 2000)</p> <p>(i) Meet the rapidly growing power demand in Java, and (ii) improve the power generation mix by replacing oil with indigenous coal.</p>	<p>(i) Expansion of the Suralaya coal-fired thermal power station; (ii) reinforcement of the transmission grid by constructing a single-circuit line, and expanding two substations; (iii) consulting services; and (iv) technical assistance.</p>	<p>W Java; Bali.</p>
<p>Loan 1160-INO: Second Financial Sector Program (closed 31 March 1993)</p> <p>(i) Ensure strength and stability of the financial system; (ii) promote intermediation efficiency; and (iii) revive and develop the capital market, particularly the bond market.</p>	<p>Policy: (i) Establishment of legal and regulatory framework for banks, insurance companies, pension funds, and securities markets; (ii) limitation of tax bias against capital markets instruments; and (iii) promotion of market forces, etc.</p>	<p>Not applicable.</p>

Objectives	Components	Location
<p>Loan 1158-INO: Water Pollution Control Project (closed 15 July 1997) Develop the South Bandung CWCTS as a prototype to (i) test the viability of the centralized approach, and (ii) formulate policy guidelines and institutional arrangements for operation of the CWCTS.</p>	<p>(i) Upgrading and commissioning of the South Bandung CWCTS, and (ii) consulting services for institutional support to South Bandung and preparation of policy guidelines and institutional arrangements for CWCTS in general.</p>	W. Java.
<p>Loan 1157-INO: Telecommunication Project (closed 18 January 2002) Promote (i) integrated and balanced growth of the physical telecommunication network, (ii) cost-effective use of existing network facilities, (iii) development of the sector's human resources, and (iv) a strategic approach to sector planning.</p>	<p>(i) Sumatra component, including installation of telephone exchange equipment, outside plant lines, junction facilities, etc.; (ii) East Indonesia component, involving the expansion of capacity of satellite and transmission system; (iii) human resources development; and (iv) consulting services.</p>	Aceh; N Sumatra; S, C, SE, and N Sulawesi; Maluku; W Papua; Gorontalo.
<p>Loan 1126-INO: Central Java Groundwater Irrigation Development Project (closed 2 May 2000) (i) Accelerate agricultural development in selected areas of Central Java; and (ii) prepare studies and designs for water resources development and flood control in north Java, as well as an irrigated agriculture development project in Sumatra.</p>	<p>(i) Groundwater irrigation development, including civil works and equipment for the installation of tubewells and distribution systems, and guidance for water user associations; and (ii) feasibility studies and detailed design.</p>	C Java.
<p>Loan 1118-INO: Tree Crop Smallholder Sector Project (closed 19 March 2001) (i) Increase the income of smallholders, (ii) improve access to remote areas through road construction, and (iii) reduce shifting cultivation.</p>	<p>(i) Plantation establishment and maintenance, including a pilot project to test a low-cost approach to tree crop development; (ii) construction of roads and buildings; (iii) basic processing facilities; and (iv) support services.</p>	S, C, and E Kalimantan; Aceh; Bengkulu; W Java.
<p>Loan 1115-INO: Eleventh Road (Sector) Project (closed 6 April 1998) (i) Improve national and provincial roads and bridges for more reliable all-weather travel, less costly transport, and more efficient distribution of goods and services; and (ii) enhance mobility of population.</p>	<p>(i) Civil works, including road betterment, bridge replacement, and development roads construction; and (ii) consulting services and training, including the strengthening of the feasibility study unit and environmental training.</p>	W, C, E, and S Kalimantan; N, C, S, and SE Sulawesi; NTB; NTT; Maluku and N Maluku; W, C, and E Java; Gorontalo; W Papua
<p>Loan 1111-INO: Bogor and Palembang Urban Development Project (closed 7 April 2000) (i) Improve conditions in urban areas and reduce constraints to economic expansion through provision and improvement of infrastructure and services; and (ii) strengthen the institutional capabilities of agencies involved, and increase local resource mobilization through institutional and financial strengthening.</p>	<p>(i) Water supply, (ii) wastewater and sanitation, (iii) solid waste management, (iv) roads, (v) drainage, and (vi) improvements in low-income communities.</p>	W Java; S Sumatra; Bangka Belitung.
<p>Loan 1100-INO: Technical Education Development Project (closed 5 April 1999) (i) Improve the quality, relevance, and efficiency of technical education at the senior secondary level; (ii) promote income-generating activities in STMs; (iii) enhance access to quality technical education; (iv) systematize preventive maintenance and repair of STM assets; (v) strengthen management and promote integrated development among STM clusters and vocational schools.</p>	<p>(i) Land and civil works; (ii) equipment, furniture, and instructional materials; (iii) staff development fellowships; (iv) consultants' services; (v) issue-oriented educational research and development; and (vi) income-generating activities and entrepreneurship support through establishment of income-generating units.</p>	Bengkulu; Jakarta; Jambi; W, C, and E Java; W and S Kalimantan; Maluku and N Maluku; NTT; SE Sulawesi; W and N Sumatra; Yogyakarta.

Objectives	Components	Location
<p>Loan 1099-INO: Second Land Resource Evaluation and Planning Project (closed 5 June 2000)</p> <p>(i) Extend GIS at the national and provincial levels started under Phase I of the Project, and (ii) improve the physical planning process in the 18 project provinces.</p>	<p>Strengthening (i) National Geographic Land Resource Information System, (ii) land use mapping capability, (iii) soil resource mapping capability, and (iv) provincial physical planning capability.</p>	<p>W, C, and E Java; Yogyakarta; W, E, C, and S Kalimantan; Gorontalo; Bali; NTB; NTT; N, C, S, and SE Sulawesi; N Maluku.</p>
<p>Loan 1095-INO: Second Fisheries Industries Credit Project (closed 16 January 1996)</p> <p>(i) Increase the productive capacity and enhance value added in the sector; (ii) expand fisheries production; and (iii) increase employment opportunities and income levels.</p>	<p>Provision of term loans to finance the direct and indirect foreign exchange requirements of eligible small- and medium-scale private sector industries in the fisheries sector for capital investment and working capital.</p>	<p>Not applicable.</p>
<p>Loan 1092-INO: Power XXI Project (closed 17 September 1998)</p> <p>(i) Help PLN to maintain reliability and quality of power supply in Java at acceptable levels, and (ii) develop indigenous renewable energy resources in West Java and Sumatra.</p>	<p>(i) Reinforcement and expansion of the transmission grid in Java, (ii) construction of a geothermal plant in West Java, and (iii) preparation of detailed design and bid documents for the Musi hydropower scheme in Bengkulu and the Peusangan hydropower scheme in Aceh.</p>	<p>Aceh; S and N Sumatra; W Java.</p>
<p>Loan 1089-INO: Inland Waterways Project (closed 3 October 2000)</p> <p>(i) Increase the capacity of the inland waterway system, (ii) reduce soil erosion in the canal system, (iii) reduce the maintenance requirements of the canals, and (iv) promote safer and more cost-effective operation of river craft.</p>	<p>(i) Civil works, involving the rehabilitation of inland water transport facilities in Serapat, Kelampayan, Tampan, and Besarang canals; (ii) equipment; and (iii) consulting services.</p>	<p>S, C, and E Kalimantan.</p>
<p>Loan 1078-INO: Bandar Lampung Urban Development Project (closed 22 October 1997)</p> <p>Improve the living conditions of the people, particularly low-income groups, in Bandar Lampung through the provision and improvement of basic urban infrastructure and services.</p>	<p>(i) Water supply, (ii) solid waste management, (iii) human waste disposal, (iv) improvement of low-income communities, (v) urban flood control, (vi) drainage, (vii) urban roads, and (viii) institutional development and training.</p>	<p>Lampung; Banten.</p>
<p>Loan 1077-INO: Botabek Urban Development Project (closed 1 December 1997)</p> <p>Improve the living conditions of the people, particularly low-income groups, in Kabupaten Bogor, Kabupaten Tangerang, and Kabupaten Bekasi through the provision and improvement of basic urban infrastructure and services.</p>	<p>(i) Water supply, (ii) urban roads, (iii) drainage, (iv) sanitation, (v) solid waste management, (vi) improvement of low-income communities and markets, (vii) guided land development, and (viii) consulting services and training.</p>	<p>W Java.</p>
<p>Loan 1069-INO: Second IKK Water Supply Sector Project (closed 21 February 1997)</p> <p>Provide a safe drinking water supply in selected small communities, thus relieving them from inconveniences of getting water and decreasing the incidence of water-borne diseases.</p>	<p>(i) Water supply facilities, including the development of water sources, provision of pumping and treatment facilities, and provision of transmission, distribution and service lines; and (ii) consulting services and training.</p>	<p>S Sumatra; Lampung; C Java; Yogyakarta; C and S Kalimantan, NTB; NTT; Bangka Belitung; Banten; N Maluku.</p>
<p>Loan 1050-INO: Agricultural Technology Schools Project (closed 15 October 1998)</p> <p>(i) Develop further agricultural technology education at the senior secondary level, (ii) raise the quality of education, (iii) increase equitable access to such education, and (iv) develop the entrepreneurial skills of teachers and students.</p>	<p>(i) Educational programs development, with consultants and fellowships providing training for educational, management, and technical development; (ii) educational facilities development, involving the upgrading of schools; and (iii) production unit and entrepreneurial support.</p>	<p>Aceh; Bali; Bangka Belitung; Banten; Bengkulu; Papua and W Papua; Jambi; W and C Java; W, S, and E Kalimantan;</p>

Objectives	Components	Location
<p>Loan 1032-INO: Power XX Project (closed 4 April 2000) (i) Develop renewable indigenous resources in two project regions; (ii) facilitate the integration of isolated load centers in interconnected grids; and (iii) allow PLN to meet the incremental power demand in those regions, and connect additional consumers.</p>	<p>(i) Construction of the Singkarak hydropower scheme and associated transmission facilities in West Sumatra, and (ii) engineering of the Tanggari II hydropower scheme in North Sulawesi.</p>	<p>Lampung; Maluku and N Maluku; NTB; NTT; C and SE Sulawesi; S Sumatra; Yogyakarta. W Sumatra; N Sulawesi; Gorontalo.</p>
<p>Loans 1017/1018(SF)-INO: Integrated Irrigation Sector Project (closed 29 January 1999) Accelerate agricultural development in project areas to increase farm productivity on a sustainable basis, create new employment opportunities, and improve the living standards of many poor farmers.</p>	<p>(i) Irrigation development, (ii) irrigation service fee, (iii) agricultural development, (iv) soil and water conservation, (v) women in development, and (vi) strengthening of coordination and monitoring.</p>	<p>C Java; Yogyakarta; S and W Sumatra; SE Sulawesi; Bangka Belitung.</p>
<p>Loans 1014/1015(SF)-INO: Food Crop Sector Program (closed 31 March 1992) Improve productivity and resource efficiency in the food crop sector through the implementation of suitable policy reforms.</p>	<p>Policy: (i) Sustaining the growth of food crop sector with reduced budget resources; (ii) ensuring basic food security, while diversifying the production base; (iii) alleviating rural poverty and improving more equitable regional development; (iv) promoting the agro-processing industries with private sector support; (v) increasing the foreign exchange earnings of the food crop sector; and (vi) sustaining the natural resource base for farming systems.</p>	<p>Not applicable.</p>
<p>Loan 1013-INO: Six Universities Development and Rehabilitation (closed 28 April 1998) Meet the need for professional and research-oriented manpower in specific fields of specialization to achieve national development requirements, while enhancing equity and regional development.</p>	<p>(i) Increasing internal and external efficiency and improving the quality of education, (ii) enhancing management capacity, (iii) strengthening public service and research capacity, and (iv) assisting private universities through provision of fellowships and training.</p>	<p>W, C, and E Java; W and S Kalimantan; N. Sulawesi; Gorontalo.</p>

ADB = Asian Development Bank, BAPEDAL = Environmental Impact Management Agency, BAPPENAS = National Development Planning Agency, BAWASDA = regional internal audit body, BPKP = central internal government auditor, BPPIP = Agency for Industrial Research and Trade Development, C = central, CWCTS = centralized wastewater collection and treatment scheme, DCC = distribution control center, DI = special province, DSM = demand side management, E = east, GIS = geographic information system, IG = inspector general, IKK = subdistrict capital, ILMU = investment loan monitoring unit, IPM = integrated pest management, IRD = industrial research and development, ISC = industrial service center, MA = madrasah aliyah, N = north, NGO = nongovernment organization, NTB = Nusa Tenggara Barat, NTT = Nusa Tenggara Timur, O&M = operation and maintenance, PLN = State Electricity Enterprise, R&D = research and development, RDA = Regional Development Account, S = south, SE = southeast, SFI = small financial institution, SME = small and medium enterprise, SOE = state-owned enterprise, STM = senior technical school, TA = technical assistance, VTE = vocational and technical education, W = west.

Note: Project location was derived from the reports and recommendation of the President, but when provinces are not specified, supplementary information from other sources was used. As of June 2005, Papua and West Papua were considered as two separate provinces in Irian.

Source: Asian Development Bank loan documents database.

AGRICULTURE AND RURAL DEVELOPMENT

A. Overview

1. From 1968 to 1992, agricultural output per capita, including fisheries 4.0% and forestry, grew by 4.8% per year, while output in the crop and livestock sectors grew by 4.8% per year (Table A8.1). This was a marked improvement over performance in the early 1960s. Part of this growth was the result of increased factor inputs, including labor, fertilizer, and irrigation. Growth in total factor productivity also was a key factor. Between 1993 and 2000, total output growth slowed, and total factor productivity contracted. While the El Niño-induced drought and the severe macroeconomic shocks after 1997 were part of the reason for this decline, the slowdown in agricultural growth preceded these events, and has carried on since. A recent study concluded:¹

Items	1961–2000	1961–1967	1968–1992	1993–2000
Total Output	3.5	1.2	4.8	1.1
Total Inputs	1.8	0.5	2.2	1.2
Total Factor Productivity	1.7	0.7	2.6	(0.1)
Labor Productivity	2.0	0.3	2.9	0.1
Land Productivity	1.5	0.8	2.4	(0.9)
Foodcrop Output/Population	2.5	0.2	4.0	(0.4)

Source: Fuglie, Keith. 2004. *Bulletin of Indonesian Economic Studies*. Table 5.

Probably, a more important explanation for the productivity slowdown is that once the initial gains made possible by the green revolution were exhausted, public and private investments in agriculture were not sufficient to sustain further productivity growth. Both government spending and private investment in agriculture have fallen since the mid-1980s, as a percentage of agricultural GDP...While much of the decline in government support for agriculture came about through a reduction in fertilizer subsidies (which probably had low returns, especially in later years), the decline also extended to investments with a higher pay-off such as rural infrastructure and agricultural research and extension...Private sector investment in agriculture fell drastically during the financial crisis of 1997–98. It is unlikely to recover, unless the overall investment climate in Indonesia improves and complementary infrastructure investments that can only be made by the public sector are forthcoming.

2. This excerpt from the study makes clear that the problems of the agriculture sector in Indonesia cannot be attributed solely to the severe financial crisis, the resignation of Soeharto, and the subsequent economic and political difficulties that Indonesia experienced. However, the radical changes in the public finances that have occurred since 1997 have affected public expenditures on agriculture. As a proportion of gross domestic product (GDP), total Government expenditures have increased since the onset of the crisis. However, the part of the development budget controlled by central Government departments has declined relative to GDP (Table A8.2). Since the implementation of the decentralization legislation in 2001, the proportion of central Government expenditures channeled to the

Fiscal Year ^a	As Percentage of GDP ^a					
	Domestic Revenues			Expenditures		
	Total	Non-Oil	Routine ^b	Development ^c	Regional	
1994/95		17.2	13.9	6.5	5.5	3.6
1995/96		16.2	12.7	6.3	4.4	3.3
1996/97		15.8	12.1	6.9	4.7	3.3
1997/98		16.0	11.7	8.8	3.8	3.0
1998/99		14.8	10.9	9.7	4.0	2.5
1999/00		16.8	11.6	14.0	4.0	2.7
2000	21.1	12.4	16.7	2.7	3.4	
2001	20.5	13.4	14.9	2.8	5.5	
2002	18.5	13.7	11.6	2.3	6.1	
2003	19.1	14.6	10.6	3.6	6.8	

GDP = gross domestic product.

^a Until March 2000, fiscal years (FYs) ran from April to March. FY2000 was 9 months; thereafter FYs coincide with calendar years. GDP data have been adjusted to coincide with FYs, using quarterly GDP data.

^b The data from 1994/95 to 1997/98 on routine expenditures exclude routine subsidies to the regions, which are included with regional expenditures.

^c The data from 1994/95 to 1997/98 on development expenditures exclude all regional development subsidies to the regions, which are included with regional expenditures.

Sources: Bank Indonesia annual reports (various issues) and Indikator Ekonomi (Statistics Indonesia [Badan Pusat Statistik], formerly Central Bureau of Statistics, monthly).

¹ Fuglie, Keith. 2004. *Bulletin of Indonesian Economic Studies*. 223. Jakarta.

local governments (LG) has increased to almost one third, or around 6.8% of GDP in 2003 (Tables A8.2 and A8.3). How the LGs are using their greatly increased resources is unclear, though a considerable part covers payments for the civil servants (including teachers, health workers, etc.) who have been transferred from the central Government payroll.² The portion left over for expenditures on nonsalary expenditures in sectors, such as agricultural and rural development, is uncertain.

3. The decentralization legislation of 1999 was radical in that it represented a break with the tightly centralized system of the Soeharto era, as well as with the much longer tradition of top-down Government that dated to the Dutch colonial era.

The main goal of the legislation was to empower the LGs by giving them a range of responsibilities in agriculture and rural development, as well as in health and education. The implementation of the legislation has affected the powers and perquisites of the large central Government spending departments and their provincial offices, where officials are beginning to realize that the rules of the game have changed in ways that are detrimental to their interests. Not surprisingly, resistance to decentralization at the center and the provincial level remains strong. Officials are exploiting the vagueness and lack of clarity in the legislation to retain powers in particular areas, usually by arguing that districts do not have the capacity to take on new responsibilities. These three-way tugs of war over power and resources are likely to continue for some years, inevitably affecting project implementation across a number of sectors. In particular, central Government departments and agencies are anxious to retain central control over aid-financed projects, and the benefits in terms of extra remuneration and procurement that these projects bring with them.

4. The number of aid projects has declined dramatically since the crisis. The assault on the corruption and nepotism associated with the downfall of the Soeharto regime inevitably affected the important bilateral and multilateral external development partners in Indonesia, which were accused of encouraging corruption by ignoring the evidence that a considerable proportion of their project funds were diverted to purposes other than those for which they were intended. A less enthusiastic attitude to external development partner finance at the National Planning Agency (Badan Perencanaan Pembangunan Nasional [BAPPENAS]) has aggravated this sharp reduction in project lending. While the decline in project lending has probably been most severe in infrastructure projects, it also has affected lending to other sectors, including agriculture. Many experienced observers are now arguing that the slowdown in spending on roads, bridges, expansion of the electricity grid, and education is contributing to the decline in private sector investment spending by foreign and local enterprises.

5. In the Indonesian context, agricultural growth, poverty reduction, and environmental sustainability are linked. An effective pro-poor growth strategy must take into account these links.³ Although the slow-down in agricultural growth predated the severe financial crisis of 1997, evidence suggests that the crisis aggravated the problems of the agricultural sector in several ways.

Table A8.3: Percentage Breakdown of Total Budgetary Expenditures FY1994/95 to 2005

Year	As Percentage of Total Budgetary Expenditures ^a				
	Subsidies	Interest	All Routine	Development	Regional
1994/95	na	na	41.7	34.9	23.4
1995/96	na	na	45.2	31.4	23.4
1996/97	1.9	8.0	46.3	31.5	22.2
1997/98	19.3	9.9	56.3	24.6	19.2
1998/99	20.0	19.0	59.8	24.8	15.4
1999/00	28.4	18.5	67.6	19.5	12.9
2000	28.3	22.6	73.4	11.7	14.9
2001	22.7	25.5	64.1	12.2	23.7
2002	13.5	27.2	57.9	11.6	30.5
2003	11.7	18.5	50.5	17.3	32.2
2004	7.0	17.5	49.3	18.9	31.8
2005 ^b	8.5	16.2	48.2	18.9	32.9

^a The data from 1994/95 to 1997/98 on routine and development expenditures exclude routine and development subsidies to the regions which are included with regional expenditures. The estimates for 2004 and 2005 are budget targets; other data refer to actual expenditures.

^b It is likely that subsidies will increase as a share of total expenditure in 2005 if world oil prices stay at the levels reached in late 2004.

Source: Bank Indonesia annual reports (various issues).

² In 2003, 2.4 million of 3.5 million permanent civil servants were working at the district level, compared with only 812,000 at the center. The rest were allocated to the provinces.

³ ADB. 2004. *Final Report on ADB TA No. 3843-INO: Agriculture and Rural Development Strategy Study*. Manila. The link between agricultural growth and poverty reduction also was emphasized in the country operational strategy of 1994.

6. Many producers of export commodities benefited from the rapid depreciation of the rupiah at the end of 1997 and in early 1998, which boosted the rupiah prices of export crops. However, subsequent inflation eroded these benefits rapidly, which affected the general cost of living in rural areas and the price of agricultural inputs. Since 2000, the farmers' terms of trade (computed by the Statistics Indonesia) has deteriorated relative to its 1993 base in several provinces outside Java, although it has improved in Java. The crop mix is the main reason for these divergent outcomes by region. In Java, farmers cultivate rice (where imports are controlled and the price has been above world levels) and crops such as fresh vegetables, which also fetch high prices on local markets. Outside Java, crop prices tend to follow world market trends, and farmers enjoy less protection. Nonetheless, even in Java, farmers complain of high input prices relative to output prices.

7. Judging whether the crisis, and the subsequent real decline in rural household incomes in many parts of the country, had a perceptible impact on access to land is difficult. However, reports circulated of distress sales in some parts of Java. Even before the crisis, many rural households in the densely settled inner islands of Indonesia did not have access to enough agricultural land to sustain the household without recourse to other forms of income. Pressure on land is less intense in some parts of the outer islands. However, other problems, such as lack of irrigation, poor transport infrastructure, and the absence of agricultural support services continue to constrain rural incomes.

8. The 1993 Agricultural Census reported that agricultural households in most parts of Java received less than half their total income from the farm enterprise. In Indonesia, on average, the proportion was around half.⁴ The impact of the crisis, and the subsequent collapse in the growth of off-farm income opportunities, is still unclear. However, the impact was likely adverse, especially in Java. Wage employment in sectors such as construction and trade contracted sharply, and numbers employed in agriculture (according to the conventional Labor Force Survey definitions) grew rapidly in 1998. Thus, the crisis increased number of people relying on the agriculture sector for at least part of their incomes, while reducing the amount of off-farm and nonagricultural income opportunities for rural households.

9. The decline in central Government development expenditures after 1997 aggravated the problems of infrastructure maintenance, which were evident before the crisis.⁵ In many rural areas, roads, irrigation systems, schools, and health clinics deteriorated. The increased allocations to the regions following the implementation of the decentralization legislation should permit rehabilitation of infrastructure, although it is not clear how much money is being used for this purpose. In the irrigation sector, new legislation is trying to clarify the responsibilities of different levels of government, and also the role of water user groups that have been given responsibility for developing and maintaining tertiary systems. What sources of finance these groups will be able to access is unclear.⁶

10. The increase in the share of routine expenditures devoted to debt servicing and subsidies after the crisis meant that less money was available for salaries and wages. This, in turn, reduced the size of the permanent civil service. In 1996, the civil service employed 4.06 million permanently, compared with 3.55 million in 2003. The number of temporary employees probably dropped as well. This contraction affected the agriculture extension service, among other branches of government employment. It has also affected funding for

⁴ Booth, Anne. 2002. The Changing Role of Non-Farm Activities in Agricultural Households in Indonesia: Some Insights from the Agricultural Census. *Bulletin of Indonesian Economic Studies*. Volume 38 (2), 179–200.

⁵ For a discussion of operation and maintenance problems in the irrigation sector, see ADB. 1989. *Bank Operational Strategy for Indonesia*. Manila. 33.

⁶ See Law 7, 2004 on Water Resources, para. 41.

agriculture research at the national level and in the provinces. Even before the crisis, Indonesia spent a much smaller percentage of its budget on agricultural research than countries such as Malaysia and Thailand (3% in Indonesia, compared with 10.2% in Malaysia and 10.7% in Thailand). Publicly funded agriculture research and the development of extension services were key reasons for the successful dissemination of new food crop technologies in Indonesia in the 1970s and 1980s. Most experts consider these to be complementary to private expenditures on development of new agriculture technologies and products (footnote 3).

11. The availability of credit is another constraint on the development of small and medium enterprises (SME), farm and nonfarm-based, in rural areas. After the crisis, Bank Rakyat Indonesia's (BRI) lending to rural SMEs through the general rural credit program experienced fewer arrears than loans by other banks to large-scale enterprises. The repayment record of such loans over the difficult months from late 1997 to 1999 was good.⁷ The general rural credit program continues to be an important source of credit for many SMEs. However, the loans are secured with collateral, and collateral requirements have increased as a result of the crisis. As many rural households cannot meet these requirements, they must pay higher interest rates on the informal market or go without credit. The demand for microloans in Indonesia, which total less than 1% of GDP, is not being met.

B. Selected Project Details

1. Rural Income Generation Project

12. The Department of Agriculture (DOA) conceived and implemented this project idea in 1979. In recent years, the Asian Development Bank (ADB) and International Fund for Agricultural Development (IFAD) have assisted the project. The objective of the project is to develop a sustainable and participatory credit system to help the poor improve their livelihoods and achieve sustainable incomes above the poverty line. The lending was through around 10 BRI groups. An extension worker visits the groups at least twice monthly as they stay in the project. Loans are supposed to be used for the development of small businesses, sometimes by the group as a whole, but more often by individual members. The groups are encouraged to meet frequently, exert peer group pressure on those members who are slow in repaying their credit, and assist members experiencing short-term difficulties due to sickness or some other family crisis. By September 2003, an estimated 65,000 self-help groups had been formed, of which 39,000 had outstanding credit.

13. ADB approved Loan 1583-INO: Rural Income Generation (RIG) Project in 1997 with the objective of forming self-help groups among the poor. The poor would benefit from collateral-free credit for livelihood activities, as well as training on management systems, planning, and evaluation for sustainability. The project built on the gains developed and lessons learned under the Income Generating Project for Marginal Farmers and the Landless (*Proyek Peningkatan Pendapatan Petani Kecil [P4K]*)⁸ project. It had several key differences from P4K:

- (i) Larger scale (double the target number of groups under P4K) and wider coverage area (12 provinces compared to only 3 provinces under P4K);
- (ii) Allocation of more resources to the educational and training component;⁹

⁷ Papanek, Gustav F. 2004. *The Poor of Indonesia: The Impact of Economic Decline, Rapid Growth and Crisis, 1952–2003*. Washington: United States Agency for International Development (Chapter 8). It is argued here that an inverse relationship exists between the size of the loan and the repayment rates in most banks.

⁸ Income Generating Project for Marginal Farmers and the Landless, a poverty reduction project financed by the International Fund for Agricultural Development; United Nations Development Programme (UNDP); and the Netherlands, which ended in 1998, while RIG became effective on 18 June 1998.

⁹ To include topics not previously covered by P4K, such as family and microenterprise management; savings and lending; graduation to other credit schemes; and participatory monitoring evaluation, marketing, and technology.

- (iii) Enhanced microfinance accessibility through mobile units and village-level disbursements, rapid processing of loan requests, and increased involvement of LGs;
- (iv) Greater coordination between the Agency for Agricultural Education and Training and the BRI—both identified as the executing agencies (EA) for this project—to avoid breakdowns in credit delivery witnessed under P4K when the EA was only the former; and
- (v) Use of more transparent and participatory procedures in selecting beneficiaries, including the prioritization of existing villages under another government program,¹⁰ which screened villages according to their level of infrastructure.

14. The RIG Project is widely considered to have been a success with strong social and community impacts.¹¹ It has improved the incomes of many thousands in rural areas, as well as their standing in the community. The project has reached many people in rural areas who possess the ability to manage small businesses, but have been unable to access credit from other sources at affordable interest rates.¹² Women have been actively involved, and many groups are exclusively female. Arrears on average have been low, with many groups not only paying back loans on time, but accumulating sizeable savings with BRI units. Officials associated with the project stress that it is about more than credit. The project is about educating managers of small businesses to draw up business plans and repay loans in a timely fashion.

15. However, some problems have emerged. Perhaps the most serious concerns targeting.¹³ The report by DOA and Statistics Indonesia stated that 85% of participants interviewed were no longer poor, which raises the question of whether they were genuinely poor to begin with. Project administrators, working with BRI, were understandably careful in selecting participants who were likely to make a success of their enterprises and pay back the loans on time. However, this care might have excluded many poor households. Problems also have arisen with the extension workers, most of whom have come from DOA. Many complain of work overload, and only visit groups once or twice a month, even though around half were provided with motorcycles through the project. Evidence suggests that not all the credit was used for business development, and some (more than 10% in several provinces) was diverted to daily living expenses.¹⁴ While arrears were not high at the national level, considerable regional variation was evident. In West Java, where arrears amounted to 8% of credit disbursed in June 2004, the ratio was almost 21% in one district. The sustainability of the businesses undertaken by the group after participation in the RIG credit is terminated is another issue. BRI is establishing another group lending program for graduates from the RIG Project, though the amount of money lent is quite small.

2. Coastal Community Development and Fisheries Resource Management Project

16. The aim of Loan 1570-INO: Coastal Community Development and Fisheries Resource Management Project was to promote sustainable management of the coastal fisheries resources, and to reduce the extensive poverty in coastal areas by providing opportunities to increase income of coastal households. The project covered four sites: Trenggalek and Muncar

¹⁰ The Presidential Instruction Program for less developed villages, which started in 1994.

¹¹ ADB. 2004. *Final Report on ADB TA No. 3843-INO: Agriculture and Rural Development Strategy Study*. Manila.

¹² The survey carried out by DOA in conjunction with Statistics Indonesia found that only 16% of beneficiaries had access to other forms of credit.

¹³ The concerns about the project have been raised in terms of (i) beneficiaries being mostly (85%) nonpoor, (ii) overburdened extension workers, and (iii) fungibility of funds to daily expenses rather than for business development.

¹⁴ This was reported in the survey by Department of Agriculture and Statistics Indonesia.

in East Java, East Lombok in Nusa Tenggara Barat, Tegal in Central Java, and Bengkalis in Riau. The EA was the Directorate General of Fisheries within the DOA, and then the newly created Ministry of Marine Affairs and Fisheries.

17. Problems with counterpart funding, and ADB's complex administrative procedures, affected the implementation of the project. Overall, the project has had considerable success in meeting its main objectives. The midterm review (MTR) of July 2001 found that illegal and destructive fishing in most of the sites had been reduced by more than 50%, and that 16,000 households had benefited from the social services and infrastructure provided by the project. Fish sanctuaries and artificial reefs, and other infrastructure such as new harbor walls and breakwaters, have been built. In addition, microenterprises have been encouraged, and in some cases assisted with credit. However, the report and recommendation of the President (RRP) did not include a credit component. The city government and the LG involved have supported the project. Attempts to encourage other sources of income have had mixed success, although duck farming in Tegal appears to have been successful. Most of the fishermen using environmentally destructive fishing methods have incomes below the poverty line. As such, attempts to provide other sources of income, as well as advice about new fishing technologies, have reduced poverty and pressure on fragile coastal environments.

18. ADB and the EA managed the project well. One ADB staff member has remained with the project since the RRP, and has built good relations with the Indonesian team. A consultant with extensive experience in coastal fisheries management also played a key role in project implementation. However, the project does not appear to have maximized the benefits that could have been derived from closer integration with other ADB projects, especially the RIG Project. Project staff pointed out that microcredit is essential for the development of small enterprises. At the site in East Lombok, local financial institutions have provided some microcredit facilities. Still, linking the Coastal Community Development and Fisheries Resource Management Project more closely to credit from BRI through the RIG Project from the beginning might have been preferable.

3. Poor Farmers' Income Improvement through Innovation Project

19. The immediate objectives of Loan 1909-INO(SF): Poor Farmers' Income Improvement Through Innovation Project are to (i) improve targeting of village-level public investments to the location-specific needs of agricultural and rural development, (ii) increase the access of poor farmers to information, and (iii) reorient the focus of agricultural research to the needs of marginal rainfed areas. ADB procedures initially suggested that economic analysis was to be done for each subproject. However, that would not have been possible, as this meant participatory activities would have to be carried out before the project and the project preparatory technical assistance funding was insufficient. In 2002, ADB approved the project, which is in the early stages of implementation (20% implementation and 40% in time lapse). A national steering committee was established in July 2002. Slow recruitment of consulting services and nongovernment organizations (NGO) has impeded implementation of the project, though 10 pilot villages have been selected for advance preparation and implementation of village infrastructure projects. The NGO coordinators were to help with the cash flow analysis and cost-benefit analysis, and arrange training, etc. These types of implementation arrangements are crucial to the success of the project. However, they are not that expensive, because domestic NGOs are not costly. Each NGO could handle about four villages, as they had a crucial but limited role.

20. The project was to be implemented in about 1,000 villages in five districts. Reducing the scale to 200 villages initially would have been better. This would have learning from this first stage, as this was an innovative project. Apparently, it is not cost-effective for ADB to approve

small projects to cover a large number of villages with a loan of about \$5 million, because these are small-scale investment projects.¹⁵ The project design intended to have implementation arrangements that were more conducive to long-term sustainability, linking village development councils with project implementation. To prevent corruption, funds are directly sent to the account of the village organizations, bypassing other institutions where it could be leaked. Using commercial bank accounts as the mechanism, the budgetary process had to be adjusted slightly. The Government of Indonesia could replicate this approach if it is successful. The funds were meant to be for public goods (small culverts, well, etc.). The project was not designed for lending money (i.e., microfinance), but to provide funds for small infrastructure or common training (such as a piggery demonstration farm). NGO coordinators were supposed to be in charge of about four villages.

21. The country assistance program evaluation team discussions in East Lombok in August 2004 indicated that village investment committees had been established in the 10 pilot villages (village officials were excluded from these), and small-scale investment projects were being implemented. Most were road projects or irrigation development. The head of the village investment committee in one of the pilot villages said that not all the farmers benefiting from the irrigation project were poor, although many were (at least in the sense of owning very small plots of land). The project office in the district was prepared to implement projects in another 10 villages in the current year. Although the project documentation emphasized the need to increase the access of poor farmers to information about new technologies, the choice of projects implemented in the pilot villages did not stress this. Undoubtedly, more infrastructure investments in rural areas is needed. The emphasis of this project on infrastructure suggests a considerable overlap with other ADB projects that also focus on rural infrastructure development, such as the Community and Local Government Support Sector Development Program. To the extent that the project emphasizes technology transfer to smaller farmers, it overlaps with Loan 1526-INO: Participatory Development of Agricultural Technology Project (PDAT) discussed in para. 22.

4. Participatory Development of Agricultural Technology Project

22. The objective of the PDAT Project was “to improve farm incomes and welfare and alleviate poverty in rural areas through the increased generation, transfer, and adoption of user-oriented agricultural technologies and management practices to support agribusiness development.” The project emphasized research and development, infrastructure and management systems, and demand-driven provincial research and development and technology transfer. The focus of the project was on (i) training staff in agricultural research institutions in the implementation of rural appraisals, (ii) training extension staff, (iii) testing technologies at the farm level, (iv) developing new technologies for farm applications, and (v) preparing special studies.

23. A management unit for the project was established in the Agency for Agricultural Research and Development within DOA. The unit worked closely with eight regional assessment institutes for agricultural technology (AIAT), covering 12 provinces across the country. These institutes are intended to be an important link between the national agricultural research institutes and farmers. A lack of counterpart funding impeded implementation of the project, although the MTR document indicated that provinces were willing to take over some of the counterpart funding for projects based in the AIATs. A large part of the budget has been devoted to staff training in Indonesia and abroad. The MTR noted that the EA engaged overseas and in-country institutions for long-term training without either the knowledge or approval of ADB.

¹⁵ The five districts covered are Blora and Temanggung in Central Java, Ende in East Nusa Tenggara, Lombok Timur in West Nusa Tenggara, and Donggala in Central Sulawesi. This is the smallest project approved since 1997.

24. Although the AIATs have put together a diverse range of technology packages, the farm-level transfer of technology has been limited. In part, this is due to shortages of extension workers, and the MTR argued that the project needed to design an extension vehicle to extend successful research results to farmers. The effective utilization of consultants also encountered problems. The MTR also reported that this was due in part to the unwillingness of many EA staff members, who have masters and doctoral degrees, to heed the advice of the consultants or to acknowledge that they were necessary.

25. While this project addressed an important set of needs in the agricultural research and extension sectors, it is vulnerable to criticism on several counts. Inadequate attention was paid at the design stage to possible overlap with other projects, such as Loan 1469-INO: Integrated Pest Management (IPM) for Smallholder Estate Crops Project. The AIATs needed support, especially after the crisis when the national budget (*Anggaran Pendapatan dan Belanja Negara* or APBN)¹⁶ funding was curtailed. However, the project might not have addressed the key problems in dissemination of agriculture technology to farmers. Rather, the emphasis was on staff training in an agency that already had many highly trained staff. In particular, the project did not address directly problems in the extension service. As with some other projects, finding and retaining appropriate consultants were problems that affected project implementation.

5. Integrated Pest Management for Smallholder Estate Crops Projects

26. The purpose of the IPM Project was to promote the adoption of cost-effective and environmentally sound IPM practices by smallholder estate crop farmers by strengthening both government institutions and smallholder groups. Twelve provinces were included (which became 13 after Bangka and Belitung were each given provincial status). The 7-year implementation period was initially divided into two phases. During the first phase, curricula and training materials were developed and tested in five provinces. In the second period, the training period was extended to seven other provinces. Different crops were selected in each province (e.g., tea in West Java, pepper in Lampung, coffee in Central and East Java and Bali, cocoa in South and Southeast Sulawesi, cashew in Nusa Tenggara Barat). As well as improving the capacity of the extension services, the project contained a research component intended to improve feedback links between research and the farmers. Management support to the Directorate General of Estate Crops also was included.

27. Project implementation was slow, which often occurs in complex projects covering many provinces. Delays were seen in fielding consultants, and in disbursing the counterpart budget. However, some improvement has been evident in disbursement and in achieving the farmer training targets. A field trip to a farmer training class in West Java found that pest control technologies were being transmitted effectively, and farmer support for the project was strong. As farmer training is at the core of the project, meeting training targets is crucial to the success of the project. The back-to-office report of September 2002 highlighted overlap between projects. The farmer training component was similar to that in another ADB-funded project, although different methods were adopted. While the research component duplicated the PDAT Project, the two projects were implemented by different agencies within the DOA, and the incentive to coordinate activities seemed limited.

28. This project would not appear to have any direct impact on poverty reduction. The farmers benefiting from it would be mainly landowners, coming from the more prosperous sections of the rural community. Higher yields for crops, such as tea, coffee, and pepper, would

¹⁶ National budget for revenues and expenditures.

increase farm household incomes. However, such an increase would have not have a clear and indirect impact on poverty reduction in the project area. The project's impact on poverty reduction would depend on what the beneficiaries did with their increased income.

6. South Java Flood Control Sector Project

29. The South Java Flood Control (SJFC) Sector Project covers part of the provinces of West Java, Central Java, and Yogyakarta. It is situated along the south coast of the island. The project area comprises 14 districts (*kabupaten* and *kotamadya*), 220 subdistricts (*kecamatan*), and 35 river basins (10 of which suffer severe flooding problems). An estimated 400,000 people, of 13 million inhabitants in the project areas, are affected annually by flooding. Around 50,000 hectares of crop and residential land are inundated each year, causing damage with an estimated annual cost of about \$25 million. The project was designed using a river basin approach; most river basins cover more than one district.

30. The main objective of the SJFC Project was to improve the quality of life of the rural and urban population in the project area by (i) reducing flood-induced disruption of human activities and disease; (ii) preventing regular flooding of houses and crops; and (iii) minimizing disruptions of services and commercial activities, thereby enhancing the income-earning capacity of the generally poor population in flood-affected areas along more than 250 kilometers of Java's south coast. The project also aims to promote sound management of natural resources and environment by monitoring and controlling sediment imbalance in the water channels, and by protecting riverbanks against flood-induced erosion and improving the maintenance of river channels and their outlets to the sea.

31. The EAs for the SJFC Project are the Directorate General for Water Resources Development, Ministry of Settlements and Regional Infrastructure; the Directorate General of Land Rehabilitation and Social Forestry, Ministry of Forestry; and the Directorate General for Regional Development Guidance, Ministry of Home Affairs. BAPPENAS is in charge of the overall coordination of the project. The regional planning agencies at the provincial and district or city level will coordinate government agencies in their respective regions in the project. Thus, the organizational setup of the project is complicated, with several implementing agencies spread across three government departments. Coordination at the national and the local levels is needed.

32. From its inception, the SJFC Project utilized a participatory approach for the planning and implementation of its activities. Affected persons participated in, and were consulted on, designing the flood control works, determining compensation payments for acquired land, and identifying the relocation sites for those that need to be resettled. The detailed engineering, on which the flood control works were based, was developed in participation with the affected communities and other stakeholders. Socialization meetings were held with authorities at district, subdistrict, and village level. Affected land owners attended the village meetings, and were able to observe the direct effect of the proposed works on their land. The amount of land needed and the prices offered in compensation for the land and other assets were then discussed with the owners. The compensation to be received by the owners of the land is derived through thorough negotiations. A Land Acquisition and Resettlement Unit was established in every district. This reported directly to the Governor and was responsible for the distribution and control of the resettlement funds made available from central, provincial, and district sources. The staff of the Land Acquisition and Resettlement Unit have been trained by the project.

33. Improved land use management in the upper catchments has been effective in reducing flood flows and stabilizing dry season flows. To achieve improved river basin management, strengthening LG capacity for delivering watershed management services and supporting soil conservation measures are necessary. With the implementation of local autonomy and decentralization of development management, coordination between agencies within the district and between districts needs to be improved. The role of provincial government agencies in coordinating capabilities also should be strengthened. In most districts, the planning officials and agencies are concerned only with planning issues and conditions within their respective administrative boundaries. This can undermine resources management. Training on the principles of integrated watershed and coastal zone management are important. An alternative approach that could have been considered would have been to form watershed planning and management committees and water and resources users association covering districts, subdistricts, and villages according to their location in the river basin.

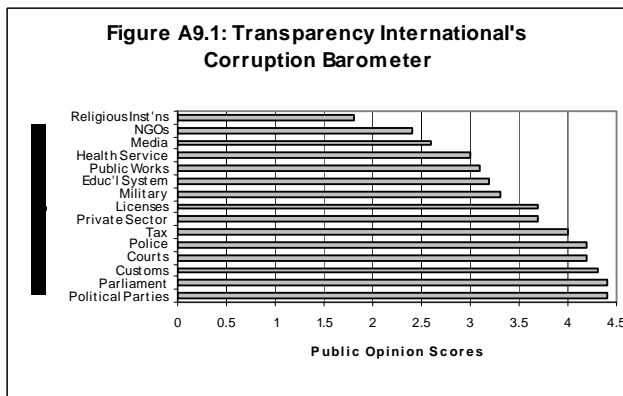
34. Project boundaries were defined using administrative boundaries. Some draining watersheds and subwatersheds were omitted from the original project area. Lack of knowledge about the project area's physical and socioeconomic conditions, and the resulting need for land expropriation and resettlement planning has meant that support for the resettlement activities was insufficient. Detailed design mapping and socioeconomic baseline data collection showed clearly that resettlement planning was a major task that required considerable support. These problems affected the speed of project implementation.

35. Active participation of stakeholders and local communities in all aspects of the project could have been encouraged more strongly. The role of NGOs and local community organizers was critically important in communication of the objectives and benefits that could be achieved with the implementation of the project. To optimize the roles of NGOs and local community organizers, they need capacity building and human resource development, tasks that should be included in future project formulation. More broadly, cooperation and coordination between districts in the upper catchments and lower catchments has been crucial for successful implementation of the project. Mutual benefits should have been pointed out to ensure sustainable management of natural resources. The implementation of regional autonomy and decentralization is still in its initial stages, and the mindset of the LGs has not always been favorable to speedy resolution of these coordination problems. Improvement in coordination and cooperation between all implementing agencies at national, provincial, and district level has been mainly responsible for the significant improvement in SJFC project implementation since 2003. For an integrated development project such as this one, such coordination and cooperation will be essential in the future.

GOVERNANCE AND ANTICORRUPTION INITIATIVES

A. Measuring and Comparing Corruption Perception

1. Transparency International has compiled the corruption perception index (CPI), a composite index that draws on corruption-related data in expert surveys carried out by a variety of reputable institutions. It is based on the corruption perceived among public officials and politicians, and included a opinion poll from Gallup International as part of its “Voice of the



People Survey” carried out between June and September 2004. The index reflects the views of business people and analysts from around the world, including experts who are resident in the countries involved. A country has to be included in at least three surveys before it can be considered in the CPI. The CPI score is a more important indicator than the CPI ranking, because the ranking could change as the number of countries in the index changes from year to year. Therefore, ranking is relative for a particular year. When

asked where they would like to focus on eliminating corruption, 33% of people surveyed indicated they would focus on the court system, followed 16% for political parties, and 10% for the police.¹ Transparency International also prepared a Corruption Barometer in 2004, which compares petty and grand corruption with other problems in society, and evaluates the extent to which institutions are considered corrupt. The ranking of Indonesian institutions is shown in Figure A9.1. The data covered the perceptions of 1,234 people interviewed face-to-face in Jakarta, Medan, and Surabaya. They were asked to rank institutions and sectors on a scale of 1 to 5 for corruption perception, with 5 being the highest corruption. When these people were questioned about the biggest problems facing the nation, they identified unemployment (99%) as the most acute problem. Poverty, insecurity, and large-scale corruption were the second tier problems with 97% of the votes.

2. A recent Audit Board report² found that the Ministry of Settlement and Infrastructure (Public Works) had Rp462,63 million in unaccounted for expenditures during 2002 and 2003, while the Ministry of Communication had Rp4,777,50 million in questionable expenditures. On the revenue side, the Attorney Generals Board had unaccounted for revenue of Rp320,478,28, compared to Rp19,926,40 in the Ministry of Religious Affairs, and Rp6,137,85 in the Ministry of Justice and Human Rights.

B. Asian Development Bank's Initiatives

3. **Management Guidance.** Table A9.1 shows the Asian Development Bank (ADB) Management's efforts to enhance corruption prevention by providing guidance to staff during the design and formulation stage. The topic of governance and anticorruption was discussed in 86% of Indonesian project documents reviewed by the Management and the Board. The suggestions made during Management

Table A9.1: Advice on Corruption Prevention Given by the Asian Development Bank at Various Stages of Project Processing

Year of Approval at Project Stage	RRP	MRM	SRC	Board
1999				
Loan 1673-INO: Power Sector Restructuring Program	X	√	X	√
Loan 1674-INO: Capacity Building for Establishment of a Competitive Electricity Project	X	√	—	√
Loans 1677/1678-INO: Health and Nutrition Sector Development-Policy Loan	√	√	√	√
2001				
Loan 1863-INO: Decentralized Basic Education Project	√	√	√	√
2003^a				
Loans 2064/2065-INO: Participatory Irrigation Sector Project	√	√	√	^a
Loans 2072/2073-INO: Neighborhood Upgrading and Shelter Sector Project	√	√	X	^a
Loans 2074/2075-INO: Second Decentralized Health Services Project	√	√	√	^a

— = data not available, √ = corruption explicitly mentioned, X = no mention of corruption, INO = Indonesia, MRM = management review meeting, RRP = report and recommendation of the President, SRC = staff review committee.
^a The loans approved in 2003 were all cleared under the summary procedure on 19 December 2003.
 Source: Asian Development Bank.

¹ Transparency International. 2003. *Transparency International Global Corruption Barometer*. Available: <http://www.transparency.org>

² Audit Board: Republic of Indonesia. 2004. *Auditing Results, Audit Board of the Republic of Indonesia, 1st Semester, Fiscal Year 2004. Audit Result Notes*. Jakarta.

meetings included (i) supporting improvements in the management information system to strengthen public sector management, (ii) publicizing project objectives widely, (iii) mobilizing field monitors quickly, (iv) providing for independent monitoring, (v) promoting nongovernment organization participation in village or district committees, (vi) improving capacity development for monitoring by nongovernment organizations or media, (vii) promoting a participatory approach for project planning and implementation, (viii) laying out implementation arrangements for preventing fraud and corruption in the project administration memorandum, and (ix) consolidating procurement at the national level. Although program loans do not mention corruption-related issues directly, they dealt with promoting procedures to reduce corruption in the longer term, such as improving competition and private sector participation, and strengthening regulation, etc.

4. **Monitoring and Evaluation.** Three recent evaluation reports looked into governance and corruption. The issues identified in the program and/or project performance audit reports (PPAR)³ included (i) inappropriate bid evaluations, (ii) breakdown of procurement packages to circumvent ADB scrutiny, (iii) possible mismanagement of funds, (iv) overestimation of the number of facilities being built, (v) possible collusion in bidding, (vi) major contract variations, (vii) optimistic projections of financial services for selected clients, (viii) nontransparent procedures for financial restructuring, and (ix) work relationships with financial institutions that allegedly were engaged in corrupt practices. Of the 37 back-to-office reports of the ongoing projects reviewed by the country assistance program evaluation team, 23 projects mentioned malpractices ranging from poor financial management and procurement irregularities to poor implementer supervision and overcharging. Some of these were investigated, while others had little evidence to lead to a decision. Of the 27 program and/or project completion reports (PCR) reviewed, only five discussed allegations of corruption.

5. In one of the three independent evaluations that identified corruption issues (Loans 1017/1018), some of the contractors were sanctioned following investigations by the Office of the Auditor General. In the second, the corruption was not related directly to the project (Loan 1223). The third case was addressed later because similar allegations were brought up against the same executing agency (EA) through a PCR recommendation (Loan 1383-INO: Sumatra Urban Development Sector Project).⁴ The PCR advised that a full technical and financial audit of the project be carried out. However, due to the lack of human resources and budget at the time, the Office of the Auditor General delegated the project audit to the Indonesia Resident Mission (IRM), which could not handle it. In 2002, ADB suspended the disbursement of another loan for 5 months to the Ministry of Public Works (MPW). The suspension was lifted after a memorandum of understanding (MOU) was signed covering the use of project management consultants. Until the time of this PPAR, no other ADB loan had been processed for MPW, though a feasibility study for a new one was approved in October 2004 (TA 4411-INO).

6. **Projects.** Examples of good governance practice were established in some projects, such as Loan 1587-INO: Metropolitan Medan Urban Development (MMUD) Project. During project implementation, with the use of significant amounts of additional resources, a quality assurance management system was established for infrastructure construction that is widely accepted by local government (LG) agencies and contractors. Although this might have come at the expense of project efficiency, its immediate impacts on quality, as well as on procurement processes, are clearly evident in the wider transparency in tendering of public sector works and higher quality of construction work by contractors. The project demonstrates that positive outcomes are possible when additional resources and care is given to establish good governance practices.

³ These are ADB. 2004. *Project Performance Audit Report on the Rural Water Supply and Sanitation Sector Project (Loan 1352-INO) in Indonesia*. Manila; ADB. 2004. *Project Performance Audit Report on the Second Development Finance Project (Loan 1223-INO) in Indonesia*. Manila; and ADB. 2001. *Project Performance Audit Report on the Integrated Irrigation Sector Project (Loans 1017-INO/1018-INO[Sf]) in Indonesia*. Manila.

⁴ The EA concerned was the Directorate General of Urban and Rural Development in the Ministry.

7. The Office of the Auditor General investigations on corruption in Indonesia began in 1998. The number of cases investigated gradually increased from 5 in 1998 to 31 in 2002, before dropping to 16 in 2003. The Office of the Auditor General has investigated 94 cases in Indonesia. During this period, 28 Indonesian firms and 20 Indonesian individuals were barred from doing business with ADB. Most of the investigations focused on corrupt and fraudulent practices, such as (i) collusion among suppliers and project officials to submit false documents to withdraw funds, (ii) charging time for the same experts to ADB and World Bank, and (iii) submitting false documents in conjunction with tender bids. Up to 2003, nine ADB-financed loans in Indonesia had been identified as having had corrupt practices.

8. An Office of the Auditor General report (footnote 2) expressed concern about the Government of Indonesia's ability to monitor corruption effectively, especially through the weak Finance and Development Supervisory Board (BPKP). The role of an inspector general within the ministries had been defined narrowly. These inspectors tend to focus on auditing projects and expenditures, rather than on proactive fraud prevention through improvement of internal controls. They do not have the authority to audit provincial or local governments. Those responsible for such audits (BPKP branches) lack the capacity to do so. Noting this gap, ADB approved Loans 2126/2127(SF)-INO: State Audit Reform Sector Program in December 2004, which is to (i) address the weaknesses in the Government oversight of corruption, (ii) enhance capacity building at the national and regional level, and (iii) raise public awareness of the audit function. The loan comprises two segments: a program loan, and an investment component facilitated by a project loan. The objectives of the program loan are to (i) strengthen the legal and regulatory framework for public sector audit, (ii) initiate the realignment of national auditing resources to enable audit institutions to fulfill their mandate, (iii) support measures for enhancing the parliamentary oversight on public audit institutions, and (iv) provide strategies to increase public awareness of audit and audit institutions. The objectives of the project loan are to enhance the capability of the audit institutions by building upon past support, and by introducing techniques and approaches that will allow the institutions to meet their mandates through effective and efficient operations and incorporation of international best practices. The investment support is expected to produce a strengthened external auditor that is able to operate effectively at the national level, an enhanced Inspectorate General function across a range of ministries, and a critical mass of well-functioning regional audit institutions (BAWASDAS). In addition, it will enhance the oversight capability of central and LG parliaments, as well as public awareness of the audit function.

9. In 2002, to address allegations involving Loan 1383-INO administered by the Directorate General of Urban and Rural Development (DGURD), and on the recommendation of the Office of the Auditor General, disbursements were suspended briefly and lending was not considered for a few years. MPW agreed to a study of DGURD's procurement processes and controls, and ADB provided technical assistance (TA) 3842-INO for this purpose. Based on its recommendations, the IRM Country Director and MPW signed an MOU in June 2004. Based on an action plan in the MOU, ADB proceeded with the preparation of a new loan with DGURD as the EA. Another, more general version of the same MOU is being prepared for adoption by ADB and the Ministry of Finance, and possibly the World Bank and Japan Bank for International Cooperation (JBIC). The general MOU calls for (i) greater transparency and public disclosure, (ii) civil society oversight, (iii) protection against fraud and collusion, (iv) outsourcing of procurement, (v) monitoring and construction supervision, (vi) enhanced project monitoring, (vii) complaints handling system, and (viii) sanctions and remedies.⁵

10. **Technical Assistance.** ADB approved TA 3381-INO: Establishment of an Anticorruption Commission in December 1999. The TA helped to conduct workshops to solicit civil society feedback (from more than 5,000 groups) regarding the draft law establishing the commission. In addition, a coordinated media campaign over the television, newspapers, and radio informed the public about the commission and its functions. A comparative study analyzed the experiences of similar countries in establishing and operating such a commission. The TA also helped to prepare the law to establish the commission, and the operational manuals and capacity development programs for developing the human resources. The TA completion report

⁵ ADB provided TA to the National Public Procurement Office through TAs 3471-INO and 3720-INO.

rated the TA partly successful, because of insufficient ownership and interest on the part of the counterpart staff. As a result, although the TA was completed in mid-2001, it took another 18 months to enact the law (30/2002), and an additional year to establish the commission under the name of the Commission for Eradication of Corruption at the end of 2003. Given the vast mandate of the commission in terms of responsibilities and geographic spread, ADB is supporting the Commission for Eradication of Corruption in (among other things) (i) developing and introducing standard operating procedures, (ii) developing cooperation arrangements with the police and public prosecutors, and (iii) designing and implementing the initial training programs needed. As the previous TA demonstrated, sufficient effort must be made to build ownership among the counterpart staff.

11. Other ADB TA initiatives include TA to the National Public Procurement Office provided in 2000 (TA 3471-INO: Improving Public Sector Procurement and TA 3720-INO: Strengthening Procurement Policies, Legal Framework, and Institutions). Presidential decree 80/2003 on public procurement, prepared with ADB assistance, was issued in late 2003 to introduce a procurement scheme largely in line with international good practice.

12. **Community Initiatives.** Information sharing from LG to communities remains poor. This often fuels community resentment and suspicion of corrupt behavior at higher levels, where they have no direct regulatory function or oversight. The lack of information and dialogue can lead to claims of corruption, even in the absence of clear evidence. This was the case in Bakungin village, central Kalimantan, where villagers complained during the country assistance program evaluation that LG authorities had arbitrarily deducted a tax from a project grant, and that the deduction constituted corruption. Without a full explanation by authorities regarding what the deduction was for, community resentment and suspicion quickly developed. Better information systems on procedures would build greater trust and consent between LGs and communities.

13. The Community and Local Government Support Sector Development Program and Decentralized Basic Education Project allowed communities determine the use of funds. However, the results in reducing corruption remain to be seen. Disbursements of funds for small-scale projects or individual credits to small entrepreneurs reportedly are made only after LG officials deduct a "service fee." Significant cultural barriers appear to impede the elimination of fraud, and these tend to be underestimated in the design of delivery mechanisms and the impact of control mechanisms. An authoritarian attitude toward citizens nurtures rent-seeking. Citizens do not feel empowered to demand improvement in the delivery of public services without paying extra fees.

14. **Development Partners.** Indonesia is one of the 21 countries that have joined the anticorruption initiative for Asia and the Pacific of ADB and the Organisation for Economic Cooperation and Development (OECD). The action plans developed under this initiative have triggered a broad range of legal and institutional anticorruption reforms in participating countries. The report prepared under this initiative recognizes that the focus of anticorruption reform should be unique to each country.⁶ It also suggests two types of tools that can be used to combat corruption. The first type of tool relates to improvements in sources of information about corruption by providing incentives and deterrents. These include (i) reporting obligations that make the failure to report corrupt practices witnessed a criminal offense; (ii) provision for offering rewards for information on corruption; (iii) confidentiality, protection, and immunity for whistleblowers; and (iv) witness protection programs. The second type of tool suggests laying down special investigative means and procedural provisions, such as (i) giving anticorruption and antimoney laundering agencies the authority to access bank accounts of individuals or firms; (ii) broadening the range of evidence admissible in courts (for example, to include hearsay and electronic messaging); and (iii) promoting international judicial cooperation to accommodate corruption issues that are transnational. Table A9.2 shows the concrete steps that have been identified to combat corruption.

⁶ ADB/OECD. 2004. *Anti-Corruption Policies in the Asia and the Pacific*. Manila.

Table A9.2: Anticorruption Action Plan and Existing Regulations

Anticorruption Action Plan	Systems and Measures that Address the Pillars of Action
Pillar 1: Developing Effective and Transparent Systems for Public Service	
Integrity in Public Service. Establish systems of government hiring of public officials that assure openness, equity, and efficiency; and promote hiring of individuals of the highest levels of competence and integrity	
1. Development of systems for compensation adequate to sustain appropriate livelihood and according to the level of the economy of the country in question.	Regulation 13–14/2003 (17 February 2003) prioritized the police force, judges, personnel of the attorney general's office, and the army in the adjustment of salaries, allowances, and benefits. The 2002 Budget Law increased the salaries of all public servants by 10% in 2003. Presidential Decree 23 (29 May 2002) increased the allowances for government auditors and public teachers.
2. Development of systems for transparent hiring and promotion to help avoid abuses of patronage, nepotism, and favoritism; help foster an independent civil service; and help promote proper balance between political and career development.	State Minister for Administration Reform and a committee within each department would provide oversight of appointments and promotions for first and second ranking officials. Recruitment will be done through open invitation by advertising.
3. Development of systems to provide appropriate oversight of discretionary decision, and of personnel with authority to make discretionary decisions.	President would appoint, and parliaments approve, important positions such as the Attorney General, Chief of Police, and judges.
4. Development of systems to provide for regular and timely rotation of assignments to reduce insularity that could foster corruption.	Regulation 100 (10 November 2000) required ministries to rotate officers who had been in their positions for 2–5 years.
Integrity in Public Service. Establish ethical and administrative codes of conduct that define conflicts of interest, ensure the proper use of public resources, and promote the highest level of professionalism and integrity.	
5. Prohibition or restrictions governing conflicts of interest.	Regulation No. 30/1980 prohibited a public employee from (i) owning or holding a business that has personal interest in any issue being decided in the course of his work, (ii) owning more than 51% of the shares of private business, and (iii) working as a private company director unless prior approval is obtained from his superior. MOF Decree 222–223 established codes of conduct for tax and custom employees, including sanctions or penalties.
6. Systems to promote transparency through disclosure and/or monitoring of personnel assets and liabilities.	Law 28/1999 required every civil servant to declare his wealth. The KPKPN was tasked with collecting data on the wealth of civil servants.
Accountability and Transparency. Safeguard accountability of public service through effective legal frameworks, management practices, and auditing procedures.	
7. Measures and systems to promote fiscal transparency.	Bill on State Finance is still being discussed. It will lay down principles on public expenditure management, such as parliament and public accountability, government transaction transparency, and performance optimality.
8. Adoption of relevant international standards and practices for regulation and supervision of financial institutions.	Bill on Financial Services Authority is still being discussed in parliament.
9. Appropriate auditing procedures applicable to public administration and the public sector, measures, and systems to provide timely public reporting on performance and decision making.	Bills on State Finance and Audit on State Finance Accountability are still being discussed in parliament.
10. Appropriate transparent procedures for public procurement that promote fair competition and deter corrupt, and adequate simplified administration procedures.	Provisions of the Anticorruption Law 28/1999 would apply in cases of improper procurement. Procurement officers also were prohibited from making contract commitments in advance of, or that exceed, budget authorizations.
11. Enhancing institution for public scrutiny and oversight.	Circular from State Minister for Administration Reform enjoined every government unit to provide a public complaint mechanism.
12. Systems for information availability, including application processing procedures, funding of political parties, and electoral campaign expenditures.	Circular 37/2002 from State Minister for Administration Reform reminded every government unit to intensify and speed up anticorruption programs in each department.
13. Simplification of the regulatory environment by abolishing overlapping, ambiguous, or excessive regulations that burden business.	Customs Agency introduced a priority line for an importer, which has a good track record in paying customs duties.
Pillar 2: Strengthening Anti-Bribery Actions and Promoting Integrity In Business Operations	
Effective Prevention. Take effective measures to combat bribery actively.	
14. Ensuring the existence of legislation with dissuasive sanctions, which effectively and actively combat bribery of public officials.	Revised Anticorruption Law reversed the burden of proof in corruption cases (making it necessary for a suspect to prove his innocence), expanded the type of evidence allowed in corruption cases, and defined conditions where giving gifts to government officials would constitute bribery.
15. Ensuring the existence and effective enforcement of	The Money-Laundering Law 15 (17 April 2002) made it difficult for

Anticorruption Action Plan	Systems and Measures that Address the Pillars of Action
antimoney laundering legislation that provides for substantial criminal penalties for the laundering of proceeds of corruption and crime consistent with the law of each country.	persons to invest, deposit, or move ill-gotten gains by obliging banks to report receipt of Rp100 million, or to receive money from persons they know or suspect to have derived these from criminal activities.
16. Ensuring the existence and enforcement of rules to ensure that competent authorities thoroughly investigate and prosecute bribery.	Law 31/2002 established the Commission for Combating Corruption, tasked to investigate, prosecute, prevent corruption. It would also encourage public participation through anticorruption education programs at every level of education, and through anticorruption campaigns.
17. Strengthening of investigative and prosecutorial capacities by fostering interagency cooperation, ensuring that investigation and prosecution are free from improper influence and have effective means for gathering evidence, protecting those persons helping in combating corruption, and providing appropriate training and financial resources.	KPKPN will soon collaborate with the Attorney General's Office and the National Police in providing training on conducting investigations, including how to question suspects and prepare dossiers.
18. Strengthening bilateral and multilateral cooperation in investigations by developing systems that enhance the effective exchange of information and evidence, extradition, and cooperation in searching for forfeitable assets; and prompt international seizure and repatriation of such assets.	Law 1/2001 formalized the agreement with Hong Kong for the surrender of fugitive offenders. An extradition agreement is also in place with Australia.
Corporate Responsibility and Accountability. Take effective measures to promote corporate responsibility and accountability based on relevant international standards.	
19. Promotion of good corporate governance, which would provide for adequate internal company control, i.e., codes of conduct, establishment of channel for communication, protection of employee reporting corruption, and staff training.	National Committee on Corporate Governance was established.
20. The existence of effective enforcement of legislation to eliminate any indirect support of bribery, such as tax deductibility of bribes.	
21. The existence and thorough implementation of legislation requiring transparent company accounts, and providing for effective, proportionate, and dissuasive penalties for bribing a public official or hiding such bribery, in respect of books, records, accounts, and financial statements of companies for commissions and falsifications for the purpose.	
Pillar 3: Supporting Active Public Involvement	
Public Discussion of Corruption. Take effective measures to encourage public discussion of the issue of corruption through:	
22. Initiation of public awareness campaigns at different levels.	The Partnership for Governance Reform in Indonesia, an NGO that seeks to facilitate and support governance reform in Indonesia, publishes brochures, books, and other publications, and broadcasts anticorruption campaign through radio and TV programs.
23. Support of nongovernment organizations that promote integrity and combat corruption.	
24. Preparation and/or implementation of education programs aimed at creating an anticorruption culture.	
Access to Information. Ensure that the public and media have freedom to receive and impart public information on corruption matters in a manner that would not compromise or be detrimental to the interest of government agencies and individuals.	
25. Establishment of public reporting requirements for justice and other agencies that include disclosure about efforts to promote integrity and accountability and combat corruption.	Law 28/1999 required all government units to report the performance of their units with regard to its strategic plans.
26. Implementation of measures providing for a meaningful public right of access to appropriate information.	Law 31/1999 and PP 68/1999 provided that society has the right to obtain information regarding public governance.
Public Participation. Encourage public participation in anticorruption activities.	
27. Cooperative relationships with civil society groups, such as chambers of commerce, professional associations, NGOs, labor unions, housing associations, media, and other organizations.	NGOs that monitor the performance of government functions include Indonesia Corruption Watch, Government Watch, and Masyarakat Transparansi Indonesia.
28. Involvement of NGOs in monitoring of public sector programs and activities.	
29. Protection of the whistleblower.	Bill to set up a witness and victim protection body is still being discussed in Parliament.

KPKPN = Commission for the Audit of the Wealth of State Officials, MOF = Ministry of Finance, NGO = nongovernment organization, TV = television.

Source: Asian Development Bank. 2004. *Anticorruption Policies in Asia and the Pacific: The Legal and Institutional Frameworks for Fighting Corruption in Twenty-One Asian and Pacific Countries*. Manila.

B. Other Initiatives

15. **New Laws.** Three major laws were enacted since 2002, including the State Finances Law (Law 17/2003).⁷ Under this law, a new unified budget framework without distinction between routine and development budget based on functional rather than sectoral classification of expenditures was proposed. When these changes take effect, they were intended to reduce duplication, increase transparency, and subject governance functions to performance criteria. Hence, external development partner operations should benefit, as they could supplement directly national and local level allocations for service delivery programs. A medium-term expenditure framework is being introduced at all levels of government, which is expected to tighten the link between planning and budgeting. Tax administration is being strengthened to improve the quality of services to taxpayers, and to introduce outside checks and balances to enhance governance. These measures are still in the interim stage, and need close coordination and champions to become effective. Implementation of these promising initiatives will be the challenge.

16. **Experiments.** A random field experiment that looked at means of reducing corruption measured corruption in more than 600 village road projects in Indonesia. Engineers independently estimated the prices and quantities of all inputs used in each road, and then compared these estimates to villages' official expenditure reports.⁸ The findings show that announcing an increased probability of a government audit—from a baseline of 4% to 100%—reduces theft from the project by about 8% of expenditures. Therefore, the audits are cost-effective. By contrast, this study found that increasing grassroots participation in the monitoring process reduced theft of villagers' wages, though this was offset almost entirely by corresponding increases in theft of materials. This suggests that grassroots monitoring might be more effective in reducing theft when community members have substantial private stakes in the outcome, though less effective for public goods. Overall, the results suggest that traditional top-down monitoring can play an important role in reducing corruption, even in a highly corrupt environment.

17. **Research.** A variety of ideas are available on how to address corruption. An Indonesian researcher argues corruption in Indonesia cannot be reduced unless change from "within" is supported by pressure from outside.⁹ Outside pressure has to come from organizations such as ADB, JBIC, and World Bank. While this paper argues that withhold lending if necessary to curb corruption is critical, this has to be carefully balanced with a carrot-and-stick approach. Another researcher¹⁰ argues that inside and outside pressure are critical to combat corruption, as it has penetrated throughout the Indonesian bureaucracy and political system. This was carried out using a two-pronged strategy during the Soeharto era. First, Soeharto's network of national patronage covered the entire country, from the highest levels down to the village headman. Second, Soeharto funded a majority of the defense budget with his own funds (donated by those whom he favored in profitable ventures), depicting himself as a protector of the country. Because the benefits of corruption were widely shared, individuals had few incentives to report corruption. This corruption-based stability was hard to change. The paper suggests that anticorruption campaigns, instead of focusing on the perpetrator and the crime, should focus on the message of being victimized by corruption. This would demonstrate to the public the waste and the opportunity cost of funds (in terms of forgone opportunities to fight diseases) that are fraudulently used. The paper also warns that establishing anticorruption commissions, ombudsman offices, etc., will not solve the problem. It suggests that governments become genuinely serious about anticorruption only when five steps are put in place simultaneously:

⁷ The others are the State Treasury Law (Law 1/2004) and the State Audit Law (Law 15/2004).

⁸ Olken, Benjamin A. 2004. *Monitoring Corruption: Evidence from a Field Experiment in Indonesia*. Available: <http://www.economics.harvard.edu/~bolken/papers.html>

⁹ Makarim, Nono Anwar. 2001. Asia Program Special Report 100. *A Path through the Rainforest: Anti-Corruption in Indonesia*. Available: <http://www.wilsoncenter.org>

¹⁰ Khan, Mushtaq H. 1997. *The Role of Civil Society and Patron-Client Networks in the Analysis of Corruption*. Paper presented at the OECD-UNDP Conference, Paris, 24–25 October. Available: <http://magnet.undp.org/Docs/efa/corruption/Chapter07.pdf>

(i) institutional reform of the bureaucracy, (ii) prosecution of corrupt officials, (iii) economic reform that reduces the size of the public sector, (iv) privatization of state-owned enterprise, and (v) general consciousness-raising campaigns.

18. Another researcher argues that change from “within” will come only when an effective civil society with middle class professionals is engaged in the service sector. Such a middle class does not exist in Indonesia. Another researcher points out that under the New Order regime, Indonesia’s governance system was built from top to bottom—not just as a command and control apparatus, but as a patronage-generating machine. Therefore, piecemeal legal or institutional reform might not be enough to combat corruption.¹¹ Grafting new oversight layers onto the existing system will produce little more than cosmetic improvement. The author believes that significant progress toward reduction of corruption will require powerful new alliances that unite civil society, the independent business community, and international actors in defining a concrete anticorruption agenda. This agenda would include administrative, party, and campaign reforms; and holding political leaders accountable for progress on the agenda. Indonesia is a long way from fulfillment of these conditions.

19. Table A9.3 shows the World Bank Governance Indicators, using six indicators for 1996–2004. In Indonesia, the regime changed drastically between 1996 and 1998. Given the lack of transparency before 1998, comparisons before and after 1998 must be made carefully.

Table A9.3: Governance Indicators for Indonesia

Indicators	1996	1998	2000	2002	2004
A. Voice and Accountability					
Estimate (-2.5 to +2.5)	(1.15)	(1.33)	(0.52)	(0.49)	(0.44)
Rank (0–100%)	16.2	12.0	32.5	34.3	35.9
B. Political Stability					
Estimate (-2.5 to +2.5)	(0.45)	(1.47)	(1.85)	(1.45)	(1.38)
Rank (0–100%)	28.0	9.1	3.6	11.4	9.2
C. Government Effectiveness					
Estimate (-2.5 to +2.5)	+0.18	(0.52)	(0.40)	(0.55)	(0.36)
Rank (0–100%)	66.5	30.1	38.7	31.8	40.9
D. Regulatory Quality					
Estimate (-2.5 to +2.5)	+0.27	+0.10	(0.34)	(0.67)	(0.42)
Rank (0–100%)	64.1	46.2	33.7	25.0	36.9
E. Rule of Law					
Estimate (-2.5 to +2.5)	(0.36)	(0.97)	(0.93)	(0.89)	(0.91)
Rank (0–100%)	39.2	14.1	13.9	20.4	20.8
F. Control of Corruption					
Estimate (-2.5 to +2.5)	(0.47)	(0.95)	(1.00)	(1.15)	(0.90)
Rank (0–100%)	35.3	8.7	11.3	8.2	17.7

Note: Estimate ranges from -2.5 to 2.5, with higher values corresponding to better governance outcomes. The percentile rank indicates the percentage of countries worldwide that rank below the selected country (subject to the margin of error).

Source: World Bank.

¹¹ Cole, William. 2001. Asia Program Special Report 100. *Roots of Corruption in the Indonesian System of Governance*. Available: <http://www.wilsoncenter.org>

Table A9.4 Assessment of Technical Assistance Grants on Decentralization

Objectives	Specific Outputs Accomplished	Evaluation	Major Lessons Learned
TA 3394-INO: Public Expenditure Management and the Implications of Decentralization			
<ol style="list-style-type: none"> 1. Analyze the implications of different institutional arrangements and sets of implementing regulations for desired public expenditure outcomes; 2. Help build the Government's internal capacity to guide PEM reforms and assist other government agencies implementing such reforms; 3. Expose government officials from key ministries to the links between PEM and decentralization; and 4. Build a network of technical staff with a common understanding of PEM and decentralization to guide future reforms. 	<ul style="list-style-type: none"> • Capacity building measures for 15 participants, with a systematic introduction to key principles and tools related to PEM, an overview of international standards and experiences, and introduction of the concept of moving from an input to output orientation in budgeting. • Diagnostic studies completed during field visits were used to enable participants to apply their new knowledge. • A network was established between core government officials to bridge the communication gaps between key agencies involved in implementing the decentralization reforms. • Elaboration of an action plan, which was disseminated to high-level government officials. 	<ul style="list-style-type: none"> • The timeframe was too short, particularly given the focus on capacity building. • More time was needed for the diagnostic study, particularly for regional level fieldwork. • The preparation of workshops and the action plan was technically difficult, and required an enormous coordination effort due to the large number of stakeholders involved. • The action plan developed was timely and based on a strong theoretical understanding of the issues, as well as on a good assessment of the Indonesian context. It generated strong interest and support from both Government and the external development partner (EDP) community. • A number of short-term measures described in the action plan were implemented immediately. • ADB and other EDPs subsequently funded numerous medium-term measures suggested in the action plan, including a loan for "Sustainable Capacity Building for Decentralization." 	<ul style="list-style-type: none"> • Capacity building measures require a medium-term approach, particularly if field trips to regional governments are required and the number of stakeholders is large. • Ownership of reforms can be strengthened by providing key government officials with a good understanding of the conceptual and policy background, and by involving them closely in the development of action plans. • If the main purpose is capacity building, more emphasis should be placed on the interpersonal communication skills of consultants, rather than just their technical background. • Capacity building measures that aim to develop action plans for policy reforms should be designed as cluster TAs to ensure that ADB can maintain the momentum. Otherwise, ADB will support project preparation of other EDPs.
TA 3042-INO: Capacity Building for Decentralized Social Services Delivery			
<p>A 2-year capacity building project promoting decentralized resource allocation, financial management, and governance at the school and community level in three pilot districts in Central Java and Lampung.</p>	<ul style="list-style-type: none"> • A mechanism for the allocation of grant resources to schools by the districts, including a guide for local budgeting was developed. • A school resource allocation formula was developed in two of the pilot districts, which allowed regional authorities to link policy and school management decisions with 	<ul style="list-style-type: none"> • Policy decisions in the decentralized education sector were improved. • Resource allocations to schools by district authorities were tested, which DBEP later adopted. • District education boards and school committees functioned well. Governance improved due to the involvement of nongovernment stakeholders in school 	<ul style="list-style-type: none"> • Improved quality of decentralized service provision in the education sector depends largely on the involvement and commitment of the district head and the local parliament. • Cooperation among

Objectives	Specific Outputs Accomplished	Evaluation	Major Lessons Learned
<ol style="list-style-type: none"> 1. Develop, test, and evaluate a model for consolidated school budgeting at the primary and junior secondary levels; 2. Prepare and test a training program for school principals in budget planning and management; 3. Evaluate the outcome of test runs; and 4. Inform senior policy makers about results and the implications for decentralized budgeting. 	<p>equitable resource allocation.</p> <ul style="list-style-type: none"> • A school pilot program was launched, which included training for integrated planning, budgeting, and financial management at the school level. • A project handbook and much-needed training materials to support capacity building in decentralized education were elaborated. These outputs were disseminated widely. • Six training courses on strategic planning, financing, governance, and involvement of poor communities were developed for each district and school level. • Evaluation of interventions. 	<p>affairs, and because of promoting the quality of education delivery through staff development and training.</p> <ul style="list-style-type: none"> • The establishment of a school-based financial management system was successful: (i) 93% of schools had a strategic plan, against 54% before the intervention; (ii) 100% of pilot schools had an integrated budget; (iii) all schools used the monthly integrated financial report; and (iv) 94% of community representatives were involved in school planning and budgeting, against 66% before the intervention. • TA outputs served as models for similar interventions throughout the country. 	<p>relevant regional planning offices regarding all aspects of implementation is crucial.</p> <ul style="list-style-type: none"> • Establishing a legal and regulatory framework for new operational policies at district and school levels is important. • Needs of primary schools are different, and therefore specific strategies and training are required. • More transparency and information sharing led to greater awareness about the importance of education.
TA 3764-INO: Supporting Country Financial Accountability			
<p>Strengthening public financial management at MOF to provide leadership and expertise needed to coordinate and manage reforms in accounting, treasury management, reporting, and information systems.</p>	<ul style="list-style-type: none"> • Training for counterpart officials; • Detailed 5-year strategic plan for MOF, which lays out a strategic reform framework, including human resource development, organizational restructuring, introduction of international accounting standards, and information systems; • Detailed reports on human resource management and organizational development, accounting framework development, and accounting systems. 	<ul style="list-style-type: none"> • The resulting recommendations form the basic foundations for the proposed Local Government Finance Reform Program, which is being processed. • The outputs on restructuring have been incorporated into a ministerial decree that will be implemented with assistance from ADB and World Bank. 	<ul style="list-style-type: none"> • The inclusion of a specific component on the human resource implications was an often-overlooked area that is important for the overall success.
TA 3777-INO: Fiscal Decentralization			
<ol style="list-style-type: none"> 1. To support successful implementation of fiscal decentralization; 2. To identify key constraints in intergovernmental fiscal relations by providing district-wide fiscal profiles and conducting detailed 	<ul style="list-style-type: none"> • Establishment of a database on district fiscal profiles, which revealed severe inequality in Indonesia's intergovernmental fiscal relations. • RPERs, which enhanced understanding of public budget situation in the regions, including budget deficit and debt situation. • Formulation of grant transfer and/or 	<ul style="list-style-type: none"> • Revealed that shifts in budgetary allocations have led to sharply increased routine expenditures at the regional level. • The balance available for development and general investment expenditure in real terms has not increased significantly. • Routine expenditures, wage, and salary increased, and job reclassification take the available funds leaving few funds for 	<ul style="list-style-type: none"> • TA implementation was timely in the sense that interest in the topic was at its maximum in this early stage of implementation of fiscal decentralization. National and regional workshops were well attended.

Objectives	Specific Outputs Accomplished	Evaluation	Major Lessons Learned
<p>RPERs in some areas; and</p> <p>3. To support the Government in developing a new grant-transfer and/or onlending policy for projects assisted by external funds.</p>	<p>onlending policy.</p>	<p>infrastructure and social investments.</p> <ul style="list-style-type: none"> • The introduction of the DAU has not solved the “equalization” problems across the regions of Indonesia. • The DAU distribution formula is not indexed adequately to population, which is its dominant flaw. • The indicators of poverty, which figure in the DAU formula are inadequate and inappropriately used in allocating revenue—with poor and populous regions doing worse in terms of incremental allocation, compared with resource-rich and less-populated areas. • Debt servicing by local governments is so poor that even central Government lending to local governments is deemed risky. 	<ul style="list-style-type: none"> • The use of highly competent local consultants ensured excellent cooperation with the nine local governments in three provinces.

ADB = Asian Development Bank, DAU = general allocation fund, DBEP = Decentralized Basic Education Project, INO = Indonesia, MOF = Ministry of Finance, PEM = public expenditure management, RPER = regional public expenditure review, TA = technical assistance.

Source: Country assistance program evaluation team.

CAPACITY DEVELOPMENT

Table A10.1: Advisory Technical Assistance/Grant Funds Involving Capacity Development for Governance, Decentralization, and Service Delivery (1990–2004)						
TA No.	Title	Amount (\$'000)	Approval Date	Govern-ance	Decentra-lization	Service Delivery
1874	Development of a Cost Accounting System for the Ministry of Public Works	600.0	27-Apr-93	✓		
2221	Resource Mobilization and Budgeting for Decentralized Health Services	600.0	05-Dec-94		✓	
2699	Institutional Strengthening of Regional Development Account	600.0	05-Dec-96			✓
2814	Capacity Building of the Ministry of Health for Strategic Development	800.0	19-Jun-97		✓	
3042	Capacity Building for Decentralized Social Services Delivery	900.0	09-Jul-98		✓	✓
3043	Capacity Building for Planning and Evaluating Programs for Street Children	500.0	09-Jul-98			✓
3149	Corporate Governance and Enterprise Restructuring	2,470.0	29-Dec-98	✓		
3176	Capacity Building to Support Decentralized Health Services Systems	1,000.0	25-Mar-99		✓	✓
3177	Capacity Building to Support Decentralized Administrative Systems	500.0	25-Mar-99	✓	✓	✓
3178	Capacity Building for Setting Up District-Level Financial and Budgetary Systems	460.0	25-Mar-99		✓	
3233	Strategy for Restructuring Public Services	488.0	30-Jul-99	✓		✓
3252	Capacity Building for Decentralization of the Environment Impact Assessment Process	420.0	03-Sep-99		✓	
3326	Urban Sector Development in a Decentralizing Environment	600.0	08-Dec-99		✓	✓
3381	Establishment of an Anticorruption Commission	1,000.0	28-Dec-99	✓		
3394	Public Expenditure Management and the Implications of Decentralization	225.0	25-Jan-00		✓	
3471	Improving Public Sector Procurement	780.0	21-Jul-00	✓		
3472	Governance Audit of the Public Prosecution Service	1,000.0	21-Jul-00	✓		
3484	Corporate Governance Reform	300.0	29-Aug-00	✓		
3523	Capacity Building for Decentralized Natural Resources Management	775.0	26-Oct-00		✓	
3608	Public Relations Activities in Support of Government's Anticorruption Efforts	150.0	21-Dec-00	✓		
3701	Support for Decentralized Education Management	990.0	08-Aug-01		✓	✓
3714	Privatization and Restructuring of State-Owned Enterprises	2,600.0	05-Sep-01	✓		
3720	Strengthening Procurement Policies, Legal Framework, and Institutions	500.0	19-Sep-01	✓		
3764	Supporting Country Financial Accountability	300.0	12-Nov-01	✓		
3777	Fiscal Decentralization	500.0	19-Nov-01		✓	
3813	Support to the Partnership for Governance Reform in Indonesia	750.0	18-Dec-01	✓		
3842	Strengthening the Capacity of the Ministry of Settlements and Regional Infrastructure to Combat Fraud and Corruption	625.0	12-Mar-02	✓		
3909	Support for Good Local Governance	100.0	27-Aug-02	✓		
3935	Support for the Regional Government Borrowing System	500.0	01-Oct-02		✓	
3957	Integration of Poverty Considerations in Decentralized Education Management	600.0	30-Oct-02		✓	✓
3967	Local Government Provision of Minimum Basic Services for the Poor	750.0	04-Nov-02		✓	✓
4067	Managing Regional Disparity in Economic and Poverty Reduction Programs Under Decentralization (Phase I)	484.0	19-Dec-02		✓	
4144	Facilitating Private Sector Participation in Ports Infrastructure under Decentralization	315.0	09-Jul-03		✓	
4251	Improvement of the Administration of the Supreme Court	500.0	13-Dec-03	✓		
4280	State-Owned Enterprise Restructuring	600.0	18-Dec-03	✓		
4282	Local Government Financing	600.0	18-Dec-03		✓	
4341	Strengthening the Capacity of the Commission for Eradication of Corruption	250.0	21-May-04	✓		
4391	Support for Decentralized Education Management II	500.0	14-Sep-04		✓	
4473	Support for the Implementation of the State Audit Reform Program	1,300.0	13-Dec-04	✓		
4474	Support for the Implementation of the State Audit Reform Investment	3,700.0	13-Dec-04	✓		
4479	Gender Responsive Public Policy and Administration	400.0	14-Dec-04		✓	
4543	Sustaining Decentralization and Local Governance Reforms	900.0	23-Dec-04	✓	✓	
4550	Development of an Anti-Money Laundering Regime II	500.0	23-Dec-04	✓		
4555	Strengthening the National Secretariat for Regional Cooperation	296.5	23-Dec-04		✓	
	Total	32,728.5				

Source: Asian Development Bank.

1. A review of key capacity development technical assistance (TA) grants showed the following issues:

2. **Capacity Substitution.** Projects have a tendency to set negative incentives for capacity development when project inputs (human and technical) substitute for local resources without developing the required capacities to sustain a projects' efforts.¹ Problems start with choosing external, nonpermanent staff for project implementation, which denies the agency staff the opportunity to acquire capacities. This issue is aggravated when many project managers and Asian Development Bank (ADB) project officers frequently change, and no institutional memory remains.

3. The institutional development components of the Capacity Building for Urban Infrastructure Management (CBUIM) Project² pertaining to urban service delivery pilot projects

¹ On this issue, also see ADB. 2004. *Special Evaluation Study on Capacity Development Assistance of the Asian Development Bank to the Lao People's Democratic Republic*. Manila.

² Appendix 15 gives details of loan name, amount, and date of approval.

in most participating cities failed to design instruments that were suitable to the institutional context. They were perceived to be driven from the outside by city government and consultants, and thus did not penetrate local urban management practices. The objectives were “to help improve the ability of local government and provincial government to deliver and facilitate the delivery of urban infrastructure services ...,” according to the TA performance audit report evaluating several capacity building TAs.³ However, existing circumstances were reflected poorly in the TA designs. In assessing the institutional framework at that time, the report and recommendation of the President stated “Prior to the crisis, the Government was actively promoting decentralization” (Loan 1677/1678: Community and Local Government Support Sector Development Program). This would not bear much resemblance with reality in precrisis Indonesia. This flawed assessment led to project designs with unrealistic institutional mechanisms, such as the district community development forums envisaged under the Community and Local Government Support Sector Development Program.

4. Opportunities have been missed for mutual capacity development support between different projects in the same location. The Metropolitan Medan Urban Development (MMUD) Project (and several other urban sector projects) could have benefited from closer links between capacity development services provided by the CBUIM (which at times coincided in the same cities) and human resource and institutional development requirements for urban infrastructure management in the MMUD Project, which was left unaddressed. The only links involved a few training participants being drawn from the agencies in charge of urban infrastructure management.

5. To address these key issues, ADB has adopted a new thematic area on capacity development⁴ for all countries. The new definition of capacity development that has been adopted has three key features: (i) recognizing that capacity development is a process rather than a one-time infusion of knowledge, (ii) focusing on national organizations and groups (networks) rather than individuals, and (iii) realizing that ADB should support organizations undertaking capacity development to mobilize resources for sustainable capacity development. The capacity development interventions of this nature cover subthemes—institutional development (covering rules and regulations), organizational development, and development of client relations. Organizational development enhances the technical capacity to provide the services, as well as the governance capacity to deliver it more efficiently and cost-effectively. It also provides for monitoring the performance of the improved service delivery. The new initiative acknowledges that capacity development has several criteria (ownership, process, sequence, incentives, values, and partnership) that have to be incorporated into capacity development design. Further, it recognizes that ADB support modalities for capacity development are not confined to traditional TA modality, but also encompass other modalities such as policy dialogue, program loans, and investment operations. Future capacity development initiatives in Indonesia should embrace these concepts.

³ ADB. 2005. *Technical Assistance Performance Audit Report on Capacity Building to Support Decentralization in Indonesia*. Manila (Draft).

⁴ This was driven by various factors including (i) greater awareness of capacity development for achieving the millennium development goals, (ii) recommendation of the review of Poverty Reduction Strategy, (iii) Operations Evaluation Department’s recommendation for strengthening the quality of capacity development in operations, and (iv) the need to track the quality and quantity of capacity development programs better.

SOCIAL SECTOR

A. Health

1. The mortality rate for children under 5 has been falling more quickly than targeted since 1997. In 2002, the rate was 46 per 1,000 live births, only 13.7 above the 2015 target. By 2000, Indonesia reached the target set at the 1990 World Summit for Children. However, the variation in under-5 mortality rates between provinces is very wide, ranging from 19 in Bali to 103 in West Nusa Tenggara. The mortality rate for children under 1 showed the same rapidly declining trend, reaching 35 per 1,000 live births in 2002. Despite these achievements, the infant mortality rate in Indonesia still exceeded those in other members of the Association of Southeast Asian Nations. For example, Indonesia is 4.6 times higher than in Malaysia, 1.3 times the Philippines, and 1.8 times Thailand. Indonesia does not collect data on maternal mortality directly. The proportion of births attended by skilled health personnel has risen steadily from 40.7% in 1992 to 68.4% in 2002. Southeast Sulawesi registered the lowest rate at 34.9% in 2002, whereas Jakarta was the highest rate at 96.2%. The first acquired immunodeficiency syndrome (AIDS) case reported in Indonesia was in 1987. By the end of September 2003, 1,239 AIDS and 2,685 human immunodeficiency virus (HIV) cases had been recorded. However, experts from the Ministry of Health estimate that some 90,000–130,000 Indonesians have HIV. Some 90 million Indonesians, nearly half of the population, live in the malaria endemic areas of the eastern provinces, as well as central and western Java. Malaria prevalence was estimated at 850 per 100,000 people for 2001, while malaria-specific deaths were placed at 11 per 100,000 for men and 8 per 100,000 for women for 2000.

B. Education

2. Indonesia's Millennium Development Goal target for basic education is more ambitious than the international target (6 years). Indonesia aims to have children receive 9 years of basic education—6 years of primary for children 7–12 years old, and 3 years of junior secondary. Indonesia has high levels of access to primary schooling for children 7–12 years old, slightly overshooting annual Millennium Development Goal targets from 1994 to 1999. Data showed consistently high net enrollment rates in primary schools in all population groups, with no significant differences between rural and urban areas or across poverty quintiles. In 2002, the national enrollment rate was 92.7%. In the provinces, lower rates were noted in 2002 for Gorontalo (80.7%), Maluku (86.9%), East Nusa Tenggara (87.1%), and North Sulawesi (87.7%). The net enrollment rate at the junior secondary level rose steadily from 41.9% in 1992 to 61.7% in 2002, a considerable 20-percentage-point increase in just a decade. Instead of continuing on a path that would lead to 100% net enrollment rate by 2015, a slackening of this trend could be noted beginning in 2000. Unlike in primary education, the 2002 junior secondary enrollment rate in rural areas was considerably lower than in urban areas (54.1% versus 71.9%).

3. The objective of Loan 1253-INO: Higher Education Project approved in 1993 was to improve the quality and efficiency of higher education in selected regional universities, and to reduce regional imbalances. Its project performance audit report found that the project has a good balance of hardware (e.g., facilities and equipment) and software (staff development and student support programs) components, and also was designed to strengthen the role of private providers. The project achieved physical output targets, which improved the quality and efficiency of higher education. The project achieved a reasonable degree of external efficiency relevant to the market demand, with many graduates finding jobs within 6 months and employers generally being satisfied with their performance.

4. In the participatory evaluation, women in all study locations consistently identified health as the key issue during group discussions, while men and women identified children's education as a household priority. Group discussions showed that a large proportion of the household budget of the poor is invested in children's education, and many households take on significant debt to meet the costs associated with their children's education. All study locations, rural and urban, had a wide variety of private and government educational institutions available to the community. Therefore, the quantity of educational institutions does not figure as an important community issue from the study, though group participants did identify consistently the diversity in the quality of educational services available as a major concern.

C. Gender

5. Although Indonesia has improved social infrastructure significantly over the past quarter century, deeply-rooted gender inequalities remain. While women constitute 41% of the labor force, they earn about one third as much as men (Table A11.1). Women also have fewer years of schooling (6.5 years) than men (7.6 years). Recent school enrollment data show that the enrollment of girls and boys in rural and urban areas at all levels is similar. A significant disparity exists in earning capacity, with women earning only 53% of what men earn if both have not graduated from primary school. This ratio improves at higher levels of education, though women never reach 80% of what men with equal education earn. Women, mostly teachers, account for 39% of civil servants. At the Echelon 1–5¹ higher level of employment, the disparity is greater, with only 17% of jobs filled by women. Since the 2004 election, 13% of representatives in the parliament were women, although this falls to 9% in the provincial areas.

Indicator	Female	Male
Labor force participation rate (%), 2002	41	59
Share in estimated earned income (%), 2002 ^a	33.9	66.1
Registration of Land Title by Land Type (%), 2002		
Urban	14.3	76.9
Sub-Urban	27.4	67.4
Rural	20.4	66.7
Adult literacy rate (%), 2002 ^a	83.4	92.5
Head of household (%), 2002	12.4	87.6
Life expectancy at birth (years) 2002 ^a	68.6	64.6
Mean years of schooling (years), 2002	6.5	7.6
Gross enrollment ratio in all levels (%), 2002 ^a	64	66
Ratio of female to male monthly salary by education level (%), 2002		
Did not graduate from primary school	0.51	1
Primary school graduate	0.61	1
Junior secondary school graduate	0.71	1
Senior secondary school graduate	0.79	1
Graduate of a course beyond senior secondary school	0.73	1
Share in total number of civil servants (%), 2002	38.7	61.3
Share in total number of civil servants, by sector (%), 2002		
Education	51.4	30.3
Health	11.6	5.1
Share of female legislators, senior officials, and managers in total civil service structural positions (%), 2002	16.6	83.4
Share of parliamentary seats in both houses (%), 2004	13	87
Share of parliamentary seats in province (%), 2004	9	91

^a Data taken from the United Nations Development Programme (UNDP) website for the Human Development Report. The remaining figures were sourced from the 2005 draft of Indonesia's Country Gender Assessment.

6. The Asian Development Bank's (ADB) first gender-focused work in Indonesia was geared to institutional strengthening of the State Ministry for the Role of Women in 1983 (TA 2038-INO) providing action plans, research facilities, building databases, and training. The technical assistance (TA) completion report highlighted a lesson that short-lived institutional strengthening efforts, such as occurred in this TA, could only help an institution make a headstart in a new policy direction. However, these were not sufficient to effect meaningful institutional changes. In 1996, ADB helped to review women's sociolegal status in four countries, including Indonesia.² This review led to a policy dialogue on how legal policies and procedures affect the status of women, and how laws might be implemented better to protect women's interests. Legal reforms were needed to protect women better and provide more equal opportunities for women to participate actively in economic and social activities.

¹ Highest level of government service.

² ADB. 1996. *Sociolegal Status of Women in Selected Developing Member Countries*. Manila.

7. ADB's policy on gender and development³ adopted in 1998 recommended gender mainstreaming as a key strategy for promoting gender equity. The Government of Indonesia issued a Presidential Instruction to all government institutions requiring gender mainstreaming in the planning, development, implementation, monitoring, and evaluation of all national development policies and programs. To help mainstream gender in ADB operations, a gender specialist was appointed at the Indonesia Resident Mission in 2000 as a long-term consultant financed under a regional TA. The consultant continues this function, still financed under a regional TA that is renewed annually. In 2002, TA 3846-INO began to address the gender concerns in the era of decentralization, with workshops at the provincial level to (i) identify approaches and points for entry to gender-sensitive policies; (ii) strengthen the capacities of four local governments to undertake gender mainstreaming; and (iii) collate lessons learned from pilot projects in the other two components. The findings of the TA were to feed into the national gender policy, and generate recommendations for future planning documents.

8. Participatory evaluation findings show that in project and nonproject communities, men make most major household and communal decisions. Women have some responsibility in spheres that affect only them. Women in remote rural agricultural and fishing communities are particularly disadvantaged in terms of having the authority and status to make decisions. Initiatives to promote greater gender empowerment could target these women as direct beneficiaries for capacity building in the future. ADB has some examples of projects that have enhanced the status of women. Under the Coastal Community Development and Fisheries Resource Management Project,⁴ women appeared to have achieved a degree of autonomy and economic independence through project activities. Women's groups mobilized under the Community Empowerment for Rural Development Project in Kapuas, Central Kalimantan⁵ benefited materially and organizationally from the project through women's craft activities, marketing, and an enhanced role in community decision making. The problem diagnosis and needs analysis of men and women proved to be interestingly different. Women were better informed about health issues than men. During discussions,⁶ men emphasized infrastructure needs (e.g., clinic roof), while women identified poor attendance of the health staff at the clinic. Women attributed this to the lack of incentives the staff had for attending, indicating their concern for service provision.



Figure A11.1: Women demonstrate how the *encheng* is made into mats and baskets.

9. ADB has been leading a gender assessment for Indonesia (GAI) in collaboration with external development partners and other stakeholders.⁷ The draft GAI found that

³ ADB. 2003. *Gender and Development*. Manila.

⁴ Tanjung Luar, East Lombok.

⁵ Mampulau, Kapuas, Central Kalimantan.

⁶ Kalimantan and Central Java.

⁷ Collaborative partners include Asia Foundation, Australian Agency for International Development, Canadian International Development Agency, International Labour Organization, Japan International Cooperation Agency, National Democratic Institute for International Affairs, United Nations Development Fund for Women, United Nations Development Programme, United Nations Populations Fund, United States Agency for International Development, and World Bank. Other stakeholders are nongovernment organizations and Ministry of Women and Empowerment.

decentralization had a mixed effect on gender issues. Women have had more opportunity to participate in citizens' forums and have their concerns be heard. It allowed more gender mainstreaming in governance, and enabled training of local officials on gender issues. In some regions, however, conservative views on women's status and roles in society⁸ were revived after decentralization. The GAI also highlights that violence against women is a significant issue in the country, as they become victims of domestic violence, or communal and secessionist conflicts and sectional fighting. Poverty makes many women vulnerable for trafficking, or drives them to work overseas where they are subject to rape, harassment, wage cuts, and poor working conditions. A new law on recruitment and placement had been approved. However, it focused on employment facilitation, and did not address the vulnerability of women, especially those working in the informal sector.

10. To address these issues, the GAI draft report outlined strategies to advance gender equality during the next 3–5 years, mostly through capacity building. These include (i) integrating gender analysis and strategic planning into planning documents for the medium to long term, as well as for emerging issues; (ii) developing regular gender analyses to monitor trends and track key gender issues at the subnational levels, and providing incentives to those implementing gender-sensitive reforms; (iii) promoting capacity building for candidates, parties, nongovernment organizations, and civil society to promote greater roles for women in decision making; (iv) integrating gender-based issues into conflict management and resolution strategies; (v) developing appropriate mechanisms for resolving disputes and abuses relating to overseas women workers, especially regarding the trafficking of women and children; and (vi) increasing awareness of women's rights nationally.

D. Migration

11. Migration, a complex issue, is a critical livelihood coping strategy in Indonesia. Agents, who provide passports, flights and access to jobs, control opportunities for work overseas, particularly in Malaysia, Singapore, and other Asian countries. They require a significant down payment, and often take a year's salary as payment. Thus, working abroad represents a significant long-term risk and investment by households, though the potential rewards are significant. Many rural areas, Lombok for example, have an established tradition of providing labor to countries overseas. While the remittances sent back are an important income source for households, as well as a significant driver of regional economies, they exacerbate stresses on the household members who remain, particularly women who face increased burdens of work and household care. A second form of migration is from rural to nearby urban areas, which is largely speculative or relies on networks of kin or village patronage to source jobs. Much of this migration depends on agricultural seasons. Migration between urban areas does not appear to be widespread, as labor demand in more urbanized centers appears to be sufficiently high to keep people from seeking work opportunities further a field. The exception is for well-paid jobs in Asian or regional countries, such as in Australia, Japan, and Singapore.

⁸ As evidenced by attempts to implement *Syariah* (Islamic) and *adat* (local customs) laws, which focus on the roles of women only as wives and mothers.

ENVIRONMENT MANAGEMENT

1. Indonesia possesses a remarkable and valuable natural environment. It is home to extensive reef systems and rainforests, and provides habitats for thousands of unique species. The country's forests function as one of the world's main "carbon sinks," and their preservation is an important aspect of limiting climate change. Indonesia's coastline is the world's second longest (81,000 kilometers). Beginning in the 1980s and continuing through the mid-1990s, growth-oriented policies led to unsustainable pressures that degraded the environment and reduced dramatically natural resources and the supporting habitats.

2. Indonesia began to recognize the environmental impacts of its development strategy in the early 1990s, and showed signs of a commitment to pursuing economic development consistent with sustaining the quality and productivity of its natural resources. The development community responded by funding a broad range of programs and projects to assist Indonesia in strengthening its capability in environment and natural resources management (ENRM). These efforts, much of it directed through the Ministry of Environment and Environmental Impact Management Agency (BAPEDAL), generated ENRM-oriented policies and legislation that formed the basis of mechanisms for the country to pay more attention to sustainable development. By 1996, environmental concerns were being incorporated into the highest level of state policy. Unfortunately, the enabling environment for implementing and achieving these commitments had many weaknesses. The real need to implement ENRM in the country's development process was not recognized. Since 1997, the economic and sociopolitical events have compromised further the country's ability to address the continuing degradation of the environment and its natural resources.

3. The draft country environmental analysis found that the high deforestation rate of 1.3 million hectares (ha) per year from 1985 to 1997 accelerated to 1.7 million ha per year from 1999 to 2000. The same trend was true for marine resources. Between 1989 and 2000, coral reef areas containing 50% live coral declined by about one third. Emissions have increased rapidly. By 1999, carbon dioxide emissions from motor vehicles had doubled¹ from the 1980 level of 0.6 metric ton per capita. Combined with factory emissions, this accounted for 85% of health damages attributable to air pollution in urban centers. Only 25% of industrial wastewater is treated before discharge into the surrounding rivers and the seas. In 2002, toxic and hazardous waste was 136% above 1986 levels. Indonesia's sewage service is among the worst in the world, essentially covering only seven cities and less than 10% of the population in those cities. About 20% of solid waste is not collected,² while much of what is collected is not disposed of properly.

4. The environmental problems facing the country include (i) water and air pollution, (ii) deforestation, (iii) depleted fisheries, (iv) degradation of wetlands and marine and coastal areas, (v) erosion, and (vi) watershed disruption that severely impacts the environment. While many activities are illegal (e.g., logging, fishing, disposal of waste products), they continue unabated in many areas. Illegal logging, expansion of agriculture areas, and encroachment of urbanization continue to displace forests rich in biodiversity.

5. In summary, the status of ENRM is quite serious:

- (i) After the crisis, environmental degradation continues in the same areas as prior to the 1997 crisis. Increasing pollution from urbanization, motorization, industrialization, and the impact of forest fires threatens air quality.

¹ The Government of Indonesia subsidizes leaded gasoline and diesel fuel.

² Either openly burned or dumped in sewers and waterways.

- (ii) Poor solid and hazardous waste management is degrading land, air, and water, contributing to flooding and harming human health.
- (iii) Sewerage coverage remains one of the lowest in Asia, leading to widespread contamination of surface and groundwater in urbanized areas. This is resulting in repeated outbreaks of gastrointestinal infections and a high incidence of typhoid.³
- (iv) The rate of deforestation remains high, despite a foundation for forest policy reform. Although the Government of Indonesia has acknowledged the seriousness of its forest problems, progress has been insufficient to slow the rate of forest loss.
- (v) Natural habitats continue to be displaced, reducing environmental services provided by ecosystems, such as carbon sequestration, control of microclimates, slope stabilization, recreation, and ecotourism.
- (vi) Short-term gains in economic growth and poverty reduction are being undermined by overexploitation and degradation of natural resources, and by inappropriate handling of pollution arising from production processes, transportation, and consumption patterns. Poorer communities, which typically depend on biological resources for their livelihoods and welfare (and whose mobility is restricted), often feel these impacts directly at local levels.
- (vii) Marine and coastal resources are being degraded, particularly coral reefs.

A. Integrated River Basin Management

6. Integrated river basin management is the process of formulating and implementing a course of action involving water and related land resources of a watershed. This process takes into account related environmental and institutional factors, with special emphasis on links between upstream and downstream parts of a watershed and their respective human and physical endowments.⁴ It presents a more manageable unit for demonstrating participatory mechanisms that address ENRM problems, and is more likely to realize measurable results with more sustainable outcomes and benefits, particularly to the poor.

7. Most Indonesians live along riverbanks. The hinterlands in a watershed provide economic value as sources of irrigation for rice farming, gravel and sand for building materials, and supports for forestry activities. Significant resource use and development conflicts, which cause environmental degradation within Indonesia's watersheds, are apparent. This includes urban development, forestry land clearing that causes erosion and sedimentation, and increases in suspended solids in the river. In the upper reaches of rivers, untreated sewage and garbage are released into the river, affecting downstream water quality and use. The environmental management practices in the watershed and the urban and peri-urban areas, particularly those near the coast, have an additional cumulative impact on nearby marine and coastal resources.

8. Design of river basin-related projects presents an integrated impression on paper. During implementation, however, physical structures (e.g., flood control, irrigation channels, and diversions) in the lower reaches of a watershed dominate the management and technical focus. Initiatives upstream take on a lower profile, are not monitored as closely, and lack viable post-project support mechanisms (e.g., issues of encroachment, soil instability, sedimentation and

³ World Bank. 2003. *Indonesia Country Assistance Strategy FY 2004–2007*. Washington, D.C.

⁴ Easter, K.W., M.M. Hufschmidt, and D.S. McCauley. 1985. *Integrated Watershed Management Research for Developing Countries*. Report of workshop held at the East-West Center, 7–11 January, Honolulu, Hawaii. Environment and Policy Institute, East-West Center, Honolulu, Hawaii.

sanitation, and release of solid and liquid wastes).⁵ While comprehensive operation and maintenance (O&M) manuals are completed for flood-control activities (including in Segara Anakan), implementation is inadequate.

9. If water resources are to be managed in a sustainable way, the Asian Development Bank (ADB) and Government must make a more serious commitment to ensuring that upper catchment areas are managed properly. Several projects, such as Loan 1479-INO: South Java Flood Control Sector Project, Loan 1425-INO: North Java Flood Control Sector Project, and Loan 1475-INO: Segara Anakan Project,⁶ included components addressing upper catchments management through

(i) regreening and rehabilitation of forested or agricultural lands, (ii) sanitation initiatives, and (iii) controlling population encroachment. Often, however, these activities were delegated to third parties not directly associated with the project, such as the Ministry of Forestry (MF).

Progress was not effectively delivered, monitored, or reported. Neither ADB, executing agencies, nor the project consultants pursued MF for greater accountability in their work. This lack of performance, and the apparent lack of effort in building cooperation, is compromising the long-term sustainability of such initiatives. For example, when MF was expected to deliver regreening packages, its cooperation in execution has been minimal (Box A12.1).

Box A12.1: Loan 1479-INO: South Java Flood Control Sector Project

The project had intended to employ integrated watershed principles in providing security from the threat of frequent flooding for local populations, while (i) embracing land rehabilitation and improved use in upper catchments, (ii) monitoring river characteristics, and (iii) strengthening capacity for water resource management services toward sustainability of project works. The project prepared a comprehensive operation and maintenance manual for integrated basin management. However, will it be implemented? During the project cycle, a substantial amount of activity focused on completing the engineering outputs in the lower reaches, instead of paying equal attention to ensuring integrative solutions that should be applied in the catchment area. Rehabilitation of upper catchments was delegated to the Ministry of Forestry, despite its track record of being “difficult” regarding interagency cooperation and development. This rehabilitation was critical to the long-term sustainability of the project interventions. Misperceptions and poor interaction with the Ministry of Forestry have compromised this component.

10. In other projects, substantial operations approved in early 1990s—Loan 730-INO: Land Resource Evaluation and Planning Project, Loan 1099-INO: Second Land Resource Evaluation and Planning Project, and Loan 1203-INO: Marine Resource Evaluation and Planning (MREP) Project—were conducted independently, despite common knowledge of the interrelationships of land impacts on coastal resources and vice versa. These projects developed independent planning frameworks for terrestrial and aquatic resource use. Completed in the late 1990s, a technical assistance (TA) entitled TA 3234-INO: Natural Resources and Environmental Management Sector aimed to design a sector loan that would build on the past activities and apply an integrated approach. However, the sector loan concept was considered complicated, and TA 3234-INO evolved into the design of an institutional strengthening initiative focusing only on marine and coastal resources—the Marine and Coastal Resource Management Project.

B. Marine and Coastal Resource Management

11. With 22% of the population living on or near the coast, Indonesia depends on its marine and coastal resources. The coastal zone represents a significant source of economic and social welfare, supporting directly or indirectly 60% of the population living in and upland of these areas. As people search for livelihood options, the pressure on marine resources is increasing.

⁵ During the country assistance program evaluation team discussion, stakeholder feedback indicated that short-term sustainability (2–5 years) will be assured, but long-term sustainability (+5 years) will not because of the persistent poor land use practices in the upper watershed.

⁶ Appendix 15 gives details of loan name, amount, and date of approval.

Marine and coastal resources, particularly fisheries, provide nearly two thirds of the supply of animal protein in Indonesia, and are an important source of employment.⁷ Indonesian coral reefs might account for 10–20% of the world's total coral reef area. Coral reefs provide coastal breakwaters, which protect coastal communities and support a large share of the country's fisheries. Mangroves provide spawning and rearing areas for fish and shellfish, and physically prevent intrusion and coastal abrasion by the sea. Indonesia has the largest habitat of mangrove in the world.

12. Lending to the marine and coastal sector has accounted for a significant portion of ADB's portfolio in Indonesia. While the executing agencies have been central Government institutions, effort has focused on building capacity at subnational levels, even with the centralized governance system before 1997. For example, MREP was laying the foundation of marine resource management capacity in selected provinces. MREP initiatives remain applicable, with facilities and capabilities still in use at some offices of regional planning agency (Badan Perencanaan Pembangunan Daerah [BAPPEDA]), e.g., Palu. ADB's three main marine and coastal initiatives, although designed at or before the crisis, extend the regional focus to include nongovernment organizations and local communities in an effort to strengthen Indonesia's capacity in marine and coastal resources management. These initiatives were Loan 1613-INO: Coral Reef Rehabilitation and Management Project (COREMAP), Loans 1570/71(SF)-INO: Coastal Community Development and Fisheries Resource Management Project, and Loan 1770-INO(SF): Marine and Coastal Resource Management Project.

13. Despite the progress made by projects funded by ADB and other external development partners, signs of overexploitation of marine resources and degradation of marine ecosystems remain. Mangroves continue to be cut illegally, primarily as a source of fuelwood for industries (as in the case of Segara Anakan), such as ceramic and brick and ceiling tile manufacture. Nearshore and offshore fisheries are overfished. Coral reefs remain under pressure from mining, dynamiting, and use of cyanide to capture species for the ornamental fish trade. However, voluntary enforcement mechanisms, wherein community-based coastal watch programs try to deter illegal fishing, have had some success.

C. Solid Waste Management

14. Continued industrialization, albeit at a slower pace than before 1997, and increased public consumption in the past few years have increased volumes of industrial and domestic waste.⁸ Industrial waste has grown from 0.25 million tons in 1990 to more than 1.2 million tons in 2001. Toxic and hazardous waste from similar sources has apparently increased 139% since the mid-1980s to 1.1 million tons in 2000 (BAPEDAL 1999). Indonesia has only one facility capable of receiving and managing the toxic and hazardous waste, and it remains underutilized. New facilities have been designed, but not constructed. Each person in Indonesia produces an average 1–2 kilograms of domestic waste a day,⁹ an amount that is expected to increase as the economy recovers. Current waste management practices (i) degrade land, air, and water; (ii) contribute to flooding; and (iii) harm human health. Rivers, as major conduits for disposal of industrial and domestic wastes, increasingly contribute to health problems.¹⁰ As with other environmental

⁷ An estimated 14–16 million people are employed directly in marine and coastal resource-related activities.

⁸ Public disposal of domestic waste into rivers contributes around 60–70% of river pollution. Most domestic waste comprises food remains and plastics.

⁹ Ministry of Environment. 2003. *State of Environment in Indonesia 2002*. Jakarta.

¹⁰ After a flood in 2002 in Jakarta, the piling up of waste in several areas of the city triggered an increase in leptospirosis cases.

problems, the lack of clear institutional roles and responsibilities, no enforcement, and inadequate public awareness are the main causes of this situation.

15. ADB's solid waste management interventions normally focus on rehabilitating, improving, and/or expanding solid waste management facilities and services in urban and peri-urban settings. In two urban projects that were postevaluated, Loan 1587-INO: Metropolitan Medan Urban Development Project and Loan 1111-INO: Bogor and Palembang Urban Development Project, success was apparent during project implementation. However, these projects became less effective following completion. Integrating environmental improvement systems in an urban setting is appropriate, though stronger management of solid waste facilities is needed to overcome deficiencies in design and O&M. The environment of the three cities covered under these two projects continues to suffer solid waste management problems.

D. Forestry Resources Management

16. Deforestation has increased dramatically over the past 10 years, and worsened particularly following the economic crisis of 1997. The rate of deforestation increased from 1.3 million ha per year between 1985 and 1997 to 1.7 million ha per year for 1999–2000. The average annual rate now is believed to have reached 2 million–2.5 million ha per year.¹¹ An estimated 54% of the remaining forests are threatened. The primary causes are (i) illegal logging, (ii) forest allocation and permanent forest cover conversion for agricultural use, (iii) fire, (iv) mining, and, perhaps more importantly, (v) incompetent forest management in local jurisdictions.

17. The MF is responsible for regulating and managing Indonesia's forests, including national parks, mangroves, and protected marine areas. Its jurisdiction in protected marine areas and mangroves is under discussion with the Ministry of Marine Affairs and Fisheries. ADB has a hands-off attitude regarding difficulties in cooperation and exchange of information. Similar issues also are highlighted by Government agencies that interact and collaborate with MF. Nevertheless, ADB lending programs in conservation, irrigation, and flood control require MF involvement for completion of subcomponents. Investment support is provided to the Government's land rehabilitation program, portions of which are executed by MF. These include soil stabilization in upper catchments, greening and rehabilitation, ratification of park management plans, and enforcement of illegal logging.¹² As discussed, the long-term sustainability of flood control initiatives relies on successful implementation of sustainable soil stabilization in a river's upper catchment, particularly in the heavily populated areas of Java. While project performance in the immediate area of influence (i.e., where flood control structures are installed) is quite successful, MF's apparently poor execution of management improvements in the upper catchments compromises long-term sustainability.

E. Pollution Control

18. Given the extent of the air pollution problem in 1992, the Ministry of Environment initiated the Blue Sky Program to improve air quality in Indonesia's five largest cities and 20 industries. The program, which faltered in the mid-1990s, might be revitalized under the new administration. Efforts to switch to unleaded gasoline by the end of 2003 and to institute

¹¹ ADB. 2005. *Indonesia: Country Environment Analysis*. Manila.

¹² A selection of lending initiatives in this regard include Biodiversity Conservation in Flores and Siberut (1187-INO); Mangrove Rehabilitation and Management (1251-INO); Central Sulawesi Integrated Area Development and Conservation (1605-INO); COREMAP (1613-INO); Segara Anakan Conservation and Development (1475-INO); and various flood control initiatives (North Java Flood Control [1425/1426-INO], South Java Flood Control [1479-INO]).

emissions testing were unsuccessful.¹³ While emissions regulations exist, they are not enforced. Forest fires also contribute to Indonesian air pollution. During 1997 and 1998, the fires were especially severe. Nearly 10 million ha burned, producing a haze that affected much of Southeast Asia.

19. Water pollution in Indonesia is a growing problem. In urban areas, one of the most serious problems is the lack of sewerage systems. Indonesia sewerage and sanitation coverage is among the worst in Asia. A 2002 World Bank Report¹⁴ found that less than 3% of Jakarta's population is connected to a sewer system. The absence of an established sanitation network forces many households to rely on private septic tanks, or to dispose of their waste directly into rivers and canals. As of 2001, an estimated 90% of Jakarta's shallow wells were polluted by domestic waste. Indonesia's relative absence of controls on industrial emissions also has degraded water resources due to untreated liquid waste dumped in the rivers, discharge of agricultural chemicals, and artisanal and small-scale mines operating with little or no environmental precautions. Indonesian coastal waters are also highly polluted, especially in high traffic areas such as the Malacca and Lombok Straits—the major shipping pathway between Southeast and East Asia and the Middle East.

20. With Loan 1158-INO: Water Pollution Control Project, ADB responded to projected water pollution problems associated with rapid growth of residential and industrial estates. While private industrial and residential estates were installing centralized wastewater systems, the more open clusters of small- and medium-sized industries were not.¹⁵ This created an immediate water pollution problem in many of Java's main watersheds. BAPEDAL was also very active in promoting, though not enforcing, wastewater effluent guidelines. A central wastewater treatment facility, completed in 1997, essentially was abandoned for 3–4 years. On completion, no institution wanted to be responsible for O&M, as it was not considered commercially viable and no operational funds were available. Most industries remained unaware of water pollution control regulations and did not understand the polluter pay principle. The Environmental Management Agency of West Java Province orchestrated a handover to the Regency of Bandung. In 2000, the Regency signed a management contract with local firm PT Damba Intra, which improved the performance. The facility has 32 industrial customers, promoting their compliance with the effluent standard. The facility is operating at 75–80% capacity, and PT Damba operates the facility at a profit. However, the facility has not been replicated in other areas of the basin or Indonesia. ADB, the Borrower, and the consultants (including construction contractors) appear to have lacked the skills to execute the project. The Bogor and Palembang Urban Development Project had a similar experience, as another pilot wastewater plant was closed due to lack of O&M facilities.

21. The country assistance program evaluation team found that several ADB projects are demonstrating enhanced concern for important environmental issues and factoring them into decision making, including at the community level. Some examples are in Table A12.1.

¹³ Unleaded fuel is available for sale in Jakarta.

¹⁴ Sukarna, R., and Pollard R. 2002. *Indonesia: Overview of Sanitation and Sewage Experience and Policy Options*. World Bank, Urban Sector Unit, Indonesia Country Management Unit. East Asia and Pacific Region.

¹⁵ Even Indonesia's largest industrial estate, state-owned Jakarta Industrial Pulogadung, still does not have a centralized wastewater treatment system.

Table A12.1: Community Projects with ENRM Orientation

Name	Loan Amount (\$ million)	Loan Number	Approval Date
North Java Flood Control Sector Project	45	1425-INO	18 Jan 1996
South Java Flood Control Sector Project	103	1479-INO	7 Nov 1996
Coastal Community Development and Fisheries Resource Management Project	41	1570/71-INO	4 Nov 1997
Central Sulawesi Integrated Areas Development and Conservation Project	32	1605-INO	27 Jan 1998
Coral Reef Rehabilitation and Management Project	7	1613-INO	26 Mar 1998
Marine and Coastal Resources Management Project	50	1770-INO	26 Oct 2000
Segara Anakan Conservation and Development Project	23	1475/76-INO	17 Oct 1996

ENRM = environment and natural resources management.

Source: Asian Development Bank.

INFRASTRUCTURE

A. Water Supply and Other Urban Services Provision

1. Several urban infrastructure projects and a rural water supply project provide lessons for consideration in designing and implementing future projects.

2. **Emphasize Package of Services, Not Just Infrastructure.** Some local governments (LG) considered the integrated urban infrastructure development projects as a means only for improving physical infrastructure, not as investment support for the long-term delivery of municipal services (Loan 1077-INO: Botabek Urban Development Project and Loan 1078-INO: Bandar Lampung Urban Development Project). The project completion report (PCR)¹ for Loan 1198-INO: Central Java and D.I. Yogyakarta Urban Development (Sector) Project recommended that future Asian Development Bank (ADB) projects should emphasize (i) capacity building, (ii) balancing physical infrastructure with complementary activities promoting economic development, (iii) employment creation, and (iv) income generation. This PCR also suggested that LGs identify specific priority areas of urban deprivation within cities, and plan on achieving a balance of private sector and community-based initiatives directed to the poor communities. To date, the different village improvement programs in the projects have improved the living environment of the urban poor and enhanced the participation of the communities. In the future, this component also should provide for access to microcredit for housing improvements.

3. **Weak Household Demand.** Surveys showed that this was a factor in water supply and sanitation (WSS) subprojects, as well as the underutilization of water supply facilities (cited in the back-to-office reports for Loan 1511-INO: Metropolitan Bogor, Tangerang, and Bekasi Urban Development [Sector] Project). Perhaps in response to this problem, the 2000 project performance audit report (PPAR) for Loans 1077 and 1078² advised that the private sector might be able to deliver water better through bottles, rather through piped water supply. This would address the incentive problem in paying for water. On the other hand, the PPAR for Loan 1069³ proposed simpler and less expensive technology for delivering water to low-income households in rural areas. Such socially oriented subprojects might be unable to recover operating costs, thus requiring recurrent Government subsidies. The PPAR on Loan 1352⁴ confirmed this. It reported that projects supplying water (and sanitation) to scattered populations in poor rural areas are likely to fail if a clear demand for such services does not materialize, and rural communities are unwilling to pay for a major part of the investment and recurrent costs. The PPAR for Loan 1292⁵ broached the possibility of amalgamating water supply enterprises (Perusahaan Daerah Air Minum [PDAMs]) into regional water authorities based on a program of financial restructuring and independent supervision to lower costs.

4. **Privatization of Water Supply Enterprises.** In the past, ADB had approached water supply subprojects as components of infrastructure development and health projects, and later as part of natural resources management. By 1994, ADB strategy focused on encouraging the privatization of more successful urban water supply enterprises, and targeting assistance to low-income communities by cross-subsidizing user fees. However, privatization has not been achieved. While this approach might have been sustainable, it stops short of adopting a

¹ ADB. 2000. *Project Completion Report on the Central Java and D.I. Yogyakarta Urban Development (Sector) Project in Indonesia*. Manila.

² ADB. 2000. *Project Performance Audit Report on Three Integrated Urban Infrastructure Development Projects: Secondary Cities Urban Development (Sector) Project, Botabek Urban Development Project, and Bandar Lampung Urban Development Project in Indonesia*. Manila.

³ ADB. 2001. *Project Performance Audit Report on the Second IKK Water Supply Project in Indonesia*. Manila.

⁴ ADB. 2004. *Project Performance Audit Report on the Rural Water Supply and Sanitation Sector Project in Indonesia*. Manila.

⁵ ADB. 2004. *Project Performance Audit Report on the Eastern Islands Urban Development Sector Project in Indonesia*. Manila.

comprehensive water supply policy that merges goals regarding delivery, safety, conservation, and decentralization.

5. **Greater Attention to Waste Management.** ADB has not been involved much in the sanitation sector, because (i) it does not generate revenue, which means getting the Government to prioritize and fund the sector is a problem; (ii) a particular institution is not responsible for the sector; and (iii) a policy has not been formulated for the sector. Therefore, this subsector does not seem to be integrated into ADB-financed projects, according to the impact evaluation study (IES) on WSS. In several cases, the ADB-financed subprojects became the source of pollution.⁶ Thus, ADB emphasized the need to review its level of commitment and ensure that health education was an essential component of future sanitation programs. The PPAR on Loans 1077 and 1078 (footnote 5) proposed that future projects focus on demand-side management for solid waste and sanitation components to reduce the volume of waste and encourage recycling. The PPAR also recommended offering free desludging services for human waste to generate demand, then using the treated sludge as compost to be sold to finance operation and maintenance (O&M) in a sustainable manner. If this is not feasible, the experience with Loan 1292-INO: Eastern Islands Urban Development Sector Project showed that waste collection and the operation of disposal sites might be contracted out to the private sector for improved service delivery.

6. **Rural Water Supply.** The Rural Water Supply and Sanitation (RWSS) Project, approved in 1994, aimed to provide safe and reliable WSS services to 250 low-income rural villages in Kalimantan and Sumatra through community-based arrangements and supporting sanitation education. At the Government's request, the project scope was expanded to 3,000 rural communities in 12 provinces. The sample surveys conducted during the PPAR for the RWSS Project⁷ indicated that in 15% of the communities visited, no public works had been carried out, or they had been abandoned before commissioning. Of the facilities visited, only two thirds had any form of sanitation facility constructed, and one of 40 locations had the complete package of services available. The majority of facilities were no longer functioning in 124 communities visited. The key factors contributing to the poor performance of the project were the lack of community involvement, and the absence of bottom-up planning due to insufficient budgets in the project design. The poor coordination between the Directorate General of Human Settlements and the Ministry of Home Affairs was another key factor. The short implementation period and the inflated local currency value led to accelerated expenditures without the needed checks and balances.

B. Energy and Transport

7. In 1990–1997, gross domestic product (GDP) growth exceeded 7% annually, leading to fundamental changes in the structure of the economy and helping elevate Indonesia from a low- to middle-income country. By the mid-1990s, the manufacturing sector (excluding oil and gas) accounted for just less than one quarter of GDP, surpassing agriculture. Service sectors, including communications, finance, and construction, grew rapidly. Agriculture still employed 43% of the labor force in 1999, and agriculture and natural resources remain the base of much of manufacturing, especially for exports. This rapid economic growth had significantly increased demand on infrastructure. To avoid worsening potential infrastructure bottlenecks, ADB focused its lending policy on the provision of physical and economic infrastructure, as well as on necessary reform support.

8. In the transport and communication sector, ADB financed eight projects and two sector loans, totaling \$1,439 million. The road subsector accounted for the largest share at

⁶ Reported for Loan 1111-INO: Bogor and Palembang Urban Development Project and Loans 1383/1384-INO: Sumatra and West Java Urban Development (Sector) Projects.

⁷ ADB. 2004. *Project Performance Audit Report on Rural Water Supply and Sanitation Sector Project in Indonesia*. Manila.

\$680 million, or almost half the total. ADB financed four projects consisting of two sector projects (Loan 1115-INO: Eleventh Road [Sector] Project and Loan 1335-INO: Eastern Islands Roads [Sector] Project) and two ordinary projects (Loan 1232-INO: Third Local Roads Project and Loan 1428-INO: North Java Improvement Project). All road infrastructure projects were completed. The two other subsectors—telecommunications, and land, sea, and air transport—received almost equal amounts. Telecommunications accounted for \$380 million, which financed two projects (Loan 1157-INO: Telecommunication Project and Loan 1233-INO: Second Telecommunications Project). Like the road infrastructure projects, these projects were completed. The remaining \$379 million was allocated to support four projects in the land, sea, and air transport subsector. These comprised Loan 1089-INO: Inland Waterways Project; Loan 1559-INO: Belawan, Banjarmasin, and Balikpapan Ports Project; Loan 1220-INO: East Indonesia Airports Project; and Loan 1586-INO: Eastern Islands Air Transport Development Project. Unlike the first two subsectors, only one of the four projects under the responsibility of the Ministry of Communications was physically completed (Inland Waterways Project). One of the other three projects was canceled (Eastern Islands Air Transport Development Project) after being downsized to only 5% of the original project scope. The project scope of the other two also was scaled down, as the loans were extended several times. Whether these projects would proceed or be terminated was unclear. The latest back-to-office reports of these two projects suggested that they most likely will be terminated or canceled.

9. ADB's four major areas of focus for infrastructure policy reform has been (i) delivering infrastructure services to meet user demand; (ii) introducing competition to lower service delivery costs, and ensuring that demands are met; (iii) pricing infrastructure services to finance service delivery, ration consumption to an economically efficient level, and provide an indicator of demand; and (iv) improving efficiency. Demand orientation and introduction of competition dictate that CG, and in some cases LGs, relinquishes control over service delivery. Further, users, private firms, and NGOs are granted a larger role in developing service delivery policies. Yielding authority requires risk taking, and dynamic leadership that is willing to deliver services differently to improve it. Substantive changes carry the potential for failure. The Government, consumers, and external development partners must be willing to accommodate some failures in exchange for the opportunity to improve service delivery.

10. In the future, ADB should support the preparation of infrastructure development plans, particularly integrated gas and power sector planning,⁸ and optimization of an energy mix for the country. Specifically in the power sector, additional assistance can be considered in (i) strengthening the regulatory framework to ensure a conducive environment for private sector investors; (ii) providing political risk guarantees, or other forms of credit enhancement, to attract private sector investment in the power sector; (iii) transmission projects, rural electrification using new and renewable energy sources, and other investments that are not covered by or attractive to the private sector; and (iv) preparing an energy sector development program to address key power sector issues that remain, such as the unbundling of PLN into separate legal entities and the expansion of competition beyond Java-Bali. In the transport sector, main issues are (i) capacity development, (ii) attention to maintenance, (iii) higher budgetary allocation to the sector, (iv) premature failure of the pavements due to overloading, (v) financial health of transport utilities, and (vi) private sector participation. At the Infrastructure Summit in January 2005, ADB stressed that it is well positioned to support infrastructure efforts through its public and private sector arms. ADB's willingness to provide infrastructure financing should be contingent on addressing needed reforms.

⁸ ADB support to State Gas Corporation (PGN) through Loan 1357-INO helped to develop a small state-owned enterprise into an entity that is professionally managed and has successfully achieved public-private partnership, raised finances in the international market, and allowed participation in transboundary trade in the region.

11. In the energy sector, ADB financed seven projects with loans totaling \$1,987 million. These comprised six power subsector projects and one gas subsector project. Four power projects were completed successfully: Loan 1032-INO: Power XX, Loan 1092-INO: Power XXI, Loan 1172-INO: Power XXII, and Loan 1320-INO: Sumatra Power Transmission. Loan 1397-INO: Power Development and Efficiency Enhancement Project was closed on 30 June 2004, and the undisbursed loan balance of about \$69.7 million was canceled. Loan 1271-INO: Power XXIII is ongoing, and an extension of the loan closing date to September 2006 was proposed. Loan 1357-INO: Gas Transmission and Distribution Project was extended four times to May 2005, and is still active.

12. During the crisis (1998–2000), ADB’s lending program included one project in the transport sector and two projects in the energy sector. The two power projects—a program loan (Loan 1673-INO: Power Sector Restructuring Program [PSRP] and TA Loan 1674-INO: Capacity Building for Establishment of a Competitive Electricity—were part of ADB’s prompt and comprehensive response to the financial crisis that hit Indonesia in 1997. The reoriented operational strategy for Indonesia provided lending and nonlending support (NLS), consisting of five largely quick-disbursing loans. Collectively, these were referred to as crisis support loans (CSL), totaling \$2.8 billion, during 1998–1999. The CSLs included \$400 million for Loans 1673 and 1674. The purposes of the loans were to (i) restructure the power sector, (ii) develop a competitive electricity market with multiple sellers and multiple buyers in the Java-Bali region, and (iii) build capacity for establishment of competitive electricity markets. PSRP (Loan 1673) was completed, and the loan was closed on 11 December 2002 after the enactment of the new electricity law (Law 20/2002).⁹ Loan 1674 was completed more recently, meeting the extended closing date of 31 October 2004.

13. The only project in the transport sector during the crisis was a road rehabilitation (sector) project with a loan of \$190 million (Loan 1798). After the Asian financial crisis, the Government’s fiscal position was very tight. Consequently, external assistance is needed to sustain road maintenance and improvement activities. The road system requires an estimated minimum investment of \$700 million per year to prevent its deterioration. Continued external support is critical for maintaining priority road sections and supporting economic recovery. The main objective is to support the Government’s road sector programs by funding a 4-year of civil works for priority roads in 15 provinces of Sumatra, Java, Kalimantan, and Sulawesi. The civil works will comprise periodic road maintenance for about 2,500 kilometers (km), road improvements for about 500 km, and bridge rehabilitation or replacement on about 3,000 linear meters (m), mainly in the provincial and national road networks. In addition, the project will help the Government monitor its action plan for implementing the general road sector policy. It also will reformulate and implement specific policies, particularly those for (i) road user charges, (ii) cost recovery, (iii) earmarking of funds for road maintenance, (iv) vehicle overloading, (v) road safety, and (vi) road planning and management. The project also will provide capacity building in road and bridge works.

14. After the crisis (2001–2003), ADB financed only two projects in the power sector with a total project loan amount of \$301 million, and none in the transport and communication sector.

⁹ In December 2004, the Constitutional Court annulled Law 20/2002 on Electricity on the grounds that its key provisions, particularly on unbundling and competition, violated Article 33 of the 1945 Constitution. This is a major setback for power sector reform, as the governing legislation of electricity is back to the old Law 15/1985, which gives the State Electricity Enterprise the monopoly to provide electricity. However, the Infrastructure Summit in mid-January 2005 issued Government Regulation 3/2005 on the Provision and Utilization of Electricity. This was followed by two ministerial decrees as implementing rules and regulations, allowing PLN to purchase electricity from independent power producers and establishing the procurement procedure for private sector participation in providing electricity. The draft new Electricity Law is in progress under the initiative of the Government (Directorate General of Electricity and Energy Utilization, Ministry of Energy and Mineral resources) and the parliament.

The two power sector projects were Loan 1982-INO: Renewable Energy Development Sector and Loan 1983-INO: Power Transmission Improvement Sector.¹⁰ The Renewable Energy Development Sector Project comprises various core and noncore subprojects that will add about 82 megawatts (MW) of power generation capacity, with 480 gigawatt-hour (GWh) annual energy output. All the energy will be produced from renewable resources, thus avoiding the use of fossil fuels. The associated power distribution networks will be strengthened correspondingly. Indonesia has many small power grids where addition of new power generation capacity using renewable energy resources provides economic and environmental benefits. Implementation of such subprojects will also help restore the power demand and supply balance, and improve the quality of power supply to consumers, particularly in the rural regions. The project will expand renewable energy use, thereby limiting emissions of greenhouse gases.

15. The Power Transmission Improvement Sector Project consists of various core and noncore subprojects that add (i) 360 megavolt amperes (MVA) of transformation capacity to remove substation capacity bottlenecks in Java-Bali, and (ii) 276 km of 150 kilovolt (kV) transmission line to interconnect power grids in the outer islands. The project also will create the necessary market facilities to establish and operate a competitive electricity market. Power transmission bottlenecks in Java must be removed, and some small power grids in the outer islands interconnected, to maintain quality of power supply and improve efficiency. Further, the new electricity law requires that the price of power generated be set on a competitive basis within 5 years. As such, the required facilities for the power system and market operator have to be created in Java-Bali. The project will (i) remove power supply bottlenecks in selected power substations and medium-voltage transmission lines in Java; (ii) interconnect outer island power grids; and (iii) provide information and communication technology equipment for a competitive electricity market, and consulting services to supervise its installation. The loan was signed on 10 November 2003. However, the loans for these two projects had not taken effect as of October 2004 due to delays in submitting formal subsidiary loan agreements to the Ministry of Finance, and the respective legal opinions of the Ministry of Justice and PLN counsel on these agreements.

16. Efficacy in achieving the major components of the telecommunication projects was relatively poor, because of the significant delay in implementation. The reasons for the delay were manifold, among them:

- (i) International consultants were mobilized late due to the negotiation of conditions.
- (ii) Performance of certain local contractors in civil works management was inadequate, and the work scheduled was often affected by festive seasons. Poor coordination within a consortium aggravated their lack of planning capabilities and technical expertise.
- (iii) Quality and warranted service of certain equipment was unsatisfactory.
- (iv) Regional economic crisis adversely influenced the availability of local funds from mid-1997 through 1999. Subcontractors were not paid and stopped working.
- (v) Process from approval of the contract award by ADB and the National Development Planning Agency (BAPPENAS) to the opening of a letter of credit by the Bank Indonesia was time consuming.
- (vi) Approval process for certain international competitive bidding contracts was unusually long due to re-tendering.
- (vii) Procedures for obtaining frequency permits for transmission components and excavation permits were lengthy.
- (viii) Reorganization of TELKOM and involvement of private sector partners created inefficiencies in ongoing works. While these problems are not peculiar to the telecommunication sector, many were considered controllable. A proactive approach could have prevented some and lessened the impact of others.

¹⁰ These loans were effective 27 October 2004.

Overall, the efficacy of the projects was adequate, as the major project outputs were achieved as envisaged.

17. In the power subsector, with few exceptions, the completed loan projects succeeded in achieving their expected outputs and immediate objectives, including (i) provision of additional capacity to match load growth, (ii) removal of transmission system constraints, (iii) improvement in system efficiency and reliability, (iv) increase in the use of indigenous energy resources, and (v) resulting socioeconomic development. The TAs provided useful recommendations to the Government and PLN on institutional strengthening, tariff rationalization, and sector restructuring. At the sector level, the lending improved the overall operating efficiency of PLN, not just the efficiency of the individual projects. The assistance and its accompanying covenants were efficacious in enabling PLN to minimize costs of supply, reduce system losses, improve collection efficiency, and make well-developed tariff proposals. However, it often was inefficacious in securing Government approvals of such tariff proposals fully or in time, thus leading to financial shortfalls for PLN. Notwithstanding the lack of financial achievement, the overall efficacy of ADB-financed projects is judged satisfactory. However, the efficacy of the transmission project is considered less than satisfactory. Although the project is partly functional due to the incomplete sections, it has improved the power transmission network in Sumatra. The project contributed to the wider development goal of reducing the geographic disparity between the electrical networks of Sumatra and Java by providing a more efficient transmission system in Sumatra. Transmission losses decreased from 4.08% in 1997 to 3.32% in 2001 in northern Sumatra, and from 2.84% to 2.70% in southern Sumatra during the same period. Overall, the purpose of the project as formally modified during implementation was achieved less than efficaciously.

18. Most of the roads and bridges are in good or fair condition, and the proportion of the national and provincial road network in this condition has increased in recent years. However, the long-term sustainability of the projects remains a question. The maintenance of the subprojects has not always been adequate, or has been delayed. The impact of the sudden decentralization of authority over the road network to regional governments cannot be determined yet. Further, the ability of some provinces to obtain sufficient funding to maintain the roads for which they are now responsible is a matter of concern. On balance, sustainability is rated likely for the road projects. However, sustainability of the projects depends heavily on the maintenance and preservation of the road network assets. Negligent maintenance practices will shorten the duration of positive impacts generated from project improvements. Current maintenance expenditures are insufficient to accommodate maintenance demands. The reduction in spending on district roads in real terms since the mid-1990s, the inadequate maintenance performance, and the uncertainties resulting from changes in the system of decentralized government might affect adversely project sustainability. However, no clear evidence is available that funding allocated to the district road sector has been reduced due to the districts gaining autonomy. Most have reported funding for roads at similar levels, with as many increases as decreases.

19. The reform agenda in the Indonesian telecommunications sector has advanced faster than expected. Under the new telecommunication law of September 2000, deregulation has accelerated. Despite the withdrawal of foreign direct investment after the regional economic crisis, the sector will be reshaped to be ready for tougher international competition. TELKOM, as an institution, has adapted to such changes, and its performance has rebounded. In sector and institutional development, the projects achieved more than what was anticipated at appraisal. Therefore, sustainability is perceived as adequate in the projects due mainly to TELKOM's institutional strengthening during implementation. TELKOM's major business goals are to provide customers with quality services, which are accessible and affordable. In the early

1990s, uncoordinated design and fragmented use of technology made TELKOM's network inefficient. To improve the ability to reroute calls during congestion, TELKOM vigorously invested in a new state-of-the-art call routing system on its trunk exchanges nationwide, including the projects. The positive effects of such investments can be seen in the improved call completion rate (CCR), which is a performance indicator for the long-distance network. In 1992, TELKOM's local CCR was 40.5% and domestic long-distance CCR was 26.0%. In 2000, the CCRs rose to 73.0 and 65.8%, respectively. The CCRs for the project areas also have improved significantly. The sustainability of the projects is considered satisfactory.

20. Electricity tariffs charged to consumers were too low to ensure the sector's economic sustainability. Tariffs had to be increased to a level adequate to ensure financial survival, as well as the capacity to repay loans needed to fund new capital investment. PLN has made good progress in increasing tariffs since 1999. Average revenues from electricity sales increased from Rp211 per kWh in 1999 to Rp557 per kWh in July 2003. While consumers have accepted the tariff increases, tariffs are still slightly below the economic cost of power generation and supply, which is estimated at \$0.07 per kWh. Tariffs are expected to reach the required level in 2005.

21. **Infrastructure Summit.** At the Indonesia Infrastructure Summit in January 2005, ADB drew attention to the infrastructure challenges and the reforms needed in the country: (i) revisiting the issue of Government control (rather than ownership) of important branches of production, (ii) strategic planning (as opposed to ad hoc decision making) in infrastructure sectors to identify where and when private sector participation should be encouraged, (iii) formulating an enabling regulatory framework where independent and technically competent regulators can make transparent decisions that minimize the opportunities for corruption, (iv) tapping domestic currency sources of financing prudently, and (v) adopting a balanced approach to risk-sharing through Government guarantees. ADB stressed that it is well positioned to support in infrastructure efforts through its public and private sector aims.

FINANCE AND PRIVATE SECTOR

1. During the financial crisis from early 1995 to early 1997, many Indonesian banks and companies borrowed heavily offshore, enjoying competitive access to overseas finance and capital markets for the first time. State-owned banks set the market trend with low pricing benchmarks for this new foreign exchange debt. With the resulting inexpensive US dollar borrowing rates, some Indonesian corporate groups raised more than \$1 billion each. Indonesia also had its first privately funded infrastructure projects, such as toll roads and power stations, often supported by loans of \$1 billion per project. This heavy borrowing occurred even though Indonesia lacked an investment grade credit rating with any international rating agencies (unlike Thailand). The borrowings were in hard currency, mostly US dollars, while many borrowers earned income in rupiah only.

2. Therefore the growth in the financial market overtook the institutional and policy adjustments that should have accompanied the 1988 deregulation. Examples where institutional and policy reforms lagged behind economic and sector growth needs included:

- (i) **Banks.** Bank Indonesia had issued more than 200 banking licenses by 1994, yet did not have the resources or professional transparency to regulate or supervise the banking sector. Also, the commercial and state banks lacked the staff and information technology to manage their own growth, or manage more complex client needs, such as US dollar loans.
- (ii) **Nonbanks.** The Ministry of Finance suffered from the same poor resource and governance issues as Bank Indonesia in trying to regulate and monitor the huge growth in insurance companies and pension funds, many of which were subsidiaries of banks.
- (iii) **Capital Market.** Industry regulator and the Jakarta Stock Exchange were untested and lacked resources to bring the needed transparency to the booming capital markets and securities industry. Again, many of the new securities companies were owned by banks.
- (iv) **Legal Framework.** Governance problems were substantial in Indonesia's legal system, and still are. Corporate laws were often ill defined and controlled across many Government agencies. Laws for investment, accounting, and standards were poor and sometimes nonexistent. These legal factors contributed significantly to an increase in business risks in the private sector, and heightened systemic risks in the financial sector.
- (v) **Corporate Governance Framework.** Corporate governance lacked transparency and accountability in terms of the actions of corporate directors and commissions.
- (vi) **Financial Journalism.** In precrisis Indonesia, political and crony influence over the media were pervasive and counterproductive to many reform efforts. Greater pressure from external development partners for a free press before the crisis, plus focused technical assistance (TA) for financial journalists, could have increased significantly the effectiveness of many policy interventions.

3. Indonesia was more stable after the crisis, because the political scene was more stable. Because Indonesia had had three presidents (Habibie, Gus Dur, Megawati) in 3 years, the Government of Indonesia and the International Monetary Fund lacked a clear economic agenda. Successive letters of intent effectively became the Government's substitute economic policy agenda. One reform mechanism of the international financial institutions was to use the letters of intent to obtain from the Government reform commitments, if not delivery. However, unfinished financial sector reforms remained, such as (i) public finance stabilization and debt management; (ii) fiscal balance impact on the Government from regional autonomy; (iii) banking sector governance and financial transparency; (iv) banking sector supervision; (v) supervision of nonbanks (insurance, pension funds, leasing); (vi) corporate sector governance and financial transparency; (vii) corporate and bankruptcy law reforms; (viii) capital market development and supervision; (ix) legal industry transformation; and (x) investment law reform.

4. Bank privatization progressed well with significant Government divestments in state-owned banks. Indonesian Banking Restructuring Agency (IBRA) sold the last of the banks in 2004. In late 2003, the Government submitted a draft law on deposit insurance, which Parliament enacted in June 2004. The law provides for a risk-based premium structure, which will be adopted after an initial period of 1–2 years. The deposit insurance scheme will replace the blanket guarantee program, which is to be phased out within 1 year after the law's enactment. To replace the role of IBRA in implementing the blanket guarantee program, the Ministry of Finance established a special unit on a temporary basis.

5. After restructuring, banks have become more concentrated (138 banks in 2003, compared to 238 in 1997). The two largest state-owned banks own one third of the banking system assets. Banks are highly liquid with assets averaging 32% of deposit liabilities. (This would be 72% liquid assets if recapitalized bonds were included as secondary liquid assets). Nonperforming loans (NPL) are at a manageable level—down to 8% at the end of 2002, from 50% during crisis. The worst NPLs were transferred to IBRA, and replaced by Government recap bonds. Capital adequacy has recovered to 30%, compared to the required 8%, though this probably is overstated due to the underestimation of NPLs. If a realistic estimation of NPLs were taken into consideration, the capital adequacy ratio would drop to 13%.

6. The Asian Development Bank's (ADB) contribution to financial sector work in Indonesia began in 1987 with a TA for financial sector review (TA 856-INO), followed by the preparation of Loans 938/939(SF): Financial Sector Program Loan (FSPL). It supported the liberalization of the banking sector (i) providing for the entry of new financial institutions, (ii) streamlining the legal framework, (iii) promoting the development of the securities market, and (iv) restructuring state-owned enterprises. During 1992–1996, the focus on the financial sector was limited. TAs for this sector (totaling only \$0.7 million) emphasized mainly the development of the securities market and the regional development account. During the crisis, advisory TA was limited to three TAs worth \$1.8 million. However, a TA loan approved as part of the crisis support—Loan 1620-INO: Financial Governance Reforms: Sector Development Program and a Proposed Equity Investment in a Secondary Mortgage Facility—was substantial. Since 2001, ADB has done more analysis using TAs in preparation for its financial sector strategy. Between 2001 and 2003, ADB provided five advisory TAs in a variety of areas, totaling \$6 million. In general, while many of the recent TAs were geared toward appropriate areas, the funds available were far too small and represented only a short-term commitment, which limited the impact on necessary reforms.

7. According to the program performance audit report for FSPL, many of the reforms in the banking and capital markets were implemented on schedule, while the restructuring of the state-owned enterprises proceeded more slowly. The reform process, part of which was supported by the FSPL, encouraged private sector investment that led to diversification of the economy in line with the existing strategy.

8. ADB approved and implemented a variety of TAs for the financial sector, especially after the crisis (Table A14.1). A summary of achievements is in (Table A14.2).

TA No.	Title	Amount (\$'000)	Approval Date
1990–1996			
1313	Strengthening of Term Lending Capabilities of Participating Private Commercial Banks under Bank's Development Finance Loan	100	06-Jun-90
1319	Development of the Venture Capital Industry	92	08-Jun-90
1320	Development of the Leasing Industry	92	11-Jun-90
1531	Securities Market Development - Phase II	592	05-Jul-91
2586	Secondary Mortgage Facility (SMF)	96	13-Jun-96
2699	Institutional Strengthening of Regional Development Account	600	05-Dec-96
		Total ADTAs from 1992–1996	696 vs. 1.5 M
1997–2000			
3116	Reform of Pension and Provident Funds	870	11-Dec-98
3119	Regulatory Reforms in the Insurance Industry	800	15-Dec-98
3228	Development of a Deposit Insurance Scheme	150	20-Jul-99
		Total ADTAs from 1997–2000	1,820 vs. 1.6 M
2001–2003			
3620	Development of a Financial Services Supervisory Institution	1,700	12-Jan-01
3849	Development of an Anti-Money Laundering Regime	1,500	18-Mar-02
3850	Establishment of a Financial Services Authority	1,500	18-Mar-02
4024	Financial Governance and Social Security Reform	1,000	10-Dec-02
4250	Unified Registration System	300	13-Dec-03
		Total ADTAs from 2001–2003	6,000 vs. 6.5 M
Total		9,392	

ADTA = advisory technical assistance, TA = technical assistance.
 Note: Selected based on loans and technical assistance sector classification.
 Source: Asian Development Bank loans and technical assistance grants document databases.

Table A14.2: Achievements ^a of Advisory Technical Assistance for the Financial Sector	
No.	Title
1990-1996:	
2699	<p>Institutional Strengthening of Regional Development Account</p> <p>Objectives: Review Government policy and the role of the Regional Development Account (RDA) in financing urban investments and supporting regional development, and analyze options for transforming the RDA into an autonomous financial intermediary.</p> <p>Achievements:</p> <p>(a) Different options for the long-term evolution of the RDA was evaluated, through the preparation of policy papers on: (i) urban sector policy; (ii) interest rates, interest and conditions; (iii) financial instruments and financial structures; (iv) legal</p> <p>(b) Pilot cases and recommendations were made to improve repayments from RDA borrowers, due to deteriorating loan portfolio;</p> <p>(c) Action Plan for the RDA, comprising of urgent, transition and transformation actions, to be implemented over a 3-5 year period;</p> <p>(d) Progress in the implementation of the urgent actions.</p> <p>Objective: Review and assess financial intermediaries, including regional development banks (BPDs), which may be used to channel RDA funds to local governments. This was later broadened to include the advantages and disadvantages of using financial inter</p> <p>Achievement: Preparation of policy papers on financial intermediation for urban infrastructure finance.</p>
1997-2000:	
3116	<p>Reform of Pension and Provident Funds</p> <p>Objectives:</p> <p>(a) Examine social and economic issues affecting the pension and provident fund schemes;</p> <p>(b) Develop a legal, regulatory and institutional framework for the prudent management of funds;</p> <p>(c) Introduce best practices and international standards for fund management;</p> <p>(d) Assess the financial sustainability of mandatory pay-as-you-go pension schemes;</p> <p>(e) Formulate recommendations for a more efficient pensions sector to mobilize larger flows of domestic savings and provide adequate social security coverage</p> <p>Achievements: Presented in an 8-volume report, which included the following recommendations:</p> <p>(a) Conduct a full independent audit of the provident fund Jamsostek and adopt reform measures to reduce its costs and increase contributions, replacement rate, retirement age, compliance and enforcement, fund segregation, recordkeeping, disclosure of in</p> <p>(b) Introduce a competitive mandatory accumulation system based on the Hong Kong model that permits corporate, open and industry-wide plans and accommodates both defined benefit and defined contribution pension plan models;</p> <p>(c) Consolidate and harmonize regulations and investment restrictions applicable to various investment vehicles;</p> <p>(d) Adopt measures for improved governance, like the appointment of independent directors;</p> <p>(e) Increase educational and training programs;</p> <p>(f) Eliminate the existing corporate structure where dividends and taxes are paid to the government on pension investment returns in mandatory programs.</p> <p>A workshop disseminated the TA findings and obtained useful feedback.</p> <p>Most of the reform agenda involving provident funds and pensions were incorporated into the proposed NonBank Financial Governance Program Loan, and the Pension Directorate under the Ministry of Finance had made progress in harmonizing pension benefits wit</p>
2001-2003:	
3620	<p>Development of a Financial Services Supervisory Institution</p> <p>Objectives: Support the establishment of a Financial Services Supervisory Institution (FSSI) as an effective oversight institution for financial sector supervision and governance, through:</p> <p>(a) Preparation of a framework, law and regulations for FSSI towards an appropriate supervisory and regulatory structure;</p> <p>(b) Identification and mitigation of systemic risks;</p> <p>(c) Improvement of transparency and disclosure of information to market participants; and</p> <p>(d) Support of effective compliance and enforcement of regulatory standards and reduction of financial crime.</p> <p>Achievements:</p> <p>(a) Draft Law, including an initial blueprint for the organization and structure of FSSI, supervision policies and practices, autonomy of funding, and FSSI responsibilities;</p> <p>(b) Human resources plan; and</p> <p>(b) IT need assessment with an IT strategy and budget.</p> <p>A workshop discussed the mandate for FSSI establishment, best practices/models and issues of relevance to Indonesia.</p>
3849	<p>Development of an Anti-Money Laundering Regime</p> <p>Objectives: Support the implementation of the new anti-money laundering (AML) law and regulations, the establishment of the new institutions required by law and the promotion of public awareness.</p> <p>Achievements:</p> <p>(a) Drafting of guidelines governing the obligations of financial service providers, including those on suspicious transaction reporting, customer identification, AML typologies, cash transaction reporting, compliance programs and training and investigat</p> <p>(b) Proposed amendments to address deficiencies in Law No. 15/2002, Concerning the Crime of Money Laundering; amendments were passed in September 2003;</p> <p>(b) Conduct of seminars to address overlaps in regulations, supervision and enforcement;</p> <p>(c) Conduct of training for senior officials, "train the trainer" course, and compliance training programs;</p> <p>(d) Conduct of regional workshops and public information campaign for banks and non-banks to educate the public;</p> <p>(e) Preparation of an organizational structure, IT strategy, blueprint and budgets for the PPAK; and</p> <p>(f) Preparation of a cash transaction reporting strategy and implementation plan for banks and non-banks.</p>

^a Based on the technical assistance completion reports.

Source: Asian Development Bank loans and technical assistance grants document databases.

9. **Loans Through Intermediaries.** The First Development Finance Loan (DFL1), approved in 1989, was to increase the productive capacity of manufacturing in the private sector (Loan 981-INO: Development Finance Loan. For the first time, participating financial institutions (PFI) were used to diversify channels of ADB assistance, and to encourage an expanded competitive and efficient

financial intermediation mechanism. DFL1 was almost fully utilized, contributing to the widening industrial base in the country.¹ The Second Development Finance Loan (DFL2) was approved in March 1993, 15 months before closing DFL1. Therefore, it could not benefit from the lessons and recommendations of the project completion report (PCR) for DFL1, which was circulated in February 1996.² This PCR noted that, while the commercial bank PFIs complied with ADB covenants and performed well, they failed to achieve the performance targets. It recommended the strengthening of the appraisal and supervision capabilities of staff, and also recognized a shortage of long-term funds in the PFIs and recommended continued lending to these institutions.

10. DFL2 was to develop export industries and improve financial intermediation. It was structured as an umbrella credit line to Government for onlending through nine PFIs to export-oriented private enterprises.³ The DFL2 subloans were denominated in US dollars, unlike local currency loans under DFL1. In contrast to the 97% utilization of DFL1, DFL2 utilization was only 38%. The project performance audit report (PPAR) for DFL2⁴ attributed the low utilization to (i) cumbersome procedures and strict subproject criteria; (ii) uncompetitive interest rates; and (iii) the financial crisis, which made PFIs vulnerable and sluggish. The PPAR observed that DFL2's contribution to development of export industries was marginal, and its effect on financial intermediation indiscernible. For future appraisal of DFLs, the PPAR recommended a thorough review of (i) interest rate competitiveness, taking into account the exchange rate volatility, bank liquidity, and currency and maturity mismatches in the PFIs; and (ii) PFIs' prudential regulations, enforcement status, corporate governance, and risk management system. ADB's approval of subloans should be contingent on compliance with covenants related to these aspects.

11. Another important lesson from DFL2 and its PPAR relates to ADB's introduction in 1994 of a market-based lending window using the London interbank offered rate (LIBOR) as the base rate for PFIs. However, guidelines governing the conversion of the old pool-based window to the market-based lending window were lacking, and many ADB officers were unaware of the merits of the market-based lending. As such, no development finance loan was converted to take advantage of this window. Tapping into the LIBOR rate conceivably could have improved subproject profitability and the attractiveness of utilizing DFL2. Better dissemination of changes in ADB procedures, including an analysis of their impact on the current and future portfolio, is warranted.

12. The more recent Loan 1978-INO: Small and Medium Enterprise (SME) Export Development Project channeled through financial intermediaries is not showing much success either, despite four workshops in different parts of the country to socialize⁵ the project facilities. The project is intended to support labor-intensive export SMEs. The funds were to be channeled through the Bank Ekspor Indonesia to PFIs for relending to export-oriented SMEs, mostly for financing investment capital. The loan became effective after 18 months in May 2004. However, hardly any funds had been disbursed by early 2005 due to (i) noncompetitive loan rates (although these rates have better terms than previous ADB loans); (ii) focus on investment capital, not on addressing the SMEs' need for more working capital; and (iii) the loan limit being too small for most direct exporters that are eligible to borrow. Although borrowers request flexibility in loan characteristics, such flexibility is difficult to implement given ADB's internal approval procedures.

13. ADB's loans through financial intermediaries are underutilized, as they do not appear to cater well to market conditions. To succeed in these types of operations, better interest rate, determination mechanism, higher proportion of working capital eligibility, and local currency loans

¹ The PCR for DFL1 Project estimated that it supported the creation of 31,650 jobs, absorbed \$750 million total investment, and generated about \$175 million in incremental exports.

² ADB. 1996. *Project Completion Report on the Development Finance Loan Project in Indonesia*. Manila.

³ Allegation of corruption and political scandal were associated with one PFI, and an audit report on this issue was published in November 1999 due to intense international pressure. ADB officially expressed its disappointment over the scandal.

⁴ ADB. 2004. *Project Performance Audit Report on the Second Development Finance Project in Indonesia*. Manila.

⁵ In the Indonesian context, socializing projects implies familiarizing the stakeholders with the project.

might be required. Under the initiative for Enhancing Partnership Framework with middle-income and ordinary capital resources countries, the possibility of more lending options in local currency is being discussed. This could provide some flexibility in serving client needs. Meanwhile, the scope for working on the nonfinancial constraints faced by SMEs, addressing regulatory barriers and business development services, is significant.

PUBLIC SECTOR OPERATIONS
(as of 31 December 2004)

Loan/TA No.	Type	Sector Code	Title	Amount (\$'000)	Approval Date
1	A&O	AG	Foodgrain Production	80.0	30-Aug-67
6A	A&O	AG	Advisors to Ministry of Agriculture	170.5	30-Jul-68
6B	A&O	AG	Rural Credit Survey	60.0	30-Jul-68
12	PP	AG	Feasibility Study on Sempor Dam Reconstructor	328.0	27-Mar-69
12	SF	AG	Tajum Irrigation	990.0	17-Jun-69
15	SF	AG	Sawit Sebarang Oil Palm Estate	2,400.0	21-Oct-69
23	A&O	AG	Sawit-Sebarang Oil Palm Estate	42.0	27-Dec-69
24	A&O	FI	Bank Rakjat Indonesia	75.0	24-Feb-70
33	SF	IN	Pusri Fertilizer Plant Expansion	10,000.0	04-Jun-70
33	PP	EN	West Sumatra Electric Power Supply	185.0	14-Jul-70
37	PP	AG	Java Teak	216.0	13-Oct-70
38	PP	AG	Wampu River Flood Control	181.0	17-Nov-70
58	SF	AG	Gambarsari-Pesanggrahan Irrigation Rehabilitation	2,700.0	23-Dec-70
50	A&O	AG	North Sumatra Rubber and Oil Palm	90.0	25-Mar-71
63	SF	AG	North Sumatra Rubber and Oil Palm	7,410.0	25-Mar-71
66	SF	FI	Bank Rakjat Indonesia Modernization	3,400.0	11-May-71
53	PP	EN	West Irian Power Development	85.0	27-May-71
69	SF	EN	Pontianak Power	4,600.0	06-Jul-71
59	PP	AG	Market Survey of West Irian Timber	45.0	19-Nov-71
81	SF	AG	Sempor Dam and Irrigation	9,200.0	02-Dec-71
83	SF	EN	West Sumatra Power Supply	7,100.0	07-Dec-71
62	PP	EN	Ujung Pandang (Makassar) Power	120.0	04-Apr-72
63	A&O	TC	Financial Management of Ports	250.0	04-Apr-72
92	SF	AG	Wampu River Flood Control and Development	5,940.0	04-Apr-72
91	SF	TC	Tanjung Priok Port Development	5,300.0	04-Apr-72
94	SF	AG	Riau Fisheries Development	2,500.0	06-Apr-72
66	PP	WS	Bandung Water Supply	295.0	06-Jun-72
103	SF	TC	Surabaya Port Development	5,500.0	24-Oct-72
104	SF	EN	Pekanbaru Power	2,600.0	02-Nov-72
82	PP	EN	Minahasa Power	48.0	10-Jan-73
122	SF	EN	Ujung Pandang Power	5,300.0	08-Feb-73
125	SF	EN	Irian Jaya Power	2,600.0	03-Apr-73
93	PP	WS	Irian Jaya Water Supply	50.0	18-Jul-73
97	A&O	AG	East Java Sugar	45.0	20-Nov-73
148	SF	AG	East Java Sugar	11,290.0	20-Nov-73
149	OCR	AG	East Java Sugar	6,230.0	20-Nov-73
154	SF	AG	Irian Jaya Fisheries Development	5,150.0	04-Dec-73
155	OCR	AG	Irian Jaya Fisheries Development	2,750.0	04-Dec-73
100	PP	TC	Ports Study	580.0	11-Dec-73
166	SF	EN	Minahasa Power	5,100.0	13-Dec-73
167	OCR	EN	Minahasa Power	2,800.0	13-Dec-73
105	PP	TC	Feasibility Study for the Improvement of Surabaya-Malang Road and Related Collector Roads	310.0	05-Feb-74
114	PP	AG	Preparation of Sawit Sebarang (Phase II)	49.2	28-May-74
123	PP	MS	Teluk Lada Irrigation	230.0	20-Aug-74
189	OCR	AG	Fiber Production and Processing	13,200.0	27-Aug-74
127	PP	ED	Surabaya Institute of Technology	143.0	19-Sep-74
129	PP	TC	Java Road Improvement Study	270.0	17-Oct-74
195	SF	WS	Bandung Water Supply	11,500.0	07-Nov-74
197	SF	AG	East Java Agricultural Credit	2,700.0	13-Nov-74
198	OCR	IN	Baturaja Cement	37,000.0	26-Nov-74
199	OCR	IN	Cipadung Spinning Mill	13,700.0	26-Nov-74
216	OCR	AG	Java Fisheries Development	13,200.0	30-Jan-75
146	PP	MS	South East Sulawesi Transmigration Area Development	0.0	29-Jul-75
155	PP	AG	Smallholder Development	161.0	06-Nov-75
156	PP	MS	Karangsambung Multi-Purpose	100.0	06-Nov-75
235	OCR	AG	Gohor Lama Palm Oil Processing	11,300.0	06-Nov-75
236	OCR	MS	Karangsambung Multipurpose	2,900.0	06-Nov-75
237	OCR	EN	Garung Hydroelectric	19,800.0	13-Nov-75

	Sector			Amount (\$'000)	Approval Date
	Type	Code	Title		
243	OCR	MS	Teluk Lada Area Development	12,200.0	27-Nov-75
158	PP	TC	Belawan and Surabaya Ports (Phase II)	100.0	02-Dec-75
245	OCR	TC	Belawan and Surabaya Ports (Phase I)	4,350.0	02-Dec-75
244	OCR	ED	Surabaya Institute of Technology	14,500.0	02-Dec-75
260	OCR	EN	Maninjau Hydropower	39,700.0	08-Apr-76
261	OCR	TC	Road Improvement	20,000.0	13-Apr-76
175	PP	MS	Bandung Urban Development and Sanitation	100.0	26-Aug-76
176	PP	MS	South East Sulawesi Transmigration Area Development	224.9	26-Aug-76
271	OCR	MS	Bandung Urban Development and Sanitation	1,150.0	26-Aug-76
272	OCR	MS	South-East Sulawesi Transmigration Area Development	280.0	26-Aug-76
277	OCR	TC	Second Road	48,210.0	28-Oct-76
195	PP	ED	Senior Technical Schools	196.0	31-May-77
199	PP	MS	Bali Irrigation	100.0	21-Jun-77
200	PP	AG	Tulungagung Flood Control & Drainage	150.0	28-Jul-77
301	OCR	MS	Lodoyo Irrigation	20,500.0	29-Jul-77
302	OCR	EN	Power Distribution	45,000.0	16-Aug-77
212	PP	TC	Surabaya Port (Phase II)	150.0	17-Nov-77
317	OCR	TC	Fourth Port	17,500.0	17-Nov-77
319	OCR	FI	Bank Pembangunan Indonesia (BAPINDO)	30,000.0	24-Nov-77
223	PP	ED	University of Hasanuddin	205.0	15-Dec-77
337	OCR	IN	Baturaja Cement (Supplementary)	23,000.0	20-Dec-77
236	PP	AG	Sumatra Fisheries Development	98.0	08-Jun-78
343	OCR	EN	Second Power Distribution	31,400.0	15-Jun-78
347	OCR	TC	Third Road	34,000.0	27-Jul-78
244	PP	MS	Bali Irrigation	150.0	07-Sep-78
352	OCR	MS	Bali Irrigation	18,000.0	07-Sep-78
245	PP	TC	Domestic Airports	150.0	14-Sep-78
353	OCR	TC	Domestic Airports	1,300.0	14-Sep-78
357	OCR	EN	Ujung Pandang II Power	26,000.0	28-Sep-78
356	SF	ED	Senior Technical Schools	24,000.0	28-Sep-78
252	PP	MS	Teluk Lada Area Development (Phase II)	150.0	31-Oct-78
253	PP	AG	Livestock Development	190.0	31-Oct-78
254	PP	AG	Semarang Groundwater Investigation and Development	210.0	31-Oct-78
363	OCR	MS	Teluk Lada Area Development (Phase II)	3,410.0	31-Oct-78
264	PP	TC	Belawan Port (Second Phase)	150.0	07-Dec-78
375	OCR	TC	Fifth Port	26,300.0	07-Dec-78
274	PP	ED	University of North Sumatra	246.0	20-Dec-78
0	PP	MS	South East Sulawesi Transmigration and Area Development	2,370.0	22-Dec-78
389	OCR	MS	South-East Sulawesi Transmigration and Area Development	34,300.0	22-Dec-78
278	PP	AG	Second Agricultural Credit	90.0	14-Feb-79
294	PP	MS	Bandung Urban Development	150.0	29-May-79
400	OCR	MS	Bandung Urban Development	32,300.0	29-May-79
401	OCR	WS	Bandung Water Supply (Supplementary)	8,000.0	29-May-79
402	SF	ED	University of Hasanuddin	25,000.0	07-Jun-79
299	PP	AG	Cotton Development	98.0	03-Jul-79
316	PP	TC	Rural Roads Development	150.0	29-Nov-79
430	OCR	EN	Java EHV Transmission	83,600.0	29-Nov-79
429	OCR	TC	Fourth Road	27,000.0	29-Nov-79
319	A&O	AG	Tulungagung Drainage	60.0	06-Dec-79
434	OCR	AG	Tulungagung Drainage	39,000.0	06-Dec-79
323	PP	ED	Second Senior Technical Schools	92.0	10-Dec-79
325	A&O	AG	South Kalimantan Livestock Development	80.0	17-Dec-79
444	OCR	AG	South Kalimantan Livestock Development	20,500.0	17-Dec-79
341	PP	AG	Palm Oil Processing	98.0	14-Mar-80
346	PP	WS	Water Supply Sector	100.0	21-Mar-80
345	PP	ED	Vocational Schools	329.0	25-Mar-80
354	PP	AG	Mineral Survey	235.0	23-May-80
355	PP	AG	Aceh and North Sumatra Livestock Development	170.0	26-May-80
459	OCR	EN	Second Java EHV Transmission	60,700.0	26-Jun-80
358	PP	HN	Production and Distribution of Essential Drugs	170.0	01-Jul-80
368	A&O	AG	Sumatra Fisheries Development	200.0	23-Oct-80
474	OCR	AG	Sumatra Fisheries Development	14,000.0	23-Oct-80

Loan/TA		Sector		Amount	Approval
No.	Type	Code	Title	(\$'000)	Date
475	OCR	AG	Cibaliung Irrigation	35,000.0	30-Oct-80
373	PP	AG	Northern Sumatra Irrigation Study	150.0	13-Nov-80
479	OCR	AG	Lower Citanduy Irrigation	55,200.0	13-Nov-80
480	OCR	AG	Northern Sumatra Irrigation Study	5,700.0	13-Nov-80
484	OCR	TC	Fifth Road	28,000.0	25-Nov-80
488	OCR	ED	Second Senior Technical Schools	26,000.0	27-Nov-80
493	OCR	WS	Small Towns Water Supply Sector	32,000.0	11-Dec-80
499	OCR	AG	Palm Oil Processing and Smallholder Development	28,000.0	15-Dec-80
395	PP	AG	Second Irian Jaya Fisheries Development	150.0	15-Jan-81
401	PP	MS	Small Towns Kampung Improvement	180.0	24-Apr-81
517	OCR	AG	Nucleus Estate and Smallholder Cotton	23,000.0	23-Jun-81
518	OCR	AG	Wadaslintang Multipurpose	87,700.0	23-Jun-81
522	OCR	AG	Bali Irrigation Sector	33,600.0	17-Sep-81
525	OCR	ED	University of North Sumatra	26,000.0	24-Sep-81
415	PP	AG	Brackishwater Aquaculture Development	100.0	25-Sep-81
422	A&O	AG	Java Fisheries Development	180.0	20-Oct-81
426	PP	TC	Sixth Road Sector	50.0	27-Oct-81
424	A&O	AG	Sumatra Livestock Development	240.0	12-Nov-81
537	OCR	AG	Sumatra Livestock Development	16,700.0	12-Nov-81
432	A&O	EN	PLN Design Unit	149.0	19-Nov-81
544	OCR	EN	Surabaya Distribution and Sulawesi Power	76,000.0	19-Nov-81
547	OCR	WS	Semarang Water Supply	35,500.0	25-Nov-81
550	OCR	MS	Medan Urban Development	39,300.0	26-Nov-81
566	OCR	AG	Second Irian Jaya Fisheries Development	34,000.0	25-Mar-82
455	PP	EN	Tanggari II Hydropower Scheme	150.0	15-Apr-82
569	OCR	EN	Second Sulawesi Power	41,350.0	15-Apr-82
464	PP	AG	Fisheries Sector Study	50.0	24-Jun-82
467	PP	TC	Arterial, Collector, and Rural Roads Development	150.0	29-Jun-82
575	OCR	TC	Sixth Road	60,000.0	29-Jun-82
574	OCR	ED	Vocational Education	40,000.0	29-Jun-82
471	PP	AG	National Crop Protection	249.0	21-Jul-82
474	A&O	AG	Second Agricultural Credit	0.0	29-Jul-82
577	OCR	AG	Second Agricultural Credit	27,570.0	29-Jul-82
481	PP	AG	Tulungagung II and Baro Raya Irrigation Study	150.0	14-Sep-82
581	OCR	AG	Irrigation Package	77,000.0	14-Sep-82
582	OCR	AG	Tulungagung II and Baro Raya Irrigator	4,350.0	14-Sep-82
483	PP	LW	Urban Development Sector Study	50.0	27-Sep-82
485	PP	HN	Health and Population Sector Study	50.0	04-Oct-82
489	PP	TC	Sixth Port	150.0	04-Nov-82
595	OCR	TC	Sixth Port	5,400.0	04-Nov-82
598	OCR	AG	Brackishwater Aquaculture Development	23,000.0	11-Nov-82
492	PP	EN	Mini Hydropower Development	150.0	18-Nov-82
600	OCR	EN	Transmission and Distribution System Development	58,400.0	18-Nov-82
494	PP	ED	Agricultural Education	238.0	02-Dec-82
501	PP	WS	IKK and Small Towns Water Supply Sector	250.0	23-Dec-82
505	PP	AG	Nucleus Estate and Smallholder Oil Palm	150.0	01-Feb-83
516	A&O	AG	PBME for Institution-Building	180.0	19-May-83
627	OCR	AG	Second Irrigation Package	52,000.0	19-May-83
522	PP	AG	Second Kalimantan Livestock Development	250.0	08-Jun-83
629	OCR	MS	Small Towns Urban Development Sector	36,700.0	09-Jun-83
524	A&O	EN	Rural and Renewable Energy Development Study in Kalimantan	450.0	30-Jun-83
528	PP	ED	University of Sriwijaya	200.0	24-Jul-83
530	PP	AG	Fruits and Vegetables Production and Marketing	200.0	24-Jul-83
529	PP	AG	Fisheries Infrastructure	237.0	28-Jul-83
541	PP	AG	West Nusa Tenggara Irrigation Study	150.0	22-Sep-83
638	OCR	AG	Second Irrigation Sector	85,000.0	22-Sep-83
639	OCR	AG	West Nusa Tenggara Irrigation Study	3,450.0	22-Sep-83
641	OCR	AG	Geological and Mineral Survey	46,000.0	11-Oct-83
550	PP	AG	Land Resource Evaluation and Planning	248.0	16-Nov-83
552	PP	HN	Health and Population	250.0	17-Nov-83
565	PP	AG	Forestry Development	248.0	09-Dec-83
571	PP	EN	Dieng Geothermal	150.0	20-Dec-83

Loan/TA		Sector		Amount	Approval
No.	Type	Code	Title	(\$'000)	Date
674	OCR	EN	Power XVIII Project	135,000.0	20-Dec-83
675	OCR	ED	Agricultural Education Project	68,000.0	20-Dec-83
574	PP	MS	West Java Urban Development Sector	250.0	23-Dec-83
583	PP	TC	Seventh Road Sector	36.0	30-Jan-84
682	OCR	AG	National Estate Crop Protection Project	63,000.0	29-Mar-84
601	PP	WS	Water Supply & Sanitation Sector Profile	50.0	28-May-84
610	PP	AG	Secondary Food Crops Development	210.0	02-Jul-84
685	OCR	AG	Arakundo-Jambu Aye Irrigation and Flood Control Project	68,000.0	05-Jul-84
687	OCR	AG	Nucleus Estate and Smallholder Oil Palm Project	57,000.0	28-Aug-84
688	OCR	TC	Seventh Port Project	86,000.0	28-Aug-84
692	OCR	TC	Seventh Road (Sector) Project	95,000.0	18-Sep-84
693	OCR	AG	Fisheries Infrastructure Sector Project	50,000.0	25-Sep-84
630	PP	AG	Second Nucleus Estate & Smallholder Oil Palm	150.0	28-Sep-84
633	PP	LW	Manpower Training	150.0	18-Oct-84
636	A&O	AG	Livestock Sector Review	350.0	15-Nov-84
706	OCR	AG	Second Kalimantan Livestock Development Project	60,000.0	15-Nov-84
715	OCR	ED	Third Senior Technical Schools Project	83,000.0	11-Dec-84
725	OCR	MS	Multi Sector Program	25,000.0	18-Dec-84
655	PP	AG	Irrigated Command Area Development	258.0	21-Dec-84
659	A&O	AG	Central Java Groundwater Development Study	250.0	26-Dec-84
661	PP	AG	Second Brackishwater Aquaculture Development	260.0	28-Dec-84
730	OCR	AG	Land Resource Evaluation and Planning Project	23,400.0	17-Jan-85
731	OCR	WS	IKK Water Supply Sector Project	40,200.0	17-Jan-85
673	A&O	AG	Study of Irrigation Management	350.0	27-Mar-85
737	OCR	ED	University of Sriwijaya Project	37,900.0	21-May-85
695	PP	TC	Kalimantan Transport Study	72.8	09-Aug-85
702	PP	ED	Second Vocational Education	250.0	02-Sep-85
703	PP	AG	Nucleus Estate and Smallholder Coconut/Cocoa	340.0	12-Sep-85
741	OCR	TC	Eighth Road Project	120,000.0	24-Sep-85
742	OCR	AG	Fisheries Industries Credit Project	65,000.0	17-Oct-85
743	OCR	HN	Health and Population Project	41,600.0	17-Oct-85
725	PP	AG	Wood Centers Development	250.0	28-Nov-85
762	OCR	AG	Forestry Development Project	28,000.0	28-Nov-85
727	PP	AG	Central Java Groundwater Development	150.0	12-Dec-85
769	OCR	AG	Central Java Groundwater Irrigation Development Project	12,200.0	12-Dec-85
768	OCR	MS	Second Bandung Urban Development Project	132,400.0	12-Dec-85
749	A&O	LW	Improving Administration of Externally-Aided Projects in Cipta Karya	350.0	18-Feb-86
753	PP	AG	Dairy Development	320.0	21-Feb-86
781	A&O	LW	Construction of Quarterly National Accounts	243.0	26-Jun-86
785	A&O	EN	Power Development Study of Regions IX and XI	350.0	25-Jul-86
789	OCR	AG	Second Nucleus Estate and Smallholder Oil Palm Project	70,000.0	23-Sep-86
807	PP	AG	Timber Estates Development Sector	330.0	20-Oct-86
818	A&O	AG	Second Irian Jaya Fisheries Development	75.0	12-Nov-86
817	A&O	TC	Institutional Strengthening of Perum IV	445.0	18-Nov-86
797	OCR	TC	Eighth Port Project	40,000.0	18-Nov-86
799	OCR	AG	Third Irrigation Package Project	120,700.0	20-Nov-86
804	OCR	ED	Ministry of Public Works Manpower Education and Training Project	29,000.0	27-Nov-86
830	A&O	AG	Strengthening of DGFC's Project Management Capabilities	350.0	11-Dec-86
818	OCR	AG	Irrigated Command Area Development Project	28,800.0	11-Dec-86
822	OCR	ED	Special Project Implementation Assistance	30,600.0	16-Dec-86
836	A&O	AG	O&M Improvement	75.0	26-Dec-86
839	PP	TC	Preparation of a Road Maintenance (Sector) Project	75.0	05-Jan-87
844	PP	ED	Marine Sciences Education	350.0	12-Jan-87
847	A&O	AG	Fisheries Sector Economy	455.0	20-Jan-87
856	A&O	FI	Financial Sector Review	90.0	19-Feb-87
857	PP	AG	Telang and Saleh Drainage Improvement	650.0	23-Feb-87
867	PP	AG	West Java Nucleus Estate Smallholder Tea Rehabilitation	260.0	01-Apr-87
889	A&O	AG	Agricultural Projects Management Workshop	90.0	31-Jul-87
891	PP	AG	Nusa Tenggara Accelerated Agricultural Development	340.0	07-Aug-87
893	A&O	LW	Study of the Loan Recovery Process	90.0	20-Aug-87
835	OCR	EN	Power XIX (Sector) Project	96,000.0	20-Aug-87
834	OCR	FI	Second BAPINDO Project	60,000.0	20-Aug-87

Loan/TA No.	Type	Sector Code	Title	Amount (\$'000)	Approval Date
860	SF	AG	Third Irrigation Sector Project	63,977.0	17-Nov-87
861	OCR	AG	Third Irrigation Sector Project	60,000.0	17-Nov-87
921	PP	TC	Local Roads Improvement	150.0	24-Nov-87
863	OCR	TC	Ninth Road (Maintenance) Sector Project	150,000.0	24-Nov-87
932	PP	HN	Second Health and Population	335.0	07-Dec-87
937	A&O	AG	Efficient Irrigation Management and System Transfer	600.0	17-Dec-87
876	OCR	IN	Non-Oil Export Promotion Program	75,000.0	17-Dec-87
877	SF	IN	Non-Oil Export Promotion Program	78,138.0	17-Dec-87
939	PP	AG	Rattan Plantation Development	285.0	21-Dec-87
945	A&O	AG	Indonesian Banking Development Institute	400.0	12-Jan-88
881	OCR	AG	Agro-Industries Credit Project	30,000.0	12-Jan-88
946	PP	IN	Study for Institutional and Manpower Development in the Coal Subsector	350.0	18-Jan-88
953	PP	LW	Urban Public Works Institutional Development	350.0	10-Feb-88
956	A&O	AG	Agriculture Sector Policy Formulation (BAPPENAS)	75.0	24-Feb-88
967	A&O	LW	Financial Information System Development for the Ministry of Agriculture	500.0	05-Apr-88
968	PP	MS	Second Medan Urban Development	75.0	05-Apr-88
969	PP	AG	Airborne Geophysical Survey	310.0	11-Apr-88
973	A&O	IN	Industrial Estate Promotion Study	350.0	22-Apr-88
977	PP	FI	Study on Establishment of Indonesian Venture Capital Company and a Detailed Evaluation of P.T. Bahana	75.0	10-May-88
980	PP	TC	Ninth Port	91.0	12-May-88
990	PP	EN	Natural Gas Rehabilitation and Expansion	325.0	23-Jun-88
998	PP	IN	P.T. Kayu Lapis Indonesia (P.T. KLI) Plywood Project in Irian Jaya	45.0	01-Jul-88
1008	PP	FI	Financial Sector Program	57.0	14-Jul-88
1009	A&O	LW	Strengthening of the Industrial Information System of the Ministry of Industry	350.0	14-Jul-88
894	OCR	ED	Marine Sciences Education Project	43,250.0	14-Jul-88
895	SF	ED	Marine Sciences Education Project	31,848.0	14-Jul-88
1013	A&O	LW	Strengthening the Capability for Environmental Impact Assessment in the Ministry of Public Works	475.0	19-Jul-88
1017	PP	IN	Upgrading of Industrial Research and Development Facilities	342.0	01-Aug-88
1018	PP	ED	Five Universities Development and Rehabilitation	450.0	01-Aug-88
910	OCR	AG	Nucleus Estate and Smallholder Cocoa/Coconut Project	47,500.0	20-Oct-88
1052	PP	ED	Second Vocational Education Sector	100.0	26-Oct-88
1060	A&O	MS	Medan Urban Transportation Study	600.0	10-Nov-88
1061	A&O	MS	Medan Urban Land Development Study	500.0	10-Nov-88
919	OCR	MS	Second Medan Urban Development Project	175,000.0	10-Nov-88
1063	A&O	FI	Strengthening Bank Indonesia's Supervisory Capabilities	65.0	11-Nov-88
1064	A&O	AG	Technical Assistance for Ministry of Forests to Monitor Performance of Sustainable Utilization of Forest Resources and Environment Protection of P.T. Kayu Lapis Indonesia (PTKLI)	73.0	15-Nov-88
926	OCR	HN	Second Health and Population Project	39,300.0	29-Nov-88
1083	PP	WS	Water Quality Management Sector	590.0	08-Dec-88
938	OCR	FI	Financial Sector Program	150,000.0	20-Dec-88
939	SF	FI	Financial Sector Program	47,023.0	20-Dec-88
1089	A&O	FI	Study of Regional Development Banks	200.0	03-Jan-89
1090	A&O	FI	Study Relating to Securities Market Development	500.0	03-Jan-89
1107	A&O	WS	Water Supply and Sanitation Sector Study	350.0	13-Jan-89
1122	A&O	TC	Port Maintenance and Rehabilitation and Computer Operation	515.0	07-Feb-89
952	SF	AG	Nusa Tenggara Agricultural Development Project	25,876.0	07-Feb-89
953	OCR	AG	Nusa Tenggara Agricultural Development Project	94,000.0	07-Feb-89
951	OCR	TC	Ninth Port Project	22,000.0	07-Feb-89
1140	A&O	LW	Demographic-Economic Forecasting Study for Development Planning	350.0	17-Mar-89
1146	A&O	AG	Study on Pricing and Distribution Policies for Vegetable Oil	350.0	17-Apr-89
1147	PP	ED	Agricultural Technology Schools	362.0	19-Apr-89
1161	A&O	FI	Institutional Strengthening of Bank Umum Koperasi Indonesia	360.0	30-May-89
959	OCR	AG	Second Brackishwater Aquaculture Development Project	38,000.0	30-May-89
1178	A&O	IN	Study on the Development of Supplier's and Buyer's Credit	50.0	03-Jul-89
1179	A&O	TC	Maritime Sector and Container Tariff Review	100.0	19-Jul-89
1193	PP	TC	North Java Transport Corridor Study	250.0	10-Aug-89
1194	A&O	TC	Environmental Management of Road Projects	220.0	10-Aug-89
1195	PP	AG	Second Land Resource Evaluation and Planning	323.0	10-Aug-89
966	OCR	TC	Tenth Road (Sector) Project	120,000.0	10-Aug-89

Loan/TA		Sector		Amount	Approval
No.	Type	Code	Title	(\$'000)	Date
969	OCR	ED	2nd Vocational Education Project	70,000.0	07-Sep-89
970	SF	ED	2nd Vocational Education Project	33,029.0	07-Sep-89
981	OCR	FI	Development Finance Loan Project	200,000.0	31-Oct-89
983	OCR	MS	Secondary Cities Urban Development (Sector) Project	70,000.0	09-Nov-89
984	SF	MS	Secondary Cities Urban Development (Sector) Project	55,759.0	09-Nov-89
1218	PP	TC	Interisland Facility Development	100.0	10-Nov-89
1227	PP	AG	Tree Crops Smallholder Development	600.0	20-Nov-89
1232	PP	AG	Second Fisheries Industries Credit	98.0	23-Nov-89
1244	A&O	AG	Forestry Institutional Strengthening for Timber Plantation Development	599.0	14-Dec-89
1000	OCR	AG	Timber Plantation Project	33,300.0	14-Dec-89
1013	OCR	ED	Six Universities Development and Rehabilitation Project	114,000.0	08-Mar-90
1275	A&O	AG	Study on Policies for Development of Agribusiness	400.0	13-Mar-90
1276	A&O	AG	Monitoring the Impact of Policy Changes on Food Crop Production, Employment, Income and Poverty Alleviation	600.0	13-Mar-90
1014	OCR	AG	Food Crop Sector Program	150,000.0	13-Mar-90
1015	SF	AG	Food Crop Sector Program	100,000.0	13-Mar-90
1281	A&O	AG	Strengthening the Capability for Environmental Impact Assessment in the Ministry of Agriculture and Ministry of Forestry	600.0	23-Mar-90
1282	PP	AG	Third Nucleus Estate and Smallholder Oil Palm	554.0	28-Mar-90
1017	OCR	AG	Integrated Irrigation Sector Project	170,000.0	17-Apr-90
1018	SF	AG	Integrated Irrigation Sector Project	30,000.0	17-Apr-90
1313	A&O	FI	Strengthening of Term Lending Capabilities of Participating Private Commercial Banks under Bank's Development Finance Loan	100.0	06-Jun-90
1319	A&O	FI	Development of the Venture Capital Industry	92.0	08-Jun-90
1320	A&O	FI	Development of the Leasing Industry	92.0	11-Jun-90
1323	A&O	IN	Survey of Capital Investment Demand of Private Sector Industry	100.0	15-Jun-90
1326	A&O	LW	Strengthening Fiscal Information System	521.0	19-Jun-90
1327	PP	AG	Tree Crop Processing	500.0	27-Jun-90
1330	A&O	EN	Study on Electricity Tariff Adjustment Mechanism	100.0	29-Jun-90
1331	PP	AG	Estate Crops Development in Critical Watershed Areas	550.0	06-Jul-90
1334	A&O	TC	Introduction of Private Sector Participation in the PT Garuda Indonesia	0.0	10-Jul-90
1347	PP	FI	Review of the Pension Fund Industry	85.0	03-Aug-90
1348	PP	FI	Review of the Insurance Industry	85.0	03-Aug-90
1363	A&O	AG	Strengthening Project Benefit Monitoring and Evaluation Activities of the Directorate General for Water Resources Development	458.0	22-Aug-90
1377	PP	AG	Second Integrated Irrigation Sector	600.0	20-Sep-90
1032	OCR	EN	Power XX Project	235,000.0	25-Sep-90
1397	PP	MS	Secondary Cities Urban Development Sector	600.0	24-Oct-90
1400	PP	LW	Preparation of a Marginal Farmer Community Development	560.0	26-Oct-90
1401	PP	AG	Sustainable Agriculture Development Project in Irian Jaya	600.0	26-Oct-90
1415	A&O	LW	The Enhancement of Investment Services through Badan Koordinasi Penanaman Modal	375.0	08-Nov-90
1050	OCR	ED	Agricultural Technology Schools Project	85,000.0	13-Nov-90
1424	PP	AG	Marine Resources Evaluation and Planning	480.0	23-Nov-90
1430	PP	AG	Biodiversity Conservation	597.0	05-Dec-90
1443	A&O	WS	Institutional Strengthening for Second IKK Water Supply Sector	290.0	18-Dec-90
1069	OCR	WS	Second IKK Water Supply Sector Project	39,000.0	18-Dec-90
1449	A&O	LW	Manpower Planning and Improvement in the Mining and Energy Sector	600.0	21-Dec-90
1456	PP	TC	Sumatra Telecommunications	600.0	24-Dec-90
1451	A&O	IN	Strengthening the Capability for Environmental Impact Assessment in the Ministry of Mines and Energy	340.0	26-Dec-90
1452	A&O	IN	Strengthening the Capability for Environmental Impact Assessment in the Ministry of Industry	340.0	26-Dec-90
1459	A&O	LW	Financial Information System Development II for the Ministry of Agriculture	600.0	28-Dec-90
1458	PP	ED	Rationalization of Operation and Maintenance in Primary and Secondary Education	350.0	28-Dec-90
1471	A&O	MS	Botabek Institutional Development	600.0	31-Jan-91
1472	PP	MS	Urban and Regional Development of Eastern Islands	600.0	31-Jan-91
1473	A&O	MS	Environmental Management of Urban Development Projects	500.0	31-Jan-91
1474	PP	WS	Study of Water Supply and Sewage Disposal in Bandar Lampung	320.0	31-Jan-91
1475	A&O	MS	Study of Urban Planning and Transport in Bandar Lampung	440.0	31-Jan-91
1077	OCR	MS	Botabek Urban Development Project	80,000.0	31-Jan-91
1078	OCR	MS	Bandar Lampung Urban Development Project	33,000.0	31-Jan-91

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No.	Type	Code	Title		
1488	A&O	EN	Geothermal Steam Pricing Study	100.0	28-Feb-91
1502	PP	AG	Second Forestry Development	408.0	04-Apr-91
1505	PP	AG	Rainfed Agriculture Development Project in Eastern Region	600.0	15-Apr-91
1514	PP	FI	Financial Sector Review	300.0	14-May-91
1527	PP	ED	Lower Secondary Education	571.0	24-Jun-91
1530	PP	IN	Human Resources Development in the Trade Sector	400.0	26-Jun-91
1531	A&O	FI	Securities Market Development - Phase II	592.0	05-Jul-91
1537	A&O	TC	Institutional Strengthening of Inland Water Transport Sector	1,000.0	18-Jul-91
1538	PP	TC	Inland Waterways	250.0	18-Jul-91
1089	OCR	TC	Inland Waterways Project	45,000.0	18-Jul-91
1545	PP	EN	Environmental Impact Assessment for the Tampur Hydropower Scheme	560.0	25-Jul-91
1546	A&O	EN	Power Demand Analysis for Java	510.0	25-Jul-91
1092	OCR	EN	Power XXI Project	300,000.0	25-Jul-91
1547	A&O	AG	Agriculture Sector Policy Formulation	98.0	08-Aug-91
1554	A&O	AG	East Java Rainfed Agriculture	3,450.0	13-Aug-91
1550	A&O	AG	Strengthening of Fisheries Term-Lending Capabilities of Participating Banks	380.0	22-Aug-91
1551	A&O	AG	Study of Fisheries Development Potential in Eastern Indonesia	512.0	22-Aug-91
1095	OCR	AG	Second Fisheries Industries Credit Project	100,000.0	22-Aug-91
1558	PP	TC	Second Telecommunications	600.0	06-Sep-91
1564	A&O	AG	Private Sector Industrial Tree Plantations Program	80.0	12-Sep-91
1099	OCR	AG	Second Land Resource Evaluation and Planning Project	57,000.0	19-Sep-91
1567	A&O	ED	Private Secondary Education Study	450.0	26-Sep-91
1100	OCR	ED	Technical Education Development Project	100,000.0	26-Sep-91
1576	PP	AG	Sustainable Mangrove Coastal Zone Management	590.0	11-Oct-91
1588	A&O	MS	Urban Transportation Planning and Management	596.0	31-Oct-91
1111	OCR	MS	Bogor and Palembang Urban Development Project	140,000.0	31-Oct-91
1115	OCR	TC	Eleventh Road (Sector) Project	150,000.0	07-Nov-91
1599	PP	AG	Tree Crop Smallholder Sector Project II	850.0	14-Nov-91
1600	A&O	AG	Rural Financial Markets with Special Reference to Tree Crops Development	450.0	14-Nov-91
1118	OCR	AG	Tree Crop Smallholder Sector	135,000.0	14-Nov-91
1126	OCR	AG	Central Java Groundwater Irrigation Development Project	51,000.0	26-Nov-91
1624	PP	AG	Preparation of Segara Anakan Conservation and Development	1,700.0	05-Dec-91
1634	PP	HN	Preparation of a Community Health Services Project	480.0	31-Dec-91
1665	PP	TC	Tenth Port	100.0	22-Jan-92
1666	A&O	TC	Integrated National Telecommunication Strategic Development Plan and East Indonesia Strategic Master Plan	1,500.0	04-Feb-92
1157	OCR	TC	Telecommunication Project	185,000.0	04-Feb-92
1158	OCR	WS	Water Pollution Control Project	8,400.0	04-Feb-92
1160	OCR	FI	Second Financial Sector Program Loan	250,000.0	19-Mar-92
1697	PP	AG	A BAPEDAL Regional Network	600.0	29-Apr-92
1702	PP	ED	Outer Islands Universities	465.0	25-May-92
1708	PP	TC	East Indonesia Airports	100.0	01-Jun-92
1713	A&O	LW	Institutional Support to Water Supply Enterprises	600.0	15-Jun-92
1739	A&O	EN	Environmental Planning and Management of Coal-Fired Power Plants	200.0	04-Aug-92
1172	OCR	EN	Power XXII Project	350,000.0	04-Aug-92
1752	PP	ED	Third Vocational Education	450.0	17-Sep-92
1753	PP	FI	Review of the Banking System	100.0	17-Sep-92
1755	PP	IN	Review of the Manufacturing Export Sector	100.0	24-Sep-92
1761	PP	ED	Second Surabaya Institute of Technology	78.0	30-Sep-92
1766	PP	AG	Integrated Water Resources Development of Flores Island	850.0	15-Oct-92
1184	SF	AG	Upland Farmer Development Project	30,000.0	05-Nov-92
1781	PP	AG	Forestry Sector	700.0	09-Nov-92
1782	A&O	AG	Institutional Strengthening for Biodiversity Conservation	600.0	12-Nov-92
1186	OCR	AG	Smallholder Tree Crop Processing Project	75,000.0	12-Nov-92
1187	SF	AG	Biodiversity Conservation Project in Flores and Siberut	24,500.0	12-Nov-92
1194	OCR	ED	Junior Secondary Education Project	105,000.0	19-Nov-92
1791	PP	AG	Fisheries Sector	600.0	20-Nov-92
1198	OCR	MS	Central Java and D.I. Yogyakarta Urban Development (Sector) Project	150,000.0	26-Nov-92
1839	A&O	ED	Impact Evaluation Study in the Education Sector	100.0	03-Dec-92
1203	OCR	AG	Marine Resource Evaluation and Planning Project	33,000.0	08-Dec-92
1818	PP	WS	Rural Water Supply and Sanitation Sector	600.0	23-Dec-92
1824	A&O	ED	Study on Private Post-Secondary Education	425.0	24-Dec-92

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No.	Type	Code	Title	(\$'000)	Date
1834	A&O	AG	Improvement of Farmer-Managed Irrigation Systems	950.0	28-Dec-92
1828	A&O	AG	A Study on Shrimp Health Management and Disease Control	400.0	29-Dec-92
1836	A&O	AG	Study on Monitoring the Impact of Policy Changes and Investments on the Tree Crop Sector	450.0	31-Dec-92
1849	PP	FI	Microcredit	455.0	23-Feb-93
1857	A&O	AG	Agricultural Sector Planning for Repelita VI	100.0	24-Mar-93
1220	OCR	TC	East Indonesia Airports Project	110,000.0	25-Mar-93
1859	PP	AG	Human Resources Development Project in the Water Resources Sector	600.0	29-Mar-93
1223	OCR	FI	Second Development Finance Loan Project	200,000.0	30-Mar-93
1874	A&O	LW	Development of a Cost Accounting System for the Ministry of Public Works	600.0	27-Apr-93
1879	A&O	AG	Study on Enhancing the Role of the Private Sector in Tree Crop Development	540.0	06-May-93
1232	OCR	TC	Third Local Roads Project	200,000.0	25-May-93
1895	A&O	AG	Environment Sector Review	99.0	28-May-93
1233	OCR	TC	Second Telecommunications Project	195,000.0	01-Jun-93
1902	PP	ED	Private Secondary Education	520.0	23-Jun-93
1906	PP	EN	Gas Utilization Study	400.0	30-Jun-93
1241	SF	MS	Flores Emergency Reconstruction Project	26,000.0	01-Jul-93
1910	A&O	AG	Remote Sensing Applications for Natural Resource Management	600.0	20-Jul-93
1936	PP	TC	Surabaya and Eastern Region Ports Development	600.0	23-Aug-93
1251	SF	AG	Mangrove Rehabilitation and Management Project in Sulawesi	8,080.0	09-Sep-93
1949	PP	IN	Industrial Technology and Human Resources Development	99.5	10-Sep-93
1253	OCR	ED	Higher Education Project	140,000.0	21-Sep-93
1258	SF	AG	Sustainable Agriculture Development Project in Irian Jaya	28,000.0	26-Oct-93
1994	A&O	WS	Toxic and Hazardous Waste Management	600.0	23-Nov-93
1271	OCR	EN	Power XXIII Project	275,000.0	25-Nov-93
2009	PP	IN	Industrial Pollution Control in Cimahi	590.0	01-Dec-93
2007	A&O	IN	Intermediate Services: Key to Accelerated Export Development	522.0	03-Dec-93
2016	A&O	MS	Private Sector Participation in Urban Development (Bandung and Semarang)	600.0	14-Dec-93
1292	OCR	MS	Eastern Islands Urban Development Sector Project	85,000.0	21-Dec-93
2038	A&O	LW	Institutional Strengthening of the State Ministry for the Role of Women	600.0	23-Dec-93
2053	A&O	AG	Coastal Environment Management Planning	1,200.0	03-Jan-94
2056	A&O	AG	Establishment of a Construction Quality Panel	385.0	20-Jan-94
1296	OCR	AG	Second Integrated Irrigation Sector Project	100,000.0	20-Jan-94
2064	PP	TC	Third Telecommunications	583.0	22-Feb-94
2075	A&O	LW	Productivity Enhancement and Quality Assurance System in the Ministry of Public Works	600.0	06-Apr-94
1299	OCR	HN	Rural Health and Population Project	40,000.0	26-May-94
2094	PP	MS	Second West Java and Sumatra Urban Development Sector	100.0	02-Jun-94
2096	PP	ED	Engineering Education Development	800.0	07-Jun-94
2117	PP	AG	Segara Anakan Conservation and Development	100.0	28-Jun-94
2123	PP	ED	Basic Education	600.0	19-Jul-94
2154	PP	AG	Second National Estate Crop Protection	570.0	16-Sep-94
2166	A&O	IN	Development and Financing of Small and Medium Scale Enterprises	250.0	20-Sep-94
2171	A&O	EN	Environment and Energy Efficiency	416.0	27-Sep-94
1320	OCR	EN	Sumatra Power Transmission Project	272,000.0	27-Sep-94
1321	SF	TC	West Lampung Emergency Reconstruction Project	18,000.0	27-Sep-94
1319	OCR	ED	Vocational and Technical Education Project	85,000.0	29-Sep-94
2185	PP	AG	Java Flood Control	900.0	19-Oct-94
1327	SF	FI	Microcredit Project	25,700.0	25-Oct-94
2206	A&O	LW	Institutional Strengthening of the Central Bureau of Statistics	600.0	23-Nov-94
2209	A&O	TC	Land Acquisition and Resettlement Program for the Proposed North Java Road Improvement	100.0	24-Nov-94
1335	OCR	TC	Eastern Islands Roads (Sector) Project	180,000.0	29-Nov-94
2221	A&O	HN	Resource Mobilization and Budgeting for Decentralized Health Services	600.1	05-Dec-94
1339	OCR	AG	Capacity Building Project in the Water Resources Sector	27,720.0	06-Dec-94
2227	A&O	EN	Load Characteristics Survey Outside Java	600.0	09-Dec-94
2253	PP	MS	Integrated Area Development Project in Irian Jaya	600.0	20-Dec-94
2268	A&O	TC	Capacity Building for Resettlement Management in Road Projects	265.0	27-Dec-94
1351	SF	AG	Sulawesi Rainfed Agriculture Development Project	30,360.0	31-Jan-95
1352	OCR	WS	Rural Water Supply and Sanitation Sector Project	85,000.0	02-Feb-95
2300	PP	HN	Communicable Diseases Control	800.0	17-Feb-95
2301	A&O	HN	Family Health and Nutrition	600.0	17-Feb-95

Loan/TA No.	Type	Sector Code	Title	Amount (\$'000)	Approval Date
2312	PP	HN	Enhancing the Quality of Reproductive Health Care	840.0	14-Mar-95
2344	A&O	EN	A Study to Establish Gas Regulatory Framework	450.0	08-Jun-95
1357	OCR	EN	Gas Transmission and Distribution Project	218,000.0	08-Jun-95
1359	OCR	ED	Private Junior Secondary Education Project	49,000.0	18-Jul-95
1360	OCR	ED	Senior Secondary Education Project	110,000.0	18-Jul-95
2374	PP	TC	Second Airports Development	600.0	15-Aug-95
2386	PP	TC	Belawan Port	595.0	31-Aug-95
1378	SF	AG	Farmer Managed Irrigation Systems Project	26,300.0	21-Sep-95
2402	PP	TC	Balikpapan, Banjarmasin and Gresik Ports Development	900.0	22-Sep-95
1383	OCR	MS	Sumatra Urban Development Sector Project	130,000.0	26-Sep-95
1384	OCR	MS	West Java Urban Development Sector Project	70,000.0	26-Sep-95
2412	PP	ED	Development of Madrasah Aliyahs	600.0	02-Oct-95
2429	A&O	EN	Strategic Planning for Power Sector Study	590.0	24-Oct-95
2430	A&O	EN	Geothermal Power Development Study	310.0	24-Oct-95
2431	PP	AG	Participatory Assessment of Agricultural Technology	535.0	24-Oct-95
1397	OCR	EN	Power Development and Efficiency Enhancement Project	337,000.0	24-Oct-95
2464	A&O	LW	Institutional Strengthening to Monitor Poverty Reduction	600.0	11-Dec-95
2491	A&O	LW	Supporting Indonesia's Participation in Regional Cooperation in Development Planning	185.0	20-Dec-95
2500	PP	LW	Regional Development Account	100.0	22-Dec-95
2501	A&O	WS	Water Tariff Structure and Financial Policies of Water Enterprises	600.0	22-Dec-95
2507	PP	WS	Water Loss Reduction (Sector)	100.0	26-Dec-95
2508	A&O	LW	Macroeconomic Planning and Management	600.0	26-Dec-95
2515	PP	MS	Preparation of Metropolitan Medan Urban Development	100.0	27-Dec-95
2517	PP	LW	Capacity Building in Human Settlements in Infrast. Management	1,100.0	28-Dec-95
2518	A&O	MS	Central Sulawesi Integrated Area Development and Conservation	850.0	28-Dec-95
2520	PP	LW	Cost Accounting System for the Ministry of Public Works	327.5	09-Jan-96
1425	OCR	AG	North Java Flood Control Sector Project	45,000.0	18-Jan-96
1426	SF	AG	North Java Flood Control Sector Project	45,000.0	18-Jan-96
2527	A&O	TC	Private Sector Participation in the Transport Sector	900.0	23-Jan-96
1428	OCR	TC	North Java Road Improvement Project	150,000.0	23-Jan-96
2529	PP	AG	Coastal Community Dev. & Fisheries Resources Conservation	480.0	05-Feb-96
1432	OCR	ED	Engineering Education Development Project	102,000.0	06-Feb-96
2533	A&O	IN	Coal Sector Policy Study	600.0	13-Feb-96
2535	PP	AG	Coral Reef Rehabilitation and Management	600.0	15-Feb-96
2541	A&O	LW	Assessment of the Effectiveness of Bank Assistance in Capacity Building	100.0	08-Mar-96
2548	A&O	ED	Education Finance Study	500.0	25-Mar-96
1433	OCR	IN	Industrial Technology and Human Resource Development Project	80,000.0	28-Mar-96
2572	PP	EN	South Sulawesi Gas Transmission and Distribution	569.0	20-May-96
2580	PP	AG	Integrated River Basin Development Project in Maluku and in East Nusa Tenggara	860.0	05-Jun-96
1442	OCR	ED	Basic Education Project	85,000.0	06-Jun-96
2586	A&O	FI	Secondary Mortgage Facility (SMF)	96.0	13-Jun-96
2588	PP	AG	Northern Sumatra Irrigated Agricultural Improvement	600.0	13-Jun-96
2590	A&O	AG	Assessment of the Effectiveness of Bank Assistance in the Industrial Crops and Agro-Industry Sector in Indonesia (1969-1995)	100.0	18-Jun-96
2598	A&O	AG	Master Plan for Establishing BAPEDALDA	900.0	27-Jun-96
1449	OCR	AG	BAPEDAL Regional Network Project	45,000.0	27-Jun-96
2633	A&O	EN	Electricity Tariff Rationalization Study	353.0	27-Aug-96
2634	PP	MS	Rural Income Generation	493.0	27-Aug-96
2638	PP	ED	Second Junior Secondary Education	100.0	05-Sep-96
1469	OCR	AG	Integrated Pest Management for Smallholder Estate Crops Project	44,000.0	26-Sep-96
1471	OCR	HN	Family Health and Nutrition Project	45,000.0	27-Sep-96
2655	PP	MS	Metropolitan Bandung Urban Development	600.0	30-Sep-96
2660	A&O	AG	Agriculture Sector Strategy Review	600.0	07-Oct-96
2665	A&O	AG	Institutional Strengthening of the Forestry & Soil Conservation in the Segara Anakan	250.0	17-Oct-96
1475	OCR	AG	Segara Anakan Conservation and Development Project	22,800.0	17-Oct-96
1476	SF	AG	Segara Anakan Conservation and Development Project	22,800.0	17-Oct-96
2667	PP	ED	Rationalizing and Strengthening In-Service Teacher Training	538.0	23-Oct-96
2679	A&O	AG	Assessment of Options for Sustainable Irrigation Development	1,120.0	05-Nov-96
2684	A&O	AG	Capacity Building in Resettlement Management	325.0	07-Nov-96
1479	OCR	AG	South Java Flood Control Sector Project	103,000.0	07-Nov-96
2699	A&O	FI	Institutional Strengthening of Regional Development Account	600.0	05-Dec-96

Loan/TA		Sector		Amount	Approval
No.	Type	Code	Title	(\$'000)	Date
1501	OCR	MS	Regional Development Account Project	50,000.0	05-Dec-96
2705	A&O	IN	Trade and Industry Planning & Strategy Formulation for Repelita VII	860.0	12-Dec-96
2709	PP	AG	Horticulture and Agribusiness Development	600.0	13-Dec-96
1511	OCR	MS	Metropolitan Bogoi, Tangerang, and Bekasi Urban Development Sector Project	80,000.0	19-Dec-96
2762	A&O	TC	Highway Toll Study	100.0	17-Feb-97
2766	PP	IN	Small and Medium Enterprises Development	100.0	11-Mar-97
2774	PP	LW	Improving Public Administration	100.0	25-Mar-97
1519	OCR	ED	Development of Madrasah Aliyahs Project	85,000.0	25-Mar-97
2783	A&O	EN	A Study for Development of Gas Infrastructure in Java	575.0	17-Apr-97
2787	A&O	LW	Secondment of Indonesian Government Officials to the Bank	24.0	05-May-97
2805	A&O	WS	Strengthening of Urban Waste Management Policies and Strategies	600.0	02-Jun-97
2814	A&O	HN	Capacity Building of the Ministry of Health for Strategic Development	800.0	19-Jun-97
1523	OCR	HN	Intensified Communicable Diseases Control Project	87,400.0	19-Jun-97
2815	PP	AG	Water Resources Development in West Nusa Tenggara	100.0	20-Jun-97
1526	OCR	AG	Participatory Development of Agricultural Technology	63,800.0	01-Jul-97
2822	PP	AG	National Biodiversity Information Network	700.0	11-Jul-97
1527	OCR	WS	Capacity Building of Water Supply Enterprise for Water Loss Reduction	66,000.0	17-Jul-97
2828	PP	ED	Polytechnics Development	600.0	22-Jul-97
2837	A&O	LW	Capacity Building for Private Sector Participation in Urban Development	850.0	11-Aug-97
2839	PP	HN	Reproductive Health Care	500.0	11-Aug-97
2858	PP	LW	Capacity Building Project in Community Development	970.0	08-Sep-97
1559	OCR	TC	Belawan, Banjarmasin, and Balikpapan Ports Project	100,000.0	30-Sep-97
2899	PP	ED	Higher Education Sector	800.0	21-Oct-97
1570	OCR	AG	Coastal Community Development and Fisheries Resource Management Project	26,000.0	04-Nov-97
1571	SF	AG	Coastal Community Development and Fisheries Resource Management Project	15,000.0	04-Nov-97
1572	OCR	LW	Capacity Building in Urban Infrastructure Management Project	42,000.0	04-Nov-97
1573	OCR	ED	2nd Junior Secondary Education Project	160,000.0	06-Nov-97
1574	SF	ED	2nd Junior Secondary Education Project	15,296.0	06-Nov-97
1579	OCR	AG	Northern Sumatra Irrigated Agriculture Sector Project	130,000.0	13-Nov-97
1583	OCR	MS	Rural Income Generation	78,600.0	25-Nov-97
2929	A&O	TC	Facilitating Limited Recourse Financing in the Civil Aviation Sector	975.0	08-Dec-97
1586	OCR	TC	Eastern Islands Air Transport Development	124,000.0	08-Dec-97
1587	OCR	MS	Metropolitan Medan Urban Development Project	116,000.0	08-Dec-97
2930	PP	HN	Early Childhood Development	900.0	09-Dec-97
2933	A&O	IN	Implementing a Regulatory Framework for the Gas Industry	565.0	11-Dec-97
2941	PP	ED	In-Service Teacher Training Strategy and Development Study	150.0	12-Dec-97
2958	PP	AG	Marine Resource Evaluation Management and Planning	600.0	19-Dec-97
2966	A&O	ED	Support for Labor Force Skills Development Planning in Repelita VII	150.0	23-Dec-97
1605	OCR	AG	Central Sulawesi Integrated Area Development and Conservation	32,000.0	27-Jan-98
2999	A&O	AG	Planning for Fire Prevention and Drought Management	1,000.0	20-Mar-98
3001	PP	AG	Coral Reef Rehabilitation and Management (Phase II)	250.0	26-Mar-98
1613	OCR	AG	Coral Reef Rehabilitation and Management	7,000.0	26-Mar-98
3005	PP	HN	Social Protection Sector Development Program	150.0	14-Apr-98
3007	PP	ED	Basic Education in Bali and Nusa Tenggara Barat	150.0	16-Apr-98
3027	A&O	EN	Revaluation of the Operating Assets of P.T. Perusahaan Listrik Negara (Persero)	938.0	08-Jun-98
1618	OCR	FI	Financial Governance Reforms: Sector Development Program	1,400,000.0	25-Jun-98
1619	OCR	FI	Financial Governance Reform-Support Program	47,000.0	25-Jun-98
1620	OCR	FI	Capacity Building for Financial Governance	50,000.0	25-Jun-98
3041	A&O	HN	Monitoring and Evaluating the Social Protection Sector Dev. Prog.	1,500.0	09-Jul-98
3042	A&O	HN	Capacity Building for Decentralized Social Services Delivery	900.0	09-Jul-98
3043	A&O	HN	Capacity Building for Planning and Evaluating Programs for Street Children	500.0	09-Jul-98
1622	OCR	HN	Social Protection Sector Development Program (SPSDP)	100,000.0	09-Jul-98
1623	OCR	HN	Social Protection Sector Development Project	200,000.0	09-Jul-98
3083	A&O	EN	Development of Power Sector Restructuring Policy	150.0	05-Oct-98
3088	PP	MS	Development of Rural-Urban Linkages	890.0	15-Oct-98
3113	A&O	EN	Developing Policy Framework to Rationalize Power Purchase from Independent Power Producers	0.0	10-Dec-98
3116	A&O	FI	Reform of Pension and Provident Funds	870.0	11-Dec-98
3119	A&O	FI	Regulatory Reforms in the Insurance Industry	800.0	15-Dec-98
3137	PP	WS	Water Supply and Sanitation Sector	600.0	22-Dec-98
2705	A&O	IN	Trade and Industry Planning and Strategy Formulation for REPELITA VII (Supplementary)	140.0	24-Dec-98

Loan/TA No.	Type	Sector Code	Title	Amount (\$'000)	Approval Date
3149	A&O	LW	Corporate Governance and Enterprise Restructuring	2,470.0	29-Dec-98
1673	OCR	EN	Power Sector Restructuring Program	380,000.0	23-Mar-99
1674	OCR	EN	Capacity Building for Establishment of a Competitive Electricity Market	20,000.0	23-Mar-99
3175	A&O	HN	Monitoring and Evaluating the Health and Nutrition Sector Development Program	1,000.0	25-Mar-99
3176	A&O	HN	Capacity Building to Support Decentralized Health Services Systems	1,000.0	25-Mar-99
3177	A&O	LW	Capacity Building to Support Decentralized Administrative Systems	500.0	25-Mar-99
3178	A&O	LW	Capacity Building for Setting Up District-Level Financial and Budgetary Systems	460.0	25-Mar-99
3179	A&O	LW	Capacity Building for Participatory Planning, Monitoring and Evaluation	1,540.0	25-Mar-99
1677	OCR	LW	Community and Local Government Support Sector Development Program (CLGSSDP)	200,000.0	25-Mar-99
1678	OCR	LW	Community and Local Government Support Sector Development Program (CLGSSDP)	120,000.0	25-Mar-99
1675	OCR	HN	Health and Nutrition Sector Development Program	100,000.0	25-Mar-99
1676	OCR	HN	Health and Nutrition Sector Development Program	200,000.0	25-Mar-99
3041	A&O	HN	Monitoring and Evaluating the Social Protection Sector Development Program (Supplementary)	1,000.0	15-Apr-99
3214	A&O	LW	Improving the Management of Government Onlending Operations	400.0	01-Jul-99
3228	A&O	FI	Development of a Deposit Insurance Scheme	150.0	20-Jul-99
3233	A&O	LW	Strategy for Restructuring Public Services	488.0	30-Jul-99
3234	PP	AG	Natural Resources and Environmental Management Sector	380.0	30-Jul-99
3252	A&O	AG	Capacity Building for Decentralization of the Environment Impact Assessment Process	420.0	03-Sep-99
3313	A&O	AG	Participatory Approaches to Sustainable Income Generation	300.0	29-Nov-99
3314	PP	AG	Agriculture and Rural Sector	150.0	29-Nov-99
3321	A&O	WS	Independent Monitoring of Assistance for the Provision of Clean Water in West Timor	150.0	02-Dec-99
3326	A&O	LW	Urban Sector Development in a Decentralizing Environment	600.0	08-Dec-99
3334	PP	TC	Road Rehabilitation (Sector)	400.0	10-Dec-99
2933	A&O	IN	Implementing a Regulatory Framework for the Gas Industry (Supplementary)	386.0	28-Dec-99
3381	A&O	LW	Establishment of an Anticorruption Commission	1,000.0	28-Dec-99
3384	A&O	AG	Sustainable Management for Tree Crops Development	950.0	28-Dec-99
3175	A&O	HN	Monitoring and Evaluating the Health and Nutrition Sector Development Program (Supplementary)	1,000.0	25-Jan-00
3394	A&O	LW	Public Expenditure Management and the Implications of Decentralization	225.0	25-Jan-00
3416	A&O	IN	Promoting Deregulation and Competition	1,500.0	16-Mar-00
3417	A&O	IN	Small and Medium Enterprise Development	2,000.0	16-Mar-00
1738	OCR	IN	Industrial Competitiveness of Small and Medium Enterprise Development Program	200,000.0	16-Mar-00
3448	PP	HN	Decentralized Health Services	180.0	26-May-00
3041	A&O	HN	Monitoring and Evaluating the Social Protection Sector Development Program (Supplementary)	2,000.0	13-Jun-00
3456	PP	ED	Preparation of the Decentralized Basic Education Project	150.0	14-Jun-00
3471	A&O	LW	Improving Public Sector Procurement	780.0	21-Jul-00
3472	A&O	LW	Governance Audit of the Public Prosecution Service	1,000.0	21-Jul-00
3481	PP	EN	Outer Island Electrification	800.0	21-Aug-00
3484	A&O	LW	Corporate Governance Reform	300.0	29-Aug-00
3518	A&O	MS	Financial Management System	1,100.0	19-Oct-00
1765	SF	MS	Community Empowerment for Rural Development	56,451.0	19-Oct-00
1766	OCR	MS	Community Empowerment for Rural Development Project	65,000.0	19-Oct-00
3523	A&O	AG	Capacity Building for Decentralized Natural Resources Management	775.0	26-Oct-00
1770	SF	AG	Marine and Coastal Resources Management Project	50,000.0	26-Oct-00
3532	PP	AG	Poor Farmers' Income Improvement	420.0	09-Nov-00
1792	OCR	ED	Technological and Professional Skills Development Sector Project	180,000.0	29-Nov-00
1798	OCR	TC	Road Rehabilitation (Sector) Project	190,000.0	11-Dec-00
3579	A&O	HN	Support for Health Sector Policy Reform	1,000.0	14-Dec-00
1810	SF	HN	Decentralized Health Services Project	65,000.0	14-Dec-00
3608	A&O	LW	Public Relations Activities in Support of Government's Anticorruption Efforts	150.0	21-Dec-00
3620	A&O	FI	Development of a Financial Services Supervisory Institution	1,700.0	12-Jan-01
3646	PP	LW	Urban Poverty Reduction	800.0	03-Apr-01
3671	A&O	EN	Gas Sector Development Plan	490.0	11-Jun-01
3701	A&O	ED	Support for Decentralized Education Management	990.0	08-Aug-01
3710	A&O	LW	Developing Leading Indicators for Poverty Monitoring	300.0	28-Aug-01
3714	A&O	LW	Privatization and Restructuring of State-Owned Enterprises	2,600.0	05-Sep-01
3720	A&O	LW	Strengthening Procurement Policies, Legal Framework, and Institutions	500.0	19-Sep-01

Loan/TA No.	Type	Sector Code	Title	Amount (\$'000)	Approval Date
3728	A&O	LW	Commercialization of Public Service Obligations	1,000.0	25-Sep-01
3761	A&O	WS	Regulatory Framework for Private and Public Water Supply and Wastewater Enterprises	790.0	06-Nov-01
3764	A&O	LW	Supporting Country Financial Accountability	300.0	12-Nov-01
3775	PP	HN	Second Decentralized Health Services	1,000.0	15-Nov-01
3777	A&O	LW	Fiscal Decentralization	500.0	19-Nov-01
3782	A&O	WS	Reform of Water Enterprises	600.0	29-Nov-01
1863	SF	ED	Decentralized Basic Education	112,641.0	29-Nov-01
1866	OCR	LW	State-Owned Enterprise Governance and Privatization Program	400,000.0	04-Dec-01
3793	PP	AG	Participatory Irrigation Sector	800.0	12-Dec-01
3798	PP	LW	Local Government Capacity Building for Decentralization	713.0	14-Dec-01
3804	PP	LW	Private Sector Participation Development Facility for Urban Infrastructure	600.0	17-Dec-01
3807	PP	EN	Regional Power Transmission and Competitive Market Development	500.0	18-Dec-01
3810	PP	F	Rural Microfinance	1,000.0	18-Dec-01
3813	A&O	LW	Support to the Partnership for Governance Reform in Indonesia	750.0	18-Dec-01
3829	A&O	IN	Strengthening Business Development Services for Small and Medium Enterprises	1,500.0	09-Jan-02
3837	A&O	IN	Improving the Environmental Performance of Small and Medium Enterprises by Promoting Cleaner Production	500.0	01-Mar-02
3842	A&O	LW	Strengthening the Capacity of the Ministry of Settlements and Regional Infrastructure to Combat Fraud and Corruption	625.0	12-Mar-02
3843	A&O	AG	Agriculture and Rural Development Strategy Study	900.0	12-Mar-02
3841	A&O	LW	Developing Proxy Indicators of Poverty	400.0	13-Mar-02
3849	A&O	F	Development of an Anti-Money Laundering Regime	1,500.0	18-Mar-02
3850	A&O	F	Establishment of a Financial Services Authority	1,500.0	18-Mar-02
3846	A&O	LW	Gender Equity in Policy and Program Planning	400.0	19-Mar-02
3646	PP	LW	Urban Poverty Reduction (Supplementary)	160.0	11-Apr-02
3878	PP	WS	Water Supply and Sanitation Sector	150.0	07-Jun-02
3895	PP	MS	Shelter Sector Project	1,000.0	11-Jul-02
1909	SF	AG	Poor Farmer Income Improvement through Innovation Project	56,000.0	15-Aug-02
3909	A&O	LW	Support for Good Local Governance	100.0	27-Aug-02
3935	A&O	LW	Support for the Regional Government Borrowing System	500.0	01-Oct-02
3957	A&O	ED	Integration of Poverty Considerations in Decentralized Education Management	600.0	30-Oct-02
3967	A&O	LW	Local Government Provision of Minimum Basic Services for the Poor	750.0	04-Nov-02
3977	PP	AG	Community-Based Land Rehabilitation and Management	800.0	05-Nov-02
3989	PP	TC	Second Road Rehabilitation	900.0	15-Nov-02
1962	SF	AG	Coral Reef Rehabilitation and Management II	33,000.0	06-Dec-02
4023	A&O	LW	Monitoring System for Capacity Building	1,200.0	10-Dec-02
4024	A&O	FI	Financial Governance and Social Security Reform	1,000.0	10-Dec-02
1965	OCR	FI	FINANCIAL GOVERNANCE AND SOCIAL SECURITY REFORM	250,000.0	10-Dec-02
1964	SF	LW	Sustainable Capacity Building for Decentralization	42,220.0	10-Dec-02
4026	PP	IN	Clean Vehicle Fuel for Blue Skies	600.0	11-Dec-02
4038	PP	TC	Interisland Transport	1,000.0	16-Dec-02
4041	A&O	IN	Small and Medium Enterprise Export Development	500.0	17-Dec-02
1978	OCR	IN	Small and Medium Enterprise Export Development Project	85,000.0	17-Dec-02
3710	A&O	LW	Developing Leading Indicators for Poverty Monitoring (Supplementary)	80.0	19-Dec-02
4054	A&O	EN	Power Welfare Scheme	800.0	19-Dec-02
4063	PP	WS	Community Water Services and Health	1,000.0	19-Dec-02
4067	A&O	LW	Managing Regional Disparity in Economic and Poverty Reduction Programs Under Decentralization (Phase I)	484.0	19-Dec-02
1982	OCR	EN	Renewable Energy Development Sector Project	161,000.0	19-Dec-02
1983	OCR	EN	Power Transmission Improvement Sector Project	140,000.0	19-Dec-02
3579	A&O	HN	Support for Health Sector Policy Reforms (Supplementary)	857.4	31-Mar-03
4094	A&O	HN	Public Health and Nutrition	500.0	11-Apr-03
4107	PP	LW	Support to State Audit Reform	700.0	09-May-03
4124	PP	HN	Sustainable Social Protection	800.0	09-Jun-03
4137	A&O	AG	Carbon Sequestration through the Clean Development Mechanism	700.0	02-Jul-03
4144	A&O	TC	Facilitating Private Sector Participation in Ports Infrastructure under Decentralization	315.0	09-Jul-03
4148	PP	AG	Sustainable Agriculture Development for Food Security and Poverty Reduction	800.0	16-Jul-03
4156	PP	HN	Second Decentralized Health Services: Adapting the Project to New Regulations	100.0	08-Aug-03
4159	PP	AG	Flood Management in Selected River Basins	1,250.0	12-Aug-03
4161	A&O	LW	Strengthening Civil Society Participation in the Design, Implementation, and Monitoring of Asian Development Bank Projects	300.0	13-Aug-03

Loan/TA No.	Type	Sector Code	Title	Amount (\$'000)	Approval Date
4176	A&O	LW	Support for the Development of a Poverty Reduction Strategy Towards Achieving the MDGs	150.0	17-Sep-03
4204	A&O	TC	Subregional Transport Cooperation Initiative	400.0	24-Oct-03
4224	PP	AG	Productivity Enhancement for Tree Crops	800.0	21-Nov-03
4239	PP	ED	Decentralized Senior Secondary Education	1,000.0	05-Dec-03
4250	A&O	FI	Unified Registration System	300.0	13-Dec-03
4251	A&O	LW	Improvement of the Administration of the Supreme Court	500.0	13-Dec-03
4280	A&O	LW	State-Owned Enterprise Restructuring	600.0	18-Dec-03
4281	PP	IN	Provincial Small and Medium Industrial Sector Development Program	800.0	18-Dec-03
4282	A&O	LW	Local Government Financing	600.0	18-Dec-03
4286	PP	EN	Local Grids Development	993.0	18-Dec-03
2064	SF	AG	Participatory Irrigation Sector Project	19,000.0	19-Dec-03
2065	OCR	AG	Participatory Irrigation Sector Project	54,000.0	19-Dec-03
2074	OCR	HN	2nd Decentralized Health Services Project (DHS2)	64,800.0	19-Dec-03
2075	SF	HN	2nd Decentralized Health Services Project (DHS2)	35,200.0	19-Dec-03
2072	OCR	MS	Neighborhood Upgrading and Shelter Sector Project	68,600.0	19-Dec-03
2073	SF	MS	Neighborhood Upgrading and Shelter Sector Project	20,000.0	19-Dec-03
4317	PP	WS	Community Water Services and Health Project: Meeting the Millenium Development Goals in the Decentralized Context	150.0	27-Feb-04
4333	A&O	EN	Gas Generation from Waste	500.0	03-May-04
4341	A&O	LW	Strengthening the Capacity of the Commission for Eradication of Corruption in Indonesia	250.0	21-May-04
4360	PP	EN	Gas Transportation Project through Public-Private Partnership	910.0	20-Jul-04
4361	PP	MS	Urban Air Quality Improvement Sector Development Program	700.0	20-Jul-04
4366	PP	IN	Institutionalization of Participatory Approaches to Shelter Provision	50.0	02-Aug-04
4368	PP	FI	Financing Integrated Settlements Development	800.0	03-Aug-04
4373	PP	AG	Integrated Coastal Fisheries Resource Management	790.0	10-Aug-04
4381	PP	AG	Integrated Citarum Water Resources Management	1,000.0	26-Aug-04
4387	PP	HN	Urban Nutrition	400.0	08-Sep-04
4391	A&O	ED	Support for Decentralized Education Management II	500.0	14-Sep-04
4407	PP	AG	Agribusiness Development Support	1,000.0	11-Oct-04
4411	PP	WS	Water Supply and Sanitation	900.0	12-Oct-04
4413	PP	IN	Northeastern States Trade and Investment Creation Initiative	500.0	12-Oct-04
4429	PP	TC	Social Development for the Interisland Transport Development	150.0	09-Nov-04
4473	A&O	LW	Support for the Implementation of the State Audit Reform Program	1,300.0	13-Dec-04
4474	A&O	LW	Support for the Implementation of the State Audit Reform Investment	3,700.0	13-Dec-04
2126	OCR	LW	State Audit Reform Sector Program (Program Loan)	200,000.0	13-Dec-04
2127	SF	LW	State Audit Reform Sector Program (Project Loan)	25,000.0	13-Dec-04
4479	A&O	LW	Gender Responsive Public Policy and Administration	400.0	14-Dec-04
4554	A&O	LW	Analysis and Dissemination of Lessons from Poverty Reduction Program for Local Government	150.0	14-Dec-04
4501	A&O	EN	Institutionalizing the Clean Development Mechanism	750.0	17-Dec-04
4543	A&O	LW	Sustaining Decentralization and Local Governance Reforms	900.0	23-Dec-04
4547	PP	ED	Madrasah Education Development	1,200.0	23-Dec-04
4550	A&O	FI	Development of an Anti-Money Laundering Regime II	500.0	23-Dec-04
4551	A&O	AG	Marine and Fisheries Sector Strategy Study	880.0	23-Dec-04
4555	A&O	LW	Strengthening the National Secretariat for Regional Cooperation	296.5	23-Dec-04

A&O = advisory and operational; AG = agriculture and natural resources; ED = education; EN = energy; FI = finance; IN = industry and trade; HN = health, nutrition, and social protection; LW = law, economic management, and public policy; MS = multisector; OCR = ordinary capital resources; PP = project preparatory; SF = special fund; TC = transport and communication; WS = water supply, sanitation, and waste management.

^a Excluding private sector operations.

Source: Asian Development loans and technical assistance grants documents database.

PRIVATE SECTOR OPERATIONS

1. The Asian Development Bank's (ADB) private sector investments in Indonesia during 1990–2004 were financed before the Asian financial crisis (Table A16.1). The portfolio, totaling \$111 million, was not diverse. It focused on a few finance companies (22% of the portfolio), and on one major conglomerate (78% of the portfolio) that later was alleged to have been corrupt.¹ The regulation of finance companies was very weak, as were accounting standards. Lending to borrowers with incomes in rupiah and borrowings in US dollars represented a substantial risk.² ADB took a substantial exposure risk, including to its reputation. However, ADB did take precautions to avoid some risks. For example, despite substantial pressure to lend to the many businesses owned by the first family,³ ADB made a conscious effort (by way of an unwritten informal embargo) to stay away from such—even before ADB adopted its Anticorruption Policy. ADB considered it important not only to avoid any situation where political favors or pressures could lead to favoritism, corruption, or unfair practices; but also to avoid any situation where favoritism, corruption, or unfair practices might be suspected or alleged. The informal embargo also applied to some public sector investments. The Operations Evaluation Department's special evaluation study on power sector found that ADB was approached by an independent power producer with close ties to the first family. However, ADB declined to get involved, and subsequently played little part in the independent power producer program other than to give general advice on the proper conduct of such programs to the Government and the State Electricity Enterprise.

2. Two factors might account for the concentration of private sector operations. First, Bank Indonesia had a restriction on commercial banks regarding their US dollar borrowings. Most conglomerates, therefore, resorted to using their finance companies to borrow in US dollars. ADB, like many other foreign investors, avoided the Bank Indonesia restrictions in lending to such finance companies. Second, most of the major conglomerates were owned by ethnic Chinese. ADB's involvement with one conglomerate (known to be *pribumi* or "son of the soil") was based in part on the agreement that lending to this company would be favorable to the Government of Indonesia and the Indonesian Chamber of Commerce. While this conglomerate was not part of the first family, it was very close to it. ADB lent more than three fourths of its portfolio to this conglomerate. In hindsight, avoiding this link would have been prudent. ADB would have been even more prudent by spreading the risk through investment in other smaller companies. Thereby, ADB's reputation likely would have been spared from investing in allegedly corrupt companies, however unfounded the allegations might have been.

3. During the crisis, the private sector in Indonesia mirrored the tumultuous events and developments in the financial sector, especially for the large corporate groups that dominated the economy and the banking system. The devaluation of the rupiah brought the banks down, but not their owners. Rescuing the banks was left to the Government, rather than to the owners who had mismanaged funds. Following the crisis, while the economy has been relatively stable, domestic and foreign investment levels have remained low. Consumption spending has sustained the economy. Private sector participation in economic recovery hinges on the removal of corruption and poor governance, which still are believed to be entrenched in the political and administrative system. Foreign investment continues to avoid Indonesia due to (i) the threat of

¹ ADB was not alone in lending to this group. By 1998, the group's debt exceeded \$1.5 billion, owed to more than 300 foreign banks.

² These finance companies (nonbank financial institutions) came under the regulations of the Ministry of Finance and not Bank Indonesia. Ministry of Finance's capacity to effectively regulate them was limited. This later became one of the arguments behind the proposal for a supreme financial sector authority in Indonesia.

³ The family of the then-President Soeharto and close associates.

terrorism, (ii) the perception that corruption is rampant and the legal system often whimsical, (iii) relatively high labor costs, and (iv) an obstructionist bureaucracy. Meanwhile, the outflow of capital continues. In 2003, investors withdrew \$597 million in investment capital, raising to \$13.6 billion the net amount that has left since 1999. Even as global commodity prices spike, the potential of Indonesia's valuable natural resources, including natural gas and minerals, remains untapped due to doubts about the legal system and security concerns. However, with the successful completion of national elections, the promise of recovery from the economic and political turmoil of the past 7 years appears on the horizon. One of the biggest challenges for Indonesia's newly elected President Susilo Bambang Yudhoyono is to increase investor confidence and strengthen the banking sector to create an enabling climate for sustainable investment growth.

Table A16.1: List of Private Sector Operations
(as of 31 December 2004)

Investment No.	Type	Sector Code	Title	Amount (\$ million)	Approval Date
7004	LOE	FI	Bank Pembangunan Indonesia (BAPINDO)	1.000	25-Jun-85
7005	EI	AG	P.T. Kratama Belindo International	0.400	25-Jun-85
7026/0905	OCR	IN	P.T. Gunung Garuda	15.000	27-Sep-88
7029	EI	FI	P.T. Bank UPPINDO	1.675	17-Nov-88
7030	LOE	FI	BAPINDO II	5.000	29-Nov-88
7038-C/0978	CL	FI	P.T. Mediasarana Multi Finance	2.000	14-May-90
7038/0978	EI	IN	P.T. Mediasarana Multi Finance	0.304	31-Oct-94
7038/0978	EI	IN	P.T. Mediasarana Multi Finance	0.339	26-Oct-89
7038/0978	OCR	IN	P.T. Mediasarana Multi Finance	5.000	26-Oct-89
7039-C/0979 ^a	CL	IN	P.T. BBL Dharmala Finance	5.000	14-May-90
7039/0979	OCR	IN	P.T. BBL Dharmala Finance	15.000	26-Oct-89
7044	EI	FI	P.T. Asian Development Securities Co.	1.186	19-Dec-89
7045	EI	FI	P.T. Indonesia Development Fund Ltd.	6.000	19-Dec-89
7054/1023	EI	FI	P.T. Bakrie Finance Corporation	1.250	09-Aug-90
7054/1023	OCR	FI	P.T. Bakrie Finance Corporation	15.000	09-Aug-90
7068/1083 ^b	CL	IN	P.T. Seamless Pipe Indonesia Jaya	56.500	13-Apr-92
7068/1083	EI	IN	P.T. Seamless Pipe Indonesia Jaya	5.000	28-May-91
7068/1083	OCR	IN	P.T. Seamless Pipe Indonesia Jaya	15.000	28-May-91
7073/1119		IN	P.T. Ispat Steel	cancelled	19-Nov-91
7088/1227	EI	IN	P.T. Wiraswasta Gemilang	1.500	22-Apr-93
7088/1227	OCR	IN	P.T. Wiraswasta Gemilang	17.000	22-Apr-93
7100/1284		AG	P.T. Sunnymas Prima Agung	cancelled	07-Dec-93
7129/1496		AG	P.T. Banjarmasin Agrojaya Mandiri	cancelled	28-Nov-96
7148			Secondary Mortgage Facility	cancelled	25-Jun-98
Total				169.154	

AG = agriculture and natural resources; CL = complimentary loan; EI = equity investment; FI = finance; IN = industry and trade; LOE = line of equity; OCR = ordinary capital resources; U = underwriting.

^a Other lenders include IFC, FMO, CDC, AFIC, DEG.

^b Other lenders include AFIC, UBS (Waburg), BCI, NCB, Credito Italiano, BBC, Kookmin Bank, Export-Solomon Smith Barney.

Sources: Asian Development Bank loans and technical assistance grants documents databases.

INFORMATION ON MONITORING AND EVALUATION

1. Since 2001, the Operations Evaluation Department has guided the project or program completion report (PCR) preparation through in-depth review in an attempt to improve self-evaluation by Asian Development Bank project officers. The assessment of the project or program performance audit reports (PPARs) for Indonesian projects confirm, or update, that of the PCR assessments for the 16 PPARs available up to June 2005. The two assessment results for the 16 projects are shown below in Table A17.1.

Table A17.1: Comparison of PCR and PPAR Ratings				
Loan No.	Title	PCR	PPAR	Action
1014/1015	Food Crop Sector Program	NR	S	Rated
1017/1018	Integrated Irrigation Sector Project	PS	PS	Confirm
1099	Second Land Resource Evaluation and Planning Project	PS	PS	Confirm
1050	Agricultural Technology Schools Project	GS	S	Confirm
1194	Junior Secondary Education Project	S	S	Confirm
1253	Higher Education Project	S	S	Confirm
1223	Second Development Finance Loan Project	US	PS	Upgrade
1077	Botabek Urban Development Project	S	S	Confirm
1078	Bandar Lampung Urban Development Project	S	HS	Upgrade
1111	Bogor and Palembang Urban Development Project	S	S	Confirm
1241	Flores Emergency Reconstruction Project	PS	S	Upgrade
1292	Eastern Islands Urban Development Project	PS	PS	Confirm
1115	Eleventh Road (Sector) Project	GS	S	Confirm
1232	Third Local Roads Project	PS	S	Upgrade
1069	Second IKK Water Supply Sector Project	S	S	Confirm
1352	Rural Water Supply and Sanitation Sector Project	PS	PS	Confirm
GS = generally successful, HS = highly successful, NR = no rating, PCR = program and/or completion report, PPAR = program and/or project performance audit report, PS = partly successful, S = successful, US = unsuccessful. Source: Asian Development Bank.				

2. The overall rating is assessed using a top-down strategy assessment approach based on thematic strategic thrusts and bottom-up portfolio assessment. The assessment ratings are summarized in Tables A17.2 and A17.3.

Evaluation Criteria	Rating	Scale	Weight	Weighted Rating
(i) Topdown Relevance = A+B+C+D			0.100	
A. Responsiveness of Country Strategy to NDP Priorities	R	2.00	0.025	0.05
B. Responsiveness of Country Strategy to ADB Priorities	HR	3.00	0.025	0.08
C. Responsiveness of Country Strategy to Country Development Issues	R	2.00	0.025	0.05
D. Responsiveness of Country Program to Country Strategy	R	2.00	0.025	0.05
(ii) Bottom-Up Relevance	R	2.00	0.100	0.20
1 Relevance (i) + (ii)			0.200	
(iii) Topdown Efficacy of Strategic Thrusts = A+B+C+D+E			0.125	
A. Governance and Anticorruption	E	2.00	0.025	0.05
B. Decentralization and Capacity Building	PE	1.00	0.025	0.03
C. Human Resource Development	E	2.00	0.025	0.05
D. Environment and Natural Resource Management	PE	2.00	0.025	0.05
E. Economic Growth	E	2.00	0.025	0.05
(iv) Bottom-Up Efficacy	PE	1.00	0.125	0.13
2 Efficacy (iii)+(iv)			0.250	
3 Efficiency (bottom up)	PE	1.00	0.200	0.20
4 Sustainability (bottom up)	L	2.00	0.200	0.40
5 Institutional Development and Other Impact	M	1.00	0.150	0.15
Overall Assessment (1+2+3+4+5)	1.53=>PS			1.53

ADB = Asian Development Bank, E = efficacious, HR = highly relevant, L = likely, M = moderate, NDP = national development plan, PE = partly efficacious or partly efficient, R = relevant.
Source: Country assistance program evaluation team.

Item	3	2	1	0	Subtotal	Weighted No	
						Average	Rating Total
Relevance	20	34	4	0	58		0
	34.5	58.6	6.9	0.0		2.3	58
Efficacy	1	31	17	1	50		8
	2.0	62.0	34.0	2.0		1.6	58
Efficiency	4	25	20	3	52		6
	7.7	48.1	38.5	5.8		1.6	58
Sustainability	4	25	24	1	54		4
	7.4	46.3	44.4	1.9		1.6	58
Other Impacts	2	16	20	5	43		15
	4.7	37.2	46.5	11.6		1.3	58

Note: The table reflects the rating for five standard evaluation criteria extracted from 58 evaluation reports consisting of 42 self-evaluated project completion reports and 16 independently evaluated reports. Not all project completion reports had ratings for evaluation criteria.
Source: Asian Development Bank loan documents database.

SECTOR PERFORMANCE

A. Education

A. Completed with PCR Ratings = 90% (Successful)				
Loan No.	Approval Year	Title	Rating	Source
1013	1990	Six Universities Development and Rehabilitation Project	Partly successful	PCR
1050	1990	Agricultural Technology Schools Project	Successful	PPAR
1100	1991	Technical Education Development Project	Generally successful	PCR
1194	1992	Junior Secondary Education Project	Successful	PPAR
1253	1993	Higher Education Project	Successful	PPAR
1319	1994	Vocational and Technical Education Project	Successful	PCR
1359	1995	Private Junior Secondary Education Project	Successful	PCR
1360	1995	Senior Secondary Education Project	Successful	PCR
1432	1996	Engineering Education Development Project	Highly successful	PCR
1442	1996	Basic Education Project	Successful	PCR
B. Completed without PCR Ratings				
Loan 1519-INO: Development of Madrasah Aliyahs Project (25 March 1997)				
<p>Loan 1519 is consistent with Government efforts to develop and strengthen senior secondary education, as well as to address the problems and foster the sustainability of public and private schools under the influence of education and religious affairs agencies. The loan is also relevant to ADB strategies, and complements other assistance to technical and vocational education. At approval, ADB had provided more assistance to the development of the education system under the MORA than any other EDP. Project efficacy could not be assessed since the study on benefits and sustainability has not been started. Two components were canceled: the provision of private MA scholarship grants had to be transferred to the Ministry of Education as part of the social safety net program, while a 6-year time lag in implementation of Curriculum 1994 made it redundant. The overall quality of civil works and furniture was less than satisfactory due to poor management and O&M. Efficiency was undermined by delays due to insufficient counterpart funds from MORA, slow mobilization of consultants, and adjustments in activities due to the creation of new provinces in 2000. Slow and problematic procurement resulted in low utilization of loan funds, and poor operational performance of MA-support institutions. Some misuse of project resources (vehicles and facilities) also was reported. The loan was closed in December 2004.</p> <p>PPR Ratings (31 December 2004): IP = S DO = S (PPR ratings diverge from the BTORs)</p>				
Loan 1573/74(SF)-INO: Second Junior Secondary Education Project (6 November 1997)				
<p>Loan 1573/74 is highly relevant to the Government's and ADB's sector strategies. The project has been effective in increasing the number of schools and enrollment at the junior secondary education level, although the differences were large across provinces. The ASFI component was regarded widely as a success, although serious lapses in the construction of new schools were reported during field visits in North Sulawesi, Gorontalo, and Southeast Sulawesi. The number of qualified teachers has improved in all provinces. The program on teaching innovativeness had mixed success, with some schools having introduced interesting innovations, while others focused mainly on increasing remedial classes for low performers. Earlier reports mentioned a bias for public schools in the implementation of the activities. The project was weighed down by delays caused by tedious negotiations for ADB to raise its share in ASFI, the slow processing of claims by IRM and MOF, and 2001 decentralization. Quality might have been sacrificed to ensure project completion, despite the delays, aggravated by weak monitoring and rent-seeking by some project managers. The implementation of some major programs was started only during the final year of implementation. Relative to targets, more schools were constructed than rehabilitated, possibly because many of the existing classrooms were beyond repair. On the positive side, the Government committed more than enough resources to the project, with counterpart funds exceeding the required 40% of the loan amount and necessary staff being assigned. The loan was closed in July 2004, and its project completion report is expected in 2005.</p> <p>PPR Ratings (31 December 2004): IP = S DO = S</p>				
C. Ongoing				
Loan 1792-INO: Technological and Professional Skills Development Sector Project (29 November 2000)				
<p>Loan 1792 is designed to improve the country's global competitiveness. It aims to promote gender, social, and geographical equity by providing support to the higher education system, consistent with Indonesia's and ADB's country and sector priorities. These were to be achieved mainly by retraining previous graduates, and upgrading existing study programs. In terms of efficacy, while the latest PPR reports satisfactory preliminary outcomes, the BTORs present additional qualitative information that suggests a more modest assessment. For example, at 70% elapsed period, some 66% of the 20,000 target economically disadvantaged students were reported to have received scholarships under a student equity scheme. Unfortunately, the grant is widely perceived to be insufficient for students coming from very low income families, constituting only partial rather than full support. This raises concern about a possible technical bias against the extremely poor. With regard to the retraining of unemployed graduates to acquire professional and transferable skills,^a only 14% of the 7,600 batch 1 trainees found work after the training, highlighting the need for a more extensive evaluation of the scheme. Project implementation cannot be rated efficient because of the very late consultant mobilization,^b poor project administration by the subproject management units, and the several cases of misprocurement cited in the BTORs and PPR.</p> <p>PPR Ratings (31 July 2005): IP = HS DO = S (PPR ratings diverge from the BTORs)</p>				

Loan 1863-INO(SF): Decentralized Basic Education Project (29 November 2001)
Loan 1863 is highly relevant to the government's and ADB's sector strategies. Project design might have inadvertently excluded school dropouts, or those who have never enrolled, from the criteria for selecting poor students for project scholarships. Project outcomes are quite mixed. While the project has been effective in the rehabilitation of schools, the Mission saw a need to shift focus from physical facilities to the quality of basic education. For instance, the SDPs were oriented more toward material inputs than tools for teaching, learning, and human resource development. Initial findings showed the use of a random selection process for the student grants, and the lack of emphasis on poor beneficiaries for the first batch of schools, contrary to design. In terms of capacity building, districts now have defined management functions, while district education offices have organizational structures and job descriptions in place. Community participation in the preparation of SDPs was limited. In terms of efficiency, the premature implementation of the school development fund in phase II districts overstretched project supervision capability, as well as minimized social preparation and incorporation of good practices from phase I districts. Weaknesses and irregularities in financial management were noted. PPR Ratings (31 July 2005): IP = HS DO = S

ADB = Asian Development Bank, ASFI = Assistance Scheme for Facilities Improvement, BTOR = back-to-office report, DO = development objective, HS = highly satisfactory, EDP = external development partner, IP = implementation progress, IRM = Indonesia Resident Mission, MA = Madrasah Aliyah, MOF = Ministry of Finance, MORA = Ministry of Religious Affairs, O&M = operation and maintenance, PCR = project completion report, PPAR = project performance audit report, PPR = project performance report, PS = partly satisfactory, S = satisfactory, SDP = school development plan.

Note: Successful stands for generally successful, as per the old 3-category rating system, and the highly successful categories under the new 4-category rating system.

^a That would be useful in the manufacturing sector, given the projected expansion in this sector. Training also would include English language and entrepreneurship skills.

^b Project assistance in support of reforms in university planning and management was scheduled for implementation by the end of 2000, hence a delay of up to 4 years from planned implementation.

Sources: Asian Development Bank project design and implementation documents.

B. Transport and Communication

A. Completed with PCR Ratings = 87.5% (Successful)				
Loan No.	Approval Year	Title	Rating	Source
1089	1991	Inland Waterways Project	Successful	PCR
1115	1991	Eleventh Road (Sector) Project	Generally successful	PCR
1157	1992	Telecommunication Project	Successful	PCR
1232	1993	Third Local Roads Project	Successful	PPAR
1233	1993	Second Telecommunications Project	Successful	PCR
1321	1994	West Lampung Emergency Reconstruction Project	Successful	PCR
1335	1994	Eastern Islands Roads (Sector) Project	Successful	PCR
1428	1996	North Java Road Improvement Project	Partly successful	PCR
B. Completed without PCR Ratings				
Loan 1220-INO: East Indonesia Airports Project (25 March 1993)				
Loan 1220's relevance is more apparent in the selection of project sites (Manado and Ambon), which supports the Government's regional focus on the eastern provinces. While the project affirmed the public sector strategy of promoting the balanced development of transport infrastructure, it does not contribute to the more strategic sector goal of encouraging greater private involvement in the provision of services and infrastructure. Delays prompted the extension of the loan closing date five times, affecting its efficiency. Civil unrest in Ambon led to the demobilization of contractors and consultants on three occasions. ADB had to ask the EA to protect the investments at the project site. US and French governments intervened on behalf of losing bidders for the project's consulting service contract, causing further delays. Revisions in project design were made, which required land acquisition and resettlement. Contract price and payment adjustments had to be made to compensate contractors for currency depreciation during the financial crisis. On a positive note, the EA provided the necessary counterpart funds to complete the project. Loan 1220 was closed in October 2003, and the PCR is pending for 2005. PPR Ratings (31 December 2003): IP = PS DO = PS				
Loan 1559-INO: Belawan, Banjarmasin, and Balikpapan Ports Project^a (30 September 1997)				
Loan 1559 was canceled in June 1999 due to the stagnant economy and the lower-than-anticipated port traffic. Government's reluctance to raise port tariffs, the lack of private investor interest, and delays in German cofinancing limited sources of project funding. PPR Ratings (31 December 1999): IP = U DO = PS				
Loan 1586-INO: Eastern Islands Air Transport Development Project^a (8 December 1997)				
A substantial part of Loan 1586 was canceled due to traffic downturn at project airports, the low airport tariffs, cost escalation due to the financial crisis, and the lack of JBIC cofinancing. It was closed in June 2003. A PCR was done, but a rating was not assigned. PPR Ratings (30 November 2003): IP = PS DO = PS				
C. Ongoing				
Loan 1798-INO: Road Rehabilitation (Sector) Project (11 December 2000)				
Loan 1798 is relevant in the context of Indonesia's and ADB's respective strategies on the road sector and poverty. However, poor project management led to the inefficient delivery of most project inputs (delays in start-up, counterpart funds release, subproject tenders, and recruitment), resulting in substandard quality and incomplete works relative to targets. In fact, the substantial delays caused further deterioration in baseline quality of the roads and bridges, raising costs that consumed the				

budget for the remaining subprojects. In addition, the mobilization delay and weak performance of consultants hired to advise on road sector policy reforms created the need for the World Bank to deliver the technical support for the same purpose. In effect, the project failed to meet most of its stated objectives. Project documents reported several anticorruption measures that were being implemented to reduce opportunities for corruption in project procurement.

PPR Ratings (30 June 2005): IP = S DO = S

DO = development objective, EA = executing agency, IP = implementation progress, JBIC = Japan Bank for International Cooperation, PCR = project completion report, PPR = project performance report, PPAR = project performance audit report, PS = partly satisfactory, S = satisfactory, U = unsatisfactory, US = United States.

Note: Successful stands for generally successful as per the old 3-category rating system, and the highly successful categories under the new 4-category rating system.

^a Cancelled.

Sources: Asian Development Bank project design and implementation documents.

C. Finance

A. Completed with PCR Ratings = 75% (Successful)				
Loan No.	Approval Year	Title	Rating	Source
1160	1992	Second Financial Sector Program Loan	Generally successful	PCR
1223	1993	Second Development Finance Loan Project	Partly successful	PPAR
1327(SF)	1994	Microcredit Project	Successful	PCR
1618	1998	Financial Governance Reforms: Sector Development Program	Successful	PCR
B. Completed without PCR Ratings				
Loan 1620-INO: Financial Governance Reforms: Sector Development - Capacity Building for Financial Governance (25 June 1998)				
<p>The \$50 million TA Loan 1620 is responsive to the Government's needs. However, given the urgency for action, the project design did not undergo more careful deliberation to clarify the scope of activities and to enhance coordination with other EDPs, resulting in scope changes and reallocations. The largest change in scope involved the substitution of activities for strengthening commercial banks (which were being handled under the World Bank program) with <i>post facto</i> financing of special audits of major government corporations. While outputs were well-documented, project outcomes were not. Slow implementation and inadequate management could have diluted the capacity-building impact. BAPEPAM aligned its accounting methods and risk management calculations with international best practice based on a project study. The Government adopted the Secured Transaction Law, and its rules and regulations, without utilizing the TA loan. For efficiency, the Government tried to generate loan savings and canceled some activities altogether, leading to the cancellation of about 14% of the approved amount. Bank of Indonesia's lack of implementation experience, as well as a reorganization of IA, also led to delays. ADB was deemed ineffective in providing guidance to the inexperienced IAs, particularly in procurement and disbursement issues. The Extended Mission to Indonesia and IRM lacked authority for approval, and delays were noted in obtaining approvals from ADB Headquarters. A portion of training funds were diverted to overseas training for taxation and international trade. The TA loan was closed in May 2005.</p>				
PPR Ratings (31 July 2005): IP = PS DO = S				
Loan 1965-INO: Financial Governance and Social Security Reform Program (Phase I) (10 December 2002)				
<p>Loan 1965, designed to broaden and deepen Loan 1618 on Financial Governance Reforms Sector Development Program, represents phase 1 of a cluster loan. It is relevant in addressing the deficiencies raised in connection with Loan 1618, specifically the multiple-agency system providing inadequate financial sector regulation and supervision, the lack of an AML regime, the need for a transition to the FSA, inadequate national social security, and the poor corporate governance. While the PPR reports completion of three of five loan outputs, the first two refer to the AML component and should be considered as one. The other output referred to the drafting of a social security law for the improvement and harmonization of social insurance and social security. The actions involving the consolidation of financial sector regulatory and supervisory authorities might not be considered as substantial compliance since these deferred the establishment of the FSA to 2010, instead of in 2002. In the interim, the Government plans to merge BAPEPAM and the Directorate General of Financial Institutions as a temporary independent body to supervise the nonbank financial institutions. The draft Public Accountants Law did not reflect amendments on the liability of directors and commissioners, as expected under the Program. As a temporary measure, BAPEPAM issued a rule covering such liability. The first tranche of \$100 million was released on time. The incentive tranche (between the first and second) had a floating disbursement date in the first half of 2003 but was released only in January 2004 due to delays in completing the policy conditions on the AML financial intelligence unit, Company Law amendments, proposed Public Accountants Law, and the draft law on the FSA. The second and final tranche was released 17 months after the scheduled release on June 2003. The loan was closed in December 2004.</p>				
PPR Ratings (31 December 2004): IP = PS DO = S				

ADB = Asian Development Bank, AML = anti-money laundering, BAPEPAM = Capital Market Supervisory Agency, DO = development objective, IA = implementing agency, EDP = external development partner, IP = implementation progress, IRM = Indonesia Resident Mission, FSA = Financial Services Authority, PCR = program and/or project completion report, PPR = project performance report, PPAR = project performance audit report, PS = partly satisfactory, S = satisfactory, TA = technical assistance.

Note: Successful stands for generally successful as per the old 3-category rating system, and the highly successful categories under the new 4-category rating system.

Sources: Asian Development Bank project design and implementation documents.

D. Health, Nutrition, and Social Protection

A. Completed with PCR Ratings = 75% (Successful)				
Loan No.	Approval Year	Title	Rating	Source
1299	1994	Rural Health and Population Project	Successful	PCR
1471	1996	Family Health and Nutrition Project	Partly successful	PCR
1622/23	1998	Social Protection Sector Development Program	Successful	PCR
1675/76	1999	Health and Nutrition Sector Development Program	Successful	PCR
B. Completed without PCR Ratings				
Loan 1523-INO: Intensified Communicable Diseases Control Project (19 June 1997)				
<p>While Loan 1523 is relevant to ADB country strategies, it did not address the Government's objective of encouraging the private sector to finance preventive health care. There was great EDP interest on the subject, which served to increase the risks of duplication among certain project activities like institutional capacity-building and immunization activities. The project's continued relevance during the SARS outbreak in 2003 was evident in the new component included in the project to combat SARS and other emerging communicable diseases. Many of the target outcomes reported in the PPR had been met or even exceeded (like in malaria and immunization), suggesting efficacy. The BTORs noted significant implementation backlogs during the first half of project life, involving poor planning, disbursement delays, frequent changes in project leadership and personnel, unbalanced equipment purchases, etc. However, considerable improvements were noted after the midterm review due to better project supervision, staffing, and processing, leading recent missions to adopt an efficient assessment for the project. The loan was closed in May 2005.</p> <p>PPR Ratings (31 July 2005): IP = S DO = S</p>				
C. Ongoing				
Loan 1810-INO(SF): Decentralized Health Services Project (14 December 2000)				
<p>Loan 1810 is very relevant to Government's sector and decentralization policies, as well as ADB's sector strategies. However, one of the agencies supporting project implementation, the BKKBN, was still centralized during the early part of project implementation. As such, its provincial-level plans for the project did not correspond with the district-level proposals of the MOH. After Presidential Decree 103/2001 mandated BKKBN's decentralization by 2004, the project failed to develop activities to help synchronize the decentralized functions of the two agencies or at least assist in preparing BKKBN for the shift. The PPR mentioned that ADB might consider a separate project to prepare for the decentralization of BKKBN's program instead. Local governments' prioritization of civil works and equipment procurement might have compromised project efficacy, despite a project design that front-loaded capacity building. Thus, the planning of investments might not have been based on actual needs. The PPR highlighted the delivery of national and local health sector plans as the main accomplishments of the project. Weaker-than-expected professional and management skills at the regional level constrained efficiency, especially after local staff replaced the better-trained personnel appointed by the central level. Despite this, the project utilized very limited consultant time to strengthen managerial and technical capacity. Misuse of a project vehicle was reported, along with other implementation irregularities.</p> <p>PPR Ratings (31 July 2005): IP = S DO = S</p>				
Loan 2074/75(SF)-INO: Second Decentralized Health Services Project (19 December 2003)				
<p>Loan 2074/75 was designed to be a geographical extension of Loan 1810 (Decentralized Health Services Project). Therefore, it is similarly relevant to the Government's and ADB's strategies. In designing the activities, it has factored in BKKBN's decentralization and lessons learned from Loan 1810 and World Bank projects. KMK 35/2003, issued before negotiation, would require the project to discuss counterpart fund options with each of the districts covered. The World Bank had considered providing a block grant to districts to circumvent the regulation. Since the loan became effective only in March 2005, little progress is expected. The Mission also found the CPIU set-up cost-inefficient, because it was organized along a geographical split and straddled two implementing agencies (MOH and BKKBN). The proposal was to merge the two parallel CPIUs into one CPIU under the MOH, with representation from BKKBN, and to structure it based on a functional split.</p> <p>PPR Ratings (31 July 2005): IP = S DO = S</p>				

ADB = Asian Development Bank, BKKBN = National Family Planning Coordination Board, BTOR = back-to-office report, CPIU = central project implementation unit, DO = development objective, IP = implementation progress, MOH = Ministry of Health, S = satisfactory, PCR = project completion report, PPR = project performance report, SARS = Severe Acute Respiratory Syndrome.

Note: Successful stands for generally successful as per the old 3-category rating system, and the highly successful categories under the new 4-category rating system.

Sources: Asian Development Bank project design and implementation documents.

E. Multisector

A. Completed with PCR Ratings = 71.4% (Successful)				
Loan No.	Approval Year	Title	Rating	Source
1077	1991	Botabek Urban Development Project	Successful	PPAR
1078	1991	Bandar Lampung Urban Development Project	Highly successful	PPAR
1111	1991	Bogor and Palembang Urban Development Project	Successful	PPAR
1198	1992	Central Java and D.I. Yogyakarta Urban Development (Sector) Project	Generally successful	PCR

Loan No.	Approval Year	Title	Rating	Source
1241	1993	Flores Emergency Reconstruction Project	Successful	PPAR
1292	1993	Eastern Islands Urban Development Sector Project	Partly successful	PPAR
1501	1996	Regional Development Account Project	Unsuccessful	PCR
B. Completed without PCR Ratings				
Loan 1383-INO: Sumatra Urban Development (Sector) Project (26 September 1995)				
<p>Loan 1383 is relevant to the overall sector policies adopted by Government and ADB. In terms of project efficacy, the PPR stated that targets for the urban infrastructure subprojects had been exceeded. However, the BTORs noted that project benefits might not have been delivered, because of the poor design and the low quality of civil works construction, and subsequent insufficient maintenance. The PPR also noted that some of the staff and community trainings were not effective. Instead of improving the urban environment, some subprojects involving solid waste disposal sites increased pollution. The project is not efficient due to the combined effects of some procurement irregularities, poor design and construction of works, and implementation delays. Many of the civil works were poorly-designed, built, and maintained; non-operational; or were missing. Some of the procurement undertaken did not comply with ADB guidelines, prompting the suspension of disbursements until a memorandum of understanding could be signed committing the government to extraordinary safeguard measures. The local governments of Solok and Payah Kumbuh were cited though for good performance because they increased utility tariffs to finance O&M budgets. The loan was closed in September 2004, and the PCR will be prepared in 2005.</p> <p>PPR Ratings (31 December 2004): IP = S DO = S (PPR ratings diverge from the BTORs.)</p>				
Loan 1511-INO: Metropolitan Bogor, Tangerang, and Bekasi Urban Development (Sector) Project (19 December 1996)				
<p>Loan 1511 is consistent with Government's strategies for the sector. While the project is responsive to ADB sector strategies, it did not address goals of targeting industrial and institutional users of urban services, improving local government's capacity to mobilize resources, and supporting the Regional Development Account.^a The area coverage was consistent with agreements with other EDP agencies. In terms of efficacy, the BTORs reported that several subprojects might harm the environment, as in the case of two landfills that were located near major rivers, or the construction of disposal sites treatment facilities without arrangements for O&M. The poor quality of most urban infrastructure built might add little toward the improvement of living conditions in Botabek. The project was hampered by poor project management, delayed release of counterpart funds, numerous changes in subproject appraisal reports and consultants (partly due to decentralization), and questionable transactions, all undermining efficiency. Quality assurance and environmental compliance were neglected. The PPR reported recent improvements in the institutional development component. Four loan cancellations were made for 45% of the approved amount. Loan utilization was 49.6%. The loan was closed in March 2004, and the PCR will be prepared in 2005.</p> <p>PPR Ratings (31 December 2004): IP = S DO = S</p>				
C. Ongoing				
Loan 1583-INO: Rural Income Generation Project (25 November 1997)				
<p>Loan 1583 is relevant to the Government's sectoral objectives, and follows on the Government's Instruction for IDTs and the Income Generating Project for Marginal Farmers and the Landless (P4K) programs using community mobilization, microenterprise development, and institutional support mechanisms. The project is also consistent with the sectoral focus of the ADB's 1997 country assistance plan, and is one of the few ADB projects that emphasized gender-disaggregated results. However, the project's interest rate was perceived as expensive. It was reprogrammed in January 2005 to expand its coverage to the tsunami-affected areas, providing grants to support capacity building and livelihood training, with ADB financing 100% of the costs. While the project's impact assessment system (2004) found significant positive impact, the Mission doubted the reliability of the information. Another assessment showed that SHGs had been formed with nonpoor group leaders, and the Mission had to undertake a validation scheme to purge such unqualified members. Institutionalization and capacity building outcomes could not be assessed. In terms of project efficiency, the 2004 audit noted weakness in supervision and poor financial control resulting from decentralization, work overload, and skills mismatch. Corruption allegations were mentioned briefly.</p> <p>PPR Ratings (31 July 2005): IP = S DO = S</p>				
Loan 1587-INO: Metropolitan Medan Urban Development Project (8 December 1997)				
<p>Loan 1587 was relevant to the Government's and ADB's sector direction, though it did not focus on enhancing private sector participation and subregional cooperation. Project efficacy could not be established, because the BME results were not presented. However, actual project scope had been reduced or reorganized. The latest PPR listed outputs that came up short of contributing to the objectives of improving sanitation, drainage, and solid waste management facilities, as well as the goal of providing equipment for O&M. As for capacity building, activities involving the drafting of revenue improvement and local institutional action plans were canceled due to the delay in consultant recruitment. Project implementation was not efficient, dealing with slow and problematic land acquisition, insufficient counterpart funds, lack of interagency coordination, and deviations from procurement guidelines. Although ADB responded appropriately, it had to support a reallocation of funds for remedial work. Three partial loan cancellations were made for 29% of the approved amount as part of the portfolio management.</p> <p>PPR Ratings (31 July 2005): IP = S DO = S (PPR ratings diverge from the BTORs)</p>				
Loan 1765(SF)/66-INO: Community Empowerment for Rural Development Project (19 October 2000)				
<p>Loans 1765/66 are relevant to country and ADB strategies. Further, they are responsive to post-approval developments, such as the creation of new provinces and districts and the 2005 earthquake and tsunami disaster. The projects' design of the rural microfinance component was not well-designed, leading to the cancellation of \$15 million. One of the selection criteria for villages was thought to exclude indigenous peoples. The implementation of similar projects by World Bank and Japan Bank</p>				

for International Cooperation in the same provinces limited the project's area coverage to those subdistricts not included in their programs, reducing target villages. Project outcomes have not been reported, so efficacy could not be assessed. However, the reduction in project scope meant that the achievement of outputs would fall below appraisal goals, by a fairly large margin for irrigation, dams, and fish auction places. In terms of efficiency, insufficient counterpart funds, recruitment delays, and lack of attention from Government agencies and villagers caused a 2-year delay in implementation. These undermined subproject preparation and participatory processes, leading to a partial loan cancellation equal to 36% of the original loan amount. The lack of adequate preparation resulted in substandard civil works or poor O&M for subprojects. Irregularities in procurement and the tendering process also were noted in some subprojects. The Mission believed that consultants were overstuffed and costly, and proposed a cost reduction of about 30% of contract costs. Consultants did very little environmental impact monitoring.

PPR Ratings (31 July 2005): IP = S DO = S (PPR ratings diverge from the BTORs)

Loan 2072/73(SF)-INO: Neighborhood Upgrading and Shelter Sector Project (19 December 2003)

Loan 2072/73 is relevant to the Government's housing policy objectives and the One Million Houses program, and it was designed primarily as a component of the Government's Cities Without Slums policy by 2010. The Ministry of Finance recently issued KMK 606/2004, abolishing the concept of a project manager and project implementation units. A designated office still will be assigned to the project until the end of 2005. In the absence of any signing authority, the recruitment of the management and procurement consultants, as well as awarding of contracts, had been delayed. This loan became effective 26 months after approval due to procedural difficulties. Thus, it is too early to report efficacy or efficiency.

PPR Ratings (31 July 2005): IP = S DO = S

ADB = Asian Development Bank, BME = benefit monitoring and evaluation, BTOR = back-to-office report, DO = development objective, EDP = external development partner, IDT = less-developed village, IP = implementation progress, O&M = operation and maintenance, PCR = project completion report, PPAR = project performance audit report, PPR = project performance report, S = satisfactory, SHG = self-help group.

Note: Successful stands for generally successful as per the old 3-category rating system, and the highly successful categories under the new 4-category rating system.

^a Canceled.

^b A government facility to finance revenue-generating investment projects submitted by local governments and their enterprises.

Sources: Asian Development Bank project design and implementation documents.

F. Energy

A. Completed with PCR Ratings = 60% (Successful)

Loan No.	Approval Year	Title	Rating	Source
1032	1990	Power XX Project	Partly successful	PCR
1092	1991	Power XXI Project	Generally successful	PCR
1172	1992	Power XXII Project	Generally successful	PCR
1320	1994	Sumatra Power Transmission Project	Successful	PCR
1673	1999	Power Sector Restructuring Program	Partly successful	PCR

B. Completed without PCR Ratings

Loan 1397-INO: Power Development and Efficiency Enhancement Project (24 October 1995)

Loan 1397 is consistent with country and ADB sector objectives for capacity expansion and source diversification, as well as with ADB's goal of enhancing supply and end-use efficiencies. However, the project does not advance efforts to increase private sector involvement in power projects, per ADB strategy. After ADB adopted its Policy on Forestry (1996) prohibiting its projects from covering protected forests, the loan component involving the preparation of engineering design for Palu-3 hydropower plant (part of the site was classified as a national park) had to be canceled. The cancellation of four of six project components—including the biggest, the Peusangan hydropower installation—due to the lack of counterpart funds compromised project efficacy. ADB management rejected any reallocation of the undisbursed balance to cover the cost overrun from the remaining two components due to the overall loan portfolio management. Government was required to complete the Java and Sumatra transmission using its own budget. Efficiency concerns centered on insufficient counterpart funding due to the financial crisis. In the case of Peusangan, cofinancing from the JBIC for front-end civil works and consulting services was delayed considerably due to bid setbacks. Government and ADB were indecisive in handling the Peusangan activity, even after recognizing in August 1999 that the limited demand growth and security problems in Aceh, as well as the slow integration of Aceh with the Central Sumatra power system, justified the cancellation of this hydropower installation. Unfortunately, the issue dragged on until loan closing in October 2004. Slow consultant recruitment, right-of-way problems, and the need for new environment assessments also delayed implementation. The loan was closed in October 2004.

PPR Ratings (31 December 2004): IP = PS DO = S

Loan 1674-INO: Capacity Building for Establishment of a Competitive Electricity Market (23 March 1999)

TA Loan 1674 (for \$20 million and specifically requested by Government) is fully consistent with the Government's 1998 Power Sector Restructuring Policy and ADB's 1985 Energy Sector Policy. Ironically, 6 months after loan approval, the EA considered a partial cancellation of the TA loan, because it wanted to tap less expensive bilateral grants for the activities, which ADB resisted. Under the TA loan and other bilateral assistance, key rules, codes, and regulations (market rules, codes on grid, distribution, tariff, procurement and competitive tendering and financial settlement) had been drafted, and are

<p>expected to be approved by 2007. However, two of the TA components were canceled in January 2002. The computer software development component was excluded from the loan scope since its timing was more appropriate after the original loan closing date. The component involving support to the Restructuring Secretariat also was canceled, because the United States Agency for International Development had provided similar assistance. The outputs of the components involving support for regulatory capabilities, design of software specifications, and consumer participation were not evident from the project documents. The 2-year implementation delay affected the TA's efficiency, as well as a linked loan, Loan 1983. The consultant chosen to design the software specifications was recruited only in December 2003, and he completed his work in August 2004. Loan 1674 was closed in December 2004 with a loan utilization of 39%.</p> <p>PPR Ratings (31 December 2004): IP = PS DO = S</p>
<p>C. Ongoing</p>
<p>Loan 1271-INO: Power XXIII Project (25 November 1993)</p> <p>The huge capital requirements and lack of immediate impact on poverty diminished the relevance of Loan 1271 in the aftermath of the Asian financial crisis. The Government made two serious attempts to defer the project's biggest component—the Musi hydropower scheme. However, ADB convinced the Government to continue the subproject. Still, two of the six components were canceled in 1998, leading to the cancellation of loan savings totaling \$18 million and, more recently, the reallocation of \$6 for tsunami rehabilitation out of the \$275 million approved. To date, the project effectively had added only 19 MW of generated power (Tanggari II,) and 150 kV of transmission network (South Sumatra) to the country's power infrastructure, compared to the expected 229 MW and 300 kV, respectively. The bulk of project impact would be felt once the 210-MW Musi hydropower project (which was 99% complete as of 30 June 2005) becomes operational in April 2006. The project is saddled with problems that hamper efficiency. The implementation of the Musi subproject, in particular, could not be considered efficient given the unsatisfactory performance of the civil works contractor, the 2-year suspension due to the crisis, and cost escalation. Similarly, problems with land acquisition and counterpart funding delayed the implementation of the Sumatra transmission network significantly. Despite its own procurement and technical problems, however, the project completed the Tanggari II hydropower scheme within the same target year. The final payment to the contractors was cleared in the following year.</p> <p>PPR Ratings (30 June 2005): IP = S DO = S</p>
<p>Loan 1357-INO: Gas Transmission and Distribution Project (8 June 1995)</p> <p>Loan 1357 is relevant to Indonesia's policy to enhance the use of natural gas as part of its national energy policy, as is in line with ADB's operational strategy to enhance the net exportable quantities of oil. While this is ADB's first project involving natural gas, other EDPs, such as the World Bank and those from Europe, were also active in providing support. ADB made efforts to share its consultancy resources with another planned World Bank project, specifically in the selection of strategic investors for PGN. In terms of project efficacy, the construction of the gas transmission pipelines increased gas supply and improved PGN revenues. It is not clear, though, from the project reports whether its financial advisory services helped enhance private sector participation in the gas industry, since the establishment of the envisioned subsidiary company was delayed for 6 years due to the participation of a strategic investor. The consultants were engaged since 1996. The outcomes of consultant and training support on institutional strengthening could not be assessed in the absence of PGN feedback regarding the completed trainings, or consequent outputs of the trained staff. Replace of the O&M contractor was proposed after its 2-year contract, because of unsatisfactory performance. In terms of efficiency, while one of the two project transmission pipelines was constructed and operated in a timely and acceptable manner, the second one experienced was extremely delayed. This led to four extensions of the loan closing date. While most of the problems could be traced to exogenous factors (i.e., 1997 financial crisis, Sumatra forest fires, shortage of steel coils in the world market), the other problems stem from PGN's deficiencies (i.e., inability to get financing, lack of commitment in establishing its subsidiary, frequent changes in project specifications). Land acquisition initially presented difficulties, though PGN eventually was presented with a special Community Development Award by President Megawati for its effective handling of right-of-way problems.</p> <p>PPR Ratings (30 June 2005): IP = PS DO = S</p>
<p>Loan 1982-INO: Renewable Energy Development Sector Project (19 December 2002)</p> <p>Loan 1982 was relevant, because it encouraged renewable and efficient sources of energy, consistent with Government's Green Energy Plan and ADB's sectoral strategy. Loan 1982 packaged a variety of subprojects (8 miniature hydropower plants, 2 small hydropower plants, 2 geothermal plants, and 70 kV and 20 kV transmission lines). The PPR predicts that some of the subprojects might not be implemented due to technical and/or social issues. Therefore, while efficacy cannot be ascertained yet, enough time is available to address these implementation problems. The most urgent efficiency problem is the lack of functioning social development teams to undertake ADB's social safeguard tasks on land acquisition, resettlement, and indigenous peoples, especially since implementation of the subprojects has started. Other issues that held back the project's efficient implementation include a 1-year delay in loan effectiveness, and complaints regarding the engagement of the project implementation consultant.</p> <p>PPR Ratings (30 June 2005): IP = S DO = S</p>
<p>Loan 1983-INO: Power Transmission Improvement Sector Project (19 December 2002)</p> <p>Loan 1983's expansion of PLN's transformation and transmission capacity is relevant to Electricity Law 20/2002, which required the separation of PLN's transmission from generation, as well as the spin off of the transmission, system, and market operations into a state-owned strategic business unit. The ICT component was also consistent with the law's mandate to create the necessary market facilities for the establishment of a competitive electricity market through the installation of ICT-based equipment. However, the judiciary annulled the electricity law was annulled in December 2004, thereby making the ICT component less relevant at the time of assessment. Predicting the efficiency of outputs or outcomes at this stage of project implementation is difficult. In terms of efficiency, the start of the project was not smooth, because of a 1-year delay in</p>

loan effectiveness (arising from stricter relending requirements for PLN), and the absence of consultant inputs from an earlier ADB loan (Loan 1674). Progress in the grid interconnection component is also threatened by cost escalation and issues concerning land acquisition and resettlement.

PPR Ratings (30 June 2005): IP = S DO = S

ADB = Asian Development Bank, DO = development objective, EA = executing agency, ICT = information and communication technology, EDP = external development partner, IP = implementation progress, JBIC = Japan Bank for International Cooperation, kV = kilovolt, MW = megawatt, O&M = operation and maintenance, PCR = project completion report, PGN = State Gas Corporation, PLN = State Electricity Enterprise, PPR = project performance report, PS = partly satisfactory, S = satisfactory, TA = technical assistance.

Note: Successful stands for generally successful as per the old 3-category rating system, and the highly successful categories under the new 4-category rating system.

Sources: Asian Development Bank project design and implementation documents.

G. Agriculture

A. Completed with PCR Ratings = 43.8% (Successful)				
Loan No.	Approval Year	Title	Rating	Source
Agriculture				
1014/15(SF)	1990	Food Crop Sector Program	Successful	PPAR
1017/18(SF)	1990	Integrated Irrigation Sector Project	Partly successful	PPAR
1095	1991	Second Fisheries Industries Credit Project	Unsuccessful	PCR
1099	1991	Second Land Resource Evaluation and Planning Project	Partly successful	PPAR
1118	1991	Tree Crop Smallholder Sector Project	Successful	PCR
1126	1991	Central Java Groundwater Irrigation Development Project	Unsuccessful	PCR
1184(SF)	1992	Upland Farmer Development Project	Successful	PCR
1186	1992	Smallholder Tree Crop Processing Project	Partly successful	PCR
1258(SF)	1993	Sustainable Agriculture Development Project in Irian Jaya	Partly successful	PCR
1296	1994	Second Integrated Irrigation Sector Project	Partly successful	PCR
1351(SF)	1995	Sulawesi Rainfed Agriculture Development Project	Successful	PCR
1378(SF)	1995	Farmer Managed Irrigation Systems Project	Successful	PCR
Subtotal = 41.6%				
Natural Resources				
1187(SF)	1992	Biodiversity Conservation Project in Flores and Siberut	Less than successful	PCR
1203	1992	Marine Resource Evaluation and Planning Project	Partly successful	PCR
1449	1996	BAPEDAL Regional Network Project	Partly successful	PCR
1613	1998	Coral Reef Rehabilitation and Management Project	Successful	PCR
Subtotal = 25%				
B. Completed without PCR Ratings				
Agriculture				
Loan 1339-INO: Capacity Building Project in the Water Resources Sector Project (6 December 1994)				
Loan 1339 was not well-designed due to inconsistencies, duplication of some activities, and the lack of clarity regarding the depth and details of project activities. The project's logical framework had to be revised after the midterm review to reflect more sharply the regulatory and institutional settings, use common terminology, clarify targets, simplify the scope of work to match institutional resources, and take into account delays in project implementation. The prospect of decentralization (in 1999) also cast doubts about the future organizational structure of the water resources sector institutions, prompting the project to redirect its institutional activities into those that would maintain their relevance and impact after decentralization. The Government eventually folded the project into the wider policy reform initiatives of the World Bank's WATSAL in 1998, assigning it as the main vehicle for implementing legislation, management information systems, and expansion of the hydrologic network.				
Loan 1339 was closed in November 2002 and its PCR is expected in 2005.				
PPR Ratings (31 December 2002): IP = S DO = S (PPR ratings diverge from the BTORs collected so far)				
Loan 1425/26(SF): North Java Flood Control Sector Project (18 January 1996)				
Loan 1425/26 is relevant to Government's and ADB's development objectives. The Government reconfirmed the high priority placed on the project even after the onset of the financial crisis. Project scope was changed to reallocate loan savings to flood damage rehabilitation within the project area. Before this, \$32 million had been canceled from OCR and ADF loans. Initial assessments indicate a positive impact on the poor, with flood damage within the project area significantly lower than other areas in the island, thus benefiting the vulnerable poor. Unfortunately, severe floods damaged some of the flood control facilities completed under the project. Contractors also recruited unskilled laborers locally, which contributed to poverty reduction in the project area. Responsibility and mechanisms for the operation and management of the completed facilities was clarified for only one subproject. The project had not been very efficient due to grossly inadequate counterpart funds, as well as difficulties encountered in land acquisition and resettlement. Loan 1425/26 was closed in June 2004. Many of the people to be affected by resettlement have incomes below the poverty line, so income restoration is an important component of such resettlement plans. However, staff skills to implement the plans are very weak. Consultants were unable to guide and				

monitor NGO work involving land acquisition and resettlement. The cost-sharing formula between central and local governments for such acquisition and resettlement was decided more than 5 years after loan effectiveness. PPR Ratings (31 December 2004): IP = S DO = S
Natural Resources
Loan 1251-INO(SF): Mangrove Rehabilitation and Management in Sulawesi Project (9 September 1993)
TA Loan 1251 conforms to the Government and ADB forestry plans, and specifically addresses the loss of mangroves. The demonstration plots of mangrove rehabilitation were pronounced as successful and were replicated. Government feedback regarding the policy documents drafted under the project (National Strategy and Action Plan for Mangroves, Mangrove Rehabilitation and Development Plans) was not reported. Hence, the efficacy of the policy and technical components could not be established. However, the BTORs did raise concerns about the poor quality of earlier versions of the reports, so these activities run the risk of having less successful outcomes. The envisioned investment project for the rehabilitation and conservation of mangroves, which would be based on this development plan, was not processed due to technical reasons. As a result, 43% of the loan was canceled. In addition, the reorganization within the EA and resulting delays in field staff assignments weakened the monitoring of mangrove conversions, although data on actual conversions were not presented. Delays in loan signing and effectiveness, late release of loan funds, and problems in consultant mobilization delayed the project by at least 6 months, undermining efficiency. The EA reorganization led to a transfer of project staff and consultants to district offices, which ADB considered to be more effective for sustainability. Project activities and facilities were transferred formally to the district units 1 year before loan closing. Budget limitations for social preparation and awareness delayed NGO mobilization by more than a year. Nevertheless, the demonstration efforts were efficient, with operation continuing beyond project life. Loan 1251 was closed in June 1998, but a PCR was not prepared. PPR Ratings (31 December 1998): IP = S DO = S
Loan 1475-INO: Segara Anakan Conservation and Development Project (17 October 1996)
Loan 1475 is consistent with ADB and Government policies and strategies, though local buy-in was missing during project design. Outcomes will likely be subdued: higher sedimentation in the lagoon is expected due to the cancellation of the Citanduy diversion (as a result of local opposition); incomplete greening in the upper watersheds; continued encroachment by migrants; uncontrolled fishing and illegal cutting of mangroves; and uncertainty about the O&M. In terms of efficiency, project management was weak within the PMO and the envisioned SAPMA, especially with respect to environmental management and monitoring. Extensive delays due to land acquisition problems also were noted. Loan 1475 was closed in March 2005. PPR Ratings (30 June 2005): IP = S DO = S (the PPR ratings diverge from BTORs)
C. Ongoing
Agriculture
Loan 1479-INO: South Java Flood Control Project (7 November 1996)
Loan 1479 responded to national and local needs, and used a participatory approach in design. However, the project was biased toward engineering solutions, rather than integrated ones and underestimated the weakness of the bureaucracy. The project has been effective in reducing flood impact with the completion of most flood control and protection subprojects, the installation of the flood warning system, and the monitoring of river characteristics. The success of the upper catchment land rehabilitation was more subdued, with only 74% of the target area being greened, while costs overshot the budget by 41%. The trees are too young and small to evaluate the efficacy of this component. Loan 1479's efficiency was hampered by limited counterpart financing, which delayed land acquisition and resettlement. The time pressure prompted the Government to minimize land compensation (below standards) to stretch its budget, and to award civil works without securing the land first. An ADB audit revealed overpricing, payment ineligibilities, and overpayment to several contractors. Sustainability is at risk given the annual cost of Rp100 billion for river O&M, which is far above the Government budget allocation. PPR Ratings (30 June 2005): IP = S DO = S
Loan 1526-INO: Participatory Development of Agricultural Technology Project (1 July 1997)
Loan 1526 conformed to Indonesia's and ADB's sector and research policies at approval. The project is also relevant to the subsequent decentralization reform, because of the design's focus on reorienting research infrastructure and staffing away from Java and into the provinces. The project's effects on the AIAT capacity to manage and implement R&D programs were not adequately documented, although the BTORs reported that project-trained AARD staff had taken up positions in the local AIATs. While the project also sponsored many studies, its objective was to improve government's capacity to generate such studies in the future. This had not been assessed. A project survey showed the project's effectiveness in involving farmers in research activities, providing for greater feedback on farmers' needs and priorities. It was successful in enhancing the transfer and adoption of agriculture technologies, resulting in significant improvements in farmers' incomes. In terms of efficiency, project implementation was delayed by 15 months, owing mainly to the lack of counterpart funds since 1997. Two portfolio reviews led to the cancellation of \$7.6 million, or 12% of the \$63.8 million approved loan amount. Consultant inputs had not been used effectively, because their roles might not have been made clear to the users, and possibly as an offshoot of the tight counterpart financing. PPR Ratings (30 June 2005): IP = S DO = S
Loan 1579-INO: Northern Sumatra Irrigated Agriculture Sector Project (13 November 1997)
Loan 1579 was consistent with Indonesia and ADB strategies at approval. However, two of its subcomponents had to be removed due to the subsequent adoption of water sector and decentralization reforms, which affected irrigation management as well as the delivery of data management output under Loan 1339 (Capacity Building Project in the Water Resources Sector). The new water resources law, approved in March 2004, threatened the project's participatory approach through the WUAs by mandating that the O&M of primary and secondary irrigation networks should remain with Government. The PPR

<p>reported positive outcomes, particularly the increase in cropping intensity, improved capability of local water resources and agricultural services staff to function autonomously, and the increase in the number and participation of WUAs. A BTOR noted that the implementation of the Irrigation Management Reform Program (particularly WUA empowerment) was under way, even when project activities had not started yet, raising doubts about the link between project inputs and outcomes. Severe delays in project implementation impeded efficiency, requiring a reduction in project scope to allow completion by the original loan closing date (although other reasons provided were to comply with the portfolio management and to adjust to uncertainties in decentralization). The resulting cancellation of \$45 million was accompanied by a 56% reduction in the target area, proportionate adjustments in agricultural and WUA support, and a 40% cutback in consulting services. Investigations into the fraudulent practices adopted by the consultant firms on the short list caused delays, since the consultants' inputs were required in almost all the other activities. To compensate for the delays, procedures were relaxed, e.g., allowing "embryo WUAs" without definite O&M commitments after project turnover, as well as "very small irrigation schemes" that forego significant engineering studies.</p> <p>PPR Ratings (30 June 2005): IP = S DO = S</p>
<p>Loan 1909-INO(SF): Poor Farmers' Income Improvement Through Innovation Project (15 August 2002)</p> <p>While Loan 1909 is relevant to ADB's operational strategy, the project supports a more efficient alternative to present Government-centric planning and contractor-delivered works by empowering farmers in planning and undertaking simple village investments. It also offsets the low priority the Government places on marginal, rain-fed areas by focusing research and information dissemination on the poor farmers in these areas. Since the envisioned assistance is fairly general, proponents took extra care in coordinating with other EDPs (especially with the World Bank) to avoid overlaps. An assessment of project efficacy might be too early, given the delays in loan effectiveness. In terms of efficiency, the slow start was due to procedural difficulties encountered by Government in complying with effectiveness conditions, and in recruiting consultants and NGOs. To compensate for delays in the recruitment of NGOs to undertake farmer mobilization and village planning, ADB approved an interim arrangement allowing the implementation of village investments without the assistance of such NGOs. While the Mission reported satisfactory achievements in terms of farmers' awareness and mobilization primarily by project offices, the question remains whether this interim arrangement maximized beneficiary participation and social preparation as intended in the project design with the involvement of NGOs.</p> <p>PPR Ratings (31 July 2005): IP = S DO = S</p>
<p>Loan 2064-INO(SF): Participatory Irrigation Sector Project (19 December 2003)</p> <p>Loan 2064 was designed to be consistent with the Government's water sector and decentralization policies. Loan effectiveness was delayed for 18 months due to the late signing of the loan and reorganization within the three executing agencies. This postponed compliance with certain conditionalities. Subsequent delays in project organization and consultant recruitment, as well as a 15% shortfall in counterpart funds, predisposed the project to a risk from a slow start. However, neither outputs nor outcomes can be reported at this time.</p> <p>PPR Ratings (30 June 2005): IP = S DO = S</p>
<p>Natural Resources</p>
<p>Loan 1469-INO: Integrated Pest Management for Smallholder Estate Crops Project (26 September 1996)</p> <p>While mostly consistent with Government and ADB strategies, Loan 1469 was weighed down by design problems. The subcomponents promoting farming system diversification, and special studies on cotton and sugar, were canceled for lack of relevance. Project activities had numerous overlaps with other ADB assistance, such as the farmer training under Loan 3384 (Sustainable Management Systems for Smallholder Treecrops Development Project), research under Loan 1526 (Participatory Development of Agricultural Technology), and procurement of vehicles for other projects supporting the same institutions. Because of the decentralization, the envisioned strengthening of agencies at the central level under the IPM support services subcomponent also lost importance. Despite these setbacks, the benefits monitoring and evaluation survey reported that project efficacy was positive, given the high adoption rate for IPM activities among the project-trained farmers, as well as major spillover effects among neighboring farmers. Consequently, the quality of their produce and their farmgate prices reportedly improved, leading to higher net margins. Effects on the environment were not documented, though, and project interventions regarding plant quarantine did little to resolve the cacao pod borer infestation that affected one of the five covered estate crops. Efficiency was dogged by the shortage of counterpart funds, lack of full-time staff, disagreements with various agencies on appropriate IPM methodology for estate crops, and nonfunctioning coordination teams at all levels. The project also was perceived to be consultant-driven, possibly because decentralization upset institutional arrangements that determine which government counterparts should be responsible for project activities. Local governments showed strong interest in funding future IPM training and production of biological control agents, while active alumni groups of the Farmer Field Schools provide potential for sustaining IPM at the village level.</p> <p>PPR Ratings (30 June 2005): IP = S DO = S (The PPR ratings diverge from BTORs)</p>
<p>Loan 1570/71(SF)-INO: Coastal Community Development and Fisheries Resource Management Project (4 November 1997)</p> <p>Loan 1570 is deemed to be relevant to Government's and ADB's focus on poverty reduction in coastal communities, as well as its sector priority for resource protection and sustainable management. Project achievements exceeded all targets, especially those on biomass regeneration and fish catch improvement, development of microenterprises, and improvement of fish landing centers. Two loan extensions had to be approved to compensate for a 9-month delay and early problems (insufficient and delayed releases of counterpart funds, government reorganization, and decentralization of fisheries functions to local governments). Much of the project's success could be attributed to effective consultant support and procurement facilitation, which offset problems related to PIU manning and counterpart funding. Many nonproject local governments had expressed interest in replicating the CFRM and poverty reduction approaches of the project. Sustainability of the microenterprise subcomponent was enhanced by the drafting of guidelines and operations manual involving the most</p>

successful project case. PPR Ratings (30 June 2005): IP = S DO = S
Loan 1605-INO: Central Sulawesi Integrated Areas Development and Conservation Project (27 January 1998)
Loan 1605 was driven mainly by the international and national agenda, and had minimal local consultation. The community lacked awareness and ownership of the project. The project had been effective in enabling a 25-year Park Management Plan and a 5-year Park Management Work Plan for Lore Lindu National Park. However, their implementation remains weak, because of low awareness among key stakeholders. Rural infrastructure development and rehabilitation (roads, bridges, irrigation and water supply systems, and health clinics) had been successful, though. More than 50% of households have access to clean water and toilets, and schistosomiasis has been contained in the project area. The exception was the micro-hydropower stations—only two of the six constructed stations are being operated satisfactorily. In terms of efficiency, the project is at risk, because of implementation delays and insufficient counterpart funds. Project implementation did not follow the approved timetable, requiring implementation of civil works outside the dry seasons. The pressure to catch up led to shortcuts in the technical surveys, construction supervision, and the participatory process. Project management initially did not spend enough time in the field and neglected financial management. Some misappropriation of project funds was discovered. Inadequate attention had been paid to the environmental aspects of the project. Project managers could not prevent major encroachments into the park. Thus, the challenge remains to find socioeconomic solutions to encroachment, illegal logging, and other illegal activities. PPR Ratings (30 June 2005): IP = S DO = S (The PPR ratings diverge from BTORs)
Loan 1770-INO(SF): Marine and Coastal Resources Management Project (26 October 2000)
While Loan 1770 is consistent with Government and ADB objectives on marine resource management and poverty reduction, the Loan Agreement failed to anticipate the implementation of the Government's decentralization policy in 2001, especially in relation to counterpart funds from local governments. As of July 2004, project implementation showed limited progress, ^a given the delay in securing loan effectiveness and inadequate institutional capacity. The late recruitment of consultants also forced PMO to deliver the technical work at the expense of effective project management, and prompted the initiation of project activities without the benefit of judicious preparation. PPR Ratings (30 June 2005): IP = S DO = S
Loan 1962-INO(SF): Coral Reef Rehabilitation and Management Project Phase II (6 December 2002)
Loan 1962 is relevant to the country's and ADB's environmental and poverty reduction priorities, as well as those of the World Bank and the Global Environment Facility. As the successor to COREMAP I, the project built on the gains achieved (i.e., greater awareness of the project objectives, importance of setting up project offices, and making available counterpart funds early on) and lessons learned (i.e., dealing with government counterparts) from phase 1. However, the project could have maximized resource use with more timely submission of withdrawal applications to ADB. Neither outputs nor outcomes could be reported at this time. PPR Ratings (30 June 2005): IP = S DO = S

AARD = Agency for Agricultural Research and Development, ADB = Asian Development Bank, ADF = Asian Development Fund, AIAT = Agency of Agricultural Research and Development, BTOR = back-to-office report, CFRM = coastal fisheries resource management, COREMAP = Coral Reef Rehabilitation and Management Project, DO = development objective, EA = executing agency, EDP = external development partner, IP = implementation progress, IPM = integrated pest management, NGO = nongovernment organization, O&M = operation and maintenance, OCR = ordinary capital resources, PCR = program and/or project completion report, PMO = project management office, PPAR = program and/or project performance audit report, PS = partly satisfactory, R&D = research and development, S = satisfactory, SAPMA = Segara Anakan Planning and Management Agency, TA = technical assistance, WATSAL = Water Sector Adjustment Loan, WUA = water user association.

Note: Successful stands for generally successful as per the old 3-category rating system, and the highly successful categories under the new 4-category rating system.

^a For example, some training in legislation and enforcement, a few small-scale resource management activities, etc. that did not have quantifiable targets

Sources: Asian Development Bank project design and implementation documents.

H. Water Supply, Sanitation, and Waste Management

A. Completed with PCR Ratings = 33.3% (Successful)				
Loan No.	Approval Year	Title	Rating	Source
1069	1990	Second IKK Water Supply Sector Project	Successful	PPAR
1158	1992	Water Pollution Control Project	Partly successful	PCR
1352	1995	Rural Water Supply and Sanitation Sector Project	Partly successful	PPAR
B. Completed without PCR Ratings				
Loan 1527-INO: Capacity Building of Water Supply Enterprises for Water Loss Reduction Sector Project^a (17 July 1997)				
Loan 1527 conforms to the Government's and ADB's sector objectives, though it gave less priority to the latter's support for public-private partnerships and sector financing mechanisms. The project was also relevant to the Government's key priorities during the crisis. However, the EA, the Directorate General of Public Administration and Regional Autonomy, lacked the capability to implement the project. The EA failed to formulate concrete action plans to make up for considerable delays. The reorganization within the agency and the onset of the financial crisis aggravated the situation. The Mission initially				

proposed that the project be rescaled to suit the EA's capacity and be provided intensified support. However, the Mission later agreed to project termination during the 1998 Comprehensive Portfolio Review. The loan was canceled on July 1998, 9.5 months from loan effectiveness.

PPR Ratings (31 December 1998): IP=S DO= S (PPR ratings diverge from the BTORs)

ADB = Asian Development Bank, BTOR = back-to-office report, DO = development objective, EA = executing agency, IP = implementation progress, PCR = project completion report, PPAR = project performance audit report, PPR = project performance report, S = satisfactory, U = unsatisfactory.

Note: Successful stands for generally successful as per the old 3-category rating system, and the highly successful categories under the new 4-category rating system.

^a Canceled.

Sources: Asian Development Bank project design and implementation documents.

I. Law, Economic Management, and Public Policy

A. Completed without PCR Ratings
<p>Loan 1572-INO: Capacity Building in Urban Infrastructure Management Project (25 March 1993)</p> <p>Loan 1572 is highly relevant to the Government's Urban Policy Action Plan and ADB's sector strategy. Project efficacy seemed positive, with training and education achievements mostly exceeding appraisal targets. However, this might be due in part to catching-up efforts undertaken in 2002 and 2003. More project activities were carried out using local government budgets. The project helped deliver more responsive training programs through the establishment of nine self-financing regional training centers. The project also assisted the city in increasing its local revenues through a better monitoring tool, the urban development MIS. The training activities involved all levels of management of government employees, while education achievements showed a high proportion of provincial and local government participants (averaging 88%). In terms of efficiency, multiple IA and the lack of clear operating procedures fostered poor coordination among government agencies. The project relied too heavily on consultants, who did not perform well in some cases. Delays in budget approval resulted in the late mobilization of consultants. The loan was closed in November 2004, and its PCR is expected in 2005.</p> <p>PPR Ratings (31 July 2005): IP = S DO = S</p>
<p>Loans 1677/78-INO: Community and Local Government Support Sector Development Program (30 September 1997)</p> <p>Loans 1677/78 are consistent with the Government's decentralization strategy. However, the program loan had less relevance as a crisis support loan, because it did not directly address the financial crisis or poverty reduction. Its design was based on an ambitiously short compliance period for the contentious conditionalities. Similarly, the investment loan's employment creation objective likely would be realized mostly in the medium to long term. Among the five crisis support assistance provided by ADB to Indonesia, this received the lowest rating for interim efficacy. The release of the second and third tranches was delayed by 14 and 17 months, respectively. However, although this was attributed more to the unrealistic timetable than a lack of Government commitment and efficiency. Tranche conditions that remain to be satisfied are contentious and complex issues, which are complicated further by the political instability. The employment creation of the investment component was slow, as only about 2% of ADB assistance had been committed after a 50% lapse of implementation period. Delays were due to the time-consuming selection and mobilization of communities, the need to minimize overlap with similar activities of other funding agencies, the lack of familiarity with the project of field-level implementers, and capacity limitations at district and village levels. The loans were closed in December 2001.</p> <p>PPR Ratings (31 July 2005): IP = S DO = S</p>
<p>C. Ongoing</p>
<p>Loan 1866-INO: State-Owned Enterprise Governance and Privatization Program (4 December 2001)</p> <p>While Loan 1866 is relevant to Indonesia's governance strategy, the deciding institutions and their corresponding commitments to privatization had undergone many changes over time. The program also conforms to ADB's operational strategy for SOE to foster competition and establish a transparent and predictable policy regime across the different sectors. The programs, particularly the corporate governance component, were reported to have improved profitability and doubled dividends paid to the Government. The Government divested all its shareholdings in PT Wisma Nusantara (42%) and PT Indocement (17%). The President had signed a regulation authorizing the Government to divest its minority shareholdings (a tranche conditionality) in 12 enterprises, upon approval by parliament of the list and requisite budget. However, such approval had been pending. In terms of efficiency, the release of the second tranche was delayed substantially (24 months), as were the final tranches (12 months). Six of the seven release conditions for the \$150 million second tranche had been complied with, except for the limited progress in actual privatizations owing to poor market conditions and continued ambiguity in the parliamentary process.</p>
<p>Loan 1964-INO(SF): Sustainable Capacity Building for Decentralization Project (10 December 2002)</p> <p>Loan 1964 is highly relevant to the Government's national capacity-building framework, which provided needs assessment in preparation for the 2001 decentralization. The project supplements previous sector-focused ADB interventions with assistance relating to core or crosscutting Government functions. The revolving fund intended for capacity building drew little interest from service providers, implying reduced relevance. However, requests were made to expand the project by including the 10 provincial governments of the participating districts, pursuant to the Laws 32 and 33/2004 mandating that provinces coordinate and supervise capacity building. Even though loan effectiveness was delayed for 3 months, the project immediately mobilized consultants and undertook preparatory work for the batch I and II districts, indicating efficiency. Some district governments, though, were not as committed in providing staff time and facilities for the project, leading to delays in finalization of capacity building action plans. Some of the gender action plans were found to be weak and, in some cases, nonexistent. Neither outputs nor outcomes could be reported at this time.</p>

PPR Ratings (31 July 2005):	IP = S DO = S
Loans 2126/27(SF)-INO: State Audit Reform Sector Program (13 December 2004)	
Loans 2126/27 seek to address Government concerns about poor governance and weak fiduciary controls by developing a comprehensive framework for public sector audit within a decentralized regime. Thus, it is relevant to the Government's and ADB's objectives. Since the sector development program was approved and became effective in December 2004, little progress had been made in implementation. The Program Loan Management Unit had been established with staff working full time, and with sufficient counterpart funds.	
PPR Ratings (31 July 2005):	IP = S DO = S

ADB = Asian Development Bank, DO = development objective, IA = implementing agency, IP = implementation progress, MIS = management information system, PCR = project completion report, PPR = project performance report, S = satisfactory, SOE = state-owned enterprise, U = unsatisfactory.

Note: Successful stands for generally successful as per the old 3-category rating system, and the highly successful categories under the new 4-category rating system.

^a Canceled.

Sources: Asian Development Bank project design and implementation documents.

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