Validation Report
September 2018

Indonesia: Infrastructure Reform Sector Development Program (Subprograms 1, 2, and 3, and an Infrastructure Project Development Facility)

Reference Number: PVR-564
Project Numbers: 40009-013, 40009-023,
40009-033, and 40009-043
Loan Numbers: 2263, 2264, 2475, and 2708
Grant Number: 0064

Independent Evaluation ADB

Raising development impact through evaluation

ABBREVIATIONS

ADB	–	Asian Development Bank
BAPPENAS	–	Badan Perancanaan Pembangunan Nasional (National Development Planning Agency)
DMF	–	design and monitoring framework
IPDF	-	Infrastructure Project Development Facility
IRSDP	–	Infrastructure Reform Sector Development Program
KKPPI	–	Komite Kebijakan Percepatan Penyediaan Infrastruktur (National Committee for the Policy on Acceleration of Infrastructure Provision)
MOF	–	Ministry of Finance
PCR	–	program completion report
PDAM	–	*perusahaan daerah air minum* (regional water supply enterprise)
PLN	–	PT Perusahaan Listrik Negara (State Electricity Corporation)
PPP	–	public–private partnership
PSO	–	public service obligation
PSP	–	private sector participation
P3CU	–	PPP central unit
RRP	–	report and recommendation of the President
SDP	–	sector development program
SOE	–	state-owned enterprise
TA	–	technical assistance
TAS	–	technical advisory service

NOTE

In this report, "$" refers to United States dollars.

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PROGRAM BASIC DATA

Project Numbers	40009-013, 40009-023, 40009-033, and 40009-043	**PCR Circulation Date**		29 August 2017
Loan/Grant Numbers	2263, 2264, 2475, 2708, and 0064	**PCR Validation Date**		Sep 2018
Program Name	**Infrastructure Reform Sector Development Program**			
Sector and subsector	Public Sector Management			
Strategic agenda	Inclusive Economic Growth			
Safeguard categories	Environment		C	
	Involuntary resettlement		C	
	Indigenous peoples		C	
Country	Republic of Indonesia		**Approved** ($ million)	**Actual** ($ million)
ADB Financing ($ million)	**ADF:** 26.50	**Total Program Costs**	918.76	908.06
	OCR: 880.00	**Loan/Grant** 2263 2264 2475 2708	 400.00 26.50 280.00 200.00	 400.00 22.20 280.00 200.00
		Borrower 2264	 4.70	 2.90
		Beneficiaries	00.00	00.00
		Others		
Cofinanciers[a]	Government of the Netherlands[b]	**Total Cofinancing** 0064	 7.56	 2.96
Approval Date 2263 2264/0064 2475 2708	 21 Nov2006 21 Nov 2006 27 Nov 2008 1 Dec 2010	**Effectiveness Date** 2263 2264/0064 2475 2708	 29 Nov 2006 29 Nov 2006 18 Dec 2008 28 Dec 2010	 29 Nov 2006 29 Nov 2006 18 Dec 2008 28 Dec 2010
Signing Date 2263 2264/0064 2475 2708	 23 Nov 2006 23 Nov 2006 10 Dec 2008 20 Dec 2010	**Closing Date** 2263 2264/0064 2475 2708	 31 Mar 2007 30 Sept 2012/ 31 May 2011 31 Mar 2009 31 Mar 2011	 29 Nov 2006 1 Feb 2016/ 31 May 2011 18 Dec 2008 29 Dec 2010
Project Officers		**Location**	**From**	**To**
	A. Haydarov	Indonesia Resident Mission	1 Sep 2016	15 Jun 2017
	R. Budiman / Soewartono HS / N. Soewarno	Indonesia Resident Mission	22 Apr 2014	31 Aug 2016
	R. Kausar	ADB headquarters	2012	2013
	B. Finlayson	ADB headquarters	2009	2012

	A. Pascual	ADB headquarters	2007	2009
IED Review				
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ADB = Asian Development Bank, ADF = Asian Development Fund, IED = Independent Evaluation Department, IETC = Thematic and Country Division, OCR = ordinary capital resources, PCR = program completion report.
Notes:
[a] ADB. 2017 *Completion Report: Infrastructure Reform Sector Development Program and Infrastructure Project Development Facility in Indonesia*. Manila (Loan 2263/2264-INO, Loan 2475-INO, Loan 2708-INO, and G0064-INO), (Appendix 1). The Government of Japan through the Japan International Cooperation Agency approved $100 million each for subprograms 1, 2, and 3. In parallel, the World Bank provided a total of $850 million through its infrastructure development policy loans (PCR, footnote 23).
[b] Grant from the Government of the Netherlands approved in 2006 for an infrastructure project development facility (PCR, Appendix 1, p. 29).
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I. PROGRAM DESCRIPTION

A. Rationale

1. The programmatic series of three policy-based operations combined with an investment loan aimed to increase public and private investment in infrastructure, which had fallen sharply since the mid-1990s. The Asian financial crisis of 1997 led to a steep decline in overall development spending, including investment in infrastructure. Private sector investment in infrastructure fell from 1.8% of gross domestic product (GDP) during 1995-1998 to 0.5% during 2000-2005. Despite decades of investments in the country, Indonesia continued to have significant unmet basic infrastructure needs. About 50 million people (or more than 20% of the population) did not have access to treated water, 90 million lacked access to electricity, and about 200 million were without fixed telephone lines or connections to a sewerage network. Availability of services was generally lower in rural areas, particularly outside Bali and Java, contributing to significant regional disparities in development and impacts on the poor.

2. To revitalize private sector participation (PSP) in infrastructure investment, the government committed to structural and institutional reforms across multiple sectors. Broad-ranging policy reforms to improve the investment climate were identified, including (i) liberalizing markets to allow competition and entry by new service providers, (ii) improving legal and regulatory certainty and strengthening regulatory arrangements, (iii) introducing tariff regimes based on full cost recovery or providing compensation to meet public service obligations (PSOs), and (iv) establishing effective mechanisms for dispute resolution. Based on these reforms, the Asian Development Bank (ADB) implemented the Infrastructure Reform Sector Development Program (IRSDP) and extended it over the medium-term.

3. As a sector development program (SDP), IRSDP would introduce relevant reforms that would result in higher demand for and implementation of public–private partnerships (PPPs) across a range of sectors.[1] The project loan would establish an infrastructure project development facility (IPDF), which would "alleviate one of the most critical constraints impeding infrastructure development, namely, the lack of adequate project preparation" (footnote 1). The IPDF would help the government prepare feasibility studies, adopt open and transparent bidding processes,

[1] ADB. 2006. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster, Loans, Technical Assistance Grant, and Administration of Grant from the Government of the Netherlands to the Republic of Indonesia for the Infrastructure Reform Sector Development Program.* Manila (Loans 2263-INO and 2264-INO, and Grant 0064-INO),

and execute national and decentralized infrastructure projects. The policy-based loan had three single-tranche subprograms, which would be implemented at approximately 2-year intervals after the first subprogram.[2] To help establish the IPDF, the Government of the Netherlands provided an additional $7.6 million, which ADB would manage.

4. ADB provided loans amounting to $880 million for all three subprograms. The World Bank and Japan International Cooperation Agency also provided parallel multi-year loans amounting to $850 million and $300 million, respectively. These agencies together contributed $2.0 billion, a small proportion of Indonesia's infrastructure needs estimated at $56 billion (6% of GDP) a year in 2012. As a result of the reforms supported by the program, it was expected that substantial (but unspecified) private sector investments and PPPs would follow.

B. Expected Impacts, Outcomes, and Outputs

5. IRSDP's expected impacts were improved investment climate, and the achievement of the government's medium-term macroeconomic goals. These were to be measured through an increase in infrastructure investment from 2% to 6% of GDP by 2011, and annual real GDP growth of more than 7% in the same year. The expected outcomes were (i) accelerated infrastructure development through large-scale (but unspecified) PSP, and (ii) mobilization and allocation of additional public sector resources but no targets were specified.

6. The program outputs focused on three areas of reform: (i) enhanced cross-sector policy, institutional, and legal framework; (ii) strengthened sector policy, institutional, and legal framework; and (iii) well-structured infrastructure PPP projects designed, contracted, and executed. The project loan component targeted the establishment of an IPDF which would provide these services: (i) PPP project preparation and transaction execution, which included national and regional project development facilities; (ii) technical advisory service (TAS) and capacity building; and (iii) procurement and administrative services. The IPDF was expected to prepare 50 PPP projects (10 national and 40 regional) up to the bidding stage and identify another 25 to 30 projects.

C. Provision of Inputs

7. **Approval, effectivity, and closing dates.** Since the policy actions of the three subprograms were completed prior to Board approval of each subprogram, the loans were declared effective and closed immediately after Board approval and within the planned dates.[3] Subprogram 1 was approved on 21 November 2006, declared effective on 29 November 2006, and closed on 29 November 2006. Subprogram 2 was approved on 27 November 2008, declared effective on 18 December 2008, and closed on 18 December 2008. Subprogram 3 was approved on 1 December 2010, declared effective on 28 December 2010, and closed on 29 December 2010.

8. The IPDF, both the loan investment and the grant project provided by the Government of the Netherlands, was also approved on 21 November 2006 and declared effective on

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[2] ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Indonesia for Subprogram 2 of the Infrastructure Reform Sector Development Program.* Manila (Loan 2475-INO); and ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Indonesia for Subprogram 3 of the Infrastructure Reform Sector Development Program.* Manila (Loan 2708-INO).

[3] ADB. 2017 *Completion Report: Infrastructure Reform Sector Development Program and Infrastructure Project Development Facility in Indonesia*. Manila (Loan 2263/2264-INO, Loan 2475-INO, Loan 2708-INO, and G0064-INO).

29 November 2006. The grant was closed on 31 May 2011 while the loan component was closed on 1 February 2016. As noted in the program completion report (PCR), the IPDF loan was declared effective on 29 November 2006 and the initial disbursement was only made on 2 October 2008 due to the delayed recruitment of TAS and procurement and administrative services consultants (footnote 3). By the original completion date in September 2012, the IPDF could only disburse 46.5% ($12.3 million) of the ADB loan. The loan closing date was extended twice.

9. In May 2011, ADB approved the government's request for project restructuring of the IPDF,[4] which included the following initiatives: (i) the ADB loan to fully finance the project scope, (ii) executing agency to focus on five PPP subprojects as the targeted transactions and on project preparation for the remaining identified PPP projects; (iii) merging the National Project Development Facility and the Regional Project Development Facility into a single facility; (iv) merging TAS and procurement and administrative services contracts into a single contract; and (v) reallocation of loan proceeds. The existing TAS contract was terminated.

10. **Program costs and financing arrangements**. For the program loan, the approved cost of each of the subprograms was equal to the actual cost. These were $400 million, $280 million, and $200 million, respectively. ADB financed all three subprograms from its ordinary capital resources.

11. For the project loan, the appraisal cost of IPDF was estimated at $38.8 million, comprising (i) the ADB loan worth $26.5 million equivalent of special drawing rights, (ii) the ADB-managed $7.6 million grant from the Government of the Netherlands to support the establishment and operation of the IPDF, and (iii) the government’s contribution of $4.7 million.

12. The actual cost of the IPDF was $28 million and funded through (i) ADB’s disbursement of $22.2 million (84% of the appraisal amount), (ii) the Government of the Netherlands’ grant of $2.9 million (38%), and (iii) the borrower’s financing of $2.9 million (62%).

13. **Provision of consulting services**. Appendix 9 of the government PCR prepared for the IPDF in 2015 provided a list of consulting services contracts awarded, but without a breakdown of services rendered per person-months. [5]

14. **Technical assistance.** IRSDP included a $2 million technical assistance (TA) on Enhancing Private Sector Participation in Infrastructure Provision (footnote 3). The TA was approved on 21 November 2006 and became effective on 12 April 2007. The TA was completed on 30 June 2013, 18 months after the original closing date, and was extended twice. It utilized $1.6 million or 82% of the appraised amount.

D. Implementation Arrangements

15. **Institutional arrangements.** Indonesia’s National Development Planning Agency (BAPPENAS) was the executing agency responsible for coordinating the implementation of the program cluster. The National Committee for the Policy on Acceleration of Infrastructure Provision (KKPPI), chaired by the Coordinating Minister for Economic Affairs, was to oversee the implementation of the program cluster, and provide guidance and direction to the line ministries

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[4] ADB (Southeast Asia Department). 2011. Project Review Mission to Indonesia: Infrastructure Reform Sector Development Program. Aide Mémoire. 16 August (internal).

[5] Government of Indonesia, National Development Planning Agency. 2015. *Project Completion Report: Infrastructure Reform Sector Development Program – Infrastructure Project Development Facility*. Jakarta.

in charge of the various infrastructure sectors, which would act as the implementing agencies. The key implementing agencies were the Coordinating Ministry for Economic Affairs, Ministry of Energy and Mineral Resources, Ministry of Finance (MOF), Ministry of Public Works, Ministry of Transport, National Land Agency, and the State Electricity Corporation. Implementation of the policy actions were to be coordinated with several other agencies in charge of infrastructure provision including state-owned enterprises (SOEs).

16. **Contribution of TA and consulting services.** The TA focused on (i) effective implementation of the risk management framework, leading to greater PSP; (ii) capacity building for establishing and managing the various infrastructure funds; (iii) effective communication and social marketing of the reform agenda to a wide range of stakeholders; and (iv) start up activities and documentation needed to support preliminary technical preparations prior to the consideration of projects by the IPDF. The TA delivered these outputs except for the PPP project communication strategy and fiduciary frameworks on the management of infrastructure funds which were not implemented. The main outcome achieved was the strengthening of the Risk Management Unit in MOF. The TA completion report rated the TA highly relevant and overall successful, despite significant shortfall in achieving the design outcome and impact, and that full sustainability was unlikely.[6] At appraisal, the TA was envisaged to provide 47 person-months of international consulting and 79 person-months of national experts' consulting services. The TA completion report did not state the actual usage of consulting services, but the unused balance at closure indicated that not all the planned consulting services may have been utilized.

17. **Compliance with condition and covenants.** All 10 covenants for subprogram 1 were fully complied with. For subprogram 2, nine covenants were fully complied with, while one on program monitoring was partly complied with. For subprogram 3, two of the 11 covenants were not fulfilled,[7] while the other nine were fully complied with. There were 26 covenants for the investment component. Two covenants were not complied with (i) the role of the project steering committee as a decision-making body over the IPDF, and (ii) the establishment of PPP regional units. Four covenants were only partly complied with, including those relating to project review and monitoring since the project performance management system was not implemented. The other 20 covenants were fully complied with. The PCR stated that "the partly or non-complied with covenants did not materially affect the IRSDP's performance." A properly functioning project review and monitoring system may have picked up the 2-year delay in consultant recruitment for the IPDF and recommended remedial action.

18. **Risk management.** The 2006 report and recommendation of the President (RRP) for subprogram 1 identified five key areas of risks that could potentially impact on IRSDP: (i) coordination problems and conflict of interest, (ii) poor governance and corruption, (iii) social tensions, (iv) adverse economic developments, and (v) sectarian and regional conflicts, and security concerns. The global financial crisis beginning in late 2008 clearly had an impact on economic conditions and the investment climate in Indonesia. The crisis impacted both the overall level of infrastructure spending and private sector development in the country.

[6] Footnote 3, Appendix 6: Technical Assistance Completion Report: Enhancing Private Sector Participation in Infrastructure Provision (TA 4872-INO).

[7] The two covenants pertained to the progress and completion reports, and program monitoring because no dedicated reports were submitted to ADB.

19. More specific risks to IRSDP included in the 2006 design and monitoring framework (DMF) were clearly stated and closely related to the policy reforms undertaken by the program. Notable examples were those relating to land acquisition, tariff adjustment, and inappropriate risk sharing.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

20. The PCR described IRSDP's full alignment with the government's development plans and ADB's country partnership strategy. The program was an appropriate response to the country's constrained fiscal situation and the growing infrastructure gap. The SDP modality, which had both investment and program loans, was appropriate to the challenges the country was facing and to the decentralized system of government.

21. This validation also views IRSDP fully aligned with both ADB and the government's strategies. The program's rationale reflected the country's challenges in increasing its infrastructure investment. The program design was well-defined and aligned with the underlying constraints. Combining investment and program loans in an SDP modality was also appropriate to ensure that policy reforms will be followed-up by actual PPP investments.

22. IRSDP was provided to support the government reforms in promoting PPP investments. The government has introduced PPP since the 1990s, but the 1997 Asian financial crisis impeded further progress. After a period of political and economic consolidation, the government kickstarted the investment reform in 2005 by introducing a legal concept of PPP investments and several other initiatives. IRSDP was one of the first major programs by development partners to support the reform. In addition to supporting the reforms through the program loan component, the proposed project development facility was expected to be a "clearing house" for PPP projects. The validation views this as an innovative element of the SDP at the time.

23. The validation, however, has two comments on the project design. First, as the PCR also noted, the target for the number of projects prepared and put out for bidding was not realistic. Aiming for 10 large national projects and 40 regional ones ready for PPP was not feasible given the lack of an institutional framework, local market readiness, and familiarity with PPPs during appraisal.[8] Second, the three subprograms included 70 prior actions, or 192 if the sub-actions listed in the policy matrix are also counted. This resulted in an exhaustive list of detailed actions, many of which were low-level reforms and administrative processes, with no clear priority and focus.

24. The two comments aside, given the innovative element, this validation assesses IRSDP highly relevant.

Relevance		
	PCR	**PVR**
Program	Not rated	Highly relevant
Project	Not rated	Highly relevant
SDP	**Highly relevant**	**Highly relevant**

[8] This led to the changes in project scope during implementation, notably restructuring consultant packages and cancellation of the Regional IPDF. The inability to meet such target should have been realized at the early stages, but no revision was made until the IPDF was restructured in 2011.

B. Effectiveness in Achieving Program Outcomes and Outputs

25. **Outcomes.** The PCR reported that progress was made in achieving the four main outcome level targets to increase (i) total infrastructure investments, (ii) the electrification ratio, (iii) access to piped water connections (changed under subprogram 3 to an increase in regional water supply enterprise investments), and (iv) the share of national roads in good or fair condition.

26. The target for infrastructure spending to reach 6% of GDP by 2011, the ultimate objective implied by the intervention, was not met. The validation also found that of the 10 outcome indicators, seven were fully or partially achieved. Infrastructure investment increased during 2005–2008 but dropped in 2009 and remained at about 3% of GDP until 2015, against the target of 4% in 2008 and 6% in 2011. Even this infrastructure spending rate had been mainly driven by SOEs and non-PPP infrastructure investments, greater PSP in infrastructure investment had not been achieved, and that the 1998 global financial crisis was only partly responsible for the disappointing results.

27. The electrification ratio rose from 62% in 2004 to 85% in 2015, although electricity tariffs remained unchanged from 2003. Tariffs were adjusted in 2010 but was not sufficient for cost recovery, and subsidies remained in place. The proportion of the PSO (or subsidy) received by residential consumers with connections of 900 VA or less did not improve during the IRSDP period. The PCR mentioned that the proportions were 43.6% in 2007 and 42.9% in 2010, against an overall objective of 70%.

28. Access to piped water connections did not improve as expected. Annual growth of household connections averaged 39,000 in 2006 against an annual target of 1 million new connections, and the investment capacity of regional water supply enterprises (PDAMs) has remained insufficient to meet the network growth demand. PDAMs generally suffer from poor governance and underinvestment: 73% run at a loss, and 50% are financially unhealthy with average tariff of less than the unit cost of supply. PDAM restructuring proceeded very slowly. By 2010, 106 of the 165 eligible PDAMs had submitted restructuring plans and 68 had restructuring programs with the MOF. While some new public investment has been made in the PDAMs, none took advantage of the subsidized private bank financing made available under Presidential Regulation No 29. (2009), and the PCR noted that most of the new investment in water from 2006 to 2010 was financed through donor projects (footnote 3).

29. The condition of national roads improved but more slowly than expected. By 2015, 94% of national roads were in good or fair condition against the target of 100%.

30. Most reforms that IRSDP's program loan component supported achieved most of the outputs. The exceptions were the KKPPI failed in its role as the government champion for infrastructure and PPP reforms, and the non-establishment of a central PPP unit. The PCR noted that the program helped to establish the legal and regulatory environment for PPPs. It also helped establish the PT Indonesia Infrastructure Finance (IIF),[9] Sarana Multiguna Infrastruktur (SMI), and the Indonesia Infrastructure Guarantee Fund (IIGF) as the country's first nonbanking financial

[9] To increase private investment into infrastructure projects, the Indonesian Infrastructure Financing Facility (IIFF) was created in 2007 as a nonbank financial institution to develop and finance commercially viable infrastructure projects in Indonesia, especially PPPs. In 2009, ADB's Board of Directors approved a 25-year loan of up to $100 million and an equity investment of up to $40 million in rupiah equivalent to contribute to IIFF's capitalization. The company, PT Indonesia Infrastructure Finance (IIF), was established in 2010.

institutions specializing in infrastructure financing and guarantees. Other achievements included the development of a new land acquisition framework, developing and operationalizing a new PSO subsidy mechanism in the energy sector, and setting up new regulatory bodies.

31. **Outputs.** The combined DMF for all three subprograms listed 35 output indicators, of which 27 (77%) were achieved or partially achieved (Table 1). Of the eight outputs that were not achieved, four were concerned with the cross-sector coordination issue, especially the failure to establish the KKPPI and the central PPP unit. Two outputs were related to sectoral reforms: one was the debt restructuring of local water companies, and one was about the legal and institutional framework for PSOs concerning the poor. Two outputs on the lack of PPP projects supported by IPDF and only 10 PPP projects (a fifth of the envisaged target) were brought to bidding, had failed to achieve greater PSP in infrastructure development.

Table 1: IRSDP's Rate of Outcomes, Outputs, and Prior Actions Achievements

Indicator	Total	Achieved/ Partially	%
I. Outcomes	**10**	**7**	**70**
II. Output	**35**	**27**	**77**
A. Enhanced cross-sector policy, institutional, and legal framework	18	14	78
B. Strengthened sector policy, institutional, and legal framework	10	8	80
C. Well-structured infrastructure PPP projects designed, contracted, and executed	7	5	71
III. Detailed prior actions	**192**	**173**	**90**
A. Enhanced cross-sector policy, institutional, and legal framework	40	34	85
B. Strengthened sector policy, institutional, and legal framework	140	136	97
C. Well-structured infrastructure PPP projects designed, contracted, and executed	12	3	25

IRSDP = Infrastructure Reform Sector Development Program, PPP = public–private partnership.
Source: ADB Independent Evaluation Department (IED) calculation based on PCR.

32. **Prior actions.** The PCR reported that all 183 detailed items in the policy matrix were completed. However, about 10% or 20 items did not achieve substantive outcomes: nine actions were related to PPP projects, six actions regarding KKPPI and cross-sectoral coordination, and five sectoral reform actions were not delivered.

33. **Safeguards.** IRSDP was assessed as having safeguard category C for environment, involuntary resettlement, and indigenous population. The policy-based loan did not involve any construction works or have an impact on the environment, thus, no environmental assessment was required. The IPDF did not finance any investments during project implementation; it only supported the preparation of feasibility studies and PPP procurement up to the signing of the concession agreement.

34. Given the overall achievements, this validation assesses the IRSDP less than effective. While some things have improved due to the inputs provided for policy support, these were not sufficient to increase infrastructure investments to 6% of GDP by 2011, which was the implied objective of the supported policy reforms. The reforms under the program loan component also failed to lift PSP in infrastructure to the expected degree. The investment component was less

successful in meeting its objectives. IPDF was only able to bring 10 projects to the procurement phase (three were awarded when the loan was closed), of the targeted 50 projects,[10] which also suggests that the reforms did not have their intended effect.

Effectiveness		
	PCR	**PVR**
Program	Effective	Less than effective
Project	Less than effective	Less than effective
SDP	**Effective**	**Less than effective**

C. Efficiency of Resource Use

35. IRSDP's program loan component was effective as the allocated fund was fully disbursed and was closed 3–4 months before the original closing dates. The project component was less than effective. It involved two extensions and was closed 40 months beyond schedule, with only 72% loan utilization.

36. Given the greater weight of the program component in terms of total costs and with the project component accounting for only 3% of the SDP loan, this validation views IRSDP efficient.

Efficiency		
	PCR	**PVR**
Program	Efficient	Efficient
Project	Less than efficient	Less than efficient
SDP	**Efficient**	**Efficient**

D. Preliminary Assessment of Sustainability

37. Most of the reforms under IRSDP's program loan component continued and gained momentum after the program was completed in 2010. A new set of institutional arrangements have emerged in the post-program period which are linked to the reforms undertaken by the IRSDP: the government has set up viability gap funding and mechanism to bridge land acquisition, and the Committee for Acceleration of Priority Infrastructure Delivery replaced the previously ineffective KKPPI. The PCR also documented (para. 36) that since 2016, eight PPP projects have reached financial closing ($5.4 billion), while six more were signed ($4 billion), and 22 were prepared ($8.4 billion).

38. The sustainability of the investment component was less clear. The PCR stated that IPDF under BAPPENAS was not sustained to be a revolving fund (para. 39). A new IPDF has been established within the MOF's PPP unit. However, the PPP framework depended on a presidential decree rather than legislative action, so it was still identified as a risk to sustainability. The PCR was, nevertheless, very positive about the outlook for PPPs in Indonesia noting that the legal and institutional set-up of PPPs appeared well-anchored, and its effectiveness in delivering infrastructure has increased.

39. This validation assessed the PCR remarks on the policy matrix achievements. Of the 173 achieved or partially achieved prior actions discussed under effectiveness section, 14 (8%) were not sustainable because the government did not follow or continue the reforms, and

[10] Only $2.9 million (39%) of the Netherlands proposed financing of $7.6 million was used because the Government of the Netherlands would not extend the grant beyond 2010.

11 (7%) were partially sustainable because their sustainability is conditional upon further government actions or policies, which were not in place at program completion (Table 2). Two of the three completed actions under project transaction were partially sustainable, confirming the unsatisfactory reforms under this area. On the sectoral reform, water and sanitation had the highest rate of less than sustainable reforms. Part of the reason was this sector is the most decentralized, with most authorities under the local government.

40. Moreover, this validation found that four more reforms in the energy and water and sanitation sectors were completed per the policy matrix stipulation. However, two separate rulings by the Constitutional Court would affect the long-term institutional sustainability of these reforms. First, the court in 2012 abolished BP Migas, an independent upstream regulator of oil and gas, and transferred its role to a task force under the Ministry of Energy and Mineral Resources. Second, the Constitutional Court in 2015 annulled the 2004 Law on Water Resources and ruled that the local water companies could not be fully privatized.

Table 2. IRSDP's Prior Actions that are Not or Partially Sustainable

Sector/Subsector	Completed	Not sustainable	Partially sustainable
I. Cross-sector	**34**	**2**	**2**
II. Sector-specific	**136**	**11**	**7**
A. Land transportation	14	1	1
B. Railway transportation	13	1	0
C. Sea transportation	14	1	0
D. Air transport	12	0	0
E. Road transportation	21	1	1
F. Power	20	0	1
G. Oil and gas	13	0	2
H. Telecommunication	9	0	0
I. Water and sanitation	20	7	2
III. Project transaction	**3**	**0**	**2**
Total	**173**	**14**	**11**
% of total	**100**	**8**	**7**

IRSDP = Infrastructure Reform Sector Development Program, PPP = public–private partnership.
Source: ADB IED calculation based on PCR.

41. While Indonesia's infrastructure financing needs are still large, implying that demand for infrastructure investment and PPP are still growing, the recent trend suggests that the government is relying more on SOEs to execute its infrastructure projects. The number of PPP projects in various stages in the BAPPENAS's book has in fact declined from 39 in 2015 to 22 in 2017. The ones that went to tender declined from 22 to 17.[11] According to the PCR, the IPDF in BAPPENAS ceased to exist in February 2016 due to the closure of the ADB loan. The revolving fund did not materialize. Given the scope of support required to accelerate PSP in infrastructure development in Indonesia, this validation considers IRSDP less than likely sustainable.

[11] Government of Indonesia, Ministry of National Development Planning. 2017. *Public–Private Partnerships: Infrastructure Projects Plan in Indonesia.* Jakarta.

Sustainability		
	PCR	**PVR**
Program	Sustainable	Less than likely sustainable
Project	Not rated	Less than likely sustainable
SDP	**Likely sustainable**	**Less than likely sustainable**

III. OTHER PERFORMANCE ASSESSMENTS

A. Preliminary Assessment of Development Impact

42. The PCR rated the IRSDP's development impact satisfactory. It noted that the three indicators of the IRSDP's intended impacts—economic growth, total infrastructure investments, and Indonesia's competitiveness ranking did not meet the expectations. Some additional positive impacts were delivered, such as financial sector deepening and capacity for PPP preparation, and the guidance for ADB safeguard adherence in designing and implementing PPPs. However, it took more than 10 years after the program first started before the potential impact of the IRSDP series and the parallel donor support were realized. Therefore, this validation rates the initial impact as envisaged by the program and other development partner support less than satisfactory.

B. Performance of the Borrower and Executing Agency

43. The PCR documented the weak capacity of the borrower and executing agency in managing the investment component of IRSDP and ensuring full compliance with the loan covenants. The PCR also noted that KKPPI did not perform as effectively as expected, and the project steering committee was largely inactive. This has led to the implementation of the IPDF without the envisaged strategic guidance and personnel with experience in risk management, financial modeling, and economic analysis of PPP projects. There was also insufficient coordination between BAPPENAS and MOF, within BAPPENAS, and between BAPPENAS Directorate for PPPs and the sector directorates. The PCR noted that project performance monitoring system was not implemented, making it difficult to track the outputs and achievements (para. 24).

44. On the reform side, however, BAPPENAS was able to coordinate sufficiently well, both internally with its domestic stakeholders and with its development partners, to accomplish the three sets of reform actions as set out in the three subprograms. Inter-agency coordination within the government was better at the high-level, but the involvement and ownership of mid-level government officials was mixed and limited. In the end, BAPPENAS assumed overall coordination, oversight and follow-up functions to deliver a complex and wide-ranging reform agenda. Based on the relative amounts of the program and project components, this validation concurs with the PCR assessment that the performance of the borrower and executing agency is satisfactory.

C. Performance of the Asian Development Bank

45. The PCR did not provide an overall rating for the performance of ADB and instead rated ADB performance separately for IRSDP as satisfactory and for IPDF as less than satisfactory. BAPPENAS may have been the appropriate agency of government in which to locate the IPDF, however, it is not clear that ADB undertook sufficient due diligence to assess its capacity to manage large consultancy contracts in a specialized field. While consultant recruitment under the loan projects is the responsibility of the borrower, ADB should have provided assistance in

consultant recruitment to the government. ADB should also have been more aware of the lack of capacity among national experts in relation to the skills required for developing PPPs and designing the consulting packages accordingly. This critical assessment on ADB was mentioned in the government PCR.

46. ADB performed well in designing a complex program of reforms, coordinating with the government and other development partners, and working with the government to implement the reform agenda. ADB devoted sufficient resources to design and implement the SDP and made good use of its resident mission. ADB's good performance in the reform side outweighed the weaker performance regarding the IPDF component. On the whole, this validation views ADB performance satisfactory.

D. Others

47. A government PCR prepared by BAPPENAS in 2015 focused on the project development facility (PDF) component (footnote 5). The PCR assessed the PDF largely relevant, partly satisfactory in achieving outcomes and outputs, and low in efficiency. On sustainability, the PCR viewed that knowledge transfers and retention in some government contracting agencies were very likely. However, high staff rotation, which is very common in Indonesia especially at the local government level, may affect the long-term knowledge retention. The PDF impact in terms of infrastructure development acceleration was limited, but its impact on institutional and knowledge development was recognizable.

48. Key points that have emerged from the government PCR are the (i) lack of a specific DMF for the PDF; (ii) over optimistic assessment of the number of PPPs, which were to be prepared; (iii) need to better assess the capacity of the involved agencies to participate in PPP preparation; (iv) lack of buy-in by a range of government agencies; (v) lack of local experts with PPP knowledge and experience; and (vi) high cost and difficulty of engaging international experts with the skills needed to prepare PPPs. The PCR was constructively critical of ADB's performance in relation to project design and implementation. It also identified relevant lessons which could be applied to future projects in Indonesia.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

49. This validation has similar assessment as the PCR and views the program highly relevant, because of the innovative element of SDP (Table 3). However, as the targeted increase in infrastructure investment was not achieved, the validation finds the program less than effective and efficient. The validation's detailed look at the achievements of the prior actions, and current development on the growth of PPP projects in Indonesia do not support the PCR's sustainability assessment. The validation views IRSDP less likely than sustainable (Table 3).

Table 3: Overall Sector Development Program Ratings

Validation Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance	Highly relevant	Highly relevant	
Effectiveness	Effective	Less than effective	The overall objective to increase public and private sector investment

Validation Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
			to 6% of GDP by 2011 was not achieved (para. 34).
Efficiency	Efficient	Efficient	
Sustainability	Likely sustainable	Less than likely sustainable	A quarter of completed reform actions were not sustainable, and the number of PPP projects in Indonesia has, in fact, declined between 2015 and 2017 (para. 41).
Overall Assessment	**Successful**	**Successful**	
Preliminary Assessment of Impact	Satisfactory	Less than satisfactory	The intended impacts were not achieved (para. 42).
Borrower and executing agency	Satisfactory	Satisfactory	
Performance of ADB	Satisfactory / Less than satisfactory [a]	Satisfactory	
Quality of PCR		Satisfactory	Paras. 62-63.

ADB = Asian Development Bank, GDP = gross domestic product, IED = Independent Evaluation Department, PCR = program completion report, PPP = public–private partnership.

[a] The PCR did not provide an overall rating for the performance of ADB and instead rated ADB performance separately for the Infrastructure Reform Sector Development Program (IRSDP) as satisfactory and for the Infrastructure Project Development Facility (IPDF) as less than satisfactory.

Source: IED.

B. Lessons

50. The PCR, as well as the government PCR, proposed a range of lessons which draw on the IRSDP experience. The following summarizes the lessons most likely to be relevant to processing future operations.

51. **Country-level lessons.** Reforms should be prioritized by considering institutional readiness at all levels. If reforms include multiple sectors, it may be necessary to focus on sectors in which the probability of reforms being achieved is relatively high. Technical assistance will play an important role to support line ministries, and to ensure their buy-in. In a decentralized country like Indonesia, the role of local governments is important. The capacity of local governments may vary, hence, particular attention on capacity building is likely to be necessary at this level.

52. It is important that ADB and development partners, in general, understand not only the formal but also informal institutional settings, particularly how government officials at different levels interact. Reform decisions may be agreed upon at the ministry level, but lower-rank bureaucrats, who deal with more detailed administrative tasks, may have a different understanding. A more thorough political economy analysis may have identified these constraints.

53. **Sector-level lesson**. Future support to developing PPPs in Indonesia would benefit from a clearer identification of the obligations, incentives, and cost-sharing arrangements among government agencies. IPDF clearly suffered from these issues, as well as from the lack of familiarity with PPP concepts by participating agencies. It was not clear what incentives different government agencies had to engage with the IPDF rather than pursue their traditional modes of

project preparation. In this respect, policy reform alone was not sufficient to support the change in behavior that was ultimately expected by this intervention. A political economy assessment may have helped identify some of these constraints.

54. **Program- and project-level lessons.** IPDF should have had a much narrower sectoral focus and clearer criteria on the types and size of projects to be considered. The IPDF's multisector coverage and lack of clear guidance on the size of PPPs to be considered contributed to non- and partial achievement of targets. Rather than covering nine sectors, it may have been more practical to focus on one sector where ADB had significant knowledge and investments.

55. Projects require close monitoring in the start-up phase, particularly on the initial procurement packages. ADB should have been more proactive in helping the executing agency address the long delay in recruitment of consultants, which was complex and included 17 consulting firms and 12 individuals. Delays in procurement had a negative impact on the cofinancing arrangements with the Government of the Netherlands.

56. A well-functioning project steering committee could have played a role in identifying and addressing the consultant selection issues at an earlier time. It could have also identified issues relating to agencies' capacity to engage in PPP preparation.

57. As this validation mentioned in para. 24, the policy matrix was overwhelming with low-level reforms and administrative processes, with no clear priority and focus. This reduced the reforms into merely box-ticking actions. The policy matrix should have been streamlined to focus on the achievements of substantive key actions.

58. **Results framework and methodology lesson**. The PCR argued that the IPDF component should have had a specific DMF. Per the operations manual, separate DMFs for program and investment components is not required in an SDP. However, this validation is of the view that part C of the DMF, which serves as the DMF for IPDF, was not adequate to assess IPDF's performance as an institution. The targets were limited to the number of PPP projects. It should have included measures on the level of private sector investment in infrastructure in general, and specifically on PPP projects, together with some regional comparisons.

C. Recommendations for Follow-Up

59. The PCR made two program- and project-related recommendations: (i) ADB and key development partners should continue monitoring the implementation of the PPP programs, while covenant monitoring and reporting should be part of the biannual mission reports; and (ii) ADB may support the expansion of the PPP programs in Indonesia through future dedicated operations, project components, or transaction advisory services. Two general recommendations were also made: (i) mainstreaming of PPP in civil servant training and (ii) agency-level support for PPP.

60. The validation supports these recommendations and notes that the development of a new national medium-term plan represents an opportunity to cement the role of PPP in infrastructure provision in Indonesia. The preparation of a program performance evaluation report in or around 2020 is supported. IRSDP could also be reviewed in the context of a broader review of the cluster approach or SDPs.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Reporting

61. The DMF has a gap between the data at the national level specified at the impact level and the detailed information at the output level. As a result, the reader of the PCR is not given a picture of the aggregate contribution of PPPs to national infrastructure during the program period or after. Similarly, data on the role of PPPs by sector was not reported.

B. Comments on Program Completion Report Quality

62. The PCR quality is satisfactory. The PCR was thorough and met most of the requirements set out in the PCR guidelines. The achievements of prior actions were well-documented and thoroughly presented. Program targets that were achieved and not achieved were also well-documented. The lessons presented were valuable and provided useful inputs for future projects in Indonesia, as well as other countries with similar constraints.

63. The validation, however, disagrees with the assessments on two criteria, due to different interpretation of the data and recent trends. First, some data could have been better presented, such as, having a longer time series data on aggregate PPP investment in Indonesia. Second, there was also a 2-year gap between the government PCR that was prepared in 2015 and the PCR. While issues of implementation capacity were identified, the PCR did not document what happened during those 2 years.

C. Data Sources for Validation

64. The RRPs of the three subprograms, the PCR and the government PCR, back-to-office reports and aide memoires of supervisory missions, ADB *Key Indicators* series, program safeguard assessment, and a World Bank report, entitled *Avoiding the Trap*, were used as references.

D. Recommendation for Independent Evaluation Department Follow-Up

65. As noted earlier, a program performance evaluation report could be undertaken in or about 2020. It may be clearer by that time whether the increase in PPP activity has been sustained.