



Completion Report

Project Number: 32367
Loan Number: 1765-INO(SF), 1766-INO
February 2009

Indonesia: Community Empowerment for Rural Development Project

Asian Development Bank

CURRENCY EQUIVALENTS

Currency Unit – rupiah (Rp)

| | | At Appraisal | At Project Completion |
|--------|---|---------------------|------------------------------|
| | | 15 September 2000 | 15 October 2008 |
| Rp1.00 | = | \$0.0001126 | \$0.0001020929 |
| \$1.00 | = | Rp8,880 | Rp9,795 |

ABBREVIATIONS

| | | |
|--------------|---|--|
| ADB | – | Asian Development Bank |
| ADF | – | Asian Development Fund |
| BAPPENAS | – | <i>Badan Perencanaan Pembangunan Nasional</i> (National Development Planning Agency) |
| BPD | – | <i>Bank Pembangunan Daerah</i> (regional development bank) |
| CBPM | – | community-based planning mechanism |
| CBSLO | – | community-based savings and loan organization |
| CDD | – | community-driven development |
| CPI | – | consumer price index |
| DGCVE | – | Directorate General of Community and Village Empowerment |
| EIRR | – | economic internal rate of return |
| FIRR | – | financial internal rate of return |
| IDC | – | interest during construction |
| IDT | – | <i>Inpres Desa Tertinggal</i> (Presidential Instructions for Less Developed Villages) |
| KDP | – | <i>Kecamatan</i> Development Program |
| MUV | – | manufactures unit value |
| NGO | – | nongovernment organization |
| OCR | – | ordinary capital resources |
| PIU | – | project implementation unit |
| PNPM Mandiri | – | <i>Program Nasional Pemberdayaan Masyarakat</i> (National Program for Community Empowerment) |
| PROPENAS | – | <i>Program Pembangunan Nasional</i> (National Development Program) |
| RPJM | – | <i>Rencana Pembangunan Jangka Menengah</i> (Medium-Term Development Plan) |
| SDR | – | special drawing rights |
| SNPK | – | <i>Strategi Nasional Penanggulangan Kemiskinan</i> (National Strategy for Poverty Reduction) |
| TA | – | technical assistance |

NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

| | |
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BASIC DATA

A. Loan Identification

| | | |
|----|----------------------------------|--|
| 1. | Country | Indonesia |
| 2. | Loan Numbers | 1765(SF), 1766 |
| 3. | Project Title | Community Empowerment for Rural Development |
| 4. | Borrower | Republic of Indonesia |
| 5. | Executing Agency | Directorate General of Community and Village Empowerment |
| 6. | Amount of Loan | SDR38,752,000 and \$65,000,000 |
| 7. | Project Completion Report Number | INO-1075 |

B. Loan Data

| | | |
|----|----------------------------|---|
| 1. | Appraisal | |
| | – Date Started | 5 June 2000 |
| | – Date Completed | 26 June 2000 |
| 2. | Loan Negotiations | |
| | – Date Started | 13 September 2000 |
| | – Date Completed | 15 September 2000 |
| 3. | Date of Board Approval | 19 October 2000 |
| 4. | Date of Loan Agreement | 15 December 2000 |
| 5. | Date of Loan Effectiveness | |
| | – In Loan Agreement | 16 March 2001 |
| | – Actual | 12 March 2001 |
| | – Number of Extensions | 0 |
| 6. | Closing Date | |
| | – In Loan Agreement | 30 June 2007 |
| | – Actual | 31 August 2007 |
| | – Number of Extensions | 1 |
| 7. | Terms of Loan | |
| | Asian Development Fund | |
| | – Service Charges | 1% per year |
| | – Maturity | 32 years |
| | – Grace Period | 8 years |
| | Ordinary Capital Resources | |
| | – Interest Rate | Asian Development Bank's pool-based variable lending rate |
| | – Commitment Charges | 0.75% per year |
| | – Maturity | 25 years |
| | – Grace Period | 6 years |

8. Disbursements
a. Dates

| Loan No. | Initial Disbursement | Final Disbursement | Time Interval |
|--------------|----------------------|-----------------------|---------------|
| 1765-INO(SF) | 21 October 2002 | 15 January 2008 | 62.8 months |
| 1766-INO | 12 March 2001 | 19 December 2007 | 81.0 months |
| | Effective Date | Original Closing Date | Time Interval |
| | 12 March 2001 | 30 June 2007 | 75.0 months |

b. Amount

Loan 1765-INO(SF) (SDR million)

| Category | Original Allocation | Last Revised Allocation | Amount Canceled | Amount Disbursed | Undisbursed Balance |
|--|---------------------|-------------------------|-----------------|------------------|---------------------|
| 1. Civil Works | | | | | |
| 1A Village Grants | 4.914 | 1.100 | 3.814 | 1.100 | 0.000 |
| 1B Rural Infrastructure | 4.642 | 5.818 | (1.176) | 5.818 | 0.000 |
| 2. Training | | | | | |
| 2A Community and Staff | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 2B Formal Education | 5.590 | 5.479 | 0.111 | 5.479 | 0.000 |
| 3. CBSLO Establishment | 0.941 | 0.491 | 0.450 | 0.491 | 0.000 |
| 4. NGO Facilitators | 16.152 | 12.457 | 3.695 | 12.457 | 0.000 |
| 5. Incremental Operation and Maintenance | 1.134 | 1.331 | (0.197) | 1.331 | 0.000 |
| 6. Interest Charged | 1.796 | 0.346 | 1.450 | 0.346 | 0.000 |
| 7. Unallocated | 3.583 | 0.000 | 3.583 | 0.000 | 0.000 |
| Total | 38.752 | 27.022 | 11.730 | 27.022 | 0.000 |

CBSLO = community-based savings and loan organization, NGO = nongovernment organization.

Loan 1765-INO(SF) (\$ million)

| Category | Original Allocation | Last Revised Allocation | Amount Canceled | Amount Disbursed | Undisbursed Balance |
|--|---------------------|-------------------------|-----------------|------------------|---------------------|
| 1. Civil Works | | | | | |
| 1A Village Grants | 7.045 | 1.636 | 5.409 | 1.636 | 0.000 |
| 1B Rural Infrastructure | 6.655 | 8.680 | (2.025) | 8.680 | 0.000 |
| 2. Training | | | | | |
| 2A Community and Staff | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| 2B Formal Education | 8.014 | 8.010 | 0.004 | 8.010 | 0.000 |
| 3. CBSLO Establishment | 1.349 | 0.733 | 0.616 | 0.733 | 0.000 |
| 4. NGO Facilitators | 16.755 | 18.273 | (1.518) | 18.273 | 0.000 |
| 5. Incremental Operation and Maintenance | 1.463 | 2.042 | (0.579) | 2.042 | 0.000 |
| 6. Interest Charged | 2.318 | 0.510 | 1.808 | 0.510 | 0.000 |
| 7. Unallocated | 6.401 | 0.000 | 6.401 | 0.000 | 0.000 |
| Total | 50.000 | 39.886 | 10.114 | 39.886 | 0.000 |

CBSLO = community-based savings and loan organization, NGO = nongovernment organization.

Loan 1766-INO(SF) (\$ million)

| Category | Original Allocation | Last Revised Allocation | Amount Canceled | Amount Disbursed | Undisbursed Balance |
|----------------------------------|----------------------------|--------------------------------|------------------------|-------------------------|----------------------------|
| 1. Civil Works | | | | | |
| Rural Infrastructure | 8.929 | 10.536 | (1.607) | 10.536 | 0.000 |
| 2. Training | | | | | |
| Community and Staff | 6.697 | 5.231 | 1.466 | 5.231 | 0.000 |
| 3. Credit | 15.000 | 0.000 | 15.000 | 0.000 | 0.000 |
| 4. Consulting Services | 7.099 | 9.883 | (2.784) | 9.883 | 0.000 |
| 5. Equipment | 1.172 | 0.479 | 0.693 | 0.479 | 0.000 |
| 6. Materials | 4.417 | 0.667 | 3.751 | 0.667 | 0.000 |
| 7. Vehicles | 2.139 | 0.582 | 1.557 | 0.582 | 0.000 |
| 8. Audit, Surveys, and Studies | 1.939 | 1.696 | 0.243 | 1.696 | 0.000 |
| 9. Front-End Fee | 0.650 | 0.650 | 0.000 | 0.650 | 0.000 |
| 10. Interest during Construction | 12.915 | 5.031 | 7.884 | 5.031 | 0.000 |
| 11. Unallocated | 4.043 | 0.000 | 4.043 | 0.000 | 0.000 |
| Total | 65.000 | 34.755 | 30.245 | 34.755 | 0.000 |

| | | | |
|----|------------------------|---------------------|-----------------|
| 9. | Local Costs (Financed) | <u>1765-INO(SF)</u> | <u>1766-INO</u> |
| - | Amount (\$ million) | 32.51 | 21.10 |
| - | Percent of Local Costs | 88.45 | 55.97 |
| - | Percent of Total Cost | 28.17 | 18.28 |

C. Project Data

1. Project Cost (\$ million)

| Cost | Appraisal Estimate | Actual |
|-----------------------|---------------------------|---------------|
| Foreign Exchange Cost | 45.53 | 21.03 |
| Local Currency Cost | 124.69 | 94.39 |
| Total | 170.22 | 115.42 |

2. Financing Plan (\$ million)

| Cost | Appraisal Estimate | Actual |
|-------------------------------|---------------------------|---------------|
| Implementation Costs | | |
| Borrower Financed | 55.22 | 40.78 |
| ADB Financed | | |
| Asian Development Fund | 47.68 | 39.37 |
| Ordinary Capital Resources | 51.44 | 29.08 |
| Total | 154.34 | 109.23 |
| IDC Costs and Service Charges | | |
| ADB Financed | | |
| Asian Development Fund | 2.32 | 0.51 |
| Ordinary Capital Resources | 13.56 | 5.68 |
| Total | 170.22 | 115.42 |

ADB = Asian Development Bank, IDC = interest during construction.

3. Cost Breakdown by Project Component (\$ million)

| Component | Appraisal Estimate | Actual |
|---|--------------------|----------------|
| A. Capacity Building for Decentralized Development Planning | 51.409 | 47.582 |
| B. Development of Rural Financing Institutions | 26.505 | 12.216 |
| C. Improvement of Rural Infrastructure | 29.826 | 39.818 |
| D. Project Management and Monitoring | 22.903 | 9.612 |
| Total Baseline Costs | 130.643 | 109.229 |
| Physical and Price Contingencies | 23.695 | 0.000 |
| Total Project Costs | 154.338 | 109.229 |
| IDC Costs and Service Charges | 15.883 | 6.191 |
| Total Costs | 170.221 | 115.420 |

IDC = interest during construction.

4. Project Schedule

| Item | Appraisal Estimate | Actual |
|---|--------------------|------------------|
| Date of Contract with Consultants | | |
| International Central Consultant Teams | III quarter 2001 | II quarter 2002 |
| Domestic Regional Consultant Teams | III quarter 2001 | II quarter 2003 |
| Part A: Capacity Building | | |
| Institutional Development | I quarter 2001 | III quarter 2002 |
| Human Resources Development | II quarter 2001 | III quarter 2003 |
| Village Grants Infrastructure | IV quarter 2001 | IV quarter 2003 |
| Part B: Rural Financial Institutions | | |
| Formation of Community-Based Loan and Savings Organizations | IV quarter 2002 | III quarter 2003 |
| Promoting Financial Services | I quarter 2002 | III quarter 2003 |
| Part C: Improvement of Rural Infrastructure | | |
| Date of First Civil Works Contracts | I quarter 2002 | III quarter 2003 |
| Completion of Works | IV quarter 2006 | III quarter 2007 |
| Part D: Project Management and Monitoring | I quarter 2001 | II quarter 2001 |

5. Project Performance Report Ratings

| Implementation Period | Ratings | |
|---|---------------------|-------------------------|
| | Impact Outcome | Implementation Progress |
| From 12 March 2001 to 30 September 2003 | Satisfactory | Satisfactory |
| From 1 October 2003 to 31 July 2004 | Satisfactory | Partly Satisfactory |
| From 1 August 2004 to 31 December 2004 | Satisfactory | Satisfactory |
| From 1 January 2005 to 30 June 2005 | Partly Satisfactory | Satisfactory |
| From 1 July 2005 to 31 January 2008 | Satisfactory | Satisfactory |

D. Data on Asian Development Bank Missions

| Name of Mission | Date | No. of Persons | No. of Person-Days | Specialization of Members ^a |
|--|------------------------------|----------------|--------------------|--|
| Inception | 24 January–7 February 2001 | 4 | 56 | a, b, c, d |
| Review 1 | 31 May–1 June 2001 | 1 | 2 | a |
| Review 2 | 2–19 April 2002 | 2 | 14 | a, e |
| Special Project Administration 1 | 15 October–3 November 2002 | 2 | 38 | f, g |
| Review 3 | 6–18 October 2003 | 3 | 36 | f, h |
| Review 4 | 15–24 December 2003 | 3 | 27 | d, i, j |
| Midterm Review | 26 November–15 December 2004 | 2 | 38 | f, d |
| Review 5 | 25 September–6 October 2005 | 2 | 22 | f, d |
| Review 6 | 24 May–16 June 2006 | 3 | 17 | d, k, f |
| Special Project Administration 2 | 4–12 October 2006 | 2 | 16 | f, k |
| Review 7 | 23 March–16 April 2007 | 2 | 48 | f, l |
| Special Project Administration 3 | 20–27 August 2007 | 2 | 14 | f, l |
| Project Completion Review ^b | 28 July–22 August 2008 | 3 | 36 | d, f, l |

^a a = principal agriculturist, b = assistant project analyst, c = project administration specialist, d = staff consultant, e = senior sector specialist, f = senior project officer, g = procurement officer, h = senior project implementation specialist, i = social development specialist, j = social safeguard analyst, k = project implementation specialist, l = environmental economist.

^b The project completion report was prepared by B. Alimov (environmental economist), P. P. Wardani (senior project officer), and D. Lucock (staff consultant).



08-4949-HR

I. PROJECT DESCRIPTION

1. On 19 October 2000, the Asian Development Bank (ADB) approved two loans to the Government of Indonesia: (i) SDR38.752 million (\$50.0 million) from its special funds resources, the Asian Development Fund (ADF); and (ii) \$65.0 million from its ordinary capital resources (OCR). These loans were to finance 68% of the total project cost of \$170.2 million for the Community Empowerment for Rural Development Project (the Project). An advisory technical assistance (TA) grant was approved in association with the loans to help the Government develop a system for disbursement, monitoring, and accounting of these funds in project districts to ensure accountability and transparency.¹

2. The overall project objective was to increase incomes of the poor, particularly in rural communities in peripheral areas of regional growth centers, by (i) empowering rural communities by building their capacity in the planning and management of development activities, and (ii) developing rural–urban links through rural infrastructure establishment and improvement to promote agricultural productivity and off-farm business enterprises. The Project included four components: (i) capacity building for decentralized development planning, (ii) development of rural financial institutions, (iii) improvement of rural infrastructure, and (iv) project management and monitoring. The project framework and outputs are in Appendix 1.

3. The Project was executed by the Directorate General of Community and Village Empowerment (DGCVE)² of the Ministry of Home Affairs.

4. The loans became effective on 12 March 2001 and were closed on 31 August 2008. The final loan amount was \$74.7 million, comprising \$34.8 million from OCR and SDR27.022 million (\$39.9 million) from the ADF. The Government's contribution amounted to \$40.8 million equivalent. At the Government's request, one loan cancellation of \$41.0 million, comprising \$27.0 million in OCR and SDR9.012 million (\$14.0 million) from the ADF, was made during implementation, and \$7.5 million was canceled at project completion. One loan extension of 2 months was granted to complete project works.

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

5. The Project was consistent with the Government's commitment to eradicate poverty as reflected in its National Development Program (PROPENAS 2001–2005). Key components of PROPENAS that address cross-cutting issues—e.g., economic recovery, good governance, infrastructure rehabilitation, regional autonomy through decentralization, poverty reduction, and women in development—were also foci of the Project. The Project reflected the provisions of two laws, No. 22/1999 on regional government and No. 25/1999 on fiscal balance, by supporting the country's decentralization process and devolution of implementation responsibilities to local governments.

6. The Project was consistent with the Government's development priority, which is reflected in the current National Medium-Term Development Plan of 2004–2009 (RPJM). This plan provides a strategic direction for the Government to follow in addressing poverty,

¹ ADB. 2000. *Report and Recommendation of the President to the Board of Directors on Proposed Loans and Technical Assistance Grant to the Republic of Indonesia for the Community Empowerment and Rural Development Project*. Manila (TA 3518-INO, \$1.4 million, approved on 19 October 2000).

² Formerly known as the Directorate General of Rural Community Empowerment.

incorporating key elements of the National Poverty Reduction Strategy (SNPK), and achieving the Millennium Development Goals. In addition, in implementing the SNPK and in response to increasing levels of poverty, the Government issued a poverty reduction action plan around the theme of increasing employment opportunities and accelerating poverty reduction. In April 2007, it formally launched the National Program for Community Empowerment (PNPM Mandiri)—covering all villages from 2008 to 2015—that aims to reduce poverty by promoting community participation in development planning and management and delivery of basic services, including infrastructure. The PNPM Mandiri's design incorporates lessons from recent community-driven development (CDD) projects and programs, including the Project, as well as integrates the highly successful CDD approach, which was a key and well-demonstrated feature of the Project.

7. The Project was fully consistent with ADB's country and sector strategy and contributed to achieving ADB and the Government's objective of reducing core poverty. In line with the country strategy at the time of appraisal, the Project promoted (i) increased beneficiary participation, (ii) enhanced capacity of local governments and strengthened community-based service delivery systems, and (iii) reduced gender disparity. Apart from directly creating employment and reducing rural poverty, the Project also played a pivotal role in empowering and preparing primarily poor rural communities to benefit from the ensuing decentralization of government.

8. The Project remained consistent with ADB's country strategy and program for Indonesia,³ which highlights the country's principal challenge of reducing poverty and eliminating the vulnerability of large sections of the population. The Project addressed principal challenges of poverty reduction identified in the country strategy and program, i.e., the lack of capacity of local governments and communities, and inadequate infrastructure in rural areas.

9. In response to a request from the Government, ADB provided two TA grants to DGCVE to build capacity for community development⁴ and poverty reduction,⁵ respectively. Subsequent discussions between the Government and ADB, however, resulted in an agreement to combine these two grants to formulate the Project. The Appraisal Mission was fielded from 5 to 26 June 2000, during which an agreement was reached on technical, financial, and organizational aspects of the Project.

10. The project goals, objectives, outputs, inputs, activities, and implementation arrangements were clearly documented and articulated. The project design incorporated lessons from the successful Presidential Instructions for Less Developed Villages (IDT) Program, implemented from 1994 to 1999 and supported by major development partners. The IDT Program supported infrastructure development and economic activities in targeted villages, benefitting 28,000 villages, 13 million people, and about half of those living below the poverty line in Indonesia. The IDT Program included direct grants, village infrastructure development, and technical guidance. Although it suffered from insufficient institutional support and a shortage of sustainable finances, its impact has been recognized.

11. The Project adopted a CDD approach, and its design was similar to the *Kecamatan* (subdistrict) Development Program (KDP), financed by the World Bank, the largest CDD operation in the world and predecessor to the PNPM Mandiri. The main difference between the

³ ADB. 2006. *Country Strategy and Program 2006–2009 Indonesia*. Manila.

⁴ ADB. 1997. *Technical Assistance to the Republic of Indonesia for the Capacity Building for Community Development Project*. Manila.

⁵ ADB. 1998. *Technical Assistance to the Republic of Indonesia for the Development of Urban–Rural Linkages Project*. Manila.

KDP and the Project was in the level of community engagement. While the Kecamatan Development Program had kecamatan-level coverage and allowed kecamatans to determine the allocation of block grants, the Project focused on poor villages and disbursed block grants directly to the village communities—a feature used in the Rural Infrastructure Support Project⁶ and its successor, the Rural Infrastructure Support to the PNPM Mandiri Project.⁷

12. The project design overestimated the financial capacity of districts and regional development banks (BPDs). During implementation, one major change was made in project scope to address these shortcomings. The December 2004 Midterm Review Mission recommended (i) changing the financing plan at appraisal to address the lack of counterpart funds, and (ii) canceling a \$15.0 million credit line by BPDs. Following a devastating earthquake and tsunami in Aceh and Nias on 26 December 2004, the Government and ADB agreed to downsize the Project's coverage from 750 villages envisaged at appraisal to 543 villages and to reallocate the resulting increased loan surplus to Aceh and Nias emergency assistance. Although the Government later agreed not to utilize this proposed reallocation of loan proceeds, a partial cancellation of \$41.0 million was approved by ADB in July 2005.

B. Project Outputs

13. The Project achieved outputs that were revised after the change of project scope in July 2005. The summary of key project achievements is in Appendix 1. The main observations and finding of this report, organized by project component, are given below.

1. Part A: Capacity Building for Decentralized Development Planning

14. The Project was designed to empower communities and to strengthen village and local officials' capacity under a decentralized framework. It aimed to support capacity building for communities and community institutions, local government workers (district-, kecamatan-, and village-level), and national and provincial officials, developing new skills needed to function effectively under the new administrative and financial setup of the decentralized government system. Empowerment was to be achieved through three subcomponents: (i) institutional development, (ii) human resources development, and (iii) provision of village grants to support community training programs.

a. Institutional Development

15. The Project was to (i) introduce a planning process, related training, and other institutional capacity-building activities to encourage and help communities develop and test community-based planning mechanisms (CBPMs) and to formulate and propose village development plans for project implementation unit (PIU) funding; (ii) establish intervillage community development working groups to facilitate and advocate development proposals that promoted links to neighboring villages for PIU funding; and (iii) undertake skills training for local government staff to enhance their capability to facilitate, monitor, and support local community development initiatives.

⁶ ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of Indonesia for the Rural Infrastructure Support Project*. Manila (Loan 2221-INO[SF], approved in December, for the equivalent of \$50 million).

⁷ ADB. 2008. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of Indonesia for the Rural Infrastructure Support to PNPM Mandiri Project*. Manila (Loan 2449-INO[SF], approved in September, for the equivalent of \$50 million).

16. CBPM groups, including women's groups, were established in all 543 project villages and incorporated into their regular activities. CBPM groups involved about 20,400 villagers, of whom 8,300 were female (40% against a target of 50%) and 9,400 considered as indigenous peoples. All villages formulated village development plans, and all project activities supported implementation of these plans.

b. Human Resources Development

17. The Project was to provide (i) formal degree training for selected DGCVE and local government staff concerned with community development, and (ii) short-term foreign comparative studies for selected government staff. The proportion of women trained was hoped to be at least 30% of the total for diplomas, 25% for the bachelor's degree program, and 20% for the master's degree program.

18. Out of 214 participants of the domestic bachelor's degree program, 213 graduated.⁸ Under the domestic master's degree program, all 249 participants completed their programs. Under the domestic diploma program, of 626 participants, 621 graduated.⁹ Thirty-one of 32 participants in an international master's degree program completed the program.¹⁰ In addition, short-term international comparative study programs were completed at the end of 2004. Table 1 provides a summary of the implementation of the human resources development subcomponent. The details of the formal education program are in Appendix 2. Apart from the international master's degree program, the number of female trainees substantially exceeded project targets.

Table 1: Status of Formal Education

| Item | Target | | Achievement | | |
|--|--------------|-------|--------------|-------|-----------|
| | Participants | Women | Participants | Women | Graduates |
| Diploma Degree | 626 | 30% | 626 | 34% | 621 |
| Domestic Bachelor's Degree | 214 | 25% | 214 | 43% | 213 |
| Domestic Master's Degree | 200 | 20% | 249 | 60% | 249 |
| International Master's Degree | 39 | 20% | 32 | 7% | 31 |
| Short-Term International Comparative Study | 90 | 20% | 90 | 20% | 90 |

Source: Directorate General of Community and Village Empowerment.

19. In assisting three esteemed local universities to develop curricula and to provide courses relating to community empowerment, the Project greatly advanced the progress and sustainability of village development. All participants in the formal education programs benefitted from their training and will influence local governments in facilitating village participation in planning, allocation, and use of resources. Graduates are not only working directly in community empowerment but also in related areas such as planning and gender development. The only drawback is the frequent reassignment of better-qualified personnel to other work areas. The use of operating manuals, however, somewhat mitigates this deficiency.

c. Village Grants

20. At the end of the capacity-building program, each community that successfully developed a village plan was provided with a one-time village grant. The grant was to finance a

⁸ One student failed the program.

⁹ Three students died, and two students failed.

¹⁰ One student failed the program.

specific rural infrastructure proposal identified in the village development plans and approved by the elected village council. The grant was expected to be about \$7,800 per village and included a portion (about 7.5%) to cover administration costs. Construction under a village grant was to be fully undertaken with villagers' labor, while the PIUs could assist the communities in purchasing materials.

21. All project villages received village grants and implemented targeted construction of small rural infrastructure. Construction was fully undertaken by the villagers, while the PIUs assisted them in purchasing materials. The Project allocated Rp24.53 billion (\$2.50 million) for village grant implementation in 543 villages, and community contribution amounted to an additional Rp2.30 billion (\$0.24 million). Village grants amounted to an average of \$6,019 per village against the target of \$7,800. The shortfall was due to inadequate local government funding prior to the 2005 change in project scope. The benefit of the village grants has been substantial; infrastructure developed through the grants provided a cost savings of almost 50% compared to similar civil works carried out by contractors, which is in line with findings of the KDP.¹¹ Furthermore, the grants enabled villagers to address physical constraints that they faced, thus leading to much higher returns on investment.

2. Part B: Development of Rural Financing Institutions

22. The Project was to support the formation of savings and loan organizations, encourage investments, and promote economic growth in poor rural communities. These goals were to be achieved through the following two subcomponents: (i) development of community-based savings and loan organizations (CBSLOs) and (ii) provision of financial services.

a. Development of Community-Based Savings and Loan Organizations

23. The Project, through its training program, sought to encourage communities to form community-based savings and loan organizations (CBSLOs) to mobilize savings, provide financial services among members, and manage small loans under the Project for enterprise investments. At appraisal, CBSLOs were expected to be established in all 750 villages assisted by the Project.

24. The Project established CBSLOs in all 543 project villages. These CBSLOs have more than 40,000 members, of whom 55% are women against a target of 50%. CBSLOs have mobilized Rp16.00 billion (\$1.63 million) in member savings and retained earnings out of operations. Cumulative loans have exceeded Rp48.00 billion (\$4.90 million), of which more than 90% were for investment, while outstanding loans amounted to Rp16.06 billion (\$1.64 million) at project completion. There is an average of 74 members per CBSLO against the appraisal estimate of 100. Had the credit line not been canceled, however, it is likely that CBSLO savings would have been less, and some CBSLOs could have become dependent on external financial assistance.

25. CBSLO lending promoted microenterprise development in primary production, processing, and trade and services. The Project envisaged that the poor would comprise at least 50% of CBSLO borrowers. Although no data were regularly collected concerning the participation of the poor, in surveyed CBSLOs, the proportion of poor ranged from 10% to 95%, with an average above 50%. More significantly, the proportion of poor households that became

¹¹ Torrens, Anthony. 2005. *Economic Impact Analysis of Kecamatan Development Program Infrastructure Projects*. Jakarta (final report, January).

CBSLO members (26%) was higher than for nonpoor households (21%). On average, the CBSLOs are servicing 25% of households—an impressive achievement after only 3–5 years of operations, indicating their widespread community support.

26. Based on project evaluation at completion, 426 CBSLOs were rated *healthy* and 117 *unhealthy*. Communities' concern over CBSLOs as cooperatives (thus following special laws on their operation) led to the low rate of CBSLO legalization—only 143 CBSLOs have obtained the legal status allowing them to access external credit. However, the issue of access to other sources of credit was partly resolved by the Project through establishment of CBSLO associations in each project district. Associations were formed as legal entities to act on behalf of nonlegal CBSLOs and also to carry out a range of other technical and financial CBSLO support functions. The establishment of these associations was not envisaged at appraisal as the BPDs, as lenders, were to exercise control over the CBSLOs. While all CBSLO associations are currently legalized, operational, and have access to credit from formal financial institutions, they still need to be strengthened. The objectives of the associations and their operating procedures require clarification and substantial improvement. In some districts, the CBSLO associations are taking scarce financial resources away from CBSLO members and adding another layer of cost to the CBSLO system, without providing any benefit.

b. Providing Financial Services

27. Each CBSLO was expected to serve as the new focal point for providing needed financial services to village members, which is currently still lacking. About \$15.0 million from the OCR loan proceeds was to be relented by the Ministry of Finance to six BPDs, which were to serve as executing banks for the credit. A BPD was to onlend to a CBSLO, which would then onlend to its members at market rates.

28. The financial analysis of the BPDs, done at appraisal, was not satisfactory. It did not take the effects of inflation and a depreciating rupiah exchange rate into account. The feasibility study stated that the overall annual growth in total BPD assets averaged 15.8% yet did not state that the inflation rate over the same period averaged 21.5% (based on the consumer price index [CPI]). Against the US dollar, the BPDs' total assets shrunk from \$381.2 million in 1995 to \$223.4 million at the end of 1999. Of greater concern was the decline in the loan portfolio from 1995 to 1999. Even in nominal terms, the decline was 4%, while against the CPI, it was 56%. It was stated that BPD deposit mobilization had been successful and that this indicated the BPDs' strength. The amount of deposits, expressed in US dollars or in real value, however, declined substantially from 1995 to 1999—by 25% against the CPI and 45% against the US dollar. For the banking sector as a whole, deposits increased by 33% against the CPI over the same period. On this criterion, the BPDs were not successful.

29. At appraisal, BPDs' financial conditions were assessed as satisfactory using CAMEL¹² indicators. However, any BPD that had any one of its five indicators assessed as *less than satisfactory* should not have been acceptable to the Project—especially when the two worst performing indicators related to asset quality and management. It is suggested that, at best, only two BPDs were viable candidates: South Kalimantan and Southeast Sulawesi.

¹² C = capital adequacy, A = asset quality, M = management, E = earning history, and L = liquidity. C is based on capital adequacy ratio, A on productive asset ratio and provision for loan loss, M on operational efficiency and other qualitative aspects of management, E on return on assets and return on equity, and L on net interbank ratio and loan-to-deposit ratio. There are four CAMEL ratings: (i) *good*, (ii) *satisfactory*, (iii) *less than satisfactory*, and (iv) *poor*.

30. The project design did not take into consideration the willingness of CBSLOs to obtain legal status and overestimated BPDs' willingness and capacity to deal with small community-based organizations. As a result, the \$15.0 million credit line to the CBSLOs was canceled in July 2005. The Government then committed to supporting the CBSLOs through a \$2.5 million provision for microcredit from district governments or local financing institutions. Not all district governments have provided this funding, which reached \$1.1 million at project completion, and only a few districts and provinces have provided funding to support training programs for the CBSLOs.

3. Part C: Improvement of Rural Infrastructure

31. The Project aimed to provide rural infrastructure to link poor communities to markets in growth centers and to support agricultural production and rural enterprises. The infrastructure facilities had to be selected using a participatory approach that considered the villages' needs or the common good for village clusters. Civil works to be constructed or rehabilitated could range from simple infrastructure, which can be carried out by the community, to more complex infrastructure, requiring heavy equipment and the services of licensed construction contractors. The latter type of infrastructure required the services of district government public works officials and the PIUs for investigations, survey, design, and technical specifications. In all cases, labor from the participating villages had to be utilized to generate employment and to strengthen the skills of beneficiaries in the operation and maintenance of completed infrastructure. Under a memorandum of agreement between each village and the PIU, routine maintenance of all completed infrastructure, except for the core subprojects, had to be completed by villagers.

32. A total of 1,547 kilometers (km) of rural roads and 126 bridges were constructed and/or rehabilitated under the Project, as compared to the appraisal target of 750 km and 105 bridges. Appraisal targets have, essentially, been exceeded, even though the number of villages was reduced. The majority of civil works was implemented with the communities' involvement. In fact, project communities formed operations and maintenance teams that were still operational at project completion. The demand for rural infrastructure was extensive, and the benefits, due largely to the selection of projects by the villages, were very high as reflected in the impact study.

4. Part D: Project Management and Monitoring

33. The Project provided administrative support, technical guidance, and monitoring and supervision related to project implementation, including establishment of a project performance monitoring system and use of consultants and nongovernment organization (NGO) district monitors for selected project activities. Procedures and instructions for project management at all levels of government were developed and followed. A project performance monitoring system was established and maintained during project implementation. The monitoring system, however, has not been maintained fully after project completion. Also, although it included all indicators identified in the project framework, the monitoring system lacked some additional monitoring indicators, such as numbers of poor households and poor members participating in the CBSLOs, which could have been useful in determining the Project's poverty targets.

C. Project Costs

34. At appraisal, the total project cost was estimated at \$170.22 million, comprising \$45.53 million in foreign currency and the equivalent of \$124.69 million in local currency. ADB was to finance the entire foreign exchange cost, plus \$69.47 million of the local currency cost, while the

Government was to finance the remaining local currency cost of \$55.22 million. The actual project cost at loan closing was \$115.42 million, comprising \$21.03 million in foreign exchange cost and \$94.39 million in local currency cost. ADB financed the entire foreign exchange cost and \$53.61 million of the local currency cost, while the Government covered the remaining \$40.78 million of local currency cost.

35. One partial loan cancellation totaling \$41.00 million, comprising \$27.00 million in OCR and SDR9.012 million (\$14.00 million) from the ADF, was made during implementation.¹³ The net OCR loan amount was \$34.76 million after the cancellation of the unused loan balance of \$3.21 million at loan closing. The net ADF loan was SDR27.022 million (\$39.89 million) after the cancellation of the unused balance of SDR2.719 million (\$4.33 million) at loan closing. Appendix 3 shows the actual comparison of appraisal and actual project costs by component.

D. Disbursements

36. A total amount of \$74.65 million—\$34.76 million in OCR and SDR27.022 million (\$39.89 million) from the ADF—was disbursed under the loan. An imprest account of \$1.50 million for the OCR loan and \$1.00 million for the ADF loan helped expedite disbursements. A yearly utilization of loan funds is shown in Appendix 4. The average turnover ratios of the imprest accounts were 4.06 under the ADF loan and 3.21 under the OCR loan. At 31 December 2007, the turnover ratios of the imprest accounts were 2.98 under the ADF loan and 3.36 under the OCR loan. Two statement of expenditures verification missions were conducted in September 2005 and October 2007. The missions found all verified expenditures to be substantiated. The Government's auditor also rendered an unqualified opinion on the audited imprest accounts for fiscal years 2003 to 2007.

37. Considering Indonesia's economic difficulties and fiscal constraints in the short to medium term, the Government requested at appraisal that, as an interim measure, ADB's share of project financing would be 80% of the project cost for the first 3 years of project implementation, decreased to 60% after the third year. However, the assumption that fiscal constraints would improve significantly within 3 years—especially with uncertainty due to the slow decentralization process—was overly optimistic. Thus, decreasing project financing after 3 years of project implementation led to district governments' inability to provide sufficient funds, causing a delay in project implementation. Only after reverting to the original project financing after the 2005 project restructuring did counterpart funding for the Project reach adequate levels. Project implementation, hence disbursements, then improved significantly in 2006–2007.

E. Project Schedule

38. The implementation schedule at appraisal envisaged project completion within 6 years, starting in 2001. The start of project implementation was deferred by about a year due to delays in project consultant and community facilitator recruitment. Although advance action for recruitment of consultants was approved by ADB, no advance action was taken by the Government. Project consultants were fielded only in May 2002, and appointment of district government coordinators did not occur until November 2002—an 18-month delay. A late release of counterpart funds at the beginning of project implementation also led to a delay in recruitment of community facilitators. A lack of counterpart funding in 2004 and 2005—due to changed financing arrangements—further delayed project implementation, which then improved greatly

¹³ The loan cancellation was made in July 2005 following a change in project scope and implementation arrangements.

after new financing arrangements resulting from the 2005 change in project scope took effect in 2006. At the Project's end, all project works were completed within original schedule. However, project works in six districts in Kalimantan were hampered by heavy rainfall in May and June 2007, causing flooding in some areas. Therefore, to complete project work in those areas, one loan extension of 2 months was granted. Appendix 5 compares the original schedule with the actual implementation of the major project activities.

39. ADB's Special Project Facilitator registered a complaint from the five villages of Kiram, Handil Baru, Kali Besar, Handil Negara, and Mandiangin Barat in South Kalimantan on 9 March 2005. After a review, the Special Project Facilitator confirmed the complaint's issues—of inadequately built infrastructure and poor information and participation in decision making—all stemmed from incorrect sequencing of project activities. Infrastructure activities in those villages began in 2003, prior to any consultations and trainings with the communities. The complaint was successfully resolved through the Special Project Facilitator in September 2005 by restarting the implementation of all planned project activities in proper sequence and correcting the few infrastructures built.

F. Implementation Arrangements

40. The project implementation arrangements were largely as envisaged at appraisal. The Project was executed by DGCVE. Each project district established a PIU and a district advisory group. Each province established a provincial advisory group and a provincial coordination office. At the national level, the overall coordination and administration of project activities was the responsibility of a project management office, while the countrywide project steering committee was responsible for addressing major policy issues affecting project implementation.

41. Although the project steering committee, district advisory groups, and provincial advisory groups were established in accordance with the original project schedule, they started functioning only at the end of the project implementation, mainly due to the slow implementation of the country's decentralization policy. The provincial and district advisory groups then became part of respective provincial and district PNPM Mandiri steering committees. The project organizational chart is in Appendix 6.

42. At appraisal, it was envisaged that six BPDs would serve as executing banks and implement the Project's credit subcomponent to support CBSLO microenterprise development under part B. The loan funds were to be relented by the Borrower to BPDs under subsidiary loan agreements. However, BPDs' lending to CBSLOs was never realized due to (i) BPDs' unwillingness to bear the credit risk without having direct control over the borrowers, (ii) CBSLOs' slow legalization process, and (iii) CBSLOs' low absorption capacity to utilize credit funds. As a result, during the project restructuring in July 2005, the credit component was canceled.

43. The Project was expected to assist 540 villages at the Project's start and then expand to 750 villages after the midterm evaluation. However, the Midterm Review Mission recommended against expansion for two reasons: (i) limited implementation capacity at local government levels to handle additional villages; and (ii) significant scale-up of the KDP, which started causing assistance overlap in some districts. Therefore, the Project assisted a total of 543 villages, since three were added to the Project's coverage in February 2006 at the request of the Government. The list of project districts is in Appendix 7.

G. Conditions and Covenants

44. Nineteen out of 21 loan covenants were complied with. One covenant on the microcredit onlending activity under part B was canceled after the 2005 project restructuring, and one covenant on importing goods under the Project was not applicable (Appendix 8). Although the provincial and district advisory groups were established at the beginning of project implementation, they only became fully operational at the later stages due to the country's slow decentralization process.

H. Related Technical Assistance

45. An advisory TA grant (3518-INO), for Financial Management Systems, was approved in association with the Project. The total cost of the TA grant was estimated at \$1.4 million, with \$1.1 million financed by ADB on a grant basis. The balance of \$0.3 million was to be financed by the Government. The objectives of the TA grant were to (i) develop, test, and set up the structure and administrative procedures for disbursing, monitoring, and accounting for funds for implementing the Project; and (ii) train district and village officials on the new financial management system for transparent accounting of project funds.

46. The TA grant was rated *less than satisfactory* as it did not fully achieve an envisaged fiscal management system, which was found to be too complex for the regions.¹⁴ However, the results of the TA grant were used in the development of the project performance monitoring system.

I. Consultant Recruitment and Procurement

47. The Project engaged a total of 205 person-months for international consultants (against 292 person-months estimated at appraisal) and 897 person-months for national consultants (against 818 person-months estimated at appraisal) in accordance with ADB's *Guidelines on the Use of Consultants*. All consultants were to be hired by June 2001, but the central consultant teams were not mobilized until May 2002 and the regional consultant teams until November 2002 for part D and July 2003 for parts A, B, and C. There were several reasons for the delays, including the Government's failure to take advance action, stating it was unfamiliar with ADB's requirements, and a misunderstanding over the bidding and ranking procedures to be followed in consultant selection.

48. Consultants were also recruited, as required, under four hiring packages, one each for parts A, B, C, and D. Since four separate consulting firms were hired under four separate contracts, coordination of all project activities was difficult. This was partly resolved after the 2005 change in project scope by nominating the team leader for part D as the overall consultant team leader and the leaders for other packages as coordinators. Although this arrangement was not consistent with the existence of separate contracts, it did improve coordination among project consultants. A better arrangement could have been either recruitment of one package or several geographical packages under one central team.

49. Facilitators engaged under the Project were subcontracted by project consultants in accordance with competitive selection criteria and procedures acceptable to ADB, as envisaged at appraisal. The Project engaged 663 CBPM facilitators for 543 villages for a period of 18

¹⁴ ADB. 2005. *Technical Assistance Completion Report on the Financial Management System*. Manila.

months each, 540 financial facilitators for 543 CBSLOs for an average period of 2 years, and 358 rural infrastructure facilitators for a period of 2 years.

50. The majority of civil works was implemented with involvement of communities, either through direct contracts for small works or by contractors for more complex works. Local contractors were engaged using local competitive bidding procedures acceptable to ADB. All supplies and equipment were procured in accordance with ADB's procurement guidelines.¹⁵ Vehicles and major equipment items (e.g., computers) were procured through international shopping. The procurement completed during project implementation followed the procurement plan prepared at appraisal.

J. Performance of Consultants, Contractors, and Suppliers

51. In general, the consultants performed satisfactorily and in accordance with their terms of reference. However, procurement of four different consulting packages resulted in poor coordination between them, although the package for part D was responsible for overall coordination. Only after appointment of a new team leader (the part D package leader) and staff changes in other packages at the beginning of 2006 did coordination between consultants improve significantly.

52. The performance of community facilitators was the most critical factor determining success of the Project, given its main objective of community empowerment. The relatively long engagement of community facilitators, as compared to other similar CDD projects, resulted in strong community organizations, active participation of communities in CBSLOs, and infrastructure implementation.

53. The performance of contractors and communities in civil works was satisfactory. Village infrastructure built directly by communities cost less than equivalent works built by contractors. Savings were due to the elimination of: (i) middlemen and outside contractors' overhead costs, (ii) double and triple handling of materials, (iii) frequent on-site design modifications, and (iv) extra charges for supervising projects in remote areas. These cost comparisons do not yet include voluntary community contributions, generally valued at 5% of total project costs. Also, operation and maintenance of facilities built through the community-based approach were found to be better compared to those of contractor-built infrastructures.

K. Performance of the Borrower and the Executing Agency

54. The performance of the Borrower and the Executing Agency is rated *satisfactory*. The Government established the necessary imprest account and generally met counterpart fund requirements. The lack of counterpart funds from participating districts during project implementation was mainly due to unfavorable financing arrangements, which were modified during the 2005 change in project scope. DGCVE, as the Executing Agency, met its responsibility for project implementation, coordination, and supervision. While at the beginning of its implementation, the Project suffered from incorrect sequencing of project activities, the Executing Agency responded well to the investigation by the Special Project Facilitator and corrected the associated issues in a timely manner.

¹⁵ ADB. 1999. *Guidelines for Procurement under Asian Development Bank Loans*. Manila; and ADB. 2004. *Guidelines for Procurement under Asian Development Bank Loans*. Manila.

L. Performance of the Asian Development Bank

55. ADB's performance is rated *satisfactory*. ADB monitored the Project closely from the start of implementation. It fielded 12 missions and took timely steps to solve problems during implementation. The project scope was revised after the Midterm Review Mission, which was fielded in accordance with original schedule. However, the project framework was not revised to reflect changes in project scope. The Project's reformulation in 2005 helped to speed up project implementation. In 2005, ADB promptly addressed a complaint from five villages about incorrect sequencing of project activities.

III. EVALUATION OF PERFORMANCE

A. Relevance

56. The Project is rated *highly relevant* in terms of consistency with ADB's country strategy and the Government's development objectives and remains so now. The 1997 financial crisis had led to an increase in rural poverty and a decline in expenditure on rural infrastructures. Past experience showed that the decentralization of decision making and the devolvement of resources directly to local governments led to increased benefits to local communities. In 1999, the Government passed laws to grant autonomy to district and village governments. The Project's support for (i) increasing community involvement in making decisions on the allocation of resources, (ii) enhancing the capacity of local government to better discern and respond to the needs of communities, (iii) improving the availability of financial services within rural communities, (iv) encouraging villagers' investment in rural income-generating activities, (v) improving rural infrastructures, and (vi) providing training programs to village communities were all interventions necessary for and leading to a sustainable program of poverty reduction within a decentralized framework. The lessons from the implementation of the Project were incorporated into the design of the ongoing PNPM Mandiri, whose objective is the same as the Project's—community empowerment.

B. Effectiveness in Achieving Outcome

57. The Project is rated as *effective* in achieving its outcome. It achieved the majority of its revised targets and significantly raised incomes of project communities. The Project benefited almost 160,000 households, and of those, 58,280 households moved out of poverty. The construction and improvement of infrastructure allow access to markets now on a daily basis, unlocking idle resources and raising household incomes to benefit all households. The choice of infrastructure by villages and their participation in construction led to lower costs, higher economic benefits, and satisfactory operations and maintenance by the villagers. Microenterprise investments, coupled with improved infrastructures, have allowed slack resources to come into play far more than envisaged at appraisal. The total job creation for the Project is estimated to be 55,000 man-years, compared to the estimates of 85,000 at appraisal and 61,540 following the reduction in the number of villages.

C. Efficiency in Achieving Outcome and Outputs

58. Project benefits include (i) improved performance of central and local governments; (ii) better access to credit of project beneficiaries; (iii) increased number of microenterprises; and (iv) improved infrastructure, which also stems from better operation and maintenance by beneficiaries. The base-case economic internal rate of return (EIRR) for the entire Project is estimated at 27.2%, which is higher than the opportunity cost of capital of 12% (Appendix 9). At

appraisal, the EIRR was estimated at 17.6%, but, in estimation, only project benefits from microenterprises were used. Thus, adding infrastructure benefits, the project completion review mission estimates are in line with the expected outcome at appraisal. It was also estimated that the average financial internal rate of return (FIRR) for microenterprise investment was in excess of 84% compared to the appraisal FIRR estimate of 45%. Much of the improvement was due to increased trading, which was not included in the analysis at appraisal. Trading was enabled firstly by much-improved infrastructures and, secondly, through financing by CBSLOs. An analysis of use of microcredit in a sample of CBSLOs indicates that borrowing for agricultural investment (47% of lending) had an FIRR of 79%, for trade and services (46% of lending) more than 100%, and for processing and industry (7% of lending) 91%. Consumer borrowing accounted for 5% of lending, and it is assumed that 10% of investment loans had no profitable outcome.

59. The Project's EIRR is in line with appraisal estimates, and the Project had an immediate impact on poverty reduction, thus implying efficiency of investment. Apart from an extension of 2 months due to flooding, the Project was completed within the original time frame, thus suggesting efficiency of process. Therefore, the Project is ranked as *efficient* in achievement of outputs and objective.

D. Preliminary Assessment of Sustainability

60. CBPM has become entrenched in village activities, and communities are far more aware of their rights and responsibilities in community development. Most civil works are being well-maintained by communities and local governments, and many CBSLOs are performing satisfactorily. In some districts, local government budget support is continuing for community infrastructures, their maintenance, and CBSLO association support and training. The cancellation of the \$15 million credit line led to a greater focus on savings within communities, thus enhancing community empowerment. District governments developed procedures to facilitate community involvement in planning and the allocation and use of resources, and three universities now provide courses relating to community empowerment for government and private sector trainees.

61. While CBSLOs are successfully operational, most CBSLO associations are not operating at the level of proper financial management and need additional guidance from formal financial institutions. Many CBSLOs are not properly accounting for their operations and are reporting late to their associations.

62. The ongoing countrywide PNPM Mandiri will reinforce the sustainability of community empowerment and community-based infrastructures. The success of CBSLO establishment under the Project led to a proposed CBSLO program in the PNPM Mandiri. In addition, some local governments continue their support to CBSLOs and plan to facilitate assistance from formal financial institutions to CBSLO associations. The sustainability of Project's benefits as originally envisaged is, therefore, *likely*.

E. Impact

63. The Project had a convincingly pro-poor impact, and its objective to increase incomes of the rural poor can be considered achieved. The Project served as a successful example of the CDD approach to poverty reduction through infrastructure development—an alternative to the KDP—and its lessons have been incorporated into the PNPM Mandiri. The Project also included capacity-building initiatives at the local government level and thus directly supported the

country's decentralization process. Relevant provincial and district institutions were strengthened by training provided under the Project. The Project also contributed to development of community empowerment curricula in local universities, thus establishing a base for sustainability of village development in the country.

64. The activities implemented under the Project adhere to ADB safeguard policies on the environment, indigenous peoples, and involuntary resettlement. The Project had minimal negative environmental impact and was rated as category B based on ADB's classification system. An initial environmental examination was prepared to assess two categories of activities likely to have potential environmental impact: (i) rural infrastructure construction, and (ii) activities related to operations of small and medium-sized enterprises assisted by the Project. Under the Project, environmental assessments were conducted for core subprojects and subprojects with a potential adverse environmental impact. All works funded were small-scale in nature, and any negative impact of immediate construction activities were both minor and temporary. Subsequent use of the provided infrastructure has led to a net positive environmental impact, because when properly used, the provided infrastructure is less environmentally damaging. Indigenous communities were active in project activities, with about 35% of project beneficiaries being considered as indigenous. Involuntary resettlement did not occur during project implementation. The Project screened every activity for potential land acquisition and followed ADB's policy on involuntary resettlement.

65. The Project has largely achieved the targets for the participation of women set out in the project design. The project performance monitoring system included comprehensive indicators on women's participation. A gender action plan was drawn up for the Project in February 2002 and was followed during implementation. The targets for women's participation in formal education were generally met. Women made up 40% of community members who participated in CPBM groups and 55% of CBSLO members. 43% of field facilitators employed by the Project were women.

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

66. The Project met the majority of its revised targets and achieved its immediate development objectives. It helped the country to reduce the poverty incidence to pre-crisis levels and was a successful example of the CDD approach to poverty reduction. In addition, the establishment of CBSLOs was an innovative alternative to traditional project-supported microcredit activities. Involvement of communities in infrastructure improvements strengthened the sense of community ownership and improved the likelihood of their sustainability.

67. The Project supported the country's decentralization process and promoted the concept of community participation in all aspects of decision making and implementation. Institutional restructuring, systems, and procedures have been adopted by the local and central governments, which ensure the longer-term sustainability and broader replication of community empowerment. Project communities have adopted and now implement procedures that allow the participation of poor households in making decisions on, and benefiting from, the use of community- and government-allocated resources. Established CBSLOs show self-sustainability and their ability to intermediate funds, leading to increased investment and household incomes.

68. The level of the Project's overall success largely depends on the sustainability of project investments. While the capacity of communities and local governments are expected to be

further strengthened under the PNPM Mandiri, further efforts from district and provincial governments are needed to ensure the sustainability and growth of CBSLOs.

69. Based on ADB's project performance rating assessment criteria, the Project is rated as *successful*.¹⁶

B. Lessons Learned

70. The following lessons were learned from the implementation of the Project.

- (i) The use of CBPMs encourages communities to make their choice of infrastructure and to participate in construction, thus greatly reducing infrastructure costs and raising economic rates of return. Villages also become more responsible for subsequent operation and maintenance.
- (ii) Consulting services must be packaged with a clear line of responsibility and with one overall team leader, who has a contractually clear coordinating mandate.
- (iii) Formal training of government staff is beneficial and is enhanced when linked to well-proven and documented procedural instructions. Formal training not only raises the productivity of staff but also acts as an incentive for improved performance. Longer-term appointments of staff to key positions would improve the benefits of topic-specific training.
- (iv) Community empowerment is a long process that needs to be supported continuously by live-in facilitators who address both social and technical matters.
- (v) The development of CBSLOs is especially useful in providing remote communities with small-scale savings and lending facilities that would not otherwise be available commercially. As a result, these CBSLOs mobilize idle cash for investment use. Such CBSLOs should be managed by their members at low cost. Upon reaching a certain scale of size, some CBSLOs could link with commercial financial institutions to improve their delivery of services to members.
- (vi) Establishment of new rural financial systems (such as CBSLO associations) requires substantial oversight following their initial start-up. Control and enforcement of compliance measures are necessary and should be part of project design. Links to formal financial institutions should involve careful evaluation of their financial capacity and willingness to deal with new rural financial systems.
- (vii) A subsidiary credit line should be used as an incentive for rural financial institutions to mobilize community resources and to improve their management. The stimulus of income-generating investments is not a sufficient reason on its own for a subsidiary credit line.
- (viii) The level of women's participation has significantly helped to achieve the Project's goal of raising real incomes of the rural poor. Women who previously earned little or nothing were able to access credit from CBSLOs to undertake entrepreneurial activities which has increased household income and in some cases led to very successful small businesses.

¹⁶ In accordance with ADB's *Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations* (2006), the overall project performance was rated based on the four core evaluation criteria (relevance, effectiveness, efficiency, and sustainability).

- (ix) Both women and men are more independent, self reliant, and empowered to realize their potential.

C. Recommendations

1. Project-Related

- (i) The district governments should facilitate assistance from formal financial institutions to CBSLO associations to help them ensure compliance with financial management and accounting standards.
- (ii) The Ministry of Home Affairs, with guidance from the PNPM Mandiri Oversight Body, should formulate a program in support of the PNPM Mandiri to promote CBSLO establishment countrywide. During formulation of a new program, the role of CBSLO associations should be revised and formal financial institutions be incorporated to support this process.
- (iii) District governments should continue their parallel assistance to the PNPM Mandiri on community empowerment. They need to agree on a minimum set of financial and training supports to be provided to communities to encourage continued use and development of CBPMs.
- (iv) While commercial loans to the better-performing CBSLOs will stimulate their growth and provide more investment funds for their rural communities, it is recommended that these loans not exceed the total of savings plus net worth held by a CBSLO or be less than 60% of the loan portfolio of a CBSLO—whichever the lesser amount is.
- (v) The project performance evaluation report should take place in 2012, when the PNPM Mandiri will enter in its final phase. That will provide a better picture of the capacity of local governments in implementation of CDD activities, status of community organizations, and likelihood of sustainability of the community infrastructure improvements funded by the Project.

2. General

71. The key lessons from the Project have already been incorporated in the PNPM Mandiri. The additional general recommendations for future CDD poverty reduction projects include the following.

- (i) Future CDD projects should consider establishing CBSLOs as an alternative to project-specific microcredit facilities.
- (ii) Community facilitators play a critical role in ensuring success of CDD projects. Thus, the careful selection, training, and long engagement of facilitators are recommended.
- (iii) The structure of consulting services should be carefully considered to ensure that clear channels of coordination exist between them.

PROJECT FRAMEWORK

| Design Summary | Performance Targets | Assumption and Risks | Accomplishments |
|--|---|---|---|
| <p>Goal (Impact)</p> <p>Rural poor's real incomes increased</p> | <p>425,000 people or 85,000 households increase their net incomes through expanded microenterprises and small-scale enterprises.</p> <p>370,000 people or 74,000 households move above poverty line.</p> <p>185,000 jobs are generated from project activities.</p> <p>550,000 persons or 110,000 households directly benefit through local government capacity building and employment in six provinces (4% of the total population).</p> <p>220,000 households in targeted 11 districts benefit from improved village infrastructure.</p> | <p>Institutional environment to strengthen rural–urban links is effectively developed.</p> | <p>Poverty reduction through promoting community participation in development planning and management and delivery of basic services, including infrastructure, continue as national priorities.</p> <p>The Project is in line with the National Program for Community Empowerment (PNPM Mandiri) launched in April 2007.</p> <p>About 58,280 households in 543 villages in 12 project districts moved above poverty line.</p> <p>About 45,940 permanent jobs were created from CBSLOs.</p> <p>About 45,400 households directly benefitted through capacity building.</p> <p>About 159,400 households in 12 districts benefitted from improved village infrastructures.</p> |
| <p>Purpose (Outcome)</p> <p>Rural communities empowered by strengthening their capacity to plan and manage their own development activities</p> <p>Investments supported, rural–urban links fostered, and rural infrastructure established to improve on-farm and off-farm productivity and to promote business enterprises</p> | <p>Communities and local governments are capable of implementing and supporting community development activities.</p> <p>Local communities are increasingly involved in decision making with their district government.</p> <p>Access to social and economic services among target communities is improved.</p> <p>Microenterprises and small-scale enterprises are assisted through investments in production, processing, and marketing activities.</p> | <p>Village development funds are provided.</p> <p>Decentralization process continues.</p> <p>Districts and communities agree to participate.</p> <p>Adequate financial monitoring mechanisms are implemented.</p> <p>Delivery of financial services by intermediaries is effective.</p> | <p>CBPMs have been established in all 543 project villages and incorporated in their regular activities.</p> <p>Improvement of village infrastructure allowed remote villages to take their produce to markets.</p> <p>Rural roads, bridges, jetties, village irrigation, water supply system, check dams, and village markets were constructed and/or rehabilitated.</p> |

| Design Summary | Performance Targets | Assumption and Risks | Accomplishments |
|--|---|--|---|
| | <p>Village infrastructure is improved, linking 750 rural villages to urban centers.</p> <p>Effective market information liaison office is established in 12 targeted districts.</p> | <p>Microenterprises and small-scale enterprises are competitive.</p> | |
| <p>Components/Outputs</p> <p>Part A: Capacity Building for Decentralized Planning</p> <p>(i) Institutional Development</p> | <p>CBPMs are established in 51 districts countrywide.</p> <p>39 officials receive overseas training, and 100 officials receive domestic master's degrees.</p> <p>518 officials receive domestic bachelor's degrees.</p> <p>1,116 officials receive domestic diplomas.</p> <p>Proportion of women trained is at least 30% for diplomas, 25% for bachelor's degrees, and 20% for master's degrees.</p> <p>90 officials conduct short-term comparative studies overseas.</p> <p>4,500 community leaders train in participatory planning and management skills.</p> | <p>Full support from district leaders is provided.</p> | <p>CBPMs established in 12 districts in Kalimantan and Sulawesi and piloted in 8 districts in Sumatra.</p> <p>31 officials received overseas master's degrees, and 249 officials received domestic master's degrees.</p> <p>213 officials received domestic bachelor's degrees.</p> <p>621 officials received domestic diplomas.</p> <p>About 34% women trained for diplomas, 43% for bachelor's degrees, 60% for domestic master's degrees, and 7% for overseas master's degrees.</p> <p>90 officials undertook short-term overseas comparative studies.</p> <p>3,258 community leaders trained in participatory planning and management skills.</p> |
| <p>(ii) Village Grants for Community Training Program</p> | <p>51 rural districts prepare annual plans and budgets and successfully implement rural infrastructure proposals.</p> | <p>Villages maintain full participation.</p> | <p>Twelve districts in Kalimantan and Sulawesi successfully prepared medium-term village development plans and received village grants on a priority basis.</p> |

| Design Summary | Performance Targets | Assumption and Risks | Accomplishments |
|--|--|--|---|
| <p>Part B: Rural Financial Institutions</p> <p>(i) Participatory Village Planning Process Implemented</p> <p>(ii) Financial Services Provided</p> | <p>2,250 village participants in 750 villages are trained to develop financially-viable microenterprise proposals.</p> <p>Savings are mobilized by microenterprise proposal proponents.</p> <p>Financial intermediaries and financial services are provided for small-scale enterprises.</p> <p>Small loans are disbursed to 750 CBSLOs for microenterprises.</p> | <p>Effective NGO facilitators are engaged.</p> | <p>40,018 CBSLO members in 543 project villages were trained to develop microenterprise proposals.</p> <p>Loans' ceilings in CBSLOs increased to accommodate higher request of borrowing.</p> |
| <p>Part C: Rural Infrastructure and Support Services Improved</p> | <p>750 km of village roads are constructed or rehabilitated.</p> <p>105 bridges are constructed or rehabilitated.</p> <p>95 village dock/jetty units are constructed or rehabilitated.</p> <p>8,900 ha of ground and surface irrigation/drainage are developed.</p> <p>12 small masonry dams are constructed.</p> <p>20 gabion structures are constructed.</p> <p>80 village markets are constructed.</p> <p>40 fish auction places are constructed.</p> <p>35 village infrastructures, e.g., piped water system, are constructed, and storage facilities are rehabilitated.</p> | <p>Suitable consultants are contracted.</p> | <p>The following were constructed or rehabilitated: 1,547 km of village roads, 126 bridges, 36 village dock/jetty units, 5 ha of irrigation systems, 2 small masonry dams, 2 gabion structures, 60 village markets, 8 fish auction places, 506 village infrastructures (e.g., water supply systems, village halls, elementary school buildings, rice stock buildings, drying floors, electric distribution lines, and CBSLO office buildings), and 2 Perusahaan Listrik Negara (PLN) electric grids.</p> |
| <p>Part D: Project Performance Management and Monitoring</p> | <p>Project management information system established: parts A, B, and C are effectively implemented.</p> | | <p>All parts effectively implemented.</p> |

| Design Summary | Performance Targets | Assumption and Risks | Accomplishments |
|---|---|--|--|
| Activities | | | |
| Capacity Building for Decentralized Development Planning | <p>Minimum of 50% women benefit from community training.</p> | | <p>38% of 306,959 beneficiaries in community training were women.</p> |
| | <p>Half of the NGO facilitators employed are women.</p> | | <p>43% of facilitators employed were women.</p> |
| | <p>At least two thirds of trainees benefited by community training are poor.</p> | | <p>26% of trainees were poor.</p> |
| (i) Institutional Development | | | |
| <p>Prepare training program and operating procedures</p> | <p>\$24.1 million, consulting services, office and training equipment, training workshops.</p> | <p>Suitable consultants are contracted.</p> | <p>Part A engaged 70.85 person-months of international consultants,</p> |
| <p>Hire trainers and facilitators</p> | | <p>Suitable counterparts and facilitators are available.</p> | <p>190.00 person-months of domestic consultants, and 8,859 facilitators.</p> |
| <p>Conduct village surveys</p> | | | |
| <p>Set up community-based planning mechanism</p> | | | <p>Part B engaged 44.69 person-months of international consultants,</p> |
| <p>Set up management information system</p> | | | <p>228.42 person-months of domestic consultants, and 7,305 person-months of facilitators.</p> |
| (ii) Human Resources Development | | | |
| <p>Select and send candidates for training program and overseas education</p> | <p>\$8.1 million, consulting services, equipment, in-country study tours, overseas training and education</p> | | <p>Part C engaged 18.00 person-months of international consultants,</p> |
| <p>Train trainers</p> | | | <p>251.00 person-months of domestic consultants, and 5,177 facilitators.</p> |
| <p>Train communities and officials in using CBPM</p> | | | <p>Part D engaged 71.17 person-months of international consultants,</p> |
| | | | <p>227.44 person-months of domestic consultants, and 562 person-months of facilitators.</p> |
| | | | <p>872 communities and officials trained in CBPM.</p> |
| (iii) Village Grants to Support Training Program | | | |
| <p>Develop criteria and protocol for block grants</p> | <p>\$19.2 million, village grants channeled as special grants from the government to local governments.</p> | | <p>Each community that successfully developed a village plan was provided with a one-time village grant of average \$6,019.</p> |
| <p>Approve and implement village infrastructure proposals</p> | | | <p>The Project provided Rp24.53 billion for village grants in 543 villages with community contribution amounting to an additional Rp2.3 billion.</p> |

| Design Summary | Performance Targets | Assumption and Risks | Accomplishments |
|--|--|--|--|
| <p>Development of Rural Financial Institutions</p> <p>(i) Formation of CBSLOs</p> <p>Prepare training manuals</p> <p>Hold workshops and apply rural appraisal and rapid appraisal methodology to encourage villagers to form savings and loan groups</p> <p>Select and deploy consultants and NGO facilitators</p> <p>(ii) Promoting Financial Services</p> <p>Identify and set up suitable financial intermediaries (credit unions or NGOs)</p> <p>Train village savings and loan groups in financial services delivery and management</p> <p>Disburse loans to village savings and loan groups and microenterprise cooperatives</p> | <p>A minimum of 50% women benefit from CBSLO training.</p> <p>At least two thirds of the trainees benefiting from CBSLO and microenterprise training are poor.</p> <p>At least two thirds of the total borrowers from CBSLOs are from poor households.</p> <p>At least half of CBSLO members are women, and half of the borrowers are women.</p> <p>\$11.5 million</p> <p>\$15.0 million</p> | <p>Interest rates are at market rates.</p> | <p>The community received substantial benefits from grants as the infrastructure developed provided a cost savings of almost 50% compared to similar civil works carried out by contractors.</p> <p>55% of those benefiting from CBSLO training were women.</p> <p>26% of trainees were from poor households.</p> <p>More than 65% of borrowers were women.</p> <p>543 CBSLOs established are composed of 40,018 members. The number of members continues to grow.</p> <p>The management personnel of the 543 CBSLOs were trained in savings and loan management and services delivery.</p> <p>143 CBSLOs obtained legal status enabling them to borrow from local financial institutions.</p> |

| Design Summary | Performance Targets | Assumption and Risks | Accomplishments |
|---|--|--|---|
| <p>Improvement of Rural Infrastructure and Support Services</p> <p>Design civil works based on village plans.</p> <p>Construct civil works.</p> <p>Train for operation and maintenance of constructed infrastructure.</p> <p>Provide funding for village self-help civil works construction.</p> | \$29.8 million, local competitive bids | Counterpart funds are available. | <p>The following were constructed or rehabilitated: 1,547 km of village roads, 126 bridges, 36 village dock/jetty units, 5 ha of irrigation systems, 2 small masonry dams, 2 gabion structures, 60 village markets, 8 fish auction places, 506 village infrastructures (water supply systems, village halls, elementary school buildings, rice stock buildings, drying floors, electric distribution lines, and CBSLO office buildings), and 2 Perusahaan Listrik Negara (PLN) electric grids.</p> <p>731 memoranda of agreement between project implementation units and village organizations were issued. These served as commitments by the communities to contribute to operation and maintenance.</p> |
| <p>Project Management and Monitoring</p> <p>Set up project management</p> <p>Deploy counterpart staff</p> <p>Select and deploy consultants</p> | \$22.9 million, consulting services, equipment and furniture, surveys and studies, operation and maintenance, incremental management staff honoraria | Counterpart staff members are qualified. | |

CBPM = community-based development planning mechanism, CBSLO = community-based savings and loan organization, ha= hectare, km = kilometer, NGO = nongovernment organization.

Table A2.1: Formal Education Program

| Degree | Target No. of Participants | Achievement | | | |
|--|-------------------------------|-------------|------------|------------|--------------|
| | | Batch 1 | Batch 2 | Batch 3 | Total |
| Diploma 1 | 0 | 235 | 218 | 121 | 572 |
| Diploma 4 | 1,116 | 47 | 0 | 0 | 47 |
| Bachelor Degree (S1) | 518 | 145 | 68 | 0 | 213 |
| Domestic Master's Degree (S2) | 100 | 100 | 100 | 49 | 249 |
| International Masters Degree | 39 | 15 | 16 | 0 | 31 |
| Short-Term International Comparative Studies | 90 | 30 | 30 | 30 | 90 |
| Total | 1,863 | 572 | 432 | 200 | 1,202 |

S1 = strata 1 (bachelor degree), S2 = strata 2 (master's degree).

Note: Three students under diploma 4 program died, and two students failed their diploma 1 programs.

Source: Directorate General of Community and Village Empowerment.

Table A2.2: Implementation of Diploma 1 Program

| University | District | From Each District | No. of Participant | | | | Study Completion Date | | | Graduated | |
|--------------|-------------------|--------------------------|--------------------|------------|------------|------------|-----------------------|---------|---------|------------------|------------|
| | | | Batch 1 | Batch 2 | Batch 3 | Total | Batch 1 | Batch 2 | Batch 3 | Total | % |
| Unmul | Pasir | 3 | | | | | | | | | |
| | Malinau | 47 | | | | | | | | | |
| | Subtotal (A) | 50 | 29 | 21 | 0 | 50 | Jun 05 | Oct 05 | Aug 06 | 50 | 100 |
| Unlam | Kapuas | 22 | | | | | | | | | |
| | Barito Selatan | 64 | | | | | | | | | |
| | Banjar | 58 | | | | | | | | | |
| | Tanah Laut | 42 | | | | | | | | | |
| | Subtotal (B) | 186 | 58 | 42 | 86 | 186 | Apr 04 | Apr 04 | Dec 05 | 186 | 100 |
| Unsrat | Minahasa | 76 | | | | | | | | | |
| | Bolaang Mongondow | 24 | | | | | | | | | |
| | Subtotal (C) | 100 | 30 | 35 | 35 | 100 | Jun 05 | Oct 05 | Dec 05 | 100 | 100 |
| Untad | Donggala | 82 | | | | | | | | | |
| | Poso | 38 | | | | | | | | | |
| | Subtotal (D) | 120 | 60 | 60 | 0 | 120 | Jun 05 | Oct 05 | | 118 ^a | 98 |
| Unhalu | Konawe | 60 | | | | | | | | | |
| | Konawe Selatan | 60 | | | | | | | | | |
| | Subtotal (E) | 120 | 60 | 60 | 0 | 120 | Jun 05 | Oct 05 | | 120 | 100 |
| Total | | | 237 | 218 | 121 | 576 | | | | 574 | 100 |

^a Two students failed.

Source: Directorate General of Community and Village Empowerment.

Table A2.3: Implementation of Domestic Diploma 4 and Formal Degree Education

| University | Specialization | No. of Participants | | | | Study Period | | | Graduated | |
|------------------------------|---|---------------------|------------|-----------|------------|--------------|-----------|--------|------------|-----------|
| | | Batch 1 | Batch 2 | Batch 3 | Total | month | Batch End | | Total | % |
| | | | | | | | 1 | 2 | | |
| Universitas Gajah Mada | S-1 Rural Financial Management | 100 | 54 | 0 | 154 | 36 | Dec 05 | Dec 06 | 151 | 98 |
| | S1-Regional Development Administration | 15 | 15 | 0 | 30 | 24 | Dec 04 | Dec 05 | 30 | 100 |
| | S2-Rural Economy | 27 | 19 | 0 | 46 | 19 | Jul 04 | Jul 05 | 46 | 100 |
| | S2-Regional Autonomy Policy & Management | 15 | 23 | 0 | 38 | 19 | Jul 04 | Jul 05 | 37 | 97 |
| | S2-Regional Development Planning | 16 | 18 | 0 | 34 | 16 | Apr 04 | Apr 05 | 33 | 97 |
| Institute Technology Bandung | D-4 Rural Development Management | 50 | 0 | 0 | 50 | 50 | Feb 07 | | 47 | 94 |
| | S-2 Rural Development | 20 | 20 | 0 | 40 | 26 | Feb 05 | Feb 06 | 40 | 100 |
| Institute Pertanian Bogor | S1-Community Development & Communication | 30 | 0 | 0 | 30 | 30 | Jun 04 | | 29 | 97 |
| | S2-Rural Community Development Management | 20 | 22 | 0 | 42 | 14 | Feb 04 | Feb 05 | 41 | 98 |
| Universitas Brawijaya | S2-Community Empowerment | 0 | 0 | 50 | 50 | 13 | | May 07 | 50 | 100 |
| | Total | 293 | 171 | 50 | 514 | | | | 504 | 98 |

S1 = strata 1 (bachelor degree); S2 = strata 2 (master's degree).

Source: Directorate General of Community and Village Empowerment.

Table A2.4: Implementation of International Masters Degree Education at La Trobe University, Australia

| Origin | No. of Candidates | No. of Participants Selected to Join English Course | | Selected Participants | | Total |
|-----------------------------|-------------------|---|-----------|-----------------------|-----------|-----------|
| | | Batch 1 ^a | Batch 2 | Batch 1 | Batch 2 | |
| | | | | | | |
| East Kalimantan Province | 3 | 1 | 0 | 1 | 0 | 1 |
| Central Kalimantan Province | 13 | 1 | 1 | 1 | 0 | 1 |
| South Kalimantan Province | 8 | 0 | 3 | 0 | 3 | 3 |
| North Sulawesi Province | 15 | 0 | 0 | 0 | 0 | 0 |
| Central Sulawesi Province | 31 | 0 | 0 | 0 | 0 | 0 |
| Southeast Sulawesi Province | 14 | 0 | 4 | 0 | 3 | 3 |
| Ministry of Home Affairs | 34 | 13 | 16 | 13 | 11 | 24 |
| Total | 118 | 15 | 24 | 15 | 17 | 32 |
| Graduated | | | | 14 | 17 | 31 |

^a One student in batch 1 failed the program.

Source: Directorate General of Community and Village Empowerment .

SUMMARY OF PROJECT COST
(\$ million)

| Component | Appraisal Estimate | | | Actual | | |
|--|--------------------|----------------|----------------|---------------|---------------|----------------|
| | Foreign | Local | Total | Foreign | Local | Total |
| A. Capacity Building for Decentralized Development Planning | | | | | | |
| 1. Institutional Development | 2,090 | 26,863 | 28,953 | 628 | 32,114 | 32,771 |
| 2. Human Resources Development | 2,982 | 6,611 | 9,593 | 2,982 | 5,830 | 8,812 |
| 3. Village Grant (Community Rural Infrastructure) | 7,045 | 16,438 | 23,483 | 1,636 | 4,363 | 5,999 |
| Subtotal (A) | 12,117 | 49,912 | 62,029 | 5,246 | 42,307 | 47,582 |
| B. Development of Rural Financial Institutions | | | | | | |
| 1. Development of CBSLOs | 1,164 | 12,370 | 13,534 | 1,581 | 10,634 | 12,216 |
| 2. Credit | 0 | 15,000 | 15,000 | 0 | 0 | 0 |
| Subtotal (B) | 1,164 | 27,370 | 28,534 | 1,581 | 10,634 | 12,216 |
| C. Improvement of Rural Infrastructure | | | | | | |
| Subtotal (C) | 9,788 | 26,899 | 36,687 | 6,692 | 33,127 | 39,818 |
| D. Project management and Monitoring | | | | | | |
| Total Base Costs | 29,647 | 124,691 | 154,338 | 14,835 | 94,394 | 109,229 |
| E. Fees and Interest Charges | | | | | | |
| 1. OCR-Front-end Fee | 650 | 0 | 650 | 650 | 0 | 650 |
| 2. OCR-Commitment Fee | 653 | 0 | 653 | 5,031 | 0 | 5,031 |
| 3. OCR-Interest Charges | 12,262 | 0 | 12,262 | 0 | 0 | 0 |
| 4. ADF-Interest Charges | 2,318 | 0 | 2,318 | 510 | 0 | 510 |
| Subtotal (D) | 15,883 | 0 | 15,883 | 6,191 | 0 | 6,191 |
| Total | 45,530 | 124,691 | 170,221 | 21,026 | 94,394 | 115,420 |

ADF = Asian Development Fund, CBSLO = community-based loan and saving organization, DGCVE = General of Community and Village Empowerment, LFIS= loan financial information system, OCR=ordinary capital resources.

Source: DGCVE's Project Cost File and ADB's LFIS.

UTILIZATION OF LOAN FUNDS

Annual Disbursement

(\$)

| Year | Loan 1765-INO(SF) | | Loan 1766-INO | | Total | | % of Actual Disbursement |
|--------------|-------------------|----------------------|-------------------|----------------------|-------------------|----------------------|--------------------------------|
| | Actual | Actual Cumulative | Actual | Actual Cumulative | Actual | Actual Cumulative | |
| 2001 | 0 | 0 | 2,228,365 | 2,228,365 | 2,228,365 | 2,228,365 | 3 |
| 2002 | 1,000,000 | 1,000,000 | 2,968,240 | 5,196,605 | 3,968,240 | 6,196,605 | 5 |
| 2003 | 2,496,108 | 3,496,108 | 5,257,484 | 10,454,089 | 7,753,592 | 13,950,197 | 10 |
| 2004 | 5,273,839 | 8,769,947 | 5,369,374 | 15,823,463 | 10,643,213 | 24,593,410 | 14 |
| 2005 | 9,316,208 | 18,086,155 | 7,735,472 | 23,558,935 | 17,051,680 | 41,645,090 | 23 |
| 2006 | 10,571,006 | 28,657,161 | 5,594,734 | 29,153,669 | 16,165,740 | 57,810,830 | 22 |
| 2007 | 11,228,767 | 39,885,928 | 5,601,819 | 34,755,488 | 16,830,586 | 74,641,416 | 23 |
| Total | 39,885,928 | 39,885,928 | 34,755,488 | 34,755,488 | 74,641,416 | 74,641,416 | 100 |

ADB = Asian Development Bank, INO = Indonesia; SF = special fund.

Source: ADB's loan financial information system.

PROJECT IMPLEMENTATION SCHEDULE

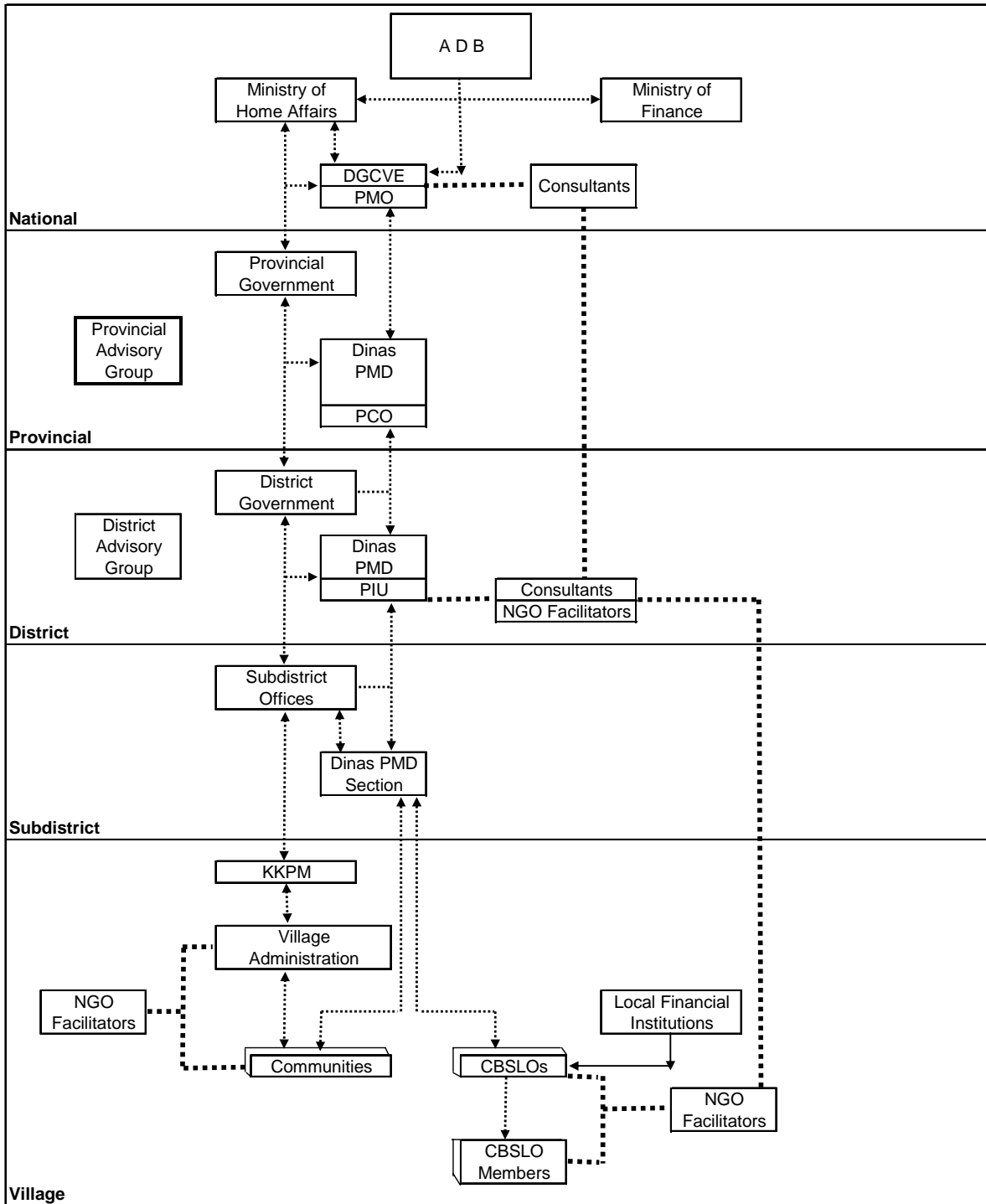
| Activity/Component | Year 2000 | | 2001 | | | | 2002 | | | | 2003 | | | | 2004 | | | | 2005 | | | | 2006 | | | | 2007 | | |
|--|-----------|--|------|---|---|---|------|---|---|---|------|---|---|---|------|---|---|---|------|---|---|---|------|---|---|---|------|---|---|
| | Quarter | | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 | 1 | 2 | 3 |
| A. Advance Action on Consultant Selection | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1. Nominate project managers at PMO, PCOs, and PIUs | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2. Submit invitation letter, terms of references, and shortlist of consultants | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| B. Part A: Capacity Building | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1. Institutional Development | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| a. Prepare training program | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| b. Engage trainers and facilitators | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| c. Train facilitators | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| d. Conduct orientation workshops and training for DGCVE staff | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| e. Conduct village surveys | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| f. Set up community-based planning mechanism | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2. Human Resource Development | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| a. Select and send candidates for diploma and degree training | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| i. Overseas short-term comparative study | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ii. Diploma training | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| iii. Domestic formal degree education | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| iv. Overseas formal degree education | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3. Village Grant for Infrastructure | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| a. Develop criteria and protocol for village grants | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| b. Approve and implement infrastructure proposal | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C. Part B: Rural Financial Institutions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1. Formation of CBSLOs | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| a. Prepare training programs | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| b. Engage trainers and facilitators | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| c. Train facilitators | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| d. Train CBSLO members and officials | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| e. Register CBSLOs | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2. Promoting Financial Services | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| a. Train CBSLOs in financial services delivery/management | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| b. Conduct savings and loan activities | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| c. Disburse credit from BPD for enterprise development | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| D. Part C: Improvement of Rural Infrastructure | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| a. Approve and undertake infrastructure proposals | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| b. Design civil works based on village plans | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| c. Finalize contracts and construct types I and II civil works | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| d. Provide funding for self-help civil works construction | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| e. Training for O&M of completed infrastructure | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| E. Part D: Project Management and Monitoring | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| a. Set up and operationalize project management system | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| b. Select and mobilize teams of international and domestic consultants | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| a. Mobilization of International Central Consultant Team | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| b. Mobilization of Regional Consultant Teams | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| c. Deploy counterpart staff | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| d. Select and deploy local technician partners | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| e. Operationalize MIS for the Project | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| f. Conduct project midterm review | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

BPD = regional development bank, CBSLO = community-based savings and loan organization, DGCVE = Directorate General of Community and Village Empowerment, MIS = management information system, O&M = maintenance, PCO = project coordination office, PIU = project implementation unit, PMO = project management office.

■ Original
 ■ Actual

Source: Directorate General of Community and Village Empowerment.

PROJECT ORGANIZATION CHART



ADB = Asian Development Bank, CBSLO = community-based savings and loan organization, DGCVE = Directorate General of Community and Village Empowerment, Dinas PMD = district technical agency for village community development, KKPM = Kelompok Kerja Pembangunan Masyarakat (intervillage community working groups), NGO = nongovernment organization, PCO = project coordination office, PIU = project implementation unit, PMD = pemberdayaan masyarakat desa.

.....> Communications
 ——> Credit
 Technical Assistance

Source: Directorate General of Community and Village Empowerment.

LIST OF PROJECT DISTRICTS

| Province | District | Number of Subdistricts | Number of Villages |
|-----------------------|---------------------|------------------------|--------------------|
| 1. Central Kalimantan | 1. Barito Selatan | 6 | 48 |
| | 2. Kapuas | 6 | 48 |
| 2. East Kalimantan | 1. Pasir | 6 | 49 |
| | 2. Malinau | 5 | 30 |
| 3. South Kalimantan | 1. Tanah Laut | 5 | 48 |
| | 2. Banjar | 9 | 48 |
| 4. Central Sulawesi | 1. Donggala | 6 | 50 |
| | 2. Poso | 5 | 48 |
| 5. North Sulawesi | 1. Minahasa | 7 | 48 |
| | 2. Bolmong Mongondo | 7 | 48 |
| 6. Southeast Sulawesi | 1. Kendari | 8 | 48 |
| | 2. Konawe Selatan | 6 | 30 |
| Total | | 76 | 543 |

Source: Directorate General of Community and Village Empowerment.

STATUS AND COMPLIANCE WITH LOAN COVENANTS

| Covenant | Responsible Agency | Status of Compliance |
|--|---|---|
| 1. The Borrower shall cause the Project to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental, institutional, human resources, microfinance and rural infrastructure development practices. (Section 4.01(a)) | Directorate General for Community and Village Empowerment (DGCVE) | Complied with. |
| 2. The Borrower shall make available, promptly as needed, the funds, facilities, services, land and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Project and for the operation and maintenance of the Project facilities. (Section 4.02) | DGCVE | Complied with. District and national budgets improved significantly after the restructuring of the Project in July 2005. |
| 3. In the carrying out of the Project, the Borrower shall cause competent and qualified consultants and contractors, acceptable to the Borrower and the Bank, to be employed to an extent and upon terms and conditions satisfactory to the Borrower and the Bank. (Section 4.03(a)) | DGCVE | Complied with. Consultants for Parts A, B, C, and D mobilized in 2002. |
| 4. The Borrower shall cause the Project to be carried out in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to the Borrower and the Bank. The Borrower shall furnish, or cause to be furnished, to the Bank, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as the Bank shall reasonably request. (Section 4.03(b)) | DGCVE | Complied with, This is applicable to civil works for core subprojects only. |
| 5. The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures. (Section 4.04) | DGCVE | Complied with. |
| 6. The Borrower shall make arrangements satisfactory to the Bank for insurance of the project facilities to such extent and against such risks and in such amounts as shall be consistent with sound practice. (Section 4.05(a)) | DGCVE | Complied with. |

| Covenant | Responsible Agency | Status of Compliance | | | | | | | | | | | | | | | | |
|---|---|---|--------------------|----------------------|------|-------------|------|-------------|------|-------------|------|-------------|------|-------------|------|-------------|------|-------------|
| <p>7. Without limiting the generality of the foregoing, the Borrower undertakes to insure, or cause to be insured, the goods to be imported for the Project and to be financed out of the proceeds of the Loan against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such goods. (Section 4.05(b))</p> | <p>Project Management Office (PMO), Provincial Coordination Office (PCOs), and Project Implementation Units (PIUs).</p> | <p>Complied with. There has been no import of goods under the Project.</p> | | | | | | | | | | | | | | | | |
| <p>8. The Borrower shall maintain, or cause to be maintained, records and accounts adequate to identify the goods and services and other items of expenditure financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, the operations and financial condition of the agencies of the Borrower responsible for the carrying out of the Project and operation of the Project facilities, or any part thereof. (Section 4.06(a))</p> | <p>PMO</p> | <p>Complied with.</p> | | | | | | | | | | | | | | | | |
| <p>9. The Borrower shall (i) maintain, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to the Bank; (iii) furnish to the Bank, as soon as available but in any event not later than nine months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto including the auditors' opinion on the use of the Loan proceeds and compliance with the covenants of this Loan Agreement as well as on the use of the procedures for imprest account/statement of expenditures), all in the English language; and (iv) furnish to the Bank such other information concerning such accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request. (Section 4.06(b))</p> | <p>PMO</p> | <p>Complied with. Submission of audited financial reports:</p> <table border="1"> <thead> <tr> <th data-bbox="1109 1150 1235 1176"><u>Fiscal Year</u></th> <th data-bbox="1268 1150 1430 1176"><u>Received Date</u></th> </tr> </thead> <tbody> <tr> <td data-bbox="1109 1178 1166 1203">2001</td> <td data-bbox="1268 1178 1406 1203">20 Feb 2003</td> </tr> <tr> <td data-bbox="1109 1205 1166 1230">2002</td> <td data-bbox="1268 1205 1406 1230">11 Oct 2004</td> </tr> <tr> <td data-bbox="1109 1232 1166 1257">2003</td> <td data-bbox="1268 1232 1414 1257">30 Sep 2004</td> </tr> <tr> <td data-bbox="1109 1260 1166 1285">2004</td> <td data-bbox="1268 1260 1414 1285">30 Sep 2005</td> </tr> <tr> <td data-bbox="1109 1287 1166 1312">2005</td> <td data-bbox="1268 1287 1414 1312">29 Sep 2006</td> </tr> <tr> <td data-bbox="1109 1314 1166 1339">2006</td> <td data-bbox="1268 1314 1414 1339">28 Sep 2007</td> </tr> <tr> <td data-bbox="1109 1341 1166 1367">2007</td> <td data-bbox="1268 1341 1414 1367">15 Jan 2008</td> </tr> </tbody> </table> | <u>Fiscal Year</u> | <u>Received Date</u> | 2001 | 20 Feb 2003 | 2002 | 11 Oct 2004 | 2003 | 30 Sep 2004 | 2004 | 30 Sep 2005 | 2005 | 29 Sep 2006 | 2006 | 28 Sep 2007 | 2007 | 15 Jan 2008 |
| <u>Fiscal Year</u> | <u>Received Date</u> | | | | | | | | | | | | | | | | | |
| 2001 | 20 Feb 2003 | | | | | | | | | | | | | | | | | |
| 2002 | 11 Oct 2004 | | | | | | | | | | | | | | | | | |
| 2003 | 30 Sep 2004 | | | | | | | | | | | | | | | | | |
| 2004 | 30 Sep 2005 | | | | | | | | | | | | | | | | | |
| 2005 | 29 Sep 2006 | | | | | | | | | | | | | | | | | |
| 2006 | 28 Sep 2007 | | | | | | | | | | | | | | | | | |
| 2007 | 15 Jan 2008 | | | | | | | | | | | | | | | | | |

| Covenant | Responsible Agency | Status of Compliance |
|--|--------------------|--|
| 10. The Borrower shall enable the Bank, upon the Bank's request, to discuss the Borrower's financial statements for the Project and its financial affairs related to the Project from time to time with the Borrower's auditors, and shall authorize and require any representative of such auditors to participate in provided that any such discussion shall be conducted only in the presence of an authorized officer of the Borrower unless the Borrower shall otherwise agree. (Section 4.06c)) | PMO | Complied with. |
| 11. The Borrower shall furnish, or cause to be furnished, to the Bank all such reports and information as the Bank shall reasonably request concerning (i) the Loan, and the expenditure of the proceeds and maintenance of the service thereof; (ii) the goods and services and other items of expenditure financed out of the proceeds of the Loan; (iii) the project; (iv) the administration, operations and financial condition of the agencies of the Borrower responsible for the carrying out of the Project and operation of the Project facilities, or any part thereof; (v) financial and economic conditions in the territory of the Borrower and the international balance-of-payments position of the Borrower; and (vi) any other matters relating to the purposes of the Loan. | PMO | Complied with. |
| 12. Without limiting the generality of the foregoing, the Borrower shall furnish, or cause to be furnished, to the Bank semi-annual reports on the carrying out of the Project and on the operation and management of the Project facilities. Such reports shall be submitted in such form and in such detail and within such a period as the Bank shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the period under reviews, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following period. (Section 4.07(b)) | DGCVE | Complied with. PMO provided consolidated quarterly progress reports. |
| 13. Promptly after physical completion of the Project, but in any event not later than three (3) months thereafter or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, in such form and in such detail as the Bank shall reasonably | DGCVE | Complied with. The Government submitted its PCR report on 19 June 2008. |

| Covenant | Responsible Agency | Status of Compliance |
|--|---|---|
| request, on the execution and initial operation of the Project, including its cost, the performance by the Borrower of its obligations under this Loan Agreement and the accomplishment of the purposes of the Loan. (Section 4.07(c)) | | |
| 14. The Borrower shall enable the Bank's representatives to inspect the Project, the goods financed out of the proceeds of the Loan, and any relevant records and documents. (Section 4.08) | DGCVE | Complied with. Seven review missions, three special administration missions, and one midterm review mission were fielded. |
| 15. The Borrower shall ensure that the Project facilities are operated, maintained and repaired in accordance with sound administrative, financial, engineering, environmental, and maintenance and operational practices. (Section 4.09) | DGCVE and provincial and district offices | Complied with. Procured vehicles and equipment are properly maintained. |
| 16. The Borrower shall, within three months of the Effective Date, establish a Project Steering Committee (PSC) to provide full liaison and coordination with all national agencies and departments participating under the Project. The PSC shall address and resolve major policy issues affecting the Project and shall formulate appropriate strategies for project implementation. The PSC shall be chaired by the Director General of DGCVE, and shall include representatives from BAPPENAS, MOF, Agriculture, Industry and Trade and Cooperatives, the Credit Unions, and as appropriate, local governments. The PSC should have coordination meetings twice a year | DGCVE, BAPPENAS, and MOF | Complied with. The PSC was active after 2005; in 2006 met twice; in 2007 met once. |
| 17. The Borrower shall, within one month of the Effective Date, (a) establish a Project Management Office (PMO) headed by a full-time senior officer as Project Manager, and shall ensure that the PMO is provided throughout the period of Project implementation with qualified staff and adequate resources, satisfactory to the Bank; (b) appoint two full-time Assistant PMO Project Managers to facilitate implementation of Part A, and Parts B and C, of the Project respectively; (c) establish a Provincial Coordination Office (PCO) in each participating province and appoint six Provincial Project Managers respectively to head each PCO so established; (d) establish a Project Implementation Unit (PIU) in each participating district and appoint 11 District Project Managers respectively to head each PIU so established of which not less than three District Project Managers shall | DGCVE | Complied with. PMO, PCOs, and PIUs established as scheduled. |

| Covenant | Responsible Agency | Status of Compliance |
|---|-------------------------|--|
| be women; and (e) cause each participating district to assign at least three full-time staff to undertake Project implementation activities at the sub-district level within such district. | | |
| 18. The PMO shall be responsible for the overall coordination and administration of Project activities and, in particular, for (a) submission to the Bank of consolidated progress, midterm, Project completion, and, as necessary, other reports submitted by each PCO and PIU; and (b) timely submission to the bank of unaudited and audited accounts of the Project. Each PCO shall be responsible to serve as a coordination center for reporting physical and financial progress of Project activities in each participating province and each PIU shall be responsible for day-to-day district-level implementation of the Project activities within its jurisdiction. | PMO | Complied with. PMO submitted to ADB consolidated quarterly progress reports and unaudited accounts. |
| 19. The Borrower shall ensure that within three months of the Effective Date, each participating province and each participating district shall have respectively established provincial and District Advisory Groups to provide full liaison and coordination with their corresponding PCOs and PIUs, as applicable. | DGCVE | Complied with. PAGs and DAGs met on ad hoc basis. Some DAGs are active. |
| 20. The Borrower shall ensure that all necessary counterpart funds for Project implementation are provided in a timely manner and, to such end, the Borrower will make timely submissions of annual budgetary appropriation requests and take all other measures necessary or appropriate for prompt disbursement of appropriated funds to the PMO, the participating province and the participating districts during each year of Project implementation. | DGCVE | Complied with. Adequate counterpart funds were provided on time following the restructuring of the Project in July 2005. |
| 21. The Borrower shall require each Participating Bank to on-lend the proceeds of its respective Subsidiary Loan to Community-based Saving and Loan Organizations (CBSLOs) under Onlending Agreements on terms and conditions satisfactory to the Bank. | PMO | Cancelled in 2005. |
| 22. The Borrower shall ensure that rural infrastructure subprojects funded under Part A (iii) and C of the Project shall be operated and maintained by villages concerned through provision of necessary counterpart support in cash or in kind. | PIUs, Village Community | Complied with. Rural infrastructure built by the Project are operated and maintained by villages. |

ECONOMIC ANALYSIS

1. The economic analysis for the Community Empowerment for Rural Development Project (the Project) was undertaken on the basis of the methodology used during appraisal to allow for comparison between the targets set at appraisal and those achieved at project completion. This analysis was undertaken comparing the cost and benefits in with and without project situations. The economic internal rate of return (EIRR) is estimated for the Project as a whole. The analysis was based on data obtained from the Government's project completion report, project impact evaluation study, and the project completion review mission's field visits.

A. Major Assumptions

2. The economic analysis is based on the assumptions outlined in the following sections.

1. Prices

3. All prices are expressed at the world market price level in the national currency. The actual and forecast farm-gate commodity prices are based on world market prices published by the World Bank. These prices are adjusted to constant 2008 prices using the World Bank manufactures unit value (MUV) index.¹⁷ Local costs have been adjusted to constant 2008 prices based on the consumer price index for Indonesia,¹⁸ while foreign costs have been similarly adjusted using the MUV index.

4. The price of labor is assumed at Rp21,000 per day, which was the prevailing price found at project completion. Labor costs have been shadow-priced at 0.8 of the wage rates, while other inputs have been adjusted by the standard conversion factor of 0.85.

2. Period of Analysis

5. The Project's economic life is assumed to be 15 years, from 2001 to 2015, as at appraisal. The major project activities were implemented over 6 years, from 2002 to 2007.

3. Project Cost

6. The economic costs for the total Project are based on actual investment costs incurred from 2002 to 2007 and on projected recurrent government expenditures and communities' contributions related to operation and maintenance of project facilities. Actual investment costs are significantly lower than appraisal estimates because of partial loan cancellations. Costs are expressed in economic prices, by excluding taxes and duties and applying the standard conversion factor of 0.95 to the local component of costs. Investment costs are expressed in constant 2008 base prices, by adjusting the local cost element by the consumer price index and the MUV index for the international cost component.

4. Project Benefits

7. The Project benefited almost 160,000 households, which is lower than appraisal estimate of 220,000 households, which should have been revised at the time of downsizing the project scope in June 2005. Project benefits have been derived from results of the impact

¹⁷ World Bank. 2008. Manufactures Unit Index. <http://go.worldbank.org/DZLIAJ2730>

¹⁸ Asian Development Bank. 2007. *Key Indicators of Developing Asian and Pacific Countries*. Manila.

evaluation study and data on project achievements. The impact evaluation study shows that the Project resulted in a significant increase in household expenditures in project areas compared to non-project areas. The annual relative increase in income for almost 160,000 project households was estimated at \$39.7 million as of April 2007, which is almost \$250 per household. This impact includes multiplier effects.

8. Project benefits include (i) improved performance of central and local governments; (ii) better access to credit for project beneficiaries; (iii) increased number of microenterprises; and (iv) improved infrastructures, which also stems from better operation and maintenance by beneficiaries. The improvement of roads, bridges, and jetties allowed remote villages to take produce to market. From almost no access to markets, improved roads infrastructure have allowed project communities have full access to them. Microenterprise investment, coupled with improved infrastructure, have allowed slack resources to come into play far more than envisaged at the time of appraisal.

B. Economic Performance

9. Results of the economic analysis are summarized in Table A9.1. The base-case EIRR for the entire Project is estimated at 27.2%, which is higher than the opportunity cost of capital of 12%. At appraisal, the EIRR was estimated at 17.6%, but, in the estimation, only project benefits from microenterprises were used. Thus, adding infrastructure benefits, the project completion report estimates are in line with the expected outcome at appraisal.

10. The main project risk is failure of microenterprises and community-based savings and loan organizations (CBSLOs). However, sensitivity analysis shows that even a failure of half of microenterprises would reduce the project EIRR to 18.6%, which is still higher than the opportunity cost of capital of 12%. With absence of operation and maintenance of infrastructure facilities improved under the Project, the overall project impact could be reduced significantly, which makes operation and maintenance the most critical factor for project sustainability.

C. Financial Analysis of Microenterprises

11. The outstanding loan portfolio by year has been calculated from the numbers of start-up CBSLOs by year and their projected growth based on cumulative lending at project completion (Table A9.2). The outstanding loan balances are calculated as being Rp1,182 million in 2003; Rp3,447 million in 2004; Rp7,642 million in 2005; Rp11,078 million in 2006; and Rp16,056 million as of May 2007. Excluding the contributions of new members, there has been an annual growth in the loan portfolio of an average of 21.5%. On the same basis, the growth in savings mobilization has been 20.8%. For a member joining in 2003, his/her average loan balance was Rp207,563, becoming Rp458,316 by 2007. On average, for each month of membership, a member saved Rp15,000. CBSLOs that started in 2003 had average cumulative savings of Rp500,000 per member in May 2007; those that started in 2004 had average cumulative savings of Rp389,000; and the 2005 CBSLOs had a cumulative average of Rp342,000. Therefore, the later CBSLOs had higher levels of savings. The CBSLO system had an annual growth rate of 18% in its number of members from their initial membership base.

12. It is estimated that the average financial internal rate of return (FIRR) for microenterprise investment is in excess of 84%, compared to the appraisal FIRR estimate of 45%. Much of the improvement was due to increased trading that was not included in the analysis at appraisal. Trading was enabled by improved infrastructure and financing by CBSLOs. An analysis of use of microcredit in a sample of CBSLOs indicates that borrowing for agricultural investment (47%

of lending) had an FIRR of 79%, for trade and services (46% of lending) more than 100%, and for processing and industry (7% of lending) 91% (Table A9.3). Consumer borrowing accounted for 5% of lending, and it is assumed that 10% of investment loans had no profitable outcome.

Table A9.1: Project Economic Costs and Benefits, (constant 2006 prices) (\$ million)

| Item | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|------------------------------|---------|---------|----------|---------|--------|----------|--------|--------|--------|--------|--------|--------|--------|--------|
| Project Costs | | | | | | | | | | | | | | |
| Investment costs | 3,664 | 4,961 | 13,231 | 9,267 | 10,245 | 26,052 | 10,653 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Government recurring costs | 615 | 620 | 634 | 650 | 624 | 624 | 621 | 618 | 618 | 618 | 618 | 618 | 618 | 618 |
| Beneficiary costs | | | | | | | | | | | | | | |
| O&M self contribution | 0 | 0 | 0 | 156 | 133 | 348 | 968 | 531 | 531 | 531 | 531 | 531 | 531 | 531 |
| Villager contribution | 0 | 0 | 54 | 57 | 50 | 67 | | | | | | | | |
| CBSLO management | 0 | 0 | 85 | 232 | 410 | 447 | 502 | 537 | 537 | 537 | 537 | 537 | 537 | 537 |
| Total beneficiary costs | 0 | 0 | 139 | 445 | 593 | 862 | 1,470 | 1,068 | 1,068 | 1,068 | 1,068 | 1,068 | 1,068 | 1,068 |
| Total project costs | 4,279 | 5,580 | 14,004 | 10,362 | 11,462 | 27,538 | 12,744 | 1,685 | 1,685 | 1,685 | 1,685 | 1,685 | 1,685 | 1,685 |
| Incremental project benefits | | | | | | | | | | | | | | |
| | 0 | 0 | 262 | 6,443 | 11,449 | 13,489 | 16,654 | 27,334 | 27,334 | 27,334 | 27,334 | 27,334 | 27,334 | 27,334 |
| Net project benefits | (4,279) | (5,580) | (13,742) | (3,919) | (13) | (14,049) | 3,910 | 25,649 | 25,649 | 25,649 | 25,649 | 25,649 | 25,649 | 25,649 |
| EIRR | 27.2% | | | | | | | | | | | | | |

() = negative

Source: Project completion mission estimates.

Table A9.2: Community-Based Savings and Loan Organizations Growth Projections

| Item | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Community-Based and Loan Organization members | 5,694 | 14,605 | 28,303 | 33,656 | 40,018 | 44,820 | 50,199 | 56,222 | 62,969 | 70,525 | 78,988 | 88,467 |
| Total loans outstanding (\$ million) | 138 | 386 | 787 | 1,209 | 1,761 | 2,113 | 2,535 | 3,042 | 3,651 | 4,381 | 5,257 | 6,308 |
| Administration expenses (\$ million) | 85 | 232 | 410 | 447 | 502 | 537 | 579 | 630 | 691 | 764 | 851 | 957 |
| Ratio of administration expenses of total loans outstanding | 65.6% | 61.4% | 48.9% | 36.8% | 28.5% | 25.4% | 22.9% | 20.7% | 18.9% | 17.4% | 16.2% | 15.2% |

Source: Project completion mission estimates.

Table A9.3: Summary of Financial Performance of Selected Microenterprises

| Enterprise Investment | Weighting % | Size of Investment Rp | Permanent Labor Days Days | FIRR % | Weighted Investment Average Rp | Weighted Labor Days Days |
|-------------------------------------|------------------------|--------------------------------------|--|------------------------------|---|---|
| Agriculture | | | | | | |
| Cattle | 15 | 3,000,000 | 18 | 51.7 | 450,000 | 2.7 |
| Poultry | 17 | 880,000 | 18 | 214.8 | 149,600 | 3.1 |
| Pigs | 5 | 2,000,000 | 45 | 57.7 | 100,000 | 2.3 |
| Non-paddy | 5 | 800,000 | 36 | 35.0 | 40,000 | 1.8 |
| Vegetables | 5 | 1,070,000 | 74 | 106.5 | 53,500 | 3.7 |
| Average | 47 | 1,687,447 | | | | |
| Processing | | | | | | |
| Furniture/similar | 2 | 10,000,000 | 1,300 | 67.7 | 200,000 | 26.0 |
| Krupuk/similar | 5 | 1,843,000 | 130 | 94.1 | 92,150 | 6.5 |
| Average | 7 | 4,173,571 | | | | |
| Trade and Services | | | | | | |
| Shop/trader | 46 | 500,000 | 87 | 73.1 | 230,000 | 40.0 |
| Total all enterprises | 100 | 1,315,250 | | 93.9 | 1,315,250 | 86 |
| Average loan outstanding | | | | | 986,438 | 86 |
| Total CBSLO loans out | | | | | 16,055,890,000 | 1,400,280 |
| Total jobs created by CBSLO lending | | | | person years created = | | 5,386 |
| | | | | person days created/member = | | 35 |

FIRR = financial internal rate of return, CBSLO = Community-Based and Loan Organization.

Source: Project completion mission estimates.