



# Country Partnership Strategy Final Review

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## CURRENCY EQUIVALENTS

(as of 5 November 2014)

Currency unit	–	Indonesia rupiah (Rp)
Rp1.00	=	\$0.00008271
\$1.00	=	Rp12,090

## ABBREVIATIONS

ADB	–	Asian Development Bank
ACDP	–	analytical and capacity development partnership
AEC	–	ASEAN Economic Community
ANR	–	agriculture and natural resources
ASEAN	–	Association of Southeast Asian Nations
ASR	–	Sector Assessment, Strategy and Results
BAPPENAS	–	Badan Perencana Pembangunan Nasional (national development planning agency)
BPS	–	Biro Pusat Statistik (Central Statistics Agency)
BULOG	–	Badan Usaha Logistik (State Logistic Agency)
CBO	–	community-based organization
CCS	–	carbon capture and storage
CIDA	–	Canada International Development Agency
COBP	–	country operations business plan
CPS	–	country partnership strategy
DATs	–	District Advisory Teams
DFAT	–	Department of Foreign Affairs and Trade, Australia
DGWR	–	Directorate General of Water Resources
EA	–	executing agency
EIRR	–	economic internal rate of return
EU	–	European Union
FY	–	fiscal year
GDP	–	gross domestic products
Gg	–	gigagram
GOI	–	Government of Indonesia
ha	–	hectare
IA	–	implementing agency
ICT	–	information and communication technology
IED	–	independent evaluation department
IFC	–	International Finance Corporation
IFI	–	international financial institution
IKK	–	Ibukota Kecamatan (capital of subdistrict)
IRM	–	Indonesia Resident Mission
JFPR	–	Japan Fund for Poverty Reduction
kWh	–	kilowatt hour
Kv	–	kilovolt
LED	–	light-emitting diode
MDG	–	millennium development goal
MIC	–	middle income country
MFF	–	multi-tranche financing facility
MP3EI	–	Master Plan for the Acceleration and Expansion of Economic Development of Indonesia

MTR	–	mid-term review
MW	–	megawatt
NGO	–	non-government organization
NTB	–	Nusa Tenggara Barat (West Nusa Tenggara)
NTT	–	Nusa Tenggara Timur (East Nusa Tenggara)
O&M	–	operation and maintenance
OMT	–	operational management
PCR	–	project completion report
PDAM	–	Perusahaan Daerah Air Minum (water supply enterprise)
PLN	–	Perusahaan Listrik Negara (Indonesia Electricity Corporation)
PFR	–	periodic financing request
PNPM	–	Program Nasional Pemberdayaan Masyarakat (national community empowerment program)
PPP	–	public private partnerships
PSOD	–	Private Sector Operations Department
PSM	–	public sector management
RCI	–	regional cooperation and integration
REDD	–	reducing emissions from deforestation and degradation
RPJMN	–	Rencana Pembangunan Jangka Menengah Nasional (Government of Indonesia five year development plan)
SERD	–	South East Asia Regional Department
SOE	–	state owned enterprises
SOPs	–	standard operations
TASF	–	technical assistance special funds
TA	–	technical assistance
TI	–	targeted intervention
TNB	–	Tenaga Nasional Berhad (Malaysian Electricity Corporation)
TVET	–	technical and vocational education and training
WSS	–	water supply and sanitation
VETC	–	vocational education technical center

#### NOTE

- (i) The fiscal year (FY) of the Government of Indonesia ends on 31 December. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2014 ends on 31 December 2014.
- (ii) In this report, "\$" refers to US dollars unless otherwise stated and Rp refers to Indonesia Rupiah.

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<b>Director</b>	A. Ruthenberg, Indonesia Resident Mission (IRM), Southeast Asia Regional Department (SERD)
<b>Team Leader</b>	A. Gill, Country Team Leader, IRM, SERD
<b>Team Members</b>	B. N. Hutagalung, Program Officer, IRM, SERD D. Syarifa, Associate Programs Analyst, IRM, SERD U. Hendrarini, Senior Operations Assistant, IRM, SERD

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## I. ASSESSMENT OF THE COUNTRY PARTNERSHIP STRATEGY PERFORMANCE

1. This final review assesses the performance of the Asian Development Bank's (ADB) country partnership strategy (CPS) for Indonesia from 2012-2014. The final review aims to contribute to the development of ADB's next Country Partnership Strategy for Indonesia for the 2015-2019 period.

2. During 2012-2014, ADB's program was guided by the CPS, 2012-2014<sup>1</sup> (CPS) and a series of Country Operations Business Plans (COBP).<sup>2</sup> The assessment covers all the lending and non-lending programs that were ongoing and approved during 2012-2014. This final review has followed the ADB's guidelines for self-evaluation of the CPS,<sup>3</sup> which cover six criteria: (i) strategic positioning, (ii) program relevance, (iii) effectiveness, (iv) efficiency, (v) sustainability, and (vi) development impacts, and includes an assessment of ADB's and the government's performance. The following summarizes the assessments by criteria. Ratings across the six evaluation criteria are then combined to give the overall rating for ADB's country partnership strategy and assistance program.

### A. Strategic Positioning

3. The assessment of strategic positioning considers how well the CPS and COBPs guided ADB's program in Indonesia, relative to conditions in the country and to ADB's policies and experience. The evaluation assessed the positioning relative to five sub-criteria: (i) relevance to the country context and government development priorities, (ii) focus, selectivity and alignment with ADB's Strategy 2020,<sup>4</sup> (iii) coordination with development partners; (iv) long-term continuity and the extent to which lessons learned were incorporated, and (v) appropriateness of resource allocation based on the CPS results frameworks.

4. ADB's partnership with Indonesia is an important and significant one. Indonesia is the 16th largest economy in the world and the biggest economy in the Association of Southeast Asian Nations (ASEAN). Indonesia is a founding member of the ADB and since 1966 has received \$27 billion in sovereign and non-sovereign loans. In the same period, Indonesia has received a total of \$342 million in technical assistance and \$307 million in grants. Over the decades, the focus of ADB assistance has shifted in response to Indonesia's changing development priorities, from an early emphasis on agricultural self-sufficiency to focus on reform, decentralization, and building financial resilience in the first decade of the new millennium.

5. The two strategic pillars of the CPS 2012-2014 were inclusive growth and environmental sustainability with climate change mitigation and adaptation. The sector focus was on natural resource management, education, energy, finance, transport, and water supply and other municipal services. Public sector management was subsequently added as a focus sector.<sup>5</sup> Governance and capacity development, gender equity, private sector development, and

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<sup>1</sup> ADB. 2012. *Country Strategy and Program: Indonesia, 2012-2014*. Manila.

<sup>2</sup> ADB. 2012. *Country Operations Business Plan: Indonesia 2012-2014*. Manila; ADB. 2012. *Country Operations Business Plan: Indonesia, 2013-2014*. Manila.

<sup>3</sup> ADB. 2010. *Template for CPS Self-Evaluation Supplementary to the CPS Final Review*. Manila. The following documents have also been consulted: ADB. 2011. Independent Evaluation Department. *Guidelines for the Preparation of Country Partnership Strategy Final Review Validation Report*. Manila.

<sup>4</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008-2020*. Manila.

<sup>5</sup> Public sector management was initially treated as a cross cutting initiative in the CPS but was added as a focus sector once policy based loans in public sector management were pursued.

regional cooperation were integrated as cross-cutting themes. The strategy supports two of Indonesia's medium-term development agendas-economic development and increased welfare of the people; and enhancement of good governance. It was aligned to the needs of Indonesia as a large, middle-income country, and was guided by the government's commitment to "pro-poor, pro-job, pro-growth, and pro-environment" development. While signaling the intention of the government to shift gradually from program lending to more project investments, the CPS recognized the need to remain responsive to the government's changing needs for reform support towards improved infrastructure delivery.

6. **Country Context.** Indonesia's CPS 2012-2014 was framed against the backdrop of an economy that was recovering from the global economic crisis, and persistent development challenges including high levels of poverty and inequality, poor infrastructure, weaknesses in governance, and inadequately skilled labor. Growth and urbanization had challenged resource management and Indonesia was lagging in achieving its environmental MDGs. Although economic growth had accelerated to 6.5% in 2011, and fixed investment rose to 31.5% of GDP, growth was insufficient to provide productive employment opportunities for a growing labor force. In assisting government to foster inclusive growth, the strategic positioning of the CPS 2012-2014 was appropriate by addressing key policy and institutional constraints to growth, particularly in the area of connectivity, financial market development and skills to widen participation in the growth process, to keep inequality in check and to help create jobs. The emphasis on environmental sustainability was warranted given mounting threats to natural resource management from deforestation and forest degradation, overexploitation of coastal resources, and unsustainable use of water resources, together with the risks that climate change could have on the livelihoods of coastal populations, agriculture and the availability of water resources.

7. The strategic positioning of ADB support remained appropriate during the implementation of the CPS. GDP growth moderated to 5.8% year on year in 2013 from an average of 6.3% over the previous 3 years and is forecast to grow by 5.7% in 2014.<sup>6</sup> Fixed investment levels averaged 32% per annum from 2012 to 2014 with foreign direct investment averaging just under \$19 billion per annum. But rates of growth and investment remained too low to generate the employment required to boost employment and help sufficient numbers of the poor find jobs in the formal sector. In 2013, some 28.6 million Indonesians continue to live below the government's poverty line. Income inequality as measured by the Gini coefficient has worsened from 0.32 in 2003 to 0.41 in March 2013. Lagging development of infrastructure continues to be a prime constraint to achieving inclusive growth and to reducing income inequality. Congested ports, inadequate road and rail network quality, rising logistic costs and the poor quality of power supplies were major constraints on the expansion of manufacturing. Urbanization is rising rapidly, and by 2020, two-thirds of the populations are forecast to reside in urban centers, straining the provision of public services and resulting in urban congestion and resource degradation.

8. **Changing Country context and the demand for budget support.** The CPS had anticipated a shift from program to project lending because of government's desire to balance its budget and because Indonesia had weathered the global financial crisis well and it was assumed that the country would continue to do so without need for substantial international financial institution (IFI) budget support. These assumptions, while appropriate at the start of the CPS, proved to be incorrect during the CPS implementation because of unanticipated changes in the country context. Contrary to expectations, deficit financing requirements widened from

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1.1% of GDP in 2011 to 2.3% in 2013 and is forecast to reach 2.5% of GDP for 2014. Tax revenues were weaker than anticipated and rising costs of international fuel prices pushed up energy subsidy costs. The public sector financing requirement, forecast at \$35 billion in 2014, was larger than expected due to the need to roll-over increasingly costly maturing domestic debt and to meet larger-than-expected deficit financing requirements. In 2012, Indonesia was vulnerable to risks of contagion from continuing weaknesses in the Euro-zone countries because of its relatively open capital account and the significant foreign presence in its stock and bond markets. Sluggish performance in export-oriented manufacturing also added to the strains on the current account. A sudden devaluation of the Rupiah triggered a surge in the costs of imports and a fall in domestic revenues, which led the authorities to seek external support to cover deficit financing requirements. Likewise, higher-than-anticipated global prices for petroleum led to higher petroleum subsidies, also added to fiscal stress. Indonesia's narrow export base, weaknesses in the competitiveness of the manufacturing sector, its shallow domestic foreign exchange market, and its growing dependence on passive foreign capital inflows, combined to create a situation in which fiscal vulnerabilities were greater than had been anticipated during the CPS design, and in which IFI support to reassure international markets and assist in meeting the public sector's budget financing requirements remained substantial.<sup>7</sup>

9. **Alignment with Government's Development Priorities.** The CPS was aligned with national priorities as identified in the government's national medium-term development plan (RPJMN) for 2010-2014, its Master Plan for the Acceleration and Expansion of Economic Development of Indonesia (MP3EI) for 2011-2025, and Climate Change Roadmap.<sup>8</sup> The RPJMN aimed for wealth creation at all levels of society, based on equity, justice and diversity. It has a strong territorial dimension, placing emphasis on the development of intra-Indonesian capacities within an integrated national economy. It included a four-track strategy aimed at fostering a development process that was pro-poor, pro-job, pro-growth, and pro-environment. Environmental sustainability, good governance, and gender equity were to be mainstreamed in all areas, and a high degree of emphasis was accorded to cross- sectoral themes of climate change and connectivity among and within Indonesia's islands. MP3EI focused on three main pillars (i) harnessing the country's regional development potential by developing six economic corridors: Sumatera, Java, Kalimantan, Sulawesi, Bali-Nusa Tenggara, and Papua-Maluku; (ii) strengthening national connectivity, both locally and internationally; and (iii) strengthening human resource capacity and national science and technology. Acting to support these goals, the government has substantially increased its budget for infrastructure in 2012 and 2013, with a large share allocated to eastern provinces. While ADB support was provided in Eastern Indonesia, support was also provided for roads, power, aquaculture, skills development and irrigation in Java, as a result of projects which had been designed several years earlier. To some extent, this contributed to a weakening of alignment between ADB's strategy and program and the 6 economic corridors which were the focus of MP3EI.

10. ADB's strategy and program were also responsive to changes in government priorities during CPS implementation. The CPS noted that the shift from program lending to project support could be adjusted during the CPS period to respond to changing government needs for budget support. In fact, considerable sums of program lending, to support priority reforms in capital markets, connectivity, infrastructure development and inclusive growth, and to meet

<sup>7</sup> IMF. 2013. Indonesia: Staff Report for the 2013 Article IV Consultation. Washington DC and Iwan Jaya Asiz, 2014. *Asia in a Changing Global Liquidity: Dancing with the System*. Jakarta.

<sup>8</sup> President of the Republic of Indonesia. 2010. *National Medium Term Development Plan (RPJMN 2010-2014), Book 1, National Priorities*. Jakarta. Coordinating Ministry for the Economic Affairs. 2011. Masterplan: Acceleration and Expansion of Indonesia Economic Development 2011-2025. Jakarta; National Development Planning Agency (BAPPENAS). 2010. Indonesia Climate Change Sectoral Roadmap. Jakarta.

budget financing requirements, were provided in response to unexpected changes in international financial market conditions. A mix of both conventional program lending support and contingent financing facilities were provided to help Indonesia bolster market confidence and strengthen macro-prudential management during periods of global financial uncertainty.

11. **CPS Finalization Delays.** Preparation of the CPS was initiated in the second half of 2009 but was not approved until May 2012. As a result, it could only be aligned with the final 3 years of the government's RPJM. Delays in completing the CPS can be attributed to the time required to build the analytic and consultative basis for a stronger ADB re-engagement in investment operations in line with MP3EI which was also delayed. CPS completion delays made it difficult, however, to sustain the support of the country team and the government in the planning process.

12. **Alignment with ADB's Strategy 2020<sup>9</sup>.** The CPS was closely aligned with ADB's Strategy 2020 and relevant sector strategies. CPS was fully consistent with the strategic agendas of Strategy 2020, particularly inclusive growth and environmental sustainability. In its sector focus, the CPS supported four of the five core areas under Strategy 2020, namely, education, environment, finance, and infrastructure. For regional cooperation and integration, the CPS articulated concrete ADB support for initiatives having significant regional benefits. In alignment with the drivers of change under Strategy 2020, it laid out a clear thematic focus on governance and capacity development, gender equity, private sector development, and knowledge solutions. The CPS strategy for inclusive growth initially emphasized infrastructure to connect people to markets and services, skill development and strengthening local government capacity to deliver services. The strategic focus on inclusive growth was expanded during CPS implementation to include support for social protection in the areas of health insurance and public pensions and diagnostic and policy advisory assistance in financial inclusion. In the environmental pillar, ADB support for renewable energy, energy conservation, clean transport modes, healthy urban habitats, and watershed basin management were closely aligned with corporate strategies in the energy, urban and transport sectors. Resource allocation in the CPS was carefully designed to support Strategy 2020 priorities with more than two-thirds of the program aimed at fostering private sector development and environment, and both gender and regional cooperation to be integrated fully in three core sectors. By design, infrastructure development, regional cooperation and integration, environment, finance sector development, and education, were designed to utilize 84% of total CPS resources on Strategy 2020 core sectors. Agriculture and natural resources, a sector that was not a Strategy 2020 core sector but was important for its contribution to poverty reduction and food security, was initially programmed at 16% of CPS resources but ultimately accounted for 2% of total CPS commitments. A climate change policy based loan and 5 investment operations were planned in the ANR sector, but due to changes in GOI borrowing policy and to slower-than-expected project readiness, just one investment operation was approved.

13. **Focus and Selectivity.** By design, the scope of the CPS 2012-2014 was quite broad. This was appropriate at the time the CPS was launched since there were many areas in which Indonesia's RPJM and Strategy 2020 overlapped and since there was a desire to bolster engagement in investment operations but an uncertainty regarding the readiness of operations in different sectors. Under the CPS, ADB was to be engaged in 6 sectors (ANR, Energy, Finance, Transport, WSS and Education) and some 24 sub-sectors while good governance, gender equity, private sector development, and regional cooperation were to be integrated as

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<sup>9</sup> ADB. 2008. Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank. 2008-2020. Manila.

cross-cutting themes. PSM was later added as a 7<sup>th</sup> core sector during CPS implementation when a number of program loans and projects were classified as PSM operations. At design, two sectors, industry and trade and health, were to be dropped from the CPS. Despite this, support for a rice fortification (a health intervention) and social protection (a public sector management operation) were eventually included in the program while support for both health and trade were provided through ADB's programs of regional support.<sup>10</sup> While the wide sector, thematic and geographic remit of the CPS allowed ADB to be responsive to government requests, this also hampered ADB's ability to achieve cross-program synergies or to focus support in ways that would enhance development impact in any of the areas in which support was provided.

14. **Coordination with Development Partners.** The CPS encouraged strong coordination of ADB support with that provided by other partners. Extensive consultation with development partners informed the preparation of the CPS, including efforts to align and harmonize support for government-led policy reforms. Cofinancing with development partners was to be pursued to further leverage the impact of ADB assistance, to build capacity and develop knowledge products in the core sectors, and to help build country systems. Three-quarters of all ADB loans approved during the CPS period attracted co-financing.

15. **Continuity.** ADB has maintained a strong degree of continuity in its support to Indonesia. In the policy reform, support for transport connectivity financial market development, public procurement, public-private partnerships, and enabling business reforms built upon the findings of programs supported under the previous CPS (i.e. the Development Policy Support Program, the Infrastructure Reform Sector Development Program, the Capital Market Development Program and the Local Government Finance and Governance Reform Program). Support for energy, financial sector development, road transport, vocational education, local government auditing and financial planning, social protection, watershed management and urban development have been ongoing for more than a decade and assistance in these areas was aimed at assisting government to build capacities, improve policies and deliver strategic investments in a gradual, incremental manner. Capacity building assistance in renewable energy, carbon capture, and local government bond markets were newer areas of assistance, but these built on ADB's long-standing involvement in the energy sector and in its support to key local governments. Strong complementarities were encouraged in the design and delivery of public and private sector operations, with ADB support for improvements in PPP policy, water tariffs, and in geothermal tariff and off-take arrangements serving to facilitate catalytic projects in geothermal power and urban water supply.

16. **Diagnostic Underpinnings and Lessons Learned.** The positioning of ADB support was underpinned in the CPS by a diagnosis of the binding constraints to development.<sup>11</sup> The diagnosis identified the need for Indonesia to escape the middle-income trap by shifting from a pattern of resource-driven growth that is dependent on cheap labor and capital to a growth process that is based on high productivity and innovation. The constraints identified in the diagnostic were poor infrastructure (particularly connectivity), weaknesses in governance, an inadequately skilled labor force, weak natural resource management, climate change and weak public sector management. In addition, detailed sector assessments, strategies and roadmaps were prepared for the ANR, transport, urban, water supply and other urban infrastructure

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<sup>10</sup> Health programs included *project 47272-001: Regional Strategic Response to Malaria and Other Communicable Diseases in Asia and the Pacific* which has been active in Malaria control in Indonesia.

<sup>11</sup> Asian Development Bank (ADB), International Labor Organization, and Islamic Development Bank. 2010. *Indonesia: Critical Development Constraints*. Manila.

sectors, and special thematic studies were prepared in the areas of governance, environment and gender. These, in turn, guided the selection of CPS focus areas and interventions in the key sectors and sub-sectors. The design of the CPS also took into account the findings of the 2010 CSP Final Review which confirmed the appropriateness of ADB's strategic positioning.<sup>12</sup> In line with recommendations made by IED, the CPS aimed to be more systematic and harmonized in its support for public financial management at the local government level, and to approach urban service development by focusing on urban planning in a comprehensive manner while adopting a sector-specific approach (i.e. sanitation or urban water) with few components rather than an integrated multi-sector approach to tackle major urban development constraints.

17. **CPS Results Framework and Resource Allocation.** The CPS included a country results framework and sector results frameworks for each of the core sectors. The country results framework included 4 indicators for tracking country-level performance and 10 indicators for tracking performance in the 6 core sectors. A mix of both qualitative and quantitative indicators were employed, some of which were aligned with RPJMN targets and others not. The CPS results framework was updated in the COBP 2014-2016, in which sector results indicators were adjusted to better reflect evolving sector priorities and to better identify performance baselines and targets. It was initially envisaged that the CPS results would be monitored during project supervision missions, portfolio review and RPJMN tracking, although the degree to which this was accomplished was limited. A more judicious selection of results indicators would also have been appropriate. A quarter of the outcome indicators included in the sector and country results framework were neither formally monitored or reported on regularly by government agencies or by the Central Bureau of Statistics.

18. **Resource Allocation.** ADB resources were allocated in ways that would contribute to the achievement of CPS results. Support for inclusive growth, through assistance for infrastructure, education, and transport, municipal infrastructure and finance accounted for some 84% of CPS resource allocation, while support for ANR, the main sector through which environmental support was to be provided was budgeted at 16%. This was an appropriate allocation of resources in that environmental sustainability objectives were simultaneously pursued in the energy, urban infrastructure and power sectors, and because ADB's focus in the climate change area was to be anchored in support for climate change policy reform and more sustainable management of water resources.

19. **Rating.** The CPS has given due consideration to the country context with well-focused and selective sector and thematic priorities. Strategic priorities were closely aligned with those of the government and ADB's corporate priorities, although alignment with the RPJM was hampered by delays in CPS finalization. The CPS was designed in close consultation with development partners. Positioning in the sectors has built on long-term continuity and comparative advantage in tackling long-standing infrastructure development challenges. It has also taken into consideration the findings of detailed analytic exercises and the lessons drawn from previous program evaluations. While efforts were made to be more focused, the CPS was not geographically focused, and covered a large number of sectors, sub-sectors and thematic areas, limiting scope for cross-program synergies. The program was also responsive to changes in the development setting, particularly with respect to global financial developments, developing clean energy sources and improving local government financing capacities. The CPS was results-based although the selection of performance indicators, their links to ADB

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<sup>12</sup> ADB. 2010. *Supplementary Country Strategy and Program Final Review: Indonesia 2006-2009*. Jakarta and ADB IED. 2010. *Indonesia: Country Strategy and Program, 2006-2009 Final Review Validation*. Manila.

support and routine results tracking merits improvement. The CPS is therefore, assessed as **satisfactory** for strategic positioning.

## B. Program Relevance

20. The assessment of program relevance considers the extent to which ADB-financed projects, TA, and knowledge products were pertinent to ADB's strategy. The evaluation assessed relevance through the following two sub-criteria: (i) relevance to the key sector and thematic issues identified in the CPS in terms of the consistency between the program and the CPS and COBPs, including the justification for any departures; and (ii) the adequacy of technical or sector-specific aspects in project design.

21. **Consistency between the Program and the Strategy.** ADB's Indonesia country program, as delivered (Appendix A2, A3, and A4) was broadly consistent with the strategic, sector, and thematic priorities of the CPS. A suitable mix of public sector lending and non-lending support was provided to address the key objectives set in all of the core CPS sectors (Table 1). The program as delivered, although focusing considerably more on policy-based lending than on investment operations, was in line with what had been planned except for envisioned support for climate change policy reform, development of a geothermal power project and support for new flood management, irrigation, urban water, regional road and PPPs in transport.<sup>13</sup> Several projects in the ANR sector that had been planned did not materialize, although this was offset by larger-than-anticipated support for policy reform in transport, finance and public sector management (Table 2). Support in the area of public sector management was both mainstreamed in all sectors and also supported under policy based lending and investment operations to support macro-prudential policy reforms, procurement reforms, capacity building support for local government financing, auditing and budget preparation, and assistance in building project-related country systems. Good governance was fostered through a series of TAs and one lending project. Support for private sector development was centered on a series of programs aimed at improving the enabling environment for private sector development, catalytic private sector operations in geothermal power and urban water supply, and TA support for improving infrastructure sector development. Regional cooperation was fostered through projects supporting cross-border power trade with Malaysia, forest conservation in Borneo and coral reef preservation in Eastern Indonesia, and through regional TA assistance for Indonesia's participation in the ASEAN Economic Community, the Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area, the Coral Triangle Initiative and the Indonesia–Malaysia–Thailand Growth Triangle. Gender equity was pursued through interventions identified in gender action plans for projects aimed at fortifying rice for the poor, rehabilitating coral reefs, improving polytechnic education, and upgrading disadvantaged urban neighborhoods. Private sector support was provided for a trade finance program, the Sarulla Geothermal project and the Aetra East Jakarta Water Supply project, all of which were major, long-gestating operations.<sup>14</sup> Projects supported under the country program were complemented by grants financed from trust funds and regional TAs in several sectors and thematic areas. Appendix

<sup>13</sup> A Geothermal MFF was prepared, in line with CPS energy sector priorities but was not pursued by the government. In the transport sector, preparation of a second regional roads project is ongoing and that operation is planned for 2015 approval. Preparation of selected segments of a Sumatera Toll way is due to commence in 2015 with a tollway project tentatively planned for 2016.

<sup>14</sup> The trade finance program has assisted 8 domestic banks access trade finance between 2011 and 2013 for \$1.25 billion in import guarantees through 96 transactions<sup>14</sup>, and two major catalytic projects in 2013 - the Sarulla Geothermal project, which at 330 MW and a total project cost of \$1.6 billion, is the world's largest geothermal project - and the Aetra East Jakarta Water Supply Development Project to support a commercial concession to provide water to 340,000 Jakarta households and some 49,000 commercial sites.

Tables A2, A3 and A4 provide a list of knowledge products, TAs, projects and programs approved during 2012-2014. Appendix Table A5 provides a list of those projects approved prior to 2012 but were ongoing during 2012-2014.

**Table 1: CPS Sector Program Focus: Planned and Delivered**

<b>Sector and CPS program focus</b>	<b>CPS Program 2012-2014 as delivered</b>
<p><b>ANR:</b> (i) improving flood management in selected river basins; (ii) integrated water resources management in the Citarum river basin; (iii) modernization of irrigation; (iv) protection of coral reef ecosystems and improved livelihoods of poor communities in adjacent coastal areas; and (v) enhancing forest management.</p>	<p>Project support provided for Coral Reef Rehabilitation and through a pilot project for sustainable forest and biodiversity management in Borneo. Policy advisory support was provided for improving water planning, and additional capacity development support was mobilized for integrated water resource basin management. Institutional strengthening and basin planning support were provided for the 6 adjacent river basins of Citarum River Basins, and also grant for watershed management in Citarum River Basin. Project preparation technical assistance for the second sub-program of the Integrated Citarum River Basin MFF, an Irrigation Sector Project and for the proposed Flood Management in Selected River Basins project. Advisory assistance was also provided for enhancing the legal and administrative framework for land.</p>
<p><b>Education:</b> (i) to strengthen planning and management, and reform the vocational and higher education systems to support the education sector master plan; and (ii) to strengthen education policy setting, management, and oversight.</p>	<p>Project support was provided for a polytechnic education development project in 2012 with supplementary financing provided by CIDA in 2013. A \$47 million capacity development TA funded by the EU to support the development of minimum service standards in basic education was approved in 2013. The \$50 million Analytical and Capacity Development Partnership is strengthening education policy and management.</p>
<p><b>Energy:</b> (i) support for geothermal-based power generation; (ii) improved transmission and distribution systems; and (iii) to promote hydropower, energy conservation, the scale-up of carbon capture and storage, and off-grid renewable energy.</p>	<p>The West Kalimantan Power Grid Strengthening and the Java-Bali 500-Kilovolt Power Transmission Crossing projects were approved in 2012 and 2013. Capacity development to scale-up renewable energy access in Eastern Indonesia (i.e. to foster renewable energy use in Sumba), to develop capacity for pilot carbon capture and storage, and to develop projects in hydropower, to develop geothermal power projects with PT. GEODIPA, to prepare a Sumatera-Peninsular Malaysia Power Interconnection project, and to prepare a Pump Storage Hydropower project was pursued. Private sector support for the 330MW Sarulla geothermal power generation project was approved in 2013.</p>
<p><b>Transport:</b> (i) a policy-based operation to assist the government's reforms to enhance domestic and regional connectivity; (ii) improvement of transport infrastructure to provide a safe, efficient, and resilient network; and (iii) institutional development and capacity building with a focus on improving private sector access to infrastructure supply and operations</p>	<p>Two connectivity programs were pursued which supported reforms to strengthen rail and road connectivity, enhance access to maritime shipping and ICT in underserved parts of the country, and enhance international connectivity by supporting reforms to decongest the ports and enhance trade facilitation. Project preparation was initiated for a second regional roads project (including support for strengthening community participation in project design) and advisory support for preparation of the RPJM 2015-2019 on ASEAN connectivity was provided.</p>

Sector and CPS program focus	CPS Program 2012-2014 as delivered
<b>Finance:</b> (i) to support implementation of finance sector reforms under the government's capital markets and nonbank financial industry master plan; and (ii) to deliver private sector operations in a number of specialized areas;	A financial market development and integration policy based loan and a capacity development pilot project on improving access to finance for tsunami affected communities in Aceh and North Sumatera were approved in 2012. TA support for improving financial sector governance provided to support reforms to strengthen regulatory oversight of the capital markets, including measures to improve the regulatory frameworks for pensions and insurance. TA support also provided to strengthen the local government bond market.
<b>Water Supply and Sanitation:</b> (i) to provide lending and TA support for sanitation in urban areas and community water supply; (ii) private sector support for water supply and sanitation.	A second phase of the neighborhood upgrading and shelter project and a Metropolitan Sanitation Management Investment project were approved, with capacity development support for green cities planning, connecting the urban poor to private water supply systems and preparing a sanitation master plan. Project preparation support for a IKK Water Supply Sector project and private sector support for a PT. Aetra Air Jakarta water supply project for East Jakarta were approved in 2013.
<b>PSM.</b> (i) fiscal decentralization; and (ii) improve audit and procurement	Policy based loans provided for precautionary financing (2012) with an emphasis on macro-prudential management and strengthened investment for growth (2014), covering procurement, PPP and investment reforms. Project support in state accountability provided to strengthen audit and public financial management of local governments. Capacity development support provided in the areas of local government finance, fiscal aspects of social security systems, aligning ADB and country systems.

Source: ADB. 2012. *Country Strategy and Program: Indonesia, 2012-2014*. Manila, and Appendix Tables A2, A3 and A4 for the program as delivered.

22. **Climate Change.** The principal area in which there was a divergence between CPS intent and the program as delivered was in the area of ADB support for climate change mitigation and adaptation. When the CPS was formulated, it was expected that ADB's climate change assistance would be anchored in a series of multi-partner program loans supporting the government's climate change reforms. In 2012, a climate change policy based loan was designed, together with the Governments' of Japan and France. This was the second in the series of policy-based loans from the development partners in the climate change area. The Government decided not to borrow for climate change purposes but to request that assistance in this area be grant-financed. ADB did continue to support climate change through assistance for a national climate change adaptation action plan formulation and capacity development. Support for watershed management and renewable energy development were also delivered as planned and has been supported by climate change trust funds.

23. **Actual versus Planned Assistance Volumes.** ADB assistance was delivered broadly as planned in the CPS with successive COBPs used to adjust the lending and non-lending programs to take into consideration project readiness, unexpected changes in the development setting and evolving development priorities. The COBP 2012-2014 anticipated that a total of 19 TA's for the 2012-2014 periods would be provided for \$25.8 million of which \$8.1 million would be funded from ADB's own resources. Substantially more TA was delivered than originally planned because of ADB's ability to mobilize additional resources from development partners and trust funds. A total of 34 TAs were delivered for a total assistance volume of \$75.8 million of which \$5.9 million was funded from ADB TASF resources. The CPS anticipated a total of \$2.96

billion in loans, of which \$1.3 billion would be in the form of program loans (and a contingent financing facility) and \$1.66 billion would be in the form of project loans. The total amount delivered, including co-financing, was above what had been anticipated at \$3.36 billion for 2012 to 2014, with program loans accounting for \$2.65 billion and project lending at \$708 million (Table 2).

**Table 2: Indonesia Lending Program: Planned vs. Delivered (by Sector), 2012-2014**

<b>ANR Sector Planned</b>	<b>ANR Sector Delivered</b>
1. Flood Management in Selected River Basins (\$110 million)* 2. Coremap 3-CTI Support Program (\$50 million) 3. Rural Infrastructure Support for PNPM (\$100 million) ** 4. Integrated Citarum Water Resource Management, sub-program 2 (\$130 million) * 5. Irrigation Project for Western Indonesia (\$100 million)* 6. Climate Change Program II ** (\$200 million) 7. Climate Change Program III** (\$200 million)	1. Coral Reef Rehabilitation And Management Program–Coral Triangle Initiative Project (\$45.52 million)
<b>Power Sector Planned</b>	<b>Power Sector Delivered</b>
1. Geothermal MFF1 (\$90 million) ** 2. West Kalimantan Power Grid Strengthening (\$50 million) 3. 500 kv Java-Bali Power Transmission Crossing (\$185 million) 4. Geothermal Development MFF, sub-program 2 (\$230 million) ** 5. Sumatra-Peninsular Malaysia Interconnection (\$138 million)*	1. West Kalimantan Power Grid Strengthening (\$51.5 million) 2. Java-Bali 500-Kilovolt Power Transmission Crossing (\$224 million)
<b>Education Sector Planned</b>	<b>Education Sector Delivered</b>
1. Polytechnics Development (\$75 million)	1. Polytechnic Education Development Project (\$75 million) 2. Polytechnic Education Development (\$12.95 million)
<b>Transport Sector Planned</b>	<b>Transport Sector Delivered</b>
1. Regional Roads Development II (\$150 million) * 2. Enhancing Inclusive Growth through Connectivity, subprogram 1 (\$300 million) 3. 2 <sup>nd</sup> Inclusive Growth Through Connectivity program (\$150 million) **	1. Inclusive Growth Through Improved Connectivity Program – Subprogram 1 (\$300 million) 2. Inclusive Growth Through Improved Connectivity Program, Subprogram 2 (\$400 million)
<b>Finance Sector Planned</b>	<b>Finance Sector Delivered</b>
1. Second capital markets Development Program, subprogram 1 (\$300 million) 2. Financial Market Development and Integration Program (\$100 million) *	1. Financial Market Development And Integration Program (\$300 million)
<b>Urban/WSS Planned</b>	<b>Urban/WSS Delivered</b>
1. Neighborhood Upgrading And Shelter (Phase 2) (\$74.4 million) 2. Metropolitan Sanitation Management Investment (\$80 million)	1. Neighborhood Upgrading And Shelter (Phase 2) (\$74.4 million) 2. Metropolitan Sanitation Management Investment (\$80 million)

Public Sector Management Planned	Public Sector Management Delivered
1. Precautionary financing facility (\$500 million)	1. Precautionary Financing Facility (\$500 million) 2. Strengthened Investment for Growth Acceleration Program 1 (\$400 million) 3. State Accountability Revitalization Project (\$57.75 million)

Note: \* - deferred to 2015; \*\* - dropped.

Source: Country Operations Business Plans for 2012, 2013 and 2014, and ADB staff estimates.

24. **Program loan emphasis.** Although the CPS envisaged that investment operations would come to dominate ADB's assistance program, program loans, by volume, accounted for 75% of the ADB assistance between 2012 and 2014. In retrospect, the emphasis accorded to program lending was appropriate because: (i) support for policy and institutional reforms enabled ADB to maximize its impact in a country in which its aggregate lending volumes, compared to total public investment, were very small; (ii) create the enabling environment for faster infrastructure development going forward; (iii) developing quality projects during a period in which project readiness filters had been tightened was more challenging than had been anticipated; and (iv) ADB-led program loans attracted assistance from other partners and helped enhance the visibility and credibility of Indonesia's reform efforts.

25. **Project lending support.** A total of 8 investment projects were approved compared to 14 that had been planned. This was twice as high as the 4 investment operations approved during the previous CPS period. All of the investment projects approved were aimed at addressing key CPS priorities. Support for Polytechnic Education was designed to build the country's skills base and make vocational training more relevant to the needs of the labor market. Support for power transmission, in the West Kalimantan Power Grid and the Java-Bali 500-Kilovolt Power Transmission Crossing projects were aimed at cutting losses and improving access and reliability of power in eastern Indonesia and on the islands of Java and Bali. Support for Neighborhood Upgrading and Shelter and the Metropolitan Sanitation Management Investment projects were designed to involve poor communities to improve infrastructure and access to service delivery in poor urban neighborhoods and to improve urban wastewater services in five cities. The Coral Reef Rehabilitation and Management Program enables coastal communities, and the institutions that support them, to manage coral reef resources, and associated ecosystems and biodiversity in a sustainable manner. The State Accountability Revitalization Project was designed to strengthen public sector financial management capacity by providing degree and on-the-job training to build capacity of internal auditors and public finance officers at the central and local government levels.

26. **Program lending support.** Support for government-led reform through program lending was consistent with the need to improve connectivity, deepen financial markets and improve the investment environment as identified in the CPS. The connectivity program aimed to support government plans to strengthen domestic and international connectivity through addressing bottlenecks to road and rail transport, inter-island transport and to relieving congestion in Indonesia's main international port while expanding single-window operations to better facilitate trade. The financial market development and integration program supported implementation of the Capital Market and Nonbank Financial Industry Master plan through support for reforms to create an integrated financial services authority, to strengthen the primary and secondary debt market and to strengthen the regulatory setting for the contractual savings sector, with an emphasis on improving regulatory treatment for pensions, Islamic insurance, and conventional insurance. The precautionary financing facility was a countercyclical support facility that was part of a \$5 billion contingent financing package provided by ADB, the World Bank, the

Government of Japan and the Government of Australia. It was designed to boost confidence in the wake of a slow-down in 2012 exports and Euro-zone induced financial market turbulence while supporting government's macro-prudential measures and protecting public spending on infrastructure and social services. This contingent financing facility followed on from the success of the 2009/09 precautionary financing facility, the first of its kind for ADB. The Strengthened Investment for Growth Acceleration Program built on reforms initiated in previous program loans and supported further measures to unleash private investment by improving the business enabling environment, diversifying modalities for infrastructure financing and by providing support for improved public procurement.

27. **TA support.** There were strong complementarities between ADB TA and lending support during this CPS period. A total of 11 project preparatory TAs were implemented in an attempt to build a more robust investment project pipeline.<sup>15</sup> Capacity building and advisory support was provided to complement program and project lending in local government finance, local government bond market development, fiscal aspects of social security reform, financial market governance and inclusion, carbon capture and storage technology, green-city planning, water resources management, community participation in planning national roads and metropolitan sanitation planning. Grant support for pilot projects was provided to encourage use of renewable energy in Sumba Island of NTT, and to establish protected forest areas and to encourage use of sustainable timber in the Heart of Borneo. Cross-cutting support was provided to develop the country's land acquisition law, to align ADB and country systems to improve project performance and to strengthen the sharing of knowledge generated through ADB operations. Support from the Government of Australia for a cluster TA on sustainable infrastructure assistance provided resources for developing infrastructure projects and to support infrastructure sector reform. Building on the findings of education sector management and policy assessments conducted under the EU and Government of Australia supported Education Sector Analytical and Capacity Development Partnerships, a \$47 million grant for developing minimum service standards in basic education was launched. This project will support the introduction of minimum service standards throughout the basic education system and in so doing will help strengthen quality and equity in access to basic education.

28. **Mobilizing Co-financing.** ADB has leveraged its assistance to Indonesia by mobilizing co-financing from bilateral donors, multilateral financiers and a range of trust funds. Tremendous success was registered, particularly in mobilizing TA resources to complement ADB's public sector loans. Out of total project and program approvals of \$2.521 billion for 2012-2014, a total of \$835.7 million or 33% was provided by co-financing. Out of a total of \$78 million in technical assistance approved during 2012-2014, some \$69.9 million or 90% was provided through co-financing. The government mobilized an annual average of \$1.541 billion in budget support from 2012 to 2014, with policy-based assistance carefully coordinated and harmonized between ADB, World Bank, the Government of Japan, AFD and KFW.

29. **Providing New Knowledge.** Efforts have been made to link knowledge and finance by generating knowledge solutions and by sharing global and regional good practices as an integral part of ADB's lending and non-lending support. Indonesia was one of the countries selected for piloting ADB's corporate support for knowledge management. Towards this end, a more systematic approach to knowledge management has been adopted: a country knowledge plan for the 2013-2015 period was developed; a high-level ADB-GOI committee has been formed to oversee ADB's knowledge management services; a knowledge management tracking system has been put in place in IRM; and TA support has been mobilized to bolster the

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<sup>15</sup> Of the 11 PPTA, one was used for the preparation of a program loan, and 10 were used for investment operations.

outreach and dissemination of ADB knowledge products.<sup>16</sup> IRM has also begun to access existing resources through knowledge departments<sup>17</sup> and knowledge generated by the Asian Development Bank Institute (ADBI) to form a more comprehensive and coherent approach to the provision of knowledge services. Between 2012 and 2014, a total of 121 ADB-supported knowledge products were recorded in IRM's knowledge management data base (Appendix A2). These spanned a wide array of subjects, from highly technical guides on topics such as sludge treatment to economic models used for strengthening financial market surveillance to research reports on issues such as improving competitiveness. Important contributions to new knowledge have also been provided in areas related to ASEAN financial integration through support for cooperation amongst financial sector regulators, broadening the scope of the Asian Bond Market initiative and identifying measures to minimize foreign exchange settlement risk

30. **Project Design.** The designs of ADB-financed projects and programs were relevant to the objectives set in each sector and thematic area. The programs were designed to support a limited number of high-priority reforms, which taken collectively, constituted a comprehensive and cohesive approach to improving enabling policy environment for private-sector led development and inclusive growth. The projects were designed to address key sector constraints and were linked to government investment programs and reform priorities. Investment operations embodied innovative approaches to building skills, strengthening local governments, improving the management of natural resources, tapping the nation's abundant supplies of renewable energy, delivering urban services and improving energy efficiency. Project components were clearly identified and suitable implementation arrangements were made. A highly participatory approach was taken in design to ensure that projects were in line with beneficiary priorities, and in several cases, community-driven approaches were adopted to bring project design and management decision-making closer to beneficiary communities. While challenging in several cases, safeguard assessments and plans were prepared and adequate arrangements were made to ensure compliance with safeguards, procurement, and project reporting requirements. BAPPENAS project screening requirements were observed, which implied that projects had to have adequate designs, approved institutional arrangements, and approved environmental assessments and land acquisition and resettlement plans before they would be considered by government for approval.<sup>18</sup> Project designs built on the lessons learned from one project to the next and were complemented by TA support for improvements in sector policy, planning, and regulation. A special effort was made to derive new knowledge from ADB projects and to use projects as an opportunity to mobilize co-finance.

31. Both programs and projects were results-oriented with well-defined DMFs that were linked to CPS sector results frameworks. Project monitoring arrangements were established, but these suffered from a lack of baseline surveys and attention to monitoring DMF performance targets. Key factors in producing relevant program and project designs included: (i) focusing on a small set of manageable, incremental reforms that were aimed at addressing critical development constraints, and supporting these over a series of programs; (ii) providing sufficient time in project preparation to ensure stakeholder participation and to meet safeguard requirements; and (iii) securing agreement and cooperation of government at different levels for projects that involve shared responsibilities between central and local governments.

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<sup>16</sup> ADB-IRM. 2013. Indonesia Country Knowledge Plan 2013-2015.

<sup>17</sup> Mainly the Regional and Sustainable Development Department (RSDD), the Economic Research Department (ERD), the Office of Regional Economic Integration (OREI) and the Independent Evaluation Department (IED).

<sup>18</sup> BAPPENAS. 2011. *Regulation Number 4, 2011 Regarding the Planning, Assessment, Supervision and Evaluation of Activities Financed with Foreign Borrowings*. Jakarta.

32. **Rating.** ADB's program was relevant to key issues and priorities set in each sector and to the thematic area identified in the CPS. Total lending volumes delivered including cofinancing and TA volumes exceeded what had been planned. The programs and projects delivered were broadly in line with CPS priorities, although efforts to support climate change reform didn't materialize and there was considerable slippage in the project pipeline due to delays in meeting project readiness criteria and to the effects of the 2014 national elections. ADB did add significant value over and above the financing provided through especially strong performance in mobilizing grant resources to compliment public sector loans and in delivering a substantial program of knowledge products. Projects and programs were well designed, responding to stakeholder inputs and to government's priorities, although project monitoring could have been better formalized and recorded. Overall, ADB's program is assessed to be *relevant*.

### C. Efficiency

33. The assessment of efficiency considers how well ADB's and the country's resources were used in ADB-financed projects. The evaluation assessed the efficiency of resource use relative to three sub-criteria: (i) the economic internal rate of return (EIRR) of projects and programs, where applicable; (ii) the performance of ADB's portfolio in terms of contract awards, disbursements, and other portfolio performance indicators; and (iii) the quality and timeliness of monitoring and evaluation arrangements.

34. **EIRRs.** The expected EIRRs of projects initiated in 2012-2014, and those which exited the program, were above the 12% hurdle rate used to screen operations. Post-evaluated projects had EIRRs that ranged from 29% for the Coral Reef Rehabilitation and Management Project Phase II project to 54% for the Participatory Irrigation Sector Project. Those projects which exited the portfolio and for which rates of return were not calculated were assessed to be cost-effective in delivering project outputs, in areas such as renewable energy, rural infrastructure and Madrasah education. For projects initiated during the CPS period, the EIRRs at appraisal ranged from 54% for the West Kalimantan Power Grid Strengthening Project, 26% for the Java-Bali 500-Kilovolt Power Transmission Project, 15% to 41% for the Coral Reef Rehabilitation and Management Program, 12% to 15% for the Metropolitan Sanitation Project, and 17% for the Polytechnic Education Development Project. Given the global cost of capital, both planned and realized EIRRs are very high indeed.

35. Support for policy reform has paid off and appears to have been a good use of ADB resources. Although the precise benefits of these are more difficult to quantify, they have made important contributions to macro-stability, connectivity, financial depth and the enabling environment for the private sector. The Financial Market Development and Integration Program has contributed to deepening and improving the prudential soundness of the capital markets, which is expected to contribute to boost long-term savings mobilization, investment and stimulate growth. The Improved Connectivity Program included measures to improve the policy and institutional setting for connectivity and infrastructure development. These reforms are expected to stimulate infrastructure investment, which could generate additional economic growth of about 1 percentage point annually over the medium term. The Precautionary Financing Facility supported a swift response to global financial turbulence. The Stepping-up Investments for Growth Acceleration Program is supporting reforms to reduce the costs of doing business by reducing red tape and easing access to finance, pilot-testing new modalities for infrastructure finance, strengthening the institutional framework for PPPs, and supporting faster and more transparent methods of public procurement.

36. ADB capacity development and knowledge product support has had major achievements at fairly modest costs, including forging new arrangements for forecasting and managing fiscal risks; developing evidence-based programs for improving quality and equity in basic education; establishing new tariffs and off take arrangement for geothermal power; involving the private sector in the maintenance of national roads; and forging inter-agency cooperation to manage major watershed basins. ADB knowledge products have contributed to improvements in sector policy, regulation and management. Flagship knowledge products, such as the analytic work on the Middle Income Trap, have helped inform priority setting in the national development strategy. There have, however, been areas in which substantial capacity development support was provided, such as in the area of building PPP capacity, but with few tangible results. There has also been some wastage of scarce project preparatory resources, a program loan for climate change was prepared, approved by ADB's Board and then cancelled, and a Geothermal Development MFF was prepared but not pursued.

37. **Portfolio.** After declining to under \$1 billion in 2009, as of December 31, 2013, ADB had a portfolio of 31 loan and grant projects with a total value of \$3.05 billion, out of which there were 28 project loans with a total portfolio value of \$1.85 billion and 3 program loans valued at \$1.2 billion. As of December 31, 2013, there were 47 ongoing TA's with a total value of \$168 million. With a large number of projects exiting the portfolio in 2013 and 2014, the numbers of investment projects in the portfolio is expected to shrink while the total portfolio size will remain largely unchanged. As of March 2014, there were 20 active project loans totaling \$1,979 million.

38. **Portfolio performance.** Management of the project portfolio has been hampered by start-up delays, safeguard problems particularly in resettlement and land acquisition, procurement delays due to weak EA capacity at the subnational level and a backlog of special accounts that require liquidation. That ADB is unable to provide public sector loans directly to state-owned enterprises or to local governments' complicates the on-lending and on-granting arrangements, which is often another source of delay. Through quarterly project reviews and annual portfolio action plans, ADB and the National Development Planning Agency (BAPPENAS) have made efforts to address problem projects, apply strict project readiness filters, ensure government ownership, and enhance project supervision. This, combined with increased delegation of supervision responsibilities to IRM, as of end-2013 IRM was responsible for supervising 26 out of the 31 ongoing operations, has helped contribute to improvement in some aspects of portfolio performance. No projects have had cost overruns during the CPS period. The average months from approval to effectiveness for projects has declined from 10.6 in 2011 to 9.7 in 2013. An average of 1.8 months from approval to effectiveness in 2013 was realized for policy loans. The average life of the projects that exited the portfolio during 2012-2014 was 7.6 years, compared to an average life of 5.9 years for ADB projects which exited the portfolio in 2011-2013 (and had been planned for a duration of 4-5 years).

39. The disbursement ratio for projects reached 28% in 2013, compared to an ADB average of 19%. Conversely, the share of projects that were assessed to be on-track to achieve their development objectives has fallen from 86% in 2011 to 75% in 2013, the percentage of potential problem projects has increased from 4.5% of the portfolio in 2011 to 20% in 2013 and the percentage of actual problem projects from zero in 2011 to 9% in 2012 and 5% in 2013. BAPPENAS and MOF use independent systems for tracking project performance and the government classified a third of the portfolio in 2013 as either an actual or potential problem project.<sup>19</sup> Audit compliance has fallen from 100% in 2011 and 2012 to 84% in 2014 while

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<sup>19</sup> ADB and BAPPENAS. 2013 and 2014. *2012 Country Portfolio Review and 2013 Country Portfolio Review, Background Papers*. Jakarta.

supervision intensity at 15 days per project per year is just over half the ADB average for 2013 of 29 days per project.

40. **Delays in design.** There have been several projects that were many years in design, including Flood Management in Selected River Basins (PPTA 2009), Strengthening the West Kalimantan Grid (PPTA 2007), the 500 KV Java-Bali Power Transmission Crossing (2009), IKK Water Supply Project (PPTA 2012), Regional Roads Development II (PPTA 2012) and Citarum Integrated Water Resource Management Program Sub-program II (PPTA 2011). Achieving project readiness has been difficult due to problems in securing local government approvals, land acquisition, involuntary resettlement and environmental impact assessment. Extended periods of project preparation, while often necessary to meet BAPPENAS project readiness criteria, represent an inefficient use of project preparation resources because of the need to update project design, costing and implementation arrangements once safeguards are satisfied. Moving towards the accreditation of government procurement and safeguard systems will significantly improve efficiency.

41. **Implementation delays.** Project implementation has also suffered from delays in start-up, procurement and land acquisition.<sup>20</sup> The average months that projects were completed beyond their original completion date for all projects that finished during 2012-2014 was 19.8 months. Of projects which exited the portfolio during 2012 to 2014, delays reached 5.7 years in the case of two energy sector projects, while support for the PNPM program was completed ahead of schedule. Ongoing projects with relatively low disbursements relative to their elapsed implementation period include the Integrated Citarum Water Resources Management Investment Program, Tranche 1, the Infrastructure Reform Sector Development Program, the Regional Roads Development, and the Metropolitan Sanitation Management and Health Project. Many projects have been slow to become effective, and then have relatively low contract awards after their first few years of operations. For example, at the end of 2013, the Integrated Citarum Water Resources Management Investment Program, PFR1, was 91% through its elapsed time in end-2013, and had cumulative contract awards of just 65%. There were ten out of 27 loans/grants that fell behind their contract award project target in the first quarter of 2014. Of these, five were to be closed in 2014 and three were planned to have a loan period extension. While policy-based loans have been designed and implemented in a timely manner, reforms to address constraints on land acquisition for large-scale infrastructure projects, public-private infrastructure partnerships, to deepen capital markets and to improve the enabling environment for the management of the country's transport infrastructure have taken more time than expected.

42. Procurement delays have occurred in many projects, despite measures such as advance procurement action, establishment of Procurement Committees prior to loan signing, and capacity building support. Increasingly, Executing Agencies (EAs) tend to hesitate to take procurement actions due to uncertainty of legal risks arising from applying ADB procurement and safeguard guidelines when these differ from requirements in country systems. EAs tend to be concerned that project audits may draw attention to the application of procurement procedures that deviate from Indonesian law.

43. **Resolving delays.** Intensive supervision of projects, in many cases on a day-to-day basis by IRM staff, has helped to overcome a large number of project start-up and

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<sup>20</sup> These projects pre date the requirement to secure land and resettlement plans prior to loan negotiations. These remain significant impediments to investment in Indonesia and will be recorded as either delays in project preparation or delays in implementation.

implementation problems. Resolving these problems has required the active involvement of senior EA, BAPPENAS and MOF officials. Senior officials involved in delivering power and road transport have complained that the time they needed to spend problem-solving ADB projects during the CPS period was excessive and has inadvertently diverted their attention away from the design and implementation of far larger government-funded programs. They point to differences between ADB and country systems, and to arduous government approval, review and budget release procedures for foreign loans, as the main cause of problems in project implementation.

44. **Building country systems.** ADB has worked closely with the government to build country systems for project management, and is working towards the accreditation of country systems in the management of ADB Operations. Support is being provided to the use of country e-procurement system in ADB financed projects, to improve the government's e-purchasing and e-catalogue systems, to develop a procurement strategy for local governments and to improve e-contract management. Safeguard capacities have been developed in the water resources and energy sectors, and support has been provided to the National Land Agency in land acquisition implementation and to support the implementation of multi-dimensional land rights in urban areas. With the new land acquisition law coming into full force in January 1, 2015, the gap between ADB and country safeguard systems has narrowed considerably. In response, TA 8548-INO: Aligning ADB and Country Systems for Improved Project Performance, initiated in 2014, is assessing country safeguards, procurement and project readiness systems and is developing an action plan for either accrediting or further harmonizing these with ADB standards.

45. **Monitoring.** Formal project monitoring has tended to emphasize financial performance rather than progress towards development results. At the country level, a results framework was defined and aligned with results that were used to track performance of the country's Five Year Development Plan. The CPS results framework has been adjusted to improve alignment with the assistance program during the annual country programming exercise. Project design and monitoring frameworks have included key indicators for project outputs and outcomes, which are linked to sector and thematic results frameworks. Annual portfolio reviews, and quarterly review meetings, have also been held to track project progress. Completion reports were prepared in a timely manner for projects that exited the portfolio. BAPPENAS and MOF have strengthened their capacity to track IFI assistance, and BAPPENAS has prepared an independent assessment of the ADB-GOI partnership<sup>21</sup>. Despite a well-defined set of monitoring tools and institutional arrangements, there was relatively little tracking of progress towards results of the program, either at a sector-wide or country-level. Project implementing agencies have relatively weak outcome monitoring capacities and reporting delays, gaps and weaknesses in line agency data collection systems has made it difficult to track project outcomes. Under the 2014 country portfolio review mission action plan, ADB and GOI have agreed to improve outcome performance monitoring through the IA.

46. **Rating.** ADB assistance is assessed to be *partly efficient*. The transaction costs of doing conventional project operations are high because of complex country systems for the use of external assistance, and reluctance of EAs and IAs to apply ADB project policies and procedures when these differ from country systems. Rates of returns on investment operations were high. Higher still were the expected returns to reforms supported under program loans. Portfolio performance is characterized by substantial delays in design and implementation.

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<sup>21</sup> BAPPENAS. 2014. *Strategy Kerjasama Pembangunan Pemerintah Indonesia and Asian Development Bank*. Jakarta.

Intensive supervision has helped to resolve project bottlenecks, but at the cost of distracting senior government officials from day-to-day management of large public sector programs. Monitoring has emphasized financial performance rather than tracking project benefits and other higher-level development results.

#### **D. Effectiveness**

47. The assessment of effectiveness considers the extent to which ADB contributed to intended or expected outcomes identified in the CPS. ADB's effectiveness was assessed through two sub-criteria: (i) achievement of outcomes of completed CPS programs and projects; and (ii) achievement of outcomes in the results framework of the CPS. Factors contributing to these outcomes are also identified.

48. **Achievement of Completed Project Outcomes.** Eight project completion reports were prepared for loans completed between 2012 and 2014, and all but one (87.5%) rated project performance as satisfactory or better. All of the ongoing projects are assessed, as of mid-2014, as likely to achieve their development outcomes.

49. Other projects which have closed but for which completion reports have not yet been prepared have also been effective in delivering their intended outputs and outcomes. The Sustainable Capacity Building for Decentralization Project, the Sustainable Aquaculture Development for Food Security and Poverty Reduction Project, the Nutrition Improvement through Community Empowerment Project and the second Rural Infrastructure Support to PNPM Mandiri Project have met or exceeded their output and outcome goals and objectives.

50. **Likely Achievement of Ongoing Projects.** There are several ongoing operations which are quite advanced and which are also likely to achieve or exceed their output and outcome targets. Solid progress has been registered, for example, in the Regional Roads Development Project, the Indonesia Vocational Education Strengthening Project and the Urban Sanitation and Rural Infrastructure Support to the PNPM Mandiri Project.

51. There are several major TA projects which have, or are likely to be, highly effective in delivering results. Capacity development support in the education sector is a good example of this. As of 2013, the Education Sector Analytical and Capacity Development Partnership (ACDP) have commissioned 13 major research/analytical works related to selective legislative and regulatory reforms, education policy development and capacity assessment. Three research studies had been completed, and 10 other studies are in various stages of completion. These studies have already had important effects on the design of education sector policies, strategies and institutional arrangements.

52. Not all projects have been equally effective in meeting their output and outcome targets. The Infrastructure Reforms Sector Development Project, declared effective on November 29, 2006, was to develop a pipeline of infrastructure public-private partnerships and bring these to the point of public tenders. Although the Project has fielded 22 teams to conduct project pre-feasibility studies, no projects reached the point of public tendering by mid-2014. The project is focusing on 7 realistic PPPs. The initial target of having 10 large national projects and 40 decentralized regional projects prepared and put up for bidding by 2013 was not met. Likewise, the Power Transmission Improvement Sector Project, after some delays, is on track to meet its physical construction targets. The project was also designed to create the necessary facilities to establish and operate a competitive electricity market, but those components were dropped following the annulment of the Electricity Law No.20/2002 in December 2004. The Citarum

Water Resources and River Basin Management PFR 1, has been plagued by delays in land acquisition and resettlement, which have led to delays in its main civil works components. That program has, however, made significant progress in its support for basin planning, hydrological decision support system development, agricultural development, community water supply and sanitation, and coordination activities with the provisional government.

**53. Program Loan Achievements.** The program loans initiated during the CPS have successfully contributed to their intended outputs in terms of improvements in policy and institutional settings. For example, the Inclusive Growth Through Improved Connectivity Program has supported government led reforms which resulted in: (i) higher public sector infrastructure spending; (ii) a law on new land acquisition for public use; (iii) higher government spending on road maintenance in a sustainable manner; (iv) establishment of public service obligations for railways; (v) a reduction of port times; (vi) establishment of a PPP unit in the Ministry of Finance and development of a viability gap fund to make PPPs more financially feasible; (vii) a Master Plan and regulations issued to improve shipping in Eastern Indonesia; and (viii) establishing a single-window and simplifying import-export procedures. The Precautionary Financing Facility has successfully contributed to a multi-partner effort to assist the government restore confidence in Indonesia's financial markets in the wake of the Euro-zone contagion of mid-2012. The Financial Market Development and Integration Program has contributed to deepening the capital markets by (i) supporting an Integrated Financial Services Authority; (ii) improving bond market issuance, price discovery and investor protection for treasury bill and bond market activity; and (iii) improvements the tax treatment of investment income. Finally, the Stepping-up Investments for Growth Acceleration Program has supported government reforms to improve the enabling environment for private sector investment by: (i) reducing negative list restrictions and improving foreign investment licensing; (ii) easing business registration and expanding one-stop shop licensing at the local government level; (iii) providing clear guidelines on tax incentives for new investment; (iv) strengthening capacity for local bond issues and Sukuk bond for infrastructure projects; (v) supporting viability gap funding for PPPs; (vi) clarifying ownership of Geothermal power assets; (vii) building capacity in the National Land Agency for land acquisition for public projects; (viii) strengthening institutional and regulatory arrangements for PPPs; (ix) expanding use of e-procurement and e-catalogue arrangements for public procurement; and (x) benchmarking and improving public procurement capacities.

**54. Achievement of Outcomes in the Results Framework.** The program was effective in achieving, in full or in part, the vast majority of the outcomes targeted in the CPS results framework (Appendix Table A7). Of the 16 main result outcomes targeted, 14 are likely to be achieved. Progress on meeting the country's renewable energy target has lagged expectations, mainly because of rapid growth in conventional power generation, while data on one targeted outcome (i.e. female staff trained in waste water works) is unavailable. Progress on achieving key sector level results is discussed below.

**55. Agriculture and Natural Resources (ANR):** Sector outcome performance exceeded the targets set for water storage availability, increased rice production, and improved management of marine areas. ADB's main contribution to achieving the sector objectives came from its assistance for rehabilitating irrigation systems, which accounted for close to half of all the irrigation rehabilitated during the 2010-2013 period, and which in turn, contributed to higher rice productivity and food security. Likewise, ADB support for a series of coral reef management and rehabilitation operations contributed to an increase in nearly 0.7 million ha in more effectively managed marine areas. New project approvals in the ANR sector (at 2% of the total CPS envelope) lagged significantly behind what had been planned (at 16% of total outlays) at

CPS design due to insufficient project readiness and a heavy focus on water resource management rather than broader issues of agriculture and rural development.

56. **Education.** Buffered by high levels of public spending, performance in the education sector is on-track to meet all of its ambitious sector results targets. The Government's net enrollment rates in primary education and transition rates from primary to secondary schooling have steadily increased from already high 2010 levels while gross enrollment levels in secondary schooling rose from 64% between 2008 to 78% in 2012/2013 and are on track to reach the CPS target of 85% in 2014. The general enrollment rate for students in the 19-23 year age group for higher education has increased from 21% in 2009 to 29% in 2013, and is likewise on-track to meet the 30% CPS target by 2014. Some 1.2 million polytechnic students graduate each year, of which two-thirds enter the work force within a year after graduation. Of those, about 26,000 graduates enter the labor force with improved and more industry-relevant skills after graduating from vocational and technical schools improved with ADB support. Solid progress has been registered in improving the performance of Ministry of Education and Culture performance in increasing the share of primary schools, madrasahs, vocational schools and university programs that have been accredited, and in increasing the proportion of trained teachers trained in primary, secondary and vocational schools. ADB had intended to provide 3% of its lending to the education sector and this is what was delivered, while substantially higher volumes of TA support were provided through co-financing mobilized from the Government of Australia and the European Union. ADB has made a positive contribution to these achievements, both through project support for secondary, madrasah and vocational training, and more importantly through its knowledge and capacity development support in education sector policy, sector management, and the application of minimum service standards.

57. **Energy.** Targets in the energy sector for improving access to affordable electricity have been met, but the objectives for substantially boosting the share of renewable energy development in the total electricity supply and cutting the energy sector's contribution to greenhouse gas emissions have not. The electrification ratio has increased from 65% in 2011 to 81% in 2013 while the share of renewable energy in Indonesia's total generation system has declined from 13% in 2011 to 12% in 2013 and it appears unlikely that the country's targets for providing 20% of total power from renewable sources by 2020 will be met. Total generation capacity added between 2011 and 2013 was 6,258MW, which is record-breaking by Indonesian standards, but is far below the 5,000 MWs per annum required to keep pace with soaring energy demand. Likewise, the government has added an average of 1,000 km of new transmission lines in 2012 and 2013, which is just a quarter of their target of 4,000 km per year for expansion and replacement purposes. When the CPS was launched, the government hoped to commission 500 MW of new geothermal capacity per year, but just 135 MWs of new geothermal capacity came into operation in 2012 and 2013.

58. ADB lending commitments in the energy sector reached \$275.5 million, or 11% of the total CPS envelope compared to 27% that was planned when the CPS was designed. Developing new projects in the energy sector has taken longer than anticipated and the two ongoing operations required nine years to implement. Several new operations are in the pipeline for 2015 and 2016 although achieving project readiness in the sector has required several years to achieve. ADB has made important contributions to improving the country's transmission and distribution systems.

59. **Transport.** Solid progress has been registered in improving the quality of national roads through stepped-up road rehabilitation and maintenance programs. Some 93% of the national roads were classified in good condition in 2014 which is in line with the 95% target for 2015 set

in the CPS. Progress has been made in expanding the national road network, primarily through widening and reclassifying secondary roads to become national roads. Very little development of new highways or toll roads has taken place. Access to inter-island shipping, particularly in eastern Indonesia, has improved with a near-doubling of regular ferry/freight routes over the past decade and the use of long-term concession contracts for the private sector to provide transport services to small islands. These measures have contributed to a 107% increase in inter-island freight and a doubling of inter-island passenger levels between 2010 and 2014. To further improve maritime transport, investment programs are underway to expand and modernize 14 regional ports. To improve international transport, logistics action plans have been developed; progress has been made in modernizing custom's points and expanding single-window services, and Indonesia has made steady progress on improving its scores in the World Bank's Logistics Performance Index.<sup>22</sup> ADB has delivered 28% of its total CPS to the transport sector compared to 27% as originally planned. While the CPS has anticipated that support to the transport sector would be in the form of investment operations, program lending for improved connectivity dominated outlays to the sector and the one ongoing investment operation has witnessed implementation delays.

60. **Water Supply and Sanitation (WSS).** The main results targets for the WSS sector have been met, although ADB's contribution to meeting achievements was relatively modest. The proportion of the population with access to improved water, at 68% in 2013 and those with sustainable access to improved sanitation, at 60% in 2013, are likely to exceed CPS performance targets set for 2015. A number of the other CPS outcome targets were overly ambitious, unrealistic or cannot be measured, for example eliminating open defecation and open dumping in solid waste landfills. Solid progress has been made in extending community water supplies and the government has launched programs to develop, solid waste management facilities and centralized sewerage systems in 6 major cities. ADB has made a small but positive contribution to sector achievements in water supply and sanitation through investments in community-driven water supply and sanitation infrastructure. Project approvals under the CPS totaled \$154 million, or just 6% of the CPS total which was less than the 9% of resources that were to be allocated due to delays in follow-up assistance to the government's IKK water supply program and to insufficient progress in policy dialogue to conclude a water sector reform program.

61. **Finance.** Sector outcome targets of deepening the capital markets and improving sector governance were largely achieved. Non-bank financial sector assets, as a share of GDP reached 66.8% in the first quarter of 2014, exceeding the CPS target of 65%. The value of corporate bonds outstanding increased to \$19 billion in the first quarter of 2014, 80% higher than the target set in the CPS. The average trading volume of Indonesian shares has declined over the CPS period while the number of listed companies has stayed approximately the same, rather than increasing as planned. The global perceptions of emerging markets as a whole heightened risk assessments reducing investment in emerging markets. On the regulatory front, solid progress has been made in establishing an independent financial markets regulator, an investor protection fund has been established, a single-investor identity has been introduced and straight-through investment processing has been achieved. A mandatory health scheme has been introduced and a series of financial inclusion programs have been mounted. ADB support for capital market reforms and capacity development has made a positive contribution to strengthening regulatory and legal structures, to developing the insurance, pension and

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<sup>22</sup> World Bank. 2014. *Logistics Performance Index*. Indonesia Country Report. Washington D.C. <http://lpi.worldbank.org/international/scorecard/radar/254/C/IDN/2014/C/IDN/2012/C/IDN/2010/C/IDN/2007#chartarea>

Islamic financing markets, and to improving the analysis and design of programs aimed at enhancing financial inclusion. The CPS had anticipated that \$400 million, or 16% of total CPS outlays would be delivered to the finance sector but actual outlays were \$300 million or 14% of CPS achievements because of delays in the Financial Market Development and Integration program.

62. **Public Sector Management (PSM).** Performance in meeting sector results targets in public sector management was mixed, although in retrospect it appears that government targets set in this area were overly-ambitious. Local government revenues, from their own sources, have increased from 18% in 2011 to 23% in 2014 while various indicators of the integrity of public institutions, including World Bank governance indicators, suggest that a modest but steady improvement in government integrity has been registered over the 2010-2013 period.<sup>23</sup> Local government spending on administration has fallen from 35% of total outlays in 2010 to 27.5% of total outlays in 2014 which is positive but less than what was planned. About half of the local water utilities have had their debts restructured, suggesting that the CPS target of having debts of all of these companies restructured by 2015 is unlikely to be met. Likewise the target set for Indonesia to significantly improve its Transparency International Corruption Perception Index is unlikely to be met since the country's TI scores have remained largely unchanged from 2011 to 2013. By volume, PSM was ADB's largest sector of operations during the CPS period, with 38% of total commitments allocated.

63. **Thematic Priorities.** ADB projects approved in education, water supply and sanitation, urban development (housing) and agriculture and natural resources management sectors were 100% "gender mainstreamed". The **Polytechnic Education Development Project** supported greater alignment of women's skills to labor market needs and women's entry into lucrative non-traditional sectors through quotas for female enrolments and scholarships, earmarking of funds to support innovative programs to increase female access as well as actions to mobilize employers to recruit women in non-traditional trades. The NUSSP promoted women's participation in local planning and implementation groups; women's access to shelter finance schemes and new housing and employment opportunities in local civil and maintenance works. The Metropolitan Sanitation Management Investment Project provided subsidized property connections to sewerage systems for the poor and female headed households and targets for women's participation in local planning bodies and livelihood and enterprise development capacity building activities. The COREMAP CTI supported women's capacity development and participation in planning and implementation activities related to coral reef management as well as access to livelihood, financial and input assistance to enhance and diversify their productivity and income. It is projected that in the 2015 -2017 pipeline, over 50% of the projects will include a gender category. Currently, the Indonesia portfolio has 11 on-going "gender mainstreamed" projects. With the strong institutional emphasis on development results, ADB is providing greater emphasis to monitoring project implementation to ensure that gender equality outcomes are met both at the project and sector levels.

64. **Governance**, key accomplishments included the establishment of a unified, independent financial sector regulator, communities empowered to safeguard natural resources and deliver rural infrastructure, and the development of sector planning and regulatory capacity in the roads, renewable energy, sanitation, water supply, irrigation and water resource management sectors. With regard to RCI, progress has been made in fostering cross-border power trade, in promoting cross-border financial market integration, in improving trade logistics and in improving

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<sup>23</sup> World Bank. 2014. *Worldwide Governance Indicators: Indonesia. Country Data Report*. Washington D.C. <http://info.worldbank.org/governance/wgi/pdf/c102.pdf>

policies and institutional arrangements for decongesting the ports. Partnerships with civil society and NGOs have led to the effective involvement of beneficiaries in the design and delivery of rural infrastructure, irrigation, aquaculture, and urban water supply and sanitation services. Strong partnerships have been formed with a number of development partners and these have allowed ADB to leverage their limited resources for technical assistance. Particularly noteworthy is the support from other partners towards: (i) support education sector policy analysis and the diffusion of minimum service standards for basic education; (ii) the Clean Technology Fund and the Climate Technology Fund; and (iii) establishment of the ASEAN Infrastructure Fund iv) Australian government funded project preparation facility, v) AIECO (Singapore) regional PPP, which has also resulted in additional resources being mobilized to finance Indonesia's infrastructure development. Support for knowledge management, an increasingly important part of ADB's assistance effort, is now guided by a knowledge management strategy and an annual knowledge plan. A growing share of ADB-supported knowledge products is now either demand-driven or linked directly to implementation of ongoing projects and programs. ADB knowledge products have made a positive contribution to improvements in sector planning, policy formulation and management, and several have sparked wide-ranging debates on key issues, such as the middle-income trap, which are important for shaping the national development strategy.

65. **Factors contributing to CPS results.** During this CPS period, ADB support has been most effective in delivering results when it has: (i) supported government-led policy and institutional reforms; (ii) combined support for building sector capacity and improving policies with assistance for strategic investments or has funded specific components of large government programs; and (iii) has adopted innovative but reasonably simple project designs in areas such as cross-border power transmission and skills training. Projects which involved highly complex organizational arrangements, or which involved major land acquisition or involuntary resettlement, were less likely to achieve their desired results. Decentralized projects have had modest influences on the achievement of results at a sector level, simply because they are too small, scattered and reached too few beneficiaries to influence aggregate sector performance. TA resources mobilized from other partners have allowed ADB to play an important role in supporting education sector reform and encouraging improved infrastructure development policies.

66. **Rating.** Overall, the main CPS outputs and outcomes have been substantially achieved. Both completed and ongoing projects have achieved, or are likely to substantially achieve their targeted outcomes. While progress has been better in some areas than in others, the majority of the outcomes intended in the CPS results framework and in the core sectors and thematic areas of support have been achieved. Based on these considerations, the CPS is rated as **effective**.

## **E. Sustainability**

67. The assessment of sustainability considers the likelihood and risks to sustaining results over the long term. The review assessed sustainability relative to four sub-criteria: (i) the commitment and capacity of government and other stakeholders to provide sufficient recurrent cost financing of key projects after completion; (ii) cost recovery or income generating capacity of key projects after completion; (iii) operation and maintenance practices and capacity for key project facilities in any key sectors; and (iv) government ownership of policy reforms.

68. **Recurrent Costs.** Recurrent financing for rural infrastructure, national roads and education has steadily increased over the CPS period and is improving the probability that projects initiated in these sectors will be sustained. Outlays for education have exceeded 20%

of public spending from 2012-2014 while spending on national road maintenance has reached 17% of national transport outlays. Performance-based road maintenance contracting has been pilot-tested with ADB support for national roads under the Regional Roads Development Project and private sector involvement in maintenance of major irrigation systems will be supported in an irrigation project that is under design. Involving the private sector in maintaining project assets should enhance sustainability by improving the cost-effectiveness with which government recurrent cost resources are utilized. Community involvement in decentralized ADB projects has also made a positive contribution to sustaining project results. Several of the projects which were completed during the CPS period are PNPM Mandiri, Madrasah education, community aquaculture, community nutrition and irrigation management—involved a high degree of community involvement in project planning, design, selection and delivery, as have projects in vocational education, neighborhood upgrading and coral reef rehabilitation which were initiated during the CPS period. Under these projects, support was provided to develop post-project asset management plans and to integrate these into local government plans and budgets to ensure that both communities and local governments assume ownership for assets created under ADB projects. A number of projects have also been sustained because these have involved either the private sector directly in cost-sharing or because innovative approaches introduced in ADB operations have been scaled-up by government and other development partners (Box 1). By contrast, operations in some subsectors, such as rural water supply, tertiary irrigation systems and aquaculture support services, have suffered from insufficient post-project recurrent cost resources due to insufficient local government resources or to low beneficiary incomes. Ensuring sufficient recurrent financing and counterpart funding for infrastructure in these and other areas continues to remain an important area of post-completion monitoring and dialogue.

69. **Cost-Recovery.** State enterprises involved in delivering utility services have generally recovered the costs of operating and maintaining assets created with ADB support. ADB's largest projects during this CPS period were in the power sector and were implemented by the State Electricity Company PLN, which has a good record in maintaining project assets. PLN has been profitable in each year from 2008-2013, has witnessed an increase in operating revenue from Rp164 trillion in 2008 to Rp257 trillion in 2013, and has maintained an investment grade credit rating from Moody's. Completed hydropower and geothermal projects in renewable energy have improved PLN's ability to meet power needs in eastern Indonesia while reducing PLN's need to rely on costly imported fuel. The West Kalimantan Power Grid Strengthening Project, by enabling cross-border power trade with Malaysia, is expected to reduce the costs of operating the power system in West Kalimantan from \$0.25 per kilowatt-hour (kWh) to a negotiated import price of \$0.10 kWh by 2015. The Java-Bali 500kv Power Transmission Cross Project will transmit power from Java to Bali which is a more cost-effective means of meeting Bali's rapidly growing power demands than would reliance on diesel-based power generation by PLN in Bali. ADB support for urban water supply has been provided through the private-sector PT. Aetra Air Jakarta concession for East Jakarta, where the concession arrangement links tariff payments directly to service delivery quality. Support for rehabilitating and upgrading wastewater treatment facilities in Medan and Yogyakarta, under the Metropolitan Sanitation Management and Health Project, is likewise expected to be financially sustainable because revenues from the Medan sewerage system already fully covers O&M expenditures, and a combination of planned wastewater charge increases in Yogyakarta and higher capacity-utilization of that city's sewerage system should ensure that costs recovered are adequate for O&M purposes.

### **Box 1: Scaling-up Innovative Projects: Pathways to Sustainability in the Power Sector**

Adopting innovative, successful approaches to tackling development challenges has led to these being scaled-up and sustained through support from the government, local communities and the private sector. There are a number of examples of this in the power sector:

**Clean Energy in Sumba.** ADB has supported a number of pilot projects to develop renewable energy generation in Sumba. Support has been provided to issue regulations declaring that Sumba would become 100% dependent on clean energy resources. Other development partners, including the Government of Norway and the Government of Australia, have provided financing to help scale-up clean energy interventions in Sumba. The U.S. Millennium Challenge Corporation, impressed by the progress in Sumba, has identified Sumba as a focus island for their multi-million dollar support program.

**Geothermal Sector.** In the geothermal sector, ADB has prepared investment projects, supported a new state-owned enterprise (PT. Geo Dipa Energi) to access international development assistance and has helped the government reformulate their geothermal tariff regime. To improve the viability of private investment in the sector, ADB has supported the development of a risk mitigation fund, and has helped the government establish such a fund. The Government has invested \$300 million of their own resources in this fund, and JICA is assisting the government to implement the Fund's activities.

**Cross-border Power Trade.** Based on the successful financing of the West Kalimantan-Sarawak link and the 500 kV Java-Bali link, PLN and the Malaysian utility, Tenaga Nasional Berhad have embarked on a large, ambitious cross-border interconnection project and have invited ADB to come in and help them prepare it and possibly assist in financing the Indonesian portion of it.

Source: ADB Project Supervision Reports. Jakarta.

70. **O&M Practices.** Investment projects have included covenants to the effect that sufficient finance shall be provided to operate and maintain project assets after the projects have been concluded; and progress is being made, in each of the sectors, to establish the regulatory and institutional pre-requisites for operating ADB-assisted infrastructure and services in a more sustainable manner. A long-term perspective has been adopted for building institutional capacity with an effort made to improve the role and responsibility of participating agencies in managing and operating infrastructure while improving skills and technical capacities. Increasingly, communities have been more directly involved in maintaining local infrastructure, while arrangements have been made for contracting-out O&M responsibilities to the private sector or to local communities. Despite the improving likelihood that the benefits of ADB support will be sustained, the sustainability of ADB's projects is vulnerable to weaknesses in asset management, multiple demands on local government revenues, and weaknesses in operation and maintenance systems.

71. **Institutional arrangements** for O&M are stronger in some sectors than in others. In the power sector, PLN has good asset monitoring and maintenance capacity, although there is a need to modernize and upgrade large parts of the nation's distribution network. In the case of national roads, capacity-building support has been provided to improve asset management, to systematically plan and budget for road O&M, and to incorporate better road safety conditions in road design and program development. The pilot-testing of performance-based road maintenance contracts provides a valuable opportunity to improve institutional effectiveness. In

the irrigation sector, ADB support has been aimed at financing deferred maintenance.

72. Capacities have been built amongst water user associations, water user federations and in the Directorate General of Water Resources (DGWR) to provide more systematic attention to forecasting and meeting irrigation system O&M requirements. Water-user plans for operating and maintaining rehabilitated irrigation systems have been developed and incorporated into local government investment plans in some regions. There remains the risk, however, that irrigation system O&M will continue to be neglected because paddy farmers have few resources to devote to maintaining tertiary canals while DGWR is likely to prioritize addressing the backlog of deferred repairs and maintenance of major primary and secondary irrigation systems over allocating resources for maintaining newly-repaired ADB-supported systems. In the urban sector, nearly half of all the water supply companies (PDAM) are financially distressed. In the financially distressed PDAMs, service provision is poor and assets neglected. Programs are underway, however, to financially restructure distressed PDAMs, to boost water tariffs and to improve service delivery. Projects that have supported decentralized service delivery, including support for PNPMN, aquaculture development and slum upgrading support, have included provisions to involve communities and local governments in the design and delivery of local infrastructure and services. Support for maintaining project assets and services in these cases is mixed, with some communities and local governments better able than others to discharge O&M responsibilities. With an adequate project communications, public participation, and advocacy to the local governments, Citarum program has been able to be replicated in the provincial scale.

73. ADB has had good experience with the sustainability of its investments in vocational and technical education. Dynamic vocational schools and polytechnics have been able improve their collaboration with local companies and communities by which they generate additional income through joint production activities, tailored training for enterprises, and services delivered by students and teachers. The additional revenues generated from companies and communities are being used for maintenance of equipment and purchase of training materials/goods that are urgently required to increase hands-on training opportunities in the workshops. In addition, local government leaders have come to realize the importance of TVET, and they are allocating more funding for SMKs and polytechnics to complement funding provided through the central budget. These additional funds are also used to maintain equipment and provide additional resources to purchase materials to increase practical training opportunities in the workshops. The design and emphasis on school-based management is considered a model for upgrading more than 11,000 vocational and technical schools. The Directorate General of Secondary Education has started to introduce these design principles to some 100 vocational schools in 2014 and aims to do so in another 200 vocational schools in 2015. Local governments will also be encouraged to follow this model as they develop new vocational schools.

74. **Policy Reform Ownership.** ADB's support for policy reform has been strategically sequenced and has built on the results of program loans from the previous CPS period and on TA that has helped to identify and improve the diagnostic of strategic challenges. There has been no reversal of ADB-supported policy and institutional reforms during the CPS period, and the risk of reversal is judged to be small. The government has repeatedly demonstrated its commitment and voiced its support for enhancing fiscal and financial stability, improving connectivity, boosting infrastructure investment, deepening the financial markets, and improving the enabling environment for private-sector led growth. These have been government priorities for several decades and are likely to continue to remain high priorities in the years to come. The draft of the new medium-term development plan (RPJM), 2015-2019 further emphasizes policies and institutional arrangements to strengthen connectivity and to make the growth

process more inclusive. As the ASEAN economic community enters into force in 2015, there will be added external pressure for Indonesia to accelerate policy reforms to take advantage of wider regional markets. Indonesia's fiscal and current account deficits, while manageable, also imply that the country must continue to mobilize foreign investment if growth and macro-stability is to be maintained.

75. With decentralization, Indonesia's policy and institutional landscape has become far more diverse. Under the current CPS, ADB has continued to assist local governments formulate supportive sector policies and build capacities for local government finance, auditing and planning. After a decade of decentralization, local governments are now shifting their emphasis from establishing their rights and responsibilities to putting in place policies and institutional arrangements to attract investment and improve service delivery. Integrity institutions, including a free press and parliamentary oversight, are steadily improving although corruption risks continue to be substantial. Increasing use of e-governance approaches, in areas such as tax administration, public procurement and business registration, also improves integrity in public service delivery.

76. **Rating.** Recurrent financing and cost-recovery arrangements in the key sectors of ADB support are improving and with community involvement in the design and delivery of much of the rural infrastructure, prospects are good that ADB-supported investments will be sustained after the project period. Cost-recovery arrangements in the power sector are sufficient to ensure that assets will be sustained and for municipal services, user fees are steadily being increased and subsidies are being provided to ensure that such services can be operated and maintained. Most of the agencies involved in managing the investment projects initiated during the CPS are capable and ADB capacity-development support has been provided to improve asset management systems and recurrent cost planning and budgeting in several sectors. There is strong ownership of ADB supported policy reforms, and heightened global and regional competition is likely to inspire the government to accelerate reforms aimed at boosting productivity and competitiveness. Virtuous cycles of reforms, growth and more inclusive and sustainable development is likely to set off a chain reaction in which local governments compete on the basis of the attractiveness of their respective policy regimes and institutional arrangements. With continued rates of economic growth, ample resources should be available to maintain public infrastructure, to deliver public services and to fund subsidies where warranted. The program is therefore rated ***likely sustainable***.

## **F. Development Impacts**

77. This section assesses the contribution of ADB's program to the achievement of the intended impacts of the CPS. Performance is assessed against three sub-criteria: (i) progress toward achieving overall development goals, (ii) progress toward achieving sector goals, and (iii) progress towards achieving cross-cutting thematic and safeguard impacts. The impacts of ADB support cannot be determined with great precision, and instead the emphasis is on identifying progress made against CPS goals and identifying areas in which ADB support has contributed to performance in achieving higher level results. The full results of the country program initiated under the current CPS will not be realized for another decade or more, when projects initiated in recent years come to full fruition. Moreover, while ADB has made a contribution in many areas, it is not possible to isolate and attribute higher-level results to ADB's assistance in an economy as large and complex as that of Indonesia. It would also be incorrect to attribute ADB-endorsed policy and institutional reforms to ADB support alone.

78. **Inclusive Growth.** Targets set for inclusive growth in the CPS were not fully achieved but good progress is being made. The main reasons for this are: (i) growth has not been rapid enough to generate sufficient productive employment opportunities; (ii) investment in infrastructure has not been sufficient to achieve the connectivity gains hoped for; and (iii) income inequality has continued to increase with the bulk of the recent gains in incomes captured by those with already high income levels. Compared to a GDP growth target of 7%, actual GDP growth was 6.3% in 2012, 5.8% in 2013 and is forecast at 5.7% in 2014, well below what is required to generate sufficient productive employment to absorb school leavers and those working in the informal sectors. The CPS targeted a fall in the open unemployment rate to 6% by 2014. The target was nearly achieved at 6.25% in August 2013. Poverty incidence has fallen from 12.49% in 2011 to 11.37% in 2013, which remains well above the CPS target of 8-10%. An estimated 28.1 million Indonesians continue to live below the government's poverty line in 2013. Further, income inequality as measured by the Gini coefficient has worsened from 0.32 in 2003 to 0.41 in 2013. Parts of eastern Indonesia continue to exhibit high rates of poverty: Papua, Papua Barat, Maluku, NTT and Aceh had more than 20% of the rural population classified as poor in 2013. Moreover, basic nutrition indicators have deteriorated during the CPS period, the share of the under-5 children classified as under-nourished rose from 17.9% in 2010 to 19.6% in 2013.<sup>24</sup>

79. Despite weaknesses in country-level performance, ADB has made a positive contribution to making the growth process more inclusive through support for major policy and institutional reforms, by financing strategic investment operations and by helping to build critical capacities and provide new knowledge. ADB's main contribution to helping make the growth process more inclusive derived from its contribution to: (i) reforms which contributed to maintaining fiscal stability, deepen the capital markets, enhanced connectivity and improved the investment environment; (ii) boosting the supply of skilled graduates entering the labor force from improved vocational and technical schools; (iii) enhancing access to affordable power in parts of eastern Indonesia; (iv) improving access to rural infrastructure, including improved irrigation systems; (v) contributing to improvements in nutrition awareness and fortification of basic foodstuffs; (vi) supporting improvements in local government capacity to deliver services more effectively and efficiently; and (vii) improving central government capacity to implement its national health insurance program.

80. **Environmental Sustainability.** Although Indonesia remains off-track to meet several of its MDG-7 targets for environmentally sustainable growth<sup>25</sup>, the growth process has become more environmentally sustainable during this CPS period. The rate of deforestation was reduced from 0.83 million hectares per year during 2006-2009 to 0.45 million hectares per year from 2009-2011, although conversion of primary forest to oil palm plantations has continued at a rapid pace. Government's program to rehabilitate degraded lands, to plant a billion trees per year, and to actively combat forest fires, has made a positive contribution to reducing the extent of land classified as being in critical condition from 6.89 million hectares in 2006 to 5.27 million hectares in 2012. Total greenhouse gas emissions are on a declining trend, falling from 1.711 million Gg in 2008 to 1.53 million Gg in 2013 according to estimates released by the State

<sup>24</sup> ADB. 2014. *Asian Development Outlook 2014. Indonesia*. Manila; Government of Indonesia, 2014. *Manata Perubahan Mewujudkan Indonesia yang Sejahtera, Demokratis dan Bekeadilan: Pencapaian Kinerja Pembangunan*. Jakarta; and Bappenas. 2013. *Evaluasi Paruh Waktu RPJMN 2010-2014*. Jakarta.

<sup>25</sup> According to the Special Envoy to the Cabinet for MDGs, the proportion of land under forest cover has declined from 59.97% in 1990 to 52.52% in 2010, while the amount of primary energy (consumption?) per capita continues to rise (from 2.64 BOE per person in 2001 to 4.95 BOE per person in 2010). See Kantor Utusan Khusus Presiden Republik Indonesia Untuk MDGs. 2014. *MDG7 Memastikan Kelestarian Lingkungan Hidup*. <http://indonesiamdgs.org/articles/view/mdg-7-memastikan-kelestarian-lingkungan-hidup-1>. Jakarta.

Power Company, PLN. Progress has also been made in conserving marine resources-the total coastal conservation area has increased from 13.5 million ha in 2009 to 16.1 million ha in 2012. To safeguard Indonesia's biodiversity, some 17 out of 34 Provinces have established their own biodiversity conservation areas for indigenous plant species; area development plans for biodiversity conservation; and an Indonesian Culture Collection was established to conserve indigenous genetic resources and traditional knowledge. Natural disaster response planning and institutional arrangements were improved nationwide. Disaster reconstruction and rehabilitation efforts in Yogyakarta and Central Java after the Merapi volcano disaster were mounted and implemented in a timely manner, and comprehensive disaster early-warning and response approaches have been implemented in all of the provinces and urban areas across the country. Indonesia has also made important steps towards adapting to climate change. New plant cultivation technologies suitable for more volatile climatic stress have been introduced; greenhouse gas reduction commitments have been made and programs launched in agriculture, transport, energy and industry to achieve these targets. In line with Indonesia's REDD commitments, in 2013, the issuing of new permits for the use of primary forests was suspended. A Climate Change Trust Fund, established in 2009, was also put into effect with demonstration projects in 11 Provinces launched in 2012 and 2014 to boost awareness of the importance of climate change mitigation and adaptation.<sup>26</sup>

81. The main focus of ADB assistance in fostering environmental sustainability was through investment operations and associated capacity building support whose initial impacts tend to be confined to project areas and beneficiaries. This includes support in the power sector for use of geothermal (including the world's single large geothermal project), hydropower, biogas and other sources of renewable energy; promotion of Sumba island as a renewable-energy only island; support for cross-border power and cross-island power trade to reduce reliance on coal-powered power plants; and the use of carbon financing instruments to finance energy conservation and renewable energy projects. In the water resources sector, ADB has contributed to sustainable development by pioneering efforts towards watershed basin management and basin-rehabilitation in the Citarum river basin, the country's most important water basin. Support for urban sanitation and water supply, and for rural sanitation under the PNPM program, have likewise made a positive contribution to improving health and sanitation standards. The Heart of Borneo initiative is pilot-testing models of community-based resource conservation and sustainable forest management. A decade of ADB support for coastal resource conservation in eastern Indonesia has developed new models of participatory coastal protection which are reversing the use of harmful fisheries practices and steadily being extended to other endangered fisheries zones.

82. **Impacts of Completed Operations.** ADB's projects that were completed in recent years have had positive impacts.<sup>27</sup> The project completion reports (PCRs) of ten projects and programs, which were post-evaluated between 2012 and 2014 show positive, tangible development impacts, including: (i) the Renewable Energy Development Sector project has boosted access to reliable, quality and affordable electricity which has enabled beneficiaries to extend working and study hours, acquire and utilize cold storage appliances for food, meat and produce, and use machinery for irrigation and crop production; and bring information and

<sup>26</sup> Government of Indonesia, 2014. *Manata Perubahan Mewujudkan Indonesia yang Sejahtera, Demokratis dan Berkeadilan: Pencapaian Kinerja Pembangunan*. Jakarta; and Bappenas. 2013. *Evaluasi Paruh Waktu RPJMN 2010-2014*. Jakarta.

<sup>27</sup> The impacts of ADB TA support are more difficult to assess. TA completion reports prepared for TAs which exited the program from 2012-2014 were prepared shortly after the operations closed. These pointed to improved capacities in a number of areas, but the extent to which improved capacities did lead to better sector oversight or service delivery is indeterminate.

entertainment to enhance rural quality of life<sup>28</sup>; (ii) the Madrasah Education Development Project has improved teaching and learning environments for disadvantaged communities and resulted in improved academic achievements of students enrolled in project madrasahs, which is contributing to improved opportunities for madrasah graduates to progress to higher levels of education and/or find better employment and income-earning opportunities<sup>29</sup>; (iii) the Participatory Irrigation Project has resulted in a 31.8% increase in farmer incomes, a 18% decrease in poverty levels of project beneficiaries, and a 22% increase in rice output<sup>30</sup>; (iv) the Community Water Services and Health project has provided good quality water supply and hygiene facilities which improved the health status and quality of life of 194,000 poor families in 878 villages<sup>31</sup>; (v) the Rural Infrastructure Support to the PNPM Mandiri Project has improved livelihood and socioeconomic conditions in 1,724 poor villages in four provinces, and contributed to poverty reduction and improved access to basic infrastructure for the poor and near poor<sup>32</sup>; (vi) the 4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> Development Policy Support Programs contributed to improved fiscal and structural policies which led to a recovery in sustainable economic growth<sup>33</sup>; (vii) the Decentralized Basic Education Project had a significant impact on community participation, reducing school dropout rates and on the achievement of the government's 9-year compulsory basic education policy<sup>34</sup>; and (viii) the Coral Reef Rehabilitation and Management Project Phase II had positive livelihood, income diversification and gender empowerment impacts as well as contributing to a reduction in illegal fishing and an increase in live coral cover and fish catch rates.<sup>35</sup>

83. Although the PCRs of three projects completed in the CPS period are not yet available, the preliminary assessment of recently completed program loans also suggests the likely achievement of intended development impacts. Significant improvements have been registered, as a result of ADB supported policy and institutional reforms under program loans mounted during the CPS period, in macro-prudential soundness, in the enabling environment for infrastructure management and investment, in policies affecting trade and logistics, in the development of the capital markets, and in the enabling business setting. Fixed investment levels, averaging 32% of GDP from 2011-2013, and foreign direct investment inflows of \$18-\$19 billion per annum in 2011-2013 are signs that improvements in public policy have been favorably received by Indonesia's investor community.

84. **Achieving sector goals.** Solid progress has been made towards achieving the country-level goals set in ADB's core sectors of operations. Progress registered towards the goals set for support in the core sectors includes:

- **ANR:** Progress has been registered in contributing to food security through improved irrigation facilities which boosted rice yields and in fostering more sustainable management of river basins and marine resources;
- **Education:** ADB has contributed to improvements in quality and relevance of the labor force which has resulted from better quality secondary schools and from technical and vocational training that is better linked to the needs of local industries and other employers;
- **Energy:** ADB support for improved transmission systems has helped improve access to

<sup>28</sup> ADB. 2014. *Indonesia: Renewable Energy Development Sector Project*, PCR draft. Jakarta.

<sup>29</sup> ADB. 2014. *Indonesia: Madrasah Education Development Project*, PCR. Manila

<sup>30</sup> ADB. 2014. *Indonesia: Participatory Irrigation Sector Project*, PCR draft. Jakarta

<sup>31</sup> ADB. 2013. *Indonesia: Community Water Services and Health Project*. PCR. Manila.

<sup>32</sup> ADB. 2012. *Indonesia: Rural Infrastructure Support to the PNPM Mandiri Project*. PCR. Manila.

<sup>33</sup> ADB. 2013. *Indonesia: Development Policy Support Program* PCR. Manila.

<sup>34</sup> ADB. 2012. *Indonesia: Decentralized Basic Education Project*. PCR. Manila.

<sup>35</sup> ADB. 2012. *Indonesia: Coral Reef Rehabilitation and Management Project Phase II* PCR. Manila

affordable power, particularly in Eastern Indonesia and has helped jump-start cross-border power trade. Conventional energy sources (i.e. coal fired) continue to be relied on to meet the country's mounting power gap despite efforts to foster greater use of renewable energy resources;

- **Finance:** ADB support for improved prudential regulation did contribute to deepening Indonesia's capital markets, although these continue to be very shallow compared to both the need for long-term finance and compared to capital markets in other Southeast Asia middle-income countries;
- **Transport:** Support for better connectivity policies has contributed to reducing delays at the main ports and to more regular inter-island shipping but this has not been sufficient to reduce the congestion and crowding on Indonesia's main roadways or to inspire significant private investment in transport systems;
- **Water Support and Other Municipal Infrastructure:** ADB has made a modest contribution to public programs which are steadily succeeding in enhancing access to clean water supply and improved sanitation, strengthen governance and capacity;
- **Public Sector Management.** Local governments are steadily becoming better resourced and skilled in delivering public services, and ADB together with other partners, have made important contributions to developing the policies, institutional frameworks and capacities that this requires.

85. **Cross-Cutting initiatives.** ADB support for cross-cutting, thematic objectives has also had positive impacts. Support for **private sector development** has contributed to improvements in the private sector enabling environment. ADB's private sector operations have in trade finance have helped boosted the country's international trade while private sector operations in Geothermal Power and in establishing a PPP concession for the East Jakarta water supply, both of which have paved the way for similar private investments. For the first time since 1992, Indonesia is being considered as one of the most promising countries to do business.<sup>36</sup> The potential for future growth in local markets, low cost labor, supply base of assemblers, and concentration of industry are key contributors to the private sector's robust view on investing in Indonesia. Indeed, the World Economic Forum ranked Indonesia 38<sup>th</sup> in the world in terms of global competitiveness in 2013-2014 compared to 44<sup>th</sup> in the world in 2010-2011 with improvements in the ranking registered due to progress made in the macroeconomic environment.<sup>37</sup> Still, further progress in the business setting is required. Indonesia is ranked at 120<sup>th</sup> place, out of 185 economies, and is well below the East Asia average.<sup>38</sup> The World Bank finds that Indonesia's doing business ranking has improved very little since 2011. Insufficient skills, informality and weaknesses in contract-enforcement and resolving insolvency were some of the key factors cited as weakening the business environment.

86. ADB support for **regional cooperation and integration** has succeeded in brokering cross-border power trade arrangements with Malaysia under the umbrella of the Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area, has contributed to development of a regional stock exchange, and has helped lay the foundation for cross-border arrangements for enhanced financial market surveillance within ASEAN. Support for the Asian Bond Markets Initiative and the Asian Equity Exchange Cooperation are notable examples of

<sup>36</sup> See JBIC Survey Report on Overseas Business Operations by Japanese Manufacturing Companies for 2013 and United Nations Conference on Trade and Development World Investment Prospects Survey for 2013 to 2015.

<sup>37</sup> World Economic Forum. 2011 and 2014. *Global Competitiveness Report*. Geneva.

<sup>38</sup> World Bank 2014 and 2012. *Ease of Doing Business in Indonesia*. Washington D.C.  
<http://www.doingbusiness.org/data/exploreeconomies/indonesia>; and <http://www.doingbusiness.org/reports/global-reports/doing-business-2011/-/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB11-Chapters/DB11-CT.pdf>

easing cross-border capital flows. Indonesia has encouraged regional cooperation and has become more integrated, through trade and investment ties, to regional production networks. Indonesia has been a leading advocate of the ASEAN Economic Community and has made efforts to harmonize its policies with those of other ASEAN members. Increasingly, the Indonesian economy has become more closely linked to those in other parts of Asia-Pacific.

87. Positive impacts in the areas of good governance and capacity development have been registered as a result of ADB support for e-procurement, local government finance, auditing and planning capacity, for improvements in the management and community-involvement in rural and urban slum infrastructure, in managing forests and coastal resources, in the oversight of technical and vocational education, in fiscal planning for the social security system, in urban planning, sanitation management, improvements in the operation of SOEs involved in transport, trade facilitation, and in the design and management of renewable energy and energy conservation initiatives. Collectively, these have made a small but positive contribution to good governance. World Bank governance indicators suggest that Indonesia has made progress in improving its performance in voice and accountability, political stability, regulatory quality, rule-of-law and control of corruption from 2010 to 2012<sup>39</sup>. Conversely, the Transparency International Corruption Perception Index ranked Indonesia at 114 out of 177 countries in 2013 with a score of 3.1, compared to a ranking of 100 out of 182 countries and a score of 3 in 2011.<sup>40</sup>

88. ADB assistance to foster **gender equity** has had positive impacts in those projects for which strong actions were included in gender action plans. Projects in the education sector have had a strong track record in boosting girls' attendance in basic education, in improving women's participation in parent's organizations to oversee basic schools, and in ensuring that girls are able to participate in technical and vocational training for occupations that had previously been dominated by men. Similarly, projects which have aimed at addressing specific maternal health concerns, such as fortification of palm oil and milled rice with essential vitamins and minerals, and involving women directly to improve access to drinking water and sanitation in urban slums, have also had a positive impact on women's health, have reduced the time required to undertake household chores and have improved rural living conditions<sup>41</sup>. While ADB's projects have had positive gender impacts, these have been too small and too few to affect gender equity at a national scale. On the World Economic Forum's Gender Gap Index, Indonesia ranked 95<sup>th</sup> out of 136 countries in 2013, with its ranking declining modestly from 90<sup>th</sup> place in 2011. Indonesia's rank on the gender gap index, which was considerably below countries such as Malaysia, Thailand and the Philippines, was held down by low rankings in women's access to quality healthcare and maternal and child health indicators.<sup>42</sup>

89. **Safeguard Impacts.** ADB's assistance to Indonesia has had satisfactory safeguard impacts. ADB support has helped the government to draft major legislation on land acquisition and has helped to strengthen the country's institutional capacity in applying the new law. The capacities of project EAs and IAs, particularly at the local government level, in implementing environmental and social safeguards has been improved as a result of ADB training in this area. Care has been taken in ADB projects to ensure that safeguard procedures are complied with in a timely manner, with due regard for public consultation and awareness building and a positive

<sup>39</sup> World Bank. 2013. *Worldwide Governance Indicators*. <http://info.worldbank.org/governance/wgi/index.aspx#home>

<sup>40</sup> Transparency International. various years. *Corruption Perceptions Index*. <http://www.transparency.org/research/cpi/overview>

<sup>41</sup> ADB. 2013. Gender and Development New, Volume 8, No. 2, *Indonesia: The Community Water Services and Health Project, Women as Beneficiaries and Implementers*. Manila

<sup>42</sup> World Economic Forum. 2014. *The Global Gender Gap Report 2013*. Geneva [http://www3.weforum.org/docs/WEF\\_GenderGap\\_Report\\_2013.pdf](http://www3.weforum.org/docs/WEF_GenderGap_Report_2013.pdf)

impact on the involvement of civil society in the safeguarding of natural resources. Agreements have been secured, in a number of projects, to compensate squatters and other illegal residents who would be displaced by ADB-supported projects, after extensive consultations with local and national governments. Progress has also been registered, in the case of the forests of Borneo and the marine reefs of eastern Indonesia, to build the capacities of local communities to manage and protect fragile natural resources. Both the legal basis for and capacities in the application of environmental and social safeguards are steadily improving, and ADB has taken steps towards assessing country systems and accrediting those which comply with international good-practice standards.

90. **Rating.** While CPS support was necessary and generally had positive impacts, it was not sufficient to fully achieve the impacts intended at the country level. In a country as large and complex as Indonesia, many other factors, besides ADB support, have influenced country-level performance. With that caveat in mind, this assessment finds that ADB did make a significant contribution to inclusive economic growth and sustainable development. The program has contributed to achievement of key sector targets and has had a positive impact on the livelihoods and social conditions of project beneficiaries. The ADB program has made a positive contribution to progress registered in private sector development, regional cooperation, gender equity and good governance, and the safeguard impacts of ADB assistance has been broadly positive. Accordingly, the development impact of ADB support is assessed to be **satisfactory**.

#### **G. ADB and Borrower Performance**

91. ADB's overall performance is assessed to be **satisfactory**. This performance assessment is based on the following five sub criteria: (i) responsiveness to the country's needs; (ii) role in aid coordination, building government ownership and acting as a catalyst; (iii) project supervision; (iv) delegation to the Resident Mission; and (v) value-addition.

92. ADB's assistance program was responsive to the needs of the country. The CPS strategic focus on inclusive growth and environmental sustainability reflected RPJM 2010-2014 and MP3EI priorities. The projects approved during the CPS period were aligned with strategic priorities identified in the CPS. ADB provided strong support for institutional and policy reforms through new knowledge, policy dialogue, and capacity building in all key sectors and thematic areas. ADB was also highly responsive to changing country circumstances in 2013 through its support for countercyclical financing in the form of a precautionary financing facility, which was part of a \$5 billion financing package.

93. To contribute to improved aid coordination, ADB has worked together with several development partners in support of common policy reform agendas-that is, connectivity reform, precautionary financing, business environment, infrastructure financing and public procurement-and has co-financed major investments in power and sanitation, including the first co-financing with the ASEAN infrastructure fund. A concerted effort has been made to exchange information with development partners to develop various sector policies and strategies and provide financing to meet critical investment and capacity constraints. ADB has leveraged co-financing, predominately in the power and sanitation sectors, and mobilized additional funding from development partners and trust funds to complement a limited TASF country allocation. More than 90% of the funding for TA during the CPS period was mobilized from a range of partners including the Governments of Japan, Australia, Canada, Netherlands and Norway and from climate change and global environment trust funds. This high level of co-financing support reflects the degree confidence and partnership placed by key partners in ADB's operations.

94. Greater delegation of supervision responsibilities to the resident mission has contributed to more responsive project problem-solving and to closer dialogue with implementing and executing agencies on bottlenecks to project implementation. The resident mission has also taken the lead in policy dialogue and preparation of policy based loans in connectivity, contingent financing, infrastructure finance, procurement and in support for inclusive growth policies. ADB has also encouraged participation of NGOs and civil society organizations in the implementation of its loans projects, with community-based approaches, involving a wide range of NGOs and CBOs, in ADB's support for education, urban upgrading, and natural resource management.

95. ADB assistance has played a catalytic role in assisting the government to improve policies and shape public programs through provision of timely, demand-driven knowledge products. Assessments have been prepared on all sectors of ADB support and major analytic pieces have been prepared on the middle income trap, clean transport and power, PPPs, gender mainstreaming, river basin management, religious education, Islamic financing, education strategies, health insurance, public procurement, inclusive finance, sanitation, social safeguards, the land acquisition law, resettlement, and the use of macro-modeling for connectivity analysis. Provision of knowledge services has been increasingly integrated with investment and program support, and has contributed to improvements in government policy and programs. ADB's analytic support on the middle-income trap has stimulated wide ranging debate, and has helped build a consensus on the need to address widening inequality, strengthen policies, and boost competitiveness to facilitate structural change and to raise productivity and living standards.

96. **Government Performance.** The Government's overall performance is likewise assessed to be *satisfactory*. The Government's performance in the design and delivery of the partnership program is assessed against the following sub criteria: (i) ownership of MDGs, Paris Declaration, and aid coordination processes; (ii) participation in developing the CPS and key projects; (iii) compliance with loan covenants and conditionality; and (iv) adequacy and timeliness of the government in providing counterpart funding.

97. The government has provided clear directions in terms of its development priorities and preferences for the use of external resources. The government has a clear long-term vision, a medium-term plan that works toward achieving that vision, and a budget process that is consistent with its national plans. Through the Jakarta Commitment, a country-specific adaptation of the Paris Declaration on Aid Effectiveness, the Government has taken steps to bolster standards of transparency, mutual accountability, and a focus on country ownership. BAPPENAS and the MOF have developed capacities to track and evaluate performance of development partner operations, including ADB. Parliament has played an active role in scrutinizing all projects, and in approving annual funding for foreign assisted projects. The Government has tracked the MDGs, has an MDG ambassador serving on the Cabinet, and has been active sharing the post-MDG development agenda and in fostering south-south knowledge sharing. The government has exercised strong leadership on the policy reform front, and has developed several reform packages (infrastructure, connectivity, capital markets, contingent financing, procurement, and business environment) to which ADB and other partners have lent their financial and technical support. The government was an active participant in the design of the CPS and in the annual programming exercise.

98. The Government has sharpened its policies for the use of official sources of external borrowing, with an emphasis on power, infrastructure and innovative operations, although these priorities have not been communicated effectively to line Ministries and agencies. Government

aid policies, including rigidities imposed by the Blue Book process and the lack of a mechanism for direct IFI lending to local governments and SOEs, has made it difficult to design and deliver infrastructure and decentralized service delivery projects.

99. The government has demonstrated strong commitment to and ownership of ADB-supported projects, has generally provided adequate counterpart financing, and has made suitable institutional arrangements to assure project success. Implementation of investment operations has, however, been hampered by delays in fund release from the budget, staff turnover in executing agencies and implementing agencies, coordination difficulties across and between central and local government agencies, delays in land acquisition and resettlement, and local government capacity constraints. To improve project quality, the government has tightened project readiness criteria, which while delaying project preparation, should contribute to improved project implementation performance.

## H. Overall Assessment

100. On the basis of the individual evaluation criteria as assessed above, overall, the CPS is assessed as **successful**, as summarized in Table 3.

**Table 3: Overall Rating of CPS (2012-2014)**

<b>Evaluation Criteria</b>	<b>Rating</b>	<b>Score</b>	<b>Weight</b>	<b>Weighted Score</b>
Strategic positioning	successful	2	10%	0.2
Relevance	Relevant	2	10%	0.2
Efficiency	Partly Efficient	1	20%	0.2
Effectiveness	Likely effective	2	20%	0.4
Sustainability	Likely sustainable	2	20%	0.4
Development impact	Satisfactory	2	20%	0.4
<b>Overall assessment</b>	<b>Successful</b>			<b>1.8</b>

Note: Weighted score between 1.6 and 2.7 is rated *successful*.

## II. KEY LESSONS AND RECOMMENDATIONS

101. **Key Lessons.** With few exceptions, ADB has delivered on its commitments under the CPS, has supported major policy reforms, provided new knowledge, helped build capacity, and has provided financing for major new investment operations. Both new and ongoing operations have made important contributions to sector and thematic development results. Not all CPS objectives have been met. ADB support did not shift as much into projects from program loans as was anticipated; support for climate change policy and institutional reform didn't fully materialize; implementation of investment projects has suffered from delays; and efforts to create a substantial pipeline of good-quality infrastructure PPPs did not materialize. A number of factors contributed to the performance of the program during this CPS period, including:

- **Borrowing preferences.** Government borrowing preferences evolve over time and reflect changing country circumstances. Sudden changes in the development setting occurred and appropriate adjustments in the assistance program were required. There was far less project lending than envisaged during the CPS period, and far more program lending because of borrower preferences for ADB-supported reform programs and volatile global and domestic financial market conditions. Likewise, there was far less borrower demand for ADB support for climate change reform and climate-change related projects support because of a preference to use grant assistance to meet climate change needs. The extent to which ADB was able to assist the government in meeting climate change objectives is hampered by the government's reluctance to borrow in this area.
- **Program lending support.** Anchoring ADB assistance in government-led reform and sector development programs remains a relevant instrument for contributing to sector and country-level outcomes. The government has taken strong ownership of these reform programs and has been helpful in overcoming challenges which arise during the course of program implementation. Reforms do take time, progress is often incremental, and there are lags before a positive response is seen to improved policies.
- **Knowledge management.** A strategic approach to knowledge management, with an emphasis on demand-driven knowledge, drawing lessons from ADB operations, and more systematic outreach of knowledge products has improved the relevance of ADB's support. This was most successful in the education and energy sectors where key knowledge products have helped to guide key sector reforms.
- **Private sector operations.** The emphasis accorded to private sector operations has paid off. Public sector support for improving the enabling environment for private sector development helped to facilitate ADB-supported private sector operations.
- **Partnerships.** Strong development partnerships helped reduce aid transaction costs and boosted the efficiency and effectiveness of ADB's operations. ADB was successful in mobilizing co-financing from partners for a number of its public sector loan operations and technical assistance. The latter has enabled ADB to play a major role in support of education sector reform, infrastructure PPPs and water resource management.
- **Project Performance.** The transaction costs of doing conventional project operations in Indonesia are high, because of the application of both government and ADB project policies and procedures, limited awareness of ADB policies and procedures among

some EAs, IAs and PMUs, risk aversion in project design and implementation, and changes in ADB safeguard policies while projects are ongoing. The combination of complex government aid approval and delivery systems with ADB policies and procedures makes it difficult to prepare and deliver ADB investment operations in a timely manner.

- **Community participation.** Involving communities and community-based institutions directly in the design, management and delivery of ADB-supported assistance has boosted ownership and relevance of ADB's support in education, urban services, irrigation and health. Greater community involvement also contributes to improved sustainability of project-supported outputs, but raises the costs of design, supervision and facilitating project implementation for both the government and ADB.
- **Focus and selectivity.** The results of ADB assistance are a function of its focus and selectivity. Areas of strong performance, in improving policies for infrastructure connectivity, capital markets and local governance and in support for basic, secondary and vocational education reflect a high degree of sustained focus and selectivity. Conversely, performance in other areas, such as irrigation, power transmission, renewable energy, aquaculture, water shed basin management and coastal resource management, has also been positive, but given the fragmented and geographically scattered nature of this support, ADB's ability to influence outcomes at a sector or country level, or even to create models that were later scaled-up, has been limited.
- **Systemic Impediments to aid Utilization.** Despite tremendous infrastructure development requirements, it is increasingly difficult for ADB and other multilateral financiers to identify and develop viable public infrastructure projects. This is due to a lack of a government-approved mechanism for ADB (and other IFIs) to provide public sector loans directly to state-owned enterprises or to local governments, whom together account for the vast bulk of the country's infrastructure and service delivery responsibilities, and to government's preference to reduce borrowing from the IFI's and increase reliance on costly sources of domestic finance.

102. **Recommendations.** ADB should continue to build on the factors that have contributed to the success of the program to date. This includes maintaining strong continuity, supporting government-led policy reform; continuing to encourage strong government ownership in all facets of strategy and program design; providing support in a holistic manner that links new knowledge, capacity building, policy reform support, and providing financing for strategic investments that are both innovative and can be scaled-up; supporting development of government programs; and being flexible and responsive to sudden changes in the development setting. ADB will need to become more responsive to Indonesia's emergence as a rapidly growing middle-income country by:

- **Sharpening sector focus.** Given that ADB's resources are limited and Indonesia's needs are enormous, the next CPS should identify a small number of sectors where it is likely that ADB could have an influence at the sector level through support for reform, strategic investments, capacity development and private sector operations. Energy and public sector financial management as strong candidates for continued ADB engagement. In these sectors, ADB has sufficient ongoing and planned operations, and a robust policy dialogue, to underpin future support. Operations in core sectors should be sufficiently large to ensure that these do make a meaningful contribution to

government reform and public investment objectives. There will be other areas, however, in which ADB should respond to client demand, support reform champions, and provide a far more limited range of assistance aimed at “demonstrating” better ways of overcoming constraints.. Technical assistance (TA) is likewise limited and will need to be more directly focused towards supporting policy reform in key sectors and cross cutting themes.

- **Assistance instruments more suitable for MICs** Policy based lending should be accorded a greater emphasis in the next CPS. The Government appreciates ADB’s approach to supporting reform programs because its support is low-key, pragmatic and involves a long-term commitment.to reform. The next CPS should encourage the use of results-based lending for investments that are a well-defined part of government’s public investment program and provide ADB the opportunity to facilitate delivery through robust engagement in project governance.
- **Overcoming delays.** Project readiness needs to be accorded more emphasis in project design. In line with the mid-term review of Strategy 2020, the next CPS should also support the adoption of a wider array of country systems. In general, overly complex project designs should be avoided and projects should be prepared in such ways that they can be started soon after signing.
- **Improving knowledge management.** ADB’s knowledge management strategy calls for: (i) increasing the share of knowledge products that are demand-driven; (ii) improving the capture and dissemination of the lessons of experience from ADB operations in the field; (iii) strengthening linkages between national and provincial universities and think; (iv) integrating knowledge services more directly within sector and thematic operations; and (v) programming knowledge services for the Bank as a whole (including the central departments) on an annual basis. ADB will need to deliver knowledge support in ways that avoid duplication with other partner’s support.
- **Public sector support to SOEs.** Indonesia’s SOEs, in power, transport, water supply and sanitation are expected to make over a hundred billion dollars of infrastructure investment in the coming decade. The next CPS should explore options for ADB lending directly to SOEs, particularly in the power sector, to help the country meet its infrastructure requirements while also linking such financial support to SOE reform and institutional development to help bolster resource-use efficiency, SOE management, service quality and access-to-services.
- **Leveraging.** ADB has been able to do more because of leveraging, both financially and through policy leveraging. Alternative sources of grant support through carbon funds, trust-funds, and bilateral co-financing can make an important contribution and should continue to be pursued. Private sector financing can also extend the impact of ADB’s assistance.
- **Results-tracking.** More emphasis should be placed on outcome, sustainability-readiness and sector performance monitoring during project supervisions and in the annual portfolio review. The CPS should also consider supporting the government’s efforts to build capacity in evaluating the performance of ADB assistance, at the project, sector and country level.

Appendix 1, Table A1 Economic, Poverty and Social Indicators

Key Economic Indicators	2011	2012	2013 <sup>a</sup>
Total GDP (billion current \$)	845.5	878.7	871.1
GDP per capita (current \$)	3,485.0	3,598.0	3,521.0
GDP per capita, PPP (current international dollars)	4,271.5	4,875.7	...
GNI per capita (current \$)			
GNI per capita, Atlas method (current \$)	2,930.0	3,420.0	...
GNI per capita, PPP (current international dollars)	4,440.0	4,730.0	
GNI growth (%)	6.6	6.3	5.6
GDP growth (%)	6.5	6.3	5.8
Revenue <sup>b</sup> (% of GDP)	16.1	16.2	15.7
Fiscal balance <sup>b</sup> (% of GDP)	-1.1	-1.9	-2.3
Money Supply (M3) growth (%)	16.4	15.0	12.7
Inflation (annual average, %)	5.4	4.0	6.4
Merchandise exports (% of GDP)	23.8	21.5	21.1
Merchandise imports (% of GDP)	19.6	20.5	20.4
Merchandise trade balance (% of GDP)	4.1	1.0	0.7
Current account balance <sup>c</sup> (% of GDP)	0.2	-2.8	-3.3
Merchandise export growth (%)	27.0	-6.1	-2.6
Merchandise import growth (%)	30.3	8.4	-1.4
Total external debt (% of GDP)	26.4	28.7	30.2
Total external debt service (% of exports & services)	21.7	34.9	42.7
Gross international reserves (in months of imports and official debt repayment)	6.5	6.1	5.5
Average exchange rate (rupiah/US dollar)	8,776.0	9,384.0	10,460.0

GDP by sector <sup>d</sup> , 2013	% of GDP	GDP by expenditure <sup>d</sup> , 2013	% of total
Agriculture	14.4	Total consumption	64.9
Industry	45.7	Investment	33.6
Services	39.9	Net Exports	-2.0
		Exports	23.7
		Imports	-25.7
		Statistical discrepancy	3.4
Main destinations of exports <sup>e</sup> , 2013	% of non-oil and gas exports	Main sources of imports <sup>e</sup> , 2013	% of non-oil and gas imports
PRC	14.2	PRC	20.9
Japan	10.7	Japan	13.5
United States	10.1	Thailand	7.6
India	8.7	Singapore	7.2
Singapore	6.9	United States	6.3

Principal exports <sup>e</sup> , 2013	% of total	Principal imports <sup>e</sup> , 2013	% of total
Coal	13.3	Oil products	20.6
Palm oils	9.0	Electrical apparatus, measuring instruments and optical	19.6
Natural gas	8.5	Base metal products	19.2

Textile and textile products	7.0	Crude oil	9.3
Crude oil	6.6	Chemicals	6.5

<b>Key poverty and social indicators</b>	<b>Latest</b>		<b>OECD average</b>	
Population living on less than \$1.25 a day (%)	16.2	2011	...	
Population below national poverty line (%)	11.5	2013	...	
Underweight children under 5 years old (%)	18.6	2010	...	
Net enrolment ratio in primary education (%)				
Total	93.7	2011	98.1	2011
Female	95.8	2011	98.2	2011
Male	91.6	2011	98.0	2011
Adult literacy (%)	92.8	2011	...	
Maternal mortality ratio (per 100,000 live births)	220	2010	19.0	2010
Infant mortality rate (below 1 year/per 1,000 live births)	25.8	2012	6.4	2012
Life expectancy at birth (years)	70.4	2011	79.7	2011
CO <sub>2</sub> emissions (metric tons of CO <sub>2</sub> per capita)	1.8	2010	10.2	2010
Population with access to safe water (%)	84.3	2011	99.0	2011
Population with access to sanitation (%)	58.7	2011	97.7	2011
Human Development Index <sup>f</sup>	0.6	2012	0.9	2012
(Rank)	121		(22.1)	

... = not available, CO<sub>2</sub> = carbon dioxide, GDP = gross domestic product, GNI = gross national income, PPP = purchasing power parity, PRC = People's Republic of China, ADP = automatic data processing.

<sup>a</sup> Preliminary.

<sup>b</sup> Refers to central government.

<sup>c</sup> Current account includes official transfers.

<sup>d</sup> In nominal terms.

<sup>e</sup> Refers to merchandise trade only.

<sup>f</sup> Simple averages of values and ranks for the OECD countries.

Sources: Asian Development Bank (ADB). 2013. *Asian Development Outlook 2013*. Manila; ADB. 2013. *Asian Development Outlook 2013 Update*. Manila; Bank Indonesia External Debt Statistics; CEIC Data Company; International Monetary Fund. World Economic Outlook Database; Statistics Indonesia; United Nations Commodity Trade Statistics database; UNDP. 2013. *Human Development Report*. USA; World Bank. 2010 & 2011. *World Development Indicators*. USA; ADB staff estimates.

## Appendix 2, Table A2: ADB Knowledge Products Generated 2012 - 2014

2012

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### No. Knowledge Product Title

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#### Agriculture and Natural Resources

- 1 Guideline for Synchronization of Planning and Optimization of Institutional Cooperation (SPOKI)
- 2 Strategic Management Plan (POLA) for Water Resources Management in Ciujung, Dicanau, Cidurian River Basin, Citarum River Basin, and Ciliwung-Cisadane River Basin
- 3 Upper Citarum Flood Management Strategy
- 4 User Manual for Decision Support System (DSS)-Rainfall-Rain Off Forecasting System
- 5 Workshop The Future of Indonesia's Irrigation Management and Development
- 6 Workshop on Water Policy and Participatory Irrigation Sector Project (PISP)
- 7 Indonesia: Water Supply and Sanitation Sector Assessment, Strategy, and Road Map

#### Economy Sector

- 8 Asian Development Review – Volume 29, Number 2
- 9 Asia Bond Monitor (Indonesia Update)
- 10 Asian Development Outlook 2012 Update: Services and Asia's Future Growth (Country Section: Indonesia)
- 11 Indonesia: Reforms for Resilient Growth

#### Education Sector

- 12 Early Childhood Development Strategy Study
- 13 Preparation of Country Background Report on the Education Sector in Indonesia
- 14 Madrasah Education Financing Study
- 15 General Senior Secondary Education Financing
- 16 Review of a Decade of Gender Mainstreaming
- 17 Free Basic Education Strategy Study Development
- 18 School and Madrasah Principals and Supervisors Competencies Baseline Study
- 19 Evaluation of the Supplemental Food for School Children Program

#### Health and Social Protection Sector

- 20 The Neighborhood Upgrading and Shelter Sector Project In Indonesia

#### Multisector

- 21 CPI Publication (Pilot Survey) Assessment
- 23 Perpres Evaluation
- 23 Workshops from TA Strengthening Capacity and Knowledge Management in the National Development Planning Agency to Enhance Project's Effectiveness

#### Infrastructure

- 24 KM from Capacity Development Assistance for Public Private Partnership

#### Multisector

- 25 Indonesia Development Effectiveness Brief (jointly prepared with SERD)
- 26 Indonesia Fact Sheet (in coordination with DER)

#### Transport

- 27 Indonesia: Transport Sector Assessment, Strategy, and Road Map
-

**2013****No. Knowledge Product Title**

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## Agriculture and Natural Resources Sector

1. Study on Effect of Land Use Changes on Hydrological Characteristics of Watersheds

## Economic Growth

2. Training on INDOTERM Computable General Equilibrium Modeling for Connectivity Analysis
3. Indonesia Country Chapter, Asian Development Outlook (ADO) and ADO Update
4. Indonesia-Australia High Level Policy Dialogue on Food Security

## Finance Sector

5. Impact of Spatial Planning on Regional Economic Development
6. Financial Risks Monitoring Model for the National Health Insurance (NHI) Program as the Early Warning System
7. Impact of Spatial Planning on Regional Economic Development

## Public Sector Management

8. Business Climate Rapid Assessment
9. Procurement Professionalization Road Map
10. Strengthening National Public Procurement Agency's Website and Information Centre

## Regional Cooperation and Integration

11. ASEAN Infrastructure Fund (AIF) Progress Reports
  12. Twinning Facilitation Manual in Bahasa Indonesia
  13. NRW Handbook in Bahasa Indonesia
  14. Water Supply and Sanitation Sector Policy Note in Indonesia
  15. Water Supply Operators and Networks Sector Policy Note in Indonesia
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**2014****No. Knowledge Product Title**

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## Agriculture and Natural Resources Sector

1. River Basin Management: Policy and Practice
  2. State of the Coral Triangle Report 2012: Indonesia
  3. Citarum River Basin Specific Guidebooks and Manuals on Mitigation and Adaptation
  4. Sharing Livelihood Values: Creating and Connecting Eco Livelihood Values at The Bottom of The Pyramid
  5. Best Practices in Water Resource Management Capacity Development
  6. Strategic Management Plan of Water Resources in the 6CIs River Basin Territory
  7. Strategic Spatial Planning for The 6 CIs River Basin Territory
  8. Gender Equity and Opportunities in Irrigation
  9. Flood Management Strategy Upper Citarum River Basin
  10. Development 1D 2D Model, Hydrology, Hydraulics, and Modeling in Citarum River Basin
  11. Capacity Needs Assessment and Action Plan for Bappeda West Java Province and Bandung District
  12. Institutional Cooperation, Tasks and Responsibilities in IWRM, Citarum River Basin – West Java Province
  13. Decision Support System for Integrated Water Resources Management in Citarum River Basin
  14. Climate-Proofing Water Infrastructure
  15. Vulnerability and Capacity Assessment to Cope with Climate Change
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 Economic Sector

- 16 Training on INDOTERM Computable General Equilibrium Modeling for connectivity analysis
- 17 Indonesia Country Chapter, Asian Development Outlook (ADO) and ADO Update
- 18 Indonesia Fact Sheet (in coordination with DER)
- 19 Paper on Financial System Safeguards
- 29 Paper on Improving Indonesia's Competitiveness
- 21 How Indonesia Captures The Benefits of ASEAN After 2015

## Education Sector

- 22 How Education Improves Productivity
- 23 Religious Education and Multiculturalism
- 24 Mid-term Review on Education Strategic Plan
- 25 Rural and Remote Education Strategic Planning in Tanah Papua
- 26 Support to Basic Education Minimum Service Standards Planning and Monitoring
- 27 OECD Review on Indonesia
- 28 Formulation of a National Action Plan for Environmental Education
- 29 National Public Procurement Agency Profile
- 30 Gender Equality in Education in Indonesia
- 31 Gender Equality in Education in Indonesia: Policy Brief
- 32 University – Industry – Government Partnership for Economic Development in Indonesia
- 33 University – Industry – Government Partnership for Economic Development in Indonesia: Policy Brief
- 34 Madrasah Education Financing in Indonesia
- 35 General Senior Secondary Education Financing in Indonesia
- 36 Review of a Decade of Gender Mainstreaming in Indonesia
- 37 Review of a Decade of Gender Mainstreaming in Indonesia (Summary Report)
- 38 School and Madrasah Principals and Supervisors Competency Baseline Study
- 39 School and Madrasah Principals and Supervisors Competency Baseline Study: Summary Report
- 40 School and Madrasah Principals and Supervisors Competency Baseline Study: Main Report
- 41 School and Madrasah Principals and Supervisors Competency Baseline Study: Data Collection and Recording Instruments
- 42 School and Madrasah Principals and Supervisors Competency Baseline Study: Table and Charts (CD)
- 43 Evaluation of International Standard Schools in Indonesia
- 44 Evaluation of the Supplemental Food for School Children Program: Executive Summary
- 45 Overview of the Education Sector in Indonesia 2012: Achievements and Challenges
- 46 Free Basic Education Strategy Development: Analysis of School Operational Funds (BOS)
- 47 Free Basic Education Strategy Development: Survey of Parental Contribution in Basic Education
- 48 Free Basic Education Strategy Development Financing: Projections to 2020 for Implementation of Free Basic Education
- 49 Free Basic Education Strategy Development: Support for Poor Families in Meeting The Personal Costs of Basic Education
- 50 Developing Strategies for University, Industry, and Government Partnership in Indonesia

## Energy Sector

- 51 Workshop on planning a Carbon Capture Storage (CCS) project in the gas processing sector in Indonesia
  - 52 Building Grid - Connected Renewable Energy Projects in Eastern Indonesia: Lessons Learned from ADB Projects
  - 53 Indonesia Energy Sector Assessment, Strategy, and Road Map Update
  - 54 Expanding Energy Access Programs in Indonesia
  - 55 Determining the Prospects for Marine-based Renewable Energy Generation in Asia
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Finance Sector

- 56 Financial Health Risks Monitoring Model
- 57 Avoiding the Middle Income Trap: Lessons Learnt and Strategies for Indonesia to Grow Equitably and Sustainably
- 58 Developing Financial Computable General Equilibrium (FCGE) Model for Infrastructure Investment and Regional Forecasting with Spatial Data
- 59 Micro Economic Simulation to Detect The Effects of National Health Insurance on Access, Financial Protections And Poverty Reduction

Health and Social Protection Sector

- 60 Lessons learned from improving health services at village level through community block grants

Legal Framework on Land

- 61 Academic paper on the proposed Land Acquisition Law, 2009
- 62 Academic Paper and the Draft Proposed Land Law

Public Sector Management

- 63 Business Climate Rapid Assessment
- 64 Strengthening National Public Procurement Agency's Website and Information Centre

Regional Cooperation and Integration

- 65 ASEAN Infrastructure Fund (AIF) Progress Reports
- 66 ASEAN Infrastructure Fund (AIF) Brochure

Social Safeguards

- 67 Analysis of Laws and Regulations on Social Safeguards (Involuntary Resettlement and Indigenous Peoples) in Water and Energy Sectors
- 68 Practical Guideline on Preparation of Resettlement Plan and Its Implementation

Water and Municipal Services

- 69 Waste Water Treatment Operators Manual in Bahasa Indonesia
- 70 NRW best practice in Bahasa Indonesia
- 71 Energy efficiency manual for WWTP in English
- 72 Curriculum Data Sheets for Waste Water Operators in English
- 73 Master Meter for Water Supply to Low Income Communities
- 74 Buku Best Practice Twinning NRW Water Operator Partnerships
- 75 Indonesia Urban Sector ASR
- 76 Sludge Treatment in Indonesia
- 77 Capacity Building Model for Waste Water Operators (WOPs 7739)
- 78 Buku Manual Operasi dan Pemeliharaan IPAL (WOPs 7739)
- 79 Energy Efficiency Handbook for WWTPs (WOPs 7739)

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Source: ADB IRM 2014. *Indonesia Knowledge Product Data Base*. Jakarta.

**Appendix 3, Table A3: ADB Approved Technical Assistance Grants to Indonesia, 2012-2014**

TA Number	Project Name	2012 Date Approved	TA Type	Fund Source		Cofinancing		Total Financing (\$)
				TASF	Amount (\$)	Source	Amount (\$)	
7038	Enhancing The Legal And Administrative Framework For Land (Supplementary)	13-Jul-12	AD	TASF	200,000			200,000
7189	Institutional Strengthening For Integrated Water Resources Management In The 6 Cis River Basin Territory (Supplementary)	15-May-12	AD			THE NETHERLANDS	1,000,000	1,000,000
7453	Polytechnic Development (Supplementary)	28-Mar-12	PP			CANADA	95,900	95,900
8057	Local Government Finance And Governance Reform	20-Feb-12	CD			JFPR	800,000	800,000
8138	Regional Roads Development II	08-Aug-12	PP	TASF	1,500,000			1,500,000
8202	Fiscal Aspect Of Social Security Reform	11-Oct-12	CD			JFPR	800,000	800,000
8215	Supporting Inclusive Growth Through Better Connectivity	16-Nov-12	CD	TASF	1,000,000			1,000,000
8224	Improving Access To Finance In Aceh And North Sumatra	08-Nov-12	CD			JFPR	800,000	800,000
8287	Scaling Up Renewable Energy Access In Eastern Indonesia	12-Dec-12	CD			CEF	1,000,000	1,000,000
8318	Global Climate Partnership Fund Indonesia Investment Program	21-Dec-12	PP			CTF	450,000	450,000

TA Number	Project Name	2013 Date Approved	TA Type	Fund Source	Cofinancing		Total Financing (\$)	
				TASF	Amount (\$)	Source		Amount (\$)
7364	Flood Management In Selected River Basins (Phase II) (Supplementary)	13-Oct-13	PP			MDTFWFPF	500,000	500,000
8287	Scaling Up Renewable Energy Access In Eastern Indonesia (Supplementary)	25-Sep-13	CD			NORWAY	1,000,000	1,000,000
8326	Enhancing Financial Sector Governance, Risk Management, And Depth	24-Jan-13	CD			JFPR	1,000,000	1,000,000
8331	Sustainable Forest And Biodiversity Management In Borneo	26-Feb-13	CD			GEF/CCF/RCIF	4,477,273	4,477,273
8358	Minimum Service Standards Capacity Development Program	24-Apr-13	CD			EU	47,030,000	47,030,000
8407	Planning A Pilot Carbon Capture And Storage Activity	18-Jul-13	CD			CCS	225,000	225,000
8432	Improving Water Planning, Management, And Development	09-Aug-13	PA			NETWFPP	1,500,000	1,500,000
8460	Indonesia Irrigation Sector	12-Sep-13	PP			NETHERLANDS	1,500,000	1,500,000
8484	Sustainable Infrastructure Assistance Program Technical Assistance Cluster Management Facility (Subproject 1)	11-Oct-13	CD			AUSTRALIA	2,500,000	2,500,000
8506	Sustainable Infrastructure Assistance Program Scaling Up Hydropower Development (Subproject 3)	13-Nov-13	PP			AUSTRALIA	2,000,000	2,000,000
8508	Sustainable Infrastructure Assistance Program IKK Water Supply Sector (Subproject 2)	06-Nov-13	PP			AUSTRALIA	715,000	715,000
8518	Sustainable Infrastructure Assistance Program Green Cities A Sustainable Urban Future In Indonesia (Subproject 4)	26-Nov-13	CD			AUSTRALIA	1,000,000	1,000,000
8530	Sustainable Infrastructure Assistance Program Strengthening Community Participation In Project Design, Implementation, And Monitoring In Regional Roads Development Projects (Subproject 5)	06-Dec-13	CD			AUSTRALIA	1,000,000	1,000,000

TA Number	Project Name	2013 Date Approved	TA Type	Fund Source		Cofinancing		Total Financing (\$)
				TASF	Amount (\$)	Source	Amount (\$)	
8535	Support For Selected Sector Analysis For National Medium-Term Development Planning 2015-2019 On ASEAN Connectivity	06-Dec-13	CD	TASF	225,000			225,000
8548	Aligning Asian Development Bank And Country Systems For Improved Project Performance	10-Dec-13	CD	TASF	1,500,000			1,500,000
8660	Community Focused Investments To Address Deforestation And Forest Degradation	02-Jun-14	PP			SCFFIP	0.500	0.500
8661	Stepping Up Investments For Growth Acceleration Program Subprogram 2	23-May-14	PP	TASF	1.500			1.500
	Scaling-up Renewable Energy Access in Eastern Indonesia	End 2014	CD			AUSG	0.500	0.500
	Strengthening Local Government Bond Market	End 2014	CD			Switzerland	5.000	5.000
	Connecting Urban Poor to Private Water Supply Systems	End 2014	CD	TASF	0.150	WFPF	0.350	0.350
	Capacity Development Metropolitan Sanitation Management Investment Program	End 2014	CD			AUSG	2.250	2.250
	Strengthening Knowledge Sharing in Indonesia	End 2014	CD	TASF	0.725			0.750

**Appendix 4, Table A4: ADB Approved Loans and Grants to Indonesia, 2012 - 2014**

<b>Project No</b>	<b>Project Title</b>	<b>2012 Date Approved</b>	<b>Fund Type</b>	<b>Amount (US\$ million)</b>	<b>Co-Financing (\$ million)</b>
46093	Inclusive Growth Through Improved Connectivity Program - Subprogram 1	16-Nov-12	OCR	300.000	100.00
30354	State Accountability Revitalization Project	31-Oct-12	OCR	57.750	
42099	Polytechnic Education Development Project	31-Oct-12	OCR	75.000	4.950
44252	Financial Market Development And Integration Program	21-Sep-12	OCR	300.000	
30479	Precautionary Financing Facility	18-Jun-12	OCR	500.000	

  

<b>Project No</b>	<b>Project Title</b>	<b>2013 Date Approved</b>	<b>Fund Type</b>	<b>Amount (US\$ million)</b>	<b>Co-Financing (\$ million)</b>
41074	West Kalimantan Power Grid Strengthening	27-Aug-13	OCR	51.500	2.00
42099	Polytechnic Education Development	12-Apr-13	CIDA	12.950	12.95
46421	Coral Reef Rehabilitation And Management Program-Coral Triangle Initiative Project	13-Dec-13	OCR	45.520	2.00
42362	Java-Bali 500-Kilovolt Power Transmission Crossing	03-Dec-13	OCR	224.000	25.00
46093	Inclusive Growth Through Improved Connectivity Program - Subprogram 2	27-Nov-13	OCR	400.000	600.00

  

<b>Project No</b>	<b>Project Title</b>	<b>2014 Date Approved</b>	<b>Fund Type</b>	<b>Amount (US\$ million)</b>	<b>Co-Financing (\$ million)</b>
46094	Neighborhood Upgrading And Shelter (Phase 2)	31-Mar-14	OCR	74.400	
43251	Metropolitan Sanitation Management Investment	31-Mar-14	OCR	80.000	40.000
48134	Strengthened Investment for Growth Acceleration Program 1	End Sept-14	OCR	400.000	48.830

Source: Asian Development Bank Staff Estimates.

**Appendix 5, Table A5: List of Ongoing Loans and Grants**  
(as of year ending 31 March 2014)

No	Project No.	Project Name <sup>a</sup>	Key Milestones				% Elapsed Time	Net Amount (\$ million) <sup>a</sup>	Contract Award (% of Net Amount) <sup>a</sup>	Disbursement (% of Net Amount) <sup>a</sup>
			Startup		Closing					
			Approval	Effective	Original	Rev/Actual				
<b>GRANTS</b>										
1	41059	Rice Fortification for the Poor	20-Mar-09	31-Dec-09	31-Dec-12	31-Dec-14	83%	2.000	52%	42%
<b>LOANS</b>										
1	32359	Participatory Irrigation Sector Project	19-Dec-03	2-Jun-05	30-Jun-11	31-Dec-12	111%	69.020	95%	100%
2	33409	Vocational Education Strengthening Project	31-Mar-08	9-Jul-08	30-Nov-13	30-Nov-13	101%	77.710	97%	99%
3	34100	Renewable Energy Development	19-Dec-02	27-Oct-04	30-Sep-08	30-Sep-13	102%	161.000	94%	95%
4	34149	Second Decentralized Health Services	19-Dec-03	29-Mar-05	31-Dec-10	31-Dec-13	100%	86.689	92%	96%
5	34152	Community Water Services and Health	7-Apr-05	12-Apr-06	31-Dec-11	5-Jul-13	100%	34.542	98%	99%
6	35139	Power Transmission Improvement Sector	19-Dec-02	27-Oct-04	30-Sep-08	30-Sep-13	102%	124.000	87%	82%
7	35183	Sustainable Aquaculture Development for Food Security and Poverty Reduction	12-Dec-06	13-Jul-07	31-Dec-13	31-Dec-13	100%	34.478	93%	94%
8	37049	Integrated Citarum Water Resources Management Investment Program - Project 1	22-Dec-08	3-Jun-09	30-Jun-14	30-Jun-14	91%	54.896	67%	36%
9	37475	Madrasah Education Development	15-Dec-06	13-Jun-07	30-Sep-12	31-Dec-12	117%	52.247	94%	96%
10	38117	Nutrition Improvement through Community Empowerment	31-Aug-07	10-Dec-07	30-Sep-12	31-Dec-12	119%	50.659	96%	96%

No	Project No.	Project Name <sup>a</sup>	Key Milestones				% Elapsed Time	Net Amount (\$ million) <sup>a</sup>	Contract Award (% of Net Amount) <sup>a</sup>	Disbursement (% of Net Amount) <sup>a</sup>
			Startup		Closing					
			Approval	Effective	Original	Rev/Actual				
11	38354	State Accountability Revitalization Project	31-Oct-12	19-Feb-13	30-Jun-18	30-Jun-18	21%	57.750	7%	5%
12	38385	Rural Infrastructure Support to the PNPM Mandiri Project II	12-Nov-09	1-Feb-10	30-Sep-13	30-Sep-13	106%	84.240	99%	99%
13	38479	Regional Roads Development Project	24-Nov-11	3-Jul-12	31-Aug-16	31-Aug-16	44%	180.000	23%	3%
14	39071	Metropolitan Sanitation Management and Health Project	19-Jul-10	22-Nov-10	30-Jun-15	30-Jun-15	70%	35.000	71%	43%
15	40009	Infrastructure Project Development Facility	21-Nov-06	29-Nov-06	30-Sep-12	31-Aug-14	91%	27.791	83%	60%
16	40061	Java-Bali Electricity Distribution Performance Improvement Project	22-Mar-10	25-Apr-11	30-Nov-12	31-Oct-14	82%	101.000	51%	18%
17	40061	Java-Bali 500-Kilovolt Power Transmission Crossing Project	3-Dec-13	0-Jan-00	30-Sep-19	30-Sep-19	1%	25.000	0%	0%
18	41074	West Kalimantan Power Grid Strengthening Project	27-Aug-13	0-Jan-00	31-Jul-16	31-Jul-16	12%	51.500	0%	0%
19	42099	Polytechnic Development Project	31-Oct-12	7-Jan-13	30-Jun-18	30-Jun-18	21%	79.950	3%	7%
20	42109	Indonesian Infrastructure Financing Facility Company Project	31-Mar-09	25-Apr-11	31-Dec-13	31-Dec-13	100%	100.000	100%	95%
21	42362	Java-Bali 500-Kilovolt Power Transmission Crossing Project	3-Dec-13	0-Jan-00	30-Sep-19	30-Sep-19	1%	224.000	0%	0%
22	43255	Urban Sanitation and Rural Infrastructure Support to PNPM Mandiri Project	5-Aug-11	15-Nov-11	30-Jun-15	30-Jun-15	62%	100.000	69%	76%

No	Project No.	Project Name <sup>a</sup>	Key Milestones				% Elapsed Time	Net Amount (\$ million) <sup>a</sup>	Contract Award (% of Net Amount) <sub>a</sub>	Disbursement (% of Net Amount) <sub>a</sub>
			Startup		Closing					
			Approval	Effective	Original	Rev/Actual				
23	46093	Inclusive Growth through Improved Connectivity Program - Subprogram 1	16-Nov-12	18-Dec-12	31-Mar-13	31-Mar-13	100%	300.000	100%	100%
24	46093	Inclusive Growth through Improved Connectivity Program - Subprogram 2	27-Nov-13	18-Dec-13	31-Mar-14	31-Mar-14	27%	400.000	100%	100%
25	46239	Precautionary Financing Facility	18-Jun-12	18-Sep-12	31-Dec-13	31-Dec-13	100%	500.000	0%	0%
26	46421	Coral Reef Rehab & Management Program-Coral Triangle Initiative Project	13-Dec-13	0-Jan-00	30-Jun-19	30-Jun-19	1%	45.520	0%	0%

<sup>a</sup> Figures include the OCR, ADF and grant financing combined.  
Source: Asian Development Bank Staff Estimates.

**Appendix 6, Table A6: Key Portfolio Performance Indicators (2011-2013 vs. ADB-wide)**

INDICATORS	2011	2012	2013	2013 ADB-Wide
<b>A Start-up Compliance for Loans</b>				
Average Months: Approval to Signing	6.1	5.3	5.8	2.7
Average Months: Signing to Effectiveness	4.5	4.1	3.9	
Average Age of Active loans (years)	5.2	4.9	5.2	
<b>B. Financial Performance for Loans</b>				
1a. CA Ratio <sup>43</sup> (%) projects only	19.5	23.7	15.9	19.69
1b. CA vs. annual projection, projects only	99.3	61	39	
2a. Disbursement Ratio <sup>44</sup> (%) projects only	27.5	28.9	28.2	18.9
2b. Disbursement VS annual projection, projects only	115.1	102.1	113	
3. Net Resource Transfer <sup>45</sup> (\$ million)	(607.4)	(503.4)	(982.2)	(107.7)
4. IA Turnover Rate <sup>46</sup> (%)	1.6	2.1	2.33	1.21
<b>C. Portfolio Performance for Projects (Loans + Grants)</b>				
1. Project Ratings (eOps)				
(a) On track (%. of projects)	86.4	66.7	75	79
(b) Potential Problem Projects (% of projects)	4.5	22.2	20	14
(c) Actual Problem (% of projects)	Na	9.1	5	7

Acronyms: na = not available; IA= Imprest Account;

Source: OSFMD Portfolio Management Indicators, 31 December 2013

<sup>43</sup> Contract/Commitment Award Ratio is defined as the ratio of Contract Awarded/Actual Commitment during the year over the value available for contract/commitment awards at the beginning of the year

<sup>44</sup> Disbursement ratio is the ratio of total disbursement in a given year/period over the net loan amount available at the beginning of the year/period plus the loan amounts of newly approved loans which have become effective during the year/period.

<sup>45</sup> Gross loan disbursements minus principal repayments and prepayments, payment of interest, and other charges, plus net equity investments)

<sup>46</sup> The annualized turnover rate is computed as the ratio of total liquidation over the time -weighted average fund balance for 12 months.

Appendix 7, Table A7: CPS Results Framework: Targets and Achievement

<b>Country Development Goals</b>		
1. Increase in GDP growth to at least 7% by 2014; actuals: 6.3% in 2012, 5.8% in 2013 and 5.7% (forecast) 2014 2. Reduction in the poverty rate to 8%–10% by 2014; actuals: 11.37% in 2013 3. Fall in the unemployment rate to 5%–6% by 2014; actuals: 6.25% in August 2013 4. Environmentally sustainable economic development with rich biodiversity  Actuals: deforestation rate has fallen from 0.83 million hectares per year between 2006-2009 to 0.45 million hectares per year from 2009-2011, total greenhouse gas emissions fallen from 1.711 million Gg in 2008 to 1.53 million Gg in 2013; coastal conservation area has increased; climate change trust fund projects launched in 11 provinces between 2012-2014, and commitments for GHG reduction made.		
<b>Sectors Selected for ADB Support</b>		
<b>Government Sector Objectives</b>	<b>Sector Outcomes that ADB Contributes to and Indicators</b>	<b>ADB Indicative Resource Allocation in the Next Pipeline and Thematic Priorities <sup>a</sup></b>
<b>1. Agriculture and Natural Resources (Strategy 2020 Core Area 1: Infrastructure; Core Area 2: Environment)</b>		
Conservation and utilization of natural resources that support sustainable economic growth and increased welfare of the people while anticipating impacts of climate change	Climate resilience and sustainability to enhance freshwater, marine, and forest resources management for improved food security  Indicator 1: Water storage availability increased 2014 target: 12 billion m <sup>3</sup> 2010 baseline: 10.3 billion m <sup>3</sup> Current value: 13.3 billion (2013) m <sup>3</sup>  Indicator 2: Rice production increased 2014 target: 78.3 million tons 2010 baseline: 66.3 million tons Current value: 72 million tons (2014)  Indicator 3: Marine management areas effectively managed 2014 target: 4.5 million ha 2010 baseline: 0.2 million ha Current value: total marine conservation areas rose from 13.5 million ha in 2009 to 16.1 million Ha in 2012	<b>Planned</b> \$390 million, or 16% of total CPS envelope of which: PSD = 26% ENV = 74% REG = 13% GEN/EGM = 100%  <b>Delivered</b> \$45.5 million, or 2% of total CPS envelope of which: PSD = 0% ENV = 100% REG = 0% GEN/EGM = 100%
<b>2. Education (Strategy 2020 Core Area 5: Education)</b>		
Increasing access to education that is of sound quality, affordable, relevant, and efficient to enhance welfare of the people, upholding noble ethics and strong national character	General, vocational, and higher education are regionally competitive and relevant to the needs of society, business, and industry  Indicator 1: Gross enrollment ratio for secondary school education increased 2014 target: 85% 2008 baseline: 64% Current value: 78% (2012/13)	<b>Planned</b> \$75 million, or 3% of total CPS envelope of which: PSD = 100% ENV = 0% REG = 0% GEN/EGM = 100%

	<p>Indicator 2: The number of polytechnic graduates entering the workforce is increased 2015 target: 13,600 2010 baseline: 10,880 Current value: 26,000 (note: ADB Invest Project has trained an average of 39,000 students per year with two-thirds entering the labor force within a year of graduation. Some 1.2 million students graduate from Indonesia's 10,600 SMKs each year)</p> <p>Indicator 3: Polytechnic graduates entering the workforce are female Target 2015: 15% Current value : Not available for the Polytechnics as a</p>	<p><b>Delivered</b> \$75 million, or 3% of total CPS envelope of which: PSD = 0% ENV = 0% REG = 0% GEN/EGM = 100%</p>
<b>3. Energy (Strategy 2020 Core Area 1: Infrastructure; Core Area 2: Environment)</b>		
<p>Attain national energy security that ensures continued national growth and optimize the widest possible utilization of alternative energy</p>	<p>Increased and more efficient use of energy including renewable energy</p> <p>Indicator 1: Renewable energy % of total generation 2020 target: 20% 2011 baseline: 13% Current value: 12% (2013)</p> <p>Indicator 2: Electrification per population ratio increased 2020 target: 95% 2011 baseline: 65% Current value: 81% (2013)</p>	<p><b>Planned</b> \$653 million or 27% of total CPS envelope of which: PSD = 92% ENV = 43% REG = 49% GEN/EGM = 0%</p> <p><b>Delivered</b> \$275.5 million or 11% of total CPS envelope of which: PSD = 0% ENV = 19% REG = 0% GEN/EGM = 0%</p>
<b>4. Finance (Strategy 2020 Core Area 4: Finance Sector Development)</b>		
<p>Promote a deep, efficient, and accessible financial sector for a stable macroeconomic environment and to facilitate inclusive economic growth</p>	<p>Nonbank finance sector provides increased financial intermediation</p> <p>Indicator 1: Nonbank finance sector assets as % of GDP increased 2014 target: 65% 2010 baseline: 60% Current value: 66.8% Bond market to GDP was 15% and Stock Market Capitalization to GDP was 51.8% for Q1-2014</p>	<p><b>Planned</b> \$400 million, or 16% of total CPS envelope of which: PSD = 100% ENV = 0% REG = 0% GEN/EGM = 0%</p> <p><b>Delivered</b> \$300 million, or 12% of total CPS envelope of which: PSD = 0% ENV = 0% REG = 0% GEN/EGM = 0%</p>
<b>5. Transport (Strategy 2020 Core Area 1: Infrastructure)</b>		
<p>Integrate markets and increase access to social services with enhanced transport connectivity within and among islands</p>	<p>Improved intra-island, inter-island, and inter-country connectivity for all, including poorer communities</p> <p>Indicator 1: Average national highway condition rating (from good to fair) improved 2015 target: 94% 2009 baseline: 87% Current value: 93% (2014)</p>	<p><b>Planned</b> \$658 million, or 27% of total CPS envelope of which: PSD = 100% ENV = 16% REG = 61% GEN/EGM = 39%</p>

	<p>Indicator 2: All islands have interisland shipping and port service consistent with the national strategy 2015 target: 100% Current value: number of regulated inter-island shipping routes has been increased from 47 routes in 2004 to 80 routes in 2013, in line with national connectivity strategy.</p>	<p><b>Delivered</b> \$700 million, or 28% of total CPS envelope of which: PSD = 100% ENV = 0% REG = 0% GEN/EGM = 0%</p>
<p><b>6. Water Supply and Other Municipal Infrastructure Services (Strategy 2020 Core Area 1: Infrastructure; Core Area 2: Environment)</b></p>		
<p>Enhance access to clean water and sanitation through increased provision of water supply and sanitation services and strengthening regional government and community capacity</p>	<p>More people have access to improved water supply and sanitation</p> <p>Indicator 1: Proportion of population with sustainable access to an improved water source increased 2015 target: 69% 2009 baseline: 48% Current value: 68% (2013)</p> <p>Indicator 2: Proportion of population with sustainable access to basic sanitation increased 2015 target: 62% 2009 baseline: 51% Current value: 60% (2013)</p> <p>Indicator 3: Female staff trained in the development, implementation, operation, and maintenance of wastewater works 2015 target: 30% Current value: No data available</p>	<p><b>Planned</b> \$228 million, or 9% of total CPS envelope of which: PSD = 47% ENV = 100% REG = 0% GEN/EGM = 100%</p> <p><b>Delivered</b> \$154.4 million, or 6% of total CPS envelope of which: PSD = 48% ENV = 100% REG = 0% GEN/EGM = 100%</p>
<p><b>7. Public Sector Management</b></p>		
<p>Improved transparency, accountability and integrity in the management of public resources</p>	<p>Efficient and transparent public resources management systems established and well managed</p> <p>Indicator 1: Increase in local government revenues from own sources 2015 target: an increase 2011 baseline: 18% Current value: 23% (2014)</p> <p>Indicator 2. Increase in the Integrity Index of Public Institutions, at central and regional levels. 2015 target: 8 2009 baseline: 6 Current value: Integrity index not available. World Bank governance indicators suggest a modest improvement in five governance dimensions while Transparency International Corruption Prevalence Indicator suggests a slight deterioration in</p>	<p><b>Delivered</b> \$957.8 million, or 38% of total CPS envelope of which: PSD = 42% ENV = 0% REG = 0% GEN/EGM = 0%</p>

ADB = Asian Development Bank, CPS = country partnership strategy, EGM = effective gender mainstreaming, ENV = environmental sustainability, GDP = gross domestic product, GEN = gender equity, PSD = private sector development, REG = regional.

Sources: ADB estimates; Government of Indonesia. 2010. *National Medium-Term Development Plan (RPJMN) 2010–2014*. Jakarta. Bappenas. 2013. *Mid-Term Review of RPJM*. Jakarta.