



1. Project Data:		Date Posted : 09/07/2000	
PROJ ID: P060258		Appraisal	Actual
Project Name: Second Policy Reform Support Loan Project	Project Costs (US\$M)		
Country: Indonesia	Loan/Credit (US\$M)	500	500
Sector(s): Other Public Sector Management	Cofinancing (US\$M)		
L/C Number: L4470			
	Board Approval (FY)		98
Partners involved : Japanese Export-Import Bank	Closing Date	10/29/1999	12/31/1999
Prepared by :	Reviewed by :	Group Manager :	Group:
2. Project Objectives and Components			
a. Objectives			
The loan had three objectives: (i) maintaining macroeconomic stability; (ii) bank and corporate restructuring and (iii) improvements in governance and transparency .			
b. Components			
(i) <u>Macroeconomic stability</u> : a realignment of public expenditures towards poverty -alleviating programs.			
(ii) <u>Bank and corporate restructuring</u> : empowering the Indonesian Bank Restructuring Agency (IBRA), resolving banking problems by closing 38 private banks, nationalizing 7 banks and identifying 9 banks for recapitalization, and transferring loss loans to IBRA's Asset Management Unit.			
(iii) <u>Governance and transparency</u> : Parliamentary approval of the first of the new anti -corruption laws, providing for an independent body to investigate alleged corruption involving public officials, Parliamentary approval of fiscal and administrative decentralization legislation, enactment of law to make the abuse of market power an offense and forestry policy reforms. The latter included forestry regulation that authorizes the transfer of forestry concessions by sale and eliminates the requirement that concessions can only be awarded to those who own or commit to develop a wood-processing facility. It also included measures to identify community groupings living in and around forest areas, who have legitimate cause to claim some share of benefits of forest use and management .			
c. Comments on Project Cost, Financing and Dates			
This loan was approved by the Board on May 20, 1999. The single tranche, released upon effectiveness, was fully disbursed on June 18, 1999. The loan was part of a crisis-response package of external assistance agreed upon by the IMF, the World Bank and bilateral donors . A \$1 billion fast disbursing loan (Policy Reform Support Loan, PRSL I) was approved in July 1998 and a Social Safety Net Adjustment Loan for \$ 600 million was approved on May 20, 1999, the same day as this second policy reform support loan, PRSL II .			
3. Achievement of Relevant Objectives:			
Macroeconomic stability was achieved . The fiscal deficit was reduced from 3.4 percent in 1998/99 to 1.5 percent of GDP in 1999/00. In the first quarter of 2000, inflation rate declined to 4 percent and GDP grew by 3 percent. The FY 99/00 fiscal budget was approved by the Parliament with development expenditure levels and sectoral allocations acceptable to the Bank . The social safety net expenditure allocations in the budget were also acceptable to the Bank. Actions under components in (ii) and (iii) towards fulfilling objectives in 2 (a) were taken but slow progress was achieved in the overall objective of bank and corporate restructuring and governance and transparency because of slow implementation of laws (for example, Commercial Court and Bankruptcy Law). The Jakarta Initiative Task Force was set up to facilitate corporate restructuring but was not given an operating budget from Government even to pay the salaries of its employees until eight months after its creation . The Indonesian Bank Restructuring Agency could not effectively carry out its mandate to restructure and /or resolve illiquid and insolvent banks because it could not take loan defaulters to court until an appropriate law was enacted . Political interference and allegations of corruption in the government contributed to slow implementation of structural reforms and undermined public confidence .			
4. Significant Outcomes/Impacts:			
The PRSL II helped to stabilize the Indonesian economy and build the foundations for further structural reforms .			

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

Progress in bank and corporate restructuring has been slow and continues to be the critical area that needs to be addressed. In governance and transparency the focus of PRSL II was on the enactment of laws. The IBRD team members are now actively pushing for the implementation of these laws.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	There is no disagreement. The ICR rated the achievement of objectives/outputs of components in annex 5 of the document at 10 levels. Of these seven were rated modest, one as substantial and two as not applicable.
Institutional Dev.:	Modest	Modest	
Sustainability:	Likely	Non-evaluable	PRSL II was part of a larger crisis-related package of reforms and sustainability of reforms under PRSL II cannot be assessed in isolation of reforms being carried out under other loans in the package. The likelihood of sustainability of achievements in improving governance, and environmental management will hinge on the extent to which laws passed under PRSL II are being effectively implemented. Six months since loan closing is perhaps too short a time period to assess implementation so the ICR was not able to provide sufficient evidence on this aspect. Finally, political challenges remain significant and changes continue to occur in senior officials.
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:

(i) Satisfactory progress can be made in a difficult political environment by focusing on few key actions, pursuing an active dialogue and consultations with civil society, donors and the Government, monitoring closely the program in conjunction with partners, and stationing key Bank team members in the field office. (ii) The focus should be on implementation of laws and not only on their passage by the Parliament.

8. Assessment Recommended? Yes No

Why? The project is part of a series of projects which are suitable for packaging in a cluster audit. Project lessons would be relevant for future Bank operations.

9. Comments on Quality of ICR:

The ICR is of satisfactory quality. However, the ICR was not able to measure progress against monitorable indicators because they had not been provided for in the loan documents.