



Report Number : ICRR0022050

## 1. Project Data

**Country**  
Indonesia

**Practice Area(Lead)**  
Macroeconomics, Trade and Investment

**Programmatic DPL**  
**Planned Operations:** 2

**Approved Operations:** 2

**Operation ID**  
P158140

**Operation Name**  
Indonesia Maritime Logistics DPL

**L/C/TF Number(s)**  
IBRD-86570

**Closing Date (Original)**  
30-Sep-2017

**Total Financing (USD)**  
400,000,000.00

**Bank Approval Date**  
02-Nov-2016

**Closing Date (Actual)**  
30-Sep-2017

	<b>IBRD/IDA (USD)</b>	<b>Co-financing (USD)</b>
Original Commitment	400,000,000.00	0.00
Revised Commitment	400,000,000.00	0.00
Actual	400,000,000.00	0.00

**Prepared by**  
Hjalte S. A. Sederlof

**Reviewed by**  
Clay Wescott

**ICR Review Coordinator**  
Malathi S. Jayawickrama

**Group**  
IEGEC (Unit 1)

**Operation ID**  
P163973

**Operation Name**  
Indonesia Maritime Logistics DPL II ( P163973 )



<b>L/C/TF Number(s)</b> IBRD-86570,IBRD-88420	<b>Closing Date (Original)</b> 30-Nov-2018	<b>Total Financing (USD)</b> 300,000,000.00
<b>Bank Approval Date</b> 28-Jun-2018	<b>Closing Date (Actual)</b> 30-Nov-2018	
	<b>IBRD/IDA (USD)</b>	<b>Co-financing (USD)</b>
Original Commitment	300,000,000.00	0.00
Revised Commitment	300,000,000.00	0.00
Actual	300,000,000.00	0.00

## 2. Program Objectives and Policy Areas

### a. Objectives

The Logistics Reform DPL(LRDPL) series consisted of two DPLs. The overall development objective (PDO) of LRDPL 1 (Program Document, PD, p. 21) was *to reduce the costs and improve the reliability of the logistics chain in Indonesia*. The specific objectives were: strengthening port's governance and operations; enabling a competitive business environment for logistics service providers by increasing competition; and making trade processing more efficient and transparent.

The objective remained the same for LRDPL 2.

### b. Pillars/Policy Areas

The LRDPL series had three pillars:

**Pillar 1: Enhancing ports performance.** The specific PDO of strengthening ports' governance and operations was to be achieved by (i) improving the governance of ports by clarifying the role of Port authorities vis-à-vis port operators; (ii) facilitating the entry of port services operators; and (iii) enhancing coordination of documentary and container examination in ports.

**Pillar 2: Improving logistics services.** The specific PDO of enabling a competitive business environment for logistics service providers was to be achieved by increasing competition in: (i) freight forwarding services, storage and distribution services; (ii) auxiliary shipping services; and (iii) reducing inventory costs of imported materials for producers.

**Pillar 3: Strengthening trade processing.** The specific PDO of making trade processing more efficient and transparent was to be achieved by (i) reducing licensing requirements for imports; (ii) facilitating traders' compliance with trade regulatory requirements; (iii) expediting the submission of trade documentation; and (iv) improving risk management of border agencies.



### **c. Comments on Program Cost, Financing, and Dates**

Project cost and financing. The commitment under LRDPL 1 was US\$400 million, and US\$300 million under LRDPL 2. Both were fully disbursed.

Dates. LRDPL 1 was approved on November 2, 2016, became effective on September 30, 2017, and closed on the same date. The task team informed IEG that effectiveness was delayed because the government wished to delay the disbursement as it wanted to use the loan to fund its 2017 budget. LRDPL 2 was approved on June 28, 2018, became effective on July 9, 2018, and closed on November 30, 2018. With LRDPL 2 the government needed the funds as soon as they became available, so the effectiveness was very soon after the board date, unlike the case with LEDPL1. The closing of LRDPL 2 in November allowed for some consistency in the timing between board date and closing across the DPL series.

## **3. Relevance of Objectives & Design**

### **a. Relevance of Objectives**

The LRDPL series objective was relevant to government policy and the Bank's Country Partnership Framework (CPF) for FY2016 to FY2020. Both included better logistics – notably improving competitiveness in manufacturing and modern services by lowering logistics costs - as a means of reducing the country's excessive dependence on commodities trade. That strategy was included in the government's latest five-year plan 2015-2019 that emphasized national connectivity and trading capacity; and it formed part of the CPF which included support for a maritime economy through better connectivity - a strategy that aimed at alleviating the constraints due to infrastructure bottlenecks and institutional and policy barriers that undermined competitiveness, growth and jobs in a vast archipelago country.

#### **Rating**

High

### **b. Relevance of Design**

The overall PDO – reducing the costs of logistics and improving the reliability of logistics -- was to be achieved through three specific PDOs enabled by institutional reforms supported by the programmatic series (detailed in Section 4). Prior actions and triggers had been introduced that could reasonably be expected to deliver intended PDOs as measured by results indicators. A first specific objective was to improve the governance structure of ports and their efficiency of operations, and reviving port infrastructure development by clarifying conflicting roles of port authorities and port operators by stipulating concession agreements between them. A second specific objective was to increase competition among logistics services providers by



reducing barriers to entry (for instance on licensing, foreign equity, capital requirements). A third specific objective was to make trade processing more efficient by simplifying trade regulatory requirements.

The macroeconomic policy framework was considered adequate for the proposed operation. Indonesia's economy had weathered a significant deterioration in external demand and in its terms of trade and, in mid-2013 and mid-2015, in financial market conditions. Its resilience reflected in part a comparatively large domestic demand base and strong structural growth forces, including demographics and rapid urbanization, but also a policy framework that was responsive to the risk of macroeconomic imbalances.

### Rating

Substantial

## 4. Achievement of Objectives (Efficacy)

### Objective 1

#### Objective

Strengthening port's governance and operations

#### Rationale

The specific objective was to be achieved by: (i) clarifying the role of port authorities vis-à-vis port operators; (ii) facilitating the entry of cargo terminal operators; and (iii) enhancing coordination of document and container inspections in ports.

This PDO was underpinned by prior actions for LRDPL 1 and LRDPL 2.

A first set of prior actions facilitated investments in port infrastructure by clarifying responsibilities in port operations management in concession agreements. LRDPL 1 formalized the relationship and LRDPL 2 included a follow-up prior action including an independent assessment of the functioning of the concession agreements.

Results were initially measured by the number of publicly owned ports and terminals with internationally certified management systems as evidence of improved management. These increased from a baseline of 46 in 2015 to 59 in 2018, compared to a target of 60. Two additional results indicators were introduced under LRDPL 2: (i) the quantity of container handling equipment in the ten largest secondary container ports (applied as a proxy for investment in equipment) increased from 49 in 2015 to 80 in 2018, equal to the target; and (ii) the number of ports handling more than 2000 Container Port Traffic (TEU) vessels (as a proxy for investments in dredging of access channels) in the ten largest secondary container ports increased from 1 in 2015 to 6 in 2018, surpassing the target of at least 5.

A second set of prior actions introduced use by the government of payment schemes to compensate operators for infrastructure services, facilitating entry by new operators and potentially increasing competition.



Results were measured in the number of "build-operate" applications for port development approved or at the feasibility study stage. Approvals increased from zero to 10 over the 2015-2018 period, compared to a target of at least 2. The number of feasibility studies increased from 4 in 2015 to 13 in 2018 against a target of 10.

A third set of prior actions reduced waiting times at port by improving coordination of document and container inspections by the introduction of a common electronic platform for exchanging information. LRDPL 1 mandated the integration of vessel management and cargo tracking modules with the country's single window system and its rollout in 16 major ports, further expanded under LRDPL 2.

Results were measured by the reduction in waiting times in Tanjung Priok (Jakarta) and Makassar ports. In the former, waiting time was reduced from 1-24 hours in 2014 to 1-2 hours in 2018, against a target of 0.8 to 12 hours; in the latter, waiting time was reduced from 0.5-12 hours in 2014, to 0.5-1.5 hours in 2018, against a target of 0.4-4 hours.

**In summary**, initiatives introduced under specific objective 1 to improve the governance structure of ports as well as their efficiency of operations included (i) clarifying the conflicting roles of port authorities and port operators by stipulating concession agreements between the two parties, (ii) facilitating entry into port operations through bridging financing; and (iii) reduced port turn-around time through better coordination of documentation at port. Outcomes as measured by key indicators (often through intermediate outcomes to ensure proper attribution) indicated that targets were mostly met.

**Rating**  
Substantial

## **Objective 2**

### **Objective**

Enabling a competitive business environment for logistics service providers by increasing competition

### **Rationale**

This specific objective was to be achieved by: (i) increasing competition in freight forwarding services, storage and distribution services; and (ii) auxiliary shipping services; and (iii) reducing inventory costs of imported materials for producers.

The specific objective was underpinned by prior actions for LRDPL 1 and LRDPL 2.

A first set of prior action aimed at increasing the quality and efficiency of logistics services by increasing foreign equity limits in freight forwarding, storage and distribution services, and for cold storage and producer-affiliated distribution services, and ultimately enhance global competitiveness of producers (under LRDPL 1). Under LRDPL 2, licensing requirements for freight forwarders were simplified.

Results as measured by the number of licenses granted to new foreign equity companies: the number of licenses granted increased from 20 in 2015 to 54 in 2018, compared to a target of 25; and the number of licenses granted for warehousing and cold storage increased from 3 in 2015 to 60 in 2018, compared to a target of 10.



A second set of prior actions aimed at improving competition in auxiliary shipping services by attracting more service providers. Under LRDPL 1, requirements for becoming a shipping agent were established (eliminating the need for ship ownership) and foreign equity limits for maritime cargo handling services were reduced (reducing entry barriers for foreign maritime cargo handlers). LRDPL 2 eliminated minimum capital requirements for cargo handling operators, shipping agencies and maritime transport providers. All these measures were likely to attract new providers and contribute to a more competitive environment.

The results were measured by the number of new licenses granted to shipping agents and foreign cargo handling operators: these licenses increased from zero in 2015 to 297 in 2018, compared to a target of 5; and to foreign cargo handling operators from 3 in 2015 to 7 by end-2018, compared to a target of 3.

A third set of prior actions aimed at reducing inventory costs of imported materials for producers. Under LRDPL 1, bonded logistics centers (similar to free-trade zones) were established, and under LRDPL 2 they were able to carry out trans-shipment operations. The logistics centers facilitated the import and storage of large amounts of raw materials in Indonesia (which had previously been stored in Singapore and Malaysia), generating significant cost savings.

The results were measured in terms of the number of bonded logistics centers: these rose from zero in 2015 to 67 in 2018, compared to a target of 30. The number of logistics centers that were able to handle transshipment grew from zero in 2015 to 3 in 2018, meeting the target.

**In summary**, initiatives supporting specific objective 2 contributed to achieving a competitive business environment for logistics service providers by streamlining port procedures and reducing barriers to entry for foreign investors into logistics services. Streamlining port procedures and opening the sector for foreign competition were likely to contribute towards the overall outcome of cost effectiveness and reliability in service provision.

## Rating

Substantial

## Objective 3

### Objective

Making trade processing more efficient and transparent

### Rationale

This specific objective was to be achieved by: (i) reducing licensing requirements for some categories of imports; (ii) facilitating traders' compliance with trade regulatory requirements; (iii) expediting the submission of trade documentation; and (iv) improving risk management of border agencies.

The specific PDO was underpinned by four prior actions for LRDPL 1 and LRDPL 2.

A first prior action (there was none for LRDPL 2) aimed at reducing licensing requirements for eight categories of imported products that were contributing to long clearance times.

Results were measured by changes in average pre-clearance times in Tanjung Priok (Jakarta), where they declined from 3.6 days in 2015 to 2 days in the second semester of 2018, compared to a target of less than



2 days. (The ICR p. 24) notes that this was a volatile indicator, as several agencies were involved that all were not affected by the relevant regulatory changes).

A second set of prior actions aimed at facilitating traders' compliance with regulatory requirements. LRDPL 1 standardized administrative compliance by concentrating all trade-related regulations in a single repository (the single window) and eliminating duplication in submitting information to the single window. LRDPL 2 aimed at improving administrative authority of the single window by raising its status and that of its four participating agencies within the government bureaucracy. A second prior action under LRDPL 2 aimed at expediting import procedures for pre-approved importers.

Results were measured by the share of updated regulations in the repository as a proxy for easier compliance; and by time savings for importers in clearing documents as measured by dwell-time in the two main gateways in Jakarta (Tanjung Priok and Tanjung Perak). In 2017, full updating of regulations had been achieved, but there were no indications of whether and to what extent compliance requirements actually have facilitated compliance among traders. Dwell-time had declined: in Tanjung Priok from 5.7 days in 2015 to 4.2 days in 2018; and in Tanjung Perak from 6.1 days to 3.9 days during the same period. For both, the target was 4 days,

A third prior action (there was none for LRDPL 2) was to expedite submission of required trade documentation. LRDPL 1 introduced electronic submission and processing of trade documentation, which was to accelerate the approval process and facilitate use of the single window.

Results were measured in reduced pre-clearance time for food and drug imports into Tanjung Priok port. Pre-clearance time, which had ranged from a minimum of 2 days to a maximum of 5 days in 2015, improved to 1 and 2 days respectively in 2018.

A fourth set of prior actions were aimed at improving risk management systems of border agencies. LRDPL 1 introduced an integrated risk management system to be used by the single window agencies, and aimed at reducing inspection rates; and stipulated the development and piloting of a prototype system for sharing of information throughout the single window. LRDPL 2 supported the implementation of the system by promoting exchange of information on importers' risk profiles through the single window.

Results were measured by changes in the share of import shipments classified as red channel in Tanjung Priok. Contrary to expectations, the share of red channel shipments increased from 6 percent in 2015 to 7 percent in 2018, compared to a target of 4 percent. The ICR (p. 27) plausibly notes that the indicator is influenced by the increase in new or high risk importers, especially since new importers initially were categorized as red channel ones.

**In summary**, initiatives supporting specific objective 3 contributed to making trade processing more efficient and transparent by reducing clearance times for imports, albeit by less than initially expected, and by introducing risk management at border crossings. Measures aimed at further facilitating compliance were initiated but have not been fully implemented, as they are still awaiting supporting regulations. The measures that have been implemented contributed to the overall outcome of reduced costs and greater reliability in the logistics chain.

**Rating**  
Substantial





## 5. Outcome

Relevance of objectives is rated **high**: objectives were aligned with current government policies and the Bank's CPF. Design is rated **substantial**. It had a set of prior actions that were likely to support achievement of the PDO, albeit with targets formulated to avoid challenges of attribution. Efficacy for each of the three specific objectives is rated **substantial**: while they had successfully supported key policy and institutional reforms (the World Bank's Logistics Performance Index showed Indonesia's ranking rise from 63d to 46th out of 160 countries over the 2016-2018 period), in some instances results showed modest shortcomings. Overall, the outcome is rated **satisfactory**.

### a. Outcome Rating

Satisfactory

## 6. Rationale for Risk to Development Outcome Rating

While creating a better business environment for logistics services continues to be an important theme in government policy, the DPL in its risk analysis points to political and institutional uncertainties, noting that there is not a government-wide consensus on how to achieve these objectives: different ministries issue their own blueprints, strategic documents and action plans that are not always fully in line with the government's intentions on logistics. To this should be added uncertainties about capacity to manage logistics in the administration: while CMEA has significant capacity and experience, other partners such as port authorities and the Indonesian Single Window have capacity and coordination challenges that have not yet been fully resolved. Still, the task team points out that the successful implementation of many of the changes that have been introduced in logistics markets as a result of the DPL program, such as reductions in foreign equity limits and minimum capital requirements in port business, freight forwarding and warehousing, are contributing to reducing both political and institutional uncertainties. Likewise, the Bank's support for logistics reform through technical assistance and advisory services along with other donors has continued to promote reforms.

### a. Risk to Development Outcome Rating

Modest

## 7. Assessment of Bank Performance

### a. Quality-at-Entry





The operation was strategically relevant: it supported the government’s development goals in logistics and connectivity, and it was in line with the Bank’s CPF. It had been designed in close collaboration with government counterparts, while also drawing on prior Bank work, notably the experience of a DPL connectivity series (2012, 2014). The experience was reflected in a program design that emphasized initiatives and reforms that were likely to contribute significantly to improving policy and institutional aspects of the logistics environment. Limitations on absorptive capacity had been recognized during project preparation and technical assistance and advisory services introduced to build capacity, including parallel technical assistance from the French Development Agency (AFD) in curriculum development and capacity building workshops for port authorities. Domestic intra-agency conflicts about logistics strategy were mitigated through institutional changes in the DPLs. The M&E design was adequate although more consideration could have been given to attribution in designing indicators - uncertainties surrounded attribution in the measurement of some indicators.

### **Quality-at-Entry Rating**

Moderately Satisfactory

#### **b. Quality of supervision**

Supervision included regular meetings with stakeholders to discuss reforms and monitor progress on results indicators. Such meetings drew on the coordinating ministry (of economic affairs), with participation by a dedicated TA program that had been put into place to support implementation, including regularly monitoring and evaluating the proposed reforms. It also drew on collaboration with other development partners focusing on logistics and connectivity investments. At the same time, the ICR draws attention to challenges in coordinating with agencies of varying institutional capacity: this had been noted during preparation, but mitigating measures (notably the TA program) would still turn out to be insufficient to fully address the challenges, reflected in slower-than-expected progress in trying to solve institutional capacity constraints in some agencies, albeit with no delays in completion of the overall program.

### **Quality of Supervision Rating**

Moderately Satisfactory

### **Overall Bank Performance Rating**

Moderately Satisfactory

## **8. Assessment of Borrower Performance**

### **a. Government Performance**

According to the ICR, the government was committed to the reform agenda; while the PAD indicated that there was disagreement about the shape the agenda might take. Senior levels supporting the operation appear to have prevailed (while this at the same time points to some element of risk as one looks to the future).



### **Government Performance Rating**

Moderately Satisfactory

#### **b. Implementing Agency Performance**

The Coordinating Ministry of Economic Affairs (CMEA) was the implementing agency. CMEA was also faced with the challenge of countering capacity constraints in line ministries and agencies. Still, the operation was completed on time and at this point at least, according to plan.

### **Implementing Agency Performance Rating**

Satisfactory

### **Overall Borrower Performance Rating**

Moderately Satisfactory

## **9. M&E Design, Implementation, & Utilization**

### **a. M&E Design**

The policy and results matrix for the operation provided a logical sequence of prior actions underpinning policy changes that were likely to contribute to the outcomes supporting the PDO. Key indicators for systematic tracking of outcomes were defined in the results matrix, they were measurable and where appropriate included baselines and targets. However, in some instances determining relevant indicators for measuring progress proved difficult: the ICR (p. 18) indicates investment in ports, inventory costs and competition as areas where impact could only be indirectly inferred. Moreover, no indicators specifically measured cost reduction, nor were there indicators providing plausible measurement of reliability - both cost and reliability being overriding series objectives. The task team informed IEG that targets for new licenses for shipping agents and number of bonded logistics centers were set low because these were brand new entities in Indonesia, and hence it was hard to predict their absorption by the market. As it turned out, they have been highly successful entities, so that the actual results have been much higher than initially forecast.

Rather than adding more direct measures of cost and reliability, the team used a risk factor approach with indicators that could be directly attributed to reforms supported by the DPL, and would be expected to lead to lower costs and greater reliability. For example, a recent World Bank study suggests that increased entry of foreign freight forwarders into Indonesia would increase competition and quality and/or decrease prices, along with facilitating the diffusion of new know-how.

### **b. M&E Implementation**



The implementing agency, CMEA, and relevant line ministries and agencies were responsible for the collection and analysis of the data, the latter in collaboration with the Bank and participating donors (the German Development Bank, KfW, and the AFD). This enabled adequate monitoring of results.

### **c. M&E Utilization**

The data was used to monitor progress and completion of the results indicators and triggers.

### **M&E Quality Rating**

Modest

## **10. Other Issues**

### **a. Environmental and Social Effects**

Environmental and social effects were not discussed in the ICR.

### **b. Fiduciary Compliance**

Fiduciary compliance was not discussed in the ICR. However, drawing on the PAD, the overall fiduciary risk to the operation arising from Indonesia's public financial management (PFM) system, the use of budget resources and its foreign exchange environment as controlled by the Central Bank was assessed to be moderate.

### **c. Unintended impacts (Positive or Negative)**

In view of the cross-agency and cross-ministry nature of many of the policy actions, especially those in Pillar 3, this required developing close collaboration between institutions. Efforts at better collaboration were initiated under the operation, including through a Bank-designed TA program.

### **d. Other**

None noted.

## **11. Ratings**



Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	---
Risk to Development Outcome	Modest	Modest	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of ICR		Substantial	---

**Note**

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006. The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

**12. Lessons**

These lessons are drawn from the ICR:

**Sector-specific programmatic designs enhance the impact of reforms.** When the choice is between a broad multi-sector approach to reform and a focused one, in this case the latter was successful in generating intended in-depth policy reforms that might not have been possible to the same extent had the engagement involved a broader set of complex themes.

**Complementary instruments to address risk can facilitate the implementation of reforms.** In this case, capacity and institutional risks were identified at appraisal, and mitigating measures – technical assistance and advisory services – were introduced, drawing line ministries closer into the reform process. However, longer term sustainability is still at risk due to capacity challenges among some key partners.

**A good implementation agency is vital for success.** In this case, the project faced a particular challenge of coordinating with other partners that had differing views about strategies for implementing logistics reform, along with capacity weaknesses. Here, CMEA had a strong mandate from the President to coordinate the operation, in that way serving as a strong conduit for the Bank in assisting line ministries and agencies to fulfill their roles.

In addition, IEG suggests the following lesson:

**The time horizon for reform should be considered in tandem with the length of the PDO.** In this case, a specific target had not been set in consideration of challenges of attribution; instead, other arrangements had been put into place to maintain momentum, notably World Bank TA and bilateral donor support, underpinned by strong government commitment.

**13. Assessment Recommended?**

Yes



Please explain

Institutional strengthening plays a significant role in this project, and technical assistance and advisory services were introduced to strengthen capacity, coordination, and consensus building, and some of the results are likely to evolve over time raising the issue of their sustainability. Revisiting them would help to see if gains achieved are being sustained, and whether capacity challenges in key partners can be addressed over a longer timeframe.

#### **14. Comments on Quality of ICR**

While exceeding the guideline of 15 pages (the main text of the ICR was 32 pages), it still provided a clear discussion on the context and rationale of the project; and provided analysis that allowed the results and ratings of the operation to be assessed. The document was internally consistent and in accordance with OPSC guidelines. The task team provided full and insightful responses to questions from IEG that were helpful in preparing this ICR review.

**a. Quality of ICR Rating**  
Substantial