



1. Project Data:		Date Posted : 06/04/2003	
PROJ ID: P003945		Appraisal	Actual
Project Name: Second Highway Sector Investment Project	Project Costs (US\$M)	680.5	437
Country: Indonesia	Loan/Credit (US\$M)	350	304
Sector(s): Board: TR - Roads and highways (93%), Central government administration (4%), Sub-national government administration (3%)	Cofinancing (US\$M)	0	0
L/C Number: L3712			
	Board Approval (FY)		94
Partners involved :	Closing Date	12/31/1999	12/31/2001
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components			
a. Objectives			
The overall objectives of the project were to meet the rapid growth in road traffic resulting from sustained economic growth and to reduce the road transport system costs. Specifically, project would:			
<ul style="list-style-type: none"> • Improve the service quality of the road network; • Develop effective approaches, with due regard to environmental impacts, for increasing road network capacity; • Improve the quality of execution of road works; • Strengthen the institutional capacity of the Directorate General of Highways (DGH) in formulating work programs and allocating funds between activities (maintenance, betterment, development, road safety), as well as classes of roads and regions; and • Improve road sector policies and strengthen the capacity of road sector agencies to formulate and implement such policies. 			
b. Components			
The main components of the project were:			
(a) road network improvement/preservation (US\$353.4 million or 80.8% of actual project cost);			
(b) road network expansion (US\$33.6 million or 7.7% of actual project cost);			
(c) institutional strengthening of the highway agencies (US\$41.3 million or 9.4% of actual project cost);			
(d) human resource development (US\$5.2 million or 1.2% of actual project cost); and			
(e) support to the Ministry of Communications (MOC) for Stage II Action Plan implementation (US\$3.4 million or 0.8% of actual project cost).			
Revised Components:			
The project was restructured on August 26 1998 and the scope of the project components were revised. The revised scope/targets were as follows:			
(i) The targets for periodic maintenance were increased from 2,000 km to 2,100 km, for betterment works from 2,200 km to 3,000 km and for bridge replacement from 5,300 meters to 6,000 meters.			
(ii) Road capacity expansion targets were reduced from 150 km to 45 km. The sub-component for road upgrading (60 km) was cancelled.			
(iii) To support institutional development, high priority Technical Assistance and training activities were extended.			
(iv) Extension of professional education and construction industry training.			
c. Comments on Project Cost, Financing and Dates			
The actual cost of the project is US\$437 million compared to the appraisal estimate of US\$680.5 million.			

During the second half of the project implementation, the project was affected by: (a) financial crisis (1997 to 1999); (b) political changes (May 2000); and (c) institutional changes in the implementing agencies (2000 and 2001). Changes in the exchange rate from Rupee 2,000 to over Rupees 10,000 to the US dollar during the period after 1997 generated substantial dollar savings in the loan. In Rupee terms, the project cost nearly doubled from Rupee 1.4 trillion to Rupee 2.4 trillion. In response to the financial crisis, the project was restructured on August 26, 1998 with cancellation of US\$40 million. During the first extension of the closing date in December 1999, a further US\$6 million was cancelled. At project closing, US\$0.043 million was cancelled. The final loan amount was US\$304 million. The project closed on December 31, 2001, after two extensions.

3. Achievement of Relevant Objectives:

- The objective to improve the service quality of the road network was achieved. At project closing in 2001, 92% of the national and provincial roads were in good/fair condition compared to the 72% at appraisal (in 1993).
- The objective of developing effective approaches, with due regard to environmental impacts, for increasing road network capacity was not achieved due to the cancellation of most of the road expansion component during project restructuring.
- The objective of improving the quality of execution of road works was partially achieved. Special attention was given to advance contracting before project effectiveness. The project assisted in the development Quality Assurance services. Operational manuals were produced and training was provided to 11 provinces.
- The objective of strengthening the institutional capacity of the Directorate General of Highways (DGH) which later became the Directorate General of Regional Infrastructure (DGRI) in formulating work programs and allocating funds between activities was partially achieved. Technical Assistance for integration, development and implementation of Integrated Road Management System (IRMS) was provided. This has considerably enhanced the planning and programming capacity of DGRI. However, there are concerns about how effectively it will be used by the increasingly important provincial authorities.
- The objective to improve the road sector policies and strengthen the capacity of road sector agencies to formulate and implement such policies was partially achieved. A framework for a National Transport System Development was formulated under MOC Decree No. KM.15/1997. Documents on National Plan for the Primary Transport Network and General Planning on Land Transport Development were issued. In the wake of the financial crisis and institutional changes in the implementing agencies, these were not implemented. Through Laws 22 and 25/1999, the transport sector was decentralized. However, by project closing, many of the political decisions on structures of road management had still not been made.

4. Significant Outcomes/Impacts:

1. The project exceeded the revised physical targets for periodic maintenance, road betterment works and bridge replacement. This resulted in substantial improvement in the condition of the road network.
2. A number of road sector planning and programming tools were developed to improve the capacity of DGRI. The project developed guidelines for soft soil construction which are being widely used.
3. To improve transport safety, the institutional and legal framework for transport safety was put in place.

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

1. There were delays in land acquisition and resettlement because of lack of resources and inadequate consultant supervision.
2. During the second half of the project implementation, the project was affected by the 1997 financial crisis, and political changes in May 2000. The project experienced implementation delays due to rapid personnel changes following the financial crisis and late budget release.
3. Poor performance of Urban Road Management System (URMS) because of complicated planning and data analysis requirement.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev .:	Modest	Modest	
Sustainability:	Likely	Likely	
Bank Performance:	Highly Satisfactory	Satisfactory	The Bank Performance has been rated "Satisfactory" instead of "Highly Satisfactory" because while considerable attention was focussed on DGH/DGRI

			and road management aspects, there was less attention to the transport sector policy aspects. After the financial crisis, the economic and transport policy skills in the supervision team were substantially reduced and this limited the attention to transport sector policy aspects.
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

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

7. Lessons of Broad Applicability:

Several important lessons are identified by the ICR. Three are repeated here for their broad applicability:

- Improvements to the financing of the road sector need to focus both on the savings in implementation costs (for example, extending service life through improving quality, and better prioritization of works) and on relating the revenues more closely to the costs incurred through road usage (example structural damage, externalities of congestion, safety, etc.).
- The application of quality assurance approach is effective only so far as it is applied by the management in an environment in which performance standards are enforced equitably and consistently to ensure accountability.
- Road agencies need to develop a balanced work program that includes maintenance and rehabilitation works and a small high priority capacity expansion works to reduce congestion in key areas.

The ES adds the following lesson - all preparation activities relating to land acquisition, resettlement, and relocation of affected people should be completed well in advance of the procurement process for civil works.

8. Assessment Recommended? Yes No

Why? A field assessment, preferably combined with assessments of other highways/rural roads projects in Indonesia could provide valuable lessons for a more efficient highways sector especially in the new decentralized environment.

9. Comments on Quality of ICR:

The quality of ICR is satisfactory. It is comprehensive and provides data on condition of road network which permits a ready evaluation of the project. Also, the Lessons Learned section is insightful and useful.