International Bank for Reconstruction and Development

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INDONESIA

FY96 COUNTRY PORTFOLIO PERFORMANCE REVIEW

REPORT OF PROCEEDINGS

AND

ACTION PLAN

East Asia Region
Country Department III
January 1997
International Bank for Reconstruction and Development

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Annex B Proposals of GOI Working Groups

Annex C World Bank Operations in Indonesia (Extracts from 1996 CPPR Background Paper)
I. INTRODUCTION
I. INTRODUCTION

1. In its second 25 year Long-term Development Plan (1994-20), the Government of Indonesia (GOI) explicitly recognizes that efficient and effective use of development resources will be essential to Indonesia’s continued economic and social development. To ensure that development expenditures financed by the World Bank are well used, the GOI carries out Country Portfolio Performance Reviews (CPPRs) about every two years. These reviews are designed to increase the development effectiveness and sustainability of Bank-financed projects through a review of on-going projects and unresolved implementation issues. In organizing the 1996 CPPR, the Government and the Bank worked to increase its value and the prospects for follow-up by ensuring focus on a manageable number of issues and by enhancing government ownership.

2. The 1996 CPPR was designed around a cascading set of meetings, beginning with project discussions between Bank Task Managers and GOI line agencies. These were followed in April and May by sector-specific discussions led on the Bank side by Sector Operation Division (SOD) Chiefs. The process culminated in one day Plenary Working Session in May 1996 at which key portfolio-wide problems were discussed.

3. As a basis for the Plenary Working Session, the Bank prepared a Background Paper setting out the results of the two previous phases of the CPPR and suggesting areas for further discussion. Following the plenary meeting, the GOI established internal Working Groups to address in detail each of the six critical issues identified during the Plenary: (i) project implementation performance; (ii) project preparation/ quality at entry; (iii) procurement; (iv) technical assistance; (v) counterpart financing; and (vi) disbursement and technical audit.

4. In August, as the first formal follow-up to the CPPR, BAPPENAS invited the Bank to a two day meeting in Bandung to review and analyze the conclusions and proposals of the Government’s Working Groups. The Bandung discussions produced a draft Action Plan, which was then reviewed and cleared by the GOI/BAPPENAS in December, 1996. BAPPENAS also agreed to the publication of those proceedings to reflect the outcome of the 1996 CPPR.

5. Section II of this report presents the agreed Action Plan. Section III presents complete proceedings of the May 22 Plenary. Annex A summarizes the August Bandung discussions, Annex B presents the action plans proposed by GOI Working Group, and Annex C provides a summary of World Bank operations in Indonesia until May 1996.

6. The Bank would like to express its gratitude to all GOI officials whose work made the 1996 CPPR a success. Dr. Ir. Budhy Tjahjati Sugijanto Soegijoko and Drs. Suryo Utoro are particularly acknowledged for their leadership in organizing the CPPR meetings and follow-up. The commitment and high level participation of government personnel in the follow-up process has increased substantially the prospects for successful implementation of the Action Plan and subsequent improved portfolio performance. The progress on the Action Plan will be reviewed by the GOI/BAPPENAS and the Bank in February 1997.
II. SUMMARY ACTION PLAN FOR GOI/WORLD BANK FOLLOW-UP OF CPPR ISSUES
# Summary Action Plan for GOI/World Bank
## Follow-up of CPPR Issues

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<td><strong>A. PROJECT PERFORMANCE</strong></td>
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| (1) Improve management of problem projects | Executing agencies (EAs), Bank and BAPPENAS | (i) Problem project action plans to be monitored by intensive Project-level Bank/GOI supervision, resulting in restructuring/cancellation of problem projects not achieving action plans  
(ii) Bank/GOI management assessments every 6 months | (i) 50 percent reduction in number of problem 1/ projects  
(ii) All current problem projects off the list and not more than 4 new problem projects designated | (i) 6 months review meeting from February 1997  
(ii) 12 months review meeting August 1997 |
| (2) Reduce future incidence of problem projects | BAPPENAS, EA3 | (i) stronger focus on "quality at entry" (see 2 below)  
(ii) TOR and clear agency (MinIrGens or IrwiProps) responsibilities for conduct of annual Technical Audit of SOE contracts for every project | (see 2 below) | (i) (see below)  
(ii) Technical Audit reports received for all projects  
(a) MPW-IrGen Pilot Technical Audit completed with IrwiProp office, and  
(b) MPW experience used for other MPW project and agencies | (ii) (a) April 1997  
(b) September 1997 |
| (3) Introduce Project Performance Monitoring Indicators | BAPPENAS, EAs and Bank | SK Meneg PPN/Ka BAPPENAS to be issued requiring performance indicators for all new projects and retrofitting indicators to ongoing projects with more than one year until closing date | (i) SK issued  
(ii) Monitoring indicators established and reporting initiated for all projects | December 1996  
December 1997 |

1/ "Problem Project" defined as projects rated un-satisfactory by Bank supervision mission due to serious risk of not meeting their "development objective".
**CPPR Topic and Improvement Objectives** | **Responsible Agencies** | **Principle Instruments and Actions** | **Progress Targets/Criteria** | **Assessment Date/Schedule**
--- | --- | --- | --- | ---
(d) Assure project sustainability | EAs and Bank | (i) Operations Plans, including O/M Budgets to be prepared for each project as component of ICR Review  
(ii) Modify DUP/DIP and DUPDA/ DIPPA formats to explicitly include anticipated benefits of expenditure and Performance Indicators | GOI to confirm DUP/DIP preparation for implementing Operations Plan for each completed project | February each year

**B. QUALITY AT ENTRY/PROJECT PREPARATION**

(1) Strengthen project selection and targeting process | BAPPENAS, MOF | IDF to improve "blue book" screening process and go/no go decisions with better concept note/feasibility review procedures to be agreed with Bank | (i) IDF Approval  
(ii) All Bank project proposals cleared with GOI at Concept Note stage | December 1996

(2) Strengthen project preparation and pre-appraisal process and appraisal/negotiation | EAs, BANK | (i) Agreed Preparation Plan (PP) as supplement to concept note  
(ii) Pre-Appraisal expanded to assure all project aspects ready and agree steps to appraisal  
(iii) Combine appraisal and negotiations when appropriate (to complete technical negotiations in the field) to expedite projects processing | (i) PPs for all projects in draft Concept Notes  
(ii) Expanded Pre-Appraisal successfully completed for FY97 pipeline  
(iii) Shorten elapsed time between appraisal and board presentation to a maximum of 10 weeks for Loans negotiated in the field | January 1997

(3) Simplify Loan Agreements and Disbursement Categories | EAs, BAPPENAS, and Bank | Complete project engineering (where required), major land acquisition, EAs and TOR draft by appraisal/negotiations; standardize disbursement category definitions; minimize conditionality | Loan Agreements effective with Legal Opinion only | June 1997

(4) Optimize impact of project launch workshops | EAs, Bank | Implementing units and key support consultants (if any) to conduct project launch workshop to include time for working groups to review and finalize work plans, indicators and implementation coordination arrangements. | (i) Key Consultant contracts signed before launch  
(ii) Launch within 45 days of effectiveness | January 1997
<table>
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<tr>
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<td><strong>C. PROCUREMENT</strong></td>
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<tr>
<td>(1) Establish a National Procurement Institute (NPI)</td>
<td>GOI, LAN, EKKUWASBANG</td>
<td>Prepare operating plans, budgets and impact targets/schedules</td>
<td>Draft an NPI Plan</td>
<td>June 1997</td>
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<tr>
<td>(2) Establish procurement performance criteria</td>
<td>EAs, BANK</td>
<td>Establish following guidelines: (i) Bid Evaluations report per agreed criteria within 8 weeks of bid opening (10 weeks for large and/or complex projects) (ii) Bank response/NOL within 3 weeks of receipt from GOI (5 weeks if large and/or complex) (iii) GOI contract award and draft contract within 4 weeks of Bank NOL</td>
<td>Standards established by EKKUWASBANG instruction to all GOI EAs and internal Bank management instructions</td>
<td>January 1997</td>
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<tr>
<td>Notes: For most Bank procurements a total of 4 NOLs are now issued: 1) all tender documentation 2) bid evaluation report 3) draft contract 4) final contract For some contracts, particularly TA, Bank TMs have agreed to combine the NOL for bid evaluation and draft contract to produce a minimum of 3 NOLs.</td>
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<td><strong>D. TECHNICAL ASSISTANCE (TA)</strong></td>
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<td>(1) Minimize time used for contracting TA services (LOI to contract signing)</td>
<td>EAs</td>
<td>All TA procurement cycles limited to maximum of 6 months for routine TA and 8 months of complex TA (TOR/shortlist NOL to signed contract)</td>
<td>BAPPENAS/MOF instruction issued</td>
<td>December 1996 for August 1997 compliance on minimum of 75% of approved major TAs across sectors</td>
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<td>(2) Delay start of major project components start until &quot;critical&quot; TA and other (coordination and/or project Management) capacities are in place</td>
<td>BAPPENAS, MOF</td>
<td>Expenditure authorization on key components will be deferred until &quot;critical&quot; TA and other capacities certified by EA</td>
<td>BAPPENAS/MOF instruction issued - December 1996</td>
<td>April - Effective in 1997/98 DIP</td>
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<tr>
<td>CPPR Topic and Improvement Objectives</td>
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<td>(3) Expand responsibility of supervision consultants for major projects to assist in review of tenders and certification of completed works</td>
<td>EAs, Bank TMs</td>
<td>For major contracts (works subject to prior review and large equipment contract). TOR of supervision consultants, wherever engaged, should include a transparent assistance role in technical analysis of bids received, major escalation/design change and reporting on contract completion (quality/serviceability).</td>
<td>BAPPENAS guidance issued to assure: &lt;br&gt; (i) TORs for new TA drafted by EAs and agreed by Bank for selected priority projects &lt;br&gt; (ii) Fully effective</td>
<td>March 1997 in FY98</td>
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<td>(4) Establish performance evaluation system for consultants</td>
<td>EAs, BAPPENAS</td>
<td>Effective evaluation reports system to be designed by BAPPENAS for use by all EAs</td>
<td>System design report drafted</td>
<td>December 1996 (for implementation in GOI FY 97)</td>
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<td>(5) Enhance quality and capacity of Domestic Consultant Industry</td>
<td>BAPPENAS, EAs (led by MPW) INKINDO and other professional societies</td>
<td>Establish GOI Task Force and Action Plan</td>
<td>(i) establish Domestic Consulting Industry Development Team (Tim Pembinaan dan Pengembangan Konsultan Nasional -TPPKN) led by BAPPENAS &lt;br&gt; (ii) TPPKN to establish accreditation system for professional/consultant associations &lt;br&gt; (iii) accredited associations to establish classification and certification requirements/ criteria for member firms and individuals regarding technical and managerial capacities &lt;br&gt; (iv) EAs to conduct training for Project Managers (PIMPRO) of TA projects to strengthen capacities to define, procure and manage TA</td>
<td>December 1996 March 1997 December 1997 December 1997</td>
</tr>
<tr>
<td>CPPR Topic and Improvement Objectives</td>
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| E. COUNTERPART FUNDS                  | BAPPENAS, MOF, MHA, EAs | Establish Evaluation Team to improve linkage and expedite approval of SPABP & DIPDAs for counterpart funds (Rp murni), including:  
(i) allocation of INPRES budget to provinces/districts to be informed (both rupiah and foreign assistance-SPABP) every January together with Sectoral "satuan tiga" budget limits  
(ii) concerned sectoral agencies should inform the amount of foreign assistance which are allocated to the concerned provinces/districts, every March for following Fiscal Year.  
(iii) allocation and disbursement of counterpart budget needs to be done earlier:  
a. Governor/Bupati's confirmation could be implemented as SKO, no need to be authorized.  
b. to prepare Bappenas juklak (SOP) regarding regular/ordinary DIP and DIP for counterpart budget.  
(iv) concerned provinces/districts need to be informed about foreign assisted projects during Rakorbang TK II/I and Rakornasbang for following Fiscal Year | Issuance of budgeting guidelines by and controls to ensure counterpart funds availability (SPABP as per Loan 4017 negotiations minutes) | February 1997 |
### F. CAPACITY BUILDING

#### Primary Non-Project Targets

1. **Strengthen Provincial BAPPEDAs Strategic Planning Capacity**
   - **BANK, BAPPENAS, MHA, BAPPEDAs I**
   - (i) Bank & BAPPENAS to develop an IDF grant program to strengthen capacities
   - (ii) BAPPEDA I work plans for preparing strategic planning with support of RDPU-BAPPENAS
   - (i) IDF Grant approved
   - (ii) Work plans received from 9 provinces (min.)

2. **Enhance Local Government accountability for services provision and maintenance**
   - **MHA, MOF, MHA**
   - (i) MHA KEPMIN on local government services and maintenance responsibilities
   - (ii) Revised draft laws to strengthen local government finance and central-local financial relations
   - Decree and implementing regulation drafted
   - Draft laws prepared for DPR consideration
   - April 1997
   - December 1996

### G. DISBURSEMENT

1. **Increase annual disbursement ratio**
   - **BAPPENAS, MOF, MOHA**
   - (i) Shorten/simplify SPABP format/approval/release for decentralized projects
   - (i) All SPABP funds authorized and released by April each year (same as DIP) see Loan 4017 Minutes of Negotiation
   - FY 1997/98
   - In place

   - **BAPPENAS, MOF, EAs, RSI**
   - (ii) Quarterly meeting to monitor disbursement of project at BAPPENAS
   - (ii) Disbursement progress as targeted (FY 97 = 20%)
### H. MONITORING OF CPPR ACTIONS

(1) Increase implementation effectiveness of Bank-GO! loan portfolio

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<td>BAPPENAS, MOF, EKKUWASBANG</td>
<td>(iii) CPPR review meeting to address systemic disbursement problems</td>
<td>(iii) Serious disbursement problems identified and remedial Actions Agreed</td>
<td>Every 6 months starting February 1997</td>
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<td>MOF</td>
<td>(iv) Further improvement of Special Account (SA) disbursement processing procedures</td>
<td>(iv) SA Disbursement backlog smaller; and less than 60 days from expenditures to SA replenishment application</td>
<td>June 1997</td>
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<td>Bank</td>
<td>(v) Simplifying of disbursement categorization and percentages (also note 2(c) above)</td>
<td>(v) Simpler schedule 1 of LA for new projects</td>
<td>January 1997</td>
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<td>Implement this Action Plan by: (i) Identify staff responsible for follow-up on each action (ii) Conduct bi-annual progress review meetings</td>
<td>(i) Exchange of letter/note summary staff assigned (ii) Joint meetings to assess: (a) problem projects (b) disbursement percentage (c) portfolio quality (d) institutional progress</td>
<td>September 1996, February 1997, August 1997 (next full CPPR February 1998)</td>
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III. PROCEEDINGS OF PLENARY SESSION OF THE 1996 CPPR
JAKARTA, MAY 22, 1996
A. OPENING REMARKS

Ir. Rahardi Ramelan
Vice Chairman, BAPPENAS

Distinguished participants,

Ladies and Gentlemen,

First of all, I would like to convey to all of you the warmest regards and apology from the Minister of State for National Development Planning/Chairman of Bappenas who is unable to be present today due to his overcrowded schedules. On behalf of him allow me to deliver the opening remarks of this plenary session.

It is indeed a great pleasure for me to take this opportunity to convey our thanks and appreciations to the World Bank for the cooperation we have fostered so far which has resulted in a comprehensive, focused concept and in accordance with the needs and priorities of the Indonesian development. The contribution of the World Bank's fund for the Indonesian development is significant. Cumulative Bank lending to Indonesia as of March 1995 reached to US$22.6 billion of which US$16.6 billion has been disbursed. The current portfolio, for instance, consists of 63 projects for a total loan amount of about US$8 billion. The loan amount is significant and consequently the GOI has to be able to meet its obligation to the Bank on time, including to pay back the principle, interest and commitment fee. The loan, therefore, needs to be spent effectively and efficiently.

Again today, we are gathering here in the occasion of the Country Portfolio Performance Review. This opportunity should be optimized to develop a better relationship which benefits both of us, as we have a similar interest in improving the project quality in the preparation and in the implementation stage as well. By gathering in this place to share views with common interest in promoting the quality of the Bank's portfolio, proves that cooperation between the Government of Indonesia and the World Bank is considerably improving and progressing. We want to maintain as well as to enhance this degree of relationship.

As its name suggests, Portfolio Performance Review is arranged to facilitate point of view exchanges among distinguished participants. Periodic review of the achievements of past and ongoing investment programs is vital. Open responses, comments, and even articulated criticism on crucial issues will be valuable contributions to the future improvement of the Bank's supported projects. I do hope with the openness of the discussions, the 1996 CPPR will come up with many useful findings and effective recommendations on how to remedy outstanding and emerging portfolio performance issues. It is expected that at the end of the plenary session we are able to develop an action agenda for the coming months to enhance the design and implementation performance of Indonesia projects financed by the World Bank.

The implementing agencies are regarded as the key contributors for the success of such projects. I do believe that the distinguished participants representing various government agencies will contribute to this plenary session with informative as well as valuable inputs. We
are here to analyze the situation and identify problems for the interest of both the Bank and the
Indonesian Government. Therefore, your active participation as well as your positive contribution are kindly requested so as to find appropriate and applicable recommendations to solve the problems.

Improving project performance should be a very high priority of the authorities concerned as well as the Bank. From the Indonesian side, development objectives can only be approached, if not possibly reached, if the authorities and agencies concerned accept constructive criticism coming from all sides, continuously try to rectify their weakness, and take necessary actions towards improvement. Steps to improve our own project preparation, project implementation and procurement system are not enough by only producing well documented regulations, memorandum of understanding, or other documents. The consistent implementation of key actions which should be taken by executing agencies plays an important role in carrying out the projects successfully. The existence of the Bank supervision missions is notable in contributing to the smooth running of the project. Their findings in the field, which include technical, administrative, and policy problems/successes, need to be discussed with all parties concerned immediately.

Finally, I do hope this plenary session would benefit both, the Bank and the GOI, which in turn would benefit all Indonesian people who are now striving for the enhancement of their prosperity. I invite your active participation in order to make this deliberation fruitful.

Thank you and have a healthy discussion.
B. OPENING REMARKS

Dennis de Tray
Director, World Bank Resident Staff in Indonesia

On behalf of the World Bank, let me welcome participants in this second Indonesia Country Portfolio Performance Review and thank all of those who have been involved in its preparation.

The first Indonesia CPPR meeting was held some two years ago. It was designed as a forum in which the Government of Indonesia (GOI) and the Bank could review the performance of the current project portfolio, identify key problems impairing project preparation, implementation and development effectiveness, and initiate measures to address them. Today's plenary session continues in that tradition. We, the Government of Indonesia and the World Bank, share a common responsibility to the people of Indonesia because the resources that support World Bank projects belong, in the final accounting, not to the Bank, not even to the Government, but to the people of Indonesia. We must ensure that their money is spent wisely and well. The CPPR meetings are intended as an integral part of -- perhaps a milestone or exclamation point within -- a continuous process of project oversight designed to discharge this important responsibility.

The Bank's long international experience in the areas of project preparation and implementation highlights the critical importance of government "ownership" to project outcomes. We in the Bank can and do provide extensive advice on and support to project implementation, but we cannot alone ensure a project's success. Here in Indonesia we are most fortunate in having a partner with a well-established commitment to portfolio quality.

Let me emphasize at this point that the Bank has not just recently "discovered" the issue of portfolio quality as one might surmise given the considerable attention and resources that are now being directed at project supervision. However, our new president, Jim Wolfensohn, has certainly raised the profile of portfolio quality within the Bank, and has laid down a clear mandate to staff to ensure that the funds it makes available to member governments are not wasted. It is noteworthy that during his recent visit to Indonesia, Mr. Wolfensohn made a special effort to learn what was being done to deal with "problem projects" in the portfolio.

Mr. Wolfensohn's starting point on the portfolio quality issue is that globally, the performance record of Bank-financed projects is good -- but not as good as it should be. Indonesia's portfolio performance has historically been better than the average, but we need to ask ourselves whether being better than average is good enough. As of March this year, the Bank had financed 258 projects in Indonesia, involving some US$22 billion in commitments (the active portfolio comprised 68 projects with a some US$5 billion in undisbursed commitments). Of 167 completed projects so far reviewed by the Bank's Operations Evaluation Department, 29 (17%) were assessed as unsatisfactory. Moreover, performance appears to have worsened in recent times, with 16 (24%) of 64 projects evaluated since 1990 being assessed as unsatisfactory.
This recent deterioration in performance may be attributable in part to the changing composition of the portfolio, and in particular to the shift away from clearly defined "major infrastructure" projects in favor of decentralized programmatic projects. These new project types pose more complex demands in terms of preparation as well as implementation, as does the increased attention the Bank is paying to environmental and resettlement issues.

Decentralized projects will likely continue to account for a growing share of the portfolio. The increasing availability of private capital to finance "big ticket" infrastructure in the power, telecommunications, transport and water sectors will enable the Bank's lending to be targeted more narrowly at helping the people, families, communities and regions that have so far been "left behind" by an otherwise very successful development process. The collective challenge for GOI executing agencies and the Bank in the coming years will be to ensure that these important but difficult-to-implement new operations achieve their intended development impacts and are sustainable. This will involve moving from an "approvals culture" to a "results on the ground culture" in which all actors are more clearly accountable for ensuring that projects are prepared and implemented well.

Let me turn now to the strategy for the 1996 CPPR. This year's CPPR has been structured as a three-level operation, with earlier project level and then sector level reviews providing the foundation for today's review of cross-sector issues. Our purpose throughout this process is not simply to turn-around problem projects--although this is certainly an important item on the agenda--but more generally to improve project performance across the entire portfolio. Where problem projects exist we must work together to put them back on track--or cancel them if they no longer make sense. For the bulk of projects currently evaluated as satisfactory we should be striving to ratings from "satisfactory" to "highly satisfactory."

As I indicated earlier, CPPR meetings are milestones within a process designed to ensure that our projects achieve effective results on the ground. We need, therefore, always to keep in mind that today's deliberations are not an end in and of themselves. What we do today will ultimately be judged by how the recommendations we come up with are translated into action and by whether those actions improve project performance. The record for the 1994 CPPR is mixed. Those deliberations resulted in important changes on several fronts, most notably the issue of improved procurement regulations (Keppres 16/1994). However, on other fronts the scorecard has not been so good and there remains a large unfinished agenda.

There are two broad categories of issues for us to consider today. Firstly, there are what can be characterized as "processes in need of fixing". These include unfinished agenda items from the 1994 CPPR Action Plan--such as those relating to the management of technical assistance--together with other issues that have emerged with the new "breed" of decentralized projects. Secondly, there are broader systemic issues that require us to ask and answer more fundamental questions about the Bank's lending to Indonesia. Such questions include:

- What the Bank is trying to achieve in partnership with Indonesia is changing - should our approach to project development and lending be changing?

- Are our lending volume goals and the new nature of our projects consistent?
• Are projects building institutional capacity through the provision of technical assistance, or are they bypassing and therefore perpetuating weak institutions by providing substitute capacity?

This plenary session will not develop specific answers or solutions to any of this daunting range of issues. Our objectives must therefore be more limited if they are to be achievable. Firstly, we should aim today to secure agreement on a limited number of issues or topics that require priority attention by the GOI and the Bank. Establishing priorities does not imply that all other issues are unimportant or should be ignored, but rather recognizes that action plans with too many priority actions are rarely implemented well. It is for today's meeting to determine the issues to be accorded top priority. On the Bank's side we have taken care in preparing our background document to avoid pre-empting these choices. Secondly, we must agree on a clear and time-bound mechanism for dealing with the priority issues we identify. And thirdly, we should agree on a follow-up mechanism for determining whether we are on track and, if not, why not.

With these objectives in mind, I look forward to a day of open and constructive discussions.

Thank you.
C. GENERAL ISSUES RELATED TO THE WORLD BANK

Ir. Rahardi Ramelan
Vice Chairman, BAPPENAS

Ladies and Gentlemen,

It is a great pleasure and opportunity for me to raise some important issues which need to be assessed further during this one day meeting. As I have mentioned before in the opening remarks that we have a common interest in promoting the quality of the Bank's portfolio in Indonesia whether in the preparation stage or in the implementation stage, and this meeting has been designed to assist every relevant government officials in pursuing higher level stages of project preparation and implementation. This meeting should also be used to underline the importance of maintaining project sustainability.

I will not make a long speech in this session. What I am going to say is to highlight some important portfolio performance issues that need to be discussed in this plenary session in order to develop an action agenda for the coming months to enhance the design and implementation performance of projects financed by the World Bank. As this plenary session is the last process of this year's World Bank CPPR, the issues which are becoming my concern are based on the Bank findings which are nicely documented in the Background Paper. In this connection, I would like to thank the World Bank Resident Office in Indonesia for their efforts in developing the Background Paper.

The paper has provided us with valuable data concerning the action plan agreed at 1994 CPPR: Status and Recommendations; a list of Bank assisted projects; a list of active loan portfolio; 1996 lending program; the level of disbursement and so on and so forth. The Background Paper has pointed out many weaknesses on the part of government in carrying out projects. However, I also believed that all of us had tried to do our best. Of course, there is still room for improvement and we always have to strive for a better performance. Therefore, in this occasion, I ask Indonesian colleagues not to be apprehensive about the facts contained in the paper. I prefer to use the constructive criticism as a mirror for self correction.

My presentation will not cover the technicality of the project nor the success or the failure of the World Bank assisted projects, because we are here with many competent distinguished participants who will elaborate more thoroughly as regard the project from various sector's angle, but as I said before, I would like only to highlight the general issues related to the Bank operation in Indonesia. I would like to pin-point some interesting issues which are now becoming of concern in implementing the Bank's assisted projects.

First of all I am going to raise four (4) main implementation issues in which we have identified since the 1994 CPPR and still considered by the Bank as crucial issues; and then I am going to mention some other never ending issues which need to be elaborated.

The first main issue is Project Selection and Preparation. "Quality at Entry" has become the first stepping stone for achieving the project's quality when it is in the process of
selection and preparation. "Quality at Entry" requires a mutual action in the sense that it requires participation from all concerned parties from government side as well as from the Bank side. According to the Bank's criticism, the mechanism of project selection in Indonesia does not work well, even it is mentioned that a number of projects in the Blue Book list appear with dubious feasibility criteria and inconsistent with GOI's own priorities.

It is indeed a quite strong criticism but we have scrutinize ourselves, and if it is correct, we have to accept it. I think all of us agree how difficult it is to screen so many proposed projects coming from various ministries and government agencies. Each proposal is developed with the justification that the proposal is based on GBHN (Indonesian State Guidelines) and Repelita (Five Year Development Plan), in the effort to be included in the Blue Book. With the awareness to strengthen the project selection mechanism, the GOI has issued the Joint Ministerial Decree; the Minister of Finance and the Minister of State for National Development Planning/Chairman of Bappenas No. 185/KMK.03/1995- No. KEP.031/ KET/5/1995 on Procedures of Planning, Implementation/Administration and monitoring of Foreign Loans/Grants in the Implementation of the State Budget which is now available in English. The Decree aims to ensure that the proposed projects coming from line ministries/agencies are in line with GOI's own priorities as well as better prepared. The other intention of the Decree is to strengthen the coordination arrangements for project preparation in order to enhance the project ownership.

Just to illustrate on how difficult for a project to be considered as a priority, here is a list of steps to evaluate a project. A project proposal should be examined in several stages before it is passed on to the external financial support agencies. The first evaluation is the evaluation done by Bappenas which is then compiled in the Blue Book. The evaluation takes into consideration the conformity of the proposed project with the policies, targets, and programs of Repelita; the feasibility for funding by foreign loan/grant and other considerations in line with the policies of national development. It is, however, I have to mention here, that sometimes there are executing agencies which are not aware about the importance of Blue Book.

The second examination is that prior to submission of proposals to potential lenders/donors, each project shall be subject to scrutiny by Bappenas, the Ministry of Finance, and other associated institutions. Even for projects requiring follow-up preparations with potential lenders/donors will be subject to review by a Team for Evaluation of Project Preparation which consists of representatives from Bappenas, the Ministry of Finance, the "will be" executing agency, and other associated institutions. On one side may be this new process does not conform with the spirit of debureaucratication, but on the other side this new process reflects GOI's prudent project evaluation Policy.

In line with what I have just mentioned before, I personally accept the constructive suggestion from the Bank that the executing agency must be actively involved in formulating the project while its preparation is oftenly developed with the help of consultants. In this case, to improve the sense of the project ownership I appeal my Indonesian colleagues to guide, work closely, monitor, and even give warning to consultants who try to develop their own interpretations of the projects.

The second main issue I am going to raise concerns with technical assistance. In this regard, I would like to thank to the Bank for praising GOI's initiative on the issuance of the Decree of the Minister of State for National Development Planning/Chairman of Bappenas No. 122/KET/7/94. However, it is sad to learn that according to the Bank observation the
implementation of the key actions by executing agencies has generally been lacking. In this case, I am looking forward to hearing response from my Indonesian colleagues and having clarification on this matter.

Among other things, Bappenas and Ministry of Finance are urged to review the Joint Circular of February 1996 on "Self calculation of owner estimate", in which according to the Bank creates some confusion among agencies. This is a quite new regulation, so it will be wise to find first the real problem rather than directly condemning the regulation. I am afraid, the problem will be the need to give elucidation to the people in line ministries in order to make them familiar with the new regulations.

For the maximum utilization of Technical Assistance, I agree with the Bank suggestion that: (i) actions should be taken to enhance quality and capability of domestic industry; (ii) stringent review of consultants shortlists; (iii) consultant rates negotiated over the last few years should be reviewed; and (iv) actions should be taken to reduce delays in recruitment and mobilization of consultants. These suggestions are really valid suggestions. What kind of actions should be taken is then more important. It is expected that this one day plenary session will be able to identify some workable suggestion to improve the TA performance. I use the word "identify", because I have high regard of the capability and credibility of participants, but the magnitude of the problems that should be solved are quite immense which needs to be assessed thoroughly and a one day seminar will be too short.

The other interesting issue is effective supervision of project implementation. The Bank has found that restructuring of projects and cancellation of loan funds at GOI request increased significantly since 1994 CPPR. The bottom line of all of this is the inadequate project preparation. I hope in the future GOI's officials are able to be more anticipative with the possible changing situations which will happen ahead.

Regarding to effective supervision of project implementation, it is suggested by the Bank that GOI may give authority to certify all major completed contracts and advise on all major changes in design and large price variations to consultants who assist in implementation supervision. I am interested with the idea of the Bank for the inclusion of the said supervision role in consultant TOR to guarantee the quality and serviceability of completed contracts. However, I invite my Indonesian colleagues to assess the possibility to add supervision role in consultant TOR, including the financially and legally consequences on that matter.

Another invention to enhance effective supervision which is offered by the Bank is the establishment of an effective system of technical audits within executing agencies. It is quite difficult to make comment on this since the Ministry of Public Works has started a pilot project on this. The basic idea is good indeed. However, I believe our bureaucratic system has already had experience with such function to technically audit contracts. The problems may be the system does not work effectively which may be caused by inadequate human resource or misplacement of personnel, or just simple ignorance. What I am trying to suggest here is try first to maximize the utilization of our existing system, and then try to find out the weakness, and gradually try to strengthen the system, while we are implementing our program. As suggested by the Bank, the Ministries' Inspectorate General could be the appropriate structural unit for the purpose of technical audit. I am looking forward to hearing from my Indonesian colleagues on this matter. Have they already been informed about the project, and how far is their understanding concerning the project, also the availability of staff who have the ability to
undertake technical audits; are some questions that need to be clarified before making judgment that Inspectorate General is the perfect unit to carry out technical audits.

Ladies and Gentlemen,

Allow me to continue to deliver my concern on the other issue related to project implementation, that is procurement of goods and services. Although the Bank has already given its compliment regarding the progress on procurement actions taken by GOI through the issuance of Keppres 16/1994, the Bank still wants GOI to enhance the economy and transparency in procurement. More specifically, GOI is required to streamline and improve bid evaluation process; reduce procurement time for ICBs; and other time consuming procurement activities.

We also have the same interest with the Bank that procurement should be undertaken in a better manner and more transparent. What we have to do is to find every hole to improve this important undertaking. In my experience in the management of Tim Pengadaan, I have seen many efforts to expedite the procurement without ignoring the quality and serviceability of the contracts. It is fair to hear from you all the practice of procurement which has been processed so far. Again, I am looking forward to having your comments as well as your constructive criticism.

I think I have mentioned four (4) implementation issues which are crucial for both of us, the Bank and GOI. As we are living in a democratic society, those who want to raise other implementation issues it is welcome.

Ladies and Gentlemen, allow me to touch some sectoral issues. From the sectoral discussions between Sector Managers of the Bank and the GOI counterparts, the Bank has listed a number of sectoral problems. Although the problems are enormous, I hope they are manageable. Some of the sectoral problems are old story that we all do not want to listen, but we have to as the problems appear each year. Land acquisition, for example, is always reported as a problem. It does not mean that GOI does not do anything on that. The main issue related to the problems is mainly in the form of availability of funds to cover compensation for the people. In this connection, I am looking forward to the Bank comment on the possibility to allocate the Bank's fund in supporting GOI's struggle to give proper compensation to the people. Another old issue which still exists is inadequate or delayed counterpart funds. There should be a remedy to improve this unhealthy situation. When the loan agreement has been signed, it means that GOI has already committed to pay the commitment fee for the delay of project implementation if it happens. Sometimes bureaucratic procedures create a lengthy process, and I hope this one day exercise could be the great moment to dig out the solution. Let's do an intellectual exercise to find a workable suggestion. A down to earth assessment of GOI "Daftar Usulan Proyek" process is needed. A technical comment regarding this matter may be given by my colleague from the Ministry of Finance as well as from the Deputy Chairman for Fund Allocation and Implementation Management. In this regard, the process of the issuance of Legal Opinion also needs to be speeded up.

I don't want to mention all sectoral issues, because all of you are already aware of the issues. However, it is interesting to note that monitoring and evaluation is still considered as a point of weakness. In this regard, I want to stress that monitoring and evaluation is crucial for the success of a project, so I appeal my Indonesian side to strengthen this part of project cycle,
by giving adequate budget, providing the activity with adequate personnel, and giving adequate management attention.

Before I conclude, I would like to greatly appreciate to the Bank for its initiative to commence negotiation in Indonesia (for the first time the negotiation of “Capacity Building in Social Sector Project” was taken place in Jakarta last month). I do hope in the near future there will be other projects to be negotiated in Indonesia, among other things to give opportunity to relevant government officials to participate in the negotiation as well as to equip them with better understanding about the content of the loan agreement.

In line with what has recently suggested by the President of the Bank - Mr. Wolfensohn, there is also a need to evaluate the performance of some ongoing projects which are 4 or 5 year in implementation in order to update their relevant with the current situation.

I think that is all what I am going to say, thank you for your attention and have a fruitful discussion.
D. OVERVIEW OF SECTORAL DISCUSSIONS

1 (a): Education and Health Portfolio Review

Samuel Lieberman
Chief, EA3 Population and Human Resources Division

On April 19 and 23, portfolio reviews were held for the education and health sectors, both of which are considered to be in good shape. Projects are being prepared better, are disbursing well, and are having an impact. These projects are helping provinces play a larger role in the delivery of services.

There are three problem projects:

- **Skills Development Project (Ministry of Manpower).** The project has been plagued by start-up problems but problem resolution is underway and is working well.

- **Water and Sanitation Project for Low Income Communities.** This project was recently downgraded to Unsatisfactory on implementation progress. We still feel it is an excellent project that has and will contribute to development of the sector. The unsatisfactory rating is due to the slow disbursements and the slow progress of the health and hygiene component. Over the next six month, we are looking forward to seeing progress on the agreed action plan.

- **Primary School Teacher Project.** Implementation of the training of teachers has worked well, but teachers are not being hired. Less than one quarter have received jobs after training. The agreed action program involves the Provincial Governors and the State Personnel Administrative Board (BAKN) in enforcing government’s required qualifications for primary teachers.

Cross-cutting issues in these sectors include:

- *Availability of counterpart funds.*

- *Procurement of goods, works and TA,* especially at the provincial level.

- *Lack of flexibility in* project implementation. There exists a kind of “Costab paralysis”. PIMPROMs tend to be extremely cautious and do not want to experiment with new ideas or approaches not consistent with the detailed project design (or cost tables). There is excessive attention to intermediate objectives rather than long-term goals. Bank projects are not fully used as opportunities to innovate where road maps do not exist.
1 (b): GOI Comments

Prof. Dr. Soekirman (Deputy Chairman, Human Resource Development, BAPPENAS)

- Agrees that there are implementation problems with the WSSLIC Project, and that these originate from problems with project management. Efforts are being taken to speed up disbursement.

Dra. Mawarwati (Executive Secretary, Ministry of Health)

- *Counterpart Budget.* Part of the problem is that those involved in project implementation do not always know what procedure to follow to obtain counterpart funding, and suggests that standard procedures should be clarified and disseminated.

- *Lack of Flexibility in Project Implementation.* A lot of time in preparation is spend on the development of the project cost tables by Government, and some believe that these targets and budget estimates should then be rigidly followed. The Bank side should better clarify how these projections should be used.

Drs. Yudo Swasono (Head, Manpower Planning, Ministry of Manpower)

- *Skills Development Project.* Indicates that the inter-ministerial problems in this project are in the process of being sorted out.
2 (a): **Agriculture and Natural Resources**

Gershon Feder  
Chief, EA3 Agricultural Operations Division

The portfolio of Bank financed projects in these sectors involve five (5) different line agencies, Agriculture, Home Affairs, Water Resources (Public Works), Forestry, and Bank of Indonesia and a total of 16 projects currently under implementation. Of those 16 projects, five (5) are not considered satisfactory. Thus, these sectors account for 33% of all Bank financed projects (16 of 63), but 55% of all problem projects. Of the five projects, two will be soon upgraded to "satisfactory", problems with the rest are under active discussion. Along with the "problem" projects, there are many good projects in the portfolio. Among the more outstanding projects are the Bio-Collections Project, the Yogyakarta Uplands Agricultural Development Project, and the Agricultural Research Management Project which was recently completed.

The principal, cross-cutting implementation issues are:

- **Coordination.** Some projects are being implemented by three to four different agencies and involve central as well as local governments. To coordinate activities of these projects, Coordination Committees are established. Nevertheless, coordination remains difficult, as the effectiveness of these Committees is reduced as members often have many other jobs and are not able to devote the time needed to make coordination occur.

- **Budget and Counterpart Funds.** Problems with lack of budget allocations, including counterpart funds, have negatively affected two of the Unsatisfactory projects, creating delays in project start-up. A second issue is the problem created by the boundary of the Fiscal Year, for which only a short extension is given for the completion of expenditures from a previous year. I suggest that consideration be given to making such extensions longer.

- **Delays in Contracting of Consultants.**

- **Monitoring and Evaluation.** There is a new requirement by the Bank that all Staff Appraisal Reports contain a list of agreed implementation indicators. These indicators should include: (a) medium-term indicators of implementation progress; and (b) indicators of project impact.

- **Involvement of NGOs.** We have discovered many difficulties in involving NGOs in project implementation given problems in their meeting established contracting procedures and requirements.
2 (b): GOI Comments

Dr. Ir. M. Anwar Wardhani (Head, Bureau of Agriculture and Forestry, BAPPENAS)

- **Agriculture Extension.** The concept of agricultural extension has to be improved, to be based on experiences with such programs as Integrated Pest Management. It should be decentralized and include more active participation of farmers, as is now under consideration in the new Decentralized Agricultural Extension Project.

Ir. Soeparmono (Director General, DGWRD, Ministry of Public Works)

- **Coordination.** The problem of coordination needs to be solved. We have tried to promote coordination at local levels by the BAPPEDAs, but not all BAPPEDAs function well in this job.

- **TA Consultants.** We have tried since the 1994 CPPR to speed up the mobilization

Drs. H. Feisal Tamin (Director General, BANGDA, Ministry of Home Affairs)

- **Local Capacity.** The problem with provincial implementation of projects is that they have less experience, and the BAPPEDAs TK I & II need to be strengthened. These levels should also be responsible for coordinating NGO involvement.

- **Counterpart Budget.** In the determination of the counterpart budget, it is difficult to identify how much is to come from the local budget. In addition, there is a move to reduce the requirements for financing from local sources. Is it under consideration [by the Bank] to give loans to provinces? More financing should be directed to Eastern Indonesia.
3 (a): Infrastructure

Anupam Khanna
Chief, EA3 Infrastructure Division

The Infrastructure Division is handling a current portfolio of 17 projects involving loans totaling US$2.3 billion and total costs of around US$4 billion. The portfolio is generally performing well and producing acceptable results, with some projects performing excellently. This reflects GOI's strong commitment to economic and social development, the long-standing relationships between the core executing agencies and the Bank, and the competence and commitment of the personnel who manage these agencies.

While the overall diagnosis is good, the goal of today's review is to identify how to do better. Our principal concern therefore is with "projects at risk", and how to transform these into successful projects.

The key problems and issues impairing the preparation and implementation of projects within the Infrastructure portfolio are:

- **Land Acquisition/Resettlement and Environment.** The problems in these areas now relate primarily to issues of organization and programming rather than to policy.

- **Planning Framework.** Planning approaches need to be adapted to evolving circumstances, and in particular to the much expanded role now expected of the private sector (project preparation is often disrupted by unsolicited private project proposals).

- **Inter-Agency Coordination.** The increasing complexity of the new breed of decentralized urban projects is exposing weaknesses in inter-agency coordination, both among central government agencies and between central and regional agencies.

- **Local Capacity.** The capacity of many regional agencies, particularly at the Tingkat II level, is relatively weak both in terms of role definitions and of staffing.

- **Technical Assistance Effectiveness.** The effectiveness of technical assistance in the areas of institution building and policy formulation is impaired by poor management and supervision, and in particular by insufficient counterpart participation and poor follow-up of recommendation.

- **Procurement.** Keppres 16/1994 has established much improved procurement regulations and eliminated many areas of conflict between the GOI and Bank rules, but its implementation is less than satisfactory (for example, there are many instances of lowest evaluated bids being rejected for extremely trivial reasons).
• **Counterpart Funds.** Implementation of many projects, and particularly decentralized urban projects, is still being impeded by the delayed release of counterpart Rupiah funds, and by shortage of counterpart funds in instances where costs—and especially land acquisition costs—have escalated significantly.

### Infrastructure Portfolio Composition

<table>
<thead>
<tr>
<th></th>
<th>Loan Amount US$ Million</th>
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<tbody>
<tr>
<td><strong>Transportation</strong></td>
<td></td>
</tr>
<tr>
<td>- Third Kabupaten Roads</td>
<td>215.0</td>
</tr>
<tr>
<td>- Eastern Indonesia Kabupaten Roads</td>
<td>155.0</td>
</tr>
<tr>
<td>- Fifth Kabupaten Roads</td>
<td>101.5</td>
</tr>
<tr>
<td>- Second Highway Sector Investment</td>
<td>350.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>821.5</strong></td>
</tr>
<tr>
<td><strong>Integrated/Decentralized Urban</strong></td>
<td></td>
</tr>
<tr>
<td>- East Java/Bali Urban Development</td>
<td>180.3</td>
</tr>
<tr>
<td>- Sulawesi Irian Jaya Urban Development</td>
<td>100.0</td>
</tr>
<tr>
<td>- Surabaya Urban Development</td>
<td>175.0</td>
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<tr>
<td>- Semarang-Surakarta Urban Development</td>
<td>174.0</td>
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<tr>
<td>- Kalimantan Urban Development</td>
<td>136.0</td>
</tr>
<tr>
<td>- Second East Java Urban Development</td>
<td>142.7</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>908.0</strong></td>
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<tr>
<td><strong>Jabotabek</strong></td>
<td></td>
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<tr>
<td>- Jabotabek Urban Development</td>
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<tr>
<td>- Second Jabotabek Urban Development</td>
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<tr>
<td>- Third Jabotabek Urban Development</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>401.0</strong></td>
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<td><strong>Other</strong></td>
<td></td>
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<tr>
<td>- TA for Private &amp; Public Provision of Infrastructure</td>
<td>30.0</td>
</tr>
<tr>
<td>- Second TA for Private &amp; Public Provision of Infrastructure</td>
<td>28.0</td>
</tr>
<tr>
<td>- Flores Emergency Earthquake Reconstruction</td>
<td>42.1</td>
</tr>
<tr>
<td>- Village Infrastructure for Java</td>
<td>72.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>172.6</strong></td>
</tr>
</tbody>
</table>
3 (b): GOI Comments

Ir. Soeharsono Martakim (Director General of Highways, Ministry of Public Works)

- Appreciate positive statements and generally agree with the comments made. At present, there is one major "bilateral" issue concerning TA procurement requiring resolution, but this needs to be addressed outside this meeting.

Drs. Muchtarudin Siregar (Secretary General, Ministry of Communications)

- MOC is currently receiving TA support from the Bank, so cannot comment on all of the points covered.
- In general, agree with the issues raised and would like to reinforce concerns regarding capacities of executing agencies. Even at the central level, it is becoming more difficult to attract and retain good staff, and there is a shortage of good project managers. In the absence of good project managers, it will not be possible to have good projects.
- MOC is now trying to train supervision teams and to enhance the role of local supervision consultants.

Other Comments

- Lack of clear policy and strategy for urban development is hampering project preparation. Clear guidelines are needed to avoid disruption caused by disputes concerning public and private roles.
- Some loan agreements are overloaded with covenants which subsequently cause implementation and disbursement delays. Efforts should be made to address as many issues as possible during preparation and hence to reduce the number of effectiveness and disbursement conditions.
The Industry and Energy project portfolio still accounts for the major share of Bank lending. Portfolio performance has been satisfactory except for projects in the finance and industry sectors. Most projects have been good at entry, and this review therefore focuses mainly on factors that have adversely affected quality at exit. The common theme across the sectors is the critical link between sound sector policies and successful projects.

In the Industry Sector, project implementation has been good and disbursements have been in line with or ahead of schedule. However, an inadequate policy environment has diminished development impact:

- **Industrial Restructuring Project.** Unfinished deregulation reduced the restructuring impact.

- **Fertilizer Restructuring Project.** Continuing distortions in fertilizer pricing and marketing arrangements threaten sustainability of investment benefits.

Project impact has also been diminished by weaknesses in technical assistance management:

- Lengthy contracting processes have considerably delayed important studies and policy TA services
- Follow-up to subsector and fertilizer industry studies has been very limited.
- Insufficient cost-recovery of technical assistance services provided to firms.

The major actions needed to address these problems include:

- Strengthen counterpart capacity to manage and support conduct of TA services.
- Develop policies for sector structure reform that will enable sustainable fertilizer production.
- Commercialize Public Research and Development Institutions and empower/require them to charge for services to clients.

In the **Telecommunications Sector**, projects have exceeded their performance benchmarks despite some disbursement problems. In the Gas Sector, PGN's performance has been impressive. However, project implementation and impact has been impaired by:
• The circa two-year delay by Pertamina in supplying gas in East Java.

• The circa nine-month delay in commencing the "twinning" TA services.

For the future, it will be important to ensure third party compliance with project commitments. Moreover, while PGN now has strong project management capacities, it is important to ensure that these are not weakened by the movement of personnel to other roles.

In the Electric Power Sector, where PLN is the Bank's largest borrower in Indonesia and one of the largest in the World, the overall impact of the large project portfolio is impaired by:

• Liquidity/financing problems that are constraining PLN's ability to fund its investment program.

• Implementation delays in procurement and recruitment of consultants.

• External non-commercial impositions by GOI.

• Lack of clarity with respect to future sector structure and regulatory oversight within the context of expanding private participation and planned privatization.

A comprehensive set of actions is needed to ensure the sound future development of the sector and hence provide a sound framework for the successful preparation and implementation of individual projects:

• Rationalization of the PLN tariff structure coupled with an increase in the average tariff level.

• Relaxation of constraints that inhibit PLN's capacity to finance its investments at reasonable cost, including through debt financing.

• Relaxation of constraints that inhibit PLN's ability to enter into best practice commercial agreements with third parties.

• Improve bid evaluation and contract award procedures so as to reduce the procurement cycle time from 200 to 90 days, and the consultant recruitment time from one year to two months.

• Establish an effective Directorate for Sector Regulation within the Directorate General for Power and Energy Development.

• Initiate the requisite preparatory actions prior to proceeding with the planned partial privatization of PLN.

• Enhance the Bank's supervision arrangements, inter alia through the institution of an annual sector level performance review (in January/February) against appropriate benchmarks, and by improvement of response times for procurement clearances.
4 (b) GOI Comments

(On all Sector Presentations)

Ir. Rahardi Ramelan (Deputy Chairman, BAPPENAS)

- Counterpart capacity would seem to be a common problem across all agencies and thus to be a first priority for attention.
- Agreed that present monitoring and evaluation approaches focus mainly on disbursement and give insufficient attention to project outcomes, impact and quality at exit.

Dr. Ir. Dipo Alam (Head, Bureau for Industry and Mining, BAPPENAS)

- Mr. de Tray highlighted that we are today discussing how the Indonesian people’s money is being used. Other speakers have also touched on the importance of project ownership and on the need for effective monitoring and evaluation. However, it would seem that monitoring and evaluation approaches are not yet assessing performance from the standpoint of the ultimate owners.
- The issue of ownership is of particular relevance with regard to technical assistance. The ineffectiveness of much TA can be traced to lack of ownership. There is a strong feeling among executing agencies and among consultants--particularly foreign consultants--that they are working for the Bank rather than their client agency.

Dr. Ir. Richard Claproth (Head, Bureau of Electric Power and Energy Development, BAPPENAS)

- Agreed with Mr. Dipo Alam’s comments about projects involving the use of the Indonesian people’s money. Foreign loans should therefore bring benefit the nation, including through increasing local content. However, despite the long period over which Indonesia has been borrowing from the Bank, the country still has few world class contractors and consultants.
- Financiers should consider the liquidity/financing situation of PLN before lending more money to them. PLN has too much debt and its revenue growth is slow. The solutions proposed by the Bank are the easy ones. Attention should be directed at the other variables in the ROR equation, namely costs and the asset base.

Other Comments

- The commercialization of R&D institutes will require MOF support.
E. PROJECT IDENTIFICATION AND PREPARATION ISSUES

1. Quality at Entry: Strategic Issues

Prof. Dr. Ir. Herman Haeruman JS
Deputy, Regional and Provincial Development, BAPPENAS

First, let me express my sincere appreciation to the World Bank’s Resident Staff in Indonesia for their thoughtful comments on the wide range of issues covered in the section of the CPPR on “Quality of Entry”. The Action Plan developed collaboratively by the Bank and the GOI in the 1994 to increase the development effectiveness of Bank-funded projects has been extremely helpful in guiding changes in project preparations procedures followed by the GOI, and we remain in 1996 committed to continued efforts to realize its objectives.

Obviously, there are legitimate concerns on the part of the Bank that the "geographically dispersed investments which are increasingly managed by weaker agencies found at the subnational level" is adversely affecting the quality of new additions to its portfolio. From the standpoint of the GOI, such an observation has direct relevance to progress toward implementing a centerpiece of national development policy, namely decentralization of responsibility and decision-making to subnational governments. As Indonesia implements its decentralization initiatives, which cover a variety of sectors, there will need to be careful attention by responsible central government agencies, such as Bappenas, not only to the pre-implementation stages of funded projects, but a sustained and proactive effort by the whole of the GOI to strengthen local capacities to manage effectively these projects. For that reason, the issues raised in the CPPR have direct relevance to our own self-assessment and our priorities for future action.

As I see it, there are several key concerns raised in the CPPR related to Quality of Entry that warrant comment and clarification. These I would group under the four general headings of: (1) Project Ownership; (2) Project Financing; (3) Project Planning and Organization; and (4) Project Externalities. All are directly linked with project preparation. Let me briefly comment on these in the hopes of clarifying the GOI position on the Project Preparation aspects of the CPPR.

Bappenas regards "Project Ownership" not only on the part of the GOI but especially at the provincial and local levels as the key to project implementation effectiveness. Projects that are initiated, or at least embraced, by local authorities, are more effective, based not only on experience here but as modeled by successful infrastructure projects elsewhere. The extent to which projects are screened in accordance with the objectives of Repelita is certainly an important step towards minimizing the extent to which projects are "consultant driven". Annual program discussions would facilitate links between Bank lending and GOI priorities. But the identification step also needs to take into account, to the extent possible, a sense of more local priorities. Linking project identification to local planning, such as preparation of the PJM, would undoubtedly increase the sense of ownership since GOI initiated projects would more directly relate to locally defined needs. As the GOI improves the PJM preparation process to take into account both local priorities for development, as well as local capacity to handle the costs of
development through cost recovery, the overall project preparation process will be improved. I will return later to the topic of cost recovery as a component of project financial preparation, but I wanted to be sure to link it initially to the "Project Ownership" factors.

“Ownership” and information are in many respects synonymous. In Urban Development Project (UDP) preparation, it is especially important for local government and enterprises, to be fully aware upfront of the implications of the loan package for their own operations. Full information, easily understood, is an important basis for ownership. For example, local governments need to understand counterpart budget requirements, the interest rate that will be used on the loan, required tariff increases, and specific regulations and conditions related to Subsidiary Loan Agreements (SLAs). Compared to the experiences at the start of IUIDP, project preparation under the current UDPs has involved far more financial transparency, increased involvement by subnational entities in city selection and determining priority components of projects, and in managing the activities. All of this translate into a greater sense of "ownership" with central government taking on the complementary role of assisting in institutional strengthening and overall guidance of project preparation and implementation.

One problem, however, is that the currently used planning timeframe of five-year plans does not match well with the planning and implementation timeframe of infrastructure projects and the changing conditions in cities. This situation linked closely with development of consistent objective. Efforts to remedy this situation is underway in the form of development of SARLITA.

Given that infrastructure projects frequently consumed at least three (3) years from the PJM planning to implementation, the plans are outdated even before the projects are completed. Infrastructure projects are better planned using a border timeframe, perhaps 10 years rather than the 5 years of the Repelita, so as to effectively anticipate future demand. One alternative strategy is to use a “rolling PJM” and “rolling Repelita” whereby there is a continuous updating of the plans to reflect changing demands. Of course, that will require a stronger planning function overall, but given the volume of investment in infrastructure, such an enhanced planning effort is worthwhile.

This is just one dimension of the “planning and organization” problems. One other very obvious problem is shortage of qualified staff to oversee these complex projects. Very often, within Bappenas and the sectoral ministries, there is handful of staff with experience and training to effectively oversee multisectoral infrastructure projects. What happens is that this small staff is requested to handle an increasingly larger load of projects without concomitants staff increases. This can adversely affect so many aspects to project preparation that cannot be overcome in the implementing stages. Obviously, the quality of consultants will determine the effectiveness of project preparation, but it is only the permanent staff working on projects that can ensure effective coordination and timely mobilization of consultants.

There are also an array of “Project Financing” issues that affect project preparation and initiation, one of the most important of which is the coordination of central government borrowing for projects with provision by the local governments of counterpart funds. As noted above, project financing is also related to “ownership” of project, since the ability of local governments to mobilize funds for infrastructure projects is also related to the extent that they have been consulted in project inception stages. Coordinating local and central government financial systems with those of the Bank (and other lenders) will remain a continuing challenge.
One way the GOI is making it easier for local governments (Dati II) to identify and plan for the needed counterpart funds is by expanding the general use grants under the Inpres program, and making those grants available at the beginning of the fiscal year (April 1). In the past, there have been delays in securing these funds for use in various projects, as well as fluctuations in the amount of the grants, thereby making it difficult to plan. A consistent level of funding for Inpres general use grants based upon a well-understood allocation formula is taking a lot of the mystery and uncertainty out of the local finance system.

The pricing of services that are provided through Bank-financed projects remains one area of continuing challenge for the GOI and subnational governments. Here it should be stressed that there are non-economic implications that we must balance against the need to raise tariffs. The schedules established within the loans related to tariffs must take into account not only "ability to pay" but also "willingness to pay". Tariff increases for basic services like water, wastewater, electricity and transportation, to name just a few, are extremely sensitive matters. The extent to which there is balance between tariff increases and overall improvement in local resource mobilization through greater efficiency in collection and creativity in financing will result in less pressure to simply raise tariffs to provide cost recovery. And this, in turn, will mitigate conflicts and produce better services with more effective handling of debt obligations.

One recurring problem in project financial preparation is the limited database regarding the financial capability of local governments. This situation is being addressed on several fronts, including improved training for local government officials, more systematic financial reporting requirements (e.g. for PDAMs) and overall enlargement of the Local Government Finance Database available to central government (and donors) to determine financial capability.

Where it is less difficult to calculate costs is in the whole area that I refer to "project externalities," that is the aspects of project initiation that involved costs beyond the actual construction. While the CPPR appropriately suggests that the GOI has been giving "greater attention at an early stage on resettlement, environment, land acquisition and policy agenda matters," we recognize that large multi-sectoral urban-based projects must elevate these "externalities" to a central place in the project inception process. Here again, as in the case of "project ownership," the role of community participation from an early stage in the planning process can help to more accurately identify externalities (and the costs associated with addressing them), as well as to help identify alternative project strategies to mitigate negative impacts. Most of "externalities" that fail to be assessed in the project preparation influence the quality at entry. These externalities are macro-economic and sectoral policy framework identifying higher hierarchy of goal and objectives, environmental impacts and risk assessment, sustainability and behavior of beneficiary and non-beneficiary in the project sites. Assessment of potential cost recovery may involve actions beyond project scope. The role of the RSI's Environmental and Social Impact Unit (ESIU) is an essential support to this effort, although as I stated earlier, the GOI planning processes must incorporate these concerns on a continuing basis. The objective of simplicity in project design is enhanced to the extent that community participation is an early and meaningful component of project preparation.

I would like to emphasize that in developing countries, change is development. Change is occurring very often. To accommodate these changes in the project preparation is improving quality of entry. The only way to do it is flexible design and financing scheme, providing options and frequent review with more participants.
As I hope I have suggested in these brief remarks, the GOI is in general concurrence with the CPPR on virtually all of the issues raised. Overall, the GOI response to the 1994 Action Plan has been to underscore our efforts to be more proactive in our involvement in the projects, to convey the skills and resources to the subnational governments to enable them to be more proactive and responsible, and to better link complicated infrastructure initiatives more directly to the major priorities for national development. We still need to improve the monitoring mechanisms at the project preparation stage and improve communication between the technical level staff and policy-makers so as to strengthen the interaction process of top-down and bottom-up project planning and implementation. And we can make continued improvement in our efforts to involve community and the private sector in the urban development process.

My reading of the CPPR leaves the strong impression that the Bank regards the GOI is responsive to our jointly-derived initiatives in the project preparation phases. In closing, I would merely reiterate our continued commitment to the identified initiatives so as to achieve our national development objectives in the most effective fashion.
2. Quality At Entry: Ten Key Steps

Richard A. Calkins
Operations Advisor, EA3 Department

1. Consistency with Development Goals and Strategy
2. Clarity of Project Objectives and Key Performance Indicators
3. The Consideration of Alternative Project Design
4. Fiscal Impact and Cost Recovery
5. Sound Cost-Benefit Analysis (or Other Selection Criteria)
6. Quantitative Sensitivity and Risk Analysis
7. Institutional Assessment and Capacity Building
8. Poverty Reduction and Other Social Impacts
9. Environmental Impact and Risk Analysis
10. A Detailed Implementation Plan
Introduction

Richard A. Calkins
Operations Advisor, EA3 Department

Over the past several years the Bank has focused increasing attention on the performance of country portfolios, since the Bank's real success is determined not by the number of loans we approve but by the benefits achieved "on the ground" -- in terms of sustainable development impact.

"Quality on Entry" into the portfolio is a critical determinant of success in project outcomes. Specific factors vital to project success must begin to be addressed right from the beginning of project identification. These factors must feature throughout project preparation, and be fully reflected in the detailed project implementation plan.

What are these critical success factors, and how important are they? According to a recent analysis of past Bank projects, there are 10 key elements to "quality on entry". These have been defined in terms of a framework for project analysis, a lists of key questions which need to be carefully considered, in order to avoid serious problems in project implementation and to minimize the risk of failure in achieving the intended development impact.

These 10 key elements are the focus on this presentation. Their importance can be seen in the fact that those Bank projects that have not followed this framework of analysis have a much higher probability of failure than those where the key questions have been carefully asked and answered: After three years of implementation, for example, the probability of being rated unsatisfactory in terms of meeting development objectives is seven (7) times as large for projects where the Task Team failed to answer the questions adequately than for those where they did. And after four years of implementation, the probability of an unsatisfactory rating was 17 times as large. So these factors do make a difference.

Most of these questions are a matter of common sense, and most are routinely asked of Bank projects in Indonesia -- by Government officials and by the Bank's Task Team. The issue is: how well are we, and GOI, doing in answering these questions?

In all honesty, and this is clearly reflected in recent analysis of completed projects, both the Bank and the Government can -- and must -- do better.

Let's turn, briefly, to these questions.
I. Consistency With Development Goals And Strategy

Project identification should begin with a clear diagnosis of the problem(s) to be solved through the project, consistent with the country's development goals and objectives, the Government's strategy for achieving those goals and objectives, and the Bank's Country Assistance Strategy.

The key questions to be considered in this area include:

- How does this project relate to the country's macroeconomic goals and objectives (such as growth, poverty reduction, regional development, etc.)?
- How does this project relate to sector-specific (or regional) issues and concerns (normally identified through Bank Economic and Sector Work), and GOI's strategy for development of the sector (or region)?
- Is there clear evidence of Government commitment to, and "ownership" of, the project concept (e.g., whose idea was it, is it included in the defined public investment program, and is it considered by senior Government officials to be a high priority project)?
- How does the project relate to the Bank's agreed Country Assistance Strategy, including the linkage to other ongoing and planned projects, and the priority attached to various macroeconomic and sectoral goals and objectives?
- Should the project be in the public or private sector and, if in the public sector, what is the rationale for Bank involvement (i.e., what special contribution or value added does the Bank - as the "lender of last resort" - bring to this project that no other donor/source of funds could provide)?

Elaboration

Establishing the basis for solid, on-the-ground development impact starts with the identification of a development problem, and the effective diagnosis of the causes of that problem, as a prelude to the design of investment and/or policies aimed at solving it. This means that Bank operations should be firmly rooted in sound economic and sector work that identifies, for high priority sectors, the policy, investment and institutional constraints and opportunities as a framework for discussions with GOI on possible Bank assistance.

One key test of "ownership" is the borrower's leadership of, and participation in, project preparation, including the staffing of the project preparation team and timely action to resolve basic questions of project policy and design.

On the Bank's side, caution is needed to ensure that the desire to meet annual lending targets does not influence the objective approach needed to project identification and appraisal.
II. Clarity of Project Objectives and Key Performance Indicators

Perhaps the most critical aspect of project identification is the specification of objectives and the standards that will be used to determine the extent to which those objectives have been achieved. This is an area that is currently receiving a great deal of attention within the Bank, and instructions have been issued by our Vice President that no project can go to the Board unless its objectives and performance indicators are clearly defined. The relevance of performance indicators for "ex-post evaluation" is clear, but their virtues in project identification and design are often not fully appreciated. Experience to date indicates that the effort to be clear and precise can pay very significant benefits in testing the extent to which all parties concerned understand and agree on the project's basic rationale. Attempting to quantify how we will know if the project has achieved its objectives also imposes a useful discipline on "overly ambitious" development goals. More importantly, for improving portfolio management, we expect the new performance indicators to help GOI, project implementing authorities and the Bank to monitor progress and results on the ground while there is still time to deal with any problems, and thus help to ensure that the intended project benefits are actually achieved.

The key questions to be considered in this area include:

- Have the project's objectives been clearly defined, and do they appear to be achievable within the known constraints and risks facing the project?
- Have each of the key project objectives been defined in measurable ways (quantitatively and/or qualitatively), and have performance indicators been defined that will lead to a transparent assessment of eventual project success?
- Do the project indicators cover the key risks identified under the project's sensitivity and risk analysis, as well as the key inputs/outputs and (most important) key outcomes of the project?
- Are there a manageable number of performance indicators, and/or provision for aggregation of indicators at the sub-project level, so that project managers and Bank supervision missions can easily assess progress toward the key project objectives?
- Does the project design and implementation plan include a monitoring and evaluation component that will track (in a cost effective manner) the key performance indicators on a timely basis?

Elaboration

This is a conceptually simple exercise, but in practice can be quite complex and challenging, requiring considerable thought and analysis. Given its benefits, however, the Bank has agreed to attempt to retrofit our existing portfolio wherever earlier projects do not include clear objectives and monitorable performance indicators.
III. The Consideration of Alternative Project Design

The preparation of the project should include the consideration of alternative project design, both in terms of other projects that might achieve the same results in a different way, or alternative designs for a given project. This effort should begin with a careful review of the lessons of past experience.

The key questions to be considered in this area include:

- What similar kinds of projects have been completed in the past, what went well in those projects (that should be repeated), and what went less well (that should be avoided or corrected in project design)?

- How else could the basic problem diagnosed in II, above, be resolved (through alternative projects or through alternative designs of the proposed project)?

- In particular, what are the prospects that the private sector might be involved in solving this problem (the "private sector counter-factual"), especially if the Government were not involved, or under "enabling conditions" that could be established by Government more cost-effectively than using scarce fiscal resources to invest directly?

- On the basis of this assessment, which should be rigorous and (normally) quantitative, is the proposed project the least cost solution to the problem?

- Is there any way to reduce the complexity of the project, especially in terms of the number of agencies involved in implementation and the number of different project components (both of which are statistically correlated with unsatisfactory project outcomes)?

Elaboration

Under current Bank policy, the "private sector counter-factual" is a critical aspect of the consideration of alternative design, and the burden of proof is now on the Task Team to establish that private sector participation would not be appropriate.

The pressure to add components to a project will always be greater than the pressures to subtract components, but those pressures must be resisted. One way to do so is to agree on the design of a multi-year, multi-project (programmatic) approach to Bank support within a given sector. This should provide for broader coverage of the key sectoral constraints (policy, investment and institutional) without over burdening a single project. Such an approach could also include a series of regional projects (e.g., for Secondary Education expansion) within the framework of an agreed policy framework and strategy for Bank assistance to a given sub-sector, with considerable potential efficiency gains for GOI and the Bank.
IV. Fiscal Impact and Cost Recovery

Since most Bank projects provide direct support to public sector projects, it is important to understand not just the economic impact of the project, but also its impact on the Government's budget. To the extent that these costs represent a significant share of government revenues and expenditures, the sustainability of the project may depend on provisions for cost recovery, either directly through project-related fees or indirectly through taxes or other indirect charges. Thus, the fiscal implications, the potential for cost recovery, and the willingness of beneficiaries to pay for the benefits should be taken into account.

The key questions to be considered in this area include:

- What is the project's overall fiscal impact, and what is the timing of that impact, in terms of public sector revenues and expenditures?
- Does this impact, in terms of investment and/or recurrent costs, represent a significant share of existing Government revenue and expenditures (for the sector, at that level of Government)?
- Is cost recovery appropriate under the project, and -- if so -- what methods of cost recovery would be used?
- Is the project financially sustainable on its own (i.e., are beneficiaries both willing and able to pay), or will continued subsidies be required?
- If subsidies would be required, to what extent are these subsidies "transparent"?
- Who would benefit from the subsidies, and how does this relate to Government policies and strategies for poverty alleviation and the reduction of income disparities by different groups and/or regions?

Elaboration

Bank projects must take fully into account the fiscal implications of project implementation and, especially, subsequent operations and maintenance. Failure to do so will jeopardize the sustainability of project benefits.

An understanding of budget administration, including the allocation, release and use of recurrent and development funds, will be critical for the design of a realistic project implementation plan, and this will be especially important for Bank projects that will be implemented at the provincial and local level.

The scarcity of budget funds, and the fact that most projects involve private benefits, would argue for cost recovery wherever feasible, if not private provision of basic services.
V. **Sound Cost-Benefit Analysis (or Other Selection Criteria)**

The purposes of economic analysis (particularly cost-benefit or least-cost analysis) include: (a) determining the extent to which a project contributes to a country's welfare; (b) to identify bad projects (that should be rejected); and (c) to improve project design (e.g., through sensitivity analysis that can highlight opportunities to increase the expected value of future benefits. The essential question is what would happen with and without the project, in terms of the flow of related costs and benefits. For some projects, however, the nature of costs and benefits may make quantification difficult, and thus a different approach is required -- based on an assessment of alternative approaches to achieving the same results, an evaluation of the costs of each approach, and the selection of the least cost approach.

The *key questions to be considered* in this area include:

- What is the *Net Present Value* of the project (the discounted value of a project's cost and benefit streams, using an agreed discount rate), or the *Internal Economic Rate of Return* (the discount rate at which the present value of benefits and costs are equal, which is then compared with a "cutoff" rate of return)?

- Has this rate of return been calculated using nominal (current market prices) or real prices (i.e., taking into account "opportunity cost" principles)?

- Has the project used "conversion (shadow) prices" for certain factors, or a standard conversion factor, and if so, how have these been calculated?

**Elaboration**

Formal cost-benefit analysis does not apply to all sectors, and even where it does apply, it is not an adequate substitute for a careful assessment of alternative project designs (i.e., the rate of return calculation is a rather more narrow assessment than that required to ensure optimality on a macroeconomic and sectoral basis).

Even for sectors where formal cost-benefit analysis does not apply, projects (and project components) must be subject to "least-cost" analysis, to ensure optimality of project design and selection. Increasingly, however, we are "stretching the boundaries" of project cost and benefit valuations in order to expand our appreciation of the real impact of Bank projects (e.g., in health and education).

Properly done, at the feasibility stage, rate of return and least-cost analysis should result in changes in project design; it should not be seen as an end-of-process, ex-post rationale for an investment already prepared.
VI. Quantitative Sensitivity and Risk Analysis

The main purpose of project sensitivity testing is to identify those factors to which the project's rate of return is the most sensitive. These factors can include an increase in project investment or operating costs, delays in project implementation, lower prices than anticipated for project outputs, etc. Some of these factors may be entirely outside the control of the project's sponsors, but all must be identified so that they can at least be monitored. Where a project's rate of return is seriously dependent on one of more key factors, project design should also include mitigation plans to offset the risks of those factors occurring. At the same time, the rate of return calculation should reflect the expected outcome of the project, taking into account both the sensitivity of the NPV or IERR to project risks, and the probability of those risks occurring. Hence, the real rate of return should be the "most likely" one, taking these risks into account, not the rate of return that would be achieved "if everything goes according to plan".

The key questions to be considered in this area include:

- Has project preparation included an attempt to identify the underlying or causal factors that introduce risk into the project's potential outcome(s)?

- What type of sensitivity/risk analysis has been used, and how detailed and meaningful is this analysis?

- Does the analysis determine if variations in key underlying variables have an important impact on the NPV or IERR?

- Have these risks been clearly presented, and is there a risk mitigation or contingency plan for each of the major risks as a part of project design?

- Does the project implementation plan include a provision for monitoring and evaluation of the underlying risk factors facing the project?

- Were "switching values" calculated (those values for the risk factors that would result in an unacceptably low NPV or IERR)?

Elaboration

All too often, sensitivity analysis is approached mechanically (plus or minus 10% and 20% of investment costs, a one or two year delay in project implementation, etc.) rather than as a true search for the factors that are most important to determining the final outcome "on the ground" of the project's costs and benefits.

The key project risks should be build into project design, at a minimum through provisions in the project implementation plan for monitoring and evaluation. Major risks should also be the subject of well-thought-out mitigation and/or contingency plans.
VII. Institutional Assessment and Capacity Building

In most projects that fail, institutional shortcomings -- including difficulties of inter-agency coordination -- are a major contributing factor. This is often cited as one of the "lessons of experience" and should be taken into account in the design of future projects. And yet, institutional strengthening is one of the most challenging areas of development, perhaps least well understood by Bank Task Managers. To minimize overall project risks, therefore, special attention may be required.

The key questions to be considered in this area include:

- Has the project preparation team adequately assessed the demands the project will make on the implementing agencies, their current capacities, and the extent to which further institutional strengthening is required?

- Does the project design include a coherent, sensible, and cost-effective plan for institutional strengthening (taking into account the current "baseline" and the absorptive capacity of the relevant organizations)?

- Does the project design and implementation plan provide for effective monitoring and evaluation of the institutional strengthening program, and plans for mid-course assessments/corrections?

- Have the risks of failing to achieve the institutional strengthening objectives of the project been factored into the overall rate of return (or least cost assessment) of the project, and -- taking the results into account -- does it still make sense to go ahead with the project?

Elaboration

While issues and concerns about weak institutional capacity are frequently cited in the "lessons learned" sections of Bank appraisal reports, the corresponding risks to achieving the project's intended development objectives are not always incorporated in the quantitative assessment of project risks.

Mitigation plans generally include the provision of technical assistance for "institutional strengthening", but performance indicators (including baseline measures of capacity and targets for improvement) are often missing. As a result, monitoring and evaluation of institutional strengthening components may not be provided for in the project's implementation plan, and thus the achievement of intended results in this area are generally weaker than for the overall project impact.

This factor will be increasing important to the success of the Bank's portfolio in Indonesia, given the increasing number of projects implemented by regional and local government agencies.
VIII. Poverty Reduction and Other Social Impacts

It is increasingly recognized that the design of a lending operation should be based on a good understanding of the problems, needs and interests of those who are to benefit from it, and -- more importantly -- those who might be harmed by it. The virtues of a participatory approach can be seen in the record of more effective implementation and significantly greater sustainability of project benefits, especially for projects in the social sectors and those implemented at the local level (such as Kampung Improvement or village water supply). In the case of potentially negative impacts, such as projects involving involuntary resettlement, project design and implementation must be consistent with Bank policies and procedures.

The key questions to be considered in this area include:

- Who, exactly, would benefit from the project, and who might lose?
- What are the incomes of project-affected people, and what is likely to be the poverty reducing effect of the project?
- If land acquisition is required, will this involve involuntary resettlement (in which case, Bank Operational Directives may require a Resettlement Action Plan)?
- What procedures will be put in place to ensure that the incomes/livelihoods of those negatively affected by the project will be fully restored (a basic tenet of Bank policy)?
- Will the project impact on "indigenous peoples" (in which case, Bank Operational Directives may also require an indigenous peoples action plan)?
- To what extent have other cultural factors of the affected population been taken into account in project design (e.g., gender roles in agricultural production, and alternative approaches to extension activities targeted to women farm workers)?
- To what extent is a participatory approach required in project identification? In project preparation? In project implementation? At each stage, is participation primarily one of consultation, or does it also include decision making?

Elaboration

While a highly participatory approach is not required for every project, it is likely to be an increasing feature in the design of effective regional development projects.

Resettlement costs are a relatively small part of total project costs, provided that resettlement is properly planned and implemented, but can increase exponentially if not planned and implemented effectively.
IX. Environmental Impact and Risk Analysis

As a matter of policy, all Bank projects are subject to an environmental screening which results in a proposed "category" of environmental impact and risks -- from "A" for substantial environmental impacts and risks, to "c" for projects with no significant environmental impact or risks. All "A" rated projects must have a thorough Environmental Impact Assessment completed prior to appraisal of the project by the Bank.

The key questions to be considered in this area include:

- Does the project require a full Environmental Assessment (either project specific, sectoral or regional)?

- Have alternative project designs been considered that might reduce the potential environmental impacts and/or risk?

- Has an acceptable environmental mitigation, monitoring and management plan been completed, and fully reflected in project cost and risk analysis?

- Have the potential environmental impacts been evaluated from an economic perspective (e.g., project "externalities") and, if quantifiable, have they been incorporated in the economic rate of return/net present value calculation?

- In the case of programmatic operations, are there adequate provisions subsequent review and approval of environmental impacts of sub-projects?

Elaboration

Given the need for "baseline" measurements, which can take months to obtain if not already available, proper environmental assessments should begin at the earliest stage of feasibility analysis. EAs should not be considered an "add on" analysis, but should be an integral part of the feasibility study, most especially in the early consideration of alternative project design, and particularly in the consideration of alternative project locations and layout. The EA process will not live up to its potential if it is completed too late in the project cycle.

Implementation plans, and supervision plans by the Bank, must take fully into account the need to monitor and evaluate potential environmental impacts and the success of mitigation and management plans. These plans are sometimes not fully understood by project implementation staff, and are sometimes not fully supervised by visiting Bank missions.

Greater attention should be given to sectoral and regional environmental assessments, and greater support is needed to Government plans for improving spatial planning at the regional and local levels.
F. EFFECTIVE SUPERVISION OF PROJECT IMPLEMENTATION

1. Effective Supervision of Project Implementation

Drs. Soekrisno
Expert Staff, Ministry of Public Works

It is really a great honor for me to participate in these deliberations and to exchange with you some observations and ideas about the issues affecting the effectiveness of Project Implementation with particular reference to the Ministry of Public Works. I hope this exchange would contribute to our joint efforts to ensure that all our projects are cost effective and sustainable and yield their expected return to the economy of the country and to the beneficiaries. MPW started to focus some years ago on improving the quality of projects implementation as demonstrated by the current organization of MPW where more emphasis is given by each Director General to effective implementation on a regional basis. The current initiative to introduce quality assurance is another step to ensure the effective implementation of public works projects. At the project level we have also introduced a series of training programs for the project managers and their staff so that they can keep abreast of the requirements related to their functions and responsibilities. There are also overriding concerns regarding the environmental impacts of projects and capacity building, and MPW is committed to finding adequate initiatives during the planning or preparatory stage and solutions during the implementation stage to overcome these concerns.

I will endeavor to limit my remarks to three of the six issues which have been identified by our colleagues in the World Bank as those which presently affect the effectiveness of project implementation and supervision. I shall deal later in short with the other issue particularly about the role of Secretariat General in providing assistance to expedite and streamline project implementation through monitoring of budgeting and disbursements.

Let me consider firstly, the role of supervision consultants during the implementation stage. We are all agreed, that in most projects for the construction of public works infrastructure, there are important activities of a specialized nature, requiring the use of appropriately qualified consultants. However, we presently recognize shortcomings in the recruitment and management of the high quality expertise we aim to employ through these consulting services. We appreciate also that a significant proportion of resources are allocated for consulting services. Efforts to reduce the proportion of costs allocated to consulting services, without proper care and attention being given to the likely consequences, may well result in much higher overall project costs although the proportion of the cost of consulting services to total cost may appear to be lower. It is our common task to find practical and effective ways to optimize the use of consultants and to introduce greater accountability for the task which are assigned to them, without in any way diminishing the wider responsibility assumed by our Project Managers.

Supervision consultants are essentially our partners in ensuring that we achieve the triple objectives related to project completion namely that projects are implemented on time, to the
best achievable quality, and within planned budget. We wish to see a more active role by our project managers to ensure that program and project objectives are achieved with optimal consideration of the expert opinions, technical innovations, and implementable solutions suggested by the supervision consultants. With this mechanism in place, we anticipate also a good contribution to building-up in-house capacity of counterpart personnel. We concur with the view that here should be more explicit definition of the roles and responsibilities of the consultants, with the creation of the right contractual relationships and authority for the consultants to assume their responsibilities in a conducive atmosphere and without fear of repercussions.

We would very much like to ensure that the certification process with respect to compliance with the design, and ensuring standards of quality, costs and serviceability of completed works are all included in the detailed consultants Terms of Reference. The TOR should therefore elaborate in greater detail the scope of works, specialization of the expertise required and the mechanisms for giving instructions to the contractor and especially the clear relationships between the consultants and the Project Manager. The latter will be responsible to establish the essential linkages between the various contracts and sub-contracts so that at the end infrastructure facilities perform as desired. The Project Managers should have more regular meetings with their consultants to discuss current issues faced by the projects and to make necessary decisions in a timely manner based on the best professional advice.

The Bank is well aware of our commitment to strengthening our construction industry and to encourage the greater use of locally manufactured products. To this end supervision consultants should not only find fault or instances of non-compliance with specifications, standards and the like, but also establish the necessary mechanisms to avoid the acceptance of poor quality work, give guidance on good construction practice and if necessary introduce adhoc training activities to improve the performance of contractors where they have specific shortcomings. This may sound rather unusual to those accustomed to traditional contractual relationships. However, we must view this in the context of the strides which have been made in the capacity of our national contractors to handle contract works of wide variety and increasingly larger volumes as compared to only twenty years ago. In line with strengthening the capability of the national construction industry, we are now in the process of tabling a comprehensive construction law which will set out clear principles for what each party namely Owner, Consultant and Contractor contributes to a design, construction and supervision and also sets out their powers and responsibilities. We hope that this and the later implementing regulations will provide a fairer basis for contracts and a realistic foundation for contractual accountability, an area that is often not respected in Indonesia today, I am sad to say.

As mentioned in the World Bank 1996 CPPR document, the Ministry of Public Works is piloting the use of technical audits as part of effective supervision of project implementation. This program is assisted by the Bank. We are conscious of the fact that comprehensive audits must cover administrative and financial aspects as well as matters which are more technical in nature, covering the efficiency of performance and effectiveness of programs. We appreciate that with the increase in the proportion of disbursement being undertaken through SOE procedures, the Bank would like to see these audits extended on a random basis to activities covered by SOE payments.

MPW's Inspectorate General is introducing technical audits for selected projects, including those financed under SOE mechanisms. In doing so, there is a need to assure a
common understanding at central government results of the technical audits. This should be followed by dissemination of adequate information and exchange of views with all levels of the respective agencies including provincial and project officials and the development of appropriate standards and guidelines to be applied in evaluating efficiency of implementation and effectiveness of the project. This has the consequence that institutions should be strengthened and training should be conducted so that those who audit and those whose performance is being audited have the same perceptions regarding the objectives of the audit. Our economy is becoming more diversified and public works infrastructure has to be provided to keep pace with such dynamic development programs. In this context we appreciate very much the Bank’s efforts to instill greater attention to the efficiency of all investments made in specific sectors. I would like to express our hope that the Bank would continue to assist our Inspectorate General in extending the coverage and in improving the quality of technical audits which will enhance the efficiency and effectiveness of the increasingly more challenging MPW projects and programs.

If we can now turn to the issues of timely and adequate availability of counterpart funds we can identify areas which need attention. Firstly decentralization and budget commitments by local governments, followed by integration of long term planning and programming more directly with annual budgets and project funding releases and thirdly the reflection of this in the allocated needs based budgets and their assured and timely application to programmed expenditure.

On this occasion, I would like to limit my remarks regarding the above aspects to the Bank Assisted Urban Development Projects. I am, of the opinion, that local governments and their leaders will wholeheartedly commit themselves to meet all their obligations including the financial responsibilities, as long as they are fully convinced that the projects are in line with the priorities of their perceived needs. At the current level of decentralization we need to make a greater effort to sensitize their views to consider these projects as investments which have important multiplier effects for their regional economy, rather than to be viewed as unnecessary imposition.

Today, there is a perception in some quarters, which I hope is wrong, that funding for urban development projects is orchestrated by linear thinking based on considerations which are more in line with central government views. For example, loans for Jabotabek II and III may be viewed as linear progressions from Jabotabek I. A similar perception may apply to other urban development loans. The most effective way to counter this is to solicit much more stakeholder participation in the formulation, prioritization and funding of projects with necessary support and guidance from the Central Government. We need to engender a greater feeling of ownership by the stakeholders not only in the overall project objectives but also in each individual component. They shall also be fully aware of how the investment will accelerate economic development in their regions. With a better sense of ownership, I am sure that the related appropriations in the annual budget and especially that emanating from the regional budget will no longer be a problem.

We can also see that the management style and leadership qualities within each region has an important bearing on the implementation of urban development projects. For example, I am informed that the dynamism of urban managers in East Java is so great that they can absorb much more funds than was originally earmarked, while there are other regions in which the absorption capacity has been much lower than planned. These differences in management style
should be taken into consideration under current decentralization process for effective project implementation.

Longer term planning based on the programmatic approach implies the need for clearer definition of annual work programs and budgeting resources during the course of implementation. We must recognize that there are several different sources of funding related to the implementation of urban development projects. These are APBD (local government budget), APBN (national budget), Sub-loan (on-lending from Central Government), Domestic borrowing, SPABP (Central government loan converted as a grant to local government), and INPRES. With full understanding of the mechanism of allocation of these different sources of funding, urban managers will be in a position to provide the required matching budgets at the beginning of the financial year. I am also informed that the delays in the use of SPABP as mentioned in the Bank report was partly due to the late announcement of such allocation which led to delays in internal processing which involves discussions with the local government parliament. In discussing the counterpart fund, we have also to consider the increasing reliance on private sector investment which also mean increased reliance by the private sector on timely public investment. This is another reason for us to address wider issues raised by the Bank's point on availability of counterpart funds.

The final point I wish to raise regarding counterpart funds is the provision of budgets for land acquisition. We appreciate that urban leaders are often faced with high land prices due partly to the activities of speculators. Therefore we support the idea now being developed that sale or transfer of land designated for development purposes should be frozen as soon as the development plan has been well identified. Where there is a clear difficulty for urban leaders to meet the funds required for land acquisition, then it is necessary for the central government to consider ways to facilitate the provision of such funds, since under the current allocation of taxes there still a long term requirement for a large proportion of Central government sourced fund in most components of development expenditures.

On the issue of guidelines from Line Ministries to projects, to my knowledge, MPW has already issued guidelines with respect to procurement procedures, standard bidding documents, withdrawal mechanisms and procedures and standard documents for progress reports. We have also improved the role of Kanwil, as program and project coordinator of MPW projects including the related supervision activities, by providing them a complete understanding of the prevailing guidelines, standards and procedures. We expect that this involvement by Kanwils will help to resolve some of the issues addressed in the Bank's 1996 CPPR document.

Let me close these remarks with my sincere thanks to Bappenas for giving me this opportunity to share in these deliberations and my grateful appreciation to the Bank for their continuing support. I look forward to the discussions to improve the effective implementation of projects.

Thank you.
2. Implementation Effectiveness Issues

Anupam Khanna
Chief, EA3 Infrastructure Division

For successful project implementation, it is first important to have a high quality of project design at entry. After that, the following issues are most important:

- **Project Start-up.** This was also discussed by the 1994 CPPR. Of primary importance is the definition of the organizational arrangements.

- **Counterpart Funds.** The issues of counterpart funds include: (a) their availability; (b) timeliness of availability during the year; (c) problems of insufficient funds created by unforecasted cost escalations for major works; and (d) lack of targeting for available funds on project areas.

- **Inter-agency Coordination.**

- **Local Institutional Capacity.**

- **Technical Assistance.** It is necessary that the management and supervision of consultant services be tightened so that: (a) consultant work that does not adequately fulfill the TOR is rejected by government; (b) counterpart personnel from Government are assigned to work with the consultants; and (c) a results-oriented approach is taken to ensuring the consultants' work is productively used.

- **Supervision of Contracts.** The supervision of contracts should be tightened by using consultants to assist in this work.

- **Beneficiary Participation and Community Consultation.**

- **Performance Monitoring.** There should be a set of "early pointers" that would allow project managers to very quickly assess the quality of project implementation. Monitoring should address project inputs, outputs, outcomes, and impact. The first areas (inputs and outputs) should be the focus of early monitoring activities, and with a growing emphasis placed on monitoring outcomes and impact as the project progresses.

- **Flexibility, Redesign, and Restructuring.** It is important that projects support a program approach, and are used to experiment with the best strategies for achievement longer term program goals.

- **Quality Assurance and Audit.** Bappenas' role in this area should be strengthened. For example, Bappenas should work with line agencies to encourage the adoption of technologies that are more sustainable and cost effective.
G. PROCUREMENT ISSUES

1. CPPR Action Plan: Procurement

Jr. Sugeng Rahardjo
Assistant Minister, EKNUWASBANG

Good afternoon, ladies and gentlemen. It is my pleasure to present the Government of Indonesia's (GOI) response to the "Country Portfolio Performance Review (CPPR)" Action Plan concerning Government Procurement.

The GOI's response was originally scheduled to be presented by Bapak Drs. Muhammad Abduh, MA, the Executive Secretary to the Coordinating Minister for the Economy, Finance and Development Supervision (EKNUWASBANG). Bapak Abduh traveled to Washington last week and expected to be able to attend this important CPPR meeting. Unfortunately, he was detained on an urgent matter. As assistant to the Coordinating Minister, and on behalf of Bapak Abduh, I was invited to provide the GOI's response.

We will provide the World Bank a copy of the prepared remarks Bapak Abduh planned to give. I think his presentation traces the significant process the GOI has made to improve the efficiency, transparency and openness of Indonesia's government procurement system. His presentation also suggests additional ways the World Bank and GOI could work together to accelerate the implementation of World Bank-financed development projects.

Please permit me to focus my remarks upon the "Status and Recommendations" sections of the CPPR Action Plan on Procurement. However, I would like to open my remarks on a somewhat personal note. Last month, my colleague, Bapak Drs. Syamsuddin, Expert Staff to the Coordinating Minister, traveled to Washington, D.C. to consult with procurement experts concerning several additional improvements the GOI is considering. Of course, key procurement officials Bapak Syamsuddin considered consulting were employed by the World Bank. Mr. Aftab Raza, RSI Jakarta, assisted him to schedule appointments with: Mr. Richard Calkins (Office of the Director), Mr. Preben Jensen (Regional Procurement Advisor), Ms. Francoise Bentchikou (Principal Counsel, Legal Department) and Mr. John Fringer, Jr. (Sr. Procurement Specialist). Each of these professionals kindly took the time from their busy schedules to consult with Bapak Syamsuddin. Their inputs and, in particular, the "Business Process Templates for Project Implementation" provided by Mr. Calkins were very helpful. We would like to thank each one for their assistance.
1. Improvement In Government Procurement Policies and Procedures

Recommendation. "The good efforts accomplished so far ought to be sustained and fine tuned by PRC/PRPAG. GOI/EKKU/ASBANG to include in SBDs of civil works the provision of interest payment to contractors on delayed payments and eligible compensations to contractors for events beyond their control."

Since the last CPPR, the GOI has worked diligently to improve the efficiency, transparency and openness of the Indonesian government procurement system. During this period, the GOI adopted six key procurement regulations to increase the efficiency of the overall procurement system and encourage free and fair competition throughout the procurement process.

As to increasing the efficiency of the overall procurement system, these key regulations: (a) provide greater flexibility in tendering procurements; (b) further decentralize the procurement function to implementing line ministries; (c) strengthen the GOI procurement oversight and management function; (d) provide an improved method of selecting capable contractors; and (e) permit the consolidation of procurements into multiyear awards.

With respect to encouraging competition, they: (a) require public and limited tenders to be widely advertised; (b) require a clearly defined criteria for selection of contractors; (c) establish the framework for a more equitable relationship with government contractors; and (d) provide greater certainty in the interpretation of procurement policies into procedures and practices.

The six primary procurement regulations adopted are:

- On 22 March, 1994, the President of the Republic of Indonesia signed Presidential Decree No. 16 of 1994 (more commonly referred to as "Keppres 16" the Indonesian abbreviation of "Keputusan Presiden") to regulate the acquisition of services and supplies for those bodies, agencies and enterprises that are funded, in whole or part, by the budgets of the state or regional government.


- On 4 July, 1994, the State Minister for the National Development Planning Board (Bappenas) signed Ministerial Regulation No. KEP.122/KET/7/1994 (more commonly referred to as "Kepmen 122" Keputusan Menteri) to regulate the tendering and contracting for consulting services.

- On 7 September, 1994, the National Development Planning Board (Bappenas) and the Ministry of Finance issued a joint circular, Surat Edaran Bersama No. SE-130/A/31/1994, (revised on 14 February, 1996) to disseminate baseline rates for consulting services.
• On 2 February, 1995, the President signed Presidential Decree No. 6 of 1995 to reorganize the team created by Inpres No. 1 of 1988 by establishing an interministerial Procurement Evaluation Team (commonly referred to as "Tim Evaluasi Pengadaan" or "TEP", chaired by the Coordinating Minister for Economy, Finance and Development Supervision) to evaluate large value contracts before award by the proposing implementing ministries.

• On 28 April, 1995, the President issued Presidential Decree No. 24 of 1995 ("Keppres No. 24") to amend Keppres No. 16 and implement a more efficient, transparent and open Indonesian government procurement system.

The new procurement regulatory framework is being woven into a more cohesive, uniform government procurement system. Regarding the SBDs, the GOI agrees with the World Bank recommendation concerning timely payment to contractors and provision for force majeure compensation; however, certain portions of the SBD provisions conflict with Indonesia's Treasury Law. As we have written to Mrs. Haug, the GOI is considering draft provisions of a new Treasury Law to overcome these impediments. In the meantime, we have requested implementation of these two provisions be deferred to Ms. M. Haug, the GOI is considering draft provisions of a new Treasury Law to overcome these impediments. In the meantime, we have requested implementation of these two provisions be deferred.

2. Prequalifications

**Recommendation.** "NCB prequalifications standard vary among provinces, but are improving. Exclusion of non-performing contractors is still rarity and should be enforced as appropriate."

Bapak Abduh, in his presentation, detailed the GOI's efforts to engrain the new regulations into a cohesive, uniform government procurement system. He also explained ways the World Bank and GOI can work together to accelerate this effort. The GOI is considering ways to develop an ongoing, comprehensive procurement training program to be offered to all government procurement personnel. This is neither an easy nor inexpensive undertaking. The details of the envisioned program are contained in Bapak Abduh's presentation. I invite the World Bank's comments to the suggestions contained in Bapak Abduh's presentation; particularly as they relate to providing technical assistance at the beginning of project implementation and the development of a Procurement Institute.

3. Bid Evaluation/Award

**Recommendation.** "Assign competent procurement personnel as member of Tender Committees. Institute permanent Directorate General level review committee. GOI to issue guidelines to require commencement of the practice/review committee when such is not established."

Likewise with the prequalification procedures, the GOI is considering additional guidance to help all agencies to assign trained, competent procurement personnel to perform Bid Evaluations. Also in his presentation, Bapak Abduh explained that an ongoing, comprehensive procurement training program (offered to all government procurement personnel) would develop better trained GOI procurement personnel more capable of performing bid evaluations in
accordance with Keppres No. 16 of 1994. We agree that only competent procurement personnel should perform these tasks.

Again, referring to Bapak Abduh's presentation, I invite the World Bank's comments to his suggestions; particularly as they relate to providing technical assistance at the beginning of project implementation and developing a Procurement Institute to conduct ongoing procurement training.

Regarding the institution of a permanent Directorate General-level review, we are concerned about two aspects: slowing down project implementation and being able to assign a sufficient number of trained, and capable procurement professionals to undertake this level of review.

In the spirit of "Reinventing Government", the GOI is considering a variety of means to speed-up project implementation. Instituting a permanent Directorate General-level review will be among those means considered.

Recommendation. "TOR of consultants engaged for supervision/implementation assistance, must include this provision to cover all major procurement (those above prior review)".

The GOI agrees with the recommendation. We plan to require agencies to utilize supervision consultants to assist the tender committees to help select responsible bidders offering the lowest priced bid or proposal responsive to the government's requirements.

4. **Reduce Procurement Cycle Time**

*Recommendation.* "Retain in 1996 CPPR Action Plan and project agency/Bank TM to monitor closely as a routine (also essential to minimize delays in completion)".

The focus of our efforts to improve Indonesia's procurement system was to increase efficiency. Of course, the GOI concurs with the comment to reduce the time to implement important development projects. Again, Bapak Abduh, in his presentation, detailed the GOI's efforts to improve project implementation. He also explained ways the World Bank and GOI can work together to accelerate this effort.

*Recommendation.* "Turnaround time for NOLs for ICBs should not exceed four (4) weeks; and where this is not possible for certain reasons, Bank should soonest inform project agencies on receipt of documents for NOL".

The GOI agrees that the "Bank [should] expeditiously respond to request for no objection To award within two weeks for LCBs and maximum of four weeks for ICBs from receipt of documents."

Thank you for affording me the opportunity to present the Government of Indonesia's (GOI) response to the "Country Portfolio Performance Review (CPPR)" Action Plan concerning Government Procurement.
2. Comments on Procurement

Robert Scouller
Senior Project Implementation Specialist, World Bank

There are six (6) main points that I wish to address from the Bank side in the few minutes I have available. Let me highlight these first.


2. Supervision Role for Consultants.

3. Harmonizing Indonesia SBD with World Bank requirement on:
   (a) interest rates on delayed payments; and
   (b) compensation for events beyond the contractor/consultant's control.

4. A need to shorten the procurement time for ICB contracts.

5. Increased attention to SOE contracts Random Ex-Post Review.

6. Packaging - ICB/NCB/SOE.

1. **Streamlining the Bid Evaluation Process**

   Tender documents must spell out clearly what will be the basis for bid evaluation and subsequent contract award - technical requirements, financial detail, price or a component mixture.

   Often, we see bids being “disqualified” unreasonably on minor technicalities, which should only be “ground for clarification”.

2. **Supervision Role for Consultants**

   The Bank strongly recommend using consultants, especially supervision consultants to assist in reviewing bids for construction on goods supply. The consultants “review of bids” report should be attached to the Bid Evaluation Report sent to the Bank.

   International consultants often have extensive experience in bid evaluation reporting. This should be included in their TOR and would be both in line with best professional practice, and would help to reinforce integrity of bid evaluation.
3. **Harmonizing Indonesian and World Bank Standard Bid Document**

Whilst the agreements of the last CPPR, and the KEPPRES 16 document have done much to ensure commonality between Indonesia and the World Bank Standard Bid Documents (SBD), there still remains two (2) major outstanding points:

(a) interest on overdue/outstanding payments; and

(b) compensation to contractors/consultants/suppliers for events beyond their control.

Contracts between two parties are supposed to represent a fair and equitable agreement between two (2) parties for the execution of a measured quantity of work (or supply of goods) in return for a just reimbursement.

A contractor expects payments on a due date for the services executed. This can (and should be) specified in the contract documents - 30 days/60 days or whatever. The contractor can design his cash flow accordingly. Late payment effects this cash flow and unjustly penalizes the contractors. We are all required to pay interest if we are late paying our Citibank Visa Card each month - as much as 3% per month. The contractor/consultant is likewise entitled to such compensation if payment is later than expected, and the Government should be obliged to pay this interest (penalty) if they are late.

Similarly, the contract signed by two (2) parties represents an agreement for a foreseen and agreed scope of works. Events which are outside the contractor control should be compensated for example. Delays in providing access to a workplace, and the government has a moral obligation to provide this compensation.

4. **Shortening ICB Procurement Time**

From the Bank side, the Bank has a desire to see the procurement time for ICB contracts, shortened, especially larger ones, which historically have taken 2-3 years before signing. More precise terms of reference better packaging, improved procurement planning, and speedy processing of tenders will all improve the time of award resulting in considerable savings to the economy.

5. **Bank Ex-Post Review of SOE Contracts**

SOE contracts now constitute as much as 40% of the Bank annual disbursement in Indonesia (in FY 1995 US$430 million representing over 6000 contracts). To meet the World Bank audit requirements, and to ensure that these contracts are awarded to the lowest evaluated bidder, and in accordance with standard Bank procedures, RSI will increase its ex-post review of these contracts to in excess of 10% across all sectors. This review will include not only the contractual administrative side but also the review of the physical implementation of the contract, its timeliness, quality and efficiency. These ex-post reviews will be conducted both during regular Bank supervision missions and separately in specific SOE contract reviews.
6. Packaging

The split of work into a single large (ICB) package, smaller local (NCB) package or numerous (SOE) packages is also important and requires close consideration.

I trust that these points, plus those interesting aspects raised by Mr. Syamsuddin will lead to some interesting discussions.

Thank you.
H. ISSUES ON TECHNICAL ASSISTANCE

Ir. Sugeng Rahardjo
Assistant Minister, EKUWASBANG

Technical Assistance (TA) accounts for relatively small amount of the total cost, but have very high influence on the success of the project. The GOI has been including TA within the national system of procurement. However, in practice, there are so many problems as TA differs substantially from goods and other services, such as construction services. These problems, among others, are the efficient use of consultants and the relatively low quality of domestic consultants. Being part of the National Procurement System this response is an integral part of GOI response on Procurement.

For the purpose of efficiency, allow me to respond according to the issues presented in the Action Plan of CPPR 1996.

2. Size of TA and its Modalities

2.1 Design of TA

Status

To optimize the use of technical assistance, Bappenas will reject proposal from Executing Agencies to use consultant for relatively simple and routine jobs. The quantum of TA in loans on new projects has declined only slightly.

Recommendations

As essential requirement could be retained in 1990 Action Plan.

It has been GOI's intention to optimize the use of TA. It is shown in the Table that expenditure on Consultancy is 15.6% to Loan Amount. The relatively high figure is due to, among others:

- The estimated number of man-months required is specified in SAR, while the general practice is to use up the number of man-month. GOI should seek the cooperation and assistance from appraisal missions.

- Projects stages are not orderly sequenced. Construction works do not follow immediately, requiring engineering design to be revised to suit the changing situation. Such practice happened in most, if not all, urban development projects.

- ICB is required even for relatively simple projects and technical proposal is the main criteria for evaluation. There is very little room for domestic consultant to win the contract. Man-months of Foreign Consultants are decreasing, but due to the relatively high Billing Rate, the reduction is not significant.
• However, the figures shown in the table needs further explanation. The general practice is to cover 100% of TA in the proceeds of the loan. Therefore, it would be more appropriate to compare the figure with the Total Project Cost. By doing so, the result is 5.38% instead of 15.6%. However, this approach may not reflect the real ratio as several projects are cofinanced by other sources.

2.2 The Cost of Soft TA

Status

Thus reflects GOI concerns. Bappenas has issued a Ministerial Decree (No. 122/KET/7/94) for the selection of consultants which among others encourages appropriate involvement of local consultants/universities, also essentially needed for decentralized project. This Decree is closely in line with Bank's Guidelines on Use of Consultants.

Recommendations


Related with Domestic Consulting Industry since the early seventies GOI has made efforts to develop its quality. The efforts were translated into training programs, registration and billing rates adjustments, especially related to ICB projects. International cooperation has been expected to be able to raise their qualities to international level, but to our disappointment, up-to-date very -- very few contract were awarded to domestic consultant, if any. Indeed, GOI has been trying very hard and we are still waiting for the responses from professional associations, which will be invited to participate more actively in the new system and procedure concerning accreditation and registration (refer also to 4.1). Development of performance standards and mastering of English language as well as achieving international standards will be essential steps to follow. However, GOI does not expect to achieve the objective in the very near future.

3. Management of TA

3.1 The Scope, Structure and TOR of TA

Status

TOR written by GOI agencies are often inadequate and frequently generated by consultants who may have vested interest.

Recommendations

These must be reviewed critically by employing agency and the Bank staff and Bappenas. Retain in 1996 Action Plan, essential for GOI/Bank to monitor major TA contracts.

It must be admitted that preparing TOR for TA, especially in English, is very difficult for most agencies. GOI would like to see that this can be achieved, but it will need some times.
3.3 Consultant's Appointment after Evaluation

Status

Very serious problems in many cases and a major cause of project start-up/implementation delays. The problems rest entirely in the project agencies and/or Departments. Bappenas is related in Form II requirements (please note corrections).

Recommendations

Retain in 1996 CPPR Action Plan. Bappenas to issue Instruction/Guidelines for streamlining the process by implementing agencies. Project agencies, in close consultations with Bank, to implement these Instructions.

Recommendations is agreed as this is in line with GOI objectives.

3.4 The TA should be Effectively Managed

Status

Ineffective in practice.

Recommendations

Retain in 1996 Action Plan and GOI/Bank monitor effective implementation. Bank supervision reports to routinely monitor the effectiveness and performance of major TA.

This is a very essential issue for Management of TA. The Actions agreed in 1994 CPPR is very ideal, however, it is proven to be very ambitious. The project managers are appointed within executing agencies and most of them are not familiar enough with project management. Project Launch Workshops are very useful, however, they are too short to prepare competent project managers. GOI needs to further analyze the situation.

4. Selection Of Consultants

4.1 GOI and Donor Agencies

Status

GOI is preparing new system and procedures concerning the accreditation and registration of local and foreign consultants.

Recommendations

Bank would be willing to cooperate with GOI on this exercise. It will require its TM to critically review the short list for major (international) TA services and even reject a short listed firm/s on justified grounds if such is essentially needed.
GOI is developing the system inviting associations to participate. Refer also to 2.3. However, considering the number of consulting firms and individual professionals, it will need sometimes to develop a workable detailed system and procedures.

4.2 Letter of Invitation

Status

GOI is not in favor of such forced association of foreign firms with pre-determined domestic firms. Most Executing Agencies now submit short list of local and foreign consultants, and let firms to team up by themselves. Incidence is getting lesser since 1994.

Recommendations

Retain in 1996 CPPR Action Plan, also a Bank accepted good practice. PIMPROs and Bank TMs to ensure that this essential requirement is faithfully implemented.

It is also the interest of GOI, however, dissemination of such good practice needs continuous effort and support.

4.3 Removal of Billing Rate Ceilings Regulation

Status

Bappenas Ministerial Decree No. 122/KET/7/1994 abolished Billing Rate Ceilings. Subsequently, a Joint Bappenas/MOF Circular for self-calculating owner estimates has created some misunderstanding among project agencies and also causing excessive/unaffordable negotiated contract prices in many cases.

Recommendations

The joint Bappenas/MOF Circular (updated in February 1994) ought to be revised and simplified for cost-effective selection and utilization of TA. Bappenas and Bank/RSI to follow on this after the CPPR.

GOI believes that development is a process which should accommodate improvements and amendments. Therefore, improving regulations to support development is very natural as it has happened with Keppres 16 of 1994 which was amended with Keppres 24 of 1995.

4.5 Evaluation Criteria

Status

Not in practice.

Recommendations

Retain in 1996 CPPR Action Plan. Bank TMs also to take note.
Since the issuance of Keppres 16 of 1994, GOI has been analyzing and trying to improve evaluation criteria, especially related with TA. Indeed it is a very complex issue because it must be an integral part of the whole system. Our aim is simpler criteria, but effective to achieve the complex objectives.

4.6 Restrictions on Single Source Appointments

Status

Single source of recruitment of consultant should be used in only special cases e.g. continuity of ongoing project of works, or highly sophisticated work etc. but in practice uncontrolled often an expediency grounds.

Recommendations

1996 Action Plan to repeat GOI/Bank to review/agree such request, from executing agencies, critically and put it strictly under control.

In principle, GOI discourages single source appointment. It is clearly stated in Keppres 16 of 1995. Such appointment needs thorough analysis and justification. In large projects, which need approval from Procurement Evaluation Team, mostly single source appointments were rejected. If it happened in smaller contracts, then GOI needs to remind the agencies.

Finally, in concluding my response, let me again stress the complicacy of issues related to Technical Assistance. GOI does not intend to address on point-to-point basis. The above responses, prepared on point-to-point basis following the CPPR format, shows clearly the interrelation among all points. We prefer a more comprehensive approach, involving actively, as far as practicable, all related participants. It will take time and greater commitment but realizing the importance of Technical Assistance we will do our best to achieve our development objectives.

Thank you for your patience and attention to this presentation.
### Technical Assistance

#### Long Processing Time of TA (Some Examples)

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<th>Loan No.</th>
<th>Project Name</th>
<th>Services Required</th>
<th>Important Dates</th>
<th>Contract Price</th>
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<td>3579</td>
<td>KREI</td>
<td>Implementation/SPN</td>
<td>Shortlist/LOI: Bank’s Approval 07/14/92, Evaluation Bank’s Approval 12/17/92, Contract Signature 08/13/93</td>
<td>US$2.8 Million + IDR 11.00 Billion</td>
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<td>Groundwater Dev.</td>
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<td>NLG 5.15 Million + IDR 13.80 Billion</td>
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<td>3792</td>
<td>Land Administration</td>
<td>Customary Land Tenure</td>
<td>10/25/94, 02/01/95, 11/15/95</td>
<td>US$0.50 Million</td>
</tr>
<tr>
<td>3845</td>
<td>Rural Electrification II</td>
<td>Eng. SPN Mini-Geo. Thermal</td>
<td>04/95, 09/14/95, 03/19/96</td>
<td>US$1.98 Million</td>
</tr>
<tr>
<td>3940</td>
<td>PEQIP</td>
<td>In-service Teacher Training</td>
<td>02/01/94, 04/28/94, 01/01/95</td>
<td>IDR 4.11 Billion</td>
</tr>
</tbody>
</table>

**Provided by:** Ir. Sugeng Rahardjo
I. LIST OF PARTICIPANTS

BAPPENAS

- Ir. Rahardi Ramelan
  Vice Chairman

- Prof. Dr. Ir. Herman Haeruman JS
  Deputi V

- Prof. Dr. Soekirman, MPH, SKM
  Deputi Bidang Sumber Daya Manusia

- Ir. Firmansyah Rahim
  Kepala Biro Administrasi, Kerjasama


- Mr. Raldi Koestoer
  Luar Negeri

- Dr. Edeng Halim Abdurachman
  Kepala Biro Kependudukan, KB, Peranan Wanita & Pemuda

- Mr. Bastian
  Biro PPT

- Dmers. Widjojo, MSc.
  Kepala Biro Pariwisata, Pos dan Telekomunikasi

- Mr. Danyll Ichwan A.
  Biro Adm, Pembangunan

- Mr. Freddy Tulung
  Kepala Biro Analisa Satuan Harga

- Dr. Fasli Jalal
  Kepala Biro Kesejahteraan Sosial, Kesehatan dan Gizi

- Ir. Rusnadi Ridwan, MSc
  Kepala Biro Pemantauan Pelaksanaan Kerjasama Ekonomi Luar Negeri

- Prof. Dr. Mustopadidjaja AR, SE, MPIA
  Deputi Bidang Administrasi

- Dr. Ir. M. Anwar Wardhani
  Kepala Biro Pertanian & Kehutanan

- Ir. Bambang Panudju, MPHil
  Staff Ahli Bidang Pengembangan Usaha Konstruksi & Konsultan Nasional

- Ir. Moh. Sayid Subchan, MSc.
  Kepala Biro Pengairan & Irrigasi

- Dr. Ir. Dipo Alam, MEM
  Kepala Biro Industri & Perdagangan

- Dr. Ir. Alirahman
  Kepala Pusdiklat Perencanaan Pembangunan

- Dr. Ir. Hidayat Syarief
  Kepala Biro Agama, Pendidikan, Kebudayaan & Olahraga

- Ir. P.P. Simatupang
  Staff Ahli Menteri PPN, Bidang Tata Ruang & Pertanahan
DG Bina Marga
- Ir. Soeharsono Martakim
- Mr. Sumaryanto
- Ir. Syarifuddin Alambai

DG Cipta Karya
- Ir. Ruslan Zaris

Department of Manpower
- Mr. Yudo Swasono
- Ms. Diah W.

Department of Mines & Energy

DG Electricity and New Energy
- Ir. Bambang

PLN
- Ms. Azwani

BANK INDONESIA
- Mr. Herry Soesanto
- Roeslan BS

DEPARTMENT OF FINANCE

DG BUDGET
- Ms. Peni Nasution
- Mr. Edi Karsanto
- Mr. M.T. Nurhasmy
- Mr. Hatomi
- Drs. A. Darsjah

Direktur Jenderal Bina Marga
Kasubdit Perencanaan Umum
Director of Planning & Programming
(Direktur Bipran)

Kasubdit ABLN (Adm. Bantuan LN)

Head of Planning

Head, Corporate Planning Division

Direktur Jenderal Anggaran
EKKUWASBANG

- Drs. Sjamsuddin
  Staff Ahli Menko Ekku dan Wasbang, Bidang Pengawasan
- Ir. Sugeng Rahardjo, MSc.
  Asisten V Menko Ekku & Wasbang

DEPARTMENT OF COMMUNICATIONS

- Drs. Muchtarudin Siregar
  Secretary General

DEPARTMENT OF INDUSTRY AND TRADE

- Ir. Hardoyo R.D.
- Mr. Sutijono
- Ms. Ratna Djuwita Wahab, Biro of Planning
- Mr. K.H. Sitohang, BPPIP
- Mr. Sudarmanto
- Ir. Sudarmadji
- Ms. Euis

DEPARTMENT OF HEALTH

- Ir. Mawarwati, Depkes BOD

ASIAN DEVELOPMENT BANK

- Mr. T.C. Patterson
  Resident Representative
- Mr. Dieter Lepper
  Sr. Project Implementation Officer
WORLD BANK

- Mr. Dennis de Tray
- Mr. Gershon Feder
- Mr. Peter Scherer
- Mr. Jim Hanson
- Mr. David Hawes
- Ms. Andrea Silverman
- Ms. Nadereh Chamloou
- Mr. Oscar de Bruyn Kops
- Mr. Guy Le Moigne
- Mr. Anupam Khanna
- Mr. Samuel Lieberman
- Mr. Soemardjo
- Mr. Bob Scouller
- Mr. Ben Fisher
- Mr. Aftab Raza
- Mr. William Hardi
- Mr. Ilham Abla
- Mr. Richard A. Calkins
- Ms. Teresa Genta Fons
- Mr. Marsoedi Soedjak
- Mr. George Soraya
- Mr. Kunrat Wirasubrata
- Mr. Christopher Smith
- Mr. E. Iswandi
- Mr. Basilius Bengoteku
- Mr. Yogana Prasta
- Mr. Thamrin Nurdin

REGIONAL WATER SUPPLY AND SANITATION PROGRAM

- Mr. Jerry Silverman
ANNEX A

SUMMARY OF FOLLOW-UP CPPR MEETING IN BANDUNG

AUGUST 29-30, 1996
SUMMARY OF FOLLOW-UP CPPR MEETING IN BANDUNG

AUGUST 30, 1996

1. The above Retreat, sponsored by GOI/Bappenas, was held at the Horison Hotel, Bandung. The purpose was to discuss Action Plan proposals and a range of portfolio related issues, highlighted at the May 22 CPPR Plenary Session, to ensure effective follow-up on specific areas of concern, including: consultant services (TA); procurement; counterpart funding; other implementation issues (project performance and disbursement); technical audits; and project preparation/quality at entry. GOI appointed six high level inter-ministerial task forces to review and refine its position before meeting the Bank team to define an actionable and monitorable time-bound Action Plan. The GOI team, led by Mrs. Budhy Tjahjati Sugijanto Soegijoko, comprised about 35 persons mostly members of the six task teams and Bappenas/MOF officials. It consisted generally of Echelon II (Director level) officials, but included the following Echelon I officials; Messrs. M. Abduh and Syamsuddin (Ekkuwasbang), Widodo Gondowardjono (Cabinet Secretariat), Mrs. Budhy Tjahjati Sugijanto Soegijoko and Mr. Manuwoto (Bappenas) and Mr. Komar Ishak (MPW). Officials came from Bappenas, MOF, BPKP, MPW, MHA and Cabinet Secretariat.

2. The Bank team comprised Messrs. Raza (team leader), Fisher, Dice, Scouller, Prasta, Bengoteku and Mrs. Silverman. This high level GOI participation (task teams and retreat) and the quality of GOI presentation and responses clearly reflected that GOI has progressively taken a larger ownership of the CPPR since the first CPPR in February 1994. The intensive discussions and exchange of views on key issues at the Retreat were frank and candid. At the end, GOI and Bank teams reached consensus on most of the issues and actions (including those presented by the Bank side). However, there were a few points which one or the other party could not agree readily. It will take some time to reconcile the differences; hence, they were recorded as “issues” to be reviewed together between the Bank and GOI in due course. The Bank received final proposals of the task forces in November 1996. These have been incorporated in the agreed Action Plan (Section II of the main text). It was agreed that as of February 1997, joint (GOI/Bappenas-Ekkuwasbang and Bank/RSI) review of the progress on Agreed Action will be carried bi-annually. This will include, as a key agenda item, a report on the status of problem projects and those critical bottlenecks in the Remedial Action Plan of a problem project which require attention at the apex level of State Ministries - Ekkuwasbang, Cabinet Secretariat, MOF, Bappenas, MHA.

3. At the Bandung meeting, the GOI team, representing the “Owners,” expressed its commitment to the following key objectives:

(a) Improving the management of problem projects to reduce the incidence of problem projects in future, inter-alia: (i) major restructuring of problem projects not achieving remedial action plan targets; (ii) stronger focus on “quality at entry” of new projects entering the portfolio; and (iii) introduction/use of performance monitoring indicators (PMI) for all new and existing projects to monitor development impact/effectiveness and to take corrective actions where found necessary. This is expected to bring down the number of “US” projects within the next 12 months;
(b) **Shortening the SPABP approval** and timely release of approved funds to decentralized projects. This aims to achieve a radical improvement in 1997-99 DIP of GOI. However, the insufficiency of counterpart funds from APBD may remain a problem for sometime to come (Comment: Bank LEN missions to critically examine the financial capabilities and commitments expected from local sources);

(c) **Expediting the pace of disbursements** and to accomplish better disbursement ratio than achieved last year, which could be difficult;

(d) **Effective technical audits** of SOE contracts (not only procedural requirements but also the quality/serviceability of the works, goods and services in relation to the contract objectives) starting DIP Year 1997/98. This will be carried in-house by Inspectorate Generals of Ministries and/or provincial governments concerned in line with the system piloted by MPW, which would be extended to other ministries; and

(e) **Strengthening the processes in Bappenas for project selection** - Blue Book screening - and for GO/NO-GO decisions on project preparation. GOI/Bappenas has already decreed regulations for this purpose. A task force is preparing Guidelines for this. The IDF Grant, requested by GOI for this purpose will be processed quickly, hopefully by end of January 1997.

4. In addition, GOI reported on its priorities and plans in three key areas. These plans were later integrated in the agreed action plan:

(a) **Technical Assistance (TA)**. In its institutional development agenda, GOI is giving due priority to: (i) strengthening of the quality and capability of the domestic consulting industry in Indonesia; and (ii) increasing the effectiveness of the use of TA for development projects. The strategy for the former (i) is under intensive review internally in GOI by a task force (Bappenas/GOI officials, professional societies, Inkindo). RSI/Bank has been invited to informally participate on deliberations (advice, guidance and seminar) of the task force. Bank proposals for “Enhancing Effectiveness of TA” was accepted; GOI added a few points of its own for the final action plan.

(b) **Procurement**: GOI strongly favor enhancing transparency in bid evaluation and contract awards. It reiterated the need for establishment of a Procurement Institute. However, Ekkuwasbang expressed that changes in Treasury Laws, to meet two stipulations in SBDs, is not feasible until after the new People’s Assembly is installed. GOI proposed some radical actions with which we could not readily agree; these issues will be discussed separately between Bank and Ekkuwasbang and MOF.

(c) **Enhancements of NGO participation in project implementation and procurements**. A GOI team led by Mr. Widodo Gondowardjojo will (internally) look into feasible options within GOI regulations, after reviewing various ongoing initiatives by GOI to enhance participation of NGOs in publicly financed development programs. Bappenas agreed to furnish the team’s report to RSI.
ANNEX B

GOI CPPR ACTION PROPOSALS

PRESENTED AT FOLLOW-UP CPPR MEETING IN BANDUNG

AUGUST 29-30, 1996
## GOI CPPR ACTION PROPOSALS
### CONSULTING SERVICES (TA) SESSION

**Program:** Design and Initiate Program
Strategies for Strengthening the Domestic Consulting Industries

<table>
<thead>
<tr>
<th>Issues/Problems/Discussions</th>
<th>Action Plan</th>
<th>Medium-Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve Quality of Domestic Consultant</td>
<td>To formulate concept of national consultant development, will be established Tim Pembinaan dan Pengembangan Konsultan Nasional (TPPKN) which consist of Bappenas, Ekuwasbang, Technical Agencies/Departments, Professional Association and Association of Consultant Firm. On August 6, 1996, Vice Chairman of Bappenas invited Sekjens, Deputies and Chairmen of the said institution to have their comments on the establishment of the TPPKN and support have been obtained. In the near future, Vice Chairman of Bappenas will formulate implementation of establishment of TPPKN. Professional Association and Association of Consultant Firm will be accredited by TPPKN based on requirements/criterias of classification set by TPPKN. Accredited Professional Association competent or have the right to determine/decide the requirements/criterias of classification and certification to the members and have to improve its members' technical and managerial capabilities.</td>
<td>Accreditation and certification of national consultant needs to be implemented soon.</td>
</tr>
<tr>
<td>Issues/Problems/Discussions</td>
<td>Action Plan</td>
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<td></td>
<td><strong>Short-Term</strong></td>
<td><strong>Medium-Term</strong></td>
</tr>
<tr>
<td>Enhance the utilization of the consultant</td>
<td>Bappenas, PII and Professional Association are formulating criterias/requirements of Classification &amp; Certification as well as quality of improvement. By the end of 1996, PII would be able to authorize certification of 1000 Professional Engineer on Civil, Mechanical, Electrical and Chemical. Bappenas and World Bank will discuss a concept to improve national consultant and arrange comparative study of TPPKN members to several countries which has developed its national consultant successfully, such as Mexico, Philippines, etc. It is hoped that Vice Chairman of Bappenas would be responsible on the improvement of national consultancy quality assisted by: Ir. Bambang Panudju M. Phil., Ir. Firmansyah R. and Drs. Freddy Tulung MUA. Review regulations related to the selection of consultant which were issued by Depdagri, Technical Department, Bappenas, Local Government and the World Bank as well, in connection with the improvement of Keppres No. 16/1994 carried out by a team lead by Mr. M. Abduh (Sesmenko Ekkwasbang). Improve/upgrade capability of Pimpro to formulate TOR, to formulate requirements to select consultant and to control consultant activity. Pimpro should be involved from beginning in process of TOR Evaluation and selection of nominated consultant.</td>
<td></td>
</tr>
<tr>
<td>Issues/Problems/Discussions</td>
<td>Action Plan</td>
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</tr>
<tr>
<td>SK Menteri PPN/Ketua Bappenas regarding remuneration (&quot;billing rate&quot;) interpreted as a &quot;ceiling&quot; by the executing agency.</td>
<td><strong>Short-Term</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Pimpro and consultant's main counterpart should be working full-time on the project.</td>
<td></td>
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<tr>
<td></td>
<td>- Pimpro should admonish consultant of their duty when the consultant carry-out their duty is not in accordance with the contract, and should report this to their superior.</td>
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<tr>
<td></td>
<td>- The issue would be discussed more detail during the review of SEB No. 901/D.VI/2/96 and No. SE-16/A/21/02/96 in 1997.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Bappenas' team (Ir. Bambang Panudju M. Phil, Ir. Firmansyah, Drs. Freddy Tulung MUA) who are responsible on consultant regulations will discuss with the World Bank particularly on the remuneration of consultant, referring to Keppres 16/1994, Kepmen PPN/Ka Bappenas No. 122/Ket/7/1994 and the Bank guidance.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Regulations on TOR formulation, HPS and requirements to select consultant would be disseminated by the said Bappenas' team.</td>
<td></td>
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<tr>
<td></td>
<td>- Articles in Loan Agreement regarding foreign and local consultant should be replaced by Professional, Semi-Professional and Technician.</td>
<td></td>
</tr>
</tbody>
</table>
**COUNTERPART FINANCING SESSION**

Program: Streamlining the Budgeting of Funds for Subnational/national Project Components

<table>
<thead>
<tr>
<th>Issues/Problems/Discussions</th>
<th>Action Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The technical central agencies/institutions, slow in informing the amount of foreign assistance to the concerned provinces/districts.</strong></td>
<td><strong>Short-Term</strong></td>
</tr>
<tr>
<td></td>
<td>Allocation of development budget to provinces/districts (Inpres) should be informed earlier, both rupiah budget and foreign assistance, which possibly could be done every January together with sectoral “satuan tiga”.</td>
</tr>
<tr>
<td></td>
<td>Concerned sectoral agencies should inform the amount of foreign assistance which are allocated to the concerned provinces/districts, every March of the Fiscal Year.</td>
</tr>
<tr>
<td></td>
<td>Allocation and disbursement of counterpart budget needs to be done earlier:</td>
</tr>
<tr>
<td></td>
<td>a. Governor/Bupati’s confirmation could be implemented as SKO, no need to be authorized.</td>
</tr>
<tr>
<td></td>
<td>b. To prepare Bappenas juklak (SOP) regarding regular/ordinary DIP and DIP for counterpart budget.</td>
</tr>
</tbody>
</table>

**Medium-Term**

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|                                                                                           |                                                                                                                                 |
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<table>
<thead>
<tr>
<th>Issues/Problems/Discussions</th>
<th>Action Plan</th>
<th>Short-Term</th>
<th>Medium-Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensuring Timely Availability of Counterpart Funds</td>
<td>Disseminating Mechanisms/Procedures</td>
<td>Establish Evaluation Team to review or evaluate:</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>a. Slowness of SPABP processing</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>b. Allocation of counterpart budget</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>c. Projects problems</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>d. Concerned regulations</td>
<td></td>
</tr>
<tr>
<td>Slowness of SPABP processing</td>
<td>Members of the said team consist of:</td>
<td>1. Deputy V and VI, Bappenas</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>2. Dirjen PUOD and Dirjen BANGDA, Depdagri</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>3. Dirjen Anggaran, Depkeu</td>
<td></td>
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<td>Six (6) months after the team established, the team should report their findings about the above-mentioned issues.</td>
<td></td>
</tr>
</tbody>
</table>
## COUNTERPART FINANCING SESSION

Program: Pertanahan (Land Acquisition)

<table>
<thead>
<tr>
<th>Issues/Problems/Discussions</th>
<th>Action Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land acquisition for development</td>
<td>Arrange a meeting to discuss the problems, inviting concerned agency such as:</td>
</tr>
<tr>
<td></td>
<td>1. Ditjen Anggaran.</td>
</tr>
<tr>
<td></td>
<td>2. BPN (Deputy II and III), Asmen I Meneg Agraria.</td>
</tr>
<tr>
<td></td>
<td>3. Bappenas (Deputy V, VI and VII).</td>
</tr>
<tr>
<td></td>
<td>4. Depdagri (Ditjen PUOD).</td>
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<tr>
<td></td>
<td>The team will study/review land acquisition for development utility.</td>
</tr>
<tr>
<td></td>
<td>Prepare a letter to Meneg Agraria/Ketua BPN that the said meeting is important, particularly related to</td>
</tr>
<tr>
<td></td>
<td>the study of Land Administration Project.</td>
</tr>
</tbody>
</table>
## PROCUREMENT

**Program:** Procurement (Problems and Action Plan)

<table>
<thead>
<tr>
<th>Issues/Problems/Discussions</th>
<th>Action Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improvement of the regulation of state/government treasury in line with the World Bank's Standard Bidding Document (SBD)</td>
<td><strong>Short-Term</strong></td>
</tr>
<tr>
<td>Plan to establish Procurement Institute</td>
<td>Planning to establish Procurement Institute is supported by Depkeu and Bappenas.</td>
</tr>
<tr>
<td></td>
<td>Training of Trainer (TOT) conducted by Kantor Menko Ekkuwasbang and LAN needs to be continued.</td>
</tr>
<tr>
<td></td>
<td>LAN should formulate a concept in establishing Procurement Institute (not Reinventing Government) soon.</td>
</tr>
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<td></td>
<td><strong>Medium-Term</strong></td>
</tr>
<tr>
<td></td>
<td>GOI will prepare policies in line with SBD.</td>
</tr>
<tr>
<td></td>
<td>Improve UU Perbendaharaan Negara.</td>
</tr>
<tr>
<td></td>
<td>GOI and the World Bank need to reconsider the procedures that relate to the disbursement. NOL needs to be issued earlier and number/quantity of NOL needs to be reduced.</td>
</tr>
</tbody>
</table>
### PROCUREMENT

Program: NGO Participation (Position Paper)

<table>
<thead>
<tr>
<th>Issues/Problems/Discussions</th>
<th>Action Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening NGO’s participation in development</td>
<td>Inputs and findings to improve Keppres 16 should be identified in October 1996, especially related to the regulation of NGO’s role in development processes.</td>
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</tbody>
</table>
### DISBURSEMENT

**Program:** Disbursement and Monitoring of Foreign Assisted Project

<table>
<thead>
<tr>
<th>Issues/Problems/Discussions</th>
<th>Action Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slowness of disbursement</td>
<td>Monitoring of project implementation included project disbursement should be done with a format, which are issued by Bureau of PP KELN.</td>
</tr>
<tr>
<td></td>
<td>Quantity/number of an appropriate/real “back-log” and duration of replenishment process, needs to be reviewed.</td>
</tr>
<tr>
<td></td>
<td>Projects which perform unsatisfactory should be reviewed every six months by each unit of organization structure that relate to the projects.</td>
</tr>
<tr>
<td></td>
<td>Considering GOI’s experiences in foreign assisted project implementation and advance capacity in financial management, quantity of NOL which are needed for each contract and supporting data in replenishment process, need to be reviewed/evaluated leads to a reduction number of NOLs.</td>
</tr>
</tbody>
</table>
# TECHNICAL AUDIT

Program:

<table>
<thead>
<tr>
<th>Issues/Problems/Discussions</th>
<th>Action Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical Audit in Department of Public Works (MPW)</td>
<td>Formulate a model of audit for non-physical projects.</td>
</tr>
<tr>
<td></td>
<td>Implementation of Technical Audit model of MPW needs to be considered in other departments.</td>
</tr>
<tr>
<td></td>
<td>Models/types of audit needs to be discussed.</td>
</tr>
<tr>
<td></td>
<td>Providing Control Management of each project.</td>
</tr>
<tr>
<td></td>
<td>Strengthening supervision/controlling role, related to the GOI’s decree of supervisor/controller as a functional official (jabatan fungsional) in April 1997.</td>
</tr>
</tbody>
</table>
## GENERAL PROJECT PREPARATION I

Program: Project Preparation Stage

<table>
<thead>
<tr>
<th>Issues/Problems/Discussions</th>
<th>Action Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Blue Book</strong></td>
<td></td>
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<tr>
<td></td>
<td>Provide a particular meeting to discuss procedures and requirements to include project proposals into the Blue Book, Lending Program and also to implement the projects.</td>
</tr>
<tr>
<td></td>
<td>Provide three (3) kind of documents:</td>
</tr>
<tr>
<td></td>
<td>b. “Dark-blue” book consist of project proposals which already listed in Lending Program.</td>
</tr>
<tr>
<td></td>
<td>c. “Green” book consist of project list that donors/lenders interest in.</td>
</tr>
</tbody>
</table>
## OTHER PROJECT IMPLEMENTATION

**Program:**

<table>
<thead>
<tr>
<th>Issues/Problems/Discussions</th>
<th>Action Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relation between Project Monitoring &amp; Performance</td>
<td>Provide guidance of Performance Evaluation by developing Performance Indicator. For that purpose, SK Meneg PPN/Ka Bappenas will be issued. The process of the formulation of the decree is coming into the final step. Provide the World Bank assisted project list including its problems. For that purpose, Bureau for PP KELN should identify and collect information from Executing Agencies. Ensure that budget allocation for “maintenance and operation cost” of the completed projects. Indicator Performance and benefits which would be achieved by projects should already be listed in DUP/DIP process.</td>
</tr>
<tr>
<td></td>
<td>Monitoring and evaluation unit should develop performance evaluation by developing performance indicator in each department/agency, both in central and regional level. Establishment of Performance Monitoring Institution should be considered. Establish “Institutional Development” in technical departments to evaluate benefits of projects.</td>
</tr>
</tbody>
</table>
ANNEX C
WORLD BANK OPERATIONS IN INDONESIA
(EXTRACTS FROM 1996 CPPR BACKGROUND PAPER)
WORLD BANK LENDING TO INDONESIA

Introduction. Lending to Indonesia began in fiscal year 19691 with a modest IDA credit in the amount of US$5 million to support irrigation rehabilitation. Total lending in that year amounted to US$51 million. The lending program to the country continued to increase and peaked in 1990 at US$1.6 billion and has since been reduced to US$1.4 billion in 1995. As of end of FY1995, cumulative commitments to Indonesia reached US$22.6 billion, of which US$16.6 billion has been disbursed and US$1.5 billion cancelled (Annex 3, Table 7).

Historical. Loans to the energy and industry sectors, including financial, power and telecommunications, represent 37 percent of total disbursements. Infrastructure (including roads, urban and transport) and agriculture loans come second with 22 percent of disbursements each. The three sectors together constitute more than 80 percent of the Bank’s commitment and disbursement to Indonesia. The remaining is distributed to human resource (including projects in the education, health and population sectors), environment and sector adjustment loans. See Table 1.1 below.


<table>
<thead>
<tr>
<th>Sector</th>
<th>Cumulative Commitment1)</th>
<th>Cumulative Disbursement1)</th>
<th>Outstanding Commitment2) net cancellations</th>
<th>Outstanding Commitment as %2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>4,879</td>
<td>3,511</td>
<td>676</td>
<td>16%</td>
</tr>
<tr>
<td>Energy and Industry</td>
<td>8,260</td>
<td>6,222</td>
<td>1,827</td>
<td>43%</td>
</tr>
<tr>
<td>Human Resources</td>
<td>2,664</td>
<td>1,964</td>
<td>615</td>
<td>14%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>5,522</td>
<td>3,696</td>
<td>1,147</td>
<td>27%</td>
</tr>
<tr>
<td>Technical Assistance</td>
<td>25</td>
<td>25</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Adjustment Loans</td>
<td>1,200</td>
<td>1,200</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Environment</td>
<td>12</td>
<td>4</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>22,562</td>
<td>16,622</td>
<td>4,270</td>
<td>100%</td>
</tr>
</tbody>
</table>

1) as of June 30, 1995
2) as of March 1996

The emphasis of Bank lending changed slightly in the last ten years (Table 1.2). Despite the general decline in Bank-wide lending to the agriculture sector, in Indonesia it has shown a positive trend, increasing from US$737 million in 1986-1990 to US$1,130 million in 1991-1995. However, this trend is not expected to sustain, the lending volume in the agricultural sector is expected to decline in the future; as irrigation projects would decrease and small volume, decentralized agricultural/rural development loans would increase in numbers. Lending to the finance and industry

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All information is provided in terms of World Bank fiscal year (July to June)
Sectors has decreased by more than a half in number and more than 20 percent in amount, down from US$856 million in 1986-1990 to US$669 million in 1991-1995.


<table>
<thead>
<tr>
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<tbody>
<tr>
<td></td>
<td>Total Loan Amount (US$M)</td>
<td>% Amount</td>
</tr>
<tr>
<td>Agriculture - Irrigation</td>
<td>400</td>
<td>6%</td>
</tr>
<tr>
<td>- Non Irrig.</td>
<td>336.5</td>
<td>5%</td>
</tr>
<tr>
<td>Finance &amp; Industry</td>
<td>856</td>
<td>13%</td>
</tr>
<tr>
<td>Power</td>
<td>1,246</td>
<td>19%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>364.5</td>
<td>5%</td>
</tr>
<tr>
<td>Human Resource</td>
<td>807.5</td>
<td>12%</td>
</tr>
<tr>
<td>Roads/Transport</td>
<td>868</td>
<td>13%</td>
</tr>
<tr>
<td>Urban &amp; Other Infrastr.</td>
<td>904.3</td>
<td>13%</td>
</tr>
<tr>
<td>Adjustment Loans</td>
<td>950</td>
<td>14%</td>
</tr>
<tr>
<td>Environment*</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>6,732.8</td>
<td>100%</td>
</tr>
</tbody>
</table>

* Environment component are substantive in many agriculture & urban projects

**Current portfolio.** The current portfolio consists of 63 projects for a total loan amount of about US$8 billion. The total costs of these projects is estimated at US$22 billion, indicating total GOI financing of about US$14 billion or over 60 percent of project costs. Eight loans to the power sector and three loans to the telecommunication sector, together represent more than 35 percent of total value of the portfolio. In contrast, 18 loans to support projects in the human resources represent only 15 percent of the portfolio value. (See Annex 2, Table 4). Most of these projects are implemented in two or more provinces including ten covering practically the whole country (25-27 provinces). (See Annex 2, Table 5)

**Portfolio Performance.** A total of nine projects are rated unsatisfactory on implementation grounds. This represents 15% of the portfolio, and are marked with asterisk in Annex 3. Of these, three projects (Financial Sector Development, Ground Water Development and Skills Development) are facing serious difficulties, in meeting development expectation. In the near term, improving project implementation should be a very high priority of implementing agencies and Bank supervision missions, given the number of unsatisfactory projects and the fact that the implementation problems, if not corrected, can lead to a failure to meet development objectives and hence a great loss to the economy. The Sectoral Discussions, last month, have focussed on the problem projects and how to reverse (action plan or even major restructuring) their declining performance. A major concern is to identify, and clearly signal, potential failures as early as possible, in order to correct the problems on time. Some additional projects are likely to be down graded from satisfactory to unsatisfactory status, during this year.
The future lending pipeline is expected to gradually shift even further away from large, traditional infrastructure projects, which would be increasingly relevant to private sector participation and financing to regionally focussed projects with emphasis on rural development, poverty alleviation, basic infrastructure, natural resources conservation and environment protection. This will be in line with GOI's own priorities. The average loan size will become smaller than before. Project execution is moving already to decentralized (provincial, district and city) agencies with greater grass roots participation. Initially, this has created (and will continue to create) difficulties in project start-up and implementation which are being addressed through well thought project launch workshop, institutional strengthening and capacity building activities as part of the projects. Good progress has been made in processing regionally focussed investment projects, including five for FY96 Board approvals. FY96 lending program aims for 12 to 13 Board presentations, of which seven have been approved, two more negotiated so far (see Annex 2, Table 6). At this stage we expect a lending volume of about US$1,100 million to materialize in FY96.
## DISBURSEMENTS, AMORTIZATION, NET FLOW AND TRANSFERS

Disbursements during 1991-1995 averaged US$1.15 billion with disbursements last year (FY1995) totalling US$ 1.14 billion. While disbursement for FY1996 is targeted at US$1.2 billion, as of March 1996, only US$642 million has been realized. However, we expect the actual disbursement in FY96 to be about US$1,040 million, the revised target (see para 45.e). Table 4.1 gives an overview of Indonesia portfolio disbursement performance for the last three years including the current year.

### Table 4.1 Disbursement for FY 1994, 1995 and 1996

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agriculture</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Irrigation</td>
<td>87</td>
<td>83</td>
<td>95%</td>
<td>101</td>
<td>87</td>
</tr>
<tr>
<td>Area development</td>
<td>8</td>
<td>7</td>
<td>88%</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>Tree Crops</td>
<td>43</td>
<td>23</td>
<td>53%</td>
<td>45</td>
<td>21</td>
</tr>
<tr>
<td>Others</td>
<td>34</td>
<td>39</td>
<td>115%</td>
<td>37</td>
<td>23</td>
</tr>
<tr>
<td><strong>Human Resources</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>139</td>
<td>148</td>
<td>106%</td>
<td>121</td>
<td>136</td>
</tr>
<tr>
<td>Pop./Health/Nutrition</td>
<td>22</td>
<td>47</td>
<td>214%</td>
<td>50</td>
<td>39</td>
</tr>
<tr>
<td>Transport</td>
<td>134</td>
<td>160</td>
<td>119%</td>
<td>242</td>
<td>187</td>
</tr>
<tr>
<td>Urban/Water Supply</td>
<td>126</td>
<td>126</td>
<td>100%</td>
<td>135</td>
<td>149</td>
</tr>
<tr>
<td>Power/electricity</td>
<td>279</td>
<td>330</td>
<td>118%</td>
<td>220</td>
<td>268</td>
</tr>
<tr>
<td>Gas/Telecom/Mfg.</td>
<td>248</td>
<td>107</td>
<td>43%</td>
<td>206</td>
<td>150</td>
</tr>
<tr>
<td>Finance</td>
<td>183</td>
<td>100</td>
<td>55%</td>
<td>72</td>
<td>76</td>
</tr>
<tr>
<td>Environment</td>
<td>2</td>
<td>0</td>
<td>0%</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

| Total                  | 1,303          | 1,170       | 90%            | 1,240       | 1,144                               | 92%                       | 1,200| 642 | 53% |

a) Projection is for full FY1996; this is now revised to US$1,040 million from US$1,200 million

A number of issues have been identified as constraints to realization of the FY1996 targeted amount. These are:

(a) changes in GOI procedures for submission of withdrawal applications and importation of goods;

(b) the complications which arose out of the new taxation decree (which was later cancelled by another decree issued in November 1996);

(c) late release of national and local budgets (SPAPB and DIPDA) for projects implemented by local governments;

(d) increasing number of new implementing agencies at sub-national, government - weak in capacity, unfamiliar with Bank procedures, and in-experienced in Bank operations; and

(e) the target set for FY96 was simply an over estimation. With declining lending volume from an average of US$1.5 billion to US$1.2 billion over the past four years, we should expect to see a decline in the absolute level of disbursement.
During the period of 1991 - 1995, the Indonesian portfolio has been...

Since FY1991 Indonesia has shown increasing negative resources in spite of the bank's efforts. However, in terms of capital flows (repatriation excluding interest payments), negative capital flows only occurred in the most recent year (FY1995) as a result of repatriation of high interest loans. Annual undisbursed balance ranges from USS 4.7 billion to USS 5.1 billion.

Interest loans of a strategic nature are prioritized with a number of new projects in the future. Project launch workshops and constraint "P" will persist for a number of new projects in the future.

The recent changes observed by GOL items are on the agenda of the CPR planning session. The issues (a) and (b) above are expected to be no longer contributing in DIP year 1996/97 because of...
Audit report compliance. Submission of project audit reports is monitored by RSI/PMTU and a monitoring letter is sent regularly to Bappenas. RSI receives copies of Bappenas communications with implementing agencies as follow up to the monitoring letter. About 60 percent of reports received were submitted to RSI/PMTU either on time or before they became due. About 30 percent was received within one to three months after their due dates and the remaining 10 percent was received after six months.

Two causes of delays are identified here. First, many project agencies are not equipped with staff who has the appropriate accounting skill to prepare project account and financial reports. This is amplified by the fact that financial reporting is not made an integral part of daily project accounting process rather it is an activity performed after closing of fiscal year. In many cases it had led to delays in submission of project financial report to BPKP. Second, delay in preparation of project financial report has a direct repercussion on BPKP’s staff allocation and scheduling which in some cases forced it to postpone the audit to the following fiscal year.

SOE (Statement of Expenditures) audits are becoming more important as more disbursements are being made by using SOE procedure. FY95 data (See Annex 2, Table 2) show SOE disbursements in the amount of US$430M or 38% of total disbursements during the year. In case SOE audit report becomes overdue, the Bank procedure allows Government to complete the report within additional 90 days. And if after 90 days the report continues to be overdue, SOE procedure for disbursements will be suspended. Such suspension(s) would slow down the pace of project implementation on many projects.

Most Indonesia projects are required to submit project audit reports within nine months after closing of the Government’s fiscal year and newer projects are requiring six months. In this regard, it is very important to actually ensure, during project preparation, that a functioning project accounting system is in place. During project implementation, it will be essential to closely monitor if such system continues to function, otherwise submission of project audit reports on time could be inordinately delayed.

The Bank’s record shows that of 600 reports submitted since FY93, 92 percent received an “unqualified” audit opinion. However, a further observation on BPKP reports reveals that there are issues that need to be addressed despite the favorable opinion expressed. These issues range from inconsistent implementation of Keppres 16/94 in the field; procurement, organizational and managerial matters that led to inefficiency; World Bank processing delay; excess payments to contractors/suppliers; goods/services delivered not in accordance with contract specifications; and payment for unperformed services.

Notwithstanding the importance of compliance, in the midst of increasing demand for accountability and given the nature of issues raised by the auditors, more attention should be paid to follow up BPKP’s audit finding particularly an enforcement of remedial actions asked by the auditors.

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2 An “unqualified” audit opinion reflects the auditor’s assessment that all financial information fairly reflects the financial condition of the audited entity.
SUMMARY OF POST EVALUATION DATA

As of July 31, 1995, the outcomes of 167 completed Indonesia projects were evaluated by the Operations Evaluation Department of The World Bank (see Summary in Attachment 1). These evaluations show that 138 projects (83 percent) satisfactorily achieved their development objectives and 29 projects (17 percent) were unsatisfactory. In terms of total loan commitment (US$11.3 billion) 87% were satisfactory. This record is better than the Bank-wide average of evaluation, but lower than East Asia Region average. The unsatisfactory\(^v\) projects are marked in the Table 7 of Annex 3 and the Evaluation Summary included in Table 9 of Annex 3. Further observation indicates that the incidence of unsatisfactory rating tends to increase on projects which closed after 1989, which is a cause for concern.

In terms of sustainability, the rating for Indonesia somewhat reflects that for all East Asia and Pacific (EAP). A sample of 93 projects in Indonesia shows 62 percent with “likely” sustainability ratings 20 percent with “uncertain” sustainability ratings and 17 percent with unlikely sustainability ratings. In comparison, the percentage of “likely” projects for EAP is 63%.

SUMMARY OF FINDINGS OF PROJECTS EVALUATED SINCE 1990

Evaluation Summary. Evaluation reports from OED (the World Bank’s Operations Evaluation Department) and the Implementation Completion Reports (PCRs/ICRs) completed by Government and the Bank immediately after completion were reviewed in order to extract the most important lessons learned. This review focused on 69 evaluations conducted since 1990. Sixteen (23% of total) projects were considered unsatisfactory: 8 in Agriculture Sector (mostly non-irrigation); 3 in Financial Sector; 2 each in Health and Mining Sector; and 1 in Water Supply. On the other hand, Roads, Power and Education and Telecommunication project were rated 100% satisfactory. In terms of institutional development, 35 projects (50 percent) were judged to have achieved “substantial” institutional development, 47 of these projects (70%) were rated “likely” for their sustainability. This shows the relationship between project’s performance in achieving its institutional development objectives and the sustainability of its achievement. The summary of these evaluations, by sectors, is given in the table below.

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\(^v\) Unsatisfactory projects are those with ERR (on completion) less than 10% and/or have failed to meet main development objectives of a projects.
### Evaluation Summary of Projects Evaluated Since 1990

<table>
<thead>
<tr>
<th>Bank SOD/Sector</th>
<th>No. of project evaluated</th>
<th>Overall rating (Nos)</th>
<th>Other Rating by Exception</th>
<th>Institution Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>S</td>
<td>US</td>
<td>UL</td>
</tr>
<tr>
<td>1. AGRICULTURE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Irrigation</td>
<td>7</td>
<td>6</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>- Non Irrigation</td>
<td>15</td>
<td>8</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>2. HUMAN RESOURCE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Health</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>- Education</td>
<td>8</td>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Other (TR, Pop)</td>
<td>4</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. INFRASTRUCTURE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Roads/Transport</td>
<td>5</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Urban/Water Supply</td>
<td>9</td>
<td>8</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>4. INDUSTRY &amp; ENERGY</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Power</td>
<td>5</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Industry/Financial</td>
<td>9</td>
<td>6</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>- Telecom and Other</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>69</strong></td>
<td><strong>53</strong></td>
<td><strong>16</strong></td>
<td><strong>12</strong></td>
</tr>
</tbody>
</table>

Abbreviation:  
- **S** Satisfactory  
- **US** Unsatisfactory  
- **UL** Unlikely  
- **UC** Uncertain  
- **NEG** Negligible  
- **MOD** Moderate

**Evaluation Finding.** The Evaluation Reports include the following among the factors (barriers) impeding successful project implementation:

- unwarranted optimism in expecting a Government organized institution to operate commercially (industry sector and cost recovery);
- dual function of project implementing agency (as advisor to Government and as a commercial entity);
- low level of priority of the project in Government’s investment program;
- shortages of counterpart funds;
- weak interagency coordination;
- absence of strong project authority;
- poor project preparation and design;
- complex implementation arrangement which had little chance of functioning;
- procurement delays;
- delay in recruitment of consultants and ineffectiveness of Technical Assistance;
- cumbersome and centralized budgetary and approval processes including revision of DPs;
- use of single- rather than multi-year contracts;
- delays in acquisition of land;
- over-ambitious expectations and limited capacity of implementing agencies to execute;
- over-orientation toward quantitative targets rather than performance results and sustainability; and
- low quality of construction.
**Indonesia: Evaluation Findings**

- OED has evaluated a total of 167 loans to Indonesia, amounting to $11.3 billion. The outcome of 87 percent of the lending amount was rated satisfactory, much above the Bank-wide average of 73 percent. Sustainability ratings are high (75 percent likely), and institutional development is also high (56 percent substantial). These latter ratings are also well above Bank averages (55 and 37 percent, respectively).

- OED findings show that the Bank has been closely associated with several elements of Indonesia’s remarkable economic and social transformation. Five sectors (agriculture, power, transport, human resources, and structural adjustment) make up the bulk (80 percent) of the evaluated portfolio. The proportion of satisfactory project outcomes is high for all sectors and ranges from 100 percent in power and structural adjustment, to 95 percent in human resources, 94 percent in transport and 75 percent in agriculture. Even the latter low ratio compares favorably with a Bank-wide average of slightly below 65 percent for agricultural projects.

**Structural Adjustment**

- Indonesia’s economic stabilization and adjustment program started in 1983 and intensified after the collapse of oil prices in 1986. The main areas of policy reform included public expenditure restraint, judicious exchange rate management, trade reform, and liberalization of the financial markets and of the foreign investment regime. Bank lending for adjustment, evaluated by OED, consisted of two trade policy loans and two private sector development loans (for a total of $1.2 billion). The outcome of all four operations was rated as satisfactory. An important distinguishing feature of these loans was that the policy measures they supported were announced prior to loan appraisal. This procedure of “ex post conditionality” was justified because: (a) the prior consultation between the Bank and the GOI resulted in agreement on the measures to be taken, (b) it was agreed at the beginning that these measures were part of a medium-term adjustment program, and (c) the GOI’s initial policy steps and commitment to their continuation made it clear that the reform was an ongoing process. In short, the GOI fully “owned” the reform program.

**Agriculture**

- The Bank has been lending for agriculture since 1968. A total of 62 projects has been evaluated representing $2.9 billion in lending. By value, the proportion of satisfactory project outcomes is 75 percent. However, in absolute numbers one half of the unsatisfactory project outcomes in Indonesia are in the agricultural sector.

- Lending for irrigation has been substantial and accounts for about 40 percent of the projects evaluated. This program has been largely successful: the outcome of 19 out of 22 evaluated projects was rated satisfactory. However, OED audits frequently noted inadequate operation and maintenance (O&M), wrong assumptions about upstream water control and distribution and about farmer group efficiency and, until recently, ineffective cost recovery. Recent Bank initiatives to devolve responsibility for O&M and cost recovery to water user associations appear to be working.

- The Bank participated in Indonesia’s transmigration program through five projects although it financed a small proportion of the program: about 10 percent of total investments during the 1979-
1989 period covering less than five percent of the families settled. Nevertheless, the Bank's role has been controversial. An OED review of five Bank-supported projects found that, in general, settler incomes increased, women's participation and roles expanded, and social infrastructure improved. However, little attention was paid to the indigenous people that lived in the resettlement areas. They were adversely affected by the projects. Also, attention to environmental aspects was weak and application of existing Bank and government guidelines remains a concern. The outcome of two of the five evaluated projects was rated unsatisfactory. (Country Department Note: The Bank stopped supporting transmigration projects in 1987.)

- The Bank's involvement in multipurpose dam and irrigation works at Kedung Ombo has provoked controversy. Farm incomes increased substantially, but the program to resettle displaced people was poorly planned and badly managed.

- The Bank also provided considerable support to develop estate and smallholder tree crops. Benefits were substantial: of the sixteen projects only three had unsatisfactory outcomes. The main purpose of many of these projects was to use an existing estate and/or management organization as the nucleus to develop outlying areas for cultivation by landless people, hence creating employment and raising incomes. This model worked well during implementation. But for benefits to be sustained, more attention is required to rehabilitate substandard plantings and provide efficient extension to the smallholders (the intensive project unit support system during the investment phase cannot be maintained during the operation phase).

- Bank support improved the country's agricultural research capacity considerably. Extension coverage expanded through the training and visit system but needs to be improved. Its uniformity needs to be adjusted to the diverse cultural and socioeconomic environments in Indonesia. Also, further funding of these programs, which have relied heavily on external financing, poses a challenge.

Infrastructure

- In highways, the Bank has been instrumental in developing a capable highway administration and provided substantial assistance in physical improvements. Recently, the Government initiated a restructuring of the highway administration, whose main aim is decentralization of decision-making, with Bank support. The Bank also assisted Indonesia to implement an up-to-date management system. In addition, the Bank has now expanded its involvement in multi-mode and urban transport issues, both of which are crucial.

- In urban, a series of projects has contributed significantly to long-term development of urban settlements and local municipal structures. A housing sector project assisted the housing mortgage bank to streamline management systems and introduce automated operations. It also helped GOI revise existing regulations and policies that restricted access to mortgage bank loans and expand the role of private developers in low-cost housing. Projects focusing on kampung improvement programs, (KIP)—very dense low-income settlements in urban areas—reaped very high economic rates of return. KIPs also upgraded the quality of life of kampung residents through infrastructure improvements and were replicated through successive operations, in urban areas throughout Indonesia.

- In water and sanitation the outcome of four of the five evaluated projects was rated satisfactory. The devolution of implementation responsibility to the provinces through local agencies was an
important achievement of project design. The projects found that poverty alleviation strategies can be addressed through both careful targeting and project design, including location of public taps, favorably priced house connections and well-directed incentives to water agencies.

- In ports, good project timing and accompanying policy reform were responsible for project achievements. The promulgation of regulatory reforms accelerated port efficiency improvements which might otherwise have been harder to achieve with a project alone. But weak institutions required more Bank resources than in other sectors for the supervision of technical assistance.

- The outcome of all fifteen evaluated power projects (US$2.2 billion in lending, representing a fifth of the Bank's total evaluated portfolio) was rated satisfactory. Through these operations, the Bank made a substantial contribution to the financing and institutional strengthening of the sector since the 1960s. These projects—carried out through the late 1980s—supported the rapid expansion of the system (with a tripling of generating capacity during the 1980s alone) and helped the state utility (PLN) improve its project management and operational capacity accordingly. Policy dialogue in that period focused mainly on sector planning and tariffs, with reasonable success. More recent (ongoing) operations have also dealt with private sector participation and sector restructuring.

Education
- Out of the economic and social chaos of the mid-1970s, Indonesia has achieved one of the most significant transformations in education in the developing world. The Bank has lent more for education to Indonesia than to any other country, committing over US$2.2 billion for 35 projects since FY71. All 19 evaluated projects in this diverse portfolio had successful outcomes.

- Early Bank assistance was designed to educate and train the future workforce through secondary and post-secondary vocational and technical training. With Indonesia's rapid economic development, the scope of these investments has broadened over the years to include professional and scientific research training in polytechnics and universities, supported by reforms aimed principally to improve quality, cost effectiveness, management efficiency and a greater involvement of the private sector.

- A second generation of Bank projects began to focus on widening access and improving quality in primary and general secondary education, following the country's success in building primary schools across the nation. Ongoing operations target the children of the poor in rural areas. A notable success story is in the still ongoing assistance to poor and illiterate adults who have benefited from nonformal programs designed to impart income-generating skills alongside literacy.

- Evaluation findings show that the objective of expanding access at all levels has been achieved. Policy, structural and institutional reform has succeeded unevenly and more slowly, but there have been some notable successes (e.g., in teacher training). The increased participation of girls in polytechnic training is noted in a recent audit.

Health and Population
- Indonesia is among the most active clients in the population, health and nutrition sectors, reflecting the country's strong political and administrative commitment to improving human resources and to equity in the distribution of social sector services.

- The lending program in population shows a strong record of success, with the outcome of all four
completed projects rated as satisfactory and sustainable. Contributing factors to this success include the strong institutional capacity of the lead implementing agency (the National Family Planning Coordinating Board, or KKKB) and the development, through time, of effective systems for stimulating and maintaining community involvement in family planning and health activities. A fifth population project designed to train village level midwives and target services to hard-to-reach populations is nearing successful completion.

- Projects in the health sector present a good example of development learning. The first two projects produced mixed results, and their outcome was rated unsatisfactory, largely due to implementation difficulties resulting from construction delays, and difficulties in strengthening local, district level capacity and accountability. A subsequent project overcame these difficulties through developing more explicit institutional development goals and adapting community development lessons from the family planning program experience to health program design.

- The nutrition project, the first stand alone project in the Bank's nutrition portfolio produced valuable lessons on organizational arrangements for the management of nutrition education efforts which are now incorporated into ongoing health projects which include nutrition objectives. Two ongoing projects in the health sector focus on improvement in the quality of local health services and on resource mobilization for the sector.

Microenterprise and Small Scale Industry Lending

- While the outcome of several financial intermediation projects was rated satisfactory, three projects addressed to small-scale enterprises (SSE) were designed to increase capacity and employment, as well as improve the administration of the SSE program, but they failed to do so. Credit subsidization undermined financial discipline by the borrowers. Many of the funds ended up refinancing existing loans rather than increasing capacity. The project outcomes were thus rated unsatisfactory. Having learned from this experience, however, a new type of project was designed by the Bank (KUPEDES, approved in FY87), which provides unsubsidized credit to small borrowers, thereby encouraging savings by poor small entrepreneurs. The KUPEDES project outcome was highly satisfactory and is now being replicated by the private sector.
INDONESIA
COUNTRY PORTFOLIO PERFORMANCE REVIEW (1996)

Summary of Procurement Arrangements for FY93-FY96 Projects
(By Sector)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of Projects</th>
<th>Total Project Cost</th>
<th>Loan/Credit Amount</th>
<th>Procurement Content of Loans</th>
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**Data Source:** From SAR Tables on Procurement Arrangements

1) Training - includes Training TA
2) Consultants - all types i.e. Engineering/SPN, Policy Studies, Institutional Strengthening; project preparation of successor projects
3) Misc. - Task force construction, incremental operating costs, two step loans to beneficiaries, direct payments eg. VIP, NGOs etc.
4) This is a tendency in many agencies to increase TA provisions through Loan Amendment. The above percentage is what was estimated at appraisal.
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<th>No.</th>
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# Project rated unsatisfactory in Implementation Progress
#* Project rated unsatisfactory in Meeting Development Objective
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<td>Cirata Hydro Phase II</td>
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<td>3781-IND</td>
<td>Sumatra &amp; Kalimantan Power</td>
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<td>3845-IND</td>
<td>Second Rural Electrification</td>
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<td>386</td>
<td>397</td>
<td>04/20/95</td>
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<td>3978-IND</td>
<td>Pow, Trans &amp; Dist II</td>
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<td>3182-IND</td>
<td>Telecommunications III Project (Orig. $350)</td>
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<td>313</td>
<td>45</td>
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<td>Fertilizer Restructuring Project (Orig. $221.7)</td>
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<td>3904-IND</td>
<td>Telecom Sector Modernization</td>
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# Project rated unsatisfactory in Implementation Progress
#* Project rated unsatisfactory in Meeting Development Objective