

IEG

ICR Review

Independent Evaluation Group

1. Project Data:		Date Posted : 03/08/2011	
PROJ ID : P113638		Appraisal	Actual
Project Name : Indonesia Sixth Development Policy Loan	Project Costs (US\$M):	750.00	750.00
Country: Indonesia	Loan/Credit (US\$M):	750.00	750.00
Sector Board :	Cofinancing (US\$M):	-	-
Sector(s): General public administration sector (73%) Micro- and SME finance (9%) Other social services (9%) Other domestic and international trade (9%)			
Theme(s): Public expenditure financial management and procurement (36% - P) Regulation and competition policy (19% - S) Tax policy and administration (19% - S) Poverty strategy analysis and monitoring (13% - S) Export development and competitiveness (13% - P)			
L/C Number: L7784			
	Board Approval Date :		09/24/2009
Partners involved :	Closing Date :	03/31/2010	03/31/2010
Evaluator :	Panel Reviewer :	Group Manager :	Group :
Rene I. Vandendries	Ismail Arslan	Ismail Arslan	IEGCC

2. Project Objectives and Components:

a. Objectives:

This ICRR reviews the performance of a programmatic series of development policy operations, comprising the following: Fifth Development Policy Loan - P110191, and Sixth Development Policy Loan - P113638. The focus of Indonesia's DPL program (DPL5 and DPL6 constitute the second series of DPLs) is reform of core central government institutions and systems to help the government achieve its growth and poverty reduction

objectives. The Development Policy Objective (DPO) of the series and of each of DPL5 and DPL6 is defined as to support "government of Indonesia's reform efforts in the following objectives : (i) improve the investment climate; (ii) enhance public financial management and governance; and (iii) improve service delivery to the poor." (Loan Program Summary statement in Program Document for DPL5).

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components (or Key Conditions in the case of DPLs, as appropriate):

There were three component policy areas in each of DPL 5 and DPL6.

(1) Improve the investment climate through improvements in investment regulations, trade facilitation, improvements in tax administration, and facilitation of credit to small and medium enterprises (SMEs). DPL5 also included measures to reduce the vulnerability of the financial sector .

(2) Strengthen public financial management through improved results orientation of the budget process, streamlined budget execution, and improved public procurement systems .

(3) Enhance poverty reduction and improve service delivery through increased funding for poverty programs and improved poverty measurement and targeting of poverty programs .

The prior actions (14 for DPL5 and 11 for DPL6) were very well integrated with these policy objectives and were all met; their specifics and their significance in evaluating the progress of the reform program are discussed below in section 4 on achievements. There were 2 DPO indicators (GDP growth and the percent of people living below the national poverty line) as well as intermediate outcome indicators (14 for DPL5, 13 for DPL6) all but one quantified; their outcomes are also reviewed in section 4 on achievements.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

DPL5 was approved on Dec. 9, 2008 for US\$750 million, and fully disbursed on Dec. 22, 2008. It closed on schedule on March 31, 2009. Parallel financing was provided by the government of Japan (US\$100 million) and the Asian Development Bank (US\$200 million).

DPL6 was approved on Sept. 24, 2009, for US\$750 million, and fully disbursed on Oct. 20, 2009. It closed on schedule on March 31, 2010. Parallel financing was provided by the government of Japan (US\$100 million) and the Asian Development Bank (US\$200 million).

In between and apart from the regular DPL program, in March 2009, the Bank's board approved a US\$2 billion DPL with a deferred drawdown option (DPL-DDO) to the Indonesia Public Expenditure Support Facility to provide contingent budget support. This advanced policy actions to reduce the vulnerability of the financial system which were then removed from the DPL6 policy matrix.

3. Relevance of Objectives & Design:

This second series of DPLs for Indonesia was fully consistent with, and well anchored to, the Bank's FY 09-12 Country Partnership Strategy (CPS). The CPS envisaged that the DPLs continue to be at the center of the WBG's support to strengthen central government institutions and systems . The DPLs were also prepared in close collaboration with Indonesia's major partners in development, i .e. the government of Japan and the Asian Development Bank, thereby ensuring consistency in donor strategies .

The design of the program with its emphasis on improving the investment climate, strengthening public financial management, and enhancing poverty alleviation was appropriate, as evidenced by the fact that all three policy areas feature prominently in the development plans prepared by the newly elected government in 2009.

Overall relevance is rated *high*.

The original plan envisaged a series of 3 annual operations. However, the election of a new government in 2009, with a new development platform though with continued focus on the above three main policy areas, appropriately led the Bank to convert the originally proposed DPL 7 into the start of a new DPL series .

4. Achievement of Objectives (Efficacy):

The outcome on the two PDO indicators (growth and poverty reduction) was remarkable when seen in the context of the global financial crisis. GDP growth, which was 6.2 percent in the 2008 base year, declined to 4.2 percent in 2009 but then rebounded to 6.2 percent in 2010. The percent of people living below the national poverty line continued to decline from 15.4 percent in 2008 to 14.2 percent in 2009 and 13.3 percent in 2010. The outcomes on the three components of the program are reviewed next.

Improve the investment climate.

The focus was on investment regulations, trade facilitation, improvements in tax administration, and credit facilitation to SMEs. The existing negative list of areas closed to foreign investment lacked clarity and created uncertainty. Prior actions included a review and revision of the list (DPL5) and a draft of new regulations on the list endorsed by an interministerial review (DPL6). Eventually, a 2010 Presidential decree on the negative list established legal clarity. In addition, as a prior action for DPL6, one-stop shops were established and regulations issued to simplify the steps needed to set up domestic and foreign companies.

In order to facilitate and simplify procedures for exporting and importing, implementation of Indonesia's National Single Window was expanded as a prior action for DPL5 and a draft proposal for its full operation submitted for approval (DPL6). In order to improve and modernize tax administration, implementing regulations for the Tax Administration Law were issued as a prior action for DPL5, while prior actions for DPL6 included decrees to facilitate taxpayer registration and filing (recognition of digital signature) as well as to facilitate filing for businesses.

Finally, to improve access to credit for SMEs, as a prior action for DPL5 the path was cleared for the legal establishment of credit guarantee institutions while regulations were issued as a prior action for DPL6.

Also, to reduce the vulnerability of the financial system, the Financial Sector Stability Forum (primarily a supervisory body) was made operational as a prior action for DPL5. The DPL-DDO subsequently obviated the need for further action in DPL6.

The evolution of the intermediate outcome indicators in this area shows satisfactory trends, on balance. Largely because of the global crisis, the I/GDP ratio declined slightly, from 26 percent in 2008 to 23.4 percent in 2009 and 2010. FDI dropped substantially from US\$9.3 billion in 2008 to US\$4.9 billion in 2009, but then stabilized. On the other hand, the number of days to start a business declined from 105 in 2007 to 60 in 2009; the number of procedures to start a business dropped from 12 in 2007 to 9 in 2009; non-oil exports declined in 2009 but then rebounded strongly in 2010; non-oil tax revenue over GDP remained steady. The share of non-performing loans dropped slightly from 3.2 percent in 2008 to 3 percent in 2010, and MSE loans to total banking loans grew from 50 percent in 2008 to 52 percent in 2010.

On balance, efficacy in reaching the investment climate objective is rated *satisfactory*.

Strengthen public financial management.

The focus was on improving the results orientation of the budget process, streamlining budget execution, and improving public procurement systems. A Treasury Single Account (TSA) was established under the first DPL series (1 through 4) and its implementation proceeded further under DPL5 and DPL6.

In order to improve the results orientation of the budget process, prior actions for DPL5 sought to better align the budgetary process with organizational structures, while prior actions for DPL6 focused on developing a revised program structure for medium term development planning with measurable results and targets, thereby launching performance based budgeting.

Streamlined budget execution was pursued through requiring budget implementation statements to be issued at the beginning of the year and issuing regulations on accounting systems of line ministries (prior actions for DPL5) while all revenue accounts were to be promptly incorporated in the TSA (DPL6). Good progress was made towards implementing an integrated financial management system.

In the area of procurement, a prior action for DPL5 was to make the procurement office operational by recruiting staff and allocating budget, while DPL6 contained as prior action submission of a revised presidential decree on procurement to line ministries for review.

A prior action for DPL5 aimed to initiate reform of the bureaucracy, but the effort was abandoned in DPL 6 because election year conditions made it unlikely to be successful .

The three intermediate outcome indicators in this area were all achieved . The rate of capital spending by mid-year accelerated significantly from 16 percent in 2008 to 25 percent by 2010. The number of line ministries receiving qualified opinions on their financial statements dropped from 30 in 2008 to 21 in 2010. A National Public Procurement office was established and made operational .

Efficacy in reaching the objective of strengthening public financial management is rated *satisfactory*.

Enhance poverty reduction and improve service delivery .

The focus was on increased funding for poverty programs and improved poverty measurement and targeting . Prior actions for DPL5 were to institutionalize a system for monitoring and evaluation of government programs, begin establishing a uniform database for poverty monitoring, and raise the quality of public education through teacher incentives. The latter objective was dropped in DPL 6 because the need to improve poverty targeting was judged to be more urgent. The one prior action for DPL6 was to rely on poverty targeting to determine the size of sub-district community block grants.

Good progress was made on all three intermediate outcome indicators in this policy area . The share of household targeted spending in total public spending increased substantially in 2008 compared to 2007, but then declined in 2009 to a level still above 2007 as the cash transfer program was ended because of poor targeting. The share of community targeted expenditures in total public spending increased from 0.6 percent in 2007 to 1.4 percent in 2009. The average size of community block grants for the poor sub -districts grew from Rupees 1.4 billion in 2008 to Rupees 2.4 billion in 2010.

Efficacy in reaching the poverty reduction objective is rated *satisfactory*.

5. Efficiency (not applicable to DPLs):

N.A.

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :

	Rate Available?	Point Value	Coverage/Scope*
Appraisal		%	%
ICR estimate		%	%

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

This outcome rating is for the entire programmatic series, comprising DPL 5 and DPL6. As explained in Section 3 above, the relevance of this DPL series was high both in terms of its objectives and design . It was consistent with the Bank's CPS, with government objectives, and with other donor programs, and it was designed to reform core government institutions and programs . Good progress was made in all three targeted policy areas --the investment climate, public financial management, and poverty reduction .

In spite of the global financial crisis GDP growth has remained positive and stood at 6.2 percent in 2010. The I/GDP ratio and FDI, though below the levels reached in 2008, appear to be recovering. The percent of people living below the national poverty line has continued to decline from 15.4 percent in 2008 to 13.3 percent in 2010.

As compared with the first DPL series (1 through 4) there has been good progress in improving the targeting of poverty programs, in public procurement reform, and in the execution of capital spending .

a. Outcome Rating : Satisfactory

7. Rationale for Risk to Development Outcome Rating:

The achievements under the first as well as under this second DPL series suggests that Indonesia can undertake and maintain a substantive reform effort with little risk of reversals . This record owes much to the strong consensus on reforms developed within the government in close cooperation with the Bank . Reforms such as those in the area of public financial management and in poverty alleviation efforts are highly likely to be sustained. At the same time, as shown by recent developments, Indonesia is not immune to world events and it is not yet fully clear to what extent these may affect future foreign investment inflows or further improvements in the investment climate. Yet, the success with which the country has weathered the recent crisis bodes well for the future.

a. Risk to Development Outcome Rating : Moderate

8. Assessment of Bank Performance:

The Bank worked closely with the government to design a program that addressed substantive government institutional and systems reforms and, at the same time, was bureaucratically and politically feasible driven by the government's own reform agenda . The program was grounded in solid AAA and was prepared in close collaboration with the Government of Japan and the Asian Development Bank . Supervision was continuous in the process of developing new steps in the DPL program, and benefited much from the presence of a strong technical team in the field .

a. Ensuring Quality -at-Entry :Satisfactory

b. Quality of Supervision :Satisfactory

c. Overall Bank Performance :Satisfactory

9. Assessment of Borrower Performance:

The Borrower always viewed the DPL program as its own program and hence was totally committed . This was reflected in implementation without delays . As implementing agency, the Coordinating Ministry of Economic Affairs worked intensely with Bank counterparts and successfully ensured cooperation from the multiple government ministries and agencies involved in the program .

a. Government Performance :Satisfactory

b. Implementing Agency Performance :Satisfactory

c. Overall Borrower Performance :Satisfactory

10. M&E Design, Implementation, & Utilization:

The *design* of an M&E system was an integral part of the program . The M&E framework included baseline data for the development outcome as well as the intermediate outcome indicators . *Implementation* of the M&E system relied on government statistics and surveys, while the presence of a strong Bank team in the field allowed for close monitoring of the program overall . In terms of *utilization*, the emphasis in the DPL program shifted as needed. Thus for instance, the DPL-DDO obviated the need for further focus on financial sector vulnerability in DPL6. In view of the continued problem of substantial pockets of poverty, the emphasis in the DPLs shifted from raising the quality of education to improving targeting of poverty programs . Also, political sensitivities with respect to civil service reform in an election year led to abandoning these reforms as part of this DPL series.

a. M&E Quality Rating : Substantial

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

12. Ratings:	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Risk to Development Outcome:	Moderate	Moderate	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Performance :	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTES:

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate .

13. Lessons:

The ICR provides good lessons, especially the following two which also grew out of the first DPL series in Indonesia.

First, government ownership of the reform program is always fundamental for success . This implies that the government must see the program as its own which requires flexibility on the part of the Bank . If certain reforms are not bureaucratically or politically feasible at the time, the reform program may have to proceed at a slower pace than desired. Yet, as long as the reform program remains significant, successful achievements and progress are likely while the unresolved issues have at least been brought to the table for discussion . Second, the presence in the field of a strong technical team allows for a continuous productive dialogue and hence progress on reform.

14. Assessment Recommended? Yes No

Why?

The Indonesia DPL program has been very successful . More can be learned from success than from failure . The reasons for this success should be evaluated thoroughly, in order to provide lessons for future DPL operations. This is especially important because DPLs are rapidly becoming one of the Bank's major lending instruments.

15. Comments on Quality of ICR:

The ICR is comprehensive, clear and concise . It contains enough information to adequately assess the outcome of the program. The discussion of design, implementation and utilization of monitoring and evaluation could have been more thorough . The information provided in the Basic Information data sheet is complete with baselines and actual results for all DPO and intermediate outcome indicators . There are no apparent errors except that the data sheet for the intermediate outcome indicators for DPL 6 is mislabeled as DPL5.

a. Quality of ICR Rating : Satisfactory

