

**MANAGEMENT RESPONSE TO THE PROJECT PERFORMANCE EVALUATION  
REPORT FOR THE REGIONAL DEVELOPMENT ACCOUNT PROJECT  
IN INDONESIA (Loan 1501-INO)**

On 9 July 2007, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

1. We appreciate OED's evaluation of the Regional Development Account (RDA) Project. Management acknowledges that the project did not meet its overall intentions and development objectives due to a multiplicity of factors that included issues of design, executing agency capacity and external factors such as the financial crises of 1997–1998. The project was originally designed to (i) improve long-term credit to local governments and enterprises to allow financing of locally initiated urban investments through support for the RDA as a revolving municipal facility and (ii) to promote financial and institutional autonomy of local governments.
  
2. While Management agrees that more comprehensive due diligence during the preparatory phase and improved project design may have yielded better results, in our opinion these factors only partially explain the project's overall performance. The role of external factors contributing to the project's sub-optimal results, such as the financial crises, the economic, political and social upheavals following the crises and decentralization is given insufficient attention in the assessment and evaluation report. We need to acknowledge and give due recognition to the fact that the project was approved just prior to the financial crises (1996) and implemented during one of the most difficult economic, fiscal and social periods in Indonesia.
  
3. Despite the challenges of project development and implementation in the post-crises and post-decentralization period in Indonesia, lessons drawn from the RDA project have fed into our urban sector operations in Indonesia. In recent years, following the decentralization and greater regional autonomy in the country, ADB has not been utilizing the approach of general credit lines for financing of municipal infrastructure. Lessons from the RDA combined with the many complex policy and implementation issues surrounding onlending and ongranting from central to local government levels has led to a shrinking of ADB's portfolio of large urban sector projects in Indonesia. More recent projects have adopted community-driven development (CDD) approaches for financing urban-based community infrastructure. This approach enables funds to be channeled directly to villages permitting better fund utilization, greater ownership and a higher degree of transparency. The CDD approach also enjoys high-level acceptance by both government and the beneficiaries.