

MANAGEMENT RESPONSE TO THE COUNTRY ASSISTANCE PROGRAM EVALUATION FOR INDONESIA

On 24 January 2006, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

1. Management acknowledges the consultative approach adopted by the Operations Evaluation Department (OED) in the preparation of the Indonesia Country Assistance Program Evaluation (CAPE). In particular, Southeast Asia Department (SERD) staff have been consulted from early on in the process that culminated in high-level country consultations with the Government and other development partners. The timing of the CAPE has also been opportune for preparing the new Country Strategy and Program (CSP) for 2006–2009 for Indonesia, with feedback flowing both ways between SERD and OED.

2. In general, we concur with the general thrust of the CAPE findings, lessons, and recommendations. A principal caveat needs to be made in interpreting and utilizing the directions outlined in the CAPE. The assessment covers one of the most dynamic periods in Indonesian history, shaped by unprecedented political and economic events. While Indonesia has gradually come out of crisis, it faces significant new challenges following its decentralization and democratization. While ADB's earlier operations over 1990–1996 had indeed provided us with valuable insights and country experience, the rapid political and economic transition stemming from the Asian Financial Crisis has led to a significant re-learning process. Institutional and coordination mechanisms have changed in policy, legal, and regulatory arenas, in effect making the last 5–6 years much more relevant to future operations than the 15 year timeframe covered under the CAPE. At the same time, institutional structures and Government's thinking are still evolving with regard to reform directions.

3. Correspondingly, while not disputing the conclusion of the overall assessment, we query the applicability of the method used in paragraph 192. Weighting and adding the assessment under the different evaluation criteria may be appropriate for relatively narrow operations with fixed objectives. But over a 15 year period containing substantial changes in conditions and objectives and where accountability is diffuse, it seems illogical, and can detract from the pertinent lessons and conclusions.

A. General Lessons and the Government's Views

4. We concur with the general lessons highlighted, such as ADB's comparative advantage, direct and indirect support for poverty reduction, focus on governance, and on investment climate. On comparative advantage, however, we wish to note that the energy sector has been the largest in terms of sectoral share of loans where ADB-supported projects have also performed in a satisfactory manner.

5. It is suggested in para. 198 that loans are provided for project preparation. The current approach involves the preparation of fairly detailed subproject proposals at the local levels, which in many cases has prolonged the project preparatory phase. However, given the level of decentralization and the emerging onlending and ongranting arrangements, loans for feasibility studies at the decentralized levels would also entail significant transactions costs. Further, since such loans will need to be approved through the budgetary process, the prospects of local and central governments borrowing for this purpose are not clear. It should further be noted that project readiness filters have been developed by the government already, for approval of projects and programs.

6. On geographic coverage (para.196), there have been substantial costs of dispersed operations. However, we wish to note that this is of relevance primarily for social and agriculture-related sectors and for investment operations. In other cases, particularly economic infrastructure of national importance, different criteria need to be adopted for geographic targeting. It is also to be noted that policy-based operations in all sectors by their character are national in nature.

7. The CAPE recommends that an action plan be prepared on governance and anticorruption (para. 203). ADB has participated in the formulation of such action plans with other development partners, both domestic and external. Summary recommendations are available in the Country Governance Assessment as well as other submissions to the Government. What is critical is to provide the necessary follow-up support and facilitate reforms already outlined in those action plans over the course of the new CSP period. The reference to a wide band of stakeholders for effective governance partnerships is noted.

8. Box 14, page 53, outlines the Government's views in a number of areas. ADB is working closely with the Government on these fronts. For instance, detailed discussions have taken place on local currency bond issuance. Efforts are underway to address quality at entry. ADB's flexible approach adopted in the Local Government Finance and Governance Reform Sector Development Program and the Development Policy Support Program¹ is consistent with Government's ownership on policy reforms. Portfolio management is a key function of the Indonesia Resident Mission (IRM), and there has already been a substantial improvement in the portfolio.

B. CAPE Recommendations

9. The general spirit of the recommendations will be taken in the design of the forthcoming CSP. Due consideration will be given to the items referred to in *Recommendation 1*. Correspondingly, the skills mix and internal structure of IRM is being actively assessed (*Recommendation 3*).

10. *Recommendation 4* on reducing transaction costs of monitoring poses considerable challenges, as both the Government and ADB seek to sharpen our

¹ Loan 2192/2193-INO: Local Government Finance and Governance Reform Sector Development Program, approved on 3 November 2005. Loan 2228-INO: Development Policy Support Program, approved on 21 December 2005.

focus on results. There is serious attempt in all cases to use existing information systems, including those established by other development partners. Yet, there are additional needs in the highly-decentralized environment that do impose additional costs. Outcome and impact monitoring is critical. ADB will collaborate with other development partners to support the emergence of effective country-wide monitoring and evaluation systems.

11. It needs to be appreciated that *Recommendation 6* is not about simply expanding ADB's private sector operations in Indonesia. The new CSP will promote enhanced collaboration and coordination between public and private sector operations. The Government is being introduced to ADB's new lending initiatives. SERD will work closely with the Private Sector Operations Department (PSOD) in promoting private sector development and operations.