

**MANAGEMENT RESPONSE TO THE PROJECT PERFORMANCE AUDIT REPORT
ON THE HIGHER EDUCATION PROJECT IN INDONESIA
(Loan 1253-INO)**

On 17 March 2005, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

1. Management finds the report well prepared and contains a thorough analysis. The issues and lessons given are pertinent to future projects in the sector.

2. The Project Completion Report rated this project successful. The PPAR also rates the Project as successful. While the project had a substantial institutional development impact, it is noted that sustainability is less than the desired in a difficult period.

3. The Project, approved in 1992 and closed in 2000, was implemented during a period of significant changes, the most important being the financial crisis having impact on the second half of its implementation. The crisis put a heavy fiscal burden on the Government, and the universities had to generate revenues from sources other than the state budget. However, during the crisis, external sources were limited and the proportion of other revenues remained small, which made the Project's financial sustainability less likely for many universities. Cost recovery and revenue enhancement remain an important issue for future operations.

4. Five key issues emerged from the evaluation of this operation: the need to (i) integrate the Project's benefit monitoring and evaluation (BME) systems into the normal operations of the project universities; (ii) improve the operations and maintenance (O&M) of project facilities; (iii) increase cost recovery; (iv) update program curricula; and (v) improve networking activities with private universities and enterprises.

5. Management notes that the three key issues of PPAR [items (iii) to (v)] have already guided the design of the ongoing Loan 1792-INO: *Technological Professional Skills Development Sector Project* (TPSDSP) approved in November 2000, and will continue to guide any future higher education project.

6. ADB has also addressed recently the key issue item (i). It has ensured that the TPSDSP BME will be integrated into the management information system of the Directorate General for Higher Education (DGHE) as well as to the 74 participating universities and higher education institutions. The integration of the systems, which is already well on its way, is recorded in an MOU from a recent project review mission signed by DGHE and ADB on 10 January 2005.

7. As to recommendation item (ii) that the 74 project institutions should prepare preventive O&M plans, Management agrees that this is important. The implementation of this recommendation under TPSDSP, including detailed

procedures and funding requirements, will therefore be a major subject for the next project review mission planned later this year.

8. Finally, Management notes the PPAR recommendation that any future employment-related project should be designed in consultation with key private enterprises. There will be a need to ensure a balance between requests of single and dominating local enterprises and the needs of the local, regional, or national labor markets more generally. While private higher education institutions may choose to supply skilled labor force for a few local enterprises, state universities will have to maintain broader objectives for their study programs.