



1. Project Data:		Date Posted : 08/07/2001	
PROJ ID: P003997		Appraisal	Actual
Project Name: Telecom IV	Project Costs (US\$M)	1353	1062
Country: Indonesia	Loan/Credit (US\$M)	375	288
Sector(s): Board: GIC - Telecommunications (98%), Central government administration (2%)	Cofinancing (US\$M)	432	499
L/C Number: L3482			
	Board Approval (FY)		92
Partners involved :	Closing Date	12/31/1998	12/31/2000

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2. Project Objectives and Components

a. Objectives

The Project had two main objectives : -

1. To improve sector performance by promoting a regulatory regime conducive to competition in the provision of telecommunications services .(The Ministry of Tourism, Posts and Communication or MTPT is the ministry responsible.)
2. To meet the growing demand for telecommunications services by enhancing the quality of TELKOM's service, effective utilization of existing facilities, increasing system efficiency and modernizing and expanding the networks (TELKOM is Indonesia's domestic public telecommunications supplier - a limited liability company whose shares are currently owned by Government).

b. Components

The project was designed to meet the above objectives through two main components, their contribution to total realized costs of \$1062 million being: -

1. MTPT (.3%) - (a) Establishing an environment of competitive markets and transparent regulatory processes; (b) strengthening the capacity of MTPT to design, assess and implement a consistent set of sector policies, including a review of tariffs and planning for a second domestic operator
2. TELKOM (99.7%) - (a) Capacity building for management, including training, decentralization, project design, engineering and supervision, as well as upgrading of accounting and financial policies, systems, procedures and associated computerization; (b) Support for TELKOM's national investment program for 1992-96 comprising rehabilitation, new equipment, installation of fiber optic and microwave transmission facilities as well as establishing modern network management and improving the directory enquiry system .

c. Comments on Project Cost, Financing and Dates

This project had debt participation from 8 major international commercial-bank and bilateral co-financiers, including ABN Amro, Sumitomo Corporation, Kreditansatal fur Wiederbau, Spanish Government, US Eximbank, Overseas Economic Co. Fund, Credit Lyonnaise and the French Government . \$ 3 million of the Bank loan was allocated to TA and training for the regulatory component in the MTPT . The effect of Indonesia's ongoing political and financial crisis has been to introduce delays, reduce \$ costs of domestic components, and scale back some plans . \$87 million of the Bank loan was cancelled at the request of the Government . Falling equipment costs due to rapid technical progress and efficient procurement have also supported an overall reduction in costs of 22% . Only \$30 million of the TELKOM costs are for TA and Training .

3. Achievement of Relevant Objectives:

All objectives, with the exception of ERR and FRR targets, were achieved : -

1. The sector has become more competitive and separation has taken place between operator and policy maker/regulator. TELKOM's Board of Commissioners no longer has any members from the MTPT . TELKOM's monopoly on local services will end in 2002 and on domestic long distance in 2003. Exclusivity on international services will end in 2003. A Blueprint document was issued in July 1999 for development of directions consistent with Indonesia's full participation in the global economy, and transition of the sector from a monopolistic to a

competitive environment. A new Telkom Law became effective in September 2000, which amongst other things signals the intention to establish an independent, non-ministerial, regulatory agency.

- The quality of services, effective utilization of existing facilities and efficiency have been achieved in conjunction with a modernized and expanded service. This is borne out by an extensive list of quantitative indicators generated by an effective accounting system and fully digitalized network e.g. total exchange capacity increased from 4.8 to 8.4 million between 1995 and 2000. At the same time capacity of utilization has increased to 85%, 303,000 public telephones have been installed (50% above target), local and national call completion ratios have increased by 29% and 36% respectively, and development costs per line have decreased from \$ 1200 to \$1000 between 1994 and 2000, in line with international benchmarks. Faults per 1000 subscribers per year continue to fall and were 1.31 in 2000 (SAR target 5.0), while lines per TELKOM employee increased to 173 (SAR target 62.5.) At appraisal the ERR was 23% and the FIRR 18%. Calculation of equivalent ICR rates has not been possible due to extensive joint ventures in the areas outside Jakarta /Surabaya since 1996. Information on joint-venture costs and revenues have been difficult to obtain. While the rates of return are likely to be lower; PT TELKOM is still meeting its debt obligations and the shares continue to be traded on the NY and Jakarta exchanges, albeit at 80% below pre-crisis \$ price-levels.

4. Significant Outcomes/Impacts:

- TELKOM achieved commercial discipline. At a time of acute economic dislocation the project was successfully completed, albeit with a two year delay, and the shielding from the full impact of the rupiah devaluation by the participation of joint-venture operators since 1996. Financial management was very prudent a characteristic not shared by the rest of the corporate sector.
- Government displayed steadfastness, perseverance and consistency in preparing and implementing a phased approach to both strengthening the operator and reforming the competitive and regulatory environment ("Competitive pressure has to some degree reduced the power of the incumbent while its efficiency has improved.")
- MTPT developed the capacity to assess telecommunications policies including network competition, network development strategies and the principle of Universal Service Obligation.

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

The tariff has not fully recovered to facilitate large scale investment in the sector, given the high country risk.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	Although the TELKOM share price has fallen, in the midst of Indonesia's worst economic crisis in 30 years, the outcome is one of the brightest for the Bank's Indonesia portfolio.
Institutional Dev.:	High	High	
Sustainability:	Likely	Likely	Were it not for the instability of the current political environment and lack of assurance on tariff levels (despite a tariff rebalancing mechanism), a rating of Highly Likely would be justified.
Bank Performance:	Satisfactory	Highly Satisfactory	The Bank took a leadership role showing its comparative advantage in complex infrastructure projects requiring multi-partner funding
Borrower Perf.:	Satisfactory	Highly Satisfactory	The Government has promoted the sustainable development of this industry much more effectively than other monopoly infrastructure sub-sectors (such as electricity and water), which enjoy high willingness to pay for services but are now insolvent.
Quality of ICR:		Exemplary	

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

7. Lessons of Broad Applicability:

- A thorough sector review is needed before the Bank can support a well-defined and balanced investment in order to achieve sector and corporate reforms.
- In the telecommunications sector, technology advancement is a key driver; this requires building flexibility into the project design so that realignment is possible when circumstance alter drastically.
- The implementation of a project of this nature should be based on an integrated network plan, with different

components synchronized (the project adopted critical path methods to ensure implementation efficiency .)

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

Exemplary - a model of conciseness and clarity . There are minor but inevitable problems of accurately reconciling totals from the breakdowns of costs by source of funds, categories and procurement method .