

Transport in Indonesia

WHEN THE BANK DESIGNED A SET OF PROJECTS IN the mid-1980s to strengthen Indonesia's transport infrastructure, which was becoming overburdened by the country's rapid economic growth, efforts focused on the technical aspects of implementation. There was little attention paid to institutional or political issues. OED's recent evaluation of the projects has confirmed that context is important. While the projects were rated satisfactory in meeting their physical targets, when looked at as a program, it was apparent that they were all negatively affected by the weak institutional environment. The failure to address this problem resulted in four out of the five projects having only modest institutional impact and uncertain sustainability over the long term.

The Projects

Transport accounts for 7 percent of Indonesia's GDP and 20 percent of its development budget, which illustrates the importance of the transport sector to economic progress in Indonesia.

Four of the projects under review were designed to increase capacity and efficiency in the roads sector, which handles 41 percent of interurban freight traffic and 93 percent of interurban passenger traffic. The fifth project aimed to rationalize the management of the state-owned railway, and convert it from a unit in the Ministry of Communications to a government-run public corporation. The objectives, components, and outcomes of each project are outlined below.

Highway Sector (US\$350 million)

This project was designed to improve road use policies, strengthen sector institutions, and improve the quality of the road network by focusing on maintenance, rehabilitation, and betterment works. Its components included technical assistance for the implementation of civil works, and for institutional strengthening and training (including overseas training) for road engineers and road transport operators. The project also provided assistance to the government for the preparation of its comprehensive Policy Statement and Action Plan (PSAP), which was designed to address shortcomings in earlier projects by constructing a framework for overall road sector development.





Photo by Curt Carnemark, 1993

The project was technically well prepared. It had a successful technical and road management component at the central highway administration. But OED found that the ongoing decentralization limited the ability of central agencies to pursue the larger development program. Nevertheless, the project was well implemented and was rated satisfactory by both the project team and the OED evaluators, with likely sustainability and substantial institutional development impact at the central highway administration.

Regional Cities Urban Transport (US\$51 million)

This project, focusing on the four largest cities after Jakarta—Surabaya, Medan, Semarang, and Bandung—was conceived at a time when the population was rapidly becoming more urbanized and transport in the large cities was chaotic and congested, as a result of inadequate infrastructure, an unclassified street network, ineffectual traffic management, weak public transport, lack of land use and transport planning, and a vague division of responsibilities between the central and local governments. The project was designed to improve the cities' transport infrastructure, enhance their capabilities to implement and maintain transport facilities and services, and develop the institutional and policy framework for urban transport planning. Its components included construction and rehabilitation of urban roads and training and technical assistance in project management and construction supervision.

The project also provided some technical assistance to enhance the planning and policy capabilities of the

implementing agencies, although OED found that this effort was seriously inadequate, given the overwhelming nature of the country's urban transport problems. OED noted that the development of institutions for urban transport should have been given much more emphasis, and that the relatively low-cost approach taken by the project was erroneous. Despite these shortcomings, the project was rated satisfactory, with modest institutional impact, by both the project team and the OED evaluators. Sustainability was rated likely by the project team, and uncertain by OED.

Jabotabek Urban Development (US\$150 million)

This was the follow-on to the Regional Cities project, and covered Jakarta, Bogor, Tangerang, and Bekasi. Conceived only a year after Regional Cities, it had essentially the same focus: to design and implement improvements in the cities' transport systems and to support infrastructure planning and development. This project also had the same shortcomings, and OED's conclusions about the erroneous emphasis of the Regional Cities project apply to the Jabotabek project as well. The ratings for this project were also the same, including the uncertain sustainability rating by OED.

Third Kabupaten Road Development (US\$215 million)

This project aimed to improve access to the main economic centers in 73 kabupaten (rural districts) through the rehabilitation, improvement, and maintenance of about 30,000 kilometers of rural roads. It was also intended to increase institutional capacity at the Kabupaten Public Works departments (DPUKs) so that management of the rural roads network could be decentralized to local agencies. The project was successful in implementing most of the physical targets, but the DPUKs resisted the Bank's emphasis on road maintenance, and the 100 percent maintenance coverage was achieved only through loan conditionalities that required implementation of a maintenance program as a precondition for project funding. This eroded the Bank's ability to engage in effective dialogue, and did not result in long-term behavioral change. OED found, however, that the project had many desirable socioeconomic conse-

quences. The project team rated the project satisfactory, with modest institutional development impact and likely sustainability; OED gave it the same ratings, except for uncertain sustainability.

Railway Technical Assistance (US\$28 million)

This project had the key objective of commercializing traffic operations and mechanical and track maintenance. This was to be achieved by converting the state railway from a unit of the Ministry of Communications to a government-owned public corporation, as well as substantially reducing the number of railway employees, preparing detailed annual staff training programs, and setting operational and financial targets and an investment plan. The project also included technical assistance in management information systems, costing, procurement and inventory control, train scheduling, and marketing.

The objectives of the project were only partially achieved. While railway operations were nominally transferred to a semiautonomous corporation, the government retains ownership of the tracks, determines the corporation's public service obligations, interferes in operations, and exercises power in pricing and key staff appointments. In addition, the access charges that the corporation has to pay have not been calculated rationally.

OED found that the costs to the railway would be reduced if the corporation, in addition to operating the railway, owned the tracks and land and had responsibility for track condition and investments. The project team rated this project satisfactory, with substantial institutional development impact and uncertain sustainability. It was rated satisfactory, modest, and uncertain, respectively, by OED.

Cross-Cutting Issues

Despite strong technical task management, all the projects were hurt by institutional weaknesses, which should have been addressed during project preparation and supervision. This would have required greater involvement by Bank management. The presence of similar deficiencies in Bank-supported transport programs and projects in other countries argues for a general review of managerial oversight practices during project preparation and implementation.

The problems fall into four main categories:

- *The political economy of road maintenance.* There is a bias in the allocation of funds for road maintenance, with some provinces and kabupaten receiving more than others, regardless of need. There is also

a bias toward larger investments, since the money comes from the central government. This leads some subnational government officials to exaggerate their needs, and use the funds to solidify their control over constituents.

- *Quality of construction and procurement.* The quality of construction in the audited projects was uneven, for two main reasons: inadequate technical and managerial capacity of the contractors and the poor performance of project managers, including their work in the design, organization, and procurement of civil works and the selection and supervision of contractors. In addition, the lack of transparency in contracting provides fertile ground for corruption.
- *Project management.* The projects were managed through project management units (PMUs). From an institutional development perspective, these are off-line organizations that consume the human resources of the implementing agency, while depriving that agency of the benefits of the training received by PMU staff. This helps to explain why training has had little effect on the project management capacity of the implementing agencies. As the Bank decentralizes to the Resident Mission and Bank staff work more closely with implementing agencies, there will be less need to establish PMUs.
- *Decentralization.* Decentralization consists of a complex set of reforms that increase local autonomy and expedite development. In designing and preparing the five transport projects, the Bank took for granted a decentralized framework, without considering the difficulties and inconsistencies inherent in the transfer of responsibilities to local governments, and without attempting to support or complement the decentralization objective. These problems impacted sectoral and intersectoral resource allocation and the use of local knowledge, which, in turn, negatively affected commitment to the projects and their sustainability.

Conclusions and Lessons

At the time these projects were designed and implemented, they were consistent with Bank policies and prevailing good practice: they had high technical and economic content and were implemented with skill and determination. But there was a disconnect between the project concepts and the need to improve the policy and institutional framework of the transport sector. This disconnect appears to have had multiple causes. Bank procedures may not have been appropriate for the sector's level of development; decentralization and project management processes did not produce the desired outcomes; and policy dialogue did not take place at the appropri-

ate level. It would be advisable for the Bank to explore new ways to tackle systemic issues in a project context. Specifically:

- A strategy for provincial highway networks should be developed and formalized. Each province should create and publish a highway system development plan for all classified roads, and owners and their funding sources should be designated to facilitate management of the sector.
- The decentralization process, which until now has transferred only technical responsibilities to subnational governments, should be extended to include policy development, finance, and administrative responsibilities. Capacity building at the local level should continue, and local governments should be freed of central government interference in their roads.
- Road administrations should be reengineered to manage roads on commercial principles. This would help to better allocate resources and provide stable sources of user-based funds to increase accountability, maintain the existing road network, and fund expansion of collector and arterial roads.
- An institutional framework is needed to support the development of village roads, which are of social and economic importance to rural areas. OED recommends that this be done through village-based private road cooperatives, and that technical assistance be provided to cooperative members to maintain the roads at minimum cost.
- A transport organization spanning the metropolitan region should be created, consisting of multi-jurisdictional institutions that can respond to the country's urban transport needs. This organization could provide a forum for coordinating government and private sector decisionmaking, facilitate regulation and planning, integrate transport improvements with land-use planning, and develop transport-related environmental management plans.
- The railway organization reform should be reassessed, because the current separation of infrastructure and operations is not satisfactory. In addition, the government should consider enacting regulations to allow track sharing, with private providers of rail service paying a fee to use the tracks.