



# Validation Report

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Reference Number: PCV:INO 2007-26  
Project Number: 31604  
Loan Number: 1674  
October 2007

## Indonesia: Capacity Building for the Establishment of a Competitive Electricity Market

Operations Evaluation Department  
**Asian Development Bank**

## ABBREVIATIONS

ADB	–	Asian Development Bank
PCR	–	project completion report
EA	–	executing agency
OED	–	Operations Evaluation Department
PLN	–	Perusahaan Listrik Negara (National Power Company)
PSRP	–	Power Sector Restructuring Program
RRP	–	report and recommendation of the President
TA	–	technical assistance

### Key Words

asian development bank, capacity building, Indonesia, electricity market, performance evaluation, power, project completion report, validation.

### NOTE

In this report, "\$" refers to US dollars

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## Operations Evaluation Department (OED) Project Completion Report (PCR) Validation

<b>1. Basic Project Data:</b>		<b>PCR Review Date Posted:</b>		
<b>Project Number:</b>	Project No. 31604-02; Loan No. 1674		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b>	Capacity Building for Establishment of a Competitive Electricity Market	<b>Total Project Costs (\$ million)</b>	20	7.815
<b>Country:</b>	Republic of Indonesia	<b>Loan/Credit (\$ million )</b>	20	7.815
<b>Sector(s):</b>	Energy	<b>Cofinancing (\$ million)</b>		
		<b>Borrower Contribution (\$ million)</b>	0.683, as support in kind: office space and counterpart staff	Actual amount not reported but support in kind was appropriate
		<b>Board Approval (FY)</b>		23 March 1999
<b>Cofinanciers:</b>		<b>Closing Date</b>	1 October 2002	22 December 2004
<b>Financing (\$ million):</b>	Asian Development Fund (ADF)	Ordinary Capital resources (OCR): 100.00		
<b>Evaluator:</b>	Clifford Brown			
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### 2. Project Description as Stated in the Report and Recommendation of the President (RRP)

#### a. Rationale and Expected Impacts:

As stated in the RRP, "Indonesia is in the grip of an unprecedented financial, economic, and social crisis that calls for radical and decisive reforms to restore domestic and international investor confidence. Bank assistance during 1999 will be guided by the short-term interim strategy formulated in response to the crisis. This strategy stresses assisting the Government in implementing major economic policy and institutional reforms, and mitigating the social distress spawned by the crisis. Bank support of the Government's initiative for structural reforms in the power sector is considered essential given the urgent need for reforms to overcome the inefficiencies resulting from overregulation and inappropriate financial policies whose adverse impact on the sector was less apparent during periods of high and sustained growth. Without the reforms envisaged under the Power Sector Restructuring Program (PSRP), the electricity supply industry which is reeling under the impact of the crisis, cannot survive. Ensuring a stable supply of electricity is essential for the country's economic recovery. The Program provides a sound basis for the Government to carry out reform and restructuring of the power sector.

#### b. Objectives or Expected Outcomes:

In the RRP and the PCR only one objective is stated for the TA loan: "...to strengthen the capacity of the Government and the national power company, Perusahaan Listrik Negara (PLN) to facilitate establishment of a competitive electricity market." However, there were more objectives and outputs for the TA loan. The objective of the Power Sector Restructuring Program (PSRP) was "...the actual establishment of a

competitive market for electricity in Java-Bali.” This objective of the PSRP was an expected outcome of the TA loan. From the RRP, a total of nine<sup>1</sup> expected outcomes of the TA loan were identified in this validation:

- (i) establishment of a competitive electricity market in Java and Bali (which includes the capacity of the Government and its auxiliaries to operate and maintain the competitive electricity market);
- (ii) lower tariffs in real terms;
- (iii) improvement in the economic growth, from efficiency gains in the power sector;
- (iv) stakeholder acceptance of electricity tariff increases;
- (v) improvement in poverty reduction resulting from the economic growth and lower tariffs;
- (vi) small consumer awareness and gain in bargaining power;
- (vii) development of appropriate instruments to finance poor electricity consumers;
- (viii) achievement of practical and effective methods of energy conservation to help mitigate the effects of tariff increases; and
- (ix) institutional development.

Note: As stated above, the PCR defined only one specific objective or outcome. The other outcomes identified above are mentioned at different places in the report but are not identified collectively as outcomes.

The RRP defined eight components, identified as parts in the TA loan:

- Part A. developing a competitive electricity market—market rules,
- Part B. developing a competitive electricity market—financial settlement,
- Part C. developing a competitive electricity market—software specifications,
- Part D. developing computer software for operation of a competitive bulk electricity market,
- Part E. providing support for the development of power sector regulatory capabilities,
- Part F. providing support for the power sector restructuring secretariat,
- Part G. assisting in building acceptance of electricity tariff increases, and
- Part H. strengthening consumer participation in a competitive electricity market.

The project design established each of the components as a separate consulting services contract. During the course of the Project, Parts D and F were cancelled, as discussed in para. 3b.

### **c. Outputs:**

Outputs in the RRP and PCR were considered to be identical to the above components. However, in this validation a number of the components are considered to provide more than one output. These outputs are defined in Appendix 1, showing 24 distinct outputs within the six components (i.e., excluding Parts D and F).

## **3. Evaluation of Design and Implementation (evaluator assessment of actual versus envisioned)**

### **a. Relevance of design and formulation**

As reported in the PCR, the concept for the design of the PSRP was outlined in the Government's Power Sector Restructuring Policy in August 1998. The policy aimed to restore financial viability to PLN, establish competition in the Java and Bali power sector, and increase the benefits of private sector participation. The policy was formulated after a series of consultations with key stakeholders in the electricity sector. The implementation plan for the restructuring was also discussed in a workshop held in December 1998, attended by representatives of consumer groups, independent power producers, industry, and multilateral and bilateral aid agencies. Therefore the policy was well vetted by the stakeholders. The design and implementation strategy of the PSRP and related TA loan were consistent with this policy objective. They were also consistent with ADB's 1995 energy policy and its operational strategy to deal with situations arising out of the

<sup>1</sup> In order to understand the impacts arising from the annulment of the new Electricity Law, re paragraph 3.a, it was necessary to identify the detailed outcomes here in paragraph 2.b, and the detailed outputs in paragraph 2.d.

financial crisis. Thus the design of the TA loan was relevant at the start of the Project.

The design of the PSRP and the TA loan was prepared with the view that a draft electricity law being considered by parliament at the start of the Project would be ratified. The PSRP and TA loan started in March 1999. The new Electricity Law was to establish a competitive electricity market and an independent regulatory board, and was enacted on 4 September 2002. However, on 15 December 2004, the Constitutional Court stated that the new Electricity Law contained provisions that contradicted the 1945 Constitution. The court therefore ruled to annul the new Law and to put the old Law No.15/1985 back in place. It is noted that the annulment took place almost 4 years after the Project start date, when the work on the TA loan had just been completed and work on the PSRP was well advanced. The provisions that violated the constitution related to the establishment of a competitive market and the unbundling of the PLN. These were key elements of the PSRP policy framework and therefore prevented the PSRP from meeting its objective and negated much of the work performed under the TA loan.

Since the annulment was so devastating, a question arises with respect to the relevance of the design and formulation of the PSRP and the TA loan. With respect to the TA loan there are four issues; the first two arising from the PCR.

The PCR concludes that, "Overall, the TA loan was relevant to the country's overall development needs at the time of appraisal. As the new Electricity Law was annulled, however, the TA's design and formulation had lost its relevance by the time of its completion." The position of this validation is that the TA loan lost a great deal of its effectiveness and relevance—but not all. The fundamental goal of the PSRP and the TA loan was not a competitive electricity market but increased economic development and poverty reduction. A number of the outputs of the consultants' contracts for the TA loan that were directed toward capacity building and poverty reduction were achieved. These outcomes were small achievements compared to the main expected outcome (a competitive electricity market), but were relevant at appraisal and are today.

Because of delays in implementation of the PSRP and the subsequent need to delay the TA tasks, as described in para. 3c, the PCR, in para. 21, states that, "...the TA Loan would have been better designed if it had been processed after an electricity law had been approved and had been directed to providing support for implementing such electricity law after its enactment." This validation is of the view, considering the complexity of the components and the urgent need for implementation (the original schedule was 36 months to complete all eight components), that there was not much flexibility in the schedule. Therefore, although in hindsight the scheduling of tasks may have been improved it was formulated satisfactorily. This view is supported by the satisfactory completion of the consultants' contracts.

The other design and formulation issues are as follows.

The devastating impact caused by the annulment of the new Electricity Law begs the question: were the risks appropriately considered and addressed in the design of the TA loan? There was certainly knowledge and concern in ADB at the time of appraisal regarding the risks with respect to the performance of the Borrower.<sup>2</sup> However, the annulment of the new Electricity Law by the Constitutional Court in December 2004 is considered by this validation to have been a *force majeure* that it was impossible for the designers of the PSRP and TA loan to have foreseen as a specific risk. It was also an issue beyond the control of the Government and all other parties associated with the design of the TA loan. It was noted that in Part E of the consultants' terms of reference that legal assistance was apparently provided in drafting operating licenses and developing procedural regulations to ensure compliance with Indonesian law. Thus not only the designers of the PSRP and TA loan, but also the legal consultants, the executing agency (EA) and parliament failed to recognize the risk of constitutional conflict. Thus the action of annulment of the new Electricity Law does not indicate lack of diligence in the consideration of risk in formulating the TA loan.

Apart from the actual design of the TA loan, there is a question regarding the basis of design. The PCR and the RRP do not report on the basis of the design of the TA loan. The TA loan was designed for capacity building for restructuring of the power sector. Logically a capacity building project should be designed on the

<sup>2</sup> Re the Record of Discussions at Board Meeting of 23 March 1999.

basis of the needs of the target organization(s), which in turn should be based on some prior study, preferably an organizational study, including staffing needs versus existing staff capabilities. Major infrastructure projects are generally preceded by and based on feasibility studies. Although there probably was a sound basis for the design of the TA loan, the information was not available in ADB files. Thus this validation does not know definitively how relevant the design of the TA loan is with respect to the needs of the Government and its auxiliaries. There is, however, some assurance of relevance since the PSRP and the TA loan were well vetted by many stakeholders. The issue in this paragraph is not the relevance of the design but the absence of a report on the basis of the design of the TA loan in the RRP and PCR to substantiate its relevance.

As indicated above, the PCR rated the TA loan as having lost its relevance. In consideration of the above points and particularly the capacity building achievements and social development outputs, this validation rates the design and formulation, overall, as "partly relevant".

**b. Components (or Key Conditions in the case of Program Loans): Outputs and costs by component as envisioned during appraisal as compared with actual costs and achievement of outputs; reasons for any deviation:**

The TA loan defined eight components as outlined in paragraph 2d above. The components are repeated in the following table, with actual costs at completion shown in comparison with appraisal estimates.

The actual cost of the project, \$7.815 million, was markedly less than \$20 million envisaged at appraisal. The major cost reductions were due to the cancellation of parts D and F of the TA loan. Parts D and F aside, the project costs for the remaining six components of the loan were all close to budget with the total cost being under budget, as shown on the bottom line of the following table. In January 2002, at the request of the borrower, a major change in the TA loan was approved, which was to delete parts D and F from the scope of work.

Part D was cancelled, because of delays in the schedule, as discussed in paragraph 3c. With the delay in the schedule, Part D for computer software development was not needed until 2006, which would require the TA loan to remain active for this one task, an additional 4 years beyond the original closing date. ADB considered it more appropriate to refinance Part D under a later loan (which it did under a loan to the Republic of Indonesia for the Power Transmission Improvement Sector Project.).

Part F was cancelled because the same or similar tasks were being performed under a capacity building project funded by the United States Agency for International Development. Although not specifically reported on in the PCR, it appears that the work under this task was being carried out satisfactorily.

This validation considers that deleting these components and cancelling the corresponding parts of the TA loan was good project management in adapting to changing conditions.

**COMPARISON OF PROJECT COST AT APPRAISAL AND COMPLETION**

(\$000)							
Item		Appraisal Estimate			Actual		
A. Project Cost <sup>a</sup>		Foreign	Local	Total	Foreign	Local	Total
Part A	Developing a Competitive Electricity Market— Market Rules	1,480.00	120.00	1600.00	1159.44	144.49	1303.91
Part B	Developing a Competitive Electricity Market— Financial Settlement	850.00	50.00	900.00	701.88	88.62	790.51
Part C	Developing a Competitive Electricity Market— Software Specifications	651.00	49.00	700.00	465.51	102.30	567.80
Part D	Developing Computer Software for Operation of a Competitive Bulk Electricity Market	7,934.00	1,066.00	9,000.00	0.00	0.00	0.00
Part E	Providing Support for the Development of Power Sector Regulatory Capabilities	3,085.00	315.00	3,400.00	2,925.87	68.33	2,994.20
Part F	Providing Support for the Power Sector Restructuring Secretariat	1,245.00	455.00	1,700.00	0.00	0.00	0.00
Part G	Assisting in Building Acceptance of Electricity Tariff Increases	1,459.00	341.00	1,800.00	1,346.54	209.01	1,555.55
Part H	Strengthening Consumer Participation in a Competitive Electricity Market	841.00	59.00	900.00	482.66	602.57	602.57
Total Project Cost		17,545.0	2,455.00	20,000.0	7,081.90	1,215.32	7,814.54
Total Project Cost excluding Part D and Part F				9,300.00			7,814.54

<sup>a</sup> Foreign and local costs of the Project were included in the TA loan except for the support in kind provided by the Government. Sources: Technical Assistance Loan Agreement and Project Completion Report.

**c. Project Cost, Disbursements, Borrower Contribution, and Conformance to Schedule (as relevant to project performance):**

**Project Cost, Disbursements relevant to Project Performance**

As reported above, the cost of the project was markedly less than envisaged at appraisal, mainly due to the cancellation of Parts D and F. The other six tasks collectively were completed under budget and with satisfactory performance. During the course of the Project the project tasks and disbursements had to be rescheduled because of delays in the PSRP activities, extending the duration of loan effectiveness from the original 42 months to 69 months, as shown in the table below. The disbursement schedule had to be revised on four occasions. However, because there were 6 components with 6 different consulting contracts, the contracts and disbursements were able to be staggered to better meet the prevailing conditions. The delays did not affect the quality of the TA outputs--although the outputs were not effective or only partly effective because of the eventual cancellation of the new Electricity Law. Project cost and disbursements are rated "satisfactory" with respect to performance.

**Key Dates Relating To the Performance and Disbursements:**

Activity		Date	Running Months
Loan Effectiveness		23 March 1999	0
Original Expected Completion of Consulting Services		April 2002	36
Final Disbursement:	-Original Scheduled Date	1 October 2002	42
	-Actual Date	22 December 2004	69

Source: Project Completion Report.

**Borrower Contribution Relevant to Project Performance**

The total cost of the TA loan financed by ADB was \$7.815 million, at completion. The Government provided support in kind, including office accommodation, local transportation and counterpart staff, estimated in the RRP at \$683,000 for the six parts of the TA loan that were implemented. The actual cost of the Government contribution was not reported but the support was considered by the ADB to be appropriate.

**Conformance to Schedule (as relevant to project performance)**

Initially, the TA loan was to be implemented within a period of 36 months, starting April 1999. However, the implementation of the PSRP and the TA were delayed because of changes in PLN restructuring, extension of time to carry out the acceptance of regulatory and institutional changes, adjusting tariffs; and, particularly, a backlog in parliament that slowed deliberation of the new Electricity Law. Nevertheless, the TA work was not derailed and consulting contracts were completed satisfactorily and within budget. The implementation of components under the TA loan and their completion dates are shown in the following table, from the PCR.

**Technical Assistance Implementation by Component**

Component	Contract Completion Date	Completion Date of Deliverables
Part A: Developing a Competitive Electricity Market—Market Rules	31 Mar 2001	Market rules (including specific rules for Batam Grid) developed by December 2003.
Part B: Developing a Competitive Electricity Market—Financial Settlement	6 Aug 2003	Final report submitted in September 2003.
Part C: Developing a Competitive Electricity Market—Software Specifications	31 Aug 2004	Software specifications developed by December 2004.
Part D: Developing Computer Software for Operation of a Competitive Bulk Electricity Market	Dec 2000	Cancelled
Part E: Providing Support for Development of Power Sector Regulatory Capabilities	31 Oct 2002	Final report submitted in October 2002.
Part F: Providing Support for the Power Sector Restructuring Secretariat	Jun 1999	Cancelled
Part G: Assisting in Building Acceptance of Electricity Tariff Increases	31 Jul 2002	Tasks completed (Note 1)
Part H: Strengthening Consumer Participation in a Competitive Electricity Market	1 Jul 2001	Final report submitted in October 2002.

Note 1 Date of completion not indicated in PCR.

Source: Project Completion Report.

#### **d. Implementation Arrangements, Conditions and Covenants, and related Technical Assistance:**

##### **Implementation Arrangements**

The Executing Agency for the PSRP and the TA loan was the Ministry of Finance, and the focal point for policy reforms was the Director General for Electricity and Energy Utilization (DGEEU). An electricity sector restructuring team within DGEEU was responsible for the administration of the PSRP and the TA loan. The team was also in charge of preparing the new Electricity Law and developing the blueprint for implementation. Reports were periodically submitted to ADB by DGEEU. Six consulting firms were engaged to implement the TA loan. Recruitment of the consultants was through competition among short-listed qualified firms in accordance with ADB's *Guidelines on the Use of Consultants*.

ADB closely monitored the implementation of the PSRP and the TA loan through an inception mission and five review missions fielded during the course of the loan, 1999–2004.

Delays in the schedule and annulment of the new Electricity Law were not a consequence of the implementation arrangements. Therefore the implementation arrangements are rated "satisfactory".

##### **Conditions and Covenants**

Conditions and covenants of the TA loan addressed the due diligence, efficiency and sound practices of the technical assistance provided under the loan. According to the project performance reports, throughout the period of the Project, the performance of the Borrower on conditions and covenants was "satisfactory".

It is noted that the completion report to be provided by the Borrower, in accordance with the covenant in the TA Loan Agreement, Section 4.07.c, was not available in ADB files and probably was not submitted by the Borrower. Apart from being noncompliant, if it was not submitted, the completion report of the Borrower with the Borrower's viewpoints on the delays, annulment of the new Electricity Law and Project achievements should be valuable with regard to lessons to be learned. Overall, this validation rates the performance of the Borrower on Conditions and Covenants as "satisfactory".

#### **e. Performance of the Borrower and Executing Agency:**

The PCR did not report comprehensively on the performance of the Borrower and Executing Agency with respect to the management of the TA loan. However, it did report that the Borrower met the conditions and covenants, as indicated in paragraph 3d above. ADB review missions all reported the overall performance of the Project to be "satisfactory" or "partly satisfactory". There were issues of concern with respect to annulment of the new Electricity Law and delays but these were not as a result of the performance of the Borrower or the Executing Agency.

Under the management of the Executing Agency, the outputs by the consultants were completed satisfactorily and within the overall budget. As with the Borrower and Executing Agency, delays in the project schedule and annulment of the new Electricity Law were not attributable to the consultants. There is one issue outstanding: submission of the completion report by the Borrower. Overall this validation rates the performance of the Borrower, the Executing Agency, and the consultants as "satisfactory", in agreement with the PCR.

#### **f. Performance of the Asian Development Bank:**

The project appraisal, design and initiation of the TA loan proceeded appropriately. The ADB review missions fielded during the course of the Project closely monitored the implementation of the power sector restructuring and associated activities under the TA loan. As indicated above, there were issues of concern with respect to delays in the Project schedule, and annulment of the new Electricity Law but these were not as a result of ADB performance.

The PCR and RRP did not specifically identify the pertinent outcomes and outputs of the TA loan. Only one objective was identified in both reports and when this objective was not clearly met, the PCR rated the TA loan as "irrelevant" and "unsuccessful". However, this validation considers that there were nine pertinent expected outcomes and 24 outputs, with some achievements and expected positive impacts. These were not

very significant impacts but they should have been acknowledged. Had the PCR identified the outcomes and outputs in more detail, the Project may have been given a higher level of assessment for capacity building and potential socioeconomic impacts.

The basis of design of the TA loan was not provided in the PCR or the RRP, which should be standard practice in capacity building projects.

The PCR rated the ADB performance in program design and implementation “partly satisfactory”. Overall this validation rates the ADB performance as “satisfactory”, mainly because of its satisfactory management of a complex contract. The above critical comments are on individual issues.

#### **4. Evaluation of Performance (Evaluator assessment):**

##### **a. Relevance**

At the time of appraisal, the design of the PSRP and the TA loan were consistent with the Government’s power sector restructuring policy and ADB’s energy policy. The PSRP and TA loan proceeded with implementation in accordance with that design fully expecting the ratification of the new Electricity Law. The performance of the Borrower, Executing Agency and consultants for the TA was evaluated as “satisfactory” by ADB and therefore “relevant”. All outputs of the TA loan were achieved. No changes in the design were required and the design remained relevant throughout the course of the Project. However, a number of the significant outputs became ineffective and irrelevant as a result of the annulment of the new Electricity Law. It is noted that the Project was completed before annulment of the New Electricity Law and thus it was too late to make any changes in the design of the Project to improve on its effectiveness and relevance.

The PCR did not identify pertinent outcomes and outputs and did not report on the basis of the design. However, although the PCR did not explain the basis of design, because the design was well vetted by stakeholders, it was relevant. This view is supported because the terms of reference for the consultants’ contracts were comprehensive and of a high standard.

Overall this validation rates the performance of the TA loan as “relevant” at the time of appraisal and “partly relevant” at the time of completion of the Project.

##### **b. Effectiveness in Achieving Outcome**

The PCR reported that, “...some actions of the PSRP, relating to tariff adjustments and financial restructuring of PLN were initiated...” The PCR also stated that, “...as a consequence of the new Electricity Law being annulled no progress in the PSRP has been made in PLN’s unbundling, introduction of competitive markets, and establishment of an independent electricity regulator”. Therefore, the TA loan was considered “ineffective” in achieving the TA loan’s anticipated outcome.” This validation agrees with the PCR statement on the facts but does not consider that the TA loan was totally ineffective. It is noted that there is mostly agreement between the PCR and this validation—so that the differences are in assessment of the level of effectiveness and not with respect to the outcomes. For this validation, the main considerations for the assessment of outcomes are that the TA loan was a capacity building project and that capacity building has been performed satisfactorily. The capacity building and training provided through the TA loan should remain with the Government and its auxiliaries in the pursuit of a more effective power sector. There are also a number of potential effective socioeconomic outcomes resulting from outputs achieved by the TA consultants. An assessment of the outcomes, as defined in paragraph 2b, supporting the overall rating of the TA loan as “less effective” (using the terminology of Project Performance Evaluation Report Guidelines).

It should be noted that the expected outcomes of the PSRP were very ambitious—to achieve unbundling of PLN and establish a competitive electricity market. If these outcomes had been achieved, the rating would have been “highly effective”. Since some of the outcomes were achieved, the Project has to have a rating higher than “ineffective”.

### Status and Assessment of Expected Outcomes

Expected Outcomes	Status	Effectiveness and Sustainability
Actual establishment of a competitive market for electricity in Java-Bali.	Although the capacity of the Government and PLN have been strengthened, resulting from the training and association with the consultants, the establishment of a competitive electricity market was not achieved.	Ineffective
Lower tariffs in real terms.	With the need to increase the viability of PLN and without the benefits of a competitive electricity market lower tariffs in real terms are not expected to be achieved in the near future.	Ineffective
Improvement in the economic growth, from efficiency gains in the power sector.	The competitive electricity market was not established and the resulting expected improvement in the economic growth will not be achieved nor sustained. However, this outcome was in a small way partly achieved as a result of Government exercising provisions in the new Law that were not contentious to the Constitutional Court, and allowed purchase of electricity by PLN from independent power producers.	Less Effective  Less likely Sustainable
Stakeholder acceptance of electricity tariff increases,.	Part H was completed satisfactorily and Government has the capacity to achieve and sustain the expected outcome.	Less Effective  Likely Sustainable
Improvement in poverty reduction resulting from the economic growth and lower tariffs.	The competitive electricity market was not established and improvement in poverty reduction is unlikely to come from the power sector in the near future.	Ineffective
Small consumer awareness and gain in bargaining power.	Part H was completed satisfactorily and Government has the capacity to pursue expected outcome but without a competitive market the full benefits will not be achieved.	Less Effective  Likely Sustainable
Development of appropriate instruments to finance poor electricity consumers.	Part H was completed satisfactorily and Government has the capacity to achieve expected outcome but without improved economic status of power sector funding will be a problem.	Effective  Less likely Sustainable
Achievement of practical and effective methods of energy conservation to help mitigate the effects of tariff increases.	Part H was completed satisfactorily and Government has the capacity to achieve and sustain expected outcome.	Effective  Likely Sustainable
Institutions development.	Achieved through training and association with the consultants. Cannot be totally utilized.	Less Effective  Likely Sustainable.

### **c. Efficiency in Achieving Outcome and Outputs**

The PCR claims the outputs became irrelevant because of the annulment of the new Electricity Law and therefore it considered the TA loan “inefficient”. However, this validation has pointed out that the TA loan was partly effective. As for its efficiency, if the outcome is low (“less effective”) compared to the input then the efficiency is low (or “inefficient”). Thus this validation agrees with the PCR and rates the outcome of the TA as “inefficient”.

### **d. Preliminary Assessment of Sustainability**

The PCR states that, “As the Electricity Law was annulled the Project’s sustainability is “less likely” unless further reforms are undertaken.” Because of the Constitutional Court’s decision with respect to unbundling of PLN and the competitive electricity market, further major reforms are expected to be slow in coming. Some expected outcomes have been achieved and are expected to be sustainable. However, the expected outcomes that have not been achieved (unbundling of PLN, establishment of a competitive electricity market) are those that would have had the most impact. Therefore the sustainability of the TA outcomes is mixed and, overall, this validation rates the sustainability as “less likely” in agreement with the PCR.

### **e. Impact (both intended and unintended)**

The PCR states that, “the TA Loan did not achieve its purpose, there are no impacts identified in terms of poverty reduction, the environment, and social protection.” This validation has a somewhat different view. Certainly with the competitive electricity market not being achieved, the intended impacts--expected Improvement in the economic growth from efficiency gains in the power sector, improvement in poverty reduction resulting from the economic growth and lower tariffs in real terms--have been lost. On the negative side, there has probably been an unintended and demoralizing impact on the staff who supported and worked diligently towards the PSRP and TA loan objectives. However, without diminishing those losses, following from its assessment of relevance and effectiveness above, this validation notes that the TA loan did achieve all of its outputs and a number of expected outcomes in whole or in part. A significant positive impact is that, following the satisfactory completion of the consulting contracts, the Government and its auxiliaries have acquired some capability with respect to establishment and operation of a competitive electricity market, which is still the ultimate objective of the Government for the power sector. Similarly the effective and partly effective social outcomes identified in the Status and Assessment of Expected Outcomes,--small gains in consumer awareness and in bargaining power, development of appropriate instruments to finance poor electricity consumers, achievement of practical and effective methods of energy conservation to help mitigate the effects of tariff increases--should have positive impacts on the social well being of the electricity consumers. Project impacts have yet to fully appear—and no monitoring and evaluation of project outcomes has been reported. Therefore the impacts, although expected, are still to be substantiated. This validation thus rates the impacts as “moderate”.

## **5. Overall Assessment, Lessons, and Recommendations (Evaluator assessment):**

### **a. Overall Assessment**

The quality of the outputs was “satisfactory”. The delays in implementation, although significant, were manageable and the Project was completed under budget. Two of the eight components were cancelled in the TA loan, but were accomplished through other contracts. Annulment of the new Electricity Law and subsequent failure to achieve a competitive electricity market was devastating for the PSRP and the TA loan main objectives but this was beyond the control of Government and ADB. Issues that were questioned: the absence of an identification of pertinent outcomes and outputs and of a report on the basis of design of the TA loan were individual issues that did not detract from the value of the Project. Much was accomplished in capacity building and some of the expected outcomes for socio-economic development can be pursued following completion of the Project. Overall the TA loan was “partly successful.”

## b. Lessons

Two lessons were identified in the PCR. This validation agrees with the one lesson, which is:

- (i) In implementing a program of power sector reforms, thorough policy research and design, along with adequate assessment of the constitutional and legal constraints, should be ensured at the time of program formulation.

The second lesson from the PCR is stated as:

- (ii) As the TA loan was formulated prior to adoption of the New Electricity Law, some of its components had to be adjusted, delayed, or even cancelled. With hindsight, the TA loan should have been provided after enactment of the new Electricity Law so as to provide targeted support to implementation of the law. In this validation, the problem vis-à-vis the new Electricity Law was not to provide targeted support but rather to address risks carefully. And the designers did consider the risks carefully but this particular risk of annulment was not identified. In project scheduling one cannot always wait until all risks are identified before proceeding with implementation. Therefore the lesson that the designers did address but to be reinforced is to address risks carefully in Project design.

This validation would add two further lessons.

- (iii) The basis of the design of capacity building projects should be included in the appraisal for capacity building projects and reported in RRP and PCRs, particularly to show relevance.
- (iv) All of the outcomes and outputs should be identified in the RRP, in the design and in the PCR, to keep the Project focused and to monitor and evaluate achievements.

## c. Recommendations

This validation agrees with the five recommendations identified in the PCR, which are paraphrased below.

### 1. Project Related

- (i) **Future Monitoring.** For the Indonesian power sector, ADB should monitor the preparation of a new electricity law and engage the Government in high-level policy dialogue. It is recommended that a new electricity law, while respecting the Constitution, should retain the spirit of the annulled law and be quickly followed by implementing regulations.
- (ii) **Further Action or Follow-Up.** As PLN will continue to dominate the sector in the foreseeable future, its institutional capacity should be strengthened in such areas as project planning and implementation, financial management, and corporate governance.
- (iii) **Additional Assistance.** As planned new generation projects will not be available until 2010, the Government has identified energy efficiency as a tool for reducing the demand and distribution losses. ADB may consider providing assistance to support energy efficiency and cost-reduction efforts in order to improve PLN's overall efficiency and to reduce subsidies.
- (iv) **Timing of the Project Performance Evaluation Report.** Since this TA loan was processed and implemented along with PSRP, it is recommended that the Project Performance Evaluation Report of the TA loan be conducted together with that of PSRP.<sup>3</sup>

### 2. General

- (i) When designing a complex sector reform program in ADB's member countries, ADB should engage the services of a qualified domestic legal expert to ensure the legality of the reform package.

<sup>3</sup> Without expressing an opinion, it is noted that this recommendation was not adopted for this Project.

## 2. Recommendations Supplementary to the PCR

- (i) In appraising capacity building projects (or projects with capacity building components) the basis of the design should be appraised. The needs versus the capacity of the target organization(s) should be assessed and reported in the RRP, particularly to show relevance.
- (ii) ADB should obtain a copy of the Borrower's completion report, in accordance with Article 4.07 (c) of the TA Loan Agreement. The Borrower should be requested to address in detail the reasons why the Constitutional Court's decision came as a surprise.

## 6. Monitoring and Evaluation (M&E) Design, Implementation, and Utilization (Evaluator assessment):

There is no M&E design referred to in the RRP or the PCR. In the RRP:

item 21 states, "... the proposed working group on participation and Government regulators... will closely monitor and assess the impact of tariff changes during the program period". However this activity is apparently designed to obtain acceptance of proposed rate changes rather than any social pursuits.

In the terms of reference for the consulting services contract Part G, item 4, Support for Poor Households, there is an appropriate design for socioeconomic development, i.e., item 6 (i) "...explore alternatives to the present (power sector) structure to improve the targeting of poor households." etc. However there is no monitoring or evaluation specified.

It may be that M&E design and implementation is being performed by the Government and its auxiliaries but this is not reported in the RRP and PCR.

## 7. Other (safeguards, including governance and anticorruption; fiduciary aspects):

Safeguards on social issues were well handled through the consultancy contracts, particularly the following.

Part E: Support the creation of an autonomous regulatory body with, among other responsibilities, (i) conducting studies of the social impacts of overall tariff levels and alternative rate designs on each retail customer class, particularly small, rural, and poor customers, and (ii) developing and administering programs to educate customers regarding the restructuring of the power sector and to solicit consumer participation in its regulatory processes.

Part H: Strengthening consumer participation in a competitive electricity market.

There were no environmental issues addressed in the design of the Project, and none were necessary. It is considered that any environmental issues would be indirect, resulting from expansion of the power sector.

Governance, anticorruption and fiduciary aspects were not tasks within the scope of work for the TA loan but the TA loan and all of the consultancy contracts were subject to the standard ADB provisions on these subjects and have been monitored through the ADB review missions. There were no problems identified during the course of the Project on these issues.

<b>8. Ratings:</b>	<b>PCR</b>	<b>OED Review</b>	<b>Reason for Disagreement/Comments</b>
Relevance:	Irrelevant	Partly Relevant	This validation gives more credence to the achievements of the TA objectives, particularly the capacity building and socio-economic outcomes.
Effectiveness in Achieving Outcome:	Ineffective	Less Effective	This validation considered more outputs could be achieved and thus more effective or less (partly) effective outcomes.
Efficiency in Achieving Outcome and Outputs:	Inefficient	Inefficient	
Preliminary Assessment of Sustainability:	Less Likely	Less Likely	
Performance of Borrower and EA:	Satisfactory	Satisfactory	
Performance of ADB:	Partly Satisfactory	Satisfactory	PCR says that “the TA Loan would have been better designed if it had been processed after an electricity law had been approved...” This is true, however the real damage was the annulment of the new Electricity Law. Had the law been allowed to stand (as any experienced designer would have expected) the project performance would have been satisfactory. This was a case of force majeure and ADB’s performance was therefore “satisfactory”.
Impact:	Negligible <sup>4</sup>	Moderate	The PCR does not credit the TA loan with any significant positive impacts, whereas this validation considers that the capacity gained by the Government and its auxiliaries and the socioeconomic outputs of the TA will provide continuing positive impacts on the power sector and the social environment.
Overall Assessment:	Unsuccessful	Partly Successful	This validation has considered that there are more potential positive impacts from the TA loan than were identified in the PCR.
Quality of PCR:		Satisfactory	Although this validation has taken a number of different positions with respect to the performance of the TA loan, nonetheless all of the important information on the project is in the PCR for the reader to form his or her own opinion and therefore is satisfactory.

<sup>4</sup> The PCR does not make a specific statement on Impact but does provide the following comment, “As the TA Loan did not achieve its purpose, there are no impacts identified in terms of poverty reduction, the environment, and social protection. However, the delay in the power sector’s restructuring may affect the needed investment in the power sector through private sector participation and public-private partnership. That, in turn, will negatively affect socioeconomic development in the country.” This validation has considered this to be a negligible rating for Impact. This validation does not agree with this assessment. Whatever the TA Loan did not achieve is a lost impact or a do nothing situation, not a negative effect.

**9. Comments on PCR Quality:**

Some minor comments are:

The PCR and RRP did not indicate the design basis of the TA loan. The loan is for capacity building. Logically, a capacity building project should be designed on the basis of the needs of the target organization(s) which in turn should be based on some prior study, preferably an organizational study, including staffing needs versus existing staff capabilities.

The PCR and RRP did not specifically identify a number of pertinent outcomes and outputs of the TA loan. Only one objective was identified in both reports, whereas this validation considers that there were nine pertinent outcomes and 24 outputs in the TA loan. Had the PCR identified the outcomes and outputs in more detail and assessed them individually, a higher level of assessment may have been given to of the Project for capacity building and possible socioeconomic impacts. However, although not identified as outcomes and outputs, all the outcomes and outputs were nonetheless mentioned in the reports and in the design and implementation of the Project.

The PCR is dated May 2007, 2.5 years after Project closing date of December 2004. No explanation is provided for the long preparation period. Such a delay brings the quality of the report into question.

Notwithstanding these comments, the PCR is well written and generally complete in content. Substantial documentation and analysis has been provided to support the conclusions and recommendations. The assessment levels on performance are judgments and the PCR is considered as being fair but somewhat reserved in its assessment of the performance of the Project. Overall, the PCR is rated as "satisfactory".

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

On 9 September 2007, Director, OED2, Operations Evaluation Department (OED), received the following comments from the Energy Division of Southeast Asia Department.

1. We note that OED's validation report rates the technical assistance (TA) loan as "Partly Successful" which is different from project completion report's (PCR) "Unsuccessful" rating. We understand that OED's favorable rating is mainly based on the fact the TA loan was substantially completed prior to the annulment of the Electricity Law that rendered TA loan's main outputs irrelevant. Had the PCR been done before the electricity law was annulled, it would have rated the TA loan as "Partly Successful." This is also the case for Loan 1673-INO for Power Sector Restructuring Program (PSRP) to which this TA loan was piggy-backed. However, as the PCR was prepared in 2007 when it became very clear that the outputs of TA loan, so far as the establishment of a competitive market—the main objective of the TA loan—is concerned, are no longer relevant. Furthermore, there is a continued delay in formulating a new Electricity Law. Based on these aspects, we suggested the above rating for the TA loan in the PCR that is lower than that given to PSRP in 2004.

2. We take note of OED's comments on the need for identifying pertinent outcomes and indicating the basis of the TA loan design in the PCR. We will ensure these points are taken into account in the preparation of future PCRs.