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PERFORMANCE AUDIT REPORT

INDONESIA

TECHNICAL ASSISTANCE PROJECT FOR PUBLIC AND PRIVATE PROVISION OF INFRASTRUCTURE (TAP4I)
(Loan 3385-IND)

June 21, 1999

Operations Evaluation Department

Currency

Currency Unit = Rupiah (Rp)

as of January, 1992	Rp 1 million = US$502
	US$1 = Rp 1,992
as of March, 1997	Rp 1 million = US$425
	US$1 = Rp 2,350
as of August, 1997	Rp 1 million = US$90.29
	US$1 = Rp 11,075

Abbreviations and Acronyms

BAPPENAS	National Development Planning Agency
BINKOT	Directorate of Urban Road Development
BOOT	Build Own Operate Transfer
DGEED	Directorate General of Electricity and Energy Development
EA	Executing Agency
ERP	Expert Review Panel
GOI	Government of Indonesia
ICR	Implementation Completion Report
IPP	Independent Power Producer
KEPPRES	Decree of the President of the Republic of Indonesia
OED	Operations Evaluation Department
PAR	Performance Audit Report
PDP	Project Documentation Package
PERUMKA	State Railway Company
PJP	Second Long Term Plan
PLN	National Power Utility Company
PSP	Private Sector Participation
PMU	Project Management Unit
REPELITA	Five Year Development Plan
SURIP	Strategic Urban Road Infrastructure Project
TA	Technical Assistance
TAP4I	Technical Assistance Project for Public & Private Provision of Infrastructure
TOR	Terms of Reference

Fiscal Year

April 1 – March 31

Director-General, Operations Evaluation:	Mr. Robert Picciotto
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The World Bank
Washington, D.C. 20433
U.S.A.

Office of the Director-General
Operations Evaluation

June 21, 1999

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Performance Audit Report on Indonesia: Technical Assistance Project for Public and Private Provision of Infrastructure (TAP4I; Loan 3385-IND)

Attached is the Performance Audit Report on the Indonesia Technical Assistance Project for Public and Private Provision of Infrastructure (TAP4I; Loan 3385-IND for US$30 million equivalent, approved in FY91). The project was closed on March 31, 1997, about two and a half years behind schedule. US$5.9 million equivalent was cancelled.

TAP4I was the first free-standing TA project financed by the Bank in Indonesia since the mid-1980s. Its major objectives were to: (1) assess priorities in current infrastructure plans for reducing infrastructure bottlenecks; and (2) enhance BAPPENAS' (National Development Planning Agency) program evaluation capability and augment the project preparation capability in the line agencies responsible for key infrastructure sectors, including projects financed by or jointly with the private sector. The project was designed to be implemented under the authority of a Project Management Unit (PMU). Establishment of the PMU within BAPPENAS was the only project-specific loan covenant. The loan did not require any counterpart funds. It financed all expenditures, except the salaries of GOI staff seconded to the project.

The project had a slow start but accelerated after June 1993. The initial difficulties stemmed from organizational problems in the PMU and inadequate guidance to Project Implementation Units or sector agencies which lacked technical resources, staff and familiarity with procedures (notably in drafting Terms of Reference). The PMU was reorganized and staffed with high-level officials from BAPPENAS. Standard Project Documentation Packages (PDP) were introduced. These substantially improved implementation.

The project achieved both its objectives. With respect to the first objective, it substantially helped in assessing priorities in current infrastructure plans to reduce identified bottlenecks. Requirements were clarified and coherent action plans were designed. Clear conditions for private sector participation (PSP) were formulated. This was achieved through major studies of which the GOI, later on, internalized the conclusions and recommendations. The subsectors that mostly benefited were: *urban roads*, with extensive work that ultimately facilitated the approval of a related Bank loan; *railways* with studies that (a) recommended an appropriate regulatory framework and designed an operational medium term program, and (b) provided support for the preparation of the Railway Efficiency project; *power*, with a study that clarified PSP issues and provided the basis for the August 1998 power sector restructuring policy; *water supply*, with related studies and reports concerning the Surabaya region: the latter studies failed to result in concrete achievements (because of disagreements with potential private partners as well as between various government branches) but this failure nevertheless had a positive aspect because it helped in identifying the basic difficulties that had to be overcome. Finally *rural infrastructure* benefited with a general study that became a reference (both within the GOI and the Bank) for the design of a Village Infrastructure Project and other projects aimed at reducing poverty.

The second objective of improving BAPPENAS' program evaluation capability and project preparation capability in decentralized entities was also substantially achieved. BAPPENNAS became knowledgeable about PSP issues. It was instrumental in the drafting of KEPRES 7, a presidential decree that stipulates the modalities of cooperation between the Government and the private sector for the development and/or the management of infrastructure. It also worked as an effective forum, which helped the dissemination of concepts, ideas and measures related to PSP. Project preparation capability in decentralized entities also improved, although unevenly. PLN, the power utility and the Directorate General of Electricity and Energy Development (DGEED) were enabled to go through the whole process of PSP and the correlative public company restructuring. PERUMKA (State Railway Company) was enabled to transform itself into a commercial entity while assuming some public service obligations. PERUMKA is now familiar with those cost-effectiveness considerations that are basic for the survival of a commercial entity. Entities responsible for port facilities were helpfully assisted by consultants' teams, which clarified issues related to public service requirements and PSP in specific projects (container terminals in Jakarta or in Surabaya, coal port in Kalimantan). BINKOT (the Directorate for Urban Road Development) benefited from in-house advisory services that enabled it to increase PSP in toll roads. BINKOT is now in a good operational position to autonomously prepare a Second Highway Project. The experience with other decentralized bodies (especially in water supply) was more disappointing; the borrower was also not sufficiently aware of the fact that the eventual goal of TA activities was signing a contract with the relevant private sector entity for the management of the selected infrastructure. As a result only 7 contracts were signed for US$3.25 million whereas the list of approved subprojects represented US$24.1 million.

The project benefited from close cooperation between the Bank and BAPPENAS, and safeguards planned in the form of more than standard supervision requirements. Supervision was excellent during project implementation. The supervision team remained the same, ensuring continuity and consistency: it suggested agreed with BAPPENAS on corrective measures (such as speeding up the establishment and increasing the effectiveness of PMU, providing assistance to sector agencies, reviewing carefully terms of reference and project documentation packages) when it appeared that the project was lagging behind schedule. However, in view of the large number of subsectors addressed in the project, the supervision team was somewhat small and focussed on a few specializations. As a result, time consumed in reviewing documentation substantially exceed expectations and certain subsectors were neglected.

The Evaluative Memorandum for TAP4I rated outcome as marginally satisfactory, institutional development impact as modest, sustainability as likely and Bank performance as satisfactory. On the basis of the above, this audit rates the outcome as satisfactory, sustainability as likely, and institutional development impact as substantial. Bank performance is rated as satisfactory.

A number of lessons can be drawn from this project: (i) counterpart funding should be included to ensure ownership of the project; (ii) for PMU to be effective it must be staffed with key decision makers with access to high level officials in both BAPPENNAS and the executing agencies; (iii) TA projects involving executing agencies/decentralized units should make clear to them not only the intermediate results (studies) from project components but also expected outputs (in this case contracts to be concluded with the private sector) and (iv) good supervision and continuity in the supervision team are critical for project success. The size and skill mix of supervision teams should be based on the project complexity and the number of sub-sectors targeted.

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This report was prepared by Ivan Christin (consultant), who audited the project in 1998, with Poonam Gupta as the Task Manager. Geri Wise provided administrative support.

Preface

This is a Performance Audit Report (PAR) for the Technical Assistance Project for Public and Private Provision of Infrastructure (TAP4I) in Indonesia for an amount of US$30 million equivalent. The loan (Loan 3385-IND) was approved on June 27, 1991, and became effective on November 4, 1991.

The loan initial closing date was June 6, 1994. After two extensions, the loan was closed on March 31, 1997. The final disbursement application was received on September 10, 1997. The loan was closed on September 10, 1997, with a refunding of the outstanding amount advanced to the Special Account and cancellation of US$5.9 million. Total cumulative disbursements amounted to US$24.1 million.

This PAR is based on the President's Report, the Loan agreements, project files, the Implementation Completion Report (ICR) and discussions with Bank staff. An OED mission visited Indonesia in August/September 1998 and discussed TAP4I related issues with GOI's officials and representatives of the involved bodies. Their kind cooperation is gratefully acknowledged.

The draft PAR was sent to the Borrower for comments; the comments received are reproduced as Annex 1 to the report.

Ratings and Responsibilities

Project Performance Ratings

Outcome	Satisfactory
Sustainability	Likely
Institutional Development	Substantial
Bank Performance	Satisfactory
Borrower Performance	Satisfactory

Project Key Responsibilities

	Task Manager	*Division Chief*	*Director*
Appraisal	Stuart Whitehead	Lars A. Jeurling	Russell J. Cheetham
Completion	Alain Locussol	Richard Scurfield	Dennis de Tray

ICR prepared by: EASUR.

1. Background

1.1 The Republic of Indonesia is an archipelago of more than 13,000 islands, with a land area of about 2 million square kilometers. Both its size and its geographical structure already make it a complex country. Indonesia's complexity has further increased over the past twenty-five years for economic reasons. From being based on its rich natural resources endowment, the economy has rapidly evolved towards being more diversified and industrialized. Major large and densely populated islands have seen the development of urban centers (Jabotek, Bandung, Surabaya). The combined and interacting forces of industrialization and urbanization have also been at the origin of new environmental problems: the increase of congestion, of industrial or household waste and of air pollution. All these factors have compelled the Government of Indonesia (GOI) to be more aware of infrastructure needs and to reassess its conventional role of basic provider of infrastructure.

1.2 Since the early 1980s, the GOI has allocated over 40 percent of its development expenditure to infrastructure.[1] While these efforts have increased the stock of infrastructure they remained insufficient. An unmet demand was still observed from both a quantitative and a qualitative standpoint. Quantitatively, industrial and urban growth have outpaced the supply of infrastructure services. Qualitatively, economic diversification and an expanding urbanized middle-class have resulted in the emergence of much more demanding customers expecting the most modern standards of infrastructure services with corresponding variety and reliability.

1.3 The Government recognized that merely increasing the level of government investment in infrastructure would not suffice, that it was probably not in the best position and did not have the resources to plan, design, construct, and operate a large variety of infrastructures for such a complex geographical system. So complementary and/or alternative solutions needed to be sought out. The government considered: **first**, increasing cost effectiveness at all levels of planning, construction and service delivery of related infrastructures; **second**, tailoring infrastructure to location specific needs thus putting a premium on the capability and efficiency of local decision makers (local agencies, local governments, municipalities, etc.), and **third**, involving the private sector. However, both the decentralized approach and the private sector approach came up against major issues: Indonesia's framework for regulation and governance was unsuited; institutional responsibilities were fragmented; policies, technical standards and financial arrangements were outdated; central ministries were too much involved in project execution; and environmental concerns had yet to be firmly integrated into the overall picture. A brand new global strategy had therefore to be designed. It was with this background that the Technical Assistance Project for Public and Private Provision of Infrastructure (TAP4I) was prepared. It was the first free-standing TA project financed by the Bank since the mid-1980s in Indonesia.

2. Objectives and Design of the Project

2.1 The Government adopted in March 1991 a general framework for infrastructure development with five objectives: (a) maximizing the efficient use of existing infrastructure; (b) reducing lead time for expanding infrastructure network; (c) decentralizing infrastructure

[1] During Repelita V (1989-1993), Indonesia's fifth five-year development plan the investment program for the major infrastructure subsectors was expected to amount to about 5 percent of GDP.

responsibilities to regional authorities, state corporations and possibly private enterprises; (d) improving the information provided to policy makers on infrastructure development needs; and (e) maximizing the use of related existing studies.

2.2 The GOI requested the Bank to provide assistance in applying this framework through a TA project. The project had the following major objectives: (a) assess priorities in current infrastructure plans to reduce related identified bottlenecks; and (b) augment and enhance program evaluation capability (including cross-sectoral linkages and environmental aspects) within BAPPENAS, and project preparation capability in decentralized bodies including for projects financed by or jointly with the private sector.

2.3 A Project Management Unit (PMU) would be set up which, in addition to its day-to-day ordinary management tasks, would establish model monitoring systems for subsequent use by BAPPENAS (National Development Planning Agency) and/or decentralized public/private entities.[2] The estimated cost of the PMU was US$1.3 million equivalent. Basic office equipment and initial staff training would be made available to the project at an estimated cost of US$700,000. The core of the Project would consist of four types of activities:

(a) The setting up of **Expert Review Panels** (ERPs) which would: (i) review and advise on existing infrastructure policy studies; (ii) oversee the work of study teams related to private sector participation, pricing policies, cross-sectoral aspects of infrastructure development, environmental implications of infrastructures; (iii) formulate a global view on infrastructure development and (iv) help in preparing terms of reference (TORs). The cost was estimated at about US$3.3 million equivalent.

(b) The hiring of **in-house advisers** (as individuals or as small teams) by either BAPPENAS or decentralized entities. These advisers would, on agreed TORs, perform specific tasks that required specific policy analysis, expenditure program formulation, long-term views on administration and procedures (e.g. procurement, performance monitoring, etc.). They would transfer their know-how to counterpart staff. The cost of this component was estimated at US$4.9 million equivalent.

(c) The setting-up of **Study Teams**. These would be *ad hoc* teams, which would: (i) prepare studies on subsectoral infrastructure strategies, under relevant BAPPENAS' bureau guidance; (ii) evaluate cross-sectoral linkages; (iii) prepare proposals for selected public enterprises restructuring under the guidance of the relevant public enterprise; (iv) review and recommend improvements in infrastructure services pricing policies; and (v) advise on arrangements for private sector participation. A process of know-how transfer to counterpart staff was also expected to take place. Total cost of this component was estimated at US$11.7 million equivalent.

(d) **Pre-Investment Studies** for a limited number of priority investments for which basic policy issues would have been identified and resolved beforehand. These studies would be contracted and supervised by the concerned public agency. They were estimated to cost about US$14 million equivalent.

2.4 TAP4I's focus was left open-ended. The President's Report did not mention any specific infrastructure sector on which to focus. Rather, all infrastructure subprojects were potential

[2] The only project-specific Loan covenant was the establishment of the PMU within BAPPENAS.

candidates as long as they met the broad project objectives, the scope of lending available, and had the support of BAPPENAS and the executing agencies. However, the Bank would be submitted TORs, implementation schedules and estimated costs of subprojects for prior review and approval. This would be done within the Bank's EACIF (Resident Mission in Indonesia).

3. Implementation

3.1 The project had a slow start but accelerated after June 1993 with the number of contracted subprojects peaking substantially between January and September 1995. After this it experienced another slowdown until its closing date. This uneven pace of implementation was caused by several factors (paras 3.2-3.6).

3.2 **First**, the PMU was initially not properly organized to globally manage the project. In June 1993 BAPPENAS was reorganized and the PMU was strengthened. After its reorganization, the PMU took a more pro-active role.
Since then, the PMU consisted of:

(a) a Steering Committee (Level 1) consisting of 15 members chaired by BAPPENAS' Vice-Chairman who was in charge of the overall strategic management of the project (including the selection of subcomponents);

(b) an Executive Team, (Level II) in charge of day to day management, monitoring, evaluating and reporting on outputs of the project. This team consisted of 5 members and was chaired by BAPPENAS' expert staff in charge of Research and Policies on Infrastructure Development;

(c) a Project Director (level III civil servant from BAPPENAS) and a Treasurer;

(d) external assistance consisting of: (i) support from an Indonesian consulting firm (PT Centra Cendana Prima) which, from 1992 to 1998 provided 344 manhours/month for a cost of US$1,100,000; and (ii) support from a foreign consulting firm (Hickling Corp.) which provided about 60 manhours/month of advisory services for a cost of US$1 million for the period between November 1992 to July 1997.

3.3 **Second** and in parallel, PMU's poor organization resulted in a lack of guidance to Project Implementation Units or sector agencies which lacked the technical resources, the staffing and the familiarity with procedures (notably drafting TORs). Some executing agencies considered the TAP4I project as a useful device to promote and finance their own priority subprojects whereas their focus should have been PSP. It was only when, through a time-consuming learning by doing process, the PMU introduced a Standard Project Documentation Package (PDP) that related improvements occurred.

3.4 **Third**, processing time for TA contracts financed by the loan was perceived to be long. A survey carried out by the PMU showed that for projects that had to go through procedures of competitive selection process, an average of 265 days were needed to reach final agreement on the TOR and PDP. For contracts awarded based on direct appointment, an average of 172 days were still needed. Delays directly attributable to the Bank for final review of the PDP for TA awarded after open competition amounted to 45 days.

3.5 The issue of disbursements was further complicated when it became obvious that a cumbersome invoicing process had been put in place. Involved consultants complained that they had to spend on average 20 percent of their time in only preparing invoicing documentation in accordance with the requirements. Unnecessary delays characterized the processing and the final settlement of the related invoices. Several executing agencies and their contracted consultants threatened to stop additional work.

3.6 **Fourth**, procurement delays occurred even though the PMU streamlined procedures for procuring TA contracts; in fact, the PMU tended to become an additional step in already complex procedures. The PMU survey showed that delays directly attributable to the Bank for reviewing the evaluation report and the draft contract totaled about 62 days (18 days for directly appointed TAs). The issuance of new guidelines within the GOI (KEPPRES no. 16) also contributed to delays as the executing agencies needed time to understand and implement it.

4. Project Outcome

4.1 Despite these difficulties during implementation, the project generated many relevant and substantial outcomes.

4.2 The project helped the GOI to clearly assess the **priorities in current infrastructure plans to reduce related identified bottlenecks.** Related action plans were formulated. Conditions necessary for private sector involvement in infrastructures were also clarified. This was mostly achieved through major studies of which the Government later on internalized the conclusions. The major focus has been on the power and transport sectors; the urban sector received less emphasis. Amongst these studies several deserve mention:[3]

(a) A Report on a Strategic Assessment for Preparation of the Primary Urban Road Component of the Proposed Strategic Urban Road Infrastructure Project (SURIP) provided assistance to the Directorate of Urban Road Development (BINKOT). This work included the screening of several competing projects, the feasibility analysis, the initial (year 1) engineering design, the outline designs for subsequent years of implementation and a concept analysis of potential future projects. It substantially helped in the Bank's approval of the related SURIP loan.

(b) A Report on the Formulation of Proposals for Further Institutional Development of Indonesia's Railway Sector identified, developed and evaluated possible alternative models for short, medium and long term development of the institutional structure and regulatory framework for Indonesia's railways. It recommended a preferred model, formulated an outline of an action plan and a medium term program for its implementation. This report has been used by the GOI for the restructuring of the Indonesian railways.

(c) A report reviewing and prioritizing the Performance Improvement and Investment Plan for the Indonesian State Railways contributed to clarifying PERUMKA's (the State Railway Company) investment requirements, setting the stage for a Bank financed project and in helping the GOI to formulate a second stage of commercialization for PERUMKA. Another Report on the Jakarta-Bandung Railway corridor analyzed the short and medium term development

[3] Back-to-Office-Report, May 14, 1996.

options and provided support for the preparation of the Railway Efficiency Project.

(d) Several final reports concerning the Development of Private Power provided recommendations and draft regulations, guidelines and plans on several critical subjects in order to achieve the GOI policies and objectives for involving the private sector in power activities. The conclusions were internalized by the GOI (through the DGEED) when it started to develop policies for private provision of power and to restructure PLN (the national power company) and other related agencies.

(e) Reports on the Umbulan Bulk Water Supply Project were intended to prepare general policies for the Umbulan spring based on technical assessments (geological, hydrological, and environmental). They were also aimed at updating water utilization plan in the Surabaya region. This component confirmed the availability of an alternative water supply for the Surabaya region although it was very expensive. An Expert Review Panel was put in place in order to assist the GOI in reviewing an unsolicited buy, own, operate, transfer (BOOT) proposal for water production. The GOI dropped the BOOT proposal. It decided to develop the project with public financing with initial preparation financed from TAP4I funds. This project was also dropped. Currently there are ongoing discussions with private promoters to develop the project. However, disagreements between various government branches still hamper further developments.

(f) TA reports for the Identification of Transport, Trade and other Constraints Impeding Income Growth in Poor Rural Areas became a reference both within the GOI and the Bank for the Village Infrastructure Project (VIP) and other presidential initiatives for poverty reduction (INPRES DESA TERTINGGAL).

4.3 The project significantly enhanced BAPPENAS' program evaluation capability (including cross-sectoral linkages and environmental aspects). First, BAPPENAS acquired a good understanding of how to create a good environment for PSP. Second, BAPPENAS was able to draft a new regulatory framework for PSP in infrastructure. This work was finalized with the issuance of a government decree known as KEPPRES 7[4] (see Annex 3 for more details). Third, the PMU worked as an effective forum for the both the discussion and decision making on many cross-sectoral issues concerning the development of infrastructures and the participation of the private sector. However, so far, this approach has not been effective in convincing line agencies of the benefits to be expected from an increased private sector participation, namely the provision of better quality services at lower prices for consumers. Lastly, it remains to be seen whether or not BAPPENAS improves its evaluation capability in environmental aspects.

4.4 With regard to the objective of **enhancing project preparation capability in decentralized bodies possibly involving private entities**, the overall outcome has been satisfactory although somewhat uneven across the subsectors (paras 4.5-4.7).

4.5 **In the power sector,** the TA financed technical and tariff consultants, who, among other tasks, developed a detailed financial model that was used to provide input for reaching an agreement with a consortium of international and local companies on the Paiton private power generation project. However, the purchasing power agreement that was finalized (several months

[4] Decree of the President of the Republic of Indonesia, 1998, No. 7, on Cooperation between the Government and Private Sector for the Development and/or Management of Infrastructure, Jakarta, January 12, 1997.

after the completion of the TAP4I-financed services) appeared to have too many escape clauses very favorable to the IPP.[5] In addition the formula for calculating the price at which PLN would buy electricity from the IPP could lead to very high prices.[6]

4.6 The DGEED (Directorate General of Electricity and Energy Development) was efficiently assisted in developing arrangements for soliciting proposals for private power projects (one for coal and gas plants, one for geothermals), but few projects were actually solicited due to the flood of unsolicited proposals enjoying strong political support. The TA also financed a study concerned with the regulatory framework and overarching strategy for private sector participation in the power sector. This excellent work provided the basis for the August 1998 power restructuring policy (Annex 4). The total cost of the TA for the power sector has been estimated at US$6.5 million.

4.7 In the **transport sector** also the outcome was satisfactory. PERUMKA (The National Railway Company) benefited from the work done by the consultant, especially in defining public service obligations, defining track access status and calculating all cost components including those related to the infrastructure maintenance operations. To enable PERUMKA to act as a commercial entity, the work helped by providing adequate separation of functional and financial, (including the subsidy component in the pricing of economy class tariff) responsibilities between the Government and the Company.

4.8 The opportunities for expansion of PSP in **port facilities** were greatly enhanced by the project. The Southern Sumatera and Western Java port strategy study was of a high standard. It was instrumental in shaping decisions on the development of major new port capacity near Merak in West Java.

4.9 Similarly BINKOT (the Directorate for Urban Road Development) benefited from in-house advisory services for streamlining an increased PSP in **toll roads** for which two feasibility studies were completed. In addition, one expert review panel was organized to prepare the Second Highway Project.

4.10 For the transport subsector as a whole, the project cost incurred was estimated at US$12.5 million.

4.11 In **Urban Infrastructure and Regional Development,** the outcome was mixed. The audit mission identified three major obstacles. The first obstacle was the lack of operational contacts with local authorities responsible for the delivery of services such as water supply, sewerage, sanitation, solid waste collection and disposal. The second major obstacle was the Government's failure to prioritize its choices. The third one was the specialization of Bank staff supervising the project.[7] As a result the related outcome was negligible. An unsuccessful attempt

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[5] For instance, no clauses for revision in case of changes in the macroeconomic conditions, etc.

[6] Adjustments of charge rates (x_t) of a given period are defined through formulas such as: $x_t = x * (RD_t/RD_0)$ where RD_t = the Indonesian Rupiah to US$ exchange rate to be applied during period t, and RD_0 = the initial agreed base exchange rate of Rupiah to US$ = 2 165 Rp/US$. Such formulas remain acceptable as long as there are only small fluctuations in the exchange rate. With devaluation on such a big scale as that recently experienced in Indonesia (in August 1998, the exchange rate was 1US$ = 11,000 Rupiahs), the mechanical application of those formulas leads PLN to buy electricity at 6 cents/kWh whereas it cannot currently (for obvious reasons) sell electricity above 2 cents/kWh.

[7] Water supply projects were few in number and even those that were there had to be shelved. The concerned officials felt that the Bank was reluctant to support this subsector. The mission was given the example of a project for which the TORs submitted to the Bank underwent 20 round trips between the

at involving the private sector was made with the Umbulan Bulk Water Supply Scheme, which benefited from the organization of one expert review panel and from a project preparation. However, TAP4I assisted in project preparation for two Bank loans: the Urban Roads Infrastructure Project (Ln. 4054-IND) and the Village Infrastructure Project in Java (Ln. 3888-IND). It also helped the digital mapping system for the Ministry of Public Works. Specific parts of more general policy studies helped BAPPENAS in: (a) improving its overall planning process in Repelita VI and in the second long term plan (PJP); (b) improving its regional planning process based on an enhanced knowledge of regional economies; (c) improving its urban development planning process; and (d) focusing on the economics of poor rural communities with a view of relaxing the identified constraints to income growth. Total cost for this subcomponent was estimated at US$4.2 million.

5. Overall Assessment

5.1 The project ultimately generated a **satisfactory outcome** although a portion (about 20 percent) of its initial funding was canceled.

5.2 The project was based upon implementing a complex set of tasks: assessing the needs of heterogeneous subsectors, identifying subprojects, screening subproject proposals, drafting TORs for various involved participants, organizing procurements, organizing negotiations for final contract signing. In addition, the project had to set up adequate institutional arrangements: a PMU that would manage the project, Expert Review Panels that would clarify major global or specific emerging issues, in-house advisers, *ad hoc* study teams, public agencies that would contract and supervise pre-investment studies. Last but not least, this machinery had to work in coordination with that of the Bank. Some problems were therefore unavoidable. A key problem was an inadequate number of subprojects meeting BAPPENAS' requirement for project appraisal. As a result considerable effort had to be deployed in preparing quality TORs and PDPs during the implementation of TAP4I. In addition there was the initial problem of a passive PMU. Time lost was difficult to make up because the implementation experience demonstrated that the average time to process TA contracts financed by the Loan was substantially longer than initially expected: on average 506 days for those going through competitive bidding (standard TAP4I time was 160 days), and on average 307 days for those submitted to a direct appointment procedure (standard TAP4I time was 86 days). The TA was to be implemented under a relatively tight schedule (the project became effective on November 1991 and was planned to be closed on June 1994, i.e. an implementation period of 2.5 years).

5.3 Despite these failures the project resulted in a significant number (30) of TA activities. The GOI was satisfied with a large majority of them since it rated as "good" the quality of the output of 22 of them, and the impact of 20 of them. 23 TA operations were followed by significant actions. The project only marginally reached some of the subsectors initially targeted: water supply, sewerage, waste collection, village infrastructure (this latter being critical for poverty reduction). Also, environmental issues were not tackled at all. The project's major achievements were in the transport sector and in the power sector. The study which led to the implementation of the Paiton 1 project is considered as a model with implications going well

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Bank and the Ministry. At each stage, requested adjustments were made. However, in the next stage, inexplicably to Ministry's staff, Bank staff raised new objections, made new comments, even changed its mind. In the end, the project was dropped. Ministry's staff ultimately attributed this to the lack of familiarity of Bank staff in charge of supervising the project with water supply issues.

beyond the power sector itself. Lastly, BAPPENAS substantially improved its evaluation capability.

5.4 **Bank performance was satisfactory** throughout the project's life. The project concept emerged from: (a) a close cooperation between the Bank and BAPPENAS (a feature that contributed to a good program ownership by the borrower); (b) the awareness of having to structure the project with solid (although complex) foundations and (c) an appropriate general focus that would serve as a guide to project implementation, namely, "evaluating the structure of proposals for private sector participation in the provision/management of infrastructure services."[8] However, the importance of having both a substantial portfolio of initial possible subprojects,[9] and well-prepared TORs that could be further adjusted to the needs of specific activities, was underestimated. Nevertheless, safeguards devices were planned in the form of more than standard supervision requirements. Supervision indeed was a critical factor and it was excellent during project implementation. The supervision team remained the same, ensuring continuity, consistency and persistence. It reacted to problems in a timely manner. For instance, when it appeared that the project was lagging behind schedule adequate corrective measures were promptly suggested and agreed upon with BAPPENAS: speeding up the establishment of the PMU; providing available assistance to sector agencies and to PMU; providing more specific guidance to sector agencies and asking them to be more focused within the general program framework and organizing appropriate meetings to resolve arising difficulties. The team (sometimes with the assistance of other sector staff) devoted a good deal of time to reviewing carefully TORs and PDP, reorienting line agencies towards the general objectives of the project when those agencies tried to use the project for self-serving purposes and facilitating high-level discussions on the conclusions reached by the consultants. However, the team was probably too small and too much focussed on a few specializations. As a result, time consumed in reviewing documentation substantially exceeded the initial expectations and certain subsectors were neglected.

5.5 **The Borrower's overall performance was also satisfactory**. As noted earlier, its cooperation with the Bank, from preparation to appraisal avoided the emergence of major conceptual divergences during implementation. The Borrower responded promptly and adequately to Bank's suggestions aimed at correcting observed deficiencies (reorganizing the PMU with sufficient administrative powers and with pro-active behavior and introducing project documentation packages to streamline procedures). However, the Borrower seemed to have remained unaware of the fact that most TA activities had to reach their eventual goal: the signing of a contract with a relevant private sector entity for the management of a selected infrastructure. As a result, only seven contracts were signed for a total amount of US$3.25 million whereas the list of approved subprojects represented an amount of US$24.1 million. In addition, bureaucracy and red tape resurfaced, notably when it came to setting up requirements (and settlement) of invoices.

[8] Aide-memoire of the Pre-appraisal mission (November 1990, p. 1)
[9] The Aide-memoire refers to five representative subprojects only: a Transport Network Plan, the Jabotabek Urban Transport review, BOT schemes for toll roads, Minor ports review, Telecoms.

6. Project Sustainability

6.1 The audit concurs with the ICR assessment that sustainability of the project is likely. Studies funded by TAP4I in the power and transport sectors have provided a sound basis for increased PSP. BAPPENAS and line agencies have had the opportunity to develop standard procedures to plan, procure, implement, monitor, and evaluate TA subprojects. However, the fact that TAP4I was fully funded from the Loan could be a factor limiting sustainability and ownership of this type of project. [10]

6.2 The dramatic economic turbulence and the ensuing political turmoil in the country has strengthened the perception of the need for involvement of the private sector in the development and the management of Indonesian infrastructures. The Bank for its part can continue to draw the attention of the GOI to the effective implementation of a well-designed regulatory framework in its policy dialogue and future lending operations. TAP4I has been followed by another operation (Second Technical Assistance Project for Public and Private Provision of Infrastructure, or TAP4I-2, Loan N° 3913-IND).

7. Lessons From Experience

7.1 Counterpart funding should be significant to ensure increased ownership and sustainability of this type of project.

7.2 Effectiveness of the PMU (critical in ensuring achievements of objectives) depends on the PMU's capacity to access key decision makers in both BAPPENAS and the executing agencies, as well as the strength of its operational staff. The role of the steering committee and its high profile was important in this regard. In the absence of an effective structure, a PMU can become simply an additional bureaucratic layer. Some signs of this were visible, for instance, in procurement of TA contracts and the time spent by consultants in preparing invoices.

7.3 Free-standing and open-ended TA projects need to emphasize: (a) rapidity of review and approval process of requests for financing and (b) agreement at appraisal on a series of terms of reference and project development packages. Poorly designed project documentation packages and system of approval of TORs for subprojects to be financed from the Loan can lead to avoidable delays. The absence of sufficiently prepared TOR at the time of appraisal was the main reason for TAP4I's poor performance and low disbursement during the first 12 months of implementation, and later the need for extending the Loan closing date. When projects require the interaction of several decision makers—the Bank, BAPPENAS, the PMU, Executing Agencies (EAs)—the whole interactive process should be re-assessed and streamlined.

7.4 TA projects involving executing agencies/decentralized units should focus more on these units. Intermediate results from project components to overall project objectives (from studies to be implemented to contracts to be concluded) must be made clear to them from the beginning. Specific guidelines must be provided by the PMU to such agencies to avoid having to reject requests for financing.

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[10] The loan did not require any counterpart funds. It financed all expenditures, except the salaries of GOI staff seconded to the project.

7.5 Good supervision and continuity in the supervision team is critical for satisfactory project implementation. When it appeared that the project was lagging behind schedule adequate corrective measures were promptly suggested by the Bank supervision team and agreed upon with BAPPENAS.

7.6 The size and skill mix of the team should be adjusted depending on the complexity of project components and the sectors they address.

Comments Received from the Borrower

REPUBLIC OF INDONESIA
NATIONAL DEVELOPMENT PLANNING AGENCY
JAKARTA, INDONESIA

Our Ref. 3522/D.VII/06/1999 Jakarta, 4 June 1999

Mr. Ruben Lamdany,
Country Evaluations and Regional Relations
Operations Evaluation Department
Jakarta

Subject: TA for Public and Private Provision of Infrastructure (Loan 3385-IND): Draft Performance Audit Report

Dear Mr. Lamdany,

First of all, I would like to apologize for the late comments on the draft report of TAP4I project submitted to us on April 12, 1999. Following is our comments on the report:

Implementation

1. Para 3.4. The report does not really present issues faced by the GOI and IBRD during the project implementation. As you recall that existing criteria and guidelines (from GOI and IBRD) followed by the project, and a process of NOL approval led to very slow contracts and then low disbursement, for instance, in urban infrastructure sectors. Therefore, it seems that it is necessary to describe these issues clearly on the report to know the real problems during the implementation. I believe that all project managers implementing the IBRD projects, including TAP4I-2 would like to benefit from the experience of TAP4I-1.

2. Para 3.6. We do not fully agree with the statement that PMU's understaffing caused a lengthy process in procuring TA contracts. We argue that the macro problems such as the Government procedures, bureaucratic layer, and institutional problems, quality of human resource, and IBRD's procedures mainly contributed to the long process of TA contracts. Even, during the period of July 1995 – March 1997, the PMU had to support TAP4I-1 and TAP4I-2 in the same time.

   Besides, it is necessary to be mentioned in the report that the issuance of Keppres No. 16/94 also contributed to delay on the procurement process since executing agency needed time to understand and implement the new Keppres.

Project Outcome

3. Para 4.3. I should mention that TAP4I is really concerned with environmental studies. Terms of References for SURIP, Cirebon-Batang, Cikampek-Palimanan, SITNP projects required executing agencies of the project to carry out a thorough environmental studies (e.g. AMDAL, etc).

Lessons from Experience

4. Para 7.1. We are questioning the statement that counterpart funding is a significant factor to ensure increased ownership and sustainability of this type of the project.

   In response to the statement, be informed that since end of August 1998, 20% availability of GOI budget is not required anymore for TAP4I-2 project because of limited counterpart budget.

5. Para 7.2. To accommodate the issue of the long process of TA procurement, the study on Procurement of Consulting Services under TAP4I-2 is being implemented, and will be discussed together with IBRD, ADB, and OECF. The procurement issue as an agenda within the previous Country Portfolio Review Meeting (CPPR) is now being discussed within ad hoc working group. The result will be available in mid of June 1999 and will be an agenda in next CPPR.

I do hope that several additional comments above will enrich the report that can be used by other projects as a reference.

Thank you for your kind attention and cooperation.

Regards.

Yours sincerely,

Budhy Tjahjati S. Soegijoko,
Deputy Chairman
for Foreign Cooperation

cc.:
Deputy Chairman for Infrastructure-Bappenas

Basic Data Sheet

TECHNICAL ASSISTANCE PROJECT FOR PUBLIC AND PRIVATE PROVISION OF INFRASTRUCTURE (LOAN 3385-IND)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*
Total project costs	36.00	24.10
Loan amount	30.00	24.10
Cofinancing	0.00	0.00
Cancellation	--	5.89

Cumulative Estimated and Actual Disbursements

	FY92	*FY93*	*FY94*	*FY95*	*FY96*	*FY97*
Appraisal estimate (US$M)	5.0	14.0	28.0	30.0		
Actual (US$M)	3.0	3.9	5.0	7.0	17.9	24.1
Actual as percent of appraisal	60.0	28.0	19.0	24.0	60.0	80.0

Date of final disbursement: October 21, 1997

Project Dates

	Original	*Actual*
Appraisal	April 1991	March/April 1991
Negotiations	March 1991	May 16-17, 1991
Letters of Development Policy	n.a.	n.a.
Board presentation	June 25, 1991	June 27, 1991
Signing	August 1991	August 8, 1991
Effectiveness	August 1991	November 4, 1991
Project Completion	March 31, 1994	March 31, 1997
Closing date	September 30, 1994	March 31, 1997

Staff Inputs (staff weeks)

Stage of Project Cycle	*Actual Weeks*	*US$ '000*
Identification to Board Approval	18.5	59.5
Supervision: Board-Through last supervision (02/01/97)	83.7	269.3
Completion	5.0	12.8
Total	107.2	341.6

Mission Data

	Month/ Year	*No. of persons*	*Staff days in field*	*Specializations represented*	*Performance Rating*		*Types of problems*
					Implement. Status	*Develop. Impact*	
Through Appraisal	1990	1		FA			
Appraisal through Board Approval & Effectiveness	1991	3	1.2	FA, LG, LN			
Supervision 1	12/92	2	1.2	FA	2	2	PMU's lack of proactive approach in developing a portfolio of projects, in assisting EAs and in evaluating proposals.
Supervision 2	06/93	2	1.2	FA, TS	2	1	Lengthy process of establishing an effective PMU. New management appointed.
Supervision 3	02/94	2	-	FA,TS	1	1	Low disbursements. LCD needs to be extended.
Supervision 4	08/94	2	1.3	FA,TS	HS	HS	Form 590 not updated.
Supervision 5	05/95	1		FA	HS	HS	Procurement activities slowed down by new procedures.
Supervision 6	12/95	1	1	FA	HS	HS	From 590 not updated.
Supervision 7	05/96	1		FA	HS	HS	Changes in management have helped disbursements. However, delays in invoicing and related procedures.
Supervision 8	08/96	2	-	FA, TS	HS	HS	Lags between the value of services provided and amounts disbursed. Still cumbersome invoicing procedures.
Supervision 9	03/97	1	0.1	WSE	HS	HS	No major problem. ICR under preparation.

FA = Financial Analyst; LG = Legal Officer; LN = Disbursement Officer; TS = Transport Specialist; WSE = Water & Sanitation Engineer.

Content of KEPPRES 7

(January 1997)

KEPPRES 7 officially recognizes that infrastructure development is a pre-requisite for supporting the national development, that cooperation with the private sector will contribute to relax financial constraints related to the State's budget. It nevertheless states that rules need to be set up in order to clarify the possibilities of action for the private sector while preserving the public interest.

Subject to further amendments (to be specified in a Presidential decree) a restricted list of concerned infrastructure is given. It covers:

- the generation, transmission or distribution of electricity;
- the transmission and distribution of natural gas;
- the processing and delivering of oil and natural gas and the delivering of related products;
- the transport, storage, supply, production, distribution or treatment of water;
- the management of waste water and solid waste;
- the construction and/or operation of supporting facilities for freight or passenger air, sea or rail transportation;
- toll roads, toll bridges, harbors, seaports, airports, inland waterways and airfields;
- the construction and operation of telecommunication facilities.

The General Rules applicable to private sector participation are:

- Compliance with principles set out in the national plans;
- Compliance with Indonesian law;
- Adherence to a framework of mutual cooperation, mutual openness and mutual benefit;
- Enhancing the efficiency and quality of related infrastructure development and/or management and the quality of infrastructure services provided to the population
- Providing a support to economic growth;
- Adherence to open and transparent processes with a view of improving the investment climate.

Plans designed to involve the private sector in infrastructure development should have precise features:

- Such plans and the related priorities will be set up by BAPPENAS;
- They will be accompanied by:

  (i) related pre-feasibility studies
  (ii) an appraisal report assessing the project's feasibility, the suitability of private sector participation with due regard to socio-cultural, financial, economic, political, and national security and defense aspects;
  (iii) a financing plan;
  (iv) the nature of the private sector participation (e.g. development and management, or management only, etc.) with adequate justification.
  (v) A bidding plan including the bidding schedule, the bidding process and the evaluation criteria;
  (vi) Other data that may be required by BAPPENAS on a case by case basis.

- BAPPENAS will establish and made available to the public and interested parties, a list of infrastructure development projects.

The decree describes the General Principles applicable to Bidding Processes:

- Bidding will be under the responsibility of the concerned Minister, or Head of the concerned Entity and will be carried out openly;
- The same responsible authorities will pre-qualify prospective private parties by considering *inter alia*:
  (i) previous experience and related references;
  (ii) performance and results achieved under previous experience;
  (iii) financial or technical capacity of applicants and their capacity to implement the project with regard to the geographical, social, cultural and economic conditions.
- Bidding and bid evaluation (carried out by the concerned Minister or the Head of the Responsible Entity) shall be conducted in accordance with the provisions of the special implementation regulation attached to this decree.[1]
- The results of the bid evaluation and the related documentation shall be forwarded to the Chairman of the Procurement Evaluation Team which will review the results and make a decision.

The decree also specifies the content of Cooperation Agreements with the private sector.

- The concerned Minister of Head of the concerned Entity shall have the responsibility of entering into a cooperative agreement with the private successful bidder.
- Any co-operation agreement should contain provisions related to:
  (i) the scope of activities
  (ii) the duration
  (iii) the arrangements covering the tariffs
  (iv) the rights and obligations of the concerned parties including the responsibility for risk assumption,
  (v) penalties in cases of non-compliance with the provisions of the agreement
  (vi) dispute resolution mechanisms;
  (vii) termination of the agreement;
  (viii) reversion of the infrastructure on agreement's expiration date;
  (ix) intellectual property rights responsibilities and incidences.

[1] An attachment to the decree specifies in more details the obligations of responsible entities and BAPPENAS for identifying relevant projects and selecting private parties. It describes the pre-qualification process, the related documentation and major criteria; it also sets up the bidding rules (including those applicable to simplified competitive bidding for projects below Rp. 50 billion), provides specifics of bid evaluation (emphasizing *inter alia* the use of the present value of financial discounting on a consistent basis), selection, rejection of and notification to bidders, and monitoring and evaluation of implementation.

Towards a New Policy for the Power Sector

Capitalizing on the experience gained so far (for instance Paiton I and/or the conversion of PLN into a public company) and drawing lessons from the consequences of the current crisis, the Government issued on August 1998 a brochure[1] explaining its policy program for power sector recovery, restructuring, regulatory reform and private sector participation.

Despite commendable positive achievements, the structure of the Indonesian power sector is no more suited to the needs of the society. Even though PLN, the national power company, was technically successful, the current crisis has exposed its weaknesses. Its expanding monolithic structure makes it unable to swiftly respond to customer demands, to adjust to the features of a geographically diverse and complex nation, and to comply with contradictory requirements: the profitability which is expected from a commercial entity and the social role (providing electricity to all Indonesian households at any cost) which is expected from a public entity.

In order to make further progress, the Government deeply revised its strategy and adopted a new one based on three basic principles:

- providing the economy with a strong power sector able to provide universal coverage while supporting national industrial growth;
- benefiting from a top of the art power sector, providing efficiently high quality and reliable services, optimizing both the consumer's surplus and the nation's competitiveness;
- having a power sector financially independent and self-reliant in order to reduce the burden on public finance;

The restructuring strategy will have four major objectives to attain:

- Restoring a financial viability which is currently jeopardized: PLN's financial situation does not allow it to fund expansion or more simply maintenance and spare parts; PLN's revenues amount to 2 US cents/kWh on average instead of the 7 US cents which would be normally required. Tariffs need to be increased but also production costs reduced and unnecessary subsidies drastically cut.
- Introducing, where needed, competition in the sector, as an efficient mean to drive down costs, to optimize the sharing of efficiency gains between consumers and producers, to promote risk-sharing and to specialize the Government in what it does best: to plan and regulate.
- Introducing transparency in the sector through endowing each concerned party with clarified missions: commercial missions, social missions, regulatory missions, etc.
- Promoting the participation of the private sector, not only to alleviate the burden on public finance, but also to introduce efficiency considerations (including those related to development investments) if the private sector is placed under appropriate competitive conditions. Private sector participation would be sought through

[1] **Republic of Indonesia:** ***Power Sector Restructuring Policy.*** The Government's Policy Program for Power Sector Recovery, Restructuring, Regulatory Reform and Private Participation. Ministry of Mines and Energy, Jakarta, August 1998, 23 pages.

diversified means: divestiture, direct private investments in transmission, distribution and generation with a special focus on domestic private participation.

The Government's restructuring program will target six areas of activity:

- **The industry structure** will be reshaped, based on the identification of adequate market areas: Java's market which is considered as big and mature enough to competitively divide PLN's operations between different companies for generation, transmission, distribution and retailing; outside Java's market which will remain, at least for a while, under Government control and support.
- **Competitive market mechanisms** will be progressively introduced. Java's market should be fully competitive in all its segments (generation, transmission, distribution) by the year 2003. A new transmission company (to be established) will purchase, on a competitive basis, electricity produced by independent generators. Outside Java, the move towards competition would be more gradual; however, the Government plans to contract out as much as possible for generation, transmission and distribution always on a competitive basis, avoiding thus unsolicited proposals.
- **Tariffs setting** will be based on the principle of full cost-recovery, with built-in adjustment mechanisms. This will entail an increase in tariffs, planned over time and a redefinition and clarification of subsidies which will specifically target regional development objectives and provide (through special rates) basic services to the poor.
- **A streamlined expansion of private sector participation** will be introduced, systematically based upon competitive bidding. This participation should expand from generation to transmission and, in appropriate cases (where it will be assessed that this would accelerate the pace of electrification) to distribution networks. Private participation will also result from the sale of shares, notably those of PLN when the company will have restored its financial health.
- A schedule will be set up to clarify and progressively separate the **Government's ownership role, its policy function and its regulatory role**. Basically the ownership would be the business of the State Ministry of SOEs; the policy function would be assumed by a specialized department (DGEED) of the Ministry of Mines and Energy (MME); the regulatory function would b ultimately devolved to an autonomous agency, reporting to the MME, regulating the whole energy sector and supervising all electricity companies through the issuance of licenses and the verification of compliance with regulations attached to them.
- **A new legal framework** needs to be established. It will comprise a new Electricity Law, allowing the introduction of a competitive market, the establishment of the regulatory agency, the issuance of related licenses, the definition of basic principles for tariffs setting and the provision of subsidies. New implementation regulation would complete the renewal of the legal framework.

This is an extensive and complex restructuring program. It will therefore need to be implemented in accordance with a precise timetable. A high-level Steering Committee will oversee that the whole restructuring process is carried out. The impact on consumers welfare is expected to be important: in terms of improved access, efficiency, cost-effectiveness and protection.