ADB

# Validation Report

Reference Number: PVR-221
Project Number: 40058 and 40272
Loan Number: 2305 and 2394
December 2012

# Indonesia: Second and Third Development Policy Support Programs

Independent Evaluation Department

Asian Development Bank

## ABBREVIATIONS

| | | |
|---|---|---|
| ADB | – | Asían Development Bank |
| BAPPENAS | – | Badan Perencanaan Pembangunan Nasional (National Development Planning Agency) |
| BUMD | – | *badan usaha milik daerah* (regional government-owned enterprise) |
| CMEA | – | Coordinating Ministry for Economic Affairs |
| DMC | – | developing member country |
| DMF | – | design and monitoring framework |
| DPL | – | development policy loan |
| GDP | – | gross domestic product |
| KPK | – | Komisi Pemberantasan Korupsi (Corruption Eradication Commission) |
| MOF | – | Ministry of Finance |
| MTDP | – | medium-term development plan |
| RDA | – | regional development account |
| RKP | – | Rencana Kerja Pemerintah (Government's Annual Work Plan) |
| RRP | – | report and recommendation of the President |
| TSA | – | treasury single account |
| VAT | – | value-added tax |
| NPPO | – | National Procurement Policy Office |

## NOTE

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

**Key Words**

asian development bank, development policy loan, development policy support program, indonesia, national community empowerment, nonbank financial institution, public financial management, small and medium-sized enterprise

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## PROGRAM BASIC DATA

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|---|---|---|---|---|
| **Project Numbers:** | 40058 and 40272 | **PCR Circulation Date:** | Oct 2009 | |
| **Loan Numbers:** | 2305 and 2394 | **PCR Validation Date:** | Dec 2012 | |
| **Program Name:** | Second and Third Development Policy Support Programs | | | |
| **Country:** | Indonesia | | Approved<br>($ million) | **Actual**<br>($ million) |
| **Sector:** | Public sector management | **Total Project Costs:** | 1,800.0 | 1,800.0 |
| **ADB Financing:**<br>($ million) | **ADF:** 0.0 | **Loan:**<br>Loan 2305<br>Loan 2394 | <br>200.0<br>200.0 | <br>200.0<br>200.0 |
| | **OCR:** 400.0 | **Borrower:** | 0.0 | 0.0 |
| **Cofinanciers:** | World Bank and JBIC | **Total Cofinancing:**<br>Loan 2305<br>Loan 2394 | <br>700.0<br>700.0 | <br>700.0<br>700.0 |
| **Approval Date:**<br>Loan 2305<br>Loan 2394 | <br>20 Dec 2006<br>17 Dec 2007 | **Effectiveness Date:**<br>Loan 2305<br>Loan 2394 | | <br>21 Dec 2006<br>19 Dec 2007 |
| Signing Date:<br>Loan 2305<br>Loan 2394 | <br>21 Dec 2006<br>17 Dec 2007 | **Closing Date:**<br>Loan 2305<br>Loan 2394 | | <br>21 Dec 2006<br>20 Dec 2007 |
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ADB = Asian Development Bank, ADF = Asian Development Fund, IED1 = Independent Evaluation Department (Division 1), JBIC = Japan Bank for International Cooperation, OCR = ordinary capital resources, PCR = program completion report.

# I. PROGRAM DESCRIPTION

## A. Rationale

1. The Second and Third Development Policy Support Programs for Indonesia comprised a program cluster of two loans[1] that built upon the first program that took effect in December 2005.[2] All the three programs cofinanced the Development Policy Loan (DPL) series provided by the World Bank and the Government of Japan as support for the Government of Indonesia's

[1] Parts of this report are sourced from the following documents: ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Indonesia for the Second Development Policy Support Program*. Manila (referred to as DPSP-2); ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Indonesia for the Third Development Policy Support Program*. Manila (referred to as DPSP-3); and ADB. 2008. *Completion Report: Second and Third Development Policy Support Programs in Indonesia.* Manila.

[2] ADB. 2005. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Indonesia for the Development Policy Support Program*. Manila.

Medium-Term Development Plan (MTDP) for 2004–2009. The DPL series was meant to harmonize policy reform support from key development partners, as committed to by the Asian Development Bank (ADB) in the Rome Declaration on Harmonization (February 2003) and the Paris Declaration on Aid Effectiveness (March 2005).[3] The policy support program series manifests and deepens ADB's commitment to support sector-specific reforms as embodied in its Country Strategy and Program 2006–2009.[4]

2. The two loans supported four core policy areas of the government's reform program: (i) improving macroeconomic stability and creditworthiness, (ii) improving the investment climate, (iii) improving public financial management and reducing corruption, and (iv) improving public service delivery. Each of the two loans was a single tranche operation of $200 million, with cofinancing of $600 million from the World Bank and $100 million from the Government of Japan, as part of the Government of Japan's DPL series that began end of 2004.[5]

3. Implementation of the MTDP was guided by the government's Annual Work Plan (Rencana Kerja Pemerintah [RKP]), which needed Parliament approval. Parliament defines the annual development priorities, including quantitative targets and policy directions, which in turn determine budgetary allocations. The RKP for 2007 had nine priority areas to address the overall theme of increasing employment opportunities and reducing poverty: (i) reducing poverty and disparities; (ii) expanding employment opportunities, investment, and exports; (iii) revitalizing agriculture and rural development; (iv) improving access and quality of education and health services; (v) eradicating corruption, reforming civil service, and intensifying law enforcement; (vi) strengthening defense, security and order, and conflict resolution; (vii) mitigating disasters and reconstructing Aceh, Nias, and Central Java/Yogyakarta; (viii) accelerating infrastructure development; and (ix) developing border areas and remote isolated areas. Of these nine priorities, five (i, ii, iv, v, and viii) relate directly to the four core policy areas.

## B. Expected Impact

4. The impact of the second and third programs was expected to be higher economic growth sustained over the medium term, together with lower poverty incidence and lower unemployment rates. The design and monitoring framework (DMF) presented in each program's report and recommendation of the President (RRPs) had well-defined performance targets for program impact, covering growth in gross domestic product (GDP), decrease in poverty incidence, reduction in unemployment rates, and reduced incidence of corruption. One would notice, however, a scaling down of the targets for poverty reduction and open unemployment. In the first and second programs, the goal was to reduce poverty incidence from 16.6% in 2004 to

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[3] The Rome Declaration refers to the 2003 agreement on harmonizing procedures of development banks under which major multilateral and bilateral aid agencies agreed to improve the management and effectiveness of aid and to take stock of concrete programs. The 2005 Paris Declaration is an international agreement that commits participating countries and organizations to improving aid harmonization, alignment, and management, and to measuring results using a set of monitorable actions and indicators.

[4] ADB. 2006. *Country Strategy and Program (2006–2009): Indonesia*. Manila.

[5] The Development Policy Loan (DPL-1) was meant to support the government's White Paper reforms and the then new President's "100-Day Plan." ADB participated in DPL-1 through policy dialogue, although it supported preparation and implementation of the White Paper reforms in finance and governance. ADB assistance in 2003–2004 included the following: (i) the Financial Governance and Social Security Reform Program, State-Owned Governance and Privatization Program, and Industrial Competitiveness and Small and Medium-Sized Enterprise Development Program; and (ii) policy dialogue to strengthen national and local government public financial management, which led to the Local Government Finance and Governance Reform Sector Development Program (SDP) and State Audit Reform SDP.

8.2% by 2009, the end of the plan period. In the third program, however, the goal was lowered to 15%–16% by end of 2008, as the September 2007 estimate of 16.6% poverty incidence showed no difference from the 2004 statistic. For the open unemployment rate, the ambitious target of 5.1% for 2009 reflected in the first and second program was raised to 8%–9%, which would probably not be significantly different (statistically) from the 9.9% observed in 2004.

5. No targets were specified for the reduction in corruption objective, which was to be monitored through corruption perception surveys and cases handled by the Corruption Eradication Commission (KPK). However, movements in KPK cases may be difficult to interpret. For example, an increase in the number of cases handled could mean the government's seriousness in combating corruption, but could also indicate an increase in the incidence of corruption. On the share of development spending (defined as consisting of capital and social assistance spending), there was an apparent downscaling from "at least 6% of GDP [by 2009]" in the first and second program to "4% of GDP by end-2008" in the third program.

## C. Objectives or Expected Outcomes

6. The RRPs for the second and third programs cited the key expected outcome as improved overall economic management anchored on good governance. The DMFs specified several measurable performance targets for sustained macroeconomic stability, improved investment climate, better financial management, and improved service delivery:[6]

(i) Government debt-to-GDP ratio reduced from 59% in 2003 to lower than 40% by 2008 (38.6% at end of December 2006, projected to fall below 35% by the end of 2007)
(ii) Start-up time for new businesses reduced from 151 days in 2003 and 91 days in end of 2005 to 30 days by 2008
(iii) Continued implementation of the deposit insurance scheme, with coverage declining from full protection in September 2005 to a maximum of Rp100 million by March 2007
(iv) Investment to GDP ratio raised by 3%–5% from 18.9% in 2003 (it was 22% in 2005)
(v) All core government cash operations consolidated into a Treasury Single Account (TSA), in relation to more than 18,000 cash operations in existence with no cash management standards in place at the end of 2003 (TSA pilots started in Jakarta, and 50 more treasury offices will convert in 2006)
(vi) Significant budgetary allocations made for poverty reduction out of fuel subsidy savings ($1.8 billion allocated for poverty)
(vii) Significant budgetary allocations made for poverty reduction programs ($2.6 billion allocated for social assistance spending in 2005, $4.4 billion allocated in 2006, and a projected $7.4 billion allocated in 2008)
(viii) Mobilization of additional domestic non-oil and gas tax revenues as a share of GDP from 10.4% of GDP in 2003 to 12%–13% in 2008 (11.4% in 2006)

## D. Components and Outputs

7. The expected outputs for the two program loans, based on their respective DMFs are in Table 1. The third program excluded the first core area because there were indications during program preparation that broad macroeconomic stability was well under way.

[6] The list consolidates the targets mentioned in the two programs.

**Table 1: Expected Outputs by Core Policy Area**
**Second and Third Development Policy Support Programs**

| Second Development Policy Support Program | Third Development Policy Support Program |
|---|---|
| **Improved Macroeconomic Stability** | |
| An operational Fiscal Policy Office | |
| Sustained debt reduction, accompanied by efficient debt management | |
| Improved on-granting procedures, and procedures formulated for subnational debt issuance and workouts | |
| **Improved Investment Climate** | |
| Legal status of regional government-owned enterprises (*badan usaha milik daerah* [BUMDs]) clarified | VAT administration improved by reducing time for VAT refunds |
| Warehouse Receipts Law enacted | SME access to finance increased, including implementation of Warehouse Receipts Law |
| Financial sector safety net implemented in a sustainable manner | Transparency of tax audit procedures improved |
| Reorganization of integrated NBFI regulator completed, strategy for strengthening NBFIs initiated | National Single Window with online clearance of merchandise rolled out |
| Implementing regulations drafted for new investment law | Investment law implemented |
| | Good corporate governance and risk management standards in state-owned banks implemented, financial sector safety net implemented in a sustainable manner |
| | Procedures for tariff setting enhanced |
| | Time required to set up a business reduced |
| **Improved Public Financial Management and Anticorruption Framework** | |
| Implementing regulations issued for Treasury and State Audit Laws; TSA implemented in stages | Core government revenue and expenditure bank accounts consolidated |
| Tax administration gradually modernized with improved governance | Transparent accountability arrangements for RDI and RDA accounts implemented |
| Budgetary reporting improved | Implement medium-term expenditure framework with forward estimates for 2008 budget |
| NPPO made fully operational | NPPO fully operationalized |
| Civil service reform efforts piloted | Civil service reform plan for Ministry of Finance as pilot for larger scale civil service reform developed |
| Witness Protection Law submitted to Parliament | Body to recommend and establish pay policy and pay levels for high-level state officials |
| **Improved Public Service Delivery** | |
| Post-fuel subsidy reduction compensation program assessed | Enhanced assessment framework for post-fuel subsidy compensation programs developed |
| | Competency standards for teacher certification established |
| | Multiyear community spending permitted |

NBFI = nonbank financial institution, NPPO = National Procurement Policy Office, RDA = regional development account, RDI = *rekening dana investasi* (central government investment funding), SME = small and medium-sized enterprise, TSA = treasury single account, VAT = value-added tax.
Sources: ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Indonesia for the Second Development Policy Support Program*. Manila; ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Indonesia for the Third Development Policy Support Program*. Manila.

## E. Provision of Inputs

8. ADB financed the second and third program clusters with $200 million each. The World Bank provided parallel cofinancing with $600 million for each program, and the Japan Bank for International Cooperation cofinanced with $100 million for each program.

9. Although there was no technical assistance (TA) directly linked to the second and third program, complementary investment projects, TA, and analytical and advisory work by the development partners supported them. ADB provided technical input through programs on decentralization, state audit systems, and improving infrastructure development. The World Bank's extensive analytical work included annual development policy reviews; biannual public expenditure reviews; reports on decentralization, combating corruption, poverty, and trade; policy briefs for the incoming government in 2004; and an investment climate assessment. The Government of Japan provided background studies on trade and the investment climate. There was no procurement involved with the program cluster, and there were no consultants, contractors, or suppliers involved in program design or implementation.

## F. Implementation Arrangements

10. Both the second and third programs were implemented as designed, without any changes. The Coordinating Ministry for Economic Affairs (CMEA) was the executing agency, and it worked closely with the Ministry of Finance (MOF) and the National Development Planning Agency (BAPPENAS) in program implementation and monitoring. The three development partners assisted in the regular monitoring. All policy conditions were satisfied by the time of loan approval.

# II. EVALUATION OF PERFORMANCE AND RATINGS

## A. Relevance of Design and Formulation

11. The program completion report (PCR)[7] rated the programs *highly relevant,* and this validation agrees. Because the DPL and/or the Development Policy Support Program series was anchored on the government's own reform agenda as initially expressed in its MTDP, the government had a strong sense of ownership of the program and was firmly committed to see it work. The program cluster approach helped develop an atmosphere of mutual trust and understanding between the government and its principal development partners. It may have helped, too, that initial program assistance (with the first DPL in 2004) came at the start of a new administration out to prove itself.

12. The program also offered flexibility in designing and formulating reform initiatives. The PCR notes that over the course of the second and third program, two significant changes were effected: the first core policy area of macroeconomic stability was deemed no longer necessary for the third program, and infrastructure sector reform, which used to fall under the core policy area of improving the investment climate, spun out into a separate program of its own.

13. The PCR noted that the program remained *highly relevant* throughout the second and third programs, even as the overall program focus shifted from macroeconomic stability to service delivery. After the second program, a significant improvement in macroeconomic performance appeared sustainable, creating ample fiscal space that allowed policy to

[7] ADB. 2009. *Completion Report: Second and Third Development Policy Support Programs*. Manila.

emphasize the provision of basic social services, addressing equity concerns. Regular policy dialogue led to support being given to other reform sectors, such as reforms in infrastructure development. This concern was initially included under the Development Policy Support Program core policy area of improving the investment climate. As it gained importance in the government's reform agenda, it eventually merited a separate program of its own, the ADB-financed Infrastructure Reform Sector Development Program.

14. This validation agrees that, in terms of design and formulation, the program was *highly relevant* to the government's short-term and medium-term objectives and to ADB's country operational strategy. After all, the DPL and/or Development Policy Support Program takes off from the government's own policy reform agenda as officially stated in its MTDP and its Annual Work Plan. Coordination among the major development partners and the government was an important factor that helped ensure that program design and formulation remained highly relevant. Experience with the early phases of the DPL and/or Development Policy Support Program contributed to the buildup of "considerable trust and mutual understanding of the constraints imposed by institutional guidelines and internal processes."

## B. Effectiveness in Achieving Program Outcomes

15. For each core policy area, the PCR aptly described the actions taken by the government in relation to the two loans comprising the program cluster. While all triggers were achieved prior to loan approval, the PCR (Appendix 3) showed that the degree of fulfillment varied across triggers. For the second program, 8 of the 16 triggers had conditions for which the status of fulfillment was still just *satisfactory*, or "the outcome was not fully achieved under the mentioned program but that its content was to be followed up in subsequent programs." For the third program, 4 of the 17 triggers had the *satisfactory* label.

16. A closer look at the conditions that were not yet fulfilled at the time of loan effectiveness shows that several conditions pertained to intergovernmental fiscal relations. With the second program, for example, the conditions included the following: (i) improve the framework for subnational government bond issuance (Trigger 3.2); (ii) issue workout procedures for subnational government debt (Trigger 3.3); (iii) clarify the legal status of regional government-owned enterprises (*badan usaha milik daerah* [BUMD]), especially regarding their fiscal and financial relationship with regional governments (Trigger 4); and (iv) consolidate accounts at the MOF (including regional development accounts or RDAs) within the State Treasury (Trigger 10.2). With the third program, the RDA apparently remained an issue, as Trigger 11 called for the implementation of "transparent accountability arrangements for [RDI and] RDA accounts," and Trigger 17 sought to "allow community spending over multiyear periods and clarify procurement procedures for national budget-funded CDD [community-designed development] programs."

17. Indeed, it is not clear from the RRPs what outcomes the different triggers or outputs pertaining to decentralization and intergovernmental fiscal relations were meant to achieve. What does "improved on-granting procedures" mean—a bigger or a smaller flow of national government assistance to local governments? What are the corresponding outcome indicators for such "improvements"?

18. Table 2 reproduces the PCR's summary of program targets and realized results. The outcome measures showed that the program was successful in reducing the debt-to-GDP ratio, performing better than targeted. This has helped improve the economy's creditworthiness. The PCR noted that Fitch (a credit rating agency) upgraded Indonesia to BB in February 2008. The

World Bank reported that even earlier (October 2007), Standard & Poor's raised sovereign ratings to BB- (from CCC+ in 2003) and Moody's raised bond ratings to B1 (from B3 in 2003).

19. The target of 30 days on the average start-up time for new businesses was not achieved, as the actual level for 2008 was 76 days. But this may have been due to unrealistically high expectations, for the average in 2005 was 151 days, as reported by the World Bank's Doing Business surveys.[8] By 2010, the average has actually fallen to 47 days.

**Table 2: Selected Envisaged Impact and Outcome Goals Second and Third Development Policy Support Program**

| **IMPACT** | | | |
|---|---|---|---|
| **Second Development Policy Support Program** | **Realized Results** | **Third Development Policy Support Program** | **Realized Results** |
| GDP growth: 7% (2009) | 4.4% (Q1 2009) | GDP growth: 7% (2009) | 4.4% (Q1 2009) |
| Poverty rate: 15%–16% (2008) | 14.2% (March 2009) | Poverty rate: 15%–16% (2008) | 14.2% (March 2009)[a] |
| Unemployment rate: 5.1% (2009) | 8.1% (Feb 2009) | Unemployment rate: 8%–9% (2009) | 8.1% (Feb 2009) |
| Level of corruption reduced by 2009 | Level of corruption reduced[a] | Level of corruption reduced by 2009 | Level of corruption reduced[b] |
| **OUTCOMES** | | | |
| Government debt-to-GDP ratio: 40% (2008) | 33% (2008) | Government debt-to-GDP ratio: below 38% (2008) | 33% (2008) |
| Average start-up time for new businesses: 30 days (2008) | 76 days (2008) | Mobilize additional domestic non-oil and gas tax revenues from 10.4% of GDP in 2003 to 12%–13% in 2008 | 11.6% (2008) |
| Continued implementation of deposit insurance scheme, with coverage declining from full protection in September 2005 to a maximum of Rp100 million ($11,000) by March 2007 | Increased deposit guarantees up to Rp2 billion (October 2008) | Significant budget allocations made for poverty reduction programs ($2.6 billion for social assistance spending in 2005, $4.4 billion in 2006, and a projected $7.4 billion in 2008) | $7.4 billion projected for 2008, but $5.8 billion were finally realized, slightly higher than the $5.5 billion for 2007 |
| Investment-to-GDP ratio raised by 3%–5% from 18.9% in 2003 | 24% (2008) | | |

GDP = gross domestic product.
[a] The PCR's Table 1 has 8.2%, which is apparently a typographical error.
[b] Corruption Eradication Commission (KPK) processed cases increased to 194 in 2008 from 146 in 2007. In the same period, recovered funds rose to Rp410 billion (US$36 million) from Rp48.4 billion.
Source: ADB. 2009. *Completion Report: Second Development Policy Support Program and Third Development Policy Support Program in Indonesia.* Manila.

20. What probably deserved some discussion in the PCR was the target outcome on the coverage of the deposit insurance scheme. The PCR (p. 5, para. 22) reported that by December 2007 the target reduction of deposit insurance coverage of Rp100 million per account had been reached, but that the coverage was later increased to Rp200 million (as of December 2008) in response to the current global crisis. But the PCR's Table 1 (reproduced here as Table 2) states that in October 2008 the ceiling had been raised to Rp2 billion, or 20 times the original target.

[8] World Bank. 2007. *Doing Business 2008*. http://www.doingbusiness.org

The government's main fear for this action was capital flight to Singapore and Malaysia, both of which reintroduced a full guarantee on bank deposits in response to the global crisis. The Indonesia Resident Mission informs that in the current context of domestic and financial market developments and practices in the region, the government's policy stance on deposit insurance has changed. Thus, reducing the coverage of the deposit insurance as envisaged in the second and third program would have not been advisable.

21. This validation concurs with the PCR's rating that the program is *effective*, despite observations on the program's failure to meet certain target outcomes. Most target outcomes were achieved. In the case of the investment climate, Indonesia moved up several notches in the Doing Business rankings, even if the target number of days to start a business was not achieved.

## C. Efficiency of Resource Use in Achieving Outputs and Outcomes

22. This validation concurs with the PCR's rating that the program is *efficient* because it took only a short period to "package" the program, and it did not use any consultants, contractors, or suppliers in design or implementation. The PCR also noted that "discussions with stakeholders and donor partners indicate that ADB's support and supervision of the program were handled efficiently."

23. There were no significant or outstanding issues with respect to project cost, disbursements, and conformance to schedule, as the program cluster mode meant that all conditions were fulfilled prior to loan approval by ADB's Board. Each of the two loans was disbursed promptly in a single tranche after loan effectiveness.

## D. Preliminary Assessment of Sustainability

24. Because of the perceived success of the second and third program, a fourth and fifth program (fifth and sixth DPL) were being launched at the time of PCR submission. The DPL and/or Development Policy Support Program series has thus been serving as a form of an annual policy work plan, with each program containing indicative policy triggers for the next one. The process of continuous policy dialogue offered sufficient flexibility for the government to tailor its reform agenda to changing circumstances and priorities. For example, having achieved macroeconomic stability after the second program, the focus of policy reform shifted to pro-poor spending and improved service delivery.

25. It is not categorically stated, but for the above reasons, it is implied that the PCR considered the program cluster *most likely to be sustainable,* and this validation agrees. The fresh mandate that the incumbent political leadership received in the 2009 elections may partly indicate the likelihood of sustainability of the reforms instituted under the program series.

## E. Impact

26. Impact measures in Table 2 shows that not all quantitative targets were met. Indonesia was affected by the global economic crisis, as GDP growth declined from 6.0% in 2008 to 4.5% in 2009. Partly because of the reform initiatives, however, the economy rebounded by 2010 to 6.1% growth.

27. The target unemployment rate of 5.1% by 2009 set in the first and second programs was far too optimistic, as it was coming from a high of 11.2% in 2005. The 8.1% unemployment rate

observed in 2009 may already be considered a significant achievement, considering the low GDP growth for that year and the secular decline in the share of agriculture in employment.

28. On poverty incidence, the target contained in the first program was 8.2% by 2009, which was again very optimistic coming from 16.6% in 2004. For the second and third programs, it was lowered to 15%–16% by 2009, which does not seem to have set any target. The 14.2% poverty incidence measured in 2009, while better than the target measure, did not present a significant achievement especially as the target was set before the global financial crisis.

29. The PCR did note that "the DPSP-2 impact results—GDP growth of 7%, reduction of the poverty rate to 8.2%, and reduction of the unemployment rate to 5.1% by 2009—proved highly optimistic."[9] With the government, setting "fighting targets" that are "within one's reach but may be beyond one's grasp" comes naturally. What is surprising is how such obviously optimistic targets managed to escape the scrutiny of the development partners.

30. This validation rates the program impact as *significant* as improvements were in fact achieved. Probably an unintended positive impact that is likely to have lasting effect is the development of strong commitment to reform amid the bureaucracy of key economic oversight agencies.

# III. OTHER PERFORMANCE ASSESSMENTS

## A. Performance of the Borrower and Executing Agency

31. It is not clear from the RRPs or the PCR why there was a change in executing agency from the MOF in the first program to CMEA in the second and third programs. Nevertheless, even just from the descriptions in the documents available, this validation agrees to the *highly satisfactory* rating given by the PCR to the performance of the borrower and the executing agency. The three oversight agencies—MOF, BAPPENAS, and CMEA—have a good working relationship.

## B. Performance of the Asian Development Bank

32. The PCR rated ADB performance *satisfactory,* based on PCR mission discussions with stakeholders and donor partners. This validation concurs with the *satisfactory* rating. Close coordination between the donor partners and the government, and the decentralization of the programs to the Indonesia Resident Mission were among the factors that contributed to the smooth preparation and implementation of the programs.

## C. Others

33. There was no discussion of safeguards and fiduciary aspects, probably because there were no issues on these concerns. Although there was also no discussion of the government's own assessment of the program, it is obvious that such an assessment must have been positive, as two other follow-up program loans (fourth and fifth development policy support programs) were in process at the time the PCR was being prepared.

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[9] The third program (DPSP-3) formulated its impact results in late 2007 based on the government's annual work plan for 2008.

# IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

## A. Overall Assessment and Ratings

34. The PCR rated the program *highly successful*, but this was a result of incorrect aggregation of the individual criteria ratings (*highly relevant*, *effective*, *efficient*, *most likely sustainable*); the rating should have been *successful*.[10] This validation endorses the PCR's ratings for individual criteria, and thus rates the overall performance of the program as *successful* (Table 3).

**Table 3: Overall Ratings**

| Criteria | PCR | IED Review | Reason for Disagreements and/or Comments |
|---|---|---|---|
| Relevance | Highly relevant | Highly relevant | |
| Effectiveness in achieving outcome | Effective | Effective | |
| Efficiency in achieving outcome and outputs | Efficient | Efficient | |
| Preliminary assessment of sustainability | Most likely | Most likely | |
| **Overall assessment** | **Highly successful** | **Successful** | The aggregated PCR rating was incorrect; it should have been *successful*. |
| Borrower and executing agency | Highly satisfactory | Highly satisfactory | |
| Performance of ADB | Satisfactory | Satisfactory | |
| Impact | Not rated | Significant | |
| Quality of PCR | | Satisfactory | |

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

## B. Lessons

35. The PCR discussed five lessons that it considered relevant not only to ADB operations in Indonesia but also to operational planning in other developing member countries (DMCs). The first, on the usefulness of the program loan modality, there is no doubt that most DMCs would prefer this. But the success of this modality hinges much on the DMC's commitment to the reform program being pursued. Indonesia's case may be unique in that assistance came at the onset of a new political regime. Flexibility, however, is a constructive program attribute that benefits all parties.

36. The second and third lessons, donor coordination and coordination within government, are easier said than done. The Paris Declaration probably made coordination easier among donors. Within government, coordination between the main oversight agencies (CMEA, BAPPENAS, and MOF) is not a problem, as these three agencies have been working together throughout. But as other ministries get involved, problems may arise. In the Development Policy Support Program series, for example, potential problem areas were encountered when other units of government were involved.

[10] The aggregated score of 2.5 points falls short of the 2.7 points as the minimum score for a *highly successful* rating.

37. The fourth lesson, formulation of triggers and flexibility, may be subsumed under the first one. The last, strengthening change management capacity in government, has risks as well as opportunities. While technical support and advisory services to key agencies leading the reform process may have payoffs by way of facilitating future reform initiatives, they may backfire if other agencies not receiving such assistance feel left out of the reform process.

### C. Recommendations for Follow-Up

38. Under program-related recommendations, the PCR highlighted the importance of multiyear policy-umbrella programs. This validation supports the view that multiyear policy-umbrella programs work, but while they may be working well for Indonesia at this point, they may not be suitable for all DMCs. For many other DMCs, it takes a certain level of maturity and technical preparedness of the bureaucracy for the program cluster approach to work smoothly.

39. The second program-related recommendation, that only one program design and monitoring framework covering the entire cluster or multiyear umbrella program be developed, may be difficult to implement. The impact and outcomes may be common across subprograms in the cluster, but the sequencing of outputs and activities may get complicated if a single design and monitoring framework is adopted. This validation also agrees with the recommendation that future reviews of the Development Policy Support Program successor programs be undertaken in a multiyear framework.

## V. OTHER CONSIDERATIONS AND FOLLOW-UP

### A. Monitoring and Evaluation Design, Implementation, and Utilization

40. To monitor the program cluster, the three oversight agencies constituted the government's monitoring committee. To the extent that the triggers under each core policy area were consistent with the government's MTDP and Annual Work Plans, monitoring must have been conducted regularly and systematically. The PCR itself was complete in its coverage and discussion of targets versus accomplishments.

### B. Comments on Program Completion Report Quality

41. This PCR is informative, clear, and concise. It offered a thorough description of how the program outputs related to each of the four core policy areas. Perhaps the only major inconsistency was in the reporting on the deposit insurance ceiling, where the text mentioned the government's raising the initial target ceiling of Rp100 million (per depositor) to Rp200 million (as of December 2008), but the table on realized impact and outcomes put down Rp2 billion (as of October 2008) which is the correct ceiling, which holds up to the present, with the Bank of Indonesia even considering granting a full guarantee. The matter of intergovernmental fiscal relations also could have been more thoroughly covered, as the local governments are supposed to be delivering the basic social services.

### C. Data Sources for Validation

42. This validation is based mainly on information gleaned from the program RRPs, PCR, and some other reference materials.

### D. Recommendation for Independent Evaluation Department Follow-Up

43. This validation report has no major deviation from the PCR findings and does not consider a program performance evaluation for this project to be warranted.