



## 1. Project Data

**Operation ID**

P130048

**Operation Name**

Progr for Econ Resilience, Inv &amp; Soc Ass

**Country**

Indonesia

**Practice Area(Lead)**

Macro Economics &amp; Fiscal Management

**L/C/TF Number(s)**

IBRD-81640

**Closing Date (Original)**

30-Jun-2014

**Total Financing (USD)**

2,000,000,000.00

**Bank Approval Date**

15-May-2012

**Closing Date (Actual)**

31-Dec-2015

**IBRD/IDA (USD)**
**Co-financing (USD)**

Original Commitment

2,000,000,000.00

0.00

Revised Commitment

2,000,000,000.00

0.00

Actual

2,000,000,000.00

0.00

**Prepared by**

Robert Mark Lacey

**Reviewed by**

Mauricio Carrizosa

**ICR Review Coordinator**

Lourdes N. Pagaran

**Group**

IEGEC (Unit 1)

## 2. Project Objectives and Policy Areas

### a. Objectives

The objective of the Program for Economic Resilience, Investment and Social Assistance in Indonesia (PERISAI) is "to enhance the Government's crisis preparedness to address the potential adverse impact of ongoing volatility in financial markets on Government's ability to meet its gross fiscal financing needs from markets" (Program Document: Loan and Program Summary and page 69). This was to be achieved through the attainment of three specific objectives: (i) maintaining financial system stability; (ii) sustaining critical public expenditures; and (iii) ensuring support for the poor and vulnerable during a crisis. The PERISAI is a single tranche Development Policy Loan (DPL) with a Deferred Drawdown Option (DDO).



**b. Were the program objectives/key associated outcome targets revised during implementation of the series?**

No

**c. Pillars/Policy Areas**

There were three policy areas, coinciding with the three specific objectives:

(i) **Maintaining Financial System Stability.** This policy area aimed to strengthen the institutional framework for the supervision and regulation of the financial sector, in order to enhance the Government's ability to prevent, and if necessary address, a systemic financial crisis. The focus was on improving systemic monitoring, promoting and facilitating regular inter-agency consultations and coordination, and establishment of information sharing mechanisms.

(ii) **Sustaining Critical Public Expenditures:** This policy area focused on enhancing the Government's ability to plan and meet its financing requirements by ensuring sufficient external financing was available while supporting complementary measures to improve the security and effectiveness of important development expenditures.

(iii) **Ensuring support for the poor and vulnerable during a crisis.** This policy area aimed at enhancing the Government's preparedness and ability to mitigate the potential adverse impact of economic and financial crises on poor and vulnerable households, focusing on the targeting and management of key cash transfer programs.

**d. Comments on Program Cost, Financing, and Dates**

The PERISAI was approved by the Board in the amount of an IBRD Loan of US\$2 billion on May 15, 2012. This amount was to be augmented with parallel, additional contingent financing from the Asian Development Bank, and the Australian and Japanese governments to a total of \$ 5 billion. The closing date, originally June 30, 2014, was extended first by one year to June 30, 2015, and later by a further six months to December 31, 2015, on both occasions at the request of the Authorities. The Loan was drawn down in its entirety by the Government in September, 2015, in the face of fiscal revenue shortfalls arising from declines in international commodity prices. Economic turbulence in the wake of the devaluation of the Chinese renminbi was also a factor. The operation closed on December 31, 2015.

### **3. Relevance of Objectives & Design**

**a. Relevance of Objectives**

The policy reforms supported by the PERISAI are relevant to the Government's crisis mitigation program in that they aim to strengthen institutional capability to respond effectively to global financial crises. Prior to the



operation, the Government had developed a crisis management protocol to address financial sector weaknesses and established a team to monitor intensively budget execution in order to enhance the effectiveness of fiscal stimulus packages should the need arise. The Government also planned to implement swiftly emergency social assistance measures and to enhance their impact.

The policy reform agenda supported by the operation is consistent with the World Bank Group's 2009-2012 Country Partnership Strategy (CPS); in particular, the operation's objectives were relevant to the CPS focus on strengthening Indonesia's economic and financial institutions. The CPS Progress Report (February, 2011) highlights the usefulness of the previous contingent financing operation in providing timely support to the Government at a time of crisis (Public Expenditure Support Facility, or PESF), a US\$2 billion DPL-DDO approved in March 2009 in the aftermath of the global financial crisis; it was not drawn down and closed in December 2010). The 2016-2020 Country Partnership Framework (CPF) acknowledges the importance of the operation under review in helping Indonesia address financial turbulence and maintain continued access to market financing. However, these considerations do not directly feature among the CPF's six Engagement Areas. Nor is there any specific reference to possible further DPO-DDOs.

**Rating**  
Substantial

## **b. Relevance of Design**

The Program's objectives were coherent and complementary with the policy areas and prior actions. By reducing the odds of a financial sector crisis, the confidence required to obtain financing from financial markets would be increased. This access, combined with better expenditure practices, would help to sustain public expenditures, including cash transfers to the poor. There was a clear causal link between the operation's policy areas and prior actions and the intended results. Previous experience had demonstrated that any significant external or internal shock would rapidly have threatened financial sector stability. Strengthening the institutions and procedures to address such instability was therefore relevant. Capital spending was an area of longstanding weakness, with low budget execution rates, impacting on aggregate demand and hence on growth. Capital spending also tended to be the prime victim of shock-driven expenditure cuts, given its flexibility. The actions to protect social spending could also be expected to help protect the most poor and vulnerable in the event of a shock through improved targeting and information sharing for existing programs.

The macroeconomic situation was basically sound at the time of Loan preparation in early 2012, although beset by risks of high relevance to the then proposed DPO-DDO. The IMF Article IV Consultation for 2012 points out that the increase in the fiscal deficit from 1.1% of GDP in 2011 to 1.8% in 2012 was appropriate given the downturn in external demand; it was also easily financeable. However, there were issues with the composition of public expenditure – subsidies, especially on energy, could give way to increased capital and social spending. Concerns were raised by the Fund regarding the unsettled financial markets, with capital outflows prompting loss of reserves and compounding pressures on the exchange rate from the weakening current account. Offshore-onshore bond spreads widened significantly. There was also disquiet regarding the



adequacy of policy coordination in the event of distress at a domestic financial institution.

**Rating**  
Substantial

#### 4. Achievement of Objectives (Efficacy)

##### Objective 1

###### Objective

Maintaining financial system stability

###### Rationale

The PERISAI-supported reforms were focused on strengthening the institutional framework for financial sector oversight. Prior to the program, supervisory and regulatory responsibilities were divided between the Bank of Indonesia (bank supervision), Bapemam-LK (capital markets and non-bank financial institutions), the Deposit Insurance Agency (LPS), and the Ministry of Finance (MoF). There was some overlapping, and supervision was poorly coordinated and at times ineffective. In October 2011, a Law was approved establishing the Indonesia Financial Services Authority (*Otoritas Jasa Keuangan* – OJK). Supervision and regulation of all financial sector institutions is now consolidated into the OJK. Supervision and regulation of capital markets and non-bank financial were transferred in 2013 and those of banks in 2014. Coordination is to be assured by a Financial System Stability Coordination Forum (FKSSK), on which the key sector institutions are represented, and which is mandated by the OJK Law. The establishment of the FKSSK was a prior action. Coordination was further strengthened through a National Crisis Management Protocol organized by the Ministry of Finance (a prior action), which sets out mechanisms for systemic monitoring, coordination and information sharing. As the Program Document (page 30) points out, the reform was not risk free – in particular there was a possibility of loss or erosion of supervisory competencies and continuity during the transition period. This was mitigated by enhanced coordination through the FKSSK, which continues to meet regularly, and by meetings of teams charged with the technical preparation of the OJK for its supervisory tasks.

According to the ICR (page 17), the integration of bank and non-bank supervision into the OJK "went well." Reforms were extended in 2016 through a Landmark Financial Safety Net Law (the ICR provides no details about the provisions of this Law, but the task team subsequently explained that its main purpose was to build on previous legislation -- especially that of 2011 -- by improving further the coordination between different institutions involved in the regulation and supervision of the financial sector). There is now improved common understanding among the authorities (MoF, Bank of Indonesia, LPS and OJK) concerning the definition of a systemic financial institution, and the policy options and measures that can be used in the event of a failure. Coordination is also better, although more needs to be done to "reduce silos." Supervision across bank and non-bank entities within conglomerates continues to be a concern. The real test for the reforms would, of course, be a financial crisis involving sudden significant capital outflows and/or acute



distress of an important financial institution. Neither has yet occurred, though the system did successfully weather two shocks during implementation of the operation – the so called "taper tantrum" in 2013 when emerging market countries were hard hit by the prospect that the U.S. Federal Reserve would wind down its bond-buying program and tighten monetary policy, and the devaluation of the renminbi in 2015. Crisis simulation exercises are regularly conducted and feedback from these exercises used to fine tune the reforms. The ICR acknowledges the difficulty of attributing financial sector outcomes to the PERISAI, since the reforms have also been backed by several external partner-financed programs, including previous and ongoing Bank DPOs. Nonetheless, the operation made a noteworthy contribution to institutional enhancements, which can be expected to provide a stronger underpinning for financial sector stability. The 2016 IMF Article IV consultation concluded that "Financial sector indicators reveal a well-capitalized and profitable banking sector. Progress has been made with consolidated financial sector supervision and the close monitoring of corporate and financial sector developments, where pockets of vulnerabilities remain."

### **Rating**

Substantial

## **Objective 2**

### **Objective**

Sustaining critical public expenditures

### **Rationale**

The aim of the PERISAI was to sustain the Government's ability to finance social, poverty reduction and infrastructure expenditures that are crucial to the reduction of poverty and completion of the country's development agenda. This was to be done not through the provision of lower cost financing, but rather through insurance against prohibitively high financing costs which could jeopardize development efforts. To facilitate this, the Authorities, in consultation with the Bank and other external partners, issued a Financing Plan for 2012 (a prior action, later extended through 2016) that would specify the terms and circumstances under which Indonesia would draw down from the DPO-DDO and from related support made available by other partners.

The Financing Plan was complemented by a series of public expenditure management reforms, the goal of which was to increase the likelihood of protecting vital expenditure, both in "normal times," but especially in the event of a crisis. The 2012 Budget Law introduced greater flexibility, enabling the Government to stimulate demand in the event of a crisis (a prior action, also supported by the PESF). Previously a lengthy parliamentary approval process blunted the effectiveness of policy responses. A key measure of the new Law was to give the Government increased flexibility to stimulate demand in the event of an economic or fiscal crisis. The Law also allows the Government to seek alternative financing from development partners when bond markets are in a crisis and financing costs have increased. At the same time, the Directorate General of Debt Management in the Ministry of Finance stipulated in a decree the circumstances under which a bond market crisis will be declared. The Financing Plan prepared for the Program further spells out



the circumstances under which the Government will access the support by development partners to deal with a fiscal financing crisis, such as failing to meet its specified financing target within agreed market access conditions. A budget clause mandating flexibility and permitting swift access to external emergency financing is now routine and included in the Budget Law every year.

As of the end of 2016, these new arrangements had not yet been tested since there has been no crisis. Nonetheless, Indonesia has managed to maintain access to markets and fully meet its financing targets every year since Loan approval. Despite volatile financial conditions, net securities issuance reached more than 100% of the target based on the revised budget in December 2014, and the Government was able to pre-finance 2016 expenditures with a US\$3.5 billion bond issuance in December 2015, four months after Loan disbursement.

Availability of financing is, however, a necessary but not a sufficient condition for the defense of developmental expenditures. The gap between budgeted expenditures and those actually executed is a long-standing issue in Indonesia, especially with regard to capital expenditures. Problems undermining the impact of budgeted public investment include difficult access to land, lack of capacity at the sub-national level, and lack of clarity in the regulations that govern budget execution. Measures to reduce the gap support by the PERISAI include the establishment by the President of the Budget Implementation Evaluation and Supervisory Team led by the Presidential Working Unit for Supervision, Management and Development (TEPPA, a prior action). TEPPA helps address constraints to budget execution. The Government also issued a new regulation on budget execution to provide a firmer legal basis for already existing lower level regulations allowing swifter procurement, as well as clarification of the functions, roles and responsibilities of key officials (supported by the PESF). The indicator chosen to measure progress in this area was the share of capital expenditures disbursed in the first six months of the fiscal year. This not only showed no initial improvement, but actually declined from 16% in 2011 to 15% in 2014. In 2015, however, it more than doubled to 32%. In addition, the revised budget for 2015 included a sharp increase in capital and social spending. When, by the middle of the year, overall spending had to be cut back due to a shortfall in revenues, the Government allowed the deficit to widen so that the significant increase in capital spending was largely defended. Consequently, realized capital expenditure in 2015 was over 50% higher than the previous year. Social spending was also protected. Actual outturn averaged just over 7% of total central government spending between 2011 and 2013, before dropping to 6% in 2014 as fiscal policy tightened. In 2015, social spending ended the year at 11% of spending. The decision to allow a wider deficit in 2015, the higher share of capital spending in the first six months, and the more effective protection of social expenditures were made possible in part by the assured availability of reasonably-priced external funding, including the PERISAI.

**Rating**  
Substantial

### Objective 3





## **Objective**

Ensuring support for the poor and vulnerable during a crisis

## **Rationale**

Prior to the PERISAI, household poverty reduction programs used different targeting approaches and relied on separate recipient databases, leading to duplication, inconsistency, and dampened effectiveness. To address this, the Government established a National Targeting System (NTS) to be used by all programs. A targeting unit was established in the executive secretariat of the National Team in the Vice-President's office to oversee the NTS. A unified targeting data base of potential beneficiaries was drawn up from the poorest 40% of the population (a prior action). Programs with the same target population now have consistent beneficiary lists, enabling better complementarities between programs.

Available evidence indicates that these and other complementary measures have improved the performance of social assistance programs. Reliable data on poor households can be made available for crisis impact mitigation in three days, compared to a pre-Program baseline of two months. Better targeting has led to a reduction in the exclusion error for the poorest 30% from 48% in 2012 to 35% at the end of 2015, in accordance with the target. Over the same period, the time required to disburse assistance in the event of a critical need fell from five months to three months, again as per target. Unconditional cash transfers to mitigate the impact of shocks on the poor and vulnerable were used twice during program implementation, the first time in 2013 and the second in 2015, extending into early 2016. The new transfer systems allow households to self-apply for assistance and be deemed eligible, a particularly important facility in times of shock. Information dissemination and the handling of complaints and grievances have also improved. Brochures on programs using the unified data base were distributed in 2013 to local governments and to households. Direct complaint reporting, especially by those refused benefits, was enabled to special village and district level posts as well as via internet, telephone calls and text messaging. However, no information is provided on the use of these facilities or on the response to the complaints.

## **Rating**

Substantial

## **5. Outcome**

Relevance of objectives and design is rated substantial. The policy areas covered by the operation were appropriate, and there was a clear link between the three selected policy areas and a strengthened government response to a crisis. The operation achieved its overall objective of enhancing the Government's crisis preparedness in the areas covered, while sustaining its ability to meet its financing needs. Efficacy of the policy actions in each of the three areas in strengthening Government preparedness was substantial, although the absence of a crisis meant that the enhancements could not be tested. Indonesia has managed to maintain access to markets and fully meet its financing requirements every year since Loan approval through 2016. In its



2016 Article IV Consultation report, the IMF assessed that both exchange rate depreciation against the US dollar and increases in bond yields – important signals of stability --were relatively modest compared to other emerging markets. The outlook for 2017 is guardedly optimistic – while external risks and uncertainties certainly remain prevalent, the Government’s ability to confront them has improved, in part due to the measures supported by the operation

**a. Outcome Rating**  
Satisfactory

## **6. Rationale for Risk to Development Outcome Rating**

While the institutional improvements supported by the operation have enhanced the ability of Indonesia’s financial system to weather shocks and turbulence, they have still to be tested by a major crisis. There is still scope for further reforms to address nonperforming loans and weaknesses in smaller banks and the interbank market. In addition, Indonesia’s external accounts continue to be characterized by large short term portfolio flows, which play an important role in financing the current account deficit, and which pose a risk in the event of a shock. Risks to the financial system are assessed as substantial.

The public expenditure reforms supported by the operation help to protect capital and social spending in the event of a crisis. However, the Government’s ability to respond through countercyclical fiscal policy continues to be constrained by low revenue collection. As noted in Section 4 above, there are also issues with the quality of expenditure and the fact that the emergency assistance programs benefiting from the operation do not extend to the near poor in precarious employment. On the other hand, there is little risk of a reversal of the measures carried out under the Program. The risk to development outcome in these areas is rated modest.

**a. Risk to Development Outcome Rating**  
Substantial

## **7. Assessment of Bank Performance**

**a. Quality-at-Entry**

There were a number of positive dimensions to Quality at Entry. First, the operation was based on in-depth knowledge of Indonesia’s economic institutions of the country’s macroeconomic, financial sector, and fiscal vulnerabilities, as well as of social safety nets. The impact of the 1997-1998 Asian crisis had been well scrutinized by the Bretton Woods Institutions, and the PESF played a role in supporting Indonesia’s largely successful weathering of the 2008-2009 global financial crisis. Second, important lessons from the PESF experience were applied, including the following: (i) the Bank can be an effective partner when uncertainty is high, but a country’s fundamentals are strong; (ii) access to financing is a necessary but insufficient condition to reassure the markets -- without strong governmental commitment to prudent economic policies, a DDO would likely have limited success; and (iii) sending a strong signal can be as effective as the provision of





direct financial support, if not more so. Third, the design was simple, involving eight prior actions that were relatively easy to verify. Fourth, implementing arrangements relied on Government agencies with lengthy experience of dealing with external partners and which had relatively strong implementation capacity. Fifth, risks were well identified and appropriate mitigation measures put in place. These risks included: the complexity of the institutional arrangements in the financial sector; the possibility that financial support provided by the DPO-DDO and other partners might be insufficient in the event of a severe crisis; policy reversals; the impact of high oil prices and related subsidies on the government budget deficit; unfinished reforms in public financial management; and changes in the government's borrowing strategy. Sixth, M&E design was largely appropriate and facilitated by the simplicity of the results framework (see Section 9a below).

There were, however, three moderate shortcomings. First, an opportunity was missed to clarify ambiguities that had become apparent previously in the design of the PESF. The speed and innovative characteristics of that operation led to the possibility of different interpretations of the trade-off between providing insurance and regular deficit financing. This led to some lack of coherence among participating external partners about how to set thresholds for triggering withdrawal and the nature of those thresholds (should they, for example, be limited to external shocks or should they include also domestic ones?). These issues were not dealt with in the design of the PERISAI. There was no prior agreement among the external partners on a single condition for disbursement and an apparent lack of awareness of the basis for disbursement under the financing arrangements of each partner. This ambiguity generated different perceptions of how binding the financing plan was in determining the drawdown rights, and could have had serious consequences (see Sections 7b and 12 below). Second, as the ICR indicates, it would have been appropriate to support some policy actions on trade (as did the previous PESF), given that adverse developments on the current account of the balance of payments added to Indonesia's vulnerability to external shocks during the Program period. By 2012, Indonesia's export growth had turned negative (year on year) as had the current account balance. The current account deficit continued to increase and averaged over 3% of GDP in 2013 and 2014 (the task team subsequently explained that one of the reasons trade was excluded was the relative lack of progress in the years leading up to the operation). Third, given the centrality of protecting the most vulnerable, and the size of the operation, more could have been done to ramp-up social spending. The focus on improving the administration of existing programs would exclude large numbers of near-poor in precarious employment, who would likely be laid off during a period of crisis. Unlike the poor, they would not be registered within existing systems and would thus not benefit from the planned improvements. They could arguably be expected to obtain jobs resulting from increased public investment spending; however, there would likely be a significant lead time before planned public capital expenditures translated into new employment.

### **Quality-at-Entry Rating** Moderately Satisfactory

#### **b. Quality of supervision**

Supervision was characterized by strong economic surveillance and monitoring. Five Implementation Status and Results Reports (ISRs) were prepared during the life of the operation. There were regular quarterly meetings of those responsible for implementation. There was good coordination with those responsible for reforms supported by related development policy operations. Effective technical assistance was provided to



the Fiscal Policy Agency and other key institutions. Monitoring was supplemented by quarterly reports from the Bank's Indonesia Economic Team based in Jakarta. According to the ICR, all persons interviewed were appreciative of the Bank's substantive and coordinating roles,

However, potentially damaging issues arose from the ambiguities regarding drawdown triggers referred to above. Despite what the ICR (page 10) refers to as the need for "careful management of the relationship with [other external] partners," this ambiguity appears to have persisted throughout Program implementation. When the Authorities requested a drawdown in September 2015, the Bank responded positively. This was consistent with OP 8.60, which stipulates that, provided the program is on track and the macroeconomic fundamentals are in place, the Borrower can request disbursement. Despite extensive informal discussions (the task team stated that the Bank had regularly communicated its disbursement practices to the other external partners), this decision led to "misunderstandings and stated disappointment." Some donors appeared to believe that disbursement would be based on the needs and triggers included in the Financing Plan and that this was a condition stipulated in the Loan Agreement. They therefore believed that the Bank had "reneged on a commitment to restrict disbursement based on the Financing Plan, and [to] seek consensus for disbursement" (ICR, page 25). These disagreements might have had serious practical consequences. At no point was it clear that the full US\$5 billion (the PERISAI plus the contributions of other partners), which was theoretically available, would in fact have been swiftly disbursed should the need have arisen in the form of a severe crisis. Fortunately, such a crisis did not occur. As it was, in September 2015, when the Government announced its drawdown of the DDO, each external partner used its own legal mechanism, and two decided not to disburse.

### **Quality of Supervision Rating**

Moderately Satisfactory

### **Overall Bank Performance Rating**

Moderately Satisfactory

## **8. Assessment of Borrower Performance**

### **a. Government Performance**

The Government commitment to the Program was strong. All eight prior actions were met prior to approval, thereby fulfilling all conditions in the Program Document, and a supportive macroeconomic framework was kept in place. The engagement of the ministries and agencies responsible for Pillars 1 (OJK, Bank of Indonesia) and 3 (National Team for Acceleration of Poverty Reduction) was supported by direct Bank dialogue, and coordinated through the quarterly meetings organized by the Ministry of Finance. Government used these meetings and discussions of the Financing Plan to motivate an improved understanding of the changing macroeconomic environment, including the impact of external shocks such as the "Taper Tantrum" and the renminbi devaluation (see Section 4 above, first objective). The Ministry of Finance generally performed well in its leading role (although the ICR states that it could have been more proactive in encouraging those agencies outside its direct control and in monitoring their performance). Interest in the Program varied with economic conditions -- it rose in potentially turbulent conditions and fell when interest rates or exchange rates returned closer to pre-shock levels. Nonetheless, overall



engagement was well sustained by counterparts at the Ministry, including the Debt and Risk Management Units and the Fiscal Policy Agency.

### **Government Performance Rating**

Satisfactory

### **b. Implementing Agency Performance**

The Government itself, mainly through the Ministry of Finance, was the Implementing Agency.

### **Implementing Agency Performance Rating**

Not Rated

### **Overall Borrower Performance Rating**

Satisfactory

## **9. M&E Design, Implementation, & Utilization**

### **a. M&E Design**

The results framework, and the indicators contained therein, were few, clear and relatively easily monitorable. The framework contains an appropriate mix of qualitative and quantitative indicators. There are difficulties of attribution with regard to financial sector stability, but this could not realistically have been addressed through M&E design. Quantitative indicators had both baseline values and targets. There were, however, some shortcomings. The indicators of financial sector stability were largely output, rather than outcome, oriented. Capital adequacy and other quantitative measures would have provided a fuller picture of financial sector strength. Sovereign risk spreads (rather than the gross rates shown in Table 1 of the ICR), possibly compared with spreads in other countries in the Region, could have provided a benchmark for the confidence objective. Similarly, on cash transfers to the poor, quantitative outcome indicators (for example, share of the poor covered, size of average transfers) could have better reflected progress towards the goals in the third policy area. It would also have been useful to have added to the single indicator for public investment execution -- the proportion of the capital budget actually spent in the first half of the year --- a comparison with actual capital spending in the previous year and some broader measures of progress in public expenditure reform. The Ministry of Finance was responsible for managing M&E.

### **b. M&E Implementation**

Implementation took place, first, through the quarterly progress meetings organized by the Ministry of Finance, and second, through bi-annual monitoring of results indicators, not only of this DPO-DDO, but also of related development policy operations, and Trust Fund engagements. The ICR reports that the quarterly meetings, which involved all directly concerned external partners, did not feature updates on Policy Areas 1 (financial sector) and 3 (protection for the poor and vulnerable). Rather, the meetings focused on the



macroeconomic situation and the adequacy of the Financing Plan. Policy Areas 1 and 3 were monitored by the Bank's task team working in cooperation with its counterparts responsible for related operations in the financial sector and social protection. Support for macroeconomic capacity building provided by the Bank to the Fiscal Policy Agency was tapped as was the Indonesia Economic Quarterly with its associated analytical foundations. Despite some inadequacies in the coverage provided by the quarterly meetings, M&E implementation was generally effective, and provided for strong assessments of macroeconomic performance and risks, especially at the time of Loan drawdown.

### **c. M&E Utilization**

The M&E system, based on the results framework, informed dialogue with Government and financing partners. It was particularly useful during times of financial and economic turbulence.

### **M&E Quality Rating**

Substantial

## **10. Other Issues**

### **a. Environmental and Social Effects**

No safeguards policies were triggered by the operation, and the ICR (page 10) states that "social and environmental risk issues were negligible." According to the ICR, the Program's impact on poverty is expected to be positive. Measures taken under the third policy area (social protection) "directly contributed to mitigating poverty and vulnerability in the face of shocks" (ICR, page 10).

### **b. Fiduciary Compliance**

Fiduciary risks for this operation were not specifically discussed in the ICR. The document states (page 10) that such risks were the same as in other parallel DPOs and were well understood.

### **c. Unintended impacts (Positive or Negative)**

None reported.

### **d. Other**

None reported



## 11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	---
Risk to Development Outcome	Modest	Substantial	Risks to the financial system from non-performing loans and heavy reliance on external portfolio flows remain substantial.
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Borrower Performance	Satisfactory	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 drew a wide range of significant and important lessons from the experience of designing and implementing the PERISAI. The most important is the need for clarity among all financing partners regarding the conditions under which the Authorities may request a drawdown of the DDO. Ideally there should be full agreement on such conditions, but this may be difficult to achieve in view of the different legal stipulations and other procedures under which each partner operates. If no such agreement is possible, then development partners need to communicate clearly, and from the outset, to each other and to the Borrower the conditions under which they would disburse.

Three other noteworthy lessons cited in the ICR are:

First, the contingent financial instrument could be more effective for insurance purposes if the loan terms were more comparable to those of other financing available to the Government. In this case, although the maturity and grace period (seven and two years) were considerably less than those of the PESF (25 and ten years), the interest rate (six months LIBOR plus 50 basis points), was well below the opportunity cost of Indonesian borrowing, even in normal times. This increased the incentive to use the PERISAI as inexpensive financing.

Second, although there is wide consensus on the Borrower's side that the "insurance" provided by a DPO-DDO is highly beneficial, a constraint on requesting further similar operations is the fact that such loans count 100% against and increasingly narrow Bank global lending headroom and country borrowing limits. Consideration might, therefore, be given to developing alternative methods of contingent support.



Third, regular meetings to monitor progress and implementing needed changes can be a more effective tool if agencies responsible for all aspects of the program are represented. In this case, monitoring of some key dimensions of the program had to rely exclusively on Bank supervision efforts and coordination with staff on both the Borrower and Bank side involved with parallel operations in the sectors concerned.

### **13. Assessment Recommended?**

No

### **14. Comments on Quality of ICR**

The ICR is thorough, analytical and presents a generally complete and candid examination of the operation's efficacy. The discussion of the important issue of coordination of disbursement conditions among the development partners could have been better organized. It is scattered throughout the report, and it is only in the "Lessons Learned" section that some important details are first mentioned. Moreover, the apparent communications problems with other external partners would also have been a supervision as well as a design issue. In some cases, a clearer link between the intentions set out in the Program Document and the reform measures actually taken would have been helpful. Little information is provided about the "Landmark Financial Safety Net Law" of 2016 (though this was subsequently provided by the task team). Some terms (for example, "Taper Tantrum") may not be entirely clear to readers and could have been more fully explained. The discussion of Relevance of Objectives does not refer to the FY 2016-2020 CPF, which is the World Bank Group strategy document current at closure.

#### **a. Quality of ICR Rating**

Substantial