



Validation Report

Reference Number: PVR-214
Project Number: 39597
Loan Number: 2221
December 2012

Indonesia: Rural Infrastructure Support Project

Independent Evaluation Department

Asian Development Bank

ABBREVIATIONS

ADB	-	Asian Development Bank
BAPPENAS	-	Badan Perencanaan dan Pembangunan Nasional (National Development Planning Agency)
CDD	-	community-driven development
DGHS	-	Directorate General of Human Settlements
EIRR	-	economic internal rate of return
MDGs	-	Millennium Development Goals
O&M	-	operation and maintenance
PCR	-	project completion report
PKPS-BBM	-	Program Kompensasi Pengurangan Subsidi Bahan Bakar Minyak (Fuel Subsidy Reduction Compensation Program)

NOTE

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

Key Words

adb, asian development bank, community development, indonesia, infrastructure, irrigation, multisector, poverty, rural access, rural roads

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PROJECT BASIC DATA

Project Number:	39597	PCR Circulation Date:	Jan 2010	
Loan/Grant Number:	2221	PCR Validation Date:	Dec 2012	
Project Name:	Rural Infrastructure Support Project			
Country:	Indonesia		Approved (\$ million)	Actual (\$ million)
Sector(s):	Multisector	Total Project Costs:	60.82	62.37
ADB Financing: (\$ million)	ADF:	Loan/Grant:	50.00	51.10
	OCR:	Borrower:	5.97	6.34
		Beneficiaries:	4.85	4.93
		Others:	0.00	0.00
Cofinancier(s):		Total Cofinancing:	0.00	0.00
Approval Date:	19 Dec 2005	Effectiveness Date:	29 Jun 2006	20 Jun 2006
Signing Date:	29 Mar 2006	Closing Date:	31 Mar 2009	11 Aug 2009
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ADB = Asian Development Bank, ADF = Asian Development Fund, IED2 = Independent Evaluation Department (Division 2), OCR = ordinary capital resources, PCR=project completion report.

I. PROJECT DESCRIPTION

A. Rationale

1. The Government of Indonesia's National Poverty Reduction Strategy identified the lack of basic infrastructure in rural areas as an underlying cause of poverty. Its Medium-Term Development Plan, 2004–2009 underscored the need for investing in rural infrastructure to reduce poverty. The plan identified investment needs of about \$145 billion in infrastructure, which were deemed necessary to maintain a sustained gross domestic product growth rate of 6% and to make steady progress toward achieving the Millennium Development Goals (MDGs) during the plan period. Of these, public sector requirements were estimated at about \$25 billion for infrastructure in rural areas that was traditionally unattractive for the private sector. However, following the 1997 Asian economic and financial crisis, investments in infrastructure drastically declined from \$16 billion in 1996 to \$3 billion in 2001 to \$1.5 billion in 2002.

2. The need for rural infrastructure investments became more apparent with the government's ambitious plan to reduce fuel subsidies. The reduction was expected to result in higher transportation and energy costs. These were projected to aggravate poverty levels and could lead to slippages in progress toward attaining the MDGs. To mitigate these impacts, and aid the poor and near poor, the government adopted a number of measures, including the rural infrastructure component of the Fuel Subsidy Reduction Compensation Program (Program Kompensasi Pengurangan Subsidi Bahan Bakar Minyak [PKPS-BBM]). This scheme was to provide basic infrastructure to rural communities. In view of resource constraints, the coverage of the PKPS-BBM in 2005 was limited to about 12,800 villages (20% of total) in Indonesia. In 2006, the PKPS-BBM targeted an additional 9,000 villages. The Rural Infrastructure Support

Project of the Asian Development Bank (ADB)¹ was to support expansion of the government program for an additional 1,800 villages which had a high incidence of poverty and poor rural infrastructure. This addition was to raise the overall program coverage to 23,600 villages.

B. Expected Impact

3. The project aimed to improve the welfare of participating communities. Impact indicators in the design and monitoring framework included the following: (i) at least 50% of beneficiaries satisfied with improved services, and (ii) 20% improvement over the baseline in achievement levels of MDGs relating to eradicating poverty and hunger and providing safe water. Both targets were time bound and were expected to be realized by the 60th month of the project's implementation.

4. In addition, the project intended to provide the following social benefits. It was anticipated that selected villages were to have improved poverty levels, through poverty targeting, and better access to water and sanitation. Water supply and sanitation related interventions were to reduce time and costs in obtaining good quality water while diminishing the incidence and severity of water-borne diseases. Moreover, improvements in rural roads were to increase the availability and accessibility of education and health services to the rural poor. The interventions aimed at improving access to safe drinking water were expected to benefit women especially.

C. Objectives or Expected Outcomes

5. The project intended to improve access of the poor and near poor in the rural areas to basic infrastructure services. By the 60th month, the following outcome performance indicators were expected to be realized over the baseline: (i) 20% reduction in transportation costs for communities opting for the rehabilitation and improvement of rural roads; (ii) 20% reduction in time spent collecting water in direct beneficiary households for communities opting for the rehabilitation and improvement of water supply schemes; (iii) 20% of direct beneficiary households gain access to improved sanitation facilities in communities opting for the rehabilitation and improvement of sanitation schemes; and (iv) 10% increase in production levels of direct beneficiaries in communities opting for the rehabilitation and improvement of village irrigation schemes.

D. Components and Outputs

6. The project had two major components: (i) infrastructure rehabilitation and improvement; and (ii) implementation, monitoring, and coordination support. Under component (i), expected outputs were the following: (a) improved capacities of communities to plan, implement, and maintain rural infrastructure; (b) improved governance in provision of rural infrastructure; (c) provision of priority infrastructure to the communities; and (d) generation of jobs for communities. For component (ii), the project was expected to improve local government capacities for facilitating, supporting, and monitoring community-driven development.

¹ ADB. 2005. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Indonesia for the Rural Infrastructure Support Project*. Manila.

E. Provision of Inputs

7. At appraisal, the project cost was estimated at \$60.82 million, of which ADB was to finance \$50.15 million. The government was to contribute \$5.97 million and beneficiaries \$4.85 million. At completion, the actual project cost was \$62.37 million, of which ADB financed \$51.10 million. The government financed \$6.34 million and the beneficiary \$4.93 million. In August 2007, the government requested for a reallocation of the loan proceeds to cover shortage of funds for civil works due to significant appreciation of the rupiah. The amount of \$182,000 was reallocated to civil works to cover the shortage.

8. The project engaged domestic consultants for 750 person-months using government funds, and an international financial management specialist for 4 person-months using loan proceeds. In addition, the project engaged facilitators serving in the villages for 5,000 person-months using government funds. The civil works financed under the village grants were contracted out following ADB procurement guidelines. The performance of consultants and suppliers were generally satisfactory. However, the facilitators' performance was less than satisfactory, which was reflected in the low technical standard of infrastructure under the project and the lack of attention in maintaining more complex infrastructure investments.

F. Implementation Arrangements

9. The project was implemented as part of the rural infrastructure component in the government's ongoing PKPS-BBM. The project utilized the existing implementation arrangements and mechanisms. The Ministry of Public Works through its Directorate General of Human Settlements (DGHS) was the executing agency for the project. The PKPS-BBM National Coordination Team and national steering committee for rural infrastructure provided policy guidelines and direction during implementation. The National Coordination Team was chaired jointly by the National Development Planning Agency (Badan Perencanaan dan Pembangunan Nasional [BAPPENAS]), the Ministry for Economic Affairs, and the Ministry for People's Welfare. Governors established multiagency committees in the provinces, as did district heads in districts that had coordination and monitoring functions similar to those of their national counterparts. The project coordination and monitoring unit was set up in the DGHS and headed by a qualified project manager. Project implementing units were established nationally, in provinces (provincial project implementation units), and in districts (district project implementation units). Each participating village established a community implementation organization, which was either an existing formal or informal village organization or a new project organization. To assist in project implementation, 1,392 facilitators were deployed to provide technical assistance and build the capacity of villagers.

10. Loan covenants were fully complied with, except for two that were partly complied with. These partial compliances pertained to the absence of operation and maintenance (O&M) plans in about one-third of villages and failure to post financial information in public in all villages.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

9. The project completion report (PCR)² rated the project *highly relevant* at completion. It claimed that the project was consistent with government and ADB policies to reduce poverty in

² ADB. 2010. *Completion Report: Rural Infrastructure Support Project in Indonesia*. Manila.

rural areas by addressing development issues related to basic infrastructure and using a community-driven development (CDD) approach in project implementation.

10. The project was part of the government's PKPS-BBM rural infrastructure component, which was a key component of its poverty reduction program at that time. The CDD empowered communities to prioritize, design, and implement infrastructure development according to their needs. This approach provided communities with the opportunity to be involved in formulating investment projects, which contributed significantly to community ownership. CDD projects have since become the foremost instruments for poverty reduction, local capacity building, and service delivery in Indonesia.

11. At completion, the project helped improve the welfare of about 2 million people in 1,840 poor communities by providing basic infrastructure and access to local markets and social services. The success of the project encouraged the government to seek additional assistance from ADB to improve basic rural infrastructure under the National Program for Community Empowerment (Program Nasional Pemberdayaan Masyarakat [PNPM Mandiri]) program using CDD. Consequently, ADB approved two subsequent projects to support the improvement and rehabilitation of rural infrastructure using the CDD approach.³ The design of the project as envisaged at appraisal was followed up. No changes were made during implementation. This validation notes that the project and its pilot CDD approach were proven to work well and were followed up by two other ADB-financed projects.⁴ Furthermore, the 2006 PNPM Mandiri flagship program adopted the approach. It was also designed to empower the local communities in decision-making.

12. This validation rates the project *relevant* as it had a good design and well aligned to government and ADB strategies. Even if the selection mechanism was well in place, community participation still had a few weaknesses. For example, some communities lacked the capacity to handle financial reporting. There were also cases in some villages, accounting records had not been shared with community members, and information on investment plans, budgets, procurement and contracts had not been disseminated (see para. 14 of PVR). Hence, the PCR's *highly relevant* rating could not be justified since aforementioned issues showed weaknesses in project design.

B. Effectiveness in Achieving Project and/or Program Outcomes

13. The PCR rated the project *effective* in achieving outputs and outcomes. According to the PCR, the project rehabilitated and improved some 4,000 kilometers (km) of rural roads, 351 bridges, 25 boat landings, more than 128 km of irrigation and drainage canals, 365 irrigation systems, 180 water standpipes, 510 domestic water reservoirs, 440 shallow wells, 120 deep wells, 650 km of pipelines, and 340 communal sanitation facilities. Some 85% of the allocation was used for roads and bridges, 11% for domestic water supply, 2% for irrigation and drainage, and 1% for sanitation. Infrastructure was upgraded in 521 villages in East Java, 581 villages in East Nusa Tenggara, 445 villages in South Sulawesi, and 293 villages in South East Sulawesi. Additionally, on average, community members received Rp20,000 per day for construction

³ The Rural Infrastructure Support to PNPM Mandiri Project (Loan 2449-INO) was approved in September 2008 for \$50 million. In November 2009, the Rural Infrastructure Support to PNPM Mandiri Project II (Loan 2575-INO) was approved for \$84 million in November 2009.

⁴ These are Loan 2449-INO (SF): Rural Infrastructure Support to PNPM Mandiri Project, approved in September 2008 for \$50 million, and Loan 2768-INO: Urban Sanitation and Rural Infrastructure Support to PNPM Mandiri Project approved in August 2011 for \$100 million.

work, providing additional income and motivation for participation in civil works. However, the PCR indicated that field visits and monitoring reports revealed that the standard of infrastructure constructed under the project varied.

14. At appraisal, it was envisaged that about half of the targeted villages were to be covered in 2006 and the remaining villages by the end of 2007. However, at the start of the project, the DGHS decided to implement civil works in a single batch from 2006 to mid-2007. Thus, 96% of the projected activities were completed in 2006, while the remaining civil works were accomplished in 2007. While this may appear impressive, fast-tracking community mobilization limited community participation in many activities. Nonetheless, this validation is of the view that substantial progress was made in rehabilitating and/or improving rural infrastructure facilities. Hence, this validation rates the project *effective* in achieving outputs and outcomes.

C. Efficiency of Resource Use in Achieving Outputs and Outcomes

15. Expected physical outputs were completed ahead of schedule, indicating that the implementation process was efficient. The competence of the project coordination and monitoring unit in the DGSH and the commitment of the project implementation units in all participating provinces and districts contributed to the efficient implementation of the project. The cost of infrastructure using CDD was reported to be about 40% less than similar works using other procurement methods (PCR, para. 44). Civil works did not require high levels of expertise, with untrained rural labor performing these. However, in some cases, technical implementation of civil works was below standard (PCR, para 47). In these cases, technical supervision and the technical skills of consultants and facilitators were not adequate for the requirements of the tasks.

16. While fast tracking helped to achieve outputs early (para. 14), it limited community participation in many activities. For example, community participation in prioritizing investment needs and designing project proposals were not sufficient in many villages. Based on the audit report of 2006, it was noted that there was lack of capacity in some communities to handle financial reporting. In some villages, accounting records had not been shared with community members, and information on investment plans, budgets, procurement, and contracts had not been disseminated.⁵ Many villages were reported to have not received the necessary guidance for undertaking sound assessments on problems and opportunities for village development. The facilitators' limited experience and lack of support from consultants and district administrators resulted in weak facilitation of activities and civil works in the community. The potential therefore of the project to empower communities and build their capacity for community planning and development was only partly realized

17. The estimated economic internal rates of return (EIRRs) of sample subprojects⁶ were generally above 30%, if 5% of the initial capital investment is allocated for annual O&M and the project life is 10 years. If no O&M is allocated and project life is 5 years, with the benefits reduced by 20% annually, the EIRR of the subproject ranges from 15% to 22% (PCR, Appendix 8). These estimates indicate that the sample subprojects were economically viable. The PCR rated the project *efficient* and this validation concurs.

⁵ Based on observations of the PCR mission.

⁶ The sample subprojects were rural road rehabilitation, installing a new system of domestic water supply, and irrigation improvement.

D. Preliminary Assessment of Sustainability

18. The PCR rated the project *likely to be sustainable* because there were significant indications that investments made in the villages were relevant to the communities, and that the upgraded and built infrastructure was therefore. It claimed that the DGHS has realized the importance of O&M and requested the provincial and district administrations to provide additional support to the communities. This validation assesses that outcomes of the project are *likely sustainable*. The investments made are relevant to the needs of the communities. There is strong community ownership on these investments and therefore it is likely that villagers would be interested to maintain the infrastructure constructed under the project. Furthermore, the infrastructure investments of the project are generally simple and easy to maintain. The risk lies on the lack of adequate attention to maintain more complex infrastructure investments. Nonetheless, villagers may be mobilized and encouraged by district administrators to participate regularly in maintaining the infrastructure.

E. Impact

19. The PCR noted that the project has contributed to improving the welfare of participating communities and achieved the goal of improving the access of the poor and near poor in rural areas to basic infrastructure and services. About 2 million people in 1,840 villages benefited from the project. The positive outcomes of the project included improvement in road access to markets, better water supply and irrigation facilities, improved supply of basic goods, and greater access to education and public services. The active participation of communities in preparing investment plans and constructing infrastructure contributed to the increased capacity of communities for planning and development and good governance. The project generated employment of about 2,700 person-days per village (PCR, Appendix 8). There was no estimate on the project's poverty impact. Overall, this validation is of the view that project impact is *significant*.

III. OTHER PERFORMANCE ASSESSMENTS

A. Performance of the Borrower and Executing Agency

20. The PCR rated the performance of the borrower and executing agency *satisfactory* and this validation concurs. The government and the DGHS were strongly committed to successfully implement the project. The DGHS demonstrated adequate capacity and competence during implementation. The performance rating of the project in terms of implementation progress was in most cases highly satisfactory (PCR, Basic Data C.5). Considerable work was completed before implementation and expected physical outputs were accomplished 1 year ahead of schedule. No major problems were encountered during implementation.

B. Performance of the Asian Development Bank

21. ADB fielded missions to review project progress and project administration. ADB provided appropriate support to the DGHS. However, the fast tracking of infrastructure subprojects compromised the quality of some of the investments in the villages. More supervision from ADB may have deterred this from occurring. Nonetheless, ADB supervision of the project was adequate. This validation agrees with the PCR rating that ADB's performance is *satisfactory*.

C. Others

22. The perceived risks identified at appraisal did not have significant influence on the progress of implementation and the quality of outcomes. There were no reported cases of corruption, but there was lack of transparent dissemination of investment plans, budgets, and financial records in some villages.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

23. The PCR rated the project *successful*.⁷ This validation endorses it (see table). The project improved the welfare of the rural communities and the access of the poor and near poor in rural areas to basic rural infrastructure. There was active participation and strong ownership among community members. However, the potential of the project to empower communities was not fully realized, particularly in poorly educated villages.

Overall Ratings

Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance	Highly relevant	Relevant	There are some design weaknesses identified in the project (para. 12).
Effectiveness in achieving outcome	Effective	Effective	
Efficiency in achieving outcome and outputs	Efficient	Efficient	
Preliminary assessment of sustainability	Likely sustainable	Likely sustainable	
Overall assessment	Successful	Successful	
Borrower and executing agency	Satisfactory	Satisfactory	
Performance of ADB	Satisfactory	Satisfactory	
Impact	Significant	Significant	
Quality of PCR		Satisfactory	Refer to para. 28.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = project completion report.
Source: ADB Independent Evaluation Department.

B. Lessons

24. The project was well designed. It adopted an effective implementation arrangement under which communities, facilitated by district-level public works services and assisted by village organizers, select and design the priority infrastructures. This promoted strong ownership among the participating communities and developed their capacities for planning and development.

⁷ The overall weighted average score based on IED rating is 2.2, which is equivalent to *successful* overall rating.

25. This validation agrees with the lessons drawn from the project. Qualified and experienced community facilitators and sufficient time for community empowerment are important to build sound and common understanding of project principles and for effective involvement of communities in the project. There should be greater focus on maintenance arrangements, which should have been incorporated in village proposals and monitored by district administrations. Public accountability mechanisms should have been put in place in project villages to prevent possible fraud and corruption. The quality of basic infrastructures constructed should have benefited from constant monitoring.

C. Recommendations for Follow-Up

26. This validation generally agrees with the PCR recommendations. Projects that use the CDD approach should allow sufficient time to support and strengthen community participation, empowerment, and capacity to prioritize design, implement, manage, and monitor project investments. Greater attention should be given in recruiting experienced and qualified facilitators to ensure community empowerment. More emphasis is needed on establishing adequate maintenance mechanisms to ensure the sustainability of investments.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Evaluation Design, Implementation, and Utilization

27. A project performance monitoring system was established and utilized for monitoring of physical progress and indicators relevant to the project's performance. However, indicators used focused mainly on physical outputs and accomplishments.

B. Comments on Project Completion Report Quality

28. The PCR is clear and concise. It is consistent with PCR guidelines (Project Administration Instruction 6.07). There was sufficient data and information to support the performance ratings. The lessons drawn were based on project experience and the recommendations were sound. The EIRR estimates were plausible. However, the underlying assumptions and parameters used were not adequately discussed. Overall, this validation rates the quality of the PCR *satisfactory*.

C. Data Sources for Validation

29. Data sources for this validation report include loan review reports, ADB PCR, report and recommendation of the President, minutes of staff review committee meetings, and minutes of management review meeting.

D. Recommendation for Independent Evaluation Department Follow-Up

30. This validation report finds no major deviation from the PCR findings. Thus, a project performance evaluation for this project is not warranted.