



1. Project Data:		Date Posted : 06/26/2001	
PROJ ID: P003979		Appraisal	Actual
Project Name: Second Rural Electrification	Project Costs (US\$M)	841.3	656.0
Country: Indonesia	Loan/Credit (US\$M)	398	244.7
Sector(s): Board: EMT - Power (100%)	Cofinancing (US\$M)	443.3	411.3
L/C Number: L3845			
	Board Approval (FY)		95
Partners involved :	Closing Date	12/31/1998	03/31/2000

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2. Project Objectives and Components

a. Objectives

- The main objective of the project was to place the rural electrification (RE) program on an efficient and sustainable footing, and expand its coverage through :-
 - Promoting rural productive uses of electricity;
 - Financing 2 years of a 5-year time slice investment programme;
 - Establishing incentives to increase private participation (through purchases from small producers) and encourage increased cooperative participation in distribution;
 - Continuing support for PLN institutional development to undertake RE planning and implementation at the regional level;
 - Undertake pilot cost-reducing distribution programs with a view to introducing them as regular PLN program components.
- A second objective of this project (along with the Sumatra and Kalimantan Power Project) was to facilitate implementation of the first stage of the power sector reform agenda .

b. Components

The major components (US\$ million at appraisal / latest estimate) were:- i) Distribution Schemes (601.7 / 537.2) ; (ii) Pilot Cost-Reducing Projects including TA (11.0 / 6.4) ; (iii) Other TA (9.5 / 6.9) ; Mini-Hydro/Geothermal pilots (28.7 / 18.6); (iv) POLA - participation by cooperatives in construction /distribution (6.2 / 1.6); (v) RBS Program of Promotion of Rural Productive Use (6.5 / 6.8) ; Ministry of Cooperatives Component (2.7 / 2.2) ; (vi) Interest during construction (98.3 / 76.4) and (vii) Contingencies (77.4 / 0)

c. Comments on Project Cost, Financing and Dates

The total cost of the project in \$US was only 78% of the estimate of \$841.3 million at appraisal. The adjustment of prices levels is not yet complete. There are problems interpreting cost data due to commingling of stocks of materials financed from differet sources and at different times ("the current accounting practices made it near impossible to determine the sources and uses of financing for a particular RE scheme .")

3. Achievement of Relevant Objectives:

- The project partially achieved its main objective - coverage and efficiency. The EIRR computed using 1995 constant Rp prices was 26% compared to 21% at appraisal. More specifically successful outputs of the project were:
 - Between 1995 and 1990 the RE Program exceeded its physical targets for consumer connections and village electrification by a substantial margin . Rupiah costs per connection were 33% less than estimated while the number of connections was raised from 2.1 million (SAR Target) to 7.7 million (ICR Actual) and the number of villages connected was increased from 7000 (Target) to 12,300 (Actual.)
 - Small power purchase regulations were enacted and by March 1997 PLN had issued letters of award for power purchases of 220 MW from renewable energy sources .
 - Mini hydro projects were completed at 14% below estimated \$ cost at appraisal .
 - By engaging rural NGOs, PLN succeeded in promoting rural electrical use for 66,000 productive

enterprises which invested Rp.148 billion in electric equipment and created 22,000 jobs.

- Targets for participation by rural cooperatives in RE service delivery were achieved and cover 20 million customers.

On the other hand:

- Sustainability of project benefits appears unlikely at the moment - the PLN is insolvent and Off Java RE operations are running at a loss.

2. The second objective of facilitating the sector reform agenda was not achieved early in the project (pre-1998 crisis) and has been slowed further by chronic political uncertainties.

4. Significant Outcomes/Impacts:

1. The PLN demonstrated an ability to meet and exceed physical targets, at reduced costs, despite considerable dislocation arising from the political and economic crisis;
2. Progress was made in privatizing generation although achievements have been overshadowed by the subsequent drop in demand and PLN default on purchases from private suppliers;
3. Pilot projects using cheaper technological and contracting innovations were successful although implementation has been prevented by the crisis.
4. GOI and PLN, with Bank and ADB support, have begun to take necessary steps to restructure PLN, increase tariffs and establish a transparent scheme for financing rural electricity.

5. Significant Shortcomings (including non-compliance with safeguard policies):

1. GOI/MOF overestimated PLN risk management capacity; like most of the corporate sector PLN failed to hedge their FOREX risks;
2. Sector reform proceeded much more slowly than predicted, even before the crisis of 1997/98;
3. Financial sustainability was not improved, not only because of the crisis but also GOI's weak commitment to policies to unpackage all PLN functions (generation, transmission and distribution) and change management processes/ organizational structure / regional accountability. PLN continues to subsidize rural and Off Java operations by charging uniform prices, despite widely differing costs of supply. Transparent targeted subsidies have not yet been implemented.
4. A lack of clear authority and accountability at regional and branch offices is still a major problem. Although the PMU was successful in overcoming many of the management difficulties caused by the centralized and hierarchical management structure, problems remain which can only be addressed by stronger decentralization and ununpacking of PLN functions. It is worth noting that no funds were allocated in this project for the restructuring of PLN - a complex operation which requires time to complete.
5. Inventory control, the use of independent audits and dissemination of best practices still fall far short of optimal.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev.:	Substantial	Modest	Decentralization and restructuring have not been achieved.
Sustainability:	Likely	Unlikely	Financial viability remains weak and the political climate seems unfavorable for the needed tariff increases and a more aggressive privatization. Sustainability would have been rated "Uncertain" if this rating were available.
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf.:	Satisfactory	Satisfactory	
Quality of ICR:		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

1. More checks are needed on continuing WB support for rolling investment programs which consistently fail to fulfill policy commitments to decentralization and restructuring. While decentralization and restructuring were not explicit objectives of the project, they were implicit; the project was to facilitate implementation of the first stage of the power sector reform agenda. In the SAR section on "*Strategic Sector-wide Issues and Priorities for Reform*" it is acknowledged that "Piecemeal, incremental changes resulting in marginal improvements are no longer adequate for meeting the challenge ahead. Instead, fundamental structural changes are needed to PLN's organization structure and management process in order to further improve PLN's performanceGovernment's policy implementation plan calls for decentralization of PLN organization and management processes along functional lines in Java (generation transmission and distribution), and along geographical lines for Outside Java operations. This would entail creation of corresponding profit centers and management units, with a separation between RE and non -RE management, finances and operations."

2. Holding management accountable for financial performance down to region and branch level is required to increase the cost efficiency of RE services .
3. The Rural Business service, a marketing approach to increase energy sales, investment and rural employment, should be included in future rural electrification projects .
4. Electricity consumption by key consuming categories must be included as Key Performance Indicators as this is a better indicator of benefits from a project, rather than just the number of connections made .

8. Assessment Recommended? Yes No

Why? While a new policy has been issued (Power Sector Restructuring Policy of August 1998) it has not yet been implemented. Proponents of centralized operations can point to the achievements of this WB -supported program as an argument for continued centralization of PLN operations . A PAR at this stage can only throw more objective light on the issues still at dispute, and the lack of past buy -in by the GOI bureaucracy, which has often had a limited viewpoint that achievement of input targets and coverage is sufficient evidence of effectiveness and efficiency.

9. Comments on Quality of ICR:

The ICR is well written and presented, admirably brief and to the point . The ICR does not, however, provide sufficient evidence to satisfactorily evaluate outcome, institutional development impact and sustainability .