Report Number : ICRR0020624

1. Project Data

Country
Indonesia

Practice Area(Lead)
Macro Economics & Fiscal Management

Programmatic DPL
Planned Operations: 2

Approved Operations: 2

Operation ID
P117874

Operation Name
ID Seventh Development Policy Loan

L/C/TF Number(s)
IBRD-79750

Closing Date (Original)
31-Mar-2011

Total Financing (USD)
600,000,000.00

Bank Approval Date
18-Nov-2010

Closing Date (Actual)
31-Mar-2011

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	600,000,000.00	0.00
Revised Commitment	600,000,000.00	0.00
Actual	600,000,000.00	0.00

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Operation ID
P122982

Operation Name
Indonesia DPL-8 (P122982)

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IBRD-81050	31-Mar-2012	400,000,000.00
Bank Approval Date	**Closing Date (Actual)**	
22-Nov-2011	31-Mar-2012	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	400,000,000.00	0.00
Revised Commitment	400,000,000.00	0.00
Actual	400,000,000.00	0.00

2. Program Objectives and Policy Areas

a. Objectives

According to the Program Document (PD) of DPO 7 (Loan and Program Summary), the program's overall goal is "to help GoI [the Government of Indonesia] achieve its medium-term growth and poverty reduction objectives." Under this broad umbrella, there are three specific program development objectives (PDOs): improving the investment climate; strengthening public financial management; and enhancing poverty alleviation and service delivery.

The series was originally planned as three consecutive multi-year Development Policy Operations (DPOs 7, 8, and 9). In mid-2012, after DPO 8 had already closed, the Government requested the development of a new series of three DPOs in order to align the program more closely with its priorities and to allow for more focus on certain sectors (ICR, p. 5). The reforms planned under DPO 9 were moved into the new series. This series, therefore, consists of two operations, DPOs 7 and 8.

The PDOs for DPOs 7 and 8 remained unchanged.

b. Pillars/Policy Areas

There were three policy areas:

1. The first policy area aimed to improve the investment climate through strengthened investment service institutions and regulations, enhancing logistics and trade facilitation, reducing the tax burden and improving tax administration. Although business perceptions of the investment climate had improved, many constraints remained such as poor coordination between relevant government agencies, the legal framework, unclear investment policies and the complexities of the tax system. DPO 7 was to submit several Presidential Regulations addressing these issues, while DPO 8 planned to develop operating procedures and work plans.

2. The second policy area aimed to strengthen public financial management through improving results orientation in the budget process, linking budget formulation to the integrated financial management system (SPAN), developing a new M&E system, streamlining budget execution, improving budget and cash management, providing IT services, strengthening management of state assets, modernizing public procurement systems and enhancing accounting and audit functions. This was based on the findings of the 2007 Public Expenditure and Financial Accountability (PEFA) assessment, which identified areas that had not been the focus of reforms to date (PD, p. 16).

3. The goal of the third policy area was to enhance poverty alleviation and service delivery efforts through improved governance and institutional accountability, improved poverty measurements and targeting of the poor, and improved community-based poverty reduction programs.

c. Comments on Program Cost, Financing, and Dates

DPO 7 consisted of an IBRD Loan of US$600.00 million. It was approved by the Board on November 18, 2010, and became effective on December 10, 2010. It closed on schedule on March 31, 2011. DPO 8 consisted of an IBRD Loan of US$400.00 million. It was approved by the Board on November 22, 2011, and closed on schedule on March 31, 2012. The two Loans were fully disbursed.

3. Relevance of Objectives & Design

a. Relevance of Objectives

The objectives are highly relevant to the World Bank Group's (WBG's) priorities in Indonesia, as described in the Country Partnership Strategy (CPS) 2009-2012. The CPS had five core engagement areas: private sector development, infrastructure, community development and social protection, education, and environmental sustainability and disaster mitigation. The objectives are also relevant to the current Bank Country Partnership Framework (CPF), 2016-20, which is based on six engagement areas (CPF, p. 22). Both strategies propose that DPOs, which have helped the Government’s reform agenda, continue to be at the center of WBG support to strengthening Indonesia's central Government institutions and systems, a key cross-sectoral engagement theme under the CPS’s five core areas (Program Document (PD), p. 1).

The objectives are relevant to the development priorities as outlined in the government’s 100-day action plan, and the Medium-Term Development Plan 2010-2014, especially those in the areas of governance reform, poverty reduction, and investment and business climate. (PD, p. 2). The objectives also remain relevant to country conditions. Indonesia had restored macroeconomic stability following the Asian financial crisis in 1998. Structural reforms had also progressed; however, the Authorities place high priority on improving the investment climate, addressing challenges in public financial management, and assuring growth with equity.

Rating
High

b. Relevance of Design

There is a clear and logical causal chain between the actions supported by the series and the program development objectives. The prior actions for both operations were well aligned with expected results and government priorities. For example, in order to improve the investment climate, (the first specific objective), the series supported enhanced logistics and connectivity – reducing the time for a container to go through the port and improving communication between the islands which is critical for trade. A key step in this process was the submission of the draft Presidential Regulation on the National Logistics System (a prior action). Introducing measurable results and targets into the budget process and preparing a new regulatory and legal framework governing procurement, internal audit systems and accrual accounting are important measures to enhance the quality of public expenditure management and medium term expenditure planning. Similarly, the clearer identification and measurement of the poor is essential to target more effectively beneficiary households. Design provided for technical assistance where needed to enhance the institutional capacity for better targeting and service delivery.

The choice of instrument was appropriate for supporting the targeted reforms. The series also helped to identify issues that could be addressed through sector-specific policy lending.

Indonesia's macroeconomic situation at the time of approval was satisfactory. Following the Article IV Consultations of 2012 and 2013, the IMF's Board of Directors commended the Indonesian Authorities for prudent fiscal policies grounded in a strong fiscal framework. Directors urged the government to further advance fiscal reforms to improve budget execution, re-orient government spending toward social sectors and infrastructure, and replace energy subsidies with targeted cash transfers. All of these aims were supported by the series.

Rating
Substantial

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

1. Improving the investment climate

Rationale

The program aimed to reduce uncertainty for investors by strengthening investment service institutions and improving regulations; reducing the time and cost involved in importing and exporting; and modernizing the core tax system.

With regard to **investment institutions and regulations**, GoI issued a new Presidential Regulation to simplify the 2007 Investment Negative List (DNI). The DNI was open to various interpretations, the restrictions were poorly documented, and wide discretion by Government officials was allowed in applying them. The new Regulation introduced simplification and clarification, and significantly reduced the scope for officials' discretion. All restrictions on foreign investment were included for the first time in a single document and some sectors were opened up to foreign investment. The new Regulation was prepared after extensive consultation with the private sector.

By October 2012, when the ICR was completed, the investment to GDP ratio had risen to 32.3 percent compared to 23.2 percent during the period 2007-2009, and well in excess of the program target of 24.5 percent (even though the target appears low in relation to the pre-program baseline). The investment over GDP ratio had, with this achievement, returned to its pre-Asian crisis level. Net foreign direct investment rose from an annual average of US$7 billion during the period 2007-2009 to reach US$8.2 billion in 2012, exceeding the target of US$7.9 billion.

The program supported reforms to **streamline import/export procedures** and thereby reduce the time and cost involved in importing and exporting. Prior to the program, Indonesia had depended mainly on a manual customs clearance process. Legislation was needed to authorize electronic transactions. A study had calculated the loss from delays at around 1 percent of trade for each extra trade day (PD, p.13).Under DPO 7, GoI developed standard operating procedures involving, inter alia, the processing of trade documents through the Indonesia National Single Window (INSW). DPO 8 supported work plans for implementation of procedures, customs, and the formulation of reduced and simplified non-tariff barriers. These reforms helped to reduce the time taken to export and import from 21 and 27 days, respectively in 2009 to 17 and 23 days in 2012. The program targets of 20 and 26 days were thus exceeded. The number of exporters and importers using the INSW rose from 3,791 in 2009 to 8,279 in 2012, well above the target of 4,500.

There was limited progress under the **modernization of the core tax system**. Under the Bank-supported Project for Indonesian Tax Administration Reform (PINTAR), the aim was to adopt a change-management approach based on international standards and practices to implement reforms in key aspects of the core tax administration system (ICR, p. 11). A prior action for DPO 7 was the issuance of an invitation for bids for procurement of PINTAR-related goods and services as an initial step in developing business process improvements (PD, DPO 7, p. 61). However, significant procurement delays under the PINTAR project had hindered the implementation of complementary reforms. Consequently, the target of increased tax revenue was not achieved (ICR, p. 11).

Rating
Substantial

Objective 2

Objective
2. Strengthening public financial management (PFM)

Rationale
In order to achieve greater integrity and more effective use and management of public funds, the program's focused on strengthening budget formulation, M&E; and budget execution systems. As a prior action for DPO 7, GoI implemented a revised programmatic budget structure with measurable results and targets aligned with the organizational structure in the National Medium Term Development Plan for 2010-2014. It was based on indicative ceilings and budget proposals from all line ministries for the Fiscal Year 2011 budget. The prior action under DPL 8 supported Ministry/Agency Budget and Work Plans for 2012 covering budget submissions, rationale and cost information, and consistency between the Government Work Plan and performance and budget information (PD, p. 62 and ICR, p. 27). Greater integrity was to be measured by the percentage of total capital expenditure budgeted for the year disbursed by the end of the second quarter. In 2012, this was 18.2 percent; lower than the target of 27 percent, and lower than the 2010 baseline of 19 percent. One of the reasons why the target was missed was improved expenditure controls and greater oversight, which led to an initial decline in disbursement rates.

Despite this shortfall, program-supported actions and results led to improvements in budget formulation, execution and to the strengthening of the PFM cycle. These included the first steps in introducing Performance Based Budgeting and a Medium Term Expenditure Framework (MTEF). All line ministries introduced the new structure and prepared detailed forward estimates for two years beyond the fiscal year, as required by 2012 Ministry of Finance regulation. The estimates include measurable targets and performance indicators, and set clearer standards of accountability for performance. Priority areas were more clearly identified. (ICR, p. 12). Nonetheless, reducing the timeframe of the DPL series to two years had particular consequences for PFM reforms, which usually require several years to implement.

The program also addressed **public procurement deficiencies**. DPO 7 prior actions included the production of academic papers to support the preparation of a draft procurement law ready for public consultation, although the need for consultations with various stakeholders delayed the submission of the draft law to parliament beyond the closing of DPO 8. The operations and related technical assistance also helped to create and strengthen procurement capacity in implementing agencies.

The results of the Public Expenditure and Financial Accountability (PEFA) assessments conducted in 2007 and 2011 indicate steady progress in strengthening the quality of PFM systems and processes (ICR, p. 14). There are notable improvements in the PEFA ratings for five out of the six main budget categories: the comprehensiveness and transparency of the budget; policy-based budgeting; predictability and control in budget execution; accounting, recording and reporting; and external scrutiny and audit. These include the areas supported by the program and reported in the results framework in the ICR's Annex 2. On a scale from 0 to 5, the PEFA ratings on these areas five areas moved from between 2 and 3 in 2007 to between 3 and 4. However, the degree of attribution of the PEFA improvements to the series is difficult to determine, since the Authorities were pursuing a number of parallel reforms in the same area, some of them supported by the IMF and other external partners.

Rating
Modest

Objective 3

Objective
3. Enhancing poverty alleviation and service delivery

Rationale

Here the program aimed to: improve governance and institutional accountability of poverty reduction policies and programs (DPO 7); strengthen poverty measurements and targeting of the poor (DPO 7 and 8); improve household-targeted poverty reduction programs (DPO 8); and enhance community-based/targeted poverty reduction programs (DPO 7). The expected outcome was to strengthen GoI's efforts to reduce poverty and vulnerability through better informed and evidence-based policy and program decisions

Prior to the program, fragmentation and poor coordination had diminished the effectiveness of poverty reduction programs. Monitoring and evaluation of poverty reduction program had not been uniformly implemented, undermining decision-making on the effective use of budget funds for poverty reduction. Weak coordination among ministries, local governments and service providers had negatively affected protection against risks for the poor (PD, p. 40). Under DPO 7, as a prior action, GoI established, by Presidential Regulation, an inter-ministerial National Team on Accelerating Poverty Reduction. This team, supported by a Secretariat in the Office of the Vice President, had a mandate to coordinate and evaluate poverty reduction programs by other ministries. The ICR reports that in 2012 the team was developing an integrated M&E framework that would assist in improving accountability and governance. This was an important step in achieving greater consistency across various poverty reduction programs.

To help poverty measurement and targeting of the poor, DPO 7 supported revision of the methodology for calculating the national poverty line, resulting in a unified data base. Previous programs had relied on separate recipient databases, which had led to duplication of efforts. Sub-village heads selected households via subjective criteria, and it was estimated that 50 percent of the targeted population may have been missed. Under DPO 8, the Secretariat instructed line agencies to use the unified database. The ICR states that by 2012 three line ministries were using it, and that additional agencies were planning to do so. Over 70 percent of households assessed in 2012 came from a new listing of potentially poor households drawn from the 2010 Population Census (ICR, p. 15).

An assessment was made of the health insurance program for the poor, and a proposal for a health management information system was prepared. The proposal included cost scenarios for the national health insurance program. This was crucial in determining the benefit package to be offered. According to the ICR, GoI completed the review of the institutional arrangements needed for the delivery of universal health insurance coverage, which the Government hopes to attain by 2019. The program also supported the review of programs providing scholarships for the poor, which consisted of 10 largely independent scholarship programs. The review was to be followed up by a strategy document addressing targeting, fragmentation and the disbursement timing of the scholarships (ICR, p. 16).

In order to enhance the governance of social programs, the national Program for Community Empowerment (PNPM) fiduciary system was strengthened. Although PNPM reportedly had low levels of "leakage" and corruption; its fiduciary systems had come under stress through rapid expansion -- PNPM had been rolled out to 57,000 rural villages by 2012, a vast increase from 8,500 in 2010. By 2012, the Government had prepared a PNPM Road Map, providing strategic direction and an action plan to guide the long-term implementation of the expanded program (ICR, p. 16).

Rating
Substantial

5. Outcome

The operation's objectives were highly relevant to Bank and government strategy and to country conditions. Design was substantially relevant, with the three policy areas logically linked to achievement of the overall objectives. Efficacy of the first specific objective - improving the investment climate - is rated substantial. Uncertainty in the regulatory environment for investors was reduced; as were the time and cost of exporting and importing, and there was an increase in net FDI flows and in the number of exporters and importers using the single window. Under the second broad objective of strengthening, public financial management, there was some improvement in PEFA assessments between 2007 and 2011. However, the efficacy of the program was limited by its two-year duration, the key aim related to capital expenditures fell short of target, and there are attribution issues concerning the PEFA improvements. Efficacy is, therefore, rated modest. Outcomes under the third specific objective of enhancing poverty alleviation and service delivery were substantial. Several key steps were taken to develop a unified database, improve poverty measurement and targeting, and to assist with health and education service delivery. Overall, there were moderate shortcomings, and outcome is assessed as Moderately Satisfactory.

a. Outcome Rating

Moderately Satisfactory

6. Rationale for Risk to Development Outcome Rating

As shown by its actions since program closure, the GoI remains committed to the reform program. Improving the investment climate is central to increased growth, and the government is aware that sustaining reforms is important. The government has continued to make steady progress in enhancing PFM and has initiated reforms to strengthen further expenditure controls and oversight. Following the end of the program, and supported by further DPOs, the Indonesian Authorities have successfully managed the macroeconomic framework and have made progress on structural reforms, despite challenging shifts in the external environment. The risks posed to achievements in poverty reduction are low. With the large recipient pool and the support for social programs, there has been no backtracking on reforms to the poverty reduction programs. Risk to development outcome is, nonetheless rated modest rather than negligible, given the political resistance, noted in the ICR, to some important detailed dimensions of the program, including the revised negative list for foreign direct investment and the reduction of non-tariff barriers.

a. Risk to Development Outcome Rating

Modest

7. Assessment of Bank Performance

a. Quality-at-Entry

The Bank worked closely with GoI and with two of Indonesia’s largest development partners, the Asian Development Bank (ADB) and the Government of Japan (Japan International Cooperation Agency—JICA) in preparing the DPO series. The policy matrix represents an agreed framework between these four partners (PD, p. 64). This approach provided a solid basis for a harmonized approach to other initiatives in

Indonesia. The program's background documents indicate that the operations were grounded in a solid policy dialogue with the Government . They also show that the program team took account of the results achieved under the first two DPO series (DPOs 1-4 and 5-6), which focused, respectively, on macroeconomic stability and on addressing the effects of the global financial crisis. The series was also approved in conjunction with the Indonesia Fourth Infrastructure DPO, which supported measures complementing the program's connectivity agenda.

There was one moderate shortcoming. Several of the targets and indicators in the results framework were poorly specified. Some of them were missing, or difficult to attribute to policy actions, while in other cases conservative targets were set (in one instance, the target was lower than the baseline) (ICR, p.19).

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

No Implementation Status Reports appear to have been filed for the two operations. Nonetheless, the presence of a large team in the country office helped to provide timely support to the program. The Bank team also collaborated closely with JICA and ADB in providing program support, in addition to coordinating with supervision under other Bank projects and programs, especially those in tax administration and infrastructure. The work on the overall program was closely combined with ongoing technical assistance and advisory work, sponsored by a Trust Fund, which helped in the implementation of prior actions and other reform measures.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

8. Assessment of Borrower Performance

a. Government Performance

The Ministry for Economic Affairs (CMEA) was responsible for coordinating the program. The CMEA performed well in working closely with relevant ministries and agencies. At a policy level, the Government showed strong ownership of reforms, and designated high-level counterparts to ensure follow-up on reforms and delivery of results. However, there was insufficient political support for reforms in some areas, notably foreign investment regulation and reducing non-tariff barriers. This slowed or impeded implementation. The performance of different government agencies in delivering reforms was varied. Weaknesses were especially notable where the Bank did not have a strong counterpart or a long working relationship (for example, in some dimensions of the investment climate). In other areas, such as education, reforms seemed to lack identified "champions" capable of resolving constraints. On the whole, however, most relevant agencies demonstrated their commitment to the program and to implementing the corresponding reforms.

Government Performance Rating

Moderately Satisfactory

b. Implementing Agency Performance

The program was implemented by the Government as a whole, and there is no separate assessment of implementing agency performance.

Implementing Agency Performance Rating

Not Rated

Overall Borrower Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The PD for DPO 7 set out the critical monitoring activities and the responsible agencies (PD, p.46). Monitoring, was to take place through committees and technical groups, and through the ongoing dialogue with government counterparts. For the investment climate, responsibility was with the Multi-Donor Facility for Trade and Investment; for PFM reforms, with the Public Financial Management Multi-Donor Trust Fund, and for poverty alleviation programs with the National Team established (see Section 4 above). The Bank’s poverty team in the country office was also to monitor poverty-related activities. The Bank was to work closely with the Coordinating Ministry of Economic Affairs, the Ministry of Finance and other pertinent agencies. A results matrix was prepared, identifying the prior actions, benchmarks, proposed triggers and planned results, with baseline data and post-program targets. As noted Section 7a above, however, some indicators and targets were poorly articulated.

b. M&E Implementation

The ICR does not discuss any issues that may have arisen in implementing M&E. It merely states (p. 7) that "the task team’s field presence and on-going engagement via other Bank instruments, allowed the team to work closely with government counterparts to monitor and assess progress and bottlenecks. Indeed, the DPL series generally served as a synergizing mechanism to bring together different government agencies and development partners into the same room to discuss joint progress on the reform agenda."

c. M&E Utilization

The ICR does not report on M&E utilization.

M&E Quality Rating

Modest

10. Other Issues

a. Environmental and Social Effects

The ICR does not report on any safeguard issues.
Policy actions under the third objective of enhancing poverty reduction and improving service delivery were expected to have positive social and poverty effects, following better coordination and targeting of these programs.

b. Fiduciary Compliance

There are no fiduciary compliance issues reported in the ICR.

c. Unintended impacts (Positive or Negative)

None

d. Other

None

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	---
Risk to Development	Modest	Modest	---

Outcome			
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of ICR		Substantial	---

Note
When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

The ICR presents a comprehensive list of useful lessons, not only from DPO 7 and 8, but also from the previous series that remain relevant (ICR, p. 21-23). Particularly noteworthy are the following:

- A high quality professional working relationship between the Bank and key counterparts, both at a policy and working level, is key to a successful reform program. Such a relationship benefited, in this case, from the presence of a large Bank team in the country office. relationship determines the relevance and impact of prior actions, facilitates implementation and ensures the appointment of counterparts with a high enough rank to champion the reforms. In areas where this was not the case, implementation lagged or did not take place.
- A general or "umbrella" DPO, like those in this series, can be kept manageable by limiting the number of prior actions and policy areas, and by providing complementarity to Bank interventions in specific sectors where further operations can be designed with a view to deepening the reforms.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is clear and well written. It is also candid about identifying the shortcomings in the results framework and the achievements. The indicators and targets are consistent between the Data Sheet and the Results Matrix (Annex 2 and 3). More detailed discussion of M&E implementation and utilization would have been useful.The ICR includes a comprehensive list of lessons.

a. **Quality of ICR Rating**
Substantial