



<b>1. Project Data:</b>		<b>Date Posted :</b> 04/28/2003	
<b>PROJ ID:</b> P004001		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Indonesia - Telecom Sector Modernization	<b>Project Costs (US\$M)</b>	1413	1091
<b>Country:</b> Indonesia	<b>Loan/Credit (US\$M)</b>	325	215
<b>Sector(s):</b> Board: GIC - Telecommunications (97%), Central government administration (3%)	<b>Cofinancing (US\$M)</b>	794	640
<b>L/C Number:</b> L3904			
	<b>Board Approval (FY)</b>		95
<b>Partners involved :</b> France, Germany (KfW), Japan Eximbank, US Eximbank, OECF	<b>Closing Date</b>	06/30/2001	06/30/2002
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
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**2. Project Objectives and Components**

**a. Objectives**  
The main objective of the project was to assist the government in implementing a long -term development program for the telecommunications sector aimed at enhancing its international competitiveness through :

- 1) Formulation and implementation of a sectoral legal and regulatory framework .
- 2) Modernization of Indonesia's telecommunications services and network .

**b. Components**  
The project had three components involving the Ministry of Tourism, Posts and Telecommunications (MTPT), the regulatory authority for the telecommunications sector, and PT Telekomunikasi Indonesia (Telkom), a state-owned enterprise and the primary provider of basic telecommunications services :

- 1) **Policy** component of advisory services and capacity building for MTPT to : (i) review and develop the telecommunications legal and regulatory environment to ensure effective entry of private investors and operators; (ii) strengthen MTPT's capacity to manage regulatory issues in the emerging multi -operator environment; (iii) review management and allocation of radio frequency spectrum; and (iv) develop plans for the provision of rural telephone services on a commercial basis .
- 2) **Investment** for Telkom to support improvements in quantity and quality service, and network organization through : (i) installation of local and interexchange networks in switching capacity in Jakarta and Surabaya; (ii) installation of a second fiber optical backbone system between Jakarta and Surabaya; (iii) installation of submarine fiber optical systems in Kalimantan and Surabaya; and (iv) enhancement of information systems to improve Telkom's business processes .
- 3) **Technical Assistance** for Telkom to : (i) strengthen Telkom's project implementation, marketing, customer services, and managerial capacities; and (ii) improve Telkom's managerial capacity through the implementation of its restructuring program .

**c. Comments on Project Cost, Financing and Dates**  
Total project cost was \$ 1,091 million (including \$99 million on interest) compared to the appraisal estimate of \$ 1,413 million. The Bank provided a loan in the amount of \$325 million, of which \$215 million was disbursed and \$100 million was cancelled. The \$100 million cancellation consisted of: \$96.7 million, cancelled at government's request; and \$3.3 million, unused cost savings. The government provided counterpart funding of \$ 137 million compared to the appraisal figure of \$584 million. Contribution from five co-financiers at appraisal was \$504 million broken down, as follows: OECF Japan (\$264 million); Germany (KfW)(\$95 million); France (\$62 million); US Eximbank (\$42 million); and Japan Eximbank (\$41 million). At project closing, the actual co-financiers' contribution was \$640 million. (It is noted that the ICR did not provide a breakdown of co -financiers' contribution at project's closing and ICR figures on co-financiers contributions are not consistent with those in the SAR . This Evaluation Summary used SAR figures.)

Total project cost was lower than appraisal estimates for the following reasons : (i) scaling down of the investment

component for Telkom, particularly on the outside plant network expansion, mainly due to Telkom's decision to reduce capital spending in the aftermath of the 1997 financial crisis and its dampening effects on demand; and (ii) significant cost savings in both the optical fiber and SDH transmission lines because of lower tender costs compared to appraised estimates. The cancellation negatively affected the physical targets of the project, per SAR, but the total lines in service in the sector had been augmented by a significant growth in the number of cellular lines which now exceeds the number of fixed lines. Further, Telkom focused on improving the utilization of its network capacity, reaching a utilization rate of over 80 percent, much higher than its counterparts in Thailand and in the Philippines, according to the ICR.

The project's closing date was extended once to June 30, 2002.

### 3. Achievement of Relevant Objectives:

**1. Formulation and implementation of a sectoral legal and regulatory framework** . *This objective was achieved with only minor shortcomings.* Through consultancy services and dialogue with the government, the following were achieved: (i) passage of a telecommunication law in 1999 which ended the cross-ownership of Telkom and Indosat (a partially privatized state-owned enterprise); (ii) publication in 1999 of a sector policy document providing for increased competition under a two-full service provider policy; and (iii) early termination of the exclusivity rights by Telkom on local and national long-distance services, and by Indosat and Satelindo (a majority privately-owned joint venture with Telkom and Indosat) on international services. However, the project had limited progress in rural communications and radio frequency management. While plans for accelerated provision of rural service on a commercial basis and for modernizing radio management were developed; they were never implemented. The achievement of this objective should be viewed in the context of additional budget provided by the Country Management Unit for AAA activity to advance the sector's policy agenda .

**2. Modernization of Indonesia's telecommunications services and network** . *This objective was achieved with minor shortcomings.* Network expansion and improvements have been undertaken : (i) Over 2.7 million digital line units of telephone switching capacity were installed in about 878 locations; (ii) outside plant facilities and junction network in Jakarta and Surabaya were upgraded and expanded; (iii) modern high capacity optical fiber and submarine cable transmission systems were installed; (iv) transmission systems were expanded in about 20 locations; (v) 15 outside Plant Maintenance Centers were established; and (vi) enhanced information infrastructure and improved training facilities were provided. Further, training was provided to Telkom's staff, resulting in improved staff productivity from 13 staff per 1,000 lines in 1995 to 5 staff in 2001, exceeding the appraisal target of 7. However, quality of service, as measured by local and long distance call completion rates, was below appraisal targets in part due to significant reduction in capital expenditures following the 1997 financial crisis.

### 4. Significant Outcomes/Impacts:

- 1) The target ERR of 31 percent for Telkom's investments was achieved .
- 2) The project contributed to the partial privatization of Telkom and Indosat through public offerings in various stock exchanges (Jakarta, London, and New York); and to the development of Telkom's in-house capabilities in all aspects of operations, reducing its reliance on foreign expertise .
- 3) With increased competition and high levels of private investments, cellular phone subscribers rose dramatically from 210,000 subscribers in 1995 to about 8.6 million in 2002, exceeding the projected fixed-lines in service of 7.4 million in 2002.

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

- 1) The 1997 economic and financial crisis and the difficulty in obtaining authorization from the government to increase tariffs severely affected the viability of international private sector partnerships .
- 2) Implementation of the project's policy component was either delayed or not acted upon because of a number of changes in the institutional set-up and leadership in the Directorate General of Posts and Telecommunications (DGPT), the implementing agency for the policy and regulatory component .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Satisfactory	Satisfactory	
<b>Institutional Dev .:</b>	Modest	Modest	
<b>Sustainability :</b>	Likely	Likely	
<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR :</b>		Exemplary	

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

### 7. Lessons of Broad Applicability:

The ICR provided various lessons which are summarized, as follows :

- 1) In sectors where technological advances occur rapidly, it is crucial to build flexibility into the project to allow for

project realignment that helps drive down costs of service provision .

2) In adopting large-scale build-operate-transfer schemes or other concession type business structures to attract private investments, it is important to establish clear rules and procedures, particularly on tariff setting .

3) Adequate TA for project management and implementation, and continuity of supervision team with the right mix of skills and expertise contribute to successful project implementation .

4) Promoting competition creates multiple channels for investment, accelerates diffusion of best practices, and changes the incentives for improved sector performance .

5) Engaging various key stakeholders and building a constituency for reform are critical in maintaining focus on the reform and in minimizing resistance to change

6) Providing AAA budget to supplement the policy dialogue under the project improves the channel of communication between the Bank and the government, and helps advance the reform agenda .

**8. Assessment Recommended?**  Yes  No

**9. Comments on Quality of ICR:**

Exemplary. The ICR is candid, comprehensive, and very well written . However, it would have been more helpful if the ICR had provided a breakdown of co-financiers contributions and the amount of cost savings per component in order to allow ease of comparison between the ICR and the SAR .