



1. Project Data

Project ID P111577	Project Name ID-Local Government and Decentralization		
Country Indonesia	Practice Area(Lead) Social, Urban, Rural and Resilience Global Practice	Additional Financing P123940	
L/C/TF Number(s) IBRD-79140,IBRD-84380	Closing Date (Original) 30-Jun-2014	Total Project Cost (USD) 220,000,000.00	
Bank Approval Date 08-Jun-2010	Closing Date (Actual) 31-Dec-2017		
	IBRD/IDA (USD)	Grants (USD)	
Original Commitment	220,000,000.00	0.00	
Revised Commitment	719,770,854.89	0.00	
Actual	719,770,854.89	0.00	
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2. Project Objectives and Components

a. Objectives

Two Financing Agreements (FA) governed this project. Both FAs and the Project Appraisal Document (PAD) stated that the Project Development Objective (PDO) was to improve the accountability and reporting of the central government's Specific Purpose Grants (*Dana Alokasi Khusus* or DAK) for basic infrastructure within pilot local governments (LGs) (FA, p.5, PAD, paragraph 22). Additional Financing (AF) specified the infrastructure sectors to include roads, irrigation, water, and sanitation, within selected LGs (AF, p.4 of 12). The AF increased the participating LGs from five to 22 provinces (AF, p. 6 of 33). This review will assess the stated PDO in the AF:



- to improve the accountability and reporting of the central government's DAK for basic infrastructure, consisting of roads, irrigation, water and sanitation within selected local governments.

b. Were the project objectives/key associated outcome targets revised during implementation?
No

c. Will a split evaluation be undertaken?
No

d. Components

1. **DAK Reimbursement** (US\$ 220 million at appraisal, with additional financing of US\$500 million for a total of US\$720 million, US\$ 719.77 million, actual) reimbursed the Ministry of Finance (MOF) for transfers made to participating LGs after independently verifying that eligible work had been completed and reported. The following infrastructure sectors were eligible for reimbursement - roads, water supply, and irrigation. AF included sanitation and expanded the reach of the project from 5 to 22 provinces. This was the only component that was financed by the World Bank loan. The rest of the project was co-financed by the Borrower.

2. **Institutional Strengthening to Central and Local Governments Management Support** (US\$ 8.5 million at appraisal, with additional financing of US\$ 10 million for a total of US\$ 18.5 million, US\$ 8 million, actual) financed the Government's capacity building efforts to develop its monitoring and evaluation (M&E) system using a web-based monitoring and reporting system, delivered technical assistance to both central and local governments, and supported project management costs of the MOF's Project Implementation Unit (PIU).

3. **Verification of Outputs Under Component 1 above Eligible for Disbursements** (US\$ 4.5 million at appraisal, with additional financing of US\$ 10 million for a total of US\$ 14.5 million, US\$ 0.5 million, actual) financed additional staff and trained the central and regional staff of the Government's Internal Audit Agency (*Badan Pengawasan Keuangan dan Pembangunan* or BPKP) to verify eligible DAK-financed outputs against technical, procurement, safeguards, and financial management guidelines and complete Output Verification Reports.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: The total project cost was US\$ 753.00 million and a total of US\$ 728.27 million was disbursed at project close or 96.7% of total project cost. The funding shortfall was from undisbursed Borrower contributions (see below).



Financing: This project was financed through an Investment Project Financing instrument and Borrower co-financing.

Borrower Contribution: The Borrower committed US\$ 13 million at appraisal with an additional US\$ 20 million during the AF for a total of US\$ 33 million. A total of US\$ 8.5 million in co-financing was disbursed. The Borrower co-financed two of the three project components - institutional strengthening and verification of outputs.

Dates: The project was first scheduled to end on December 31, 2014. The project was restructured four times:

- on April 14, 2014 (cited 2013 elsewhere, ICR, paragraph 18), a Level 2 restructuring changed the loan closing date from June 30, 2014 to December 31, 2014
- on September 30, 2014, a Level 1 restructuring provided AF, modified the PDO to specify eligible infrastructure sectors, revised the targets for key outcome indicators in the Results Framework, acknowledged two additional safeguards that were triggered, and changed the loan closing date to December 31, 2018.
- on February 8, 2016, a Level 2 restructuring changed the indicators in the Results Framework in response to DAK policy changes, which removed the required 10% matching LG contribution and increased the procurement threshold.
- on December 28, 2017, a Level 2 restructuring advanced the loan closing date from December 31, 2018 to December 31, 2017 following full disbursement of the loan.

3. Relevance of Objectives

Rationale

The objective remained relevant to the country's Mid Term Development Plan (2015-2019), the third in a series of plans supporting the overall National Development Plan (2005-2025). According to this Mid Term Development Plan, infrastructure development would achieve a balanced development focusing on human and community development and address the gap among social groups and regions. To achieve these overarching goals, one of the necessary conditions was support to governance and bureaucratic reforms. The PDO was relevant to this aspect of the national plan. In addition, fiscal transfers like the DAK were poised to transition toward performance-based grants, and the plan recognized the need for improved reporting and accountability, echoing the PDO.

The objective remained relevant to the World Bank's Country Partnership Framework (FY16-20). In its Engagement Area No. 4 Delivery of Local Services and Infrastructure, the PDO was particularly relevant to the first of three pillars under this engagement, which called for strengthening the decentralization framework to improve local service delivery (CPF, paragraphs 77-79). One indicator of improved local service delivery was the number of DAK-financed outputs that have been verified and met eligibility criteria similar to the



outcomes under the PDO. In addition, Engagement Area No. 6, Collecting More and Spending Better aimed to strengthen institutional capacity using output verification to improve procurement performance of public spending.

Rating

High

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

To improve the accountability and reporting of the central government's DAK for basic infrastructure (roads, irrigation, water and sanitation) within selected local governments

Rationale

OUTPUTS:

- improved 5,355 km of roads in participating LGs
- enhanced 3,988 km of irrigation channels
- improved 669 km of water supply pipelines
- 350 BPKP staff from 22 regional offices were trained on output verification, which included 24 hours of classroom training and 16 hours of hand on field training.
- Verification handbooks were prepared to provide clear guidance on criteria for the physical inspection of outputs, including illustrations, photographs on "good" vs. "bad" outputs in the four sectors, and steps during planning and construction of projects.

Targets for the following outputs were exceeded or achieved:

- 99% of contracts with work completed and documented physical handover of the project by December 31 (target 80%, exceeded).
- 99.6% of LGs with procurement units in place (target 80%, exceeded). National Procurement requires that LGs have Functioning procurement units,
- The supplement Technical Guidelines on Safeguards were issued by the Ministry of Public Works or MPW, later MPWH (target achieved).
- The independent auditor (BPKP) submitted quantitative and qualitative reports verifying consistency with TORs for projects reviewed by May 31 (original target was a September 2014 due date, revised to December 31, 2018, achieved by project close, December 31, 2017)
- The BPKP issued a Verification Manual and familiarization by BPKP regional representatives every February 28 (original target was by September 2014, revised to December 31, 2018, achieved by March 2017),



Targets for the following outputs were almost achieved:

- 25% of contracts with the quality of outputs delivered according to the contract by December 31 (target 45%, unmet). The demand for capacity building efforts to familiarize an expanded number of LGs with technical standards of delivered outputs and how to monitor that these services were delivered according to standards could not be met in a timely manner, hence the reduced number of contracts that could be verified. The MOF PIU has submitted the impact analysis report (target submit reports on time, met for one report but not for all reports).
- The Interim Financial Reports (IFRs) were not submitted on time attributed to shortage of trained staff arising from 2016 PIU restructuring. .

Targets for the following output were not met:

- Only 5% of LGs received the first DAK payment from the MOF by March 31 (target 60%, unmet). The MOF released its first payment to LGs who successfully submitted DAK utilization report for the 4th quarter of the preceding year. In 2016, MOF changed its policy to include the entire preceding year, not just the 4th quarter, to qualify for the release of its first payment. The change in policy negatively affected the timeliness of LG reporting and a fewer number of LGs received their first DAK payment by March 31.

OUTCOMES:

- 100% of DAK reports were submitted through the Web-Based Reporting System or WBRS (original target was 100%, revised to 80%, exceeded). The Web Based Reporting System was an improvement of the MOF's WBRS because it now included both financial and technical information. Technical information included GPS data on project locations, photographs. The GOI financed capacity building and familiarization of the reporting standards under the project. An offline system was also added in response to poor connectivity in outlying regions.
- 77% of physical outputs were reported, verified, and confirmed to meet eligibility criteria (original target was 100%, revised to 88%, almost achieved). The number of participating LGs expanded from 5 to 22. GOI co-financing for capacity building fell short so resources were not sufficient to train and familiarize newer participants on project requirements. DAK policy was also revised by 2016. To receive their 10% DAK incentive payment, LGs reported the preceding year's use of DAK resources, not just the last quarter of the preceding year.
- BPKP's annual verification report contained detailed information on the contracts verified for each LG, which enabled the MPWH to identify weak performance areas and respond with customized capacity building efforts.
- The World Bank commissioned an impact analysis in 2016 and 2017 using data from the first 5 LGs, which documented improvements in DAK accountability. The State Audit Board measured district management and accountability and noted that participating project districts were 10% less likely to



receive a disclaimer, 1.1% less likely to have an adverse opinion and 9.2% more likely to receive an unqualified audit opinion. In addition, the same impact analysis noted that participating districts had a 12-15% increase in capital expenditures compared to non-participating districts (ICR, paragraph 32). The increased capital spending by participating LGs vs. non participating LGs showed improved access to services as measured by a 2.3% increase in household access to water, increase of 0.3 km of roads per person, and a 3.5% increase in irrigated rice paddies (ICR, paragraphs 46 and 60).

Rating

Substantial

Rationale

The original project design approved in 2010 directed the PDO at 5 participating LGs. Project implementation informed the preparation of Additional Financing (AF) requested by the Government to expand the project from pilot to nationwide and supplemented the original US\$220 million with another US\$500 million for the project. The AF added one more eligible infrastructure sub sector - sanitation - to the three already in place - roads, irrigation, and water; and expanded the number of participating LGs to 22. The Results Framework targets for the key outcome indicators were adjusted downward, from 100% to 80% and 88% recognizing the untested capacities of the new participant LGs and the substantial risk from Government co-financing the entire institutional development support and project management. The Government committed substantial additional resources to finance the technical assistance needs of the expanded program but these did not materialize. The shortfall contributed to unmet, but nevertheless substantially achieved targets for independently verifying reported DAK-financed outputs. However, the key outcome indicator target for submitting DAK reports online through the WBRS was exceeded. This evidence supported the argument that the project, aided by the full utilization of loan proceeds, directly supported this outcome.

Overall Efficacy Rating

Substantial

5. Efficiency

Economic Efficiency: The same economic analysis approach was used at appraisal and completion. Analysis estimated the benefits from the projects financed by the DAK in participating LGs such as transport cost savings from reduced fuel consumption and maintenance costs, cost savings for purchasing clean water, increase in crop yields (ICR, paragraph 34). The Economic Internal Rate of Return (EIRR) established at appraisal ranged from 40% during the initial stage of the project and 30% with AF. At project close, this rate was higher at 45%. Annex 4 of the ICR provided considerable detail on how these numbers were arrived at and



indicated that a 12 discount rate was used both at appraisal and ex post. There was no information on why 12% was used (Annex 4, paragraph 14, and PAD, paragraph 65). A sensitivity analysis was also conducted using two variables - (i) change in the average unit costs, and, (ii) change in the estimated average unit benefits owing to unforeseen variance in costs across participating LGs. The analysis concluded that the project remained economically feasible even if benefits were reduced to 36% every year. Expected NPV would only be negative if there were a 24.5% increase in unit costs. A significant benefit that was too difficult to quantify is reported in the ICR (Annex 4, p. 45) to be the benefits of improved accountability systems nationwide.

Administrative and Operational Efficiency: Despite the high ex post rate of return, administrative and operational efficiency had some weaknesses in capacity and M&E. The project was restructured four times, once to provide additional financing and three other times to revise project end dates and adjust the indicators of the Results Framework following the expansion of the project, also to address revised applicable Government policy, and adjust project contract limits. The Government demonstrated its commitment by co-financing the capacity building and project management component of the project although there were significant shortfalls in amounts disbursed due to Government budgetary constraints. The lack of co-financing led to reduced capacity building efforts to familiarize an expanded number of participating LGs on project requirements. Funding shortages delayed the hiring of consultants, which affected timely M&E reporting. In addition, the MOF experienced staff turnovers, which negatively affected the ability of the PIU to conduct timely capacity interventions at the central and local levels. A lack of familiarization with project requirements - technical, procurement, reporting - reduced the number of acceptable reports submitted by participant LGs for DAK reimbursement. The change in incentive policy associated with DAK reimbursement mid implementation also contributed to the reduced operational efficiency. However, time and cost savings were realized when the loan closed a year earlier following full loan disbursement. On balance, given particularly the high rate of return and improved accountability, Efficiency is rated Substantial.

Efficiency Rating

Substantial

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

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal	✓	40.00	100.00 <input type="checkbox"/> Not Applicable
ICR Estimate	✓	45.00	95.60 <input type="checkbox"/> Not Applicable

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



6. Outcome

The scope of the project expanded substantially with the additional financing but the objectives were unchanged and a split rating was not warranted to meet the OPCS/IEG guidelines. The relevance of objectives was high. There were minor shortcomings in achieving the project's objective. Efficacy was substantial because the primary outcome indicator was exceeded even if the target for the second key outcome indicator was not quite achieved. Efficiency was also substantial on balance even with some administrative and operational inefficiencies. These ratings support an overall satisfactory outcome rating.

a. Outcome Rating

Satisfactory

7. Risk to Development Outcome

The following pose risks to development outcome:

Government policy: The Government continued to be committed to decentralization. Intergovernmental transfers like the DAK remain instrumental to its success. The Government acknowledged the need for continuing the Improved reporting and accountability of the DAK. The BPKP carried out the function of independently verifying that the completed projects reported by the LGs were eligible for DAK reimbursement. However, while there is an existing regulation that required administrative and physical checks to verify DAK transfers, there were no details how this would be achieved and who would carry this out. This risk is mitigated by continuing discussions within the MOF while BPKP carry out this function on an ad hoc basis.

Financial risk: In 2016, the Government consolidated its incentive scheme for LGs complying with reporting requirements for all fiscal transfers. Prior to the consolidation, and under the project, participant LGs received incentive payments for reporting DAK financed outputs and having these independently verified. Impact analysis showed that these financial incentives improved reporting and also resulted in an increase in local capital expenditures. By consolidating these incentives, non-participant LGs who report on DAK financed activities may not respond in the same manner and may not sustain improved reporting. There was no information on how the Government would mitigate this risk, but discussions underway covering Government policy above would encompass these measures.

Technical risk: Participating LGs used the WBRS to inform the central government on the use of DAK resources. The MOF and the MPWH replaced the WBRS with a different system that adopted some, but not all, of its features such as allowing for off-line reporting options for LGs with poor internet connectivity, or uploading photographs and GPS data to confirm implementation progress. The WBRS data was critical for BPKP to independently evaluate compliance with project requirements. The separate reporting systems put in place by the MOF and the MPWH may cause some LGs to use one system over another or completely not use either. To mitigate this risk, the MOF would need to institute a system to compel LGs to use the system to report on the effective and efficient use of DAK resources. There was no evidence of resources to finance technical improvements in the new WBRS.



8. Assessment of Bank Performance

a. Quality-at-Entry

The PDO was clearly stated even though it was slightly modified at restructuring. The modification added sanitation to roads, irrigation and water system as eligible infrastructure sectors to be financed under the DAK and expanded the number of participating LGs from 5 to 22. Project design was internally consistent. Co-financing supported two of the three project components, which signaled strong Government ownership of the project. Lessons learned from local government operations in Indonesia, the experience of the infrastructure sectors financed under the Global Partnership for Output Based Aid (GPOBA) and the output-based disbursements for local operations in the Brazil and Mexico cases adequately informed project design. Design was comprehensive and technically sound. Government co-financing as the sole source to build capacity of a wide range of starting points of participating LGs was correctly rated a high risk at appraisal and indeed occurred. This drawback constituted moderate shortcoming in design.

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

Supervision was adequate. All three project Task Team Leaders were based in Indonesia, which established close working relationships with Government counterparts. There were two Mid Term Reviews conducted, one at a level 1 restructuring to accommodate the scale up of the project at the request of the Government, and three level 2 restructurings to accommodate adjustments of targets in the Results Framework following Government policy changes relating to the DAK and project end dates. Project performance reporting was candid and addressed the impact of the shortfall in Government co-financing of the two capacity-building and institutional development components of the project that support the first component (all loan proceeds were assigned to this first component). The Bank team drew on alternative financing from GPOBA resources and focused on M&E capacity needs of the project. Fiduciary and safeguards obligations were met by incorporating compliance into the design of the supplemental technical guidelines for DAK supported projects to qualify for reimbursement. Bank supervision teams confirmed compliance during field visits.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory



9. M&E Design, Implementation, & Utilization

a. M&E Design

The theory of change was sound. The M&E system was designed to be part of the DAK institutional framework. The project outcome was premised on an effective system of accountability in the use of DAK resources - planned, procured, utilized, reported, and independently verified. The key outcome indicators measured improved reporting and accountability of the DAK by way of independent verification of completed activities. The objective was clearly specified although overall efficiency of the DAK was not mentioned. Indicators while specific, measured milestones and not quantifiable achievements that tracked progress. Not all the intermediate outcome indicators specified how the co-financed components of the project supported the PDO. For example, there were no specific output indicators for institutional support activities, or the measures to be adopted as a result of strengthened M&E capacity.

The MOF implemented and managed the project's entity tasked with preparing annual M&E reports. They prepared annual M&E reports. Together with the 2012 Mid Term Review these would inform any changes in project design, implementation, and any needed restructuring (PAD, paragraph 58). The co-financed institutional support component would support the design and implementation of the project M&E system, support capacity building to strengthen the MPWH's management information system (MIS), and develop corrective measures and instruments to address gaps in project implementation and delivery (PAD, paragraph 22, ICR, paragraph 16).

A sampling method was used to independently verify the eligibility for reimbursement of completed DAK funded projects. The independent auditor BPKP would sample eligible DAK financed projects in every LG to arrive at a Qualifying Percentage for use in calculating the Value of the Qualifying Reimbursement (PAD, paragraph 32). BPKP would consider compliance by all LGs with both the procurement process and safeguard issues (PAD, paragraphs 30, 32, 69, Annex 8, paragraph 13, Annex 10, paragraph 10).

The existing DAK transfer mechanism was supposed to have established a baseline for evaluating project performance (PAD, paragraph 23). BPKP would provide the baseline information for LG performance in implementing environmental and social safeguards (PAD, Annex 10, paragraph 6). However, there were no baseline data provided. In addition, the 2013 Mid Term Review noted overlaps between some of the intermediate and key outcome indicators, such as the timeliness of the LG budgeting process, the timeliness of the DAK project implementation, and operationalization of the WBRS. The AF provided the opportunity to strengthen the Results Framework by removing redundant indicators and highlighted the indicators that directly supported achieving the PDO.

b. M&E Implementation



The Results Framework did not include a baseline (ICR, paragraph 58), or target values, or baseline on indicators. All the indicators in the Results Framework were collected annually as milestones for completion. The BPKP annual verification reports captured the milestone data although there was no systematic use of the verified data to assess project performance. In 2014, the Bank conducted an interim impact analysis to measure the impact of the project on capital spending, quality of service delivery and found increased capital spending by participating LGs in the area of roads, irrigation, water, and sanitation. The Bank team also carried out impact evaluation in 2016 and 2017 to identify the impact of the independent verification of outputs on the use of DAK resources, the impact of the incentive mechanism in place encouraging Web based report completion and spillovers generated by the project in terms of the quality of service delivery.

The 2014 Restructuring and AF corrected weaknesses in the Results Framework and specified more appropriate indicators for achieving the PDO. In addition, when there was a shortfall of Government budget for capacity building, the Bank team secured resources from the Global Partnership for Output Based Aid to strengthen M&E capacity of participating Government agencies through training in M&E, logical framework, and impact evaluation.

The BPKP served to independently verify completed activities following project guidelines. Participating LGs effectively used the WBRS for effective M&E Data provided were reliable and followed sound methodology based on Bank team training. implementation. Beneficiary participation was ensured during project participation.

c. M&E Utilization

The M&E system was incorporated into the MOF's WBRS. Findings were communicated to the various stakeholders, primarily the BPKP who used the data to independently verify the eligibility of DAK financed outputs. Other stakeholders also used M&E data to inform the capacity gaps of participating LGs and create appropriate technical assistance response within their respective remits. For example, the MOF carried out project impact analysis in 2015, followed by the MPWH analysis of LG performance in 2016 and by the analysis of LG performance by the Ministry of Home Affairs (MOHA) in 2017. The impact analysis conducted by the MPWH informed their capacity building methodology such as targeting training to those LGs who did not meet technical specifications of completed projects and were thus found ineligible for DAK reimbursement. The National Procurement Policy Agency targeted procurement training at LGs who were found to have poor compliance. The MOHA developed and shared in-house dashboard system that transparently assessed the quality and timeliness of DAK reporting, creating a database that MOHA used to rank LGs and an incentive for LGs to improve their compliance reporting.

M&E data and supplemental impact analysis provided evidence of achieving project outcomes. There were moderate shortcomings in the M&E system's utilization. The ICR pointed out that the verified data was not systematically utilized to assess project performance (ICR, paragraph 60). The M&E system was revised and improved after the AF. Its subsequent implementation was sufficient to assess the achievement of the objective. The links in the results chain were adequate although there were moderate weaknesses in a few areas, such as in the lack of robustness of the indicators for the capacity building component that supported the project.



M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

The project was assigned an Environmental Category B for the purposes of OP/BP4.01, which requires a partial environmental assessment. Two additional safeguards were triggered by the project - OP/BP 4.10 Indigenous Peoples and OP/BP 4.12 Involuntary Resettlement. All eligible infrastructure projects in the four sectors - roads, water and sanitation, and irrigation - were not anticipated to have significant adverse environmental impact because new construction was ineligible. Potential adverse impacts were anticipated to be small scale, on site, and not irreversible and managed locally. The project did not adopt standalone environmental or social safeguards. Instead, safeguard requirements were incorporated into the MPWH's Supplemental Technical Guidelines, which the LGs had to comply with to qualify for DAK reimbursement. With the AF, two additional safeguards were triggered - OP/BP 4.04 Natural Habitats and OP/BP 4.09 Pest Management. The technical guidelines were revised to include the requirements under these two additional safeguards. Statement of compliance were included in qualifying for DAK reimbursement. When the BPKP verified the outputs under the DAK subprojects, they also review compliance with environmental and social safeguard requirements. When there was non-compliance, the expenditures were not reimbursed (ICR, paragraph 66). Bank implementation support missions confirmed compliance. The ICR reported that a shortfall in funding to build capacity in meeting safeguard requirements negatively affected compliance, leading to non-eligibility of works, and hence, reduced reimbursements.

b. Fiduciary Compliance

Financial Management: At appraisal, financial management risk was rated high because the MOF had no system to verify the use of DAK funds. This risk was downgraded to substantial during the appraisal for additional financing and eventually to moderate with the adoption of mitigating measures during implementation. However, a funding shortfall in capacity building negatively affected efforts to improve internal controls at the LG level. In addition, seven Interim Financial Reports (IFRs) were reported overdue at project close and as the ICR was being completed. Annual audits were received in a timely manner with unqualified opinions and no significant findings in the last 5 years of implementation.

Procurement: Under the output-based disbursement used for this project, the Bank did not review the procurement plans or individual procurement. But the independent auditor, BPK, reviewed the procurement process and contract documents on a sampling basis to verify compliance with agreed procurement procedures before the MOF submitted its requests for reimbursement to the Bank (PAD, paragraph 69). The Bank consultant guidelines did not apply to the Government co-financed institutional strengthening activities



to support LGs in managing subprojects, including procurement or to the technical assistance contracts to strengthen BPKP capacity.

c. Unintended impacts (Positive or Negative)

d. Other

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of M&E	Substantial	Substantial	---
Quality of ICR		Substantial	---

12. Lessons

The lessons are drawn from the ICR with some modification of language:

- Design that enhances a country's own systems improves a project's ability to adapt to policy changes that may be introduced during project implementation. For example, in this case, the project enhanced the capacity of an existing independent auditor, the BPKP, to independently verify the completeness and compliance with agreed upon indicators of DAK financed activities using the WBRS. Even when DAK policy changed during implementation such as introducing different DAK allocation categories, or modifying the applicable incentive system, participant LGs continued to use the WBRS and BPKP continued to carry out its independent verification of DAK financed activities. In addition, the use of an existing agency, the BPKP, to independently verify LG completed DAK activities not only strengthened the internal auditor's capacity but also saved the Government, that was co-financing this activity, considerable resources. The cost of using BPKP was less than hiring an external consultant for the same function.
- Scaling up a project requires a careful assessment of financial and human resource needs; the project team may need to identify alternative funding sources and secure commitments. In the case of this project, scaling up meant including a range of LGs with diverse initial implementation capacity and over a wide area, requiring field visit assessments. The need for the resulting additional financial resources put considerable pressure on the Borrower as the sole source for the co-financing of the capacity building component. In this



case, even with the mitigating measures identified at appraisal, the high risk that the Government may not be able to meet their commitment became increasingly evident during implementation. The budgetary shortfall limited the implementation of capacity building activities needed for the additional participating LGs to be trained to meet project eligibility requirements. A more realistic implementation timeline could have identified choke points, such as the funding shortfall, to trigger previously appraised alternative funding sources, such as components of the loan itself. In the event, the Bank team found resources from the Global Partnership for Output-Based Aid (GPOBA) for M&E training.

- Resource needs to sustain the adoption of project-introduced reform within an existing Government system after project closing need to be identified as early as possible. In this case, the Government accepted that independent verification of projects financed by fiscal transfers improved DAK accountability. But after project close, the MOF only requests BPKP on an ad hoc basis to continue to independently verify DAK financed projects. The Government confirmed that they needed more resources to build the capacity of other agencies in this area. Project design should include the identification of how improvements introduced under the project could be sustained through an institutional component and propose policy changes that the Government may consider so that reforms can be sustained after project completion.
- A robust M&E framework, with the responsible entities clearly identified, is particularly important where new modalities of funding are being applied. In this case, output verification and analysis of performance by various LGs could have been used by responsible government agencies in informing the design and implementation of future funding mechanisms, not just to build compliance capacities. In this project, for example, each government agency enhanced its capacity for direct training needs of LGs based on capacity gaps from an analysis of the M&E reports. However, an analysis of the outcome of the fiscal transfer system could have benefited from a design review to inform the best uses of such transfers in line with Government priorities.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR was concise, internally consistent, and followed OPCS guidelines. The ICR provided a detailed overview of the project. The candid narrative supported the ratings using good quality evidence as provided by the WBRS and impact analyses. The ICR was candid in its assessment, including in highlighting the shortcomings of the Results Framework, the lack of a baseline at appraisal, as well as the impact of the shortfall in Government co-financing to support capacity building efforts. The report is focused on results highlighting the effective use of the WBRS by participant LGs. Analysis was sufficient, with various impact analyses conducted by both the Bank team and the participating Government agencies following capacity building training received. Lessons were based on evidence from the project and analysis of project operations, such as the need to promote more evaluative use of a robust M&E framework to inform future



policy actions on fiscal transfers. No evidence for the choice of the 12% discount rate by the ICR was presented.

a. Quality of ICR Rating
Substantial