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**Report No. 19800**

**IMPLEMENTATION COMPLETION REPORT**

**REPUBLIC OF INDONESIA**

**POLICY REFORM SUPPORT LOAN  
(Loan No. 4368-IND)**

March 1, 2000

Poverty Reduction and Economic Management Unit  
East Asia and Pacific Region

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## **CURRENCY EQUIVALENTS**

(as of March 2000)

Currency Unit	=	Rupiah
1 Rupiah	=	US\$ 0.0001345
US\$1.00	=	7435 Rupiahs

## **WEIGHTS AND MEASURES**

Metric System

## **ABBREVIATIONS AND ACRONYMS**

ADB	-	Asian Development Bank
BI	-	Bank Indonesia
BKPM	-	Capital Investment Coordinating Board
BULOG	-	National Logistic Affairs Agency
DFI	-	Direct Foreign Investment
GOI	-	Government of Indonesia
IBRD	-	International Bank for Reconstruction and Development
IBRA	-	Indonesian Bank Restructuring Agency
IMF	-	International Monetary Fund
INDRA	-	Indonesian Debt Restructuring Agency
MOF	-	Ministry of Finance
PRSL	-	Policy Reform Support Loan
SCL	-	Single Currency Loan
TOR	-	Terms of Reference
WB	-	World Bank

## **FISCAL YEAR**

April 1 - March 31

Vice President	:	Jemal-ud-din Kassum
Country Director	:	Mark Baird
Sector Director	:	Homi Kharas
Staff Member	:	Thang-Long Ton

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**REPUBLIC OF INDONESIA**

**POLICY REFORM SUPPORT LOAN**  
**(Loan No. 4368-IND)**

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# **IMPLEMENTATION COMPLETION REPORT**

## **REPUBLIC OF INDONESIA**

### **POLICY REFORM SUPPORT LOAN (Loan No. 4368-IND)**

#### **Preface**

This is the Implementation Completion Report (ICR) for the Policy Reform Support Loan (PSRL) to the Republic of Indonesia. This Loan (No. 4368-IND), in the amount of US\$1 billion equivalent, was approved and signed on July 2, 1998 and made effective on the same day.

The loan was closed on June 1, 1999, the original closing date. The first tranche, released upon effectiveness, was fully disbursed by July 2, 1998. The second tranche was fully disbursed on February 8, 1999.

The ICR was prepared by Thang-Long Ton (Economist, EASPR) and reviewed by Mr. Sudarshan Gooptu (Senior Country Economist, EASPR), Mr. Lloyd McKay (Principal Economist, EACIF), Mr. Vikram Nehru (Lead Economist, EACIF), and Mr. Homi Kharas (Sector Director, EASPR).

Preparation of this ICR was started in August 1999. It is based on material in the project files in Washington and in the Country Office. The ICR also incorporated comments from the Borrower. There was no separate mission for the ICR, but field-based staff provided extensive comments and inputs. The Borrower provided comments on the ICR but did not prepare a separate evaluation. These comments are included as Appendix A to the ICR.



# **IMPLEMENTATION COMPLETION REPORT**

## **REPUBLIC OF INDONESIA**

### **POLICY REFORM SUPPORT LOAN** **(LOAN NO. 4368-IND)**

#### **EVALUATION SUMMARY**

##### **Introduction.**

1. In a concerted and continuing effort to assist the Government of Indonesia to address the economic crisis that began in 1997, the World Bank approved the Policy Reform Support Loan (PRSL) in July 1998, following the Banking Reform Assistance Loan approved in December 4, 1997. The PRSL was one of the important bricks designed within the Bank's Country Assistance Strategy (CAS) to respond to the rapidly changing economic and social situation in Indonesia. It was a critical component of an overall package of external assistance provided by the IMF, the World Bank, the ADB, and bilateral donors, aiming first to meet critical and immediate needs of the country, to restore confidence in the economy, and then to build a sound platform for a return to sustainable and equitable growth.

2. The PRSL was signed and made effective on July 2, 1998. The disbursement of the first tranche (\$600 million) was made the same day. The second tranche was released on February 8, 1999 when the actions specified in Schedule 3 to the Loan Agreement were completed.

##### **The Policy Reform Support Loan**

3. The Loan, as part of an integrated package of external assistance coordinated with other international financial institutions and bilateral donors, was designed to:

- Increase the efficiency and transparency of public sector operations;
- Rebuild an efficient, competitive, and properly supervised banking sector;
- Improve governance, increase private sector productivity, and ensure environment sustainability;
- Shield the poor and vulnerable groups and continue priority investments in basic education and health.

4. The operation was to assist the Government of Indonesia during the first stage of implementing policy reforms to address the economy's free fall, to mitigate the effects of the economic crisis and drought on the poor, and to set a sound foundation for medium-term reform policies. The PRSL specifically supported increased transparency and improved governance in the public sector and a series of structural reforms to rebuild confidence and restore growth in the financial sector, including financial and corporate debt restructuring and reducing the risks arising from the build up of private debt. Funding from the PRSL was to support the budget during a period of sharp revenue decline, large budget deficit and lack of domestic financing sources. The PRSL also helped with the transitional needs for public expenditures on social safety net programs. During the PRSL preparation, organizations representing the private sector (e.g., the Chamber of Commerce) were also consulted within the context of the loan and the overall reform program.

## **Achievement of Objectives and Implementation Experience**

5. The loan was prepared during a period of continued political uncertainty following the outbreak of the economic crisis in 1997. Thus, the worsening social and political situation presented some substantial risks for the operation, both during its appraisal and implementation. However, the overall performance of the PRSL was satisfactory and the major objectives of the loan were achieved. Further, close coordination between the Bank and other donors and an integrated financial assistance package built a firm foundation for the support of the Government in implementing the reform program.

6. There were two sets of actions for the PRSL. Prior to the effectiveness of the loan, the Government undertook a series of activities that provided a positive environment for further implementation of the reform program supported by the operation. These aimed to increase the efficiency of public sector activities and confronted pressures for an unsustainable large fiscal deficit. In the financial sector, the Government implemented a series of measures to restore the confidence and trust in the banking sector. Several steps were also undertaken to increase private sector efficiency and to improve governance. Lastly, several programs were implemented to shield the poor from the adverse effects of the crisis.

7. The PRSL's second tranche included a set of conditions on sustaining and deepening implementation of the reform program in four areas: (i) maintenance of a sound macroeconomic policy framework; (ii) discipline in public expenditure management with increased transparency and efficiency of public sector activities; (iii) rebuilding of an efficient financial sector, containing bank losses and protecting corporate productive assets; and (iv) improvement in governance and transparency, provision for increased competition, and more market-friendly policy environment.

8. The condition for maintaining a sound macro-economic framework was fulfilled satisfactorily in consultation with the Bank, IMF and ADB. Bank staff intensified the monitoring of economic development and policy reforms since the crisis and during the supervision of the loan. The Government also established the official monitoring mechanism which contributed positively to the maintenance of official focus on the program implementation. Since the third quarter of 1998, key economic indicators have responded well to the government's cautious monetary policies amidst an improving international economic environment. Modest GDP growth was recorded in 1999. However, economic recovery has remained fragile throughout the project and required close monitoring. The Government made considerable efforts to protect the poor through expansion of public expenditures toward priority social safety net programs, including subsidies, grants, and public works.

9. The Government strengthened the transparency and effectiveness of the framework for private participation in the provision of infrastructure. Privatization proceeded, albeit slowly, due to depressed market conditions and privatization opponents. With Bank and ADB technical assistance, several steps were undertaken to stabilize the banking sector, including bank reorganization, recapitalization, and new prudential regulations. The Government assembled a number of complementary initiatives to achieve corporate and debt restructuring and return productive assets back to work. Measures were undertaken to make the policy environment more market-friendly by enhancing the competitiveness of the economy, including abolishment of monopolies in production and trade.

10. Despite political difficulties and the high-risk environment, the program was implemented with reasonable progress. It highlighted and supported many issues across the board, including policy on forestry and agriculture, in addition to the normal activities covered by an operation of this kind. At the same time, the operation dealt with some institutional changes, such as the removal of some monopolies in the hand of the Government, while establishing new appropriate ones to carry the reform program forward. The PRSL also helped mitigate the effects on budgetary resources allocated to the social sector which would have been cut more deeply due to sharp decline in revenues, and thus helped protect the poor.

11. Over the past months, broad macro-economic indicators have shown encouraging improvements, accompanied by indications of some return in investor confidence. However, the pace of recovery is still uncertain. The sustainability of the overall reform program remains fragile due to still significant existing risks. The banking and corporate restructuring and governance remain a risk and could undermine the sustainability of the program. On the one hand, the fulfillment of all the conditions in the PRSL demonstrated official commitment to reforms, despite the uncertainty in the political environment and the change in government. The project sustainability depends very much on the continuing reforms to be undertaken and additional measures still being specified as part of an ongoing reform program. Thus, though the reforms supported by this operation constituted a sound beginning, the eventual sustainability of the program will depend on on-going and follow-up reforms.

### **Bank Performance**

12. Overall, the Bank responded flexibly and substantially along with the international donor community through intensified coordination with the IMF, ADB, and bilateral donors to ensure a consensus in the diagnosis and development of remedies and their distinct but mutually supportive role in helping the Government implement reforms. The CAS was adjusted to respond to the rapidly changing economic and social situation and helped to restructure the Bank's program of assistance to meet critical and immediate needs and build the foundations for a return to sustainable growth. The Bank also modified significantly the nature and type of Bank's lending, technical assistance, and non-lending services to meet the new priorities of its revised assistance strategy. During the loan preparation, Bank staff faced some uncertainty as the Government experienced an unprecedented political crisis and subsequent changes in the top officials. However, the PRSL benefited from an experienced regional staff and close coordination with headquarters staff. The identification, preparation, and appraisal of the PRSL was done under the responsibility of the Country Director according to the newly decentralized administration of the Bank. This operation demonstrated the benefits of a decentralized administration of the Bank in the field through timely response of Bank staff to the country's needs. The results also demonstrated the successful implementation of the PRSL despite severe difficulties and time constraints.

### **Borrower Performance**

13. As measured by its commitments to a wide ranging reform agenda and activities fulfilled under the PRSL, the Government performance is considered satisfactory. The Government was committed to a detailed timetable of actions in its Letter of Development Policy, accomplished all policy reforms specified in the loan, and acted swiftly to shield the poor from the adverse effect of the crisis, despite a very difficult and unprecedented political situation. Uncertainty in the political sphere undoubtedly created difficulties and delays in the preparation and implementation of the reform program. However, the fact that the PRSL was completed with modest delays was a testimony to the performance of the agencies and ministries and their officials who contributed greatly to the eventual completion of the conditions for effectiveness and for the second tranche's release.

14. However, the maintenance of a sound macro-economic framework was a difficult challenge for the Government with many factors outside its control. The implementation of bank and corporate restructuring to address fundamental problems of debt and non-performing loans remained a challenge for the Government, similar to the situation in other crisis countries. Banking reforms affected not only the financial and banking sector, but other productive sectors of the economy as well. Thus a strong political will was needed along with committed banking officials to carry out the required reforms.

### **Assessment of Outcome**

15. The overall performance and outcome of the PRSL was satisfactory, as the vast majority of specific measures, and therefore the major objectives of the loan, were achieved. This rating is consistent with the rating by EASPR of meeting development objectives (Project Status Report) at project closure (satisfactory). However, while the trend in the economy in the past year has been unmistakably better, the sustainability of the overall reform program is assessed to be uncertain, as the risks covered in the SAR are still significant and depend on many exogenous and political factors..

### **Future Operations**

16. Following this operation, the lending program includes two or three additional fast disbursing operations totaling US\$ 1 billion. Two concurrent adjustment loans -- a PRSL 2 (\$500 million) and a Social Safety Net Adjustment Loan (SSNAL \$600 million), approved by the Board in May 1999 -- constitute the second phase of World Bank's support to Indonesia's on-going reform effort. The PRSL 2 supports further reforms in three key areas: maintenance of a sound macroeconomic policy framework; progress with banking reforms and corporate restructuring; and actions to improve governance and increase transparency and efficiency. The SSNAL supports improved design and implementation of social safety net programs.

### **Key Lessons Learned**

17. The major lessons from the PRSL are:

- *Stable macroeconomic environment is essential but difficult to achieve amidst acute political uncertainty.* A stable macroeconomic environment is necessary and fundamental to structural reforms. Once the strategy was decided, the Government was committed and has achieved macroeconomic stabilization, but Indonesia's experience demonstrated how difficult it is to achieve timely successful implementation without widely respected political leadership.
- *Counterpart quality is important to success.* The presence of capable policy makers and implementers is a prerequisite to a successful reform program, in addition to the commitment from responsible agencies and ministries, in spite of the difficulties and political uncertainties facing them during the operation.
- *Crises create opportunity for important but difficult reforms and for good building blocks to help the reform program..* Opportunities for reforms often have the greatest potential for implementation at the peak of a crisis. Some of the broad reforms in public administration and transparency were achieved. The Government undertook some important reforms which faced strong opposition from specific interest groups, especially in the elimination of monopolies. The PRSL also supported the creation of new institutions, e.g. IBRA, which contributed to the realization of the reform program.
- *A second tranche can help maintain the reform effort .* It provides an incentive to implement the reforms which need time and appropriate environment to be carried out and allow the Government to take a longer view of the reform process and more time to make adjustments.
- *Close coordination among multilateral lenders is important.* The success of a recovery operation with multiple institutions and donors requires coordination, agreement on the best course of action, and appropriate division of responsibility. The importance of teamwork between the international financial institutions and bilateral donors cannot be underestimated.

- *Up-to-date and accurate macroeconomic data and analyses is necessary for good policy design.* With the continuously changing economic situation such as that experienced in Indonesia, the importance of up-to-date analyses of the current situation cannot be discounted.
- *Close monitoring and supervision from the Bank and by the Government through an official monitoring mechanism* played a positive role in reinforcing and maintaining official commitment and focus to the implementation of the program.
- *Close working relations between the decentralized Country Department with continuous presence of staff in the country and Government institutional counterparts improve the value of World Bank assistance.* The PRSL preparation was an example of cooperation and coordination between Bank staff and government officials in bringing about the desired outcomes in a policy-based lending operation. Intensive supervision of the loan, made possible by the continuous presence of field-based Bank staff in the country, contributed to the successful completion of the loan. Consultations with the private sector added a positive dimension to the preparation of the loan.
- *Improvement in transparency and good governance, supported by the loan have provided, firm foundation for better government.* The PRSL helped to institutionalize transparency and better governance in the new administration.



# IMPLEMENTATION COMPLETION REPORT

## REPUBLIC OF INDONESIA

### POLICY REFORM SUPPORT LOAN (LOAN No. 4368-IND)

#### Part I. Project Implementation Assessment

##### A. Project Data

Report Date: March 1, 2000  
Name: Implementation Completion Report for the Policy Reform Support Loan  
Country/Department: Indonesia Country Department  
Sector/Subsector: Poverty Reduction and Economic Management Unit  
Loan Number: No. 4368-IND

<u>Key Dates</u>	<u>Original</u>	<u>Revised/Actual</u>
Project Concept Document	February 2, 1998	February 2, 1998
Appraisal	February 3, 1998	February 3, 1998
Approval	February 26, 1998	July 2, 1998
Effectiveness	April 29, 1998	July 2, 1998
Mid-Term Review	Non-applicable	Non-applicable
Closing	June 1999	June 1999

Borrower: Republic of Indonesia  
Implementing Agency: Resilience Committee  
Other Partners: none

<u>Staff</u>	<u>At ICR preparation</u>	<u>At Appraisal</u>
Vice President	Mr. Jean-Michel Severino	Mr. Jean-Michel Severino
Country Director	Mr. Mark Baird	Mr. Dennis de Tray
Sector Director	Mr. Homi Kharas	Mr. R. Kyle Peters, Jr. (Acting)
Team Leader of Appraisal	Mr. Lloyd McKay	Mr. Lloyd McKay
ICR Principal Author	Mr. Thang-Long Ton	None
Team Reviewer of ICR	Mr. Lloyd McKay	None

## **B. Principal Performance Ratings**

The principal performance ratings are as follows:

Outcome:	Satisfactory
Sustainability:	Uncertain
Institutional Development Impact:	Partial
Bank Performance:	Satisfactory
Government Performance:	Satisfactory

	ICR	QAG (if available)
Quality at entry	Satisfactory	not available
Project at Risk at any time	yes	not available

## **C. Assessment of Development Objectives, Design and Quality at Entry**

### **Introduction and Background**

1. The Policy Reform Support Loan (PRSL) was approved by the Board of Executive Directors of the Bank in the amount of US\$1 billion to the Republic of Indonesia on July 2, 1998. The Loan was signed and made effective on the same day as well as the disbursement of the first tranche (\$600 million). The second tranche was released on February 8, 1999 when the actions specified in Schedule 3 to the Loan Agreement were completed.

2. In a concerted and continuing effort to assist the Government of Indonesia to address the economic crisis that began in 1997, the World Bank approved the PRSL in July 1998, the second loan that followed the Banking Reform Assistance Loan approved in December 4, 1997. The PRSL was one of the initial and important bricks designed within the framework of the Bank's Country Assistance Strategy (CAS) to respond to the rapidly changing economic and social situation in Indonesia. It was a critical component of an overall package of external assistance provided by the IMF, the World Bank, the ADB, and bilateral donors. The purpose of the assistance program was first to meet critical and immediate needs of the country, to restore confidence in the economy, and to build a sound platform for a return to sustainable and equitable growth. Without strong external support, the policy reform program under implementation could be undermined by continued uncertainty, large private capital outflows, and collapse of the corporate sector and the banking system.

3. The loan was prepared during a period of continued political uncertainty following the outbreak of the economic crisis in 1997. The worsening social and political situation presented some substantial risk for the operation. The change of government in May 1998 happened following the resignation of President Suharto and Mr. Habibie was appointed as successor, after the loan documents were distributed to the Board on April 28, 1998. This watershed event necessitated a delay in the Board presentation to July 1998 with a supplement report to the original SAR to cover the changes. The Coordinating Minister for Economy Finance and Industry of the new government subsequently provided a June 24, 1998 letter to reaffirm the Government's continued commitment to the reform program.

### **Project Objectives**

4. The loan was part of an integrated package of external assistance coordinated with other international financial institutions and bilateral donors. It was designed to:

- Increase the efficiency and transparency of public sector operations;
- Rebuild an efficient, competitive, and properly supervised banking sector;
- Improve governance, increase private sector productivity, and ensure environment sustainability; and
- Shield the poor and vulnerable groups and continue priority investments in basic education and health.

5. Within the framework of the CAS-defined program and as a critical component in the overall international external assistance package, the PRSL was to support the Government of Indonesia's policy reforms to address the immediate priorities of helping to brake the economy's free fall, to mitigate the effects of the economic crisis and the drought on the poor, and to set a sound foundation for medium-term reform policies. To address the key domestic causes of the crisis, the PRSL operation specifically supported the increased transparency and improved governance in the public sector and structural reforms to rebuild confidence and restore efficient growth. The financial sector reforms and corporate debt restructuring, coupled with sound fiscal and monetary management, were to help overcome weaknesses in the financial sector and reduce the risks arising from the build up of private debt. As the crisis unfolded and tax revenues declined sharply, resulting in large public deficits, the Government had to resort to external support. The PRSL therefore provided needed funding for the budget and helped with the transitional needs for public expenditures on social safety net programs.

### **Project Components and Description**

6. The PRSL was designed to support a program of policy actions in two tranches. The first tranche supported actions already taken by the Government. These included (i) measures to increase efficiency in public sector activities and to tackle pressures on an unsustainably large fiscal deficit; (ii) reforms to rebuild an effective and competitive financial sector; (iii) actions to increase private sector efficiency and improve governance; and (iv) programs to shield the poor from the effects of the current crisis.

7. While the above reforms were front-loaded, it was recognized that there was a need to sustain and deepen the implementation of the program, as it would take time to achieve a stable and lasting recovery. Many reforms measures could not be done instantaneously but needed reasonable time and appropriate sequencing. The PRSL included a set of second tranche release conditions that focused on helping the Government to maintain this reform momentum. The conditions included: (i) maintenance of a sound macroeconomic framework; (ii) maintenance of discipline in public expenditure management, increase in public efficiency and transparency in public sector management; (iii) rebuilding an efficient financial sector while containing further bank losses, and protecting assets of corporations; and (iv) improvement in governance and transparency, increased competition, and more market-friendly policy environment.

8. The PRSL assisted the Government of Indonesia in the reform program described in the Letter of Development Policy. The first tranche was \$600 million, disbursed at effectiveness and a second one of \$400 million was disbursed against expenditures except those specified in Schedule 1 of the Loan Agreement.

9. In keeping with the Bank's Indonesia CAS, the PRSL was expected to be the first in a series of adjustment operations that would continue financial, corporate reforms and structural policy reforms, improve governance and increase transparency. During the preparation of the loan, organizations representing the private sector (e.g., the Chamber of Commerce) were also consulted within the context of the loan and the overall reform program.

## **Quality at Entry**

10. The performance rating for quality at entry for this operation is rated satisfactory by the ICR. The PRSL was consistent with the CAS objectives. The operation contributed to lessen the adverse impact of the economic crisis on the most vulnerable section of the population. It was one in a series of Bank's lending activities to assist the Government in the long road toward restoring economic stability. The PRSL accurately highlighted substantial risks to the operation due to the political uncertainty facing the country during the appraisal and the implementation of the program.

## **D. Achievement of Objectives**

11. **Summary of Actions.** There were two set of actions for the PRSL: those undertaken up to the declaration of effectiveness of the loan and those to fulfill the second tranche's release conditions.

### *Actions undertaken up to effectiveness*

12. The Government undertook a series of activities prior to the effectiveness of the loan. These prepared a positive environment for further implementation of the reform program supported by the operation and enhanced by the conditions for the second tranche release.

13. To increase the efficiency of public sector activities and confront pressures for an unsustainable large fiscal deficit, many public investments were deferred or canceled. The Investment Fund was incorporated into the state budget; budgetary support for IPTN (the airplane manufacturer) was discontinued; and Keppres 7/1998 -- rendering procedures for project evaluation and bidding more transparent and competitive -- was issued. In the financial sector, the Government closed a series of banks and merged two others. It created the Indonesian Bank Rehabilitation Agency (IBRA) to restructure unhealthy banks. IBRA placed seven banks under its management in April 1998 and conducted portfolio reviews of all banks by internationally recognized firms. Loan classification and provisioning regulations were revised. To increase private sector efficiency and to improve governance, the customs duty rates for about 2000 items were reduced, key monopolies (clove and plywood marketing) abolished, special privileges granted to the national car program discontinued, import monopolies (wheat, wheat flour, sugar, garlic and soybeans) terminated, and restrictions on foreign investment in oil palm plantations and in wholesale and retail trade removed. The Government implemented programs to shield the poor, such as price subsidies for key food items and expansion of labor-intensive public works.

### *Actions to fulfill the second tranche release*

14. The PRSL included a second tranche with a set of conditions on sustaining and deepening implementation of the reform program in four areas: (i) maintenance of a sound macroeconomic policy framework; (ii) discipline in public expenditure management with increased transparency and efficiency of public sector activities; (iii) rebuilding of an efficient financial sector, containing bank losses and protecting corporate productive assets; and (iv) improvement in governance and transparency, provision for increased competition, and more market-friendly policy environment.

*i. Recent Macroeconomic Performance*

**Table 1. Selected Key Economic Indicators**

	<u>1996/97</u>	<u>1997/98</u> Actual	<u>1998/99</u>	<u>1999/00</u> Projection	<u>2000/01</u> Projection
<b>Growth rates (%)</b>					
Real GDP Growth	8.3	1.9	-14.2	3.0	3.5
Consumption	10.8	6.5	-5.8	-2.6	4.3
Gross fixed investment/GDP	11.1	-9.2	-46.0	19.3	25.0
Inflation (CPI) (annual average)	8.2	12.1	64.8	8.5	6.5
<b>Share in GDP (%)</b>					
Investment	32.6	28.3	11.7	13.5	16.3
Domestic private savings	21.6	22.5	15.6	17.4	19.2
Government deficit (-)/GDP	0.9	-0.4	-3.4	-3.8	-5.0
<b>Balance of payments (US\$ billion)</b>					
Exports (fob)	52.0	56.2	48.4	55.5	43.1
Imports (fob)	50.4	47.4	33.8	37.7	30.9
Current account balance	-8.1	-1.7	4.6	4.7	2.6
Gross official reserves (month-imports)	4.4	3.6	7.6	8.3	8.5

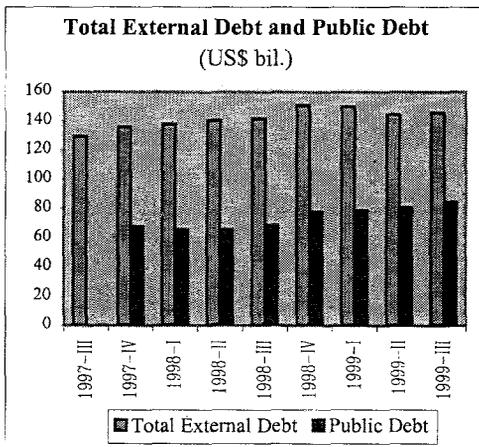
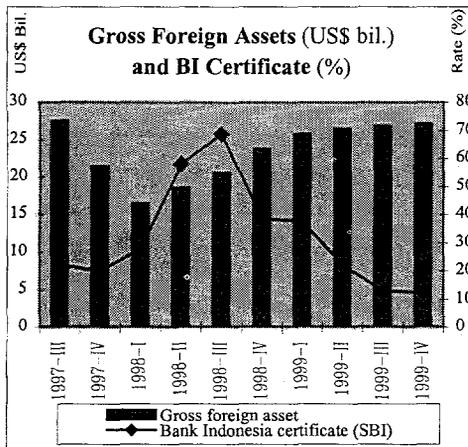
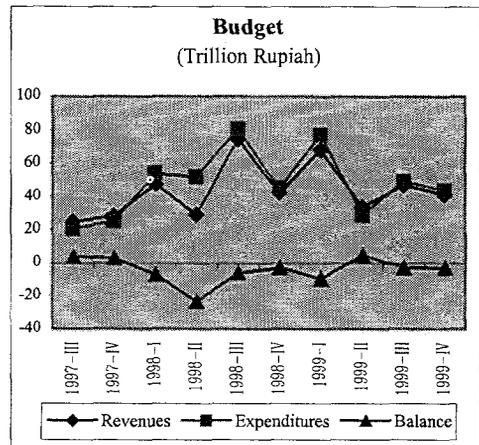
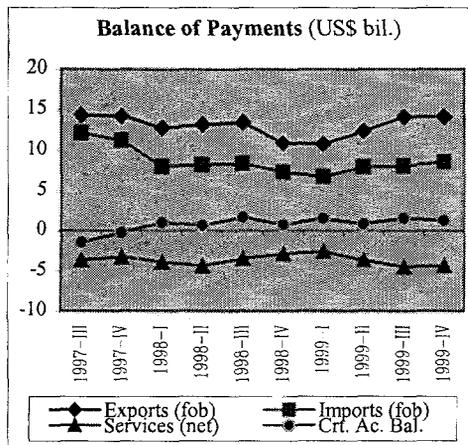
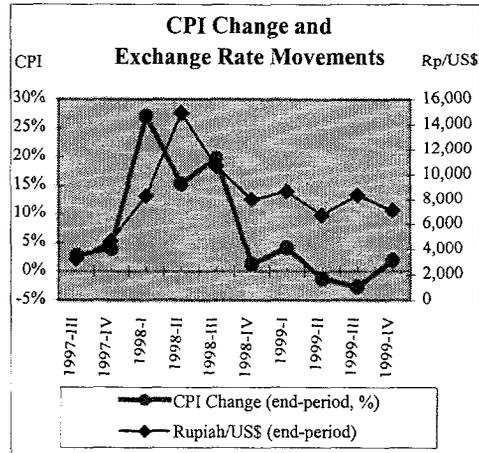
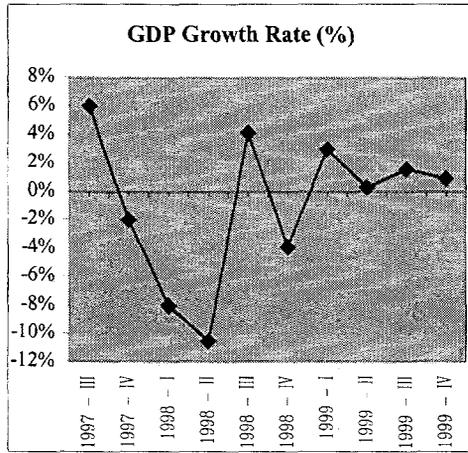
Note: 1. Nine-month fiscal year, April to December.

Source: World Bank Country Office, Jakarta, Indonesia.

15. The condition of maintaining a sound macro-economic framework was fulfilled satisfactorily in consultation with the Bank, IMF and ADB. Bank staff intensified the monitoring of economic development and policy reforms since the crisis and during the supervision of the loan. The Government also established the official monitoring mechanism which contributed positively to the maintenance of official commitment to the program implementation. Since the third quarter of 1998, the exchange rate, inflation, and interest rates responded well to the government's sustained commitment to cautious monetary policies amidst an improving international economic environment. Modest GDP growth was recorded in 1999 (Table 1 and Chart 1). However, economic performance remained mixed. Economic recovery remained fragile and domestic demand and investment depressed. Export earnings improved with the first quarter's seasonal upswings and some improvement in the market conditions, especially for oil; but exports of manufactures remained sluggish. Imports appeared to have bottomed out in the first half of 1999 but still at low levels. Bank and corporate restructuring to address fundamental problems of debt and non-performing loans has been slow. Political uncertainties remained and social apprehension continued to adversely affect and even undermine public confidence.

16. The Government made considerable efforts to protect the poor. The revised FY98/99 budget realigned and expanded significantly public expenditures toward priority social safety net programs, and sought additional financing from the international community to cover the larger fiscal deficit. Education subsidies and grants, and a targeted rice subsidy program were established. Labor-intensive public works programs were expanded to employ the poor. Important though these programs are, they were not able to prevent a rise in poverty, however. At the height of the crisis, the incidence of poverty almost doubled, but maybe as much as half this rise in poverty has since been halted, mainly due to a fall in the rice price.

Chart 1. Key Economic Indicators



Source: World Bank Country Office, Jakarta, Indonesia.

17. Progress with developing a system of monitoring social indicators has been slow. The UNDP provided technical assistance to improve the information timeliness. To strengthen monitoring of social programs, the World Bank, along with other donors and extensive involvement by NGOs, had launched a Social Sector Monitoring and Early Response Unit with research staff throughout Indonesia. It has already produced two dual language newsletters and a special report on subsidized rice distribution.

18. The Bank proceeded with the reform program in close partnership with the international financial institutions and bilateral donors. Close coordination among the international donors and integrated financial assistance package built a firm foundation for the support of the Government in implementing the reform program (Table 2).

**Table 2. International Financial Flows to Indonesia, 1998-99**  
(US\$ million)

<b>Donor</b>	<b>1998</b>	<b>1999</b>
Japan	1,571	1,942
Asian Development Bank	600	820
IMF	5,805	1,373
<i>World Bank</i>	<i>600</i>	<i>950</i>
<b>Grand Total</b>	<b>8,576</b>	<b>5,085</b>

Note: Amount includes all quick-disbursing loans during each year.

Source: World Bank Country Office, Jakarta, Indonesia.

*ii. Discipline in public expenditure management with increased transparency and efficiency*

19. A Public Expenditure Review (PER), completed in 1998, was presented to the Consultative Group Meeting on Indonesia in Paris. The Government quickly incorporated most of the recommendations on general revenue and expenditure, education, health, social programs and agriculture into the revised FY98/99 budget. Further analysis on other suggestions was incorporated into ongoing sectoral dialogue and contributed to the preparation of the FY99/00 budget. A second PER was completed in 1999 for discussion with government officials in February 2000.

20. The Government strengthened the transparency and effectiveness of the framework for private participation in the provision of infrastructure by issuing implementation guidelines to complement Keppres 7 of January 1998. These guidelines clarified the scope of the Keppres; further developed the principles governing cooperation arrangements, in relation to tariffs and dispute settlement; elaborated criteria and institutional arrangements for project screening, selection and review, and provided a framework for establishing consistent sector-specific norms.

21. Privatization has proceeded, albeit slowly, due to depressed market conditions and privatization opponents. A plan to partially privatize 12 enterprises by end March 1999 was announced, but it was only partly implemented. The Government also announced a plan to divest additional shares in five listed state-owned enterprises (SOEs) by March 1999, but this too was only partly implemented. A comprehensive Masterplan for the Reform of SOEs was launched on December 18, 1998, establishing a framework for the reform (including restructuring and privatization) of all SOEs, together with action plans and schedules for each. Despite further economic deterioration, the May 1998 riots, and a general backlash against privatization and opposition to selling assets to foreigners at what were perceived to be very low prices, the Government concluded an agreement to sell an additional 14 percent of Semem Gresik (a cement company) for \$114 million, thus bringing private shareholding to 49 percent. During 1999, the Government sold additional shareholding from Telkom and part of several ports.

*iii. Banking Reform and Corporate Sector Restructuring*

22. With Bank and ADB technical assistance, comprehensive asset portfolio reviews were conducted at all 55 of the IBRA banks by mid 1999. Due diligence reviews were completed for two state banks not under IBRA supervision (BNI and BRI) and 15 non-IBRA private banks. Three banks were nationalized and four others "frozen" or closed. In 1998, a comprehensive bank recapitalization plan was announced to draw fresh capital into the banking system. The Government chartered a new bank (Bank Mandiri) to consolidate four capital-deficient state-owned banks into one bank. Major legislation was passed in mid-October 1998, to substantially empower IBRA to fulfill its mandate. To provide independent review of IBRA's performance, a committee of five experts – two Indonesian and three foreign – was set up in 1998. The committee agreed on terms of reference for its operations and discussed the need for a Secretariat. In December 1998, the management of each of these four state-owned banks was replaced to prepare for their actual merger.

23. In an effort to reestablish effective credit flow to sound enterprise as quickly as possible, Bank Indonesia identified 16 relatively well-managed banks and retained international accounting firms with ADB's financial assistance to conduct portfolio reviews and assess their financial situation. The plan was to recapitalize those banks willing and eligible to participate in the program by end-March 1999. Eight banks were actually recapitalized under this program in April 1999.

24. Implementing expeditiously banking sector reforms remained a major challenge and concern in 1999. Implementing regulations for the banking law approved by Parliament on October 16, 1998 were delayed for months and IBRA's Asset Management Unit (AMU) -- a central institutional element in the bank-restructuring picture -- was not functional until 1999.

25. The Government assembled a number of complementary initiatives to achieve corporate and debt restructuring and return productive assets back to work. These included (i) establishment of a suitable framework for restructuring external debt with the Frankfurt Agreement on June 4, 1998; (ii) establishment of the Indonesian Debt Restructuring Agency (INDRA) to provide an avenue for eliminating foreign exchange risk on future debt service payments; (iii) enactment of a new bankruptcy law and special commercial court to encourage recalcitrant debtors to come to the negotiating table and for debtors and creditors to pursue more timely solutions; and (iv) announcement of the September 9, 1998 Jakarta Initiative to provide an overall framework for corporate and corporate debt restructuring while removing impediments to corporate restructuring. A successful conference to explain and publicize the Jakarta Initiative was held in Jakarta in November 1998. Under this Initiative, the Government played a limited, but important, role in achieving out-of-court negotiations between debtors and creditors.

*iv. Improving Governance and Increasing Transparency and Competition*

26. The Government has increased transparency and made the policy environment more market-friendly by: (a) abolishing some key monopolies; (b) beginning a program of forestry sector reform; (c) withdrawing restrictions on foreign investment in wholesale and retail trade; (d) shortening the list of activities closed to foreign investment; (e) reducing domestic regulations; (f) reducing import tariffs and export taxes; and (g) removing import subsidies previously provided to BULOG (National Logistic Affairs Agency).

27. To improve forest management and make it more market oriented, export taxes on logs, sawn timber and rattan were reduced to a maximum of 30 percent in 1998, and then 20 percent in early 1999. The system of forestry resource royalties -- linked to international raw material price, inversely related to

the cost of efficient extraction, and independent of the end use of the raw material -- was introduced in May 1998. But amendments to regulations covering forestry concessions could not be made so simply. An existing law (PP21 of 1970) had to be amended, and this took more time than originally expected. An agreed decree was issued in January 1999 (PP6 of 1999) after some iterations, going beyond the second tranche condition to establish the framework for a performance bonding system to increase incentives for sound forest management.

28. To strengthen competition, an anti-monopoly and competition policy was approved by Parliament in February 1999. A Commission and implementing regulations for this new law have now been established.

29. The ban on palm oil exports was replaced with an export tax and taxes on related commodities (20 to 40 percent) in April 1998. Continued upward pressure on domestic prices forced a 60 percent rise in the maximum export tax rate in July 1998. With the Rupiah appreciation during the second half of 1998, the export tax was reduced to a maximum of 40 percent in February 1999, and has since been reduced to 5 percent.

30. As part of a move against monopolies, the Clove Support and Marketing Board was abolished in May 1998 and its stocks transferred to cooperatives. Since then, the right of traders to buy and sell cloves at unrestricted prices and to transport cloves across district and provincial boundaries has been maintained and the market price for cloves has risen.

31. The right of traders to import goods other than rice has also been maintained. Since September 1998, BULOG no longer imported wheat and wheat flour, soybean and sugar, providing a foundation for genuine competition in importing these commodities. On September 29, 1998 Capital Investment Coordinating Board (BKPM) Administrative Regulations No. 11 and No. 12 of 1998 were revoked, thus allowing foreign investment in wholesale and retail trade (PP No. 15 and 16, 1998).

#### **E. Implementation Record and Major Factors Affecting the Project**

32. The PRSL focussed on the immediate priorities of the Government in its reform agenda but was prepared on a fairly tight timetable against the backdrop of political uncertainty and potential difficulties. As the loan was being implemented, the economy initially continued its decline, political uncertainties remained the order of the day, and social anxiety continued to undermine the confidence in the market. The worsening economic and social situation in May 1998 exacerbated the difficulty of achieving the program objectives in the near term. Elections were finally held in June 1999 and a new President and government installed in October, but latent political uncertainty persists. Social uncertainty, coupled with pressures for increased autonomy for outlying regions, continue. Consequently, substantial risks existed throughout the implementation of the program and remained important after its completion.

33. Despite the political difficulties and high-risk environment, the program was implemented with reasonable progress, however. First, the pre-Board measures were completed at effectiveness in July 1998. The conditions for the second tranche's release were also implemented in a reasonable time frame, despite some delays in the fulfillment of conditions. The vast majority of these actions were completed by the end of September 1998, as was originally anticipated. The action on bank and corporate restructuring was slow and may have affected the speed of recovery. Privatization was also slow.

34. There were two actions that were delayed until the end of January 1999. To avoid upward pressure on local palm oil prices during the holiday period, the planned reduction in export taxes on palm

oil was delayed until after January 1999. Second, part of the forestry reform was delayed by protracted consultations. Both of these were however completed by the end of January 1999, enabling the release of the second tranche in early February 1999.

35. The PRSL is but one slice of a broad-based program that supported the Government of Indonesia. It highlighted and supported many issues across the board, including the policy on forestry and agriculture, in addition to the normal activities covered by an operation of this kind. At the same time, the operation dealt with some institutional changes, such as the removal of some monopolies in the hand of the Government. The PRSL helped mitigate the effects on budgetary resources allocated to the social sector which would have been cut more deeply, and thus helped protect the poor.

#### **Factors not subject to government control**

36. The country was faced with an important political juncture dominated by concerns about succession and transition, including social tension and rising threat of societal breakdown from slower growth, rising unemployment, rising prices (especially for food) and declining real incomes. The drought in 1997 encouraged rural migrants to compete for jobs in the cities. These tensions manifested in local violence which threatened the social fabric of the country. At the same time, violence scared foreign investors and domestic entrepreneurs away. Furthermore, the Asian crisis had shaken the confidence of the investors in the region, from Thailand to Korea, from Singapore to Japan, exacerbating the situation facing Indonesia.

37. The Government also faced the downturn in the regional economy, with lower export demand and increased competition in these markets. The fall in oil prices -- and commodity and export prices in general -- affected the country's foreign exchange earnings and exports, both with negative effect on budget revenues. Amid social unrests coupled with uncertain political outcome, there was serious private capital flight as well as that of human capital.

#### **Factors subject to government control**

38. Leading up to the crisis, the Government's adherence to a managed exchange rate resulted in the overexposure of many borrowers in short-term obligations who were hence vulnerable to large losses if the Rupiah depreciated, which it did. Weak bank supervision and low capital adequacy provisions contributed to the severity of the crisis by leaving many banks vulnerable to corporate losses. Only after the crisis began did the Government undertake urgent measures to deal with the difficult challenge. Progress in implementing these policies can be attributed to the efforts of the Government and the coordinating framework of assistance among the aid donors.

39. At the beginning of the crisis, the Government's economic team did try to demonstrate ownership of the reform program, but as the political crisis deepened, the level of government commitment was increasingly questioned. This concern was re-enforced by slow implementation of bank restructuring and growing general concern on government commitment adversely affected the success of reform efforts.

#### **Factors generally subject to implementing agency control**

40. The implementing Council was composed of competent advisors with established reputation, including the Coordinating Minister for Economics, Finance and Industry, Minister of Finance, Governor of Bank Indonesia, Ministry of Industry and Trade, Minister of the State Secretariat, Minister of Foreign Affairs, Minister for Empowerment of Public Enterprises. The day-to-day implementation was led by the

Coordinating Minister for Economic, Finance and Industry and a team of experts who worked assiduously with Bank and IMF staff. While uncertainty in the political sphere delayed the preparation and implementation of the reform program, these agencies and their officials contributed greatly to the eventual implementation of reforms within a reasonable timeframe, amid difficult working conditions and uncertainty beyond their control. Their efforts resulted in the completion of the conditions for effectiveness and for the second tranche's release, with only modest delays.

## **F. Project Sustainability**

41. For the past two years, Indonesia has gone through unprecedented economic, social, and political crisis. But over the past several months, broad macro-economic indicators have shown encouraging improvements, accompanied by indications of some return in investor confidence. However, the pace of recovery is still uncertain. The sustainability of the overall reform program is uncertain and remains fragile as the risks covered in the SAR are still significant. The banking and corporate restructuring and governance remain a risk and could still undermine the sustainability of the program. On the one hand, the fulfillment of all the conditions in the PRSL demonstrated official commitment to reforms, despite the uncertainty in the political environment and the change in government.

42. As stated earlier, the PRSL is but a brick in the overall foundation of economic reforms in Indonesia. The project sustainability depends very much on the continuing reforms to be undertaken and additional measures still being specified as part of an ongoing reform program. Thus, though the reforms supported by this operation constituted a sound beginning, the eventual sustainability of the program will depend on on-going and follow-up reforms.

## **G. Bank Performance**

43. This section reviews the major issues in Bank performance on the basis of what was a reasonable standard at the time as well as what would have been the best course in retrospect. Overall, the Bank responded flexibly and substantially along with the international donor community through intensified coordination and close partnership with the IMF, ADB, and bilateral donors to ensure a consensus in the diagnosis and development of remedies and their distinct but mutually supportive role in helping the Government implement reforms. The Bank adjusted the CAS to respond to the rapidly changing economic and social situation in Indonesia. This helped to restructure the Bank's program of assistance to meet critical immediate needs and build the foundations for a return to sustainable growth. The Bank also modified significantly the nature and type of Bank's lending, technical assistance, and non-lending services to meet the new priorities of its revised assistance strategy.

44. The identification, preparation, and appraisal of the PRSL was done under the responsibility of the Country Director according to the newly decentralized administration of the Bank. The PRSL was done on a compressed timetable within the overall program of stabilization and structural reform. During the loan preparation, Bank staff faced some uncertainty as the Government of Indonesia experienced unprecedented political crises and subsequent changes in senior officials. However, the work on the PRSL benefited from an experienced regional staff and close coordination with headquarters staff. The results demonstrated the successful implementation of the PRSL despite severe difficulties and time constraints in the preparation schedule. This operation also demonstrated the benefits of a decentralized administration of the Bank in the field through timely response by staff to the country's needs.

## **H. Borrower Performance**

45. As measured by its commitments to a wide ranging reform agenda and activities fulfilled under the PRSL, the Government performance is considered satisfactory. The Government committed to a detailed timetable of actions in its Letter of Development Policy and accomplished all policy reforms specified in the loan and acted swiftly to shield the poor from the adverse effect of the crisis. Official consultations were also made with the private sector (e.g., the Chamber of Commerce) during the loan preparation.

46. The Government operated in a very difficult and unprecedented political situation. Uncertainty in the political sphere created difficulties and delays in the preparation and implementation of the reform program. The fact that the PRSL was completed with modest delays was a testimony to the performance of the agencies and ministries and their officials who contributed greatly to the eventual completion of the conditions for effectiveness and for the second tranche's release.

47. The PRSL helped the Government to implement difficult measures, such as the dismantling of monopolies in production and trade. Government officials also understood the necessity to increase the efficiency of public sector activities and acted decisively to confront pressures for large fiscal deficits by deferring or canceling many public investments, despite their political sensitivity.

48. However, the maintenance of a sound macro-economic framework was a difficult challenge for the Government with many factors outside its control. The implementation of bank and corporate restructuring to address fundamental problems of debt and non-performing loans remained challenging for the Government, similar to the situation in other crisis countries. Banking reforms affected not only the financial and banking sector, but other productive sectors of the economy as well. Thus a strong political will was needed along with committed banking officials to carry out the required reforms.

## **I. Assessment of Outcome**

49. The overall performance and outcome of the PRSL was satisfactory, as the vast majority of specific measures, and therefore the major objectives of the loan, were achieved. This rating is consistent with the rating by EASPR of meeting development objectives (Project Status Report) at project close (satisfactory). Because it was not an investment operation, calculation of benefits in terms of net present value and economic rates of return is not applicable.

50. While the trend in the economy in the past year has been unmistakably for the better, the sustainability of the overall reform program is assessed to be uncertain as the risks covered in the SAR are still significant and depend on many exogenous and political factors.

## **J. Future Operations**

51. The lending program was redesigned to provide Indonesia with quick disbursing support. Following this operation, the lending program includes two or three additional fast disbursing operations totaling US\$ 1 billion. Two concurrent adjustment loans – a PRSL 2 (\$500 million) and a Social Safety Net Adjustment Operation (SSNAL, \$600 million) approved by the Board in May 1999 constitute the second phase of World Bank support to Indonesia's on-going reform effort. These jointly build on the experience gained with this first PRSL. The PRSL 2 supports further reforms in three key areas: maintenance of a sound macroeconomic policy framework; progress with banking reforms and corporate

restructuring; and actions to improve governance and increase transparency and efficiency. The SSNAL supports improved design and implementation of social safety net programs.

## **K. Key Lessons Learned**

52. The major lessons from PRSL are:

- *Stable macroeconomic environment is essential but difficult to achieve amidst acute political uncertainty.* A stable macroeconomic environment is necessary and fundamental to structural reforms. Bringing this about requires coordination and high level commitment from the Government to stay its course once the strategy was decided. The Government did show commitment and has achieved some degree of macroeconomic stabilization, but Indonesia's experience demonstrated how difficult it is to achieve timely successful implementation without widely respected political leadership.
- *Counterpart quality is important to success.* The presence of capable policy makers and implementers is a prerequisite to a successful reform program. The responsible agencies and ministries in the government have shown strong commitment to carry out the program by fulfilling all required conditions for the operation in spite of the difficulties and political uncertainties facing the Government during the operation.
- *Crises create opportunity for important but difficult reforms and for good building blocks to help the reform program.* Opportunities for reforms often have the greatest potential for implementation at the peak of a crisis. The PRSL achieved some of the broad reforms in public administration and transparency and in the elimination of government monopolies which might not be possible otherwise. The Government of Indonesia undertook some important reforms which have strong opposition from specific interest groups. Examples include forestry royalties, elimination of monopolies in clove and special trading rights. The PRSL supported the creation of new and appropriate institutions, e.g. IBRA, which contributed to the realization of the reform program.
- *A second tranche can help maintain the reform effort.* The PRSL enjoyed the advantage of a focused and flexible approach to provide support for structural reforms in a rapidly changing situation and the advantage of allowing the Government to take a longer view of the reform process and more time to make adjustments. A second tranche also provides an incentive to implement the reforms which need time and appropriate environment to be carried out.
- *Close coordination among multilateral lenders is important.* It is important to the success of a recovery operation with multiple institutions to agree on the best course of action which includes an appropriate division of responsibility. The importance of teamwork between the international financial institutions and bilateral donors cannot be underestimated.
- *Up-to-date and accurate macroeconomic data and analyses is necessary for good policy design.* With the continuously changing economic situation such as that experienced in Indonesia, the importance of up-to-date analyses of the current situation cannot be discounted. Accurate analyses of the situation would allow for recommendation of appropriate and timely reforms as occasions demand. Availability of accurate and up-to-date data would also serve as the basis for sound analyses would also be needed. At the same time, clear, open, and consistent objective communications on

potential crises would contribute to the ability of the decision-makers to adopt timely and sound measures to meet the challenges.

- *Close monitoring by the Government through an official monitoring mechanism* played a positive role in reinforcing and maintaining official commitment and focus to the implementation of the program.
- *Close working relations between the decentralized Country Department with continuous presence of staff in the country and Government institutional counterparts improves the value of World Bank assistance.* The PRSL preparation was an example of cooperation and coordination between Bank staff and government officials in bringing about the desired outcomes in a policy-based lending operation. Consultations with the private sector during the loan preparation were also a positive feature of the PRSL. Intensive supervision of the loan, made possible by the continuous presence of field-based Bank staff in the country, contributed to the successful completion of the loan. Consultations with the private sector added a positive dimension to the preparation of the loan.
- *Improvement in transparency and governance, supported by the loan, have provided firm foundation for better government.* The PRSL helped to institutionalize transparency and better governance in the new administration.

**IMPLEMENTATION COMPLETION REPORT****REPUBLIC OF INDONESIA****POLICY REFORM SUPPORT LOAN****(LOAN No. 4368-IND)****Part II. Annex Tables**

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TABLE 1: SUMMARY OF ASSESSMENTS

<b>A. Achievement of Objectives</b>	Substantial	Partial	Negligible	Not Applicable
Macroeconomic policies		√		
Sector policies		√		
Financial objectives		√		
Institutional development		√		
Physical objectives				√
Poverty reduction		√		
Gender issues		√		
Other social objectives		√		
Environmental objectives		√		
Public sector management		√		
Private sector development		√		

<b>B. Project Sustainability</b>	Likely	Unlikely	Uncertain
			√

<b>C. Bank Performance</b>	Highly Satisfactory	Satisfactory	Deficient
Identification		√	
Preparation assistance		√	
Appraisal		√	
Supervision		√	

<b>D. Borrower Performance</b>	Highly Satisfactory	Satisfactory	Deficient
Preparation		√	
Implementation		√	
Covenant compliance		√	
Operation (if applicable)		√	

<b>E. Assessment of Outcome</b>	Highly Satisfactory	Satisfactory	Unsatisfactory	Highly Unsatisfactory
		√		

**TABLE 2: RELATED BANK LOANS/CREDITS**

Loan/Credit Title	Purpose	Year of Approval	Status
Banking Reform Assistance Loan	To address the banking reforms arising from the crisis	December 1998	Disbursing

**TABLE 3: PROJECT TIMETABLE**

Steps in project cycle	Date planned	Date actual
Identification	10/1997	12/1997
Preappraisal	-	-
Appraisal	11/1997	02/1998
Negotiations	12/1997	04/1998
Board presentation	4/1998	7/2/1998
Signing	7/2/1998	7/2/1998
Effectiveness	7/2/1998	7/2/1998
Project completion		2/1999
Loan closing	-	5/1999

**TABLE 4: LOAN/CREDIT DISBURSEMENT: CUMULATIVE ESTIMATE AND ACTUAL (US\$ million)**

	FY99
Appraisal estimate	1,000
Actual	1,000
Actual as % of adjusted estimate	100
Date of final disbursement	2/99

**TABLE 5: KEY INDICATORS FOR PROJECT IMPLEMENTATION**

Key implementation indicators in SAR	Estimated		Actual	
	Start	Complete	Start	Complete
See Matrix of Policy Actions in the SAR and the Second Tranche Release Review				

**TABLE 6: KEY INDICATORS FOR PROJECT OPERATIONS**

Key implementation indicators in SAR	Estimated		Actual	
	Start	Complete	Start	Complete
See Matrix of Policy Actions in the SAR and the Second Tranche Release Review				

**TABLE 7: STUDIES INCLUDED IN PROJECT**

Study	Purpose as defined at Appraisal/Redefined	Status	Impact of Study
NO STUDIES			

**TABLE 8A: PROJECT COSTS  
(US\$ million)**

Item	Appraisal estimate			Actual/latest estimate		
	Local	Foreign	Total	Local	Foreign	Total
1. Balance of Payments Support		1,000	1,000	1,000		1,000
Total		1,000	1,000	1,000		1,000

**TABLE 8B: PROJECT FINANCING  
(US\$ million)**

Source	Appraisal estimate			Actual/latest estimate		
	Local	Foreign	Total	Local	Foreign	Total
1. IBRD		1,000	1,000	1,000		1,000
Total		1,000	1,000	1,000		1,000

**TABLE 9: ECONOMIC COSTS AND BENEFITS**

	Costs	Benefits	NPV	ERR (%)
Not Applicable	N/A			

**TABLE 10: STATUS OF LEGAL COVENANTS**

Agreement	Section	Covenant type	Present Status	Original fulfillment date	Revised fulfillment date	Description of covenant	Comments
DCA		1	C	n.a.	n.a.	Progress report	
DCA		9	C	n.a.	n.a.	Progress report	

## Covenant Class:

- 1 = Accounts/audits
- 2 = Financial performance/revenue generation from beneficiaries
- 3 = Flow and utilization of project funds
- 4 = Counterpart funding
- 5 = Management aspects of the project or executing agency
- 6 = Environmental covenants
- 7 = Involuntary resettlement

- 8 = Indigenous people
- 9 = Monitoring, review, and reporting
- 10 = Project implementation not covered by categories 1-9
- 11 = Sectoral or cross-sectoral budgetary or other resources allocation
- 12 = Sectoral or cross-sectoral policy/regulatory/institutional action
- 13 = Other

## Status:

- C = covenant complied with
- CD = complied with after delay
- CP = complied with partially

**TABLE 11: COMPLIANCE WITH OPERATIONAL MANUAL STATEMENTS**

There was no significant lack of compliance with an applicable Bank Operational Manual Statement (OD or OP/BP)

**TABLE 12: BANK RESOURCES: STAFF INPUTS 1/**

Stage of Project Cycle	Actual	
	SW	\$ ('000)
Preparation	48.0	197.8
Appraisal	4.8	13.0
Negotiations	0.5	6.6
Supervision	70.0	121.5
Completion	4.4	
TOTAL	127.7	338.9

Note: 1. Figures do not include Trust Funds.

**TABLE 13: BANK RESOURCES: MISSIONS**

Stage of project cycle	Month/ year	Number of persons	Days in field	Specialized staff skills represented /a	Performance rating		Type of Problems /c
					Imple- mentation status /b	Devel- opment Objectives	
Supervision	d/	8	d/	EC, FA, LC	S	S	-

/a DO: Disbursement Officer; EC: Economist; EN: Engineer; FA: Financial Analyst; LC: Legal Counsel; OO: Operation Officer; RA: Research Analyst; RS: Resettlement Specialist; TE: Transport Economist; TS: Transport Specialist.

/b 1: Highly satisfactory; 2: Satisfactory.

/c Typical problems included: implementation delays in technical assistance and studies.

/d Supervision is done by staff of the World Bank Office Jakarta, Indonesia. There were no supervision missions from headquarters.

ANNEX A: BORROWER'S COMMENTS ON THE ICR



REPUBLIC OF INDONESIA  
NATIONAL DEVELOPMENT PLANNING AGENCY  
JAKARTA, INDONESIA

Our Ref. *Bos/D.VII/11/1999*

Jakarta, 16 November 1999

Mr. Lloyd McKay, ✓  
Principal Economist  
Resident Staff in Indonesia  
World Bank  
Jakarta

NOV 18 1999

Subject: Implementation Completion Report (ICR) for Policy Reform Support Loan I (PRSL I)

Dear Mr. McKay,

Referring to your letter dated 26 October 1999 regarding the subject mentioned above, we have several responses to the prepared draft of the ICR as follows:

1. Principally, we agree with the draft of the ICR for PRSL I. Regarding to the program's achievement, we are in line with the Bank's opinion on the impact of PRSL I on the reform agenda addressing the economic crisis. It is indicated by the fulfilment of the reform agenda for tranche release. However, we believe that some actions could not be fulfilled on schedule because of the backdrop of political uncertainty and other difficulties.
2. The sustainability of the program is, of course, determined by the Government's strong commitment to the reforms. We believe that monitoring mechanism of the program implementation is one of many aspects expected to maintain such a commitment and to accelerate the program implementation. Therefore, we suggest to include the need to establish the mechanism as a key lesson learned.  
Now, Bappenas has initiated to develop the mechanism that will assist the Government to detect, anticipate, and report the progress of the program loan regularly such as Policy Reform Support Loan III (PRSL III) for FY 1999/2000.
3. We also have some corrections on Table 1 (page 4) regarding to the selected key economic indicators describing macro economic framework as attached. Besides, on page 6, point no. 25 last sentence, it should be stated as follows: *as of September 24, 1999, about 280 companies, with total foreign indebtedness of about \$ 23.1 billion....*  
On page 7, point no. 30, we suggest to use the first sentence as follows: *to strengthen competition, an anti-monopoly and competition policy was approved by Parliament in February 1999.*

I hope that these responses are able to enrich the ICR report for PRSL I and other programs as well.

Thank you for your kind attention and cooperation.

Yours sincerely,



*Alijan*  
S. Soegijoko,  
Chairman  
Cooperation

cc. Vice Chairman of Bappenas