

ICR Review
Operations Evaluation Department

1. Project Data: Date Posted : 08/14/2002

PROJ ID : P039312	Appraisal	Actual
Project Name : Second East Java Urban Development Project	Project Costs 244.2 (US\$M)	107.7
Country : Indonesia	Loan /Credit (US\$M)	
Loan/	US\$M) 142.7	76.3
Sector (s): Board: UD - General water sanitation and flood protection sec (59%), Roads and highways (29%), Sub-national government administration (11%), Other social services (1%)	Cofinancing (US\$M)	
L/C Number : L4017		
	Board Approval (FY) (FY)	96
Partners involved :	Closing Date 03/31/2000	12/31/2001

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2. Project Objectives and Components

a. Objectives

- a) To improve the delivery of urban infrastructure services .
- b) To develop the financial and institutional capacity of participating local governments and local water companies (PDAMs) in the Province of East Java .
- c) To support national and provincial government efforts to operationally define the urban and regional development strategy of the current national development plan (REPELITA VII), by supporting the preparation of the East Java Strategic Regional Development Program .
- d) To mitigate the impact of Indonesia's economic crisis and to promote good governance .

(Although there was no formal amendment the project objectives, the SAR added objective (c) and the ICR--following the East Asia crisis of the late 1990s--added objective (d) to the two original objectives of the Loan Agreement)

b. Components

According to the SAR, the project had three groups of components (with final costs in parentheses):

- A) Infrastructure Works: (i) Water Supply (US\$8.0m.); (ii) Urban Roads (US\$36.2m.); (iii) Drainage (US\$19.5m.); (iv) Solid Waste Management (US\$4.7m.); (v) Sanitation and Sewerage (US\$1.8m.); (vi) Kampung Improvement Program-KIP and Market Infrastructure Improvement Program -MIIP (US\$9.1m.); (vii) Urban Renewal (US\$0.0).

B) Institutional Capacity Development : (i) Improving service delivery capabilities; (ii) improving sub-project preparation and implementation.

C) Strategic Development Program: Design and preparation of a regional program for future infrastructure investments.

[The ICR cost table does not report final costs for B and C)

c. Comments on Project Cost, Financing and Dates

Final costs (in US dollars) were less than half those expected . Only a fraction of the water supply component was implemented, while there were significant shortfalls in all infrastructure investments (except KIP/MIIP). By closing, the Bank loan financed 71% of all costs, against an appraisal expectation of a Bank share of 58%. Only about half of the Bank loan was disbursed, so that a total amount of US\$ 66.4m. was not disbursed. The project closed on 12/31/2001, 21 months behind schedule.

3. Achievement of Relevant Objectives:

Original objectives, as stated in the Loan Agreement .

a) Better delivery of urban services : Achieved, albeit on a smaller scale than foreseen at appraisal . Water and sanitation components had greatest shortfalls, while roads, drainage, solid waste KIP had satisfactory results .

b) Strengthening the financial and institutional capacity of local governments and water companies in East Java : Only partially achieved. High inflation has undermined local finances, and most local water companies are in a precarious financial situation due to low revenues derived from insufficient demand for their services and inflated costs of key inputs such as chemicals . Nine local governments introduced Project Benefit M&E systems, however .

c) Defining an urban and regional strategy for East Java : Not achieved, due to lack of interest by East Java province and the lack of support by central government that wanted to await the successful completion of this project before embarking on plans that might prematurely lead to a new operation .

d) Mitigate impact of economic crisis/promote good governance: Not achieved. Indonesia's crisis had a devastating impact upon the project cities . There was some temporary employment creation on a small scale . however. Promoting good governance among the water companies --an important target--did not succeed in placing them on a firm financial and institutional footing .

4. Significant Outcomes/Impacts:

New highways that by-pass main cities in the province, considerably easing traffic conditions within them .

1,457 hectares of low-income kampung areas were improved .

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

At appraisal, the project did not properly assess the demand for water, nor the scale of intervention required

(Beneficiaries' demand for water was very weak when they had good alternative access to groundwater . The

ICR reports that many physical targets for water were met, even though only 13% of the project funding intended

was actually disbursed; such a result points to over -design work at the appraisal stage).

The project failed to engage the two largest water companies in the province (Malang City and kabupaten

Sidoarjo)

Water companies in deep financial straits are still levying only token charges for their services (US\$0.05/m3)

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome : Satisfactory objectives,	Satisfactory	Moderately Satisfactory	While the project achieved its major objectives, there were shortcomings in the volume of urban infrastructure services delivered, and also in the financial and institutional capacity achieved, especially by the water companies.
Institutional Dev .: Modest Sustainability : Likely resilience	Modest	Modest Unlikely	Given the project's modest financial resilience in the context of Indonesia's macroeconomic crisis. The financial weakness of the water companies was already evident by the time of project closing
Bank Performance : Satisfactory project	Satisfactory	Satisfactory	In spite of the frequent turnover of staff on the Bank's side.
Borrower Perf .: Satisfactory Quality of ICR :	Satisfactory	Satisfactory	Satisfactory

NOTE:

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

7. Lessons of Broad Applicability:

The ICR highlights important lessons from this experience :

Central government's subsidiary loan agreements with local governments need to be simpler, yet more rigorous

in encouraging local governments to be more open to borrowing for financing urban investments .

Central government and provincial governments need to define more stringent mechanisms to ensure that audit

findings and recommendations are followed up and that project loan covenants are adhered to .

There is a need for central government and the Bank to identify better solutions for sanitation, in view of the

shortcomings of the approach adopted by this project .

8. Assessment Recommended? Yes No

Why? To further clarify how all stakeholders understood the purpose and objectives of this project and to elucidate further its results.

9. Comments on Quality of ICR:

This difficult and complex project experience poses an extraordinary challenge for completion reporting . While both

the Bank and Borrower ICRs provides evidence to support much of the self -evaluation, there are some inconsistencies and omissions . On the one hand, the Bank ICR rates the sanitation component, that disbursed only

15% of funds committed, as unsatisfactory . On the other hand, the Borrower ICR rates the same component as a

satisfactory component, reporting that it achieved 72% of its intended output; a discrepancy whose reasons are not

readily discernible from the text . Project costs are only reported for one of the three project components -- albeit the

largest, infrastructure--discussed in the text of the ICR . In spite of these shortcomings, the broad coverage provided

by the ICR of issues of project performance allows a satisfactory rating for its quality .

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