



Validation Report

Reference Number: PCV: INO 2009-11
Project Number: 32517
Loan Number: 1866
December 2009

Indonesia: State-Owned Enterprise Governance and Privatization Program

Independent Evaluation Department
Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
BAPPENAS	–	<i>Badan Perencanaan dan Pembangunan Nasional</i> (National Development Planning Agency)
FGRSDP	–	Financial Governance Reforms: Sector Development Program
IED		Independent Evaluation Department
MSOE	–	Ministry of State-Owned Enterprises
PCR	–	project completion report
PSO	–	private sector obligation
SOE	–	state-owned enterprise
TA	–	technical assistance

Key Words

adb, financial sector, governance, indonesia, legal, private sector participation, privatization, regulatory framework, social programs, state-owned enterprises.

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PROJECT COMPLETION REPORT VALIDATION FORM

A. Basic Project Data		PCR Validation Date:	December 2009	
Project Number:	32517		Approved	Actual
Loan Number:	1866-INO			
Project Name:	State-Owned Enterprise Governance and Privatization Program	Total Project Cost (\$ million):	400.0	400.0
Country:	Indonesia	Loan/Grant (\$ million):	400.0	400.0
Sector(s):	Finance	Total Cofinancing (\$ million):		
ADB Financing (\$ million):	ADF: 0	Borrower (\$ million):		
	OCR: 400.0	Beneficiaries (\$ million):		
Cofinanciers:		Others (\$ million):		
Approval Date:	4 December 2001	Effectiveness Date:	14 March 2002	18 December 2001
Signing Date:	31 December 2004	Closing Date:	31 December 2004	7 October 2005
Project Officers:	Name: Klaus-Peter Kriegsmann Asa C. Malmstrom	Location: HQ	From: 31 March 2002	To: 31 July 2004
		HQ	31 August 2004	1 January 2006
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ADB = Asian Development Bank, ADF = Asian Development Fund, HQ = headquarters, IED1 = Independent Evaluation Division 1, IED2 = Independent Evaluation Division 2, OCR = ordinary capital resources, PCR = project completion report.

B. Project Description (summarized from report and recommendation of the President)

- (i) **Rationale.** Although state-owned enterprises (SOEs) had originally been established in Indonesia with economic and social development ideals, at the time the State-Owned Enterprise Governance and Privatization Program (the Program) was designed, SOEs had become inefficient suppliers of public services and goods. The provision of social services and regional development objectives had largely been achieved—but at a considerable cost to society. Moreover, SOEs had been exploited for the benefit of individuals, and were associated with growing corruption, collusion, and outright fraud. The aggregate cost of SOEs to the Government of Indonesia was estimated at \$3.9 billion, equivalent to four times the expenditure for housing and human settlements, five times that for education, and eight times that for health.

The growing distress of SOEs, coupled with the structural distortions of the economy that were exposed during the Asian financial crisis, brought the urgency of SOE reforms to the forefront.

Recognizing this, the Government had adopted privatization of SOEs as a key strategy to enhance economic liberalization and to generate revenues for debt repayments and bank recapitalization. The Program was designed to introduce corporate governance mechanisms to align management incentives with shareholder objectives and interests, separate private sector obligations (PSOs) from commercial operations of SOEs, and enforce SOE compliance with legal and regulatory obligations. These measures were expected to facilitate the financial and operational restructuring of viable SOEs and the liquidation of nonviable ones, while generating momentum for privatization of commercially successful enterprises.

- (ii) **Impact.** The expected impact of the Program was to promote poverty reduction through sustainable pro-poor growth by (i) improving the efficiency of resource allocation, (ii) increasing profitability in the SOE sector, (iii) improving the financial health of SOEs, and (iv) raising revenues from SOE privatizations for the state budget.
- (iii) **Objectives or expected outcomes.** The Program was expected to improve resource allocation in the public sector, increase the profitability of Indonesia's SOEs, and promote private sector participation in all SOE commercial activities. Ultimately, SOE reform—involving the transfer of ownership and management, and confining the Government's role to improving the policy and regulatory framework—was expected to release scarce resources for poverty reduction and social programs.
- (iv) **Components and/or outputs.** The Program was to be implemented over 3 years, targeting reforms in selected subsets of the SOE portfolio held by the Ministry for State-Owned Enterprises (MSOE) by (i) introducing new corporate governance standards and practices in 88 SOEs that were not going to be privatized in those next 3 years, (ii) commercializing PSOs in selected SOEs in which such obligations had been identified, (iii) restructuring the finances and operations of 30 SOEs that were considered suitable candidates for rapid improvement and subsequent divestment, (iv) privatizing 15 SOEs in which access to equity capital and/or management expertise would improve prospects for profitability, (v) selling the minority shareholding in 12 companies, (vi) liquidating 8 unviable SOEs, (vii) applying the labor retrenchment policy to all SOEs, and (viii) auditing procurement practices in 40 randomly selected SOEs.

C. Evaluation of Design and Implementation (project completion report assessment and validation)

- (i) **Relevance of design and formulation.** The project completion report (PCR)¹ noted that the support of the Asian Development Bank (ADB) to the Government was an integral part of an International Monetary Fund-led multi-donor rescue package to help Indonesia overcome the Asian financial crisis of the late 1990s. As part of this, ADB approved in 1998 the Financial Governance Reforms: Sector Development Program (FGRSDP) for \$1.2 billion, which focused on helping restructure the country's banking sector, strengthen financial governance, and reinforce the financial sector's legal and regulatory framework. Its intent was to help Indonesia respond to the immediate demands brought about by the crisis, as well as reduce the country's vulnerability to future adverse developments.

While the failure of the financial sector was the major cause of the financial crisis, the notorious underperformance of Indonesia's SOEs was seen as the major hurdle to the country's economic recovery. By reforming overall SOE governance, the Program aimed to improve resource allocation in the public sector, increase profitability of SOEs, and promote private sector participation in all SOE commercial activities. The PCR thus implied that the design and formulation of the Program were relevant.

¹ ADB. 2008. *Project Completion Report for State-Owned Enterprise Governance and Privatization Program* (Loan 1866-INO). Manila.

Of the 155 SOEs in MSOE's portfolio, 117 were fully government-owned, nonfinancial SOEs, which were the primary targets of the Program. The Independent Evaluation Department (IED) agrees that the assistance to the Government, targeting these SOEs, was relevant, although there were some program design issues.

As noted in the PCR, the program agenda was complex and had wide-ranging implications across many segments of the economy. In addition, program outputs ranged from improved corporate governance and corporate restructuring and privatization, to imposing labor retrenchment policies and auditing the procurement practices of 40 randomly selected SOEs. Most of the specific actions contributing to the outputs consisted of those that would normally be expected of corporate governance reforms.

However, the actual conditions for the release of tranches were highly conservative and included measures such as the negotiation and signing of appointment agreements for directors and commissioners, the preparation of statements of corporate intent, the filing of annual reports for at least 80% of the SOEs, and the financial audit of 78 SOEs (including the remuneration and benefits of the directors and commissioners). In particular, the conditions relating to privatization only required satisfactory progress in the privatization of 15 SOEs and the sell-down of the Government's minority holdings in only 12 SOEs.

A further issue in the program design was the lack of a full assessment of the importance of SOEs to the economy and to social stability. As the PCR pointed out, SOEs employed over 1 million of the rural poor in the plantation sector and abrupt measures could have had serious social repercussions.

- (ii) **Project outputs (conditions in the case of program loans).** A comprehensive description of program outputs was presented in section III B of the PCR, which should have described the outcomes.

The Program was effective in achieving its goals. In the area of corporate governance, MSOE (i) negotiated and signed appointment agreements for all newly appointed directors and commissioners; (ii) received statements of corporate intent from 37 SOEs in 2002 and from 46 SOEs in 2003; and (iii) achieved the filing of annual reports with the company registrar in the Ministry of Industry and Trade (more than 80% of the SOEs under MSOE's jurisdiction submitted reports for fiscal years 2001 and 2002) and with MSOE (all SOEs submitted reports), in full compliance with legal requirements. MSOE also implemented a performance incentive system in all profitable SOEs, assessed corporate governance in listed SOEs, and determined the quality and composition of the board of commissioners in about 30 SOEs. All of these achievements have been sustained.

PSOs were identified in 15 SOEs, and recommendations were developed for their financing and sustained delivery. Ongoing budget constraints, however, are preventing the Ministry of Finance from agreeing to a mechanism with accountability measures for financing the obligations. Under the Program and with support from ADB, 36 SOEs submitted restructuring plans at their annual shareholders' meetings, and all of the plans were approved. MSOE also obtained parliamentary approvals and completed all government actions for the privatization of at least 15 SOEs. Although privatization lost momentum after the Program, it slowly continued.

Instead of a labor law, MSOE drafted a labor rationalization policy for (i) severance payments and gratuity based on length of service; (ii) early retirement; (iii) reemployment, training, or retraining of employees and financing of entrepreneurial initiatives; and (iv) employee rights in the assessment of claims against pension funds. A monitoring mechanism was also developed to oversee the implementation of the policy by SOEs and to point out needed improvements. However, midway through implementation, Parliament passed a restrictive labor law, which went far beyond the Program's recommendations. MSOE also conducted procurement audits in 40 SOEs, identified inefficiencies, and required SOEs to improve their deficiencies.

(iii) **Project cost, disbursements, borrower contribution, and conformance to schedule (as relevant to project performance).** The PCR noted that the Program was supported by a loan of \$400 million from ADB's ordinary capital resources, which was to be released in three tranches. The second and third tranches of \$150 million and \$100 million, respectively, originally planned for July 2003 and July 2004, were disbursed in October 2005. Although the Government actively pursued implementation of the Program and its tranche conditions, given the complexity of the agenda and its wide-ranging implications across many segments of the economy, delays in implementation occurred. In particular, the Law on State-Owned Enterprises, introduced after the start of this Program, while not being part of it, delayed a number of privatizations due to setbacks in parliamentary approval. This was despite the lack of tranche conditions involving parliamentary action.

IED recognizes the difficulties facing MSOE and the Ministry of Finance in undertaking this Program in the context of widespread political and economic disruption, particularly the difficulties generally associated with the privatization of SOEs.

(iv) **Implementation arrangements, conditions and covenants, related technical assistance, and procurement and consultant performance**

(a) **Implementation arrangements.** The PCR noted that the Ministry of Finance acted as the Executing Agency and, as such, had to coordinate and monitor the overall implementation of the Program, and administer the utilization of loan proceeds. MSOE was the Implementing Agency and coordinated with other agencies as required. To monitor progress, the Government established a high-level steering committee with representation from MSOE (chairperson), Ministry of Finance, Coordinating Ministry for Economic Affairs, National Development Planning Agency (BAPPENAS), and Ministry of Manpower and Transmigration. The committee reviewed SOE restructuring and privatization strategies and endorsed these or recommended changes if required. The primary authority for approving the strategies, however, remained with MSOE. The steering committee conducted quarterly reviews of program implementation; reported to ADB; and was supported by a corporate governance and privatization working group established within MSOE to oversee the development and implementation of financial and corporate restructuring, privatization, and the new corporate governance policy in targeted SOEs, as well as implementation of technical assistance (TA). A separate working group oversaw the implementation of TA for commercialization of PSOs. The steering committee was further supported by a consultative working group on labor redundancies.

IED notes this description. Yet it would have been helpful if the PCR had passed some judgment on whether these arrangements were appropriate, and whether they worked or needed improvement.

(b) **Conditions and covenants.** The PCR noted that the policy matrix of the Program consisted of a total of 71 covenants: 26 for the first tranche release, 24 for the second tranche release, and 21 for the third tranche release. All 26 tranche conditions for the first tranche were fully met upon loan effectiveness. However, given the unexpected strong involvement of Parliament in the privatization process, implementation of some second and third tranche covenants was delayed, and thus both tranche releases were deferred to later dates while covenant compliance was sorted out. Eventually, the two tranches were released together.

IED notes the delays and eventual tranche release. The PCR would have benefitted from a clear statement reflecting the information in Appendix 5 of the PCR about whether all covenants were complied with, and which ones, if any, were not complied with and why. For example, Appendix 5 of the PCR indicated that there was only partial compliance with the second and third tranche covenants on the complete divestment of MSOE's minority shareholdings in five, then seven, SOEs.

(c) **Related technical assistance.** The PCR indicated that Technical Assistance to Indonesia for Privatization and Restructuring of State-Owned Enterprises (TA 3714-INO in the amount of \$2.6 million) was approved as one associated with the Program. A completion report was prepared in June 2004, rating the activity as *successful*. Another technical assistance activity, Commercialization of Public Service Obligations (TA 3728-INO in the amount of \$1.0 million) was approved associated with the Program to identify and measure PSOs in SOEs and to recommend alternative, more efficient provision mechanisms, including opening up business opportunities for private sector companies to provide PSOs. It identified measures to separate PSOs from commercially viable activities of SOEs; defined the rules and regulations for tendering the supply of PSOs to private companies; and, for a limited number of SOEs with PSOs, estimated these regulations' financial impact on the SOEs and fiscal impact on the budget.

IED notes that both TA projects were useful and, indeed, critical in ensuring the success of the Program. It is regrettable, however, that the measures to separate PSOs from SOEs had still not been implemented.

(d) **Consultant performance.** There was no consultant recruitment under the Program, only under the associated TA projects, which was covered in the respective TA completion reports.

(e) **Procurement.** As this was a program loan, the PCR did not mention procurement activities but noted that no contractors or suppliers were engaged.

(v) **Performance of the Borrower and Executing Agency.** The PCR stated that the Government actively pursued the broad agenda of the Program. It advanced a host of new and amended legislation and regulations and put in place the mechanisms to facilitate their socialization and passage. Since the approval of the Program, the Government has adopted several significant policy measures, including (i) the design and implementation of a corporate governance framework for SOEs, as well as associated regulations; (ii) the establishment of a directorate general for PSOs and regulations for their measurement and treatment in accounts; (iii) many initiatives for reconstruction and privatization of SOEs; (iv) fair treatment of employees in SOEs as well as fair treatment of redundant employees; and (v) ongoing scrutiny of SOEs' procurement. Overall, the performance of the Borrower, Executing Agency, and Implementing Agency was rated as *satisfactory*.

IED notes the overall positive role of the Government but infers from the PCR that matters were complicated. While MSOE appears to have been highly proactive in support of the Program, at times, the Ministry of Finance may have been less supportive, and Parliament's actions posed obstacles to the achievement of program goals with respect to privatization. An elaboration in the PCR of these aspects of program implementation and dialogue would have been useful. However, IED considers that the actual achievements under very difficult circumstances merit a *satisfactory* rating for the performance of the Borrower and Executing Agency.

(vi) **Performance of the Asian Development Bank.** The PCR noted that the Program was ambitious and cited the numerous missions in 2003 and 2004 in support of the Program as an indication of the support provided by ADB. On that basis, the ADB's performance was assessed as *satisfactory*.

IED notes that there were 15 loan review missions and two special loan administration missions after inception, some of which were for an extended period of time. On this basis and the eventual achievements of the Program, IED agrees that the performance of ADB was *satisfactory*.

D. Evaluation of Performance (project completion report assessment and validation)

- (i) **Relevance.** The PCR considered that the Program was *highly relevant*. It noted that the Asian financial crisis hit Indonesia the hardest of all Southeast Asian economies. One of the most severe consequences of insolvency for its financial sector was the simultaneous collapse of public sector finances, as indicated by the rapidly rising public sector deficit (peaking at 3.5% in 2001) despite the austere fiscal policy prescribed by the International Monetary Fund that wiped out much of the country's social security network.

In this dire economic situation, SOE privatization was first seen as a means to improve the fiscal imbalance. In contrast to other countries where SOE reform centered on privatization to strengthen market forces and competition while reducing the state's regulation role, in Indonesia, privatization was purely fiscally driven, and enthusiasm for such measures were expected to decline in line with an improving fiscal situation. Recognizing this, the Program took a holistic approach to SOE reform, comprising—besides privatization—corporate governance, the fiscal treatment of public service obligations, corporate restructuring, social security, and corruption in procurement. Such an approach ensured relevance during implementation and sustained relevance thereafter.

IED agrees that the Program was needed, but because of the design issues mentioned in section c (i), rates it *relevant*.

- (ii) **Effectiveness in achieving outcome.** The PCR section that should otherwise be devoted to outcomes was a comprehensive list of outputs. A rather comprehensive list of program outcomes is found in the paragraph 37 of the PCR, where they are indicated as outputs. The PCR credited the Program with having achieved (i) the establishment of sound policy, legal, regulatory, and operational frameworks for improving corporate governance in the SOE sector; (ii) improved awareness of international norms and practices in corporate and financial governance; (iii) improved financial performance of the SOE sector thanks to good governance measures introduced under the Program; (iv) improved transparency and disclosure by stipulating the regular submission of financial, operational, and procurement audits; (v) initiation of a robust program for restructuring SOEs; (vi) the gradual divestment of state control in 15 large SOEs, including several important financial institutions, and the initiation of privatization of another 13 SOEs as part of the Government's privatization program, thereby contributing significantly toward meeting budgetary needs; and (vii) the divestment of shares held by the Government in sectors where the state has no sound rationale justifying its involvement. The Program has had clear development impact, resulting in better corporate governance and a focused and strategic approach to privatization. The divestment of the Government's shareholdings in SOEs in the real sector contributed Rp6.7 trillion (\$652 million) to the budget during the Program, and the sale of government ownership in the banking sector contributed Rp30.3 trillion (\$2.9 billion).

IED agrees with the PCR rating of *effective*. However, the PCR should have provided the proportion that the Program revenues bore against the total government budget during the program years.

Efficiency in achieving outcome and outputs. The PCR concluded that the Program was efficiently managed by MSOE and ADB. Although Program design was complex due to the bundling of individual interventions into one package, most of the conditions and covenants were fully met at the time of program completion.

IED recognizes the Program's achievement in having finally met many of its intended outputs and outcomes, especially in light of the ambitious nature of the overall scope. However, there was a delay of over 2 years in complying with the conditions for release of the second tranche and over 1 year in complying with conditions for release of the third tranche. As acknowledged

in the PCR, the implementation delays were in large part due to the complex program agenda and the wide-ranging implications across segments of the economy. A relevant output was only partially achieved since minority SOE shares in 12 enterprises have yet to be divested.² IED thus considers that the Program was *less efficient* in achieving outputs and outcomes.

- (iii) **Preliminary assessment of sustainability.** The PCR stated that all outcomes achieved under the Program have been proven to be sustainable in the 3 years since it ended. Some measures in the area of corporate governance were further improved, and the established levels of accountability and transparency have been maintained. The treatment of PSOs as developed by MSOE with the help of TA support continues to date. The cost of PSO delivery is identified in the accounts of 15 SOEs every year, and submissions are made to the Ministry of Finance to subsidize the SOEs appropriately (however, these submissions are regularly rejected with reference to tight budget conditions). Privatizations have continued in the form of sales of shares (three cases) and in the form of joint ventures (more than 50 cases).

IED sees no reason to doubt the conclusion of the PCR that outcomes are *sustainable*. However, additional information in the PCR about the specifics of the joint ventures would have been helpful. The PCR indicated that from the little information that is available, the joint ventures have been successful, the assets are essentially privatized, but no money flows back to the budget. It would have been useful to include in the PCR a discussion of the relative values of transferring assets from public to partly private enterprises, the elimination of public budget liabilities and subsidies, and the removal from the public books of a potential source of income and capital assets. An associated and critical point that could have also been mentioned is whether service delivery by the new joint ventures has actually improved.

- (iv) **Impact (both intended and unintended).** The PCR noted that actions taken under the Program, particularly the creation of a rigorous corporate governance framework for listed companies and SOEs as well as corporate restructuring and privatization, are likely to promote sustainable growth and enable a more robust and efficient state sector. Moreover, the direct impact of the Program was positive with regard to the poor. More than 1 million rural poor depend on state-owned plantations as an income provider, and the Program allowed all 16 plantation companies to survive the financial crisis, and even increase employment through investment in processing activities financed through joint ventures with the private sector. The implication of the PCR is that impact was both positive and significant.

IED agrees with this assessment regarding the immediate impact of the Program. Unfortunately, this seems to have been a one-off investment, with no follow-on intervention focused on SOEs since approval of the Program in 2001 and nothing listed in the current country program up to 2011. If that is the case, then the overall and long-term impact is likely to be somewhat less significant than if the Program had been quickly followed up by another to build on the accomplishments to date and to ensure that unfinished measures under this Program finally come to fruition. IED also notes that a stated goal of the program was to improve the efficiency of resources allocated to the public sector so as to increase available resources that may be allocated to poverty alleviation (see Section B (iii) hereof). There is inadequate information in the PCR to determine whether or not this was achieved.

² ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Indonesia for the State-Owned Enterprise Governance and Privatization Program*. Manila. Policy Action C.8, p.44.

E. Overall Assessment, Lessons, and Recommendations (validation of PCR assessment)

- (i) **Overall assessment.** The PCR rated the Program as *successful* overall. It considered that the Government made genuine efforts to achieve reform and complied substantially with the policy conditions. Sound corporate governance structures were introduced; a system to recognize PSOs in SOEs was introduced, a first in Asia; many SOEs were restructured both during and subsequent to the Program; large SOEs were privatized through initial public offerings and smaller ones through joint ventures; and the procurement system was reformed. Moreover, the Government has demonstrated continued commitment to SOE reforms, as shown by further privatizations.

IED agrees with the overall rating of *successful* and further notes the positive impact of the Program on the fiscal soundness of the Government, as intended.

- (ii) **Lessons.** The PCR noted that broadly based reforms, such as those pursued by the Financial Governance Reforms: Sector Development Program, require long-term institutional development, which can barely be accommodated even in a three-tranche program loan. It suggested that a program cluster approach would have been more useful in this regard, as it combines a long-term approach that permits covering a wide range of policy and institutional reforms with flexibility to adjust to changing circumstances. It also permits proceeding with the gradual introduction of critical components such as corporate governance and the optimal treatment of PSOs. The cluster modality is also a useful instrument for establishing benchmarks and unifying policy makers who advocate reforms. A move from a program cluster approach with several tranches each to a medium-term framework based on a series of single-tranche programs within a program cluster could be recommended to provide more flexibility while focusing on achievable, upfront outcomes. With such an approach, ADB could also support genuine commitment by relevant stakeholders over a longer period of time.

IED agrees that a longer-term focus and approach is necessary for such fundamental (and time-consuming) reforms with significant institutional and political implications. What is most needed is consistency within country programming to ensure that initiatives like this Program, once started, are carried through.

- (iii) **Recommendations.** The PCR made recommendations on future monitoring, the overall governance framework, corporate governance in SOEs, corporate restructuring, and privatization. The recommendations pertained mainly to possible future directions that could further improve the governance and privatization of SOEs in the country. The recommendations also noted that through the Program, ADB gathered a wealth of knowledge and experience in the SOE sector and is acknowledged by other donors as playing a lead role. The PCR also stated that on the basis of the experience gained, achievements under the Program and associated TA activities can provide the basis for continued ADB support to help develop resilient SOEs, which can then play major roles in the development of Indonesia's infrastructure sectors with private investors.

IED notes that these recommendations are only relevant if ADB stays engaged with SOE governance and privatization. As mentioned earlier, there have been no follow-on projects or programs related to SOEs since the approval of this Program, and none are planned in the current country program to 2011. Perhaps a stronger recommendation would have explicitly stated that, on the basis of the success of this Program, further governance and privatization interventions for SOEs should be undertaken so that the success to date does not become diluted.

F. Monitoring and Evaluation Design, Implementation, and Utilization (project completion report assessment and validation)

According to the report and recommendation of the President, a steering committee was to assess program implementation and, through the Ministry of Finance, provide ADB with quarterly reports on the progress in all five program areas, including in quantitative terms in conditions for the next tranche release. The PCR indicated that this was done throughout the program period. A monitoring mechanism was also developed to oversee the SOEs in implementing their labor policies and to provide input for improving it. No provision was made for post-program monitoring. It might have been useful to help set up a monitoring mechanism within MSOE itself, although as the PCR itself states, "MSOE neither produces nor discloses to the public time-bound targets for itself as shareholder of the Government's SOE portfolio."³

G. Other (e.g. safeguards, including governance and anticorruption; fiduciary aspects; government assessment of the Program, as applicable) (project completion report assessment and validation)

Since the objective of the Program was to improve governance and fiduciary aspects of SOEs and the Government, and since the Program was considered successful, there have obviously been notable improvements toward these goals. Also, the restructuring of SOEs, the requirement for annual reports, the preparation of statements of corporate intent, and the audits of procurement will continue to reduce corrupt practices.

H. Ratings	Project Completion Report	Independent Evaluation Department Review	Reason for Disagreement or Comments
Relevance:	Highly relevant	Relevant	Due to design issues noted by IED in c (i), the Program is considered <i>relevant</i> .
Effectiveness in Achieving Outcome:	Effective	Effective	
Efficiency in Achieving Outcome and Outputs:	Efficient	Less efficient	Although the Government actively pursued program implementation, the release of the second and third tranches was delayed, and some expected outputs (especially the devolution of PSOs and the sale of minority shareholdings) were not achieved due to changes in the law and parliamentary actions that were not part of the original program design nor anticipated in program preparation.
Preliminary Assessment of Sustainability:	Sustainable	Sustainable	
Borrower and EA:	Satisfactory	Satisfactory	
Performance of ADB:	Satisfactory	Satisfactory	
Impact:	Significant	Significant	
Overall Assessment:	Successful	Successful	
Quality of PCR:		Satisfactory	

³ ADB. 2008. *Program Completion Report on State-Owned Enterprise Governance and Privatization Program*. Manila. Para. 58, page 15.

I. Comments on Project Completion Report Quality

Although the PCR mixed up outputs and outcomes, and there is no assessment of whether or not the Program resulted in efficiencies that would allow public resources to be released for poverty alleviation, it was otherwise generally well prepared and provided sound evaluation of the factors and criteria used in assessing the Program's success. IED thus considers the PCR quality as *satisfactory* despite the downgrading of two of the ratings (although the overall program rating remains *successful*).

J. Recommendation for Independent Evaluation Department Follow-Up

The PCR left several questions unanswered, including how the public-private partnerships and joint ventures function, the identity of the real beneficiaries of the new corporate formulations, if service delivery has improved, the overall results of the privatization efforts under the Program regarding contributing to the economy and providing additional resources to the budget, and the real impact of improved governance on the reduction of corruption and the increase in SOE efficiency. For Indonesia and other developing member countries, it would be valuable to investigate these questions further. IED thus recommends that a program performance evaluation report be prepared, the results of which can be used as the basis for further interventions in the SOE sector in the region.

K. Data Sources for Validation

- (i) ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of Indonesia for the State-Owned Enterprise Governance and Privatization Program*. Manila.
- (ii) ADB. 2005. *State-Owned Enterprise Governance and Privatization Program Progress Report: Release of Second and Third Tranches*. Manila.
- (iii) ADB. 2008. *Program Completion Report on the State-Owned Enterprises Governance and Privatization Program in Indonesia*. Manila.

REGIONAL DEPARTMENT'S RESPONSE TO THE PROJECT COMPLETION REPORT VALIDATION REPORT

On 1 April 2009, the Independent Evaluation Department (IED) circulated the draft Project Completion Validation Report for interdepartmental comments. IED received comments from Southeast Asia Department on 16 October 2009. The Regional Department supports the assessment provided in the report.