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The World Bank

Report No: ICR00002018

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IBRD-47900, IDA-40780, TF-51701, TF-52572, TF-54580, TF-55913)

ON A

LOAN

IN THE AMOUNT OF USD 14.5 MILLION

AND A CREDIT

IN THE AMOUNT OF SDR 9.92 MILLION (USD 15.0 MILLION EQUIVALENT)

TO THE

REPUBLIC OF INDONESIA

FOR A

INITIATIVES FOR LOCAL GOVERNANCE REFORM PROJECT

March 20, 2012

Indonesia Sustainable Development Unit
East Asia and Pacific Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective March 2012)

Currency Unit = Indonesian Rupiah (IDR)
USD 1.00 = IDR 9,165
USD 1.00 = SDR 0.65

FISCAL YEAR

ABBREVIATIONS AND ACRONYMS

ACAP	Anti-corruption Action Plan
ADB	Asian Development Bank
APBD	District-level budget
APL	Adaptable Program Loan
BAPPENAS	*Badan Perencanaan dan Pembangunan Nasional* (National Development Planning Agency)
BPK	*Badan Pemeriksa Keuangan* (Financial Audit Board)
CAS	Country Assistance Strategy
CPS	Country Partnership Strategy
DAK	*Dana Alokasi Khusus* (Specific Allocation Grant)
DAU	*Dana Alokasi Umum* (General Allocation Grant)
DCA	Development Credit Agreement
DIPA	*Daftar Isian Pelaksanaan Anggaran* (Annual government budget document)
DFID	UK Department for International Development
DSF	Decentralization Support Facility
EIRR	Economic internal rate of return
EOP	End-of-project
F-kab	*Fasilitator Kabupaten* (district-level facilitator)
FM	Financial management
FMR	Financial Monitoring Report
FY	Fiscal year
GBP	British pound sterling
GDS	Governance and Decentralization Survey
GOI	Government of Indonesia
GTZ	German Technical Cooperation
IDR	Indonesian rupiah
ILGRP	Initiatives for Local Governance Reform Project
ISR	Implementation Status and Results Report
JPS	*Jaringan pengamanan social* (social safety net)
KDP	Kecamatan Development Project
KGRIP	Kabupaten Governance Reform Initiatives Project
KPI	Key Performance Indicator

KTP	*Komisi Transparansi dan Partisipasi* (Commission on Transparency and Participation)
LGDP	Local Government and Decentralization Project
MIS	Management Information System
MOHA	Ministry of Home Affairs
MTR	Mid-term Review
NMC	National management consultant
NPS	National Project Secretariat
NPV	Net present value
PAD	Project Appraisal Document
PDO	Project development objective(s)
PHRD	Japan Policy and Human Resources Development Fund
PNPM	National Program for Community Empowerment
PRSAP	Poverty Reduction Strategy and Action Plan
RMC	Regional management consultant
SIL	Specific Investment Loan
SPKD	*Strategi Penanggulangan Kemiskinan Daerah* (District-level poverty reduction strategy)
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UPP	Urban Poverty Project
USAID	United States Agency for International Development
USD	United States dollar
USDRP	Urban Sector Development Reforms Program

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INDONESIA
Initiatives for Local Governance Reform Project

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A. Basic Information			
Country:	Indonesia	Project Name:	Initiatives for Local Governance Reform Project
Project ID:	P076174	L/C/TF Number(s):	IBRD-47900,IDA-40780,TF-51701,TF-52572,TF-54580,TF-55913
ICR Date:	03/21/2012	ICR Type:	Core ICR
Lending Instrument:	SIL	Borrower:	GOVERNMENT OF INDONESIA
Original Total Commitment:	USD 29.50M	Disbursed Amount:	USD 29.69M
Revised Amount:	USD 29.50M		
Environmental Category: B			
Implementing Agencies: Ministry of Home Affairs			
Cofinanciers and Other External Partners: UK-funded DFID			

B. Key Dates				
Process	**Date**	**Process**	**Original Date**	**Revised / Actual Date(s)**
Concept Review:	03/20/2002	Effectiveness:	04/07/2006	04/07/2006
Appraisal:	01/20/2004	Restructuring(s):		09/10/2009 12/14/2010
Approval:	06/09/2005	Mid-term Review:	05/31/2007	04/27/2009
		Closing:	09/30/2009	09/30/2011

C. Ratings Summary	
C.1 Performance Rating by ICR	
Outcomes:	Moderately Satisfactory
Risk to Development Outcome:	Moderate
Bank Performance:	Moderately Satisfactory
Borrower Performance:	Moderately Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Bank	**Ratings**	**Borrower**	**Ratings**
Quality at Entry:	Moderately Satisfactory	Government:	Moderately Satisfactory
Quality of Supervision:	Satisfactory	Implementing	Moderately Satisfactory

		Agency/Agencies:	
Overall Bank Performance:	Moderately Satisfactory	**Overall Borrower Performance:**	Moderately Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators

Implementation Performance	Indicators	QAG Assessments (if any)	Rating
Potential Problem Project at any time (Yes/No):	No	Quality at Entry (QEA):	None
Problem Project at any time (Yes/No):	Yes	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Satisfactory		

D. Sector and Theme Codes

	Original	Actual
Sector Code (as % of total Bank financing)		
General education sector		5
General transportation sector	40	55
Irrigation and drainage	15	25
Power	5	
Sub-national government administration	30	5
Water supply	10	10
Theme Code (as % of total Bank financing)		
Decentralization	20	20
Other accountability/anti-corruption	20	20
Participation and civic engagement	20	20
Public expenditure, financial management and procurement	20	20
Rural services and infrastructure	20	20

E. Bank Staff

Positions	At ICR	At Approval
Vice President:	Pamela Cox	Jemal-ud-din Kassum
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ICR Team Leader:	Marcus John Jin Sarn Lee	

ICR Primary Author:	Marcus John Jin Sarn Lee	

F. Results Framework Analysis

Project Development Objectives (from Project Appraisal Document**)**
Pilot support to district (kabupaten) governments in improving transparency, accountability and public participatory practices, and in undertaking reforms in financial management and procurement.

Revised Project Development Objectives (as approved by original approving authority)

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Extent to which recommendations from consultations/public hearings are incorporated into district plans and regulations (perdas).			
Value quantitative or Qualitative)	Limited public consultations in policy formulation prior to ILGRP preparation (2002-2005)	Extent to which recommendations from consultations/public hearings are incorporated into district plans and regulations (perdas).		Public consultations on draft of local budgets and regulations have been undertaken in at least 12 districts. Consultations were genuine and influenced final versions of some plans and regulations.
Date achieved	12/21/2006	09/30/2009		09/30/2011
Comments (incl. % achievement)	No specific target was set, and incorporation of recommendations was not quantifiable. Consultations were held in 12 districts (85%), with ample evidence that these were meaningful and inluenced the formulation of plans and regulations.			
Indicator 2 :	Greater public availability of information, in particular financial and procurement information.			
Value quantitative or Qualitative)	No legal framework nor active information dissemination prior to ILGRP preparation.	Greater public availability of information, in particular financial and procurement information.		Summaries of district budgets and accountability reports, and district procurement plans with estimated contract amounts,

				announced in at least 12 districts.
Date achieved	12/21/2006	09/30/2009		09/30/2011
Comments (incl. % achievement)	No specific target was set, but the achievement in terms of implementation in the 14 participating districts by end of project was greater than 85%, with these districts publishing information on budgets and procurement.			
Indicator 3 :	At least 10 district budgets show increases in poverty targeted expenditures by end-of-project (EOP).			
Value quantitative or Qualitative)	In 4 districts surveyed in PRSAP Review, on average 20% of the 2006 budgets was allocated for poverty targeted expen	Twelve districts show increases in poverty targeted expenditures by end-of-project (EOP).	At least 10 districts show increases in poverty targeted expenditure by end-of-project (EOP).	At least 4 districts have increased their poverty targeted expenditures in 2010, over 2008.
Date achieved	10/04/2007	09/30/2009	09/30/2011	09/30/2011
Comments (incl. % achievement)	In 10 districts sampled in the final evaluation, on average 11% of the 2010 budgets was for poverty targeted expenditures. This decrease was in part due to overall reductions in poverty in these districts.			
Indicator 4 :	EIRR for project-funded infrastructure.			
Value quantitative or Qualitative)	N.A.	EIRR for project-funded infrastructure exceeeds 15%.		Average EIRR of 24.6%.
Date achieved	12/21/2005	09/30/2009		11/24/2010
Comments (incl. % achievement)	Actual value above is from the project EIRR study in 2009, covering half of participating districts, and 30% of investment sub-projects. No subsequent EIRR studies were conducted, but each sub-project included a prior assessment of net economic benefits.			
Indicator 5 :	At least 10 district governments practicing accepted standards of procurement as verified by audits and studies by E			
Value quantitative or Qualitative)	Procurement assessment, through CPAR in 2000-2001, found that the public procurement system in Indonesia (including all local governments) did not function well, had limited capacity and had less than satisfactory procurement systems.	More than 12 district governments practicing accepted standards of procurement as verified by audits and studies by	At least 10 district governments practicing accepted standards of procurement as verified by audits and studies by E	More than 10 districts practising accepted standards.
Date achieved	12/31/2001	09/30/2009	09/30/2011	09/30/2011
Comments (incl. % achievement)	Based on final evaluation that surveyed the publication of procurement documents, qualifications of procurement officials, and publication of procurement sanctions.			
Indicator 6 :	At least 10 district governments practicing sound financial management as verified by audits and studies by EOP.			

Value quantitative or Qualitative)	All districts had relatively weak financial management, receiving qualified audit opinions from BPK.	Greater than 12 district governments practicing sound financial management as verified by audits and studies by EOP.	At least 10 district governments practicing sound financial management as verified by audits and studies by EOP.	14 district governments practicing sound financial management
Date achieved	12/21/2005	09/30/2009	09/30/2011	09/30/2011
Comments (incl. % achievement)	Final evaluation found that all 14 districts had improved financial management based on audits of unexpected expenditures. Five districts had BPK audit opinions improve over the course of the project.			
Indicator 7 :	% increase in stakeholder satisfaction with government service delivery.			
Value quantitative or Qualitative)	JSDF-PBET survey (2006) indicated a customer satisfaction rate of 60% for the 5 most commonly used public services in 13 districts.	N.A.		Average customer satisfaction rate of 82% for 5 most commonly used public services in 14 districts.
Date achieved	06/01/2006	09/30/2009		09/30/2011
Comments (incl. % achievement)	Results framework in PAD did not set a specific target. Actual value achieved is based on survey undertaken as part of project final evaluation.			

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	40 districts meet entry requirements.			
Value (quantitative or Qualitative)	8 districts	40 districts	14 districts	14 districts
Date achieved	12/21/2005	12/31/2007	10/31/2007	10/31/2007
Comments (incl. % achievement)	The PAD targeted a first batch of 15 districts, and a second batch of 25 districts later in the project. Project restucturing reduced the number of participating districts to 14, to focus on successful reforms in those districts.			
Indicator 2 :	12 districts issue local regulations on mechanism for public consultation & access to information by mid-term and functioning satisfactorily, and 20 other districts prepare draft local regulations by EOP			
Value (quantitative or Qualitative)	0 districts	12 districts with regulations issued by MTR, and 20 more with draft regulations by	10 districts issue local regulations on mechanisms for public	14 districts had issued and satisfactorily implemented local regulations on

		EOP.	consultation and access to information and functioning satisfactorily by EOP.	consultation and access to information.
Date achieved	12/21/2005	12/31/2008	09/30/2011	09/30/2011
Comments (incl. % achievement)	Indicator was revised as part of project restructuring. Target for 14 districts was in fact mostly achieved by time of MTR in early 2009, except for 4 districts where implementation was initially partial.			
Indicator 3 :	Poverty reduction strategies and action plans are issued and implemented in 12 districts by mid-term and in 20 other districts by EOP.			
Value (quantitative or Qualitative)	14 districts prepared strategies and plans during project preparation.	32 districts	Poverty reduction strategies and action plans are issued and implemented in 10 districts.	4 districts
Date achieved	12/21/2005	09/30/2009	08/31/2011	09/30/2011
Comments (incl. % achievement)	Indicator was revised as part of project restructuring. All 14 districts issued plans and incorporated these into other poverty reduction documents. However, only 4 districts actually "implemented" by reflecting these plans in their annual budgets.			
Indicator 4 :	Action plans in FM reform are prepared and implemented in 12 districts by mid-term and in 20 other districts by EOP.			
Value (quantitative or Qualitative)	0 districts	32 districts	Action plans in FM reform are prepared and implemented in 10 districts.	10 districts
Date achieved	12/21/2005	09/30/2009	08/31/2009	09/30/2011
Comments (incl. % achievement)				
Indicator 5 :	Action plans in procurement reform are prepared and implemented in 12 districts by mid-term and in 20 other districts by EOP.			
Value (quantitative or Qualitative)	0	32 districts	Action plans in procurement reform are prepared and implemented in 10 districts.	10 districts
Date achieved	12/21/2005	09/30/2009	08/31/2009	09/30/2011
Comments (incl. % achievement)				

Indicator 6 :	A minimum of 24 sub-projects supported by mid-term and 72 sub-projects supported by EOP, all following proper technical, financial and procurement procedures.			
Value (quantitative or Qualitative)	0 sub-projects	96 sub-projects		262 sub-projects
Date achieved	12/21/2005	09/30/2009		09/30/2011
Comments (incl. % achievement)	Participating districts were able to execute and complete multiple investment sub-projects, especially after project restructuring. Some sub-projects were also smaller on average than had been anticipated in the PAD.			
Indicator 7 :	40 project districts receive capacity development assistance in the core governance reform areas (transparency and participation, procurement and financial management) by EOP.			
Value (quantitative or Qualitative)	15 districts received capacity building and TA mainly on transparency and public participation, during project preparation (2002-2005)	40 districts	10 project districts receive capacity development assistance in the core governance reform areas (transparency and participation, procurement and financial management).	14 districts
Date achieved	12/21/2005	12/31/2008	12/31/2010	09/30/2011
Comments (incl. % achievement)	Target was revised as part of project restructuring, to reflect reduction in number of participating districts.			
Indicator 8 :	10 staff at the center supporting project monitoring and implementation, 45 regional staff supporting project implementation and monitoring, 55 staff supporting kabupaten governments.			
Value (quantitative or Qualitative)	0	Center: 10 staff; regional: 45 staff; districts: 55 staff.	Center: 8 staff; regional: 8 staff; districts: 20 staff.	Center: 8 staff; regional: 8 staff; districts: 26 staff.
Date achieved	12/21/2005	12/31/2006	12/31/2009	11/24/2010
Comments (incl. % achievement)	Target was revised as part of project restructuring, in line with changes to the implementation support component of the project.			
Indicator 9 :	Project M&E system in place and providing accurate timely data on progress and outcomes			
Value (quantitative or Qualitative)	Nil.	M&E system operational		M&E system has been functioning, including through the project M&E

				secretariat at BAPPENAS.
Date achieved	12/21/2005	12/31/2006		09/30/2011
Comments (incl. % achievement)				
Indicator 10 :	Complaints received/resolved satisfactorily.			
Value (quantitative or Qualitative)	0	All complaints received are satisfactorily resolved.		4 complaints received on procurement issues related to sub-projects were resolved.
Date achieved	12/21/2005	09/30/2009		09/30/2011
Comments (incl. % achievement)	Indicator, and value achieved, do not fully reflect intent of project design, also incorporated in the project manual, for participating districts to set up complaints handling units for the general public. Only 3 districts established such units.			

G. Ratings of Project Performance in ISRs

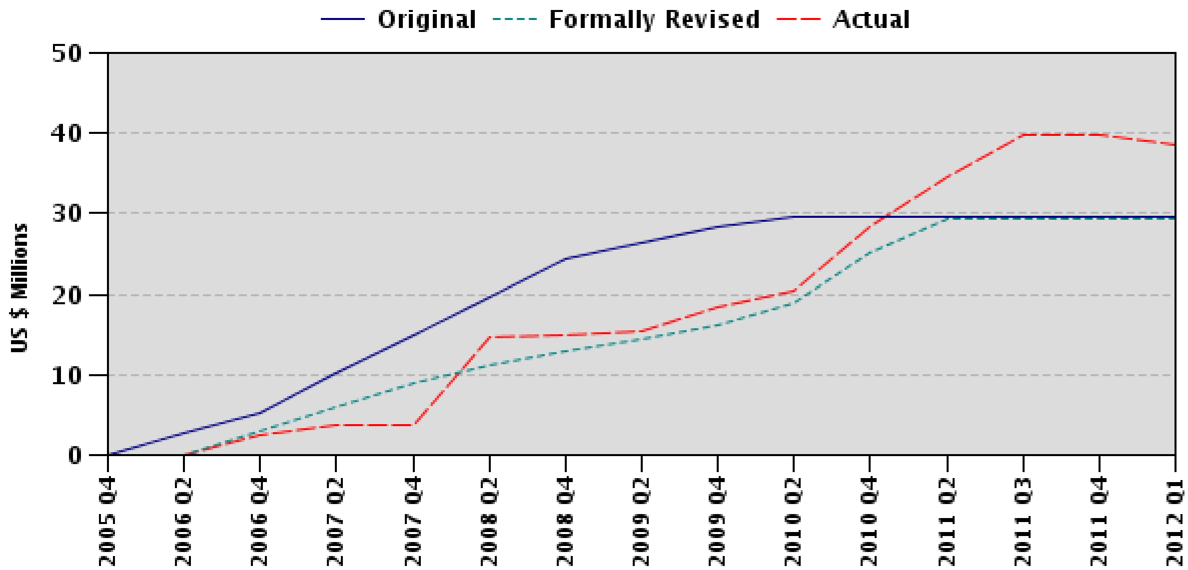
No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	12/22/2005	Satisfactory	Satisfactory	0.00
2	12/21/2006	Moderately Satisfactory	Moderately Unsatisfactory	2.47
3	01/25/2008	Moderately Satisfactory	Moderately Unsatisfactory	13.32
4	06/26/2008	Moderately Satisfactory	Moderately Unsatisfactory	13.56
5	01/21/2009	Moderately Satisfactory	Moderately Unsatisfactory	13.56
6	03/15/2010	Moderately Satisfactory	Moderately Satisfactory	23.47
7	09/13/2010	Satisfactory	Satisfactory	23.47
8	04/28/2011	Satisfactory	Satisfactory	29.61

H. Restructuring (if any)

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
09/10/2009	N	MS	MU	15.53	Fulfillment of reform requirements and execution of sub-project investments were

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
					slow relative to originally planned targets. A major underlying reason were management issues within the National Project Secretariat (NPS). Key changes were to: (i) reduce the number of participating districts; (ii) simplify the reform requirements; (iii) provide additional incentives to performing districts; (iv) improve implementation support; and (v) reallocate the undisbursed part of the DFID grant towards sub-project investments.
12/14/2010		S	S	23.47	Level Two Restructuring, as per GOI request to reallocate $3.37 million for the loan for Component C (consultant services and incremental operating costs)

I. Disbursement Profile



1. Project Context, Development Objectives and Design

1.1 Context at Appraisal

Indonesia's "Big Bang" decentralization in 2001 (through Laws 22 and 25 of 1999) led to a fundamental shift in governance and service delivery in the country, as part of the wide-ranging reforms of the post-Suharto era. Whereas previously Indonesia had been administered largely as a centralized state, decentralization gave responsibility for basic service delivery and most government functions (except areas such as defense, international relations, and national economic and monetary affairs) to over 440 district and city level governments (*kabupaten* and *kota*, respectively) across the archipelago. As part of this process, a number of central government departments in the provinces were disbanded. Some 2 million out of 3.4 million central civil servants, as well as some 16,000 facilities, were transferred to the provinces and district governments. Law 25/99 mandated the concomitant sharing of central government revenues with sub-national governments: at the time of project appraisal in 2004, for example, at least 25 percent of total national revenues were channeled to the sub-national level through the general allocation grant (DAU), which represented 70 percent of district revenues.

This major shift in responsibilities and resources presented serious implementation challenges at the district level across Indonesia. Although the basic national-level legal and procedural frameworks for decentralization were largely in place, many district governments had limited capacities to effectively implement the new arrangements, and to deliver on their newly expanded roles and responsibilities. Governance and corruption-related issues presented a major concern. District budgets were opaque, with little transparency or public consultation in their development, nor in how expenditures were made in relation to approved budgets. Projects requiring construction or purchase of goods often offered opportunities for civil servants to supplement their low wages through kickbacks from contractors.

Development partners in Indonesia, including the World Bank, thus had decentralization as a major priority for support. The Partnership for Governance Reform in Indonesia, supported by UNDP, World Bank and ADB, was a mechanism for donors to coordinate efforts on governance reform activities in the country. In January 2005, the World Bank, DFID, UNDP, ADB and the Government of Netherlands established a multi-donor trust fund to support decentralization. The Decentralization Support Facility (DSF) was set up to help donors harmonize their local government programs, and to support an overall government vision for implementing decentralization.

It was in this context that the Initiatives for Local Governance Reform Project (ILGRP) was approved by the Bank in June 2005, following an extensive period of project preparation with the Government of Indonesia (GOI) beginning in late 2001. The project directly supported the Bank's Country Assistance Strategy (CAS) for Indonesia that was in place at the time of project preparation and approval. The CAS had the main objective of assisting GOI with poverty reduction in the medium and long term through improving the investment climate, making service delivery more responsive to the needs of the poor, and strengthening governance including through effective implementation of decentralization and greater local government accountability.

1.2 Original Project Development Objectives (PDO) and Key Indicators

The project development objective was to pilot support to district (*kabupaten*) governments in improving transparency, accountability and public participatory practices and in undertaking reforms in financial management and procurement. In so doing, the project brought cross-cutting reform elements together, including more pro-poor budget allocations, to demonstrate and test reform implementation at the district level. The project also provided incentives in the form of incremental poverty-targeted investment funds to districts that completed a predefined set of minimum reforms, to finance priority rural infrastructure identified in each district's Poverty Reduction Strategy and Action Plan (PRSAP).

The project's key performance indicators (KPIs), as listed in the project appraisal document (PAD), were:

- Extent to which recommendations from consultations/public hearings are incorporated into district plans and regulations (*perda*);
- Greater public availability of information;
- Twelve district budgets show increases in poverty targeted expenditures by the end-of-project (EOP);
- Economic internal rate of return (EIRR) for project-funded infrastructure >15%;
- Greater than 12 participating district governments practicing accepted standards of procurement as verified by audits and studies by EOP;
- Greater than 12 participating district governments practicing sound financial management as verified by audits and studies by EOP; and
- Percentage increase in stakeholder satisfaction with government service delivery.

In addition, the project's results framework identified ten output indicators associated with specific components of the project.

1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and reasons/justification

The project restructuring, approved by the Bank's Executive Directors in September 2009, did not involve any modification of the PDO as stated in the PAD. It should be noted, however, that the PDO as stated in the Development Credit Agreement (DCA) was substantially similar, but not identical, to the PDO stated in the PAD. The PDO in the DCA was subsequently revised in the Amendment to the DCA as part of project restructuring, so that it became fully consistent with the PDO in the PAD.

Project restructuring also did not involve modification of the indicators per se. However, the targets associated with three of the seven outcome/impact indicators, and seven of the ten output indicators, were revised downwards as part of the restructuring, due to the slow fulfillment of reform requirements and sub-project investments relative to the targets originally set in the PAD. The assessment at the midterm review was that providing more intensive and focused support to a smaller number of districts would yield better and more sustainable outcomes (and more value as a pilot project) than trying to expand project involvement to more districts. Table 1 summarizes the revisions made to the targets; in some cases the statement of the indicator is abridged to facilitate comparison of the original and revised targets.

The format of the results framework presented in the PAD (and to a certain extent also, the project restructuring paper), did not adequately distinguish between the KPIs themselves, and the corresponding targets set for each KPI. The list of KPIs in Section 1.2 above includes some KPIs phrased as indicators (e.g. "Greater public availability of information") but with no clear targets set. Some other KPIs were phrased in a way that conflates the indicator with the target (e.g. "Twelve district budgets show increases in poverty targeted expenditures…"). This rendered the quality of the original results framework less than satisfactory. In addition, the indicators specified in the DCA, and the Amendment to the DCA that accompanied project restructuring, were not identical with those in the PAD and the project restructuring paper, respectively. It appears that the DCA and its Amendment provided greater specificity in terms of how certain targets for the indicators were to be achieved with respect to the project implementation timeline. Monitoring and reporting against the indicators in the project ISRs was consistent with the indicators and targets presented in the PAD, and subsequently in the project restructuring paper.

Table 1. Revisions to Targets for Project KPIs, from Project Restructuring

Indicator	Original Target	Revised Target
Outcome/Impact Indicators		
District budgets showing increases in poverty-targeted expenditure by EOP.	12	At least 10
District governments practicing accepted standards of procurement as verified by audits and studies by EOP.	More than 12	At least 10
District governments practicing sound financial management as verified by audits and studies by EOP.	More than 12	At least 10
Output Indicators		
Districts meeting project entry requirements.	40	14
Districts that have issued local regulations on mechanisms for public consultation and access to information, and functioning satisfactorily by EOP.	32	10
Districts with poverty reduction strategies and action plans issued and implemented.	32	10
Districts with action plans in FM reform prepared and implemented.	32	10
Districts with action plans in procurement reform prepared and implemented.	32	10
Districts that received capacity development assistance in the core reform areas (transparency, participation, procurement, financial management), by EOP.	40	10
No. of staff at the center supporting project monitoring and implementation, no. of regional staff supporting project implementation and monitoring, no. of staff supporting district (*kabupaten*) governments.	Center: 10 Region: 45 Districts: 55	Center: 8 Region: 8 Districts: 20

1.4 Main Beneficiaries

The project's main beneficiaries were the populations, district governments, and civil society organizations in the participating districts. The immediate focus of much of the project activities and investments were the participating district governments—including government officials and elected representatives—given the governance reforms, infrastructure sub-project investments, capacity building and institutional strengthening supported by the project. Local civil society (e.g. community-based organizations, local universities, and journalists) were also to benefit from project capacity building activities. The project also targeted national and provincial government officials with improved capacity in supervising, monitoring and coordinating project-related reforms in the districts.

The ultimate beneficiaries were to be poor households in participating districts, from the direct impact of increased pro-poor budget allocations, and project-financed infrastructure. More broadly, all citizens in participating districts were to benefit indirectly from the enhanced governance and improved local investment climate, with greater transparency, more efficient use of public resources, and reductions in corruption and in the overall cost of doing business. Local contractors and businesses were to benefit in particular from less corrupt procurement and permitting processes.

1.5 Original Components

The project had three components:

Component A: Local Governance Reform (USD 1.3 million) to continue supporting *kabupatens* (districts) that had participated in project preparation (batch 1, approximately 15 districts) and met project entry requirements, to undertake more advanced reforms to meet the minimum pre-investment and investment requirements stipulated in the project's Local Governance Reform Framework. Simultaneously, starting in the second year of project implementation, about 25 additional districts (batch

2) were to be selected to participate in the project and assisted over a period of 18 to 24 months, in meeting the minimum pre-investment requirements. Sub-components included:

- A1. *Reform of the District Planning and Budgeting Process*, focused on the enhancement of participation and on strengthening links with local pro-poor priorities;
- A2. *Reform of District Budget Implementation and Financial Management and Reporting*, improving local procurement and financial management practices; and
- A3. *Strengthening Accountability Mechanisms*, increasing information disclosure and cross-district networking.

Component B: Poverty Targeted Investments (USD 31.2 million) to provide incremental financing to approximately 15 (batch 1) districts for pro-poor development expenditures identified and prioritized through an enhanced planning process linked to the development of the district PRSAPs. Investment funds for the batch 2 districts were to come from a subsequent project, the design of which was to be informed by the experience and lessons coming out of this project.

As described in the PAD, this component financed sub-project investments in participating districts, for the construction, rehabilitation or upgrading of infrastructure. Eligible sub-sectors (summarized in Table 2 of the PAD) included water supply and sanitation, energy supply, transportation, irrigation and flood protection, and community buildings/facilities.

Component C: Implementation Support (USD 13.6 million) to fund specialized technical, facilitation and monitoring support for the activities in components A and B at the district, regional and national levels. Sub-components included:

- C1. *General Facilitation and Specialized Technical Assistance* to provide facilitation and technical assistance to the districts;
- C2. *Capacity Building and Institutional Training* to provide for training to district staff and other local stakeholders to institute governance reforms; and
- C3. *Monitoring, Evaluation and Studies/Surveys* to support the overall monitoring and evaluation framework for the project, and to finance studies on local governance.

1.6 Revised Components

The project restructuring maintained the three basic project components, as listed in Section 1.5 above. However, a number of significant changes were made to the project, which affected the scope and implementation of all project components. These are described in Section 1.7 below.

1.7 Other significant changes

The following significant changes were made to the project at restructuring, as described in the project restructuring paper:

Reduction in number of participating districts: The project was limited to the initial core of 14 districts (batch 1), and did not add 26 additional districts (batch 2), as had been envisioned in the PAD. (See Annex 2 for a list of the 14 core districts in batch 1.)

Simplification of the project's Local Governance Reform Framework: Six specific reforms were dropped – including one in the area of procurement and four in the area of financial management. Annex 2 includes a summary of the original Local Governance Reform Framework, as well as the changes made and rationale for these changes at the time of project restructuring.

Reallocation of project funds to reward performing districts: Funds for sub-project investments in non-performing districts, and funds from the unused portion of the DFID grant for Component C (in the amount of GBP 2.265 million), were reallocated for additional sub-project investments in performing districts.

Realignment of technical assistance support to the districts: Consultant positions at the national and regional levels were reduced in view of the reduction in the number of participating districts, with regional consultants located in two, instead of three, regions.

Extension of the project closing date: The project closing date was extended by 24 months, to September 30, 2011.

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design and Quality at Entry

Soundness of Background Analysis. The PAD and other documents related to project preparation reflected a well-grounded understanding of the issues related to governance reforms at the district level, which was broadly shared by GOI and the Bank. The Governance and Decentralization Survey (GDS) undertaken during project preparation covered 177 districts, including the 60 districts initially identified for project participation. GDS assessed stakeholder perceptions on themes including participation, effectiveness and efficiency, transparency, the rule of law, responsiveness, accountability and conflict management. Several important factors were also identified as being crucial for the success of sub-national governance reforms, including more active civil society, higher levels of public participation and political awareness, and reform-minded sub-national governments.

The Bank's task team noted that existing projects on decentralization in Indonesia focused mostly on capacity building, technical assistance, and improved service delivery. The project accordingly emphasized broader cross-sectoral reforms (on transparency, participation, financial management and procurement), and included a component for infrastructure investments linked to poverty alleviation. The project design also took into account other Bank projects related to decentralized governance in Indonesia, including the Kecamatan Development Project (KDP), the Urban Poverty Project (UPP) and the Urban Sector Development Reforms Program (USDRP), as well as Bank projects related to community-driven development and governance in Brazil, India and Mexico.

Assessment of Project Design. In retrospect, the project design was ambitious, and reflected overly high expectations, on the parts of both GOI and the Bank, of what could be realistically achieved with the districts, given implementation capacities at the central and district levels. This can be seen in terms of what the project expected participating districts to achieve, and the timeframe for doing so. The project's Local Governance Reform Framework (see Annex 2) consisted of a long list of over three dozen reform requirements for participating districts, in the areas of transparency and participation, PRSAPs, financial management, and procurement. The approved project design entailed a phased approach, with the fulfillment of reform requirements by participating districts structured into four phases: entry (to participate in the project), pre-investment (prior to the release of funds for sub-project investments), and Year 1 and Year 2 sub-project investments. Six of these requirements were subsequently dropped during project restructuring (see Annex 2); the reasons given included that some of these requirements were no longer valid, no longer relevant, or simply too difficult for the districts to achieve.

The project design was scaled back during the restructuring, and focused on fewer regions and districts than originally planned. The expectation during preparation was that a new GOI on-granting mechanism for sub-national governments would become effective during implementation in order to allow for a scaling up of the project reforms to additional districts. The project design also assumed that the second batch of around 40 districts would undertake the specified reforms without the incentive of sub-project investment funds. This phased approach assumed that a “snowball” effect would emerge, with the initial encouragement of innovation among reform-minded districts leading to the broad dissemination of best practices, and ultimately to the scaling-up of the project’s reforms nationally. At the time of project closure, this scaling-up had not occurred, and indeed the project restructuring dropped all plans to expand the project activities beyond the core first batch of 14 districts. With hindsight, these assumptions made during project preparation turned out to be overly optimistic.

Government Commitment and Stakeholder Participation. Given the overall context for decentralization as described in Section 1.1 above, there was significant appetite among all parties—the central government, the district governments, development partners, and civil society organizations—to undertake projects and activities in support of decentralization. Significant efforts were made by the Bank during project preparation to consult and ensure coherence with the ongoing programs of GOI agencies, the districts themselves, and other development partners—including ADB, DFID, the Ford Foundation, GTZ, UNICEF, and USAID. A succession of field visits to candidate districts resulted in the shortlisting of the first batch of less than 20 districts (out of the original 60) according to selection criteria that included the level of poverty (with a preference for poorer districts), willingness and commitment on the part of the district government, and geographical clustering within selected provinces. The basic response to limited understanding and capacities at the district level was to provide more “socialization” and facilitation support for the districts. The PHRD grant obtained during project preparation allowed for the recruitment of district-level facilitators (F-kab) who facilitated activities such as multi-stakeholder forums and the development of PRSAPs at the district level. In this regard, commencing reform-related activities during the project preparation phase helped to increase the likelihood of successful project implementation.

Assessment of Risks. A comprehensive risk assessment was undertaken as part of project preparation. Procurement and financial management aspects at the district level were identified as being high risk, particularly in relation to the sub-project investments (Component B). Specific risks related to local governance reforms (Component A) were mostly rated as Substantial or Modest, with the overall project risk rated as Substantial. Two specific risks identified in the PAD turned out to be particularly relevant during project implementation – that the procurement and mobilization of project staff would be inefficient and delayed (substantial risk), and that capacity building activities would not be delivered in a timely manner (modest risk). With hindsight, the risk mitigation measures identified – the project procurement plan prepared prior to negotiations, and the recruitment of regional consultants, respectively – were insufficient (see also Section 2.2 below).

2.2 Implementation

Factors at the Level of GOI Overall. Loan negotiations were delayed as the existing GOI regulatory framework did not support on-granting of funds to districts with limited fiscal capacities. The intended project design was for the sub-project investment funds to be managed and utilized by the districts as part of their APBD (i.e. as on-budget funds), which was consistent with the project objectives to strengthen planning and budgeting at the district level. As this turned out not to be possible due to GOI regulations, sub-project funds were instead channeled to the districts through the *tugas pembantuan* (co-management/task assistance) mechanism. This had additional implications for project implementation, as the assets constructed with sub-project funds were considered to belong to the central government, and had to be formally transferred to the districts following completion.

Another key factor that affected project implementation was the continued evolution of the overall system of decentralized governance in Indonesia, following its initial implementation in 2001. Prior to project approval, the decentralization laws were revised in September 2004 with the passage of Laws 32 and 33 of 2004. Key changes introduced by these laws included the direct election of district heads (*bupati*), review of district budgets by the province on behalf of the central government, a greater role for the province in monitoring district performance, and new requirements for local borrowing. During the years of project implementation, additional laws and regulations on decentralization were introduced (see Table 2 below for selected examples). District governments in Indonesia were thus operating in an environment in which the legal and regulatory framework regularly introduced new demands and requirements. As can be seen in Table 2, the ILGRP Local Governance Reform Framework was largely consistent with the laws and regulations that were subsequently introduced. Districts participating in the project were thus better able to comply with the new laws and regulations, because of the project.

Table 2. Laws and Regulations Introduced During Project Implementation, and Relationship with ILGRP Reforms

Reform Area	Law/Regulation	Relationship with ILGRP Reforms
Poverty reduction strategies/plans	Perpres 54/2005	Districts required to develop district-level poverty reduction strategies (SPKD). Through ILGRP, participating districts had developed detailed poverty reduction strategies and action plans (PRSAPs), which guided sub-project investments. District PRSAPs, prepared several years before, formed the basis of the new SPKDs.
Transparency	Law 14/2008	Districts encouraged to increase transparency in governance. ILGRP districts had been supported in introducing local regulations (*perda*) on transparency and participation, and were thus leaders in applying principles of transparency in district governance.
Financial management	Permendagri 13/2006	ILGRP reforms on financial management were fully consistent with this directive of the Minister of Home Affairs.
Procurement of goods and services	Perpres 54/2010, which superseded Keppres 80/2003	ILGRP reforms on procurement were consistent with the requirements of this presidential decree, including the establishment of procurement units at the district level, and the requirement for all procurement officials at the district level to have professional certification.

Factors at the Level of the Implementing Agency. One main factor that created difficulties for project implementation can be termed as management or administrative issues due to limited capacity on the part of the implementing agency – the Ministry of Home Affairs (MOHA) – and at the National Project Secretariat (NPS), which came under the purview of MOHA. One issue was related to the work units (*satker*) at the NPS. Delays resulted from MOHA not appointing these work units on time, including the procurement and financial management teams of the NPS. Another issue was related to procurement, where limited capacity on consultant procurement at MOHA resulted in slow and unsatisfactory selection of consultants, including the NMCs who were intended to support NPS. A further set of issues was related to financial management where consultants and facilitators experienced delays in receiving payments, contract renewals were often late, and reimbursements for travel to the districts were slow, with no provision of cash advances for travel expenses.

The major impact of these project management and administrative issues at MOHA and NPS was limited facilitation and support for participating districts. The project design anticipated having 110 project staff supporting project implementation, with half of these based at the district level. However, the issues that emerged with regard to putting these staff in place meant that districts did not receive the intensive support that had been planned. Redoubled efforts on the part of MOHA and NPS beginning in 2008 did enable the successful conclusion of the project by 2011, according to the targets modified through project restructuring. It is arguable, however, that the final number of participating districts would have been higher, with a higher quality of reforms achieved, had implementation support to these districts been better.

Project Restructuring. The first three years of project implementation, from 2006 to 2009, saw serious delays that spanned all three project components. Progress in Component A, on local governance reforms in participating districts, was slow relative to the planned schedule. It was only at the time of the MTR, in the third year of project implementation, that a total of 11 districts had fulfilled the third phase ("Year 1") of required reforms. Progress on Component B was better than anticipated in terms of the number of investment sub-projects implemented in participating districts, but these too experienced delays as sub-project proposals were not verified in a timely manner by the NPS, and the slow flow of investment funds to the districts resulted in these funds being carried over from 2006 to 2007, and then to 2008. Poor progress on Component C impeded the implementation of other project components. Implementation progress, project management, financial management and procurement were all rated "moderately unsatisfactory" in the three ISRs undertaken in January 2008, June 2008, and January 2009.

The project was thus restructured in September 2009, following the Mid-term Review (MTR) earlier that same year. The MTR recommended project restructuring to reduce the number of participating districts, and concomitantly the number of project staff, to levels that were more realistic given the delays and limited progress up to 2009. By extending the project's closing date, scoping down the targets for governance reforms, and focusing on fewer districts, project restructuring allowed the project to get back on track and to start registering satisfactory performance at subsequent supervisions. The key changes made as part of the project restructuring are described in sections 1.3 and 1.7 above.

Other Factors. A discussion of factors at the district level that contributed to the successful implementation of local governance reforms is contained in Section 6 below, on lessons learned.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

Design. The PAD envisioned that the project M&E system would provide continuous learning and feedback from a combination of internal monitoring, external monitoring and independent evaluation. For internal monitoring, a management information system (MIS) would enable data to be collected and entered at the district level, stored in a master database, and accessible at national and district levels. District governments, RMCs and F-kabs were all to submit monthly reports to the NPS. Within each district, F-kabs were also to use special activity feedback forms to obtain stakeholder feedback, with the PAD also stating the intent to use these feedback forms on a longitudinal basis from one year to the next. For external monitoring and independent evaluation, a project M&E secretariat at BAPPENAS was to manage several activities, including annual reviews of poverty strategies and budget planning, an economic evaluation of sub-project investments, assessments of procurement and financial reforms, qualitative studies of governance reforms, and mid-term and final project evaluations. As already mentioned in Section 1.3 above, the project's results framework and indicators therein were less than satisfactory, which constituted a weakness in the project's M&E design.

Implementation. The implementation of project M&E fell substantially short of that intended in the project design. This can be attributed principally to the project management and administration difficulties described in Section 2.2 above. The M&E specialist was only recruited in late 2008, the complaints handling specialist was terminated due to poor performance and then not replaced, and the MIS specialist position was never filled. These positions were subsequently eliminated as part of project restructuring by mutual agreement between GOI and the Bank following the MTR. The MIS was never fully operationalized, while regular and systematic submission and analysis of monthly reports from the districts was not achieved – there were neither proper incentives for compliant reporting nor sanctions for lack of compliance. External M&E through BAPPENAS, which had a separate management structure and budget allocation for these activities, were generally comprehensive. The external M&E reports – including on the mid-term and final evaluations – are rich in information and detail.

Utilization. The shortcomings in design and implementation (including staffing) of M&E compromised its value when it came to utilization. Rather than improving the management and implementation of the project, the sophisticated and layered M&E design in this project appears to have placed an additional burden on project execution. BAPPENAS' final evaluation report argues that separating the internal and external monitoring functions rendered M&E less effective. Coordination and follow-up between NPS and the M&E secretariat at BAPPENAS was weak throughout the project. Despite the good quality of the external M&E reports, their findings on implementation problems in the field did not spur specific meetings or actions to resolve these, and so did not influence subsequent project implementation as had been intended in the project design. Yet, even if there had been a single, integrated project M&E function, the question still remains as to what would have been the right balance between designing comprehensive M&E, and being realistic about capacity limitations to undertake such M&E and to act on its findings.

One particular shortcoming in project M&E merits separate mention here, due to its impact on the assessment of project outcomes in this ICR. The final administration of the GDS did not take place because of project management issues. Following project restructuring, reconciliation and recalculation of the balance of the project budget available for the final GDS was not done promptly enough to enable the procurement of a contractor in time. The lack of final GDS findings, which would have included a survey of governance reforms in districts not participating in the project, thus limited the assessment of project outcomes in this ICR. Without this final GDS, there is no readily available quantitative data or evidence (apart from some qualitative or anecdotal information, see Section 3.3 below) from non-participating districts to assess if the project itself actually had a significant impact on governance reforms in participating districts, and the extent of such impact.

2.4 Safeguard and Fiduciary Compliance

Safeguards. Three safeguard policies were triggered during project preparation: Environmental Assessment, Indigenous Peoples, and Involuntary Resettlement. As described in the PAD, frameworks on environment, indigenous peoples, and land acquisition and resettlement were developed as part of the project's Safeguards Framework, and included in the Project Operational Manual, which also offered detailed guidance on implementation. Safeguards monitoring during project implementation focused primarily on the execution of the multiple sub-project investments in participating districts. Safeguards reviews undertaken regularly throughout project supervision found that the project design and framework for safeguards were sound, and that there were no serious negative impacts from the sub-project investments. Minor safeguards issues identified during field visits to sub-project sites (e.g. erosion-prone slopes at a roads sub-project) were documented in aide-memoires and followed up by both the GOI/NPS and Bank teams. Although good practices with regard to social safeguards were not formally part of the Local Governance Reform Framework, the project offered the potential opportunity to develop capacity at the district level on safeguards. The weaknesses in project implementation, however, meant that this opportunity was not realized.

Financial Management. Project financial management (FM) performance was rated moderately unsatisfactory prior to project restructuring, but subsequently improved and was found to be generally good. As noted in Section 2.2 above: prior to project restructuring, FM issues were mainly related to difficulties and delays in GOI level budgeting and appointment of work units (*satkers*), and payments for consultants. Quarterly financial monitoring reports (FMRs) were often late, due to delays in receiving underlying reports from participating districts. Following project restructuring, these FM issues were largely addressed, and satisfactory FMRs were submitted in a timely manner. By the time of project closure, the FY07, 08, 09, and 10 audit reports had all been received on time, with the auditors providing unqualified opinions on the financial statements. However, the Bank task team noted that some follow-up actions on the findings from previous years' audits were still outstanding. These were mainly related to improvements to internal controls for project management and also at the district level.

Procurement. Procurement performance of the project had been rated moderately unsatisfactory for most of the period prior to project restructuring. This was due to the procurement issues for project management and implementation (for example, recruitment of the national and regional consultants, and for project M&E functions) as described in Section 2.2 above. There were no major procurement issues that arose from sub-projects, although four formal complaints on sub-project procurement were received and resolved, as described in Section 2.3 above.

2.5 Post-completion Operation/Next Phase

The possibility of Additional Financing for ILGRP was discussed by GOI and the Bank during 2010, but was not pursued. This was at least in part due to the recognition by both GOI and the Bank that: (i) the scope and extent of the project's governance reforms had been highly ambitious; (ii) the record of achievement and sustainability of these reforms in participating districts has been mixed (see Section 3 below); (iii) project implementation by GOI had proven to be challenging, and thus (iv) any future expansion to additional districts would require a reassessment of the implementation approach. At the same time, the issues and needs relating to decentralization in Indonesia remain largely as they were at the time of project appraisal (as described in Section 1.1 above) – the more than 400 districts across Indonesia have significant devolved roles and responsibilities, but most have limited capacities. Levels of transparency and public participation are low, and corruption remains a serious concern. Another Bank project that is currently under implementation in Indonesia, on decentralization at the district level, is the Local Government and Decentralization Project (LGDP) – see Section 3.5 for more information. The planned PforR project will follow up directly on the district-level governance reforms supported by the project.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation

Objectives. The PDO is assessed as highly relevant as it sought to directly strengthen governance at the district level, as part of Indonesia's system of decentralized governance that continues to evolve. Effective implementation of decentralization reforms that began with the "Big Bang" in 2001 is an explicit aim of GOI, and a particular priority for MOHA. The PDO was consistent with the CAS at the time of project preparation, which sought to strengthen governance through effective implementation of decentralization and greater local government accountability, as well as with the current CPS for FY2009-2012, which focuses on investing in Indonesia's institutions, including through cross-cutting engagements on sub-national government institutions and systems.

Design. The project design was highly relevant to the agenda of decentralization at the district level in Indonesia. Component A of the project focused on key aspects of district-level governance, including transparency, public participation, planning and budgeting, financial management, and procurement. These aspects are procedural/process-related or administrative in nature, but are essential to good governance in any context. Component B of the project, on poverty-targeted investments in the infrastructure sub-sectors, provided an important incentive for participating districts, and also contributed to GOI and Bank objectives to reduce poverty in Indonesia. The use of a Specific Investment Loan (SIL) as the lending instrument was also the most relevant choice for the project design. The PAD describes how alternative instruments were considered and rejected: "adjustment lending" was rejected because of the need to provide intensive facilitation and capacity building at the district level, as well as funding for sub-project investments; an Adaptable Program Loan (APL) was rejected as it would have required a commitment to a longer-term program when the intent of the project was to pilot and test support for district governance reforms.

Implementation. Despite the challenges encountered and initial delays, the implementation of project activities was directly relevant to the needs and priorities of GOI and participating districts. As illustrated in Table 2 in Section 2.2 above, the reforms supported by the project – in particular through the project's Local Governance Reform Framework – remained relevant for participating districts, even as the overall system of decentralized governance continued to evolve with new laws and regulations over the years. The 262 investment sub-projects implemented in the infrastructure sub-sectors (see also Annex 2) were of high benefit to local communities. With hindsight, however, project implementation would have been even more relevant and effective if the engagement of consultants to provide the planned facilitation and support had proceeded smoothly, and if ongoing M&E findings had been brought to bear more closely on project execution.

3.2 Achievement of Project Development Objectives

The PDO – to pilot support to district governments in improving transparency, accountability and public participatory practices and in undertaking reforms in financial management and procurement – is assessed to have been achieved, based on the outcome/impact indicators specified in the project's results framework. As described in Section F of the Data Sheet, targets were met for all of the following indicators: public consultations on local budgets and regulations were undertaken in at least 12 districts; district budgets and procurement plans were publicly announced in at least 12 districts; more than ten districts were found to have acceptable standards of both financial management and procurement; and stakeholder satisfaction with government service delivery increased from 60 percent in 2006 to 82 percent by the time the project ended in 2011. Only one indicator, on increases in poverty-targeted expenditures, failed to meet the target of 10 districts, with only 4 districts (Bandung, Bulukumba, Kebumen and Bolaang Mongondow) showing an increase between 2008 and 2010.

The outcomes achieved by the project can be seen to have been causally linked to the output indicators for Component A on local governance reform – the specific outputs related to public participation, pro-poor planning and expenditures, and financial management and procurement contributed directly to the outcome indicators in those areas. The poverty-targeted investments in Component B contributed to the overall PDO outcome, in that project funding for these sub-projects was an important incentive for participating district governments to undertake the governance reforms of Component A. The facilitation and technical assistance outputs of Component C also contributed to the achievement of the reforms of Component A. Annex 2 provides more information on the outputs achieved by each project component, and the associated output indicators.

The specification of the outcome indicators and targets in the results framework presented in the PAD (and to a certain extent also, the project restructuring paper), was in some respects less than satisfactory. First, two outcome/impact indicators were phrased vaguely without specific quantitative targets: "Extent to which recommendations from consultations/public hearings are incorporated…", and "Greater public availability of information…". Second, another outcome/impact indicator cannot be seen to have contributed to the PDO directly: "EIRR for project-funded infrastructure" (in any case, investment sub-projects achieved an average EIRR of 24.6%, exceeding the target of at least 15%). On balance, however, these do not affect the overall conclusion that the PDO was achieved.

It should also be pointed out that if the wording of the PDO is read in the strict sense, which was simply to "pilot" (i.e. to test or to initiate) the provision of "support" on governance reforms in participating districts – then the project can certainly be said to have achieved the PDO, regardless of the degree of success of actual reforms in the participating districts. But surely any objective assessment of the project should also examine the extent to which the intended reforms were effective or successful in participating districts. Based on the outcome indicators discussed above, this ICR concludes that the extent of actual reforms realized in participating districts does support the view that the PDO was achieved.

Beyond the results framework itself, perhaps one of the most telling indicators of improved financial management at the district level would be the outcomes of annual audits of the districts by BPK, Indonesia's supreme audit institution. In 2009, one district, Tanah Datar, received an unqualified audit opinion. Most districts have been receiving qualified audit opinions, mostly due to poor asset management. Yet, this represents an improvement over earlier years of the project where some districts had audit results with adverse opinions or disclaimers of opinion. While improved audit results cannot be attributed entirely to the project, it would be fair to say that the general trend of improvement was in part due to project-supported reforms in district FM and procurement practices.

There was also insufficient evidence to assess if the project was indeed responsible for improvements in governance reforms in participating districts, or if some districts would have undertaken some of these reforms on their own anyway. As described in Section 2.2 and Table 2, the overall system of decentralized governance in Indonesia has continued to evolve, with new laws and regulations issued from year to year. Participating districts were selected in part due to their "reform-mindedness", which was a pre-existing condition prior to the project. The lack of a final Governance and Decentralization Survey, as noted in Section 2.3 above, means that definitive conclusions cannot be drawn here. But there is some evidence of governance reforms taking place at the district level more generally. For instance, in its issue of Aug 17-23, 2009, *Tempo*, an influential weekly news magazine in Indonesia, included two participating districts in its list of nine "star districts" from across the country, for their innovations in governance to improve public services. Four other ILGRP participating districts were also cited by the magazine. But the fact remains that seven other "star districts" identified by *Tempo* were not in fact project participants.

3.3 Efficiency

More than two-thirds of the project's expenditure, $31.9 million out of a total project cost of $46.3 million, was spent on sub-project investments in the infrastructure sub-sectors under Component B of the project. The PAD itself did not provide figures for net present value (NPV) or EIRR for Component B because the programmatic and demand-driven nature of the project design, where sub-projects were not defined or identified ex-ante, did not allow for detailed cost-benefit calculations during project preparation. Annex 2 summarizes the actual outputs delivered, and Annex 3 discusses the net benefits and economic returns from these sub-project investments. Based on EIRRs that ranged between 20 percent and 31 percent from a sample of completed sub-projects (see Annex 3 for more information), the sub-project investments can be assessed to have been efficient and cost-effective overall, generating net benefits in the range of those seen in similar investments in small-scale rural infrastructure in Indonesia.

It should also be mentioned, however, that both the GOI and Bank teams involved in implementation support for the project found the sub-projects to be administratively burdensome to supervise. Although the number of participating districts ended up being lower than originally planned, the final number of 262 sub-projects was far higher than the 93 or so anticipated in the PAD. In line with the project design and as provided for in the project operations manual, participating districts were required to prepare and submit documentation on each proposed sub-project to the NPS for approval, including a detailed engineering design, activity/work plan, environmental and social safeguards, and analysis of net benefits. Monitoring of sub-project execution included reviewing procurement processes, following up on engineering and safeguard issues, and checking for adequate engineering quality and final completion. It was this experience that significantly influenced the design of an output-based approach – which involves verifying outputs rather than supervising execution – for similar district-level infrastructure investments under the LGDP project (see also Section 3.5).

The project overall fell significantly short of the level of efficiency targeted in the PAD. For example, among the output indicators in the project's results framework, it was expected that 40 districts would meet the basic project entry requirements, and that 32 districts would have taken steps on local regulations related to public consultation and access to information, and also implemented action plans for reforms in financial management and procurement. With project restructuring, these targets were reduced to between 10 and 14 districts, and were largely achieved. As envisioned in the PAD, most of the expenditures for implementing the governance reforms of Component A were covered by participating districts, but some $8.2 million was ultimately spent through Component C to support the implementation of components A and B of the project. In other words, the project ended up spending almost two-thirds as much as originally intended for implementation support, for work in only one-third the planned number of districts. More generally, is a sum of $8.2 million to pilot governance reforms in 14 districts – or about $600,000 per district – over a planned period of three years which ended up being extended to five years, reasonably cost-effective? Given the ambitious agenda for governance reforms, the answer is probably yes. But this is unlikely to represent a model that can be feasibly scaled up to the almost 500 districts across Indonesia.

3.4 Justification of Overall Outcome Rating

Rating: Moderately Satisfactory

The overall outcome of the project is rated as being moderately satisfactory. The project's objectives and design were highly relevant to the decentralization agenda in Indonesia. Despite the challenges and delays with project implementation, on balance implementation was relevant to the needs and priorities of GOI and participating districts, in terms of the governance reforms supported and the poverty-targeted sub-project investments that were funded. The PDO was achieved, and participating districts implemented various governance reforms. The completion of 262 sub-project investments was cost-effective in delivering a range of net benefits for local beneficiaries. Taken together, all these elements would suggest a satisfactory rating for project outcomes. However, the project's final achievements were scaled back through project restructuring, mainly due to a combination of an overly ambitious project design and weak implementation prior to restructuring. This meant that the project's overall efficiency was lower than planned, with project funds utilized to deliver outcomes in a smaller set of districts.

3.5 Overarching Themes, Other Outcomes and Impacts

Institutional Strengthening of District Governments

As mentioned above, by supporting district governments in undertaking governance reforms, the project contributed directly to strengthening district-level government institutions, particularly in the annual planning and budgeting process, financial management, and procurement. The various reforms specified in the Local Governance Reform Framework (see Annex 2) strengthened the effectiveness of district government operations, thus also helping to improve service delivery to local residents. With the project's support, participating districts also undertook various innovations in governance and institutional arrangements. For example, the district of Lebak established its Commission on Transparency and Participation (KTP), with independent commissioners. Solok district established an independent complaints handling unit, and a centralized procurement unit. During Capacity Building workshops, the districts exchanged experiences, best practices and lessons learnt.

A related Bank project that is currently under implementation in Indonesia is the Local Government and Decentralization Project (LGDP), through which the Bank continues to support decentralization in Indonesia at the district level. LGDP focuses on the accountability and reporting of the central government's Specific Allocation Grants (DAK) to pilot districts, in the infrastructure sub-sectors. DAK funds are a significant component of overall GOI transfers to district governments, and LGDP thus seeks to strengthen the institutional arrangements related to a key fiscal transfer mechanism in Indonesia. The experience of ILGRP implementation had a significant influence on the LGDP project design, which utilizes an output-based approach to reimburse GOI based on verified, eligible outputs in the LGDP pilot districts. The Local Government and Decentralization Project took lessons directly from ILGRP and incorporated them into the project's design.

4. Assessment of Risk to Development Outcome

Rating: Moderate

The overall risk to the development outcome is rated as moderate. The main element of this risk is the issue of sustainability of governance reforms in participating districts, should districts "backslide" by weakening reforms or even abandon some reforms altogether. There is a real risk of this happening. The experience with non-performing districts during project implementation, which led to the reduction in the number of participating districts, shows how difficult implementing and sustaining governance reforms can be. On the other hand, the overall context of decentralized governance in Indonesia is conducive to reform: there is commitment to the reform agenda at the highest levels of the central government, the legislative and regulatory frameworks for decentralization both require and encourage districts to improve governance, district heads and other elected officials do face electoral pressures to perform well in their duties, and civil society and community level demands and expectations for better governance continue to grow. Moreover, in those cases where there is local legislation (*perda*) on a particular reform, or a central government law or regulation requiring compliance, the likelihood that the relevant reforms will be sustained is higher. Section 6 considers some of the lessons learned from the project, including the key factors that enable successful reforms to take place.

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry
Rating: Moderately Satisfactory

The Bank team preparing the project worked through the three-year period of project preparation, undertaking several background studies and engaging in extensive consultations, including with development partners and potential participating districts. All this was done in close collaboration with GOI, where BAPPENAS was the main counterpart agency. In general, the Bank's efforts in project preparation showed adequate thoroughness and due diligence with regard to the project design, including consideration of potential risks related to project implementation. Yet, the Bank clearly underestimated the capacity limitations at GOI – and in particular at the executing agency, MOHA – which led to the subsequent problems and delays during project implementation. The Bank's task team was probably also being overly ambitious first with the entire set of governance reforms supported by the project, with the added complexity of the sub-project investments. We should ask if the project design set up the districts and GOI to succeed, or if instead there was a significant likelihood that project restructuring to scope down the project's targets was going to be necessary eventually. This ICR concludes that the Bank could quite reasonably have expected project implementation to have been successful, but that the downside risks were also not appreciated fully. For this reason, the Bank's preparation performance is rated as moderately satisfactory, instead of satisfactory.

(b) Quality of Supervision
Rating: Satisfactory

Supervision was challenging as the project was being implemented in 14 districts across 9 provinces. Supervision of project implementation by the Bank team was close and careful. Missions were undertaken regularly, as often as twice a year at some points. These included field visits to participating districts where all aspects of project implementation, including both governance reforms and execution of sub-project investments, were reviewed. Field visits together with NPS staff and in coordination with district governments, RMC and F-kabs, where available, were the norm. The supervision effort was largely performed by the Bank's office in Jakarta, allowing for long mission durations that covered all project aspects comprehensively. Implementation issues were clearly identified and documented in Aide-Memoires, which contained long and clear lists of items that required time-bound follow-up actions. There was some sentiment on the part of GOI, expressed in its own project completion report, that the Bank's close supervision amounted to micromanagement, but this was probably unavoidable given the delays encountered in project implementation.

The decision to restructure the project was a critical one, and is judged here to have been the correct and appropriate response to the problems and delays encountered with project implementation. By extending the project's closing date, reducing the number of participating districts, and scoping down the targets for governance reforms, project restructuring allowed the project to get back on track and to start registering satisfactory performance at subsequent supervisions. Restructuring was also key to the project's successful conclusion, thereby ultimately avoiding an overall unsatisfactory rating in this ICR. Perhaps the only question that could be raised in this regard is whether restructuring could have been undertaken earlier, thus also enabling project completion sooner. The mid-term review was only undertaken in early 2009, when the project was originally scheduled to close later that same year; despite delays in implementation, earlier action on the part of the Bank during 2008 may have been more effective than waiting until 2009.

(c) Justification of Rating for Overall Bank Performance
Rating: Moderately Satisfactory

On balance, the Bank's performance is rated as moderately satisfactory. Efforts during project preparation and supervision were careful and thorough overall, including through project restructuring. As described in the sections above, the Bank fulfilled its roles in preparation and supervision as well as may be reasonably expected, given the circumstances and constraints faced, while also maintaining a positive and constructive relationship with GOI and participating district governments. However, the shortcomings and complexity in project design mean that the overall rating is moderately satisfactory.

5.2 Borrower Performance

(a) Government Performance
Rating: Moderately Satisfactory

The Government of Indonesia's overall commitment to the success of decentralization is well reflected in the continued evolution of the legal and regulatory framework for decentralization. There was also clearly commitment and interest from GOI, and in particular from BAPPENAS, during the period of project preparation. However, evidence of broad-based and high level support for the project's objective across GOI agencies is questionable, especially given the fact that the project's National Steering Committee (comprised of high level representatives from various GOI ministries and agencies) never met in person throughout the years of project preparation and implementation. Although working level meetings and coordination took place as needed, the attention, guidance and support of a high level committee would have contributed to more effective project implementation. For these reasons, government performance is rated as moderately satisfactory instead of satisfactory.

Since the participating district governments were not the borrower (in this case, GOI), their performance is more closely related to project objectives and outcomes. In this respect, the participating district governments deserve recognition for their achievements in implementing the Local Governance Reform Framework and executing the sub-project investments. Participating districts undertook successive phases of reform as required by the Framework, at times even without the technical assistance and facilitation that had been promised by the project due to delays in the recruitment of consultants. In addition, they completed all 262 sub-project investments, which far exceeded initial expectations. However, it should also be recognized that there were a number of non-performing districts that ended up being excluded from continued involvement in the project.

(b) Implementing Agency or Agencies Performance
Rating: Moderately Satisfactory

The Ministry of Home Affairs and NPS, which came under MOHA's purview, generally performed unsatisfactorily up to the time of project restructuring. The difficulties that began with the delay in fulfilling effectiveness conditions were compounded by subsequent delays in project implementation. These difficulties spanned a number of areas, including overall project management, procurement of NMCs, RMCs and F-kabs, and project financial management. The underlying causes were partly systemic (such as when funding for sub-projects could not be provided through the on-granting mechanism), and partly administrative due to lack of capacity at MOHA, as described in earlier sections of this ICR. It should be noted that the administrative difficulties experienced under ILGRP are regularly encountered in project implementation by other GOI agencies as well.

Leading up to the MTR and following the project's restructuring, the NPS became increasingly proactive in managing the project. Due recognition should be given to the redoubled efforts of MOHA and NPS, from 2008 onwards, to address many of issues with project implementation. Through these efforts and following project restructuring, the project got back on track and subsequently avoided further delays. Project implementation improved significantly and became generally satisfactory through to project closure. Separately, the performance of the M&E secretariat at BAPPENAS was satisfactory overall, in terms of the M&E outputs produced and their quality. What was somewhat lacking was closer integration of M&E findings into the actual management of the project.

Overall, the performance of the implementing agencies is rated moderately satisfactory. Despite the satisfactory performance registered after project restructuring, the fact remains that performance during initial implementation fell below expectations.

(c) Justification of Rating for Overall Borrower Performance
Rating: Moderately Satisfactory

On balance, the overall rating of borrower performance is moderately satisfactory. This is in recognition of the significant outcomes delivered at the district level by participating district governments, in terms of governance reforms and the sub-project investments, and thus the overall project outcome which is rated moderately satisfactory. Despite the initially unsatisfactory performance of the implementing agency, this overall rating of moderately satisfactory also recognizes the efforts made to turn around implementation, which became satisfactory after project restructuring.

6. Lessons Learned

There are two main categories of lessons learned from this project: one category is lessons on supporting governance reforms at the district level, and the other category is on project design and management. These lessons are collectively derived from the project's final evaluation report, GOI's project completion report, and the Bank's task team.

(a) Lessons on district-level governance reforms

An enabling external environment is necessary for governance reforms at the district level. A necessary but not sufficient condition for successful governance reforms at the district level is the existence of an enabling external environment within which districts can then undertake their reforms. Several key ingredients have been identified as contributing to such an enabling environment. One is the existence of an adequate legal and regulatory framework. In the context of Indonesia, this refers specifically to the framework of national laws and regulations related to decentralization, which specifies the roles and responsibilities of the districts as well as the resources given to the districts to discharge these functions. Another ingredient is the availability of capacity building and technical assistance to the districts. This can take various forms, such as offering training to district civil servants on specific topic areas, or providing technical guidance materials on implementing certain reforms. A third ingredient, and one that was a particularly important part of the project design, is the provision of specific incentives to undertake reforms. In the case of ILGRP, this incentive was in the form of funds for sub-project investments, and was structured in such a way as to become available following a district's achievement of specified reforms.

Successful district-level governance reforms require strong district leadership and dynamic and engaged civil society. Several internal factors at the district level were also identified as being crucial for implementing successful reform. One key success factor is high-level leadership: in the case of the project, this meant having a *bupati* (district head) who is not only supportive of reforms, but who actually sets the tone and champions reforms. A second factor is the existence of change agents who can help to facilitate and motivate action towards the necessary changes. In the case of ILGRP, this role was played in part by the F-kabs, but a key lesson is that these can and should also be internal to the district government – in other words, there should be advocates of change also within the district-level bureaucracy or cadre of civil servants. A third success factor would be the existence of a vibrant civil society at the district level, which constitutes a source of demand for governance reforms within the district. This can consist of various elements: community groups formed at the village or other local levels, civil society groups or associations, and actively interested free media organizations.

(b) Lessons on project design and management

Realistic project scope and goals increase the likelihood of project success. A major lesson related to project design which has been discussed earlier in this ICR, and which has wide general application, is to be realistic in what a project can reasonably achieve and to avoid being overly ambitious. In the case of this project, realism would have entailed a less ambitious Local Governance Reform Framework, and a smaller number of target districts than originally planned with a narrower geographical distribution.

Separating responsibility for M&E from the implementing agency reduces the likelihood of M&E uptake and utilization. A second general lesson relates to the placement of the monitoring and evaluation function of the project. The project design provided for a very comprehensive set of M&E activities to be executed by BAPPENAS, an agency separate from MOHA, which was responsible for executing all other parts of the project. The intention of separating this M&E function was ostensibly to increase the independence and objectivity of M&E findings. The effect, however, was to isolate part of the M&E

function, reducing the uptake of M&E results into subsequent project management and decision-making. An alternative M&E design could have been to include regular M&E activities within the purview of the main executing agency, while reserving only a few key reports such as the mid-term and final evaluations for a separate, independent agency.

Alignment with the borrower's regular planning and budgeting cycle is important for smooth implementation. Several important lessons that are specific to project implementation in Indonesia can also be learned. One lesson that is generally applicable to any project to be implemented with GOI is the importance of ensuring consistency, if not synchrony, with <u>GOI's annual planning and budgeting cycle</u>. A contributory factor to the delays in project implementation was the project's year-to-year implementation schedule, which necessitated revisions to district-level DIPAs (annual budget documents) in order to include the funds for sub-project investments. DIPA revisions are a slow, time consuming process.

Reliance on a governmental transfer mechanism that has not yet been operationalized is likely to raise difficulties for project implementation. A second generally applicable lesson for projects working with sub-national governments in Indonesia is not to underestimate the issue of <u>on-granting of funds</u>. During project preparation, and indeed for most of the period of project implementation, the requisite national legislation and framework for on-granting to sub-national governments was not operational. In the case of this project, this resulted in the use of the *tugas pembantuan* mechanism to transfer sub-project investment funds to the district, which in turn necessitated a cumbersome process of asset transfers to the district governments for completed sub-projects.

Project design is more likely to remain relevant if it adequately anticipates future evolution of the system in which it operates. A final lesson for projects that focus on decentralization is the importance of ensuring <u>broad consistency with the evolving framework for decentralization</u> in Indonesia. As discussed in Section 2.2, this was not a problem for this project, in that the specific governance reforms supported by the project were designed in line with GOI's overall plans. The introduction of new laws and regulations related to decentralization (see Table 2) were consistent with the project's reforms and in fact made it easier for participating districts to comply.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/implementing agencies

The findings and conclusions of this ICR prepared by the Bank are broadly consistent with GOI's completion report (see Annex 6), and no significant issues were raised by GOI in this regard.

(b) Cofinanciers

DFID/UKAID confirmed via email that they had no comment on the ICR.

Annex 1. Project Costs and Financing

(a) Project Cost by Component (in USD Million equivalent)

Components	Appraisal Estimate (USD millions)	Actual/ Latest Estimate (USD millions)	Percentage of Appraisal
A. Local Governance Reform	1.33	1.35[a]	102
B. Poverty Targeted Investments	31.18	33.80[b]	108
C. Implementation Support	11.90	9.36[c]	79
Total Baseline Cost	44.41	44.51	100
Physical Contingencies	0.00	0.00	-
Price Contingencies	1.82	0.00	0
Total Project Costs	46.23	44.51	96
Front-end fee PPF	0.00	0.00	
Front-end fee IBRD	0.07	0.07	100
Total Financing Required	46.30	44.58	96

a. Estimated at IDR150 million/year x 14 districts x 6 years = IDR 12.6 billion.
b. Includes estimated 10% matching funds from district budgets (APBD).
c. Includes funds from GOI budget (APBN – through DIPA of MOHA and BAPPENAS).

(b) Financing

Source of Funds	Type of Cofinancing	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Borrower		0.18	1.43[d]	794
UK: Department for International Development (DFID)	Parallel[e]	12.00	8.84	74
International Bank for Reconstruction and Development		14.50	14.50	100
International Development Association (IDA)		15.00	15.39	103
Local Govts. (Prov., District, City) of Borrowing Country		4.62	4.42[f]	96
Total Financing		46.30	44.58	96

d. Based on estimated APBN amounts, FY 2007-2011.
e. The DFID grant was parallel cofinancing for Component C of the project; however following project restructuring, part of this grant was reallocated to fund additional expenditures under Component B.
f. Based on estimated APBD amounts for components A and B.

Notes:
- Exchange rate used: USD 1 = IDR 9,347
- Figures based on data from Client Connection, accessed on February 14, 2012.
- Expenditures for components B and C include foreign exchange losses of GBP 105,249 and XDR 172,551.

Annex 2. Outputs by Component

The main outputs and accomplishments achieved under each of the three project components are discussed in the sections below. The list of 14 participating districts in which all project components were ultimately implemented is in Table 3 below.

Table 3. List of ILGRP Participating Districts, by Province

Province	District
West Sumatra	Solok
	Tanah Datar
Banten	Lebak
West Java	Bandung
Central Java	Kebumen
	Magelang
D.I. Yogyakarta	Bantul
East Java	Lamongan
	Ngawi
South Sulawesi	Bulukumba
	Gowa
	Takalar
Gorontalo	Boalemo
North Sulawesi	Bolaang Mongondow

Component A: Local Governance Reform: This component was to assist districts in undertaking the reforms stipulated in the project's Local Governance Reform Framework (see Table 5 below), according to the phased approach for project entry, pre-investment and Year 1 and Year 2 investments. There were to be a total of 40 participating districts, with approximately 16 in batch 1, and the remainder in batch 2 to follow as the project progressed. Due to the problems encountered in project implementation, and as part of the project restructuring, the scope of this component was scaled back to encompass only 14 districts from batch 1.

There were five output indicators for this component in the project's results framework. The original targets for all five indicators, as specified in the PAD, were scaled back as part of project restructuring. Outputs were almost fully achieved with respect to the revised targets set during restructuring, and are described below. It should be noted, however, that these fell significantly short of the original targets in the PAD for the number of districts in which these would be achieved (see Table 1, and also Section F.(b) in the Data Sheet for details). Yet, the impacts of the reforms achieved in the remaining participating districts have been tangible and measurable beyond the specific output indicators specified in the results framework. In fact, the entire Local Governance Reform Framework can be considered to have specified and delivered a raft of project "outputs" in participating districts, under this project component. Although there were some modest changes to the Framework itself during project restructuring (see Annex 2), achievement of the reforms specified in the Framework was closely monitored during project implementation, and was largely achieved in at least 10 participating districts.

By the time of project closure, all 14 districts had effective local regulations (*perda*) on public consultation and access to information. Concomitantly, the survey undertaken in participating districts as part of the project's final evaluation found that over 83 percent of community respondents found it easy to access public documents on planning and budgeting, and that more than 90 percent of draft local regulations underwent a process of public consultation as part of the local legislative process.

All 14 participating districts also developed poverty reduction strategies and action plans (PRSAPs) which, at the time of project closure, had already run their course over the PRSAP planning periods in question. These have subsequently been incorporated into the current versions of the respective district-levels work programs on poverty reduction (SPKDs). The actual impact of the PRSAPs, however, has been mixed, as evidenced by the fact that PRSAPs were reflected in annual budget allocations in only four districts.

Action plans for the reform of financial management (FM), and of procurement, were implemented in ten districts as targeted. The project final evaluation found evidence of FM reform implementation in all ten districts in terms of approval processes for budget variations/revisions and for unplanned expenditures, and in the publication of district expenditure reports. Likewise, procurement reform was evidenced in terms of the publication of procurement documents, qualifications of procurement personnel, and the publication of sanctions applied.

Component B: Poverty Targeted Investments: This component was to provide incremental financing to participating districts in batch 1 for pro-poor development expenditures identified and prioritized through planning processes linked to the district PRSAPs. As described in the PAD, this component financed sub-project investments in participating districts, for the construction, rehabilitation or upgrading of infrastructure. The size of each sub-project investment was subject to a ceiling determined by the location of the district (with higher limits for more remote districts) and the district's population. Eligible sub-sectors (summarized in Table 2 of the PAD) included water supply and sanitation, energy supply, transportation, irrigation and flood protection, and community buildings/facilities.

Table 4. ILGRP Sub-project Investments, by District and Sub-project Type

	Roads	Bridges	Irrigation	Clean Water Supply	School Buildings	Other Buildings (retaining walls)	Total Sub-projects
Solok	12	1	2	-	1	-	16
Tanah Datar	7	1	6	5	-	-	19
Lebak	10	-	-	-	-	-	10
Bandung	8	1	-	5	-	-	14
Kebumen	5	2	7	-	-	-	14
Magelang	20	-	-	1	-	-	21
Bantul	9	2	32	-	17	-	60
Lamongan	6	1	5	6	-	-	18
Ngawi	11	-	8	2	-	-	21
Bulukumba	13	-	9	5	-	-	27
Gowa	3	-	7	-	-	-	10
Takalar	4	1	-	4	-	3	12
Boalemo	8	4	-	-	-	1	13
Bol. Mong.	6	-	-	-	-	1	7
Total	**122**	**13**	**76**	**28**	**18**	**5**	**262**

The project supported 262 sub-projects in 14 participating districts. Table 4 above summarizes the sub-projects by district and sub-sector. Almost half of the sub-projects were for roads, while just under one-third were for irrigation. A small number of sub-projects were for post-earthquake rehabilitation of school buildings in Bantul. Overall, sub-projects rehabilitated or constructed a total of 491 kilometers of roads, 30 meters of bridges, 81 kilometers of irrigation canals, 204 kilometers of pipes for clean water supply with 109 public taps and 185 public hydrants, and 90 classrooms and 28 activity spaces at 18 schools. A full listing with details of all sub-projects is available in the *Profile Sub Proyek* publication produced by the NPS. Annex 3 analyzes the expenditures and economic returns from these sub-project investments.

The sole output indicator in the project's results framework for this component was the number of supported sub-projects that followed proper technical, financial and procurement procedures. Close monitoring during project implementation by both the NPS and Bank teams ensured that issues related to the sub-projects, including technical/engineering matters and procurement, were identified and resolved with participating districts as needed. The final achievement of 262 sub-projects far exceeded the target of 96 sub-projects originally set in the PAD.

Component C: Implementation Support: This component was to fund specialized technical, facilitation and monitoring support for the activities in components A and B at the district, regional and national levels. It also included project M&E activities. This was the project component that was most affected by the implementation delays and difficulties with recruitment of consultants at the national, regional and district levels, who were meant to provide the planned facilitation and support to participating districts. There was thus a knock-on effect that delayed the implementation of the other two project components.

There were four output indicators for this component specified in the project's results framework. The targets for two of these four indicators were scaled back as part of the project restructuring, enabling the outputs to be fully achieved with respect to the revised targets. As was the case with the output indicators for Component A, these revised targets fell significantly short of the original targets in the PAD. Thus, 14 participating districts (instead of 40) received capacity development assistance in the core governance reform areas, while a total of 42 staff (instead of 110) were available at the national, regional and district levels to support project implementation. In addition, the project's M&E function was in place and provided various reports and analyses of the project progress (see Section 2.3 for more information). Finally, all project-related complaints received were handled satisfactorily and resolved, with only four complaints formally received, all of which were in relation to sub-project procurement matters.

Table 5. ILGRP Local Governance Reform Framework – Original and Revised

A. General Requirements

Original Requirements	Revised Requirements
Entry (Requirements to Participate in ILGR)[1]	
Be located in 9 ILGR provinces, exclude high-fiscal-capacity kabupatens	Unchanged
Submit a Letter of Agreement addressed to the National Steering Committee signed by Bupati and chairperson of DPRD expressing interest to participate in the program, and a commitment to: (a) implement specific governance reforms (participation, transparency, procurement, financial management) to be undertaken in subsequent phases as Governance Reform Framework; (b) commit to establish the Transparency and Participation, and Poverty Working Groups through public meeting; (c) undertake participatory poverty analysis and to institutionalize the poverty reduction strategy and action plan (PRSAP) into the Kabupaten planning and budgeting process; and (d) adopt the Operational Manual, including the participatory planning and budgeting process, safeguards framework, and appraisal procedures for sub-projects.	Unchanged
Issue a Bupati Decree (SK Bupati) comprising instructions to: (a) establish kabupaten-level project management unit to coordinate project activities; (b) implement the ILGR governance framework as agreed, in form, substance and timing; (c) follow the procedures in the Operational Manual, including the participatory planning and budgeting process, safeguards framework and appraisal procedures for sub-projects; and (d) amend the Bawasda's annual general audit program to include verification that the procurement and FM reform measures stipulated in the regulations have actually been implemented	Unchanged

B. Transparency and Participation Requirements (Basic Democratization)

Original Requirements	Revised Requirements
Entry (Requirements to Participate in ILGR)[1]	
Announcement in mass media in each kabupaten regarding the summaries of local budget (APBD) and Report of Local Government Bupati's accountability speech (ILPPD) in mass media.	Unchanged
Announcement in mass media of the availability of the following documents (locations, requirements, time, and the costs to get it): budget, Bupati's accountability speech, regional strategic plan (*Propeda, Renstra*), annual plan (*Repetada, AKU and Strategies and Priorities*), local regulations and spatial plan are available at the designated location(s).	Unchanged
Pre-Investment Phase	
Establish Transparency and Participation, and Poverty Working Groups through public meeting within 3 months of entry.[1]	**Not Applicable** *Rationale: the restructuring result is to drop the plan to recruit Second Batch Kabupaten. However, this was valid for the existing 14 participating districts*
Announcement in mass media of the procedures, costs, and time needed to get licenses and other services, such as ID cards, birth certificate, business license and building permits at least once a year, as well as being permanently posted at designated locations. This activity will be continued in Investment Phase.	Unchanged
Submission of draft local regulation (perda) on public access to information (transparency) to DPRD, which contains assurance and mechanisms of public access to: • Information related to discussion on public policies in DPRD; • Planning documents (Propeda, Renstra, Repetada, and spatial plans); • Draft and final documents of all perdas, budget (APBD) and budget realization reports; • Audit reports and their follow-ups, Bupati's accountability reports (LPJ), information on procurement policies, procedures and practices, on complaint resolution mechanism and results (follow-up).	Unchanged

[1] Only for Batch 2 districts.

Original Requirements	Revised Requirements
Submission of draft local regulation (perda) on public access to decision-making process (participation) to DPRD, that contains assurance of: • Public participation in drafting and finalization discussion of any perda in DPRD, planning documents and budgeting processes (including Propeda, spatial plans, Repetada and APBD); • Establishment of monitoring and evaluation mechanism of public satisfaction on service delivery; • Establishment of complaint resolution mechanism (incl. for procurement).	Unchanged
Finalize PRSAP and prepare draft local regulation (perda) on implementing the PRSAP.	Unchanged
Implement enhanced public participation in annual planning and budgeting that covers: • Set budget ceiling as an input for dinas and kecamatan planning discussions • Allocate block grant to village/kecamatan level. The information of the allocation and guidelines are disclosed to public. • Public meetings on dinas programming (at least for 5 poverty priorities sectors) • Public meetings on inter-dinas programming • Public consultation on final draft of APBD This activity will be continued in Investment Phase.	Unchanged
Investment Phase (Year 1)	
• Issue local regulation (*perda*) on access to public information (transparency) • Issue local regulation (perda) on access to decision-making process (participation) • Issue local regulation (perda) on implementation of the PRSAP.	Unchanged
Implementation of perda on access to public information (transparency) by announcing the summary of planning documents (Propeda, Renstra, AKU, Strategies and Priorities) and list of all perdas being issued in the last 1 year in mass media. This activity will be continued in Investment Phase Year 2.	Unchanged
Implementation of perda on access to decision-making process (participation) by at least discussing 50% of the perdas being issued in Year 1 of investment through intensive public consultations	Unchanged
Investment Phase (Year 2)	
Continued implementation of perdas on access to public information (transparency) and access to decision making (participation).	Unchanged

C. Financial Management Requirements

Original Requirements	Revised Requirements
Entry (Requirements to Participate in ILGR)[1]	
Issue a Bupati's Decree (SK Bupati)[7] establishing a Financial Management Reforms Committee, with members from key stakeholder departments, and tasked with preparing the detailed reform implementation plan and guiding the implementation of reforms.	Unchanged
Pre-Investment Phase	
Financial Management Reform Committee to prepare detailed phased implementation plans for the reform measures. These plans will be completed and presented to the Bupati and Project Secretariat within 3 months after the Committee has been established.	Unchanged
Provide an appropriate enabling legal framework for financial management reforms, by issuing • A local regulation (perda) on the Principles of Regional Finance in line with GR 105/2000 and Kepmendagri 29/2002 covering the reform areas to be implemented in Year 1 and 2 of Investment below; and • a Bupati's decree (SK) on the policies, systems and procedures for the preparation and execution of the APBD, in accordance with existing central regulations. The SK to also include reform agenda proposed in this project for implementation during the investment period, as stated below.	Unchanged
Investment Phase (Year 1)	
Implementation of reform actions proposed will be completed in each investment year in accordance with the SK on FM reforms and the implementation plan prepared by the FM Reforms Committee.	Implementation of reform actions proposed will be completed in each investment year in accordance with the SK on FM reforms and the implementation plan prepared by the FM Reforms Committee.
1) <u>Strengthen procedures for authorization of budget expenditure</u>, including • Authorize local government officials to make mid-year revisions in the budget allocation or budget target line items within certain pre-determined financial limits, similar to the authorities given to central government officials. • To prevent potential misuse of "contingency budget" (Belanja Tidak Tersangka), specify clear criteria for expenditures that shall be funded from these funds, and the procedures governing the authorization and commitment of such expenditure.	1) Unchanged
2) <u>Improve financial controls over management of public funds</u>, by • Segregate the functions of the finance department, which shall be responsible for the issuance of payment instructions (SPM) and the regional treasury (kas Daerah). • Kas Daerah shall not receive, disburse or hold cash, but only process banking transactions. • Instruct Bagian Keuangan (Finance Dept) to undertake periodic comprehensive reconciliation of cash accounts covering accounting records, bank statements, official and temporary proof of collections, and actual cash collection.	2) <u>Improve financial controls over management of public funds</u>, by • Unchanged • Unchanged • **Not Applicable** *Rationale: After 3 years of implementation and all the effort put in place, we found this reform agenda could not be completed within the time-frame available for project implementation, especially due to the limited capacity of local government finance unit staff, most of whom do not have an accounting background.*
3) <u>Strengthen monitoring and accountability of all public funds generated or received, by ensuring</u> • All regional government bank accounts can be opened only with authority from the Bupati • Heads of all Work Units shall submit quarterly reports to Finance Dept & Bupati declaring the name, location, and balances of all bank accounts in the name of the Work Unit or officials thereof. This activity will be continued in Investment Phase Year 2.	3) <u>Strengthen monitoring and accountability of all public funds generated or received, by ensuring</u> • Unchanged • **Not Applicable** *Rationale: The submission of this report is seldom conducted by each work unit, since the role has been covered by the local bank, where the LG keeps its funds. The current practice is that it's the local bank issues the monthly financial report of each work unit, and submit it to the Finance Department and Head of District. Therefore, this reform is no longer valid.*

Original Requirements	Revised Requirements
Investment Phase (Year 2)	
Implementation of reform actions proposed will be completed in each investment year in accordance with the SK on FM reforms and the implementation plan prepared by the FM Reforms Committee.	Implementation of reform actions proposed will be completed in each investment year in accordance with the SK on FM reforms and the implementation plan prepared by the FM Reforms Committee.
4) <u>Enhance accountability of Work Unit Heads for compliance with regulations</u>. Require Work Unit Heads to issue annually a Statement of Responsibility to Bupati, with copy to Bawasda, affirming compliance with applicable rules and regulations, and that all revenue collected and donations received are deposited to the authorized Kas Daerah account.	4) Unchanged
5) <u>Strengthen procedures and systems for revenue collections</u>. • Require all tax/levy payments and other local collections to be deposited directly by taxpayers to the bank accounts of the local government, except for small payments like parking fees and admission fees to museums, recreation centers etc. • Adopt use of serially numbered accountable receipt forms for all revenues.	5) **Not Applicable** *Rationale: Most of the ILGR participating Districts are rural areas whereby all tax/levy are in the form of small payments. Therefore, this requirement is no longer valid.*
6) <u>Strengthen effectiveness of internal audit function,</u> by requiring that copies of all Bawasda general audit reports are provided to DPRD within 30 days of being issued.	6) **Not Applicable** *Rationale: DPRD has access to annual audited financial statement conducted by BPK. This report is also accessible through the BPK website. This development was made possible through the implementation of the Audit Law. This requirement has therefore been covered and is no longer valid.*
7) <u>Implement greater transparency in local financial management</u>, by requiring completion and publication in local newspapers or websites of summary quarterly financial reports/budget realization reports within 2 months of quarter-end.	7) <u>Unchanged</u>

D. Procurement Reform Requirements

Original Requirements	Revised Requirements
Entry (Requirements to Participate in ILGR)[1]	
Issue an SK Bupati[7] on establishment of a work unit as focal point in procurement reform, with the following tasks: • Coordination with LPKPP • Lead and coordinate procurement reform in kabupaten • Implement trainings on procurement to other work unit • Oversee, monitor and report procurement practices • Issue Procurement Bulletin in quarterly basis to publish information and opportunity in procurement including practices	Unchanged
Pre-Investment Phase	
Take initial step to operationalize procurement focal point by providing supplemental budget for expanded functions.	Unchanged
Issue an SK Bupati[7] on the systems and procedures for implementation of the Keppres 80/2003, with special attention to the following: a) Adoption of standard bidding documents for kabupaten procured contracts, regardless of source of funding. b)Establishment of clear and robust mechanism for recording and handling of procurement complaints. c) Enforcement and public disclosure of sanctions relating to procurement deficiencies.	Unchanged
Implement provisions of Keppres 80/2003 related to the following: a) Removal of pre-qualification system for small contracts (<RP 50 Billion), and move towards a post qualification system for all contracts b) Public disclosure of results of bid evaluation, name of the winning bidder and contract scope/price.	Unchanged
Investment Phase (Year 1)	
Revise existing perda on kabupaten organizational structure and functions to include new functions of procurement focal point.	Unchanged
Monitor and publicly disclose unit rates for major components of civil works contracts, as well as prices for major categories of goods.	Unchanged
Implement provisions of Keppres 80/2003 related to the following: a) Removal of the restriction on bidding to bidders registered in the respective district area only, and open the competition to qualified bidders. b) Ensuring that only appropriately trained/certified staff are involved in procurement decision/actions/monitoring, including the Pimpro, members of tender committee, as well as the Bawasda staff involved in procurement audit. c) Ensuring that at least one qualified representative of civil society participates in the bid evaluation process. d) Public disclosure of the following procurement documents: • procurement plans of kabupaten work units; • contract rosters; and • project progress reports for all kabupaten projects e) Conducting and public disclosure of an annual survey on the experience of bidders participating in kabupaten procurement, as well as views and perceptions of civil society about kabupaten procurement practices.	Unchanged
Investment Phase (Year 2)	
Implement provisions of Keppres 80/2003 related to the following: a) ensuring professionalism of procurement function; and b) efficient and effective handling of complaints	The output will be monitored by the Procurement Reform Study
Reduce procurement delays and improve timeliness of award of contracts.	The output will be monitored by the Procurement Reform Study

Original Requirements	Revised Requirements
Ensure that all procurement activities are audited by Bawasda, and results of audit included in Bawasda's regular audit report.	**Not Applicable** *Rationale: The national legal framework on procurement audit and the strategy for capacity building of auditors are currently still being developed by LKPP. Without this framework and guidance from LKPP in place, it would be very difficult for local governments to improve their procurement audit functions.*
Analyze and report on price trends	The output will be monitored by the Procurement Reform Study

Annex 3. Economic and Financial Analysis

Review of economic and financial analysis undertaken at appraisal

The economic and financial analysis at appraisal consisted of two main elements: the expected benefits of improved governance and accountability arising from the proposed governance reforms in participating districts, and the benefits of the sub-project investments in the infrastructure sub-sectors. As stated in the PAD, the project effectively intended to generate two different sets of economic benefits, the former through Components A and C, and the latter from Component B.

Although this analysis in the PAD was described as being a cost-benefit analysis, it did not the expected benefits in monetary terms. The PAD therefore did not provide figures for the project's net present value (NPV) or economic internal rate of return (EIRR). This was firstly because the benefits of improved governance were held to be non-quantifiable. Second, quantifiable economic benefits were expected to accrue mainly as a result of sub-project investments, but the programmatic and demand-driven nature of the project design, where sub-projects were not identified ex-ante, did not allow for detailed cost-benefit calculations during project preparation. However, the PAD noted that experience from similar projects in Indonesia at the district and local levels indicated that demand-driven projects involving community participation are both cost-effective and economically viable.

The PAD included a qualitative description of expected project benefits from improved governance in the participating districts, as a result of the implementation of the project's Local Governance Reform Framework (see Annex 2 for more details). Specifically, the reforms in financial management and in procurement were expected to bring these districts onto a long-term path towards more effective public financial management, including areas such as budget formulation and execution, revenue collection, and accountability for public expenditure. Important benefits were also to be derived from the participation of local communities in sub-project planning and execution, improving the allocative efficiency of investments and increasing the sense of ownership among sub-project beneficiaries.

A third element of the economic and financial analysis presented in the PAD was an analysis of the expected impact of the project on the fiscal situations of GOI and the participating districts. The analysis noted that participating districts had accumulated sizeable surpluses and recorded a relatively strong overall fiscal position in 2001 and 2002. Yet, these districts also relied heavily on central government transfers for more than 90 percent of their revenues, and had very limited own-source revenues. Furthermore, districts also spent most of their revenues on recurrent expenditures, especially for civil servant wages/salaries. Overall, project funding would not have had a significant fiscal impact at the macroeconomic level, representing only 0.017 percent of national government expenditure in 2004. At the district level, sub-project investment funds were expected to range between 1.1 percent and 5.1 percent of district budgets in 2002, representing between 5 percent and 18 percent of development expenditures. The PAD also assessed that districts would be able to meet longer-term operations and maintenance expenditures for the sub-project infrastructure, without causing deterioration in their finances.

The following analysis undertaken as part of this ICR focuses on the economic returns from Component B, sub-project investments. Consistent with the reasoning given in the PAD, this ICR also assumes that the benefits from components A and C, from improved local governance, are non-quantifiable – or at least, not readily quantifiable. The impact of the funding from sub-projects on district government finances is also taken to be limited, as per the analysis in the PAD – there has been no significant deterioration in sub-national government finances in Indonesia in recent years.

Cost-benefit analysis of sub-project investments (Component B)

Sub-project Costs

Project expenditures for Component B – sub-project investments in the infrastructure sub-sectors in participating districts – totaled IDR 315.9 billion, or approximately $33.8 million. This total is based on project funds of IDR 287.2 billion provided to participating districts and a further estimated 10 percent in matching funds (IDR 28.7 billion) provided by the districts themselves. These expenditures are summarized by district in Table 5 below. As part of project restructuring, districts that had performed well in undertaking governance reforms (notably Solok, Tanah Datar, Kebumen and Bulukumba) received additional investment funds reallocated from non-performing districts (Bandung, Ngawi, Gowa, Takalar and Bolaang Mongondow). A summary of the numbers and types of sub-project investments, by district, is given in Table 4 in Annex 2.

Table 5. Cost of ILGRP Sub-project Investments in IDR and USD, by District

	IDR billions	Matching Funds (APBD) IDR billions	Total (Component B) IDR billions	USD millions
Solok	25.4	2.5	27.9	2.99
Tanah Datar	26.2	2.6	28.8	3.08
Lebak	23.2	2.3	25.5	2.73
Bandung	26.4	2.6	29.0	3.11
Kebumen	24.8	2.5	27.3	2.92
Magelang	23.1	2.3	25.4	2.72
Bantul	40.3	4.0	44.3	4.74
Lamongan	23.4	2.3	25.7	2.75
Ngawi	12.3	1.2	13.5	1.45
Bulukumba	21.8	2.2	24.0	2.57
Gowa	6.5	0.7	7.2	0.76
Takalar	4.5	0.5	5.0	0.53
Boalemo	16.2	1.6	17.8	1.91
Bolaang Mongondow	13.1	1.3	14.4	1.54
Total	**287.2**	**28.7**	**315.9**	**33.80**

Note: Value of sub-project investments in USD was converted from IDR at the rate of IDR 9,347 per USD.

Sub-project Benefits

The main benefits arising from the sub-projects in the roads sub-sector and bridges sub-sector were:

- Transport cost savings from reduced fuel consumption and maintenance costs;
- Time savings from smoother road travel;
- Gains from better market access for goods;
- Increased income operators arising from greater demand for transport services; and of transport
- Enhanced capital values of property made more accessible by improved roads.

The main benefits arising from sub-projects in the clean water supply sub-sector were:

- Time savings in obtaining clean water;
- Reduced expenditures for purchasing clean water from alternative sources;
- Lower health expenditures from reduced incidence of water-borne disease; and
- Increased income from new economic activities made possibly by the availability of clean water.

The main benefits arising from sub-projects in the irrigation sub-sector were:

- Increase in crop yields (crop output per unit cultivated area);

- Increase in area under cultivation;
- Cultivation of higher value crops and higher yielding crop varieties;
- Increase in farmer incomes (from increased productivity factors listed above);
- Reduced risks of, and costs arising from, extreme events such as droughts or floods; and
- Enhanced capital values of agricultural land with improved irrigation.

As part of project monitoring and evaluation, a study titled *Evaluation of Economic Feasibility and Cost Effectiveness of ILGR Infrastructure Investment* was undertaken in 2009. Utilizing a multi-stage purposive sampling method, the study authors sampled 30 sub-projects across seven participating districts, in the roads, bridges, clean water supply, and irrigation sub-sectors. Data for the study was obtained through a desk review of relevant project documentation, as well as from field surveys and interviews in the districts. In line with commonly used methods for cost-benefit analysis, the study identified the main quantifiable benefits from each sub-project investment, estimated the monetary values of these benefits based on explicit assumptions, and then calculated EIRR taking into account the monetary cost of the sub-project in question. Sub-projects were assumed to provide a flow of benefits over 10 years, and the annual cost of operations and maintenance was assumed to be 2 percent of the investment cost. The discount rate used was 12 percent, which is reasonable given the prevailing interest rate environment and cost of capital in Indonesia. In addition, the study calculated general income multipliers to examine the multiplier effects of the sub-project investments on local economies, and also undertook an analysis of how local quality of life indicators improved due to the sub-projects.

A review of the study, first undertaken during preparation of the LGDP project in 2010, and again during preparation of this ICR, found the study's methods and findings to be credible and sound. Table 6 below summarizes the study's findings of the average EIRR for all sub-projects sampled in each sub-sector. Clean water supply was found to generate the highest EIRR on average, followed by irrigation. Roads and bridges had relatively lower EIRR. These results are generally consistent with similar analyses of the economic returns from small-scale rural infrastructure investments in Indonesia. Based on all available information reviewed during preparation of this ICR, it would be reasonable to conclude that most other sub-project investments did generate similar levels of positive net benefits and EIRR. Calculating the overall EIRR for all 262 sub-project investments would require going through each sub-project and modeling the multi-year flow of benefits expected from each– a task which was not possible given the time and resources available for preparing this ICR.

Table 6. Average EIRR of Sampled ILGRP Sub-projects, by Sub-sector

Sub-sector	Number of sub-projects sampled	Average EIRR (%)
Roads	13	22.1
Bridges	5	19.7
Clean water supply	7	30.8
Irrigation	5	25.9
Total	**30**	

Annex 4. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
Lending			
Ahmad Alamsyah	Consultant	EASRD	Local institutions
Alia Moubayed	Economist		Fiscal analysis
Angel Manembu	Consultant	EASRD	Poverty analysis
Ani Dasgupta			
Anne-Lise Klausen	Consultant	EASPR	Governance
Anthony Bottrill	Country Credit Risk Head		Financial risks
Anthony Ortiz			
Anthony Toft	Legal Counsel	LEGES	Legal
Asmeen Khan	Environmental Specialist	EASRD	Task Team Leader
Bambang Suharmoko	Consultant		GDS
Bert Hofman	Lead Economist	EASPR	Decentralization
Ben Dickinson	Governance Advisor		Governance
Blane Lewis	Consultant	EASPR	Decentralization
Christopher Bennett	Senior Transport Specialist	EASTR	Environment
Chitrawati Buchori	Gender Coordinator	EASFP	Gender inclusion
Colin Mellor			Cost-benefit
Cecilia Belita	Program Assistant	EASRD	Cost tables
Dana Weist			
Erman Rahman	Operations Officer	EASRD	Task Team Leader
Farida Zaituni	Environment Specialist		Environment
Fitria			
Gedsiri Suhartono	Consultant	EACIF	Communication
Govind Nair			
Imke Manicki	Research Assistant		Social assessment
Irfani Darma	Consultant	EASRD	Civil society
Isono Sadoko	Social Development Specialist	EASRD	Social safeguards
Jasmin Chakeri	Consultant	EASPR	Decentralization
Joel Hellman	Adviser	EASPR	Co-TTL
John Leonardo	Economist		Local revenues
Kathy McPherson	Consultant		Poverty analysis
Kimberly Versak	Communications Officer	EACTF	Communication
Leni Dharmawan	Consultant	EASRD	Local institutions
Louise Scura	Economist	EASRD	Econ. Analysis
Maria Triyani	Operations Officer		
Mariam Sherman	Operations Analyst	EACIQ	
Menno Pradhan	Economist		Poverty
Mila Gregorio	Consultant		Financial mgmt.
Nadiem Makarim			

Nilanjana Mukherjee	Consultant	ETWWP	Poverty analysis
Paul McCarthy	Civil Society Specialist		Participation
Rahul Raturi	Sector Manager	EASRD	
Rajiv Sondhi	Senior Financial Management Specialist	EAPFM	Financial mgmt.
Revita Wahyudi	Consultant	EASRD	Data analysis
Rizal Rivai	Procurement Specialist	EAPPR	Procurement reform
Robert Saum	Senior Financial Management Specialist	EAPFM	
Robert Scouller	Civil Engineer	EASHD	
Roland White	Senior Public Sector Specialist	EASPR	Decentralization
R. Cynthia Dharmajaya	Program Assistant		Program assistance
Soraya Goga	Urban Specialist		Local econ. devt.
Sri Asih Wohon	Program Assistant		Program assistance
Stefan Nachuk	Consultant		Poverty analysis
Stefanie Teggemann	Consultant	EASRD	Anti-corruption
Steven Burgess	Senior Social Development Specialist	EASSD	Anti-corruption
Susan Wong	Senior Social Development Specialist	EASSD	M&E
Unggul Suprayitno	Financial Management Officer	EAPFM	Financial mgmt.
Victor Bottini	Consultant	EASSD	Co-TTL
Yogana Prasta	Senior Disbursement Officer	EACIF	Disbursement
Zaki Fahmi	Consultant	EASRD	Local finances
Supervision/ICR			
Andrew Daniel Sembel	Environmental Specialist	EASIS	Envt. safeguards
Bisma Husen	Senior Procurement Specialist	EAPPR	Procurement
Dayu Nirma Amurwanti	Operations Analyst	EACIF	Anti-corruption
Dewi Pribadi	Program Assistant	EACIF	Team assistance
Eduardi Prahara	Consultant	EASIS	Engineer
Eka Zarmen Putra	Operations Officer	EACIF	Disbursement
Esther Regina Victoria Pormes	Program Assistant	ENVCI	Team assistance
Griya Rufianne	E T Consultant	EASIS	Operations
Ira Marina	Team Assistant	EACIF	Team assistance
Isono Sadoko	Consultant	EASIS	Social safeguards
Leni Dharmawan	Consultant	EASIS	Governance
Louise F. Scura	Sector Leader	AFTAR	Economist
Marcus Lee	Urban Economist	FEUUR	ICR author
Novira Kusdarti Asra	Sr Financial Management Specialist	EAPFM	Financial mgmt.
Paul G. McCarthy	Consultant	LEGJR	Civil society
Paulus Van Hofwegen	Sr Water Resources Spec.	EASIS	Irrigation
Peter Ellis	Senior Urban Economist	EASIS	Task Team Leader
Revita Wahyudi	Consultant	EASIS	Operation
Rizal H. Rivai	Senior Procurement Specialist	EAPPR	Procurement
R. Cynthia Dharmajaya	Program Assistant	EASER	Team assistance
Santo Dewatmoko	Consultant	EASIS	Program management
Sri Asih Wohon	Program Assistant	EACIF	Team assistance
Unggul Suprayitno	Sr Financial Management Specialist	EAPFM	Financial mgmt.

Yogana Prasta	Operations Adviser	EACIF	Disbursement
Yulita Sari Soepardjo	Team Assistant	EACIF	Team assistance

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY02	33	199.96
FY03	50	270.67
FY04	72	297.51
FY05	43	89.25
FY06		45.12
FY07		0.00
FY08		0.00
Total:	198	902.51
Supervision/ICR		
FY02		0.18
FY03		0.80
FY04		0.18
FY05		0.00
FY06	38	34.23
FY07	48	64.28
FY08	47	75.34
FY09	13	55.46
FY10	18	77.57
FY11	12	57.67
FY12	11	64.73
Total:	187	430.44

Annex 5. Beneficiary Survey Results

No beneficiary survey was conducted.

Annex 6. Stakeholder Workshop Report and Results

No stakeholder workshop was conducted.

Annex 7. Summary of Borrower's ICR and/or Comments on Draft ICR

(a) Summary of Borrower Completion Report

The Government of Indonesia provided a very comprehensive and high-quality completion report. The report was 39 pages long, and did not include its own executive summary of outcomes, performance assessments, and lessons. Because of the length of the report, the Bank's ICR team excerpted key sections, with the knowledge and concurrence of GOI, to represent both GOI's completion report and GOI's comments on the Bank's ICR. The full report has been included in the project files.

Section 2.5 – Achievements of Governance Reform

2.5 After the implementation of a series of local governance reform agenda, which was divided into several steps to be completed within 2005 to 2011, ILGRP had succeeded in stimulating the incorporation of public aspiration in formulating local regulations, planning and budgeting; opening the availability of public information; improving pro-poor budgeting; refining financial management; constructing up-to-standard procurement process; and increasing public satisfaction on the services provided by the Local Government.

i. Incorporation of Public Consultation in Local Planning. According to NPS's monitoring and M&E Secretariat's final evaluation , there was an increase in public participation in the process of formulating local regulations, planning, and budgeting. Most of the local regulations (>90%) related to the general public within the period from 2008 -2010 went through public consultation. The formulation of planning documents (RPJMD, RKPD, and Renstra SKPD) had involved 12 Kabupatens. The increase in public participation was connected to the improvement in the facilitation of public aspirations throughout the process of planning, budgeting, and outlining the local regulations. The facilitation of public aspiration in the process of local regulations had increased from 79% in 2008 to 91% in 2010. In addition, the process of planning and budgeting had increased from 67.12% in 2008 to 70.89% in 2009.

ii. The Availability of Public Information. The monitoring activities conducted by NPS and the Final Evaluation by M&E Secretariat showed improvement and growth in the implementation transparency related to the availability of public information and documents by means of various publication activities. The Kabupatens' capacity in managing information had also improved. Based on M&E's final evaluation, 83% of the public felt that nowadays the public documents in Kabupatens were easily accessible. Nevertheless, the public claimed that not all of the published documents were needed. Only 43.9% of the public stated that the published documents conformed to what the public needs. The public had greater needs of information that directly affect them. For instance, in the publication of APBD, the public needed information on the budget allocation in its region.

iii. Increasing Pro-poor Budget. In order to increase pro-poor budget, one of the agenda was to use the SRTPK as a guide in the process of planning and budgeting. In terms of output, 14 Kabupatens had executed the said agenda. However, not all of the Kabupatens showed higher proportion of budget allocated for poverty alleviation. M&E Secretariat's final evaluation revealed that out of 10 samples of Kabupatens, only four Kabupatens showed higher proportion of budget allocated for poverty alleviation. The four Kabupatens were Kabupaten Bandung, Bulukumba, Kebumen and Bolaang Mongondow. If the proportion of budget allocated for poverty alleviation were compared to the total APBD, the pro-poor budget was increased in only three Kabupatens, which were Kabupaten Bulukumba, Kebumen, and Bolaang Mongondow. The proportion of said budget declined in other Kabupatens because the APBD was limited while employee expenditure continued to increase. Moreover, the local government felt that there were numerous poverty alleviation program executed by the central government. Nevertheless, if compared to the number of poor residents, there had been a decline in the number of poor residents in all of the participating Kabupatens since 2007.

iv. Up to Standard Procurement Execution. The procurement process performed by the participating Kabupatens were in accordance with the procurement regulations, which were the Keputusan Presiden Nomor 80 Tahun 2003 that had been revised to Peraturan Presiden Nomor 54 Tahun 2010 On Pedoman Pengadaan Barang dan Jasa Pemerintah. Apart from obeying the said regulations, the compliance was also due to ILGRP's effort in pushing the Kabupatens to implement the reform agenda that conformed with the government regulations, ILGRP's facilitation and capacity building, such as procurement training and certification.

v. Local Financial Management Practices. The Local Financial Management practices in the participating Kabupatens had improved. The cause of the improvement was the enactment of two regulations on local financial management, which were Peraturan Menteri Dalam Negeri Nomor 13 Tahun 2006 and Peraturan Menteri Dalam Negeri Nomor 59 Tahun 2009. These regulations were in line with the local financial management reform agenda initiated by ILGRP. An indicator of improvement in the local financial management was the absence of findings related to the contingency fund in the audit conducted by BPK. Along with social aid, contingency fund was often noted in BPK's findings. In 2007 to 2008, there were findings related to contingency fund in two Kabupatens. However, since 2009, there were no findings related to the utilization of contingency fund in the participating Kabupatens.
The prominent problem in local financial management was asset management of both local government asset and ILGRP investment asset. The local governments were unable to satisfactorily conduct asset management and, as a result, a lot of unrecorded local government asset. The inability to manage assets caused 13 out of 14 participating Kabupatens did not receive a qualified opinion from BPK's audit.

vi. Increased Public Satisfaction on Public Services. ILGRP had pushed the local governments to be transparent about their public services procedure through various publications. According to M&E Secretariat's final evaluation, through the publication of permit services procedure, which included the required time and fee, the public felt ease in accessing public services. As result of the straightforward access to public services, M&E Secretariat's final evaluation showed that 79% of the public was very satisfied with the local governments' services, while 18.3% was satisfied. Only 5.3% was less satisfied and 2.3% was unsatisfied with the local governments' services.

<u>Section 2.7 – Sustainability of Governance Reform</u>

2.7 Sustainability of Governance Reform. ILGRP obliged the Kabupatens to continue the implementation of the governance reform agenda even though the investment was no longer available in 2011. Despite the obligation, according to NPS's monitoring, there continuity of the implementation of the governance reform agenda was very diverse in each Kabupaten. The sustainability of the implementation of governance reform agenda can be grouped to the following classifications: [1] Continued agenda reform implementation, [2] Declining quantity and quality of agenda reform implementation, and [3] Discontinued agenda reform implementation.

1) Continued agenda reform implementation. Although ILGRP had ended and did not provide investment anymore, several reform agenda were still implemented by the local governments in the same manner as when the Project was in progress. The implementation of the agenda was continued for two reasons, namely [1] the local governments were committed to implement the agenda as they have felt the benefits, and [2] the legal umbrella that obligated the implementation of the reform agenda.

In some cases, both reasons were synergized. A reform agenda was continued to be implemented because of the presence of the legal agenda and the commitment of the local government to continue its implementation. For example, the implementation of public consultation in the formulation of local regulations and APBD was continued because the local government felt that public involvement improved the quality of the regulations, made the implementation of the regulations easier, and restored the local government's image in the public eye . Moreover, the local government had to conduct public consultation in the formulation of local regulations as it was stipulated in the following Ordinance Law: Undang-Undang Nomor 10 Tahun 2004 on Pembentukan Peraturan Perundangan.

Several reform agenda, particularly the ones related to local financial management and procurement, had to be implemented due to the presence of legal umbrella. The legal umbrella for local financial management was the following regulations: Peraturan Menteri Dalam Negeri Nomor 13 Tahun 2006 on Pengelolaan Keuangan Daerah, which was revised to Peraturan Menteri Dalam Negeri Nomor 59 Tahun 2009 on Pengelolaan Keuangan Daerah. The legal umbrella for procurement was the following regulations: Keputusan Presiden Nomor 80 Tahun 2003, which was revised to Peraturan Presiden Nomor 54 Tahun 2010 on Pedoman Pengadaan Barang dan Jasa Pemerintah. With the presence of the said regulations, the reform agenda in the area of local financial management and procurement were ought to be implemented by the local governments. Reform agenda on Procurement, in particular, had been a part of the basic task function of a certain SKPD in the Kabuputen. As a result, the reform agenda on procurement would continue to be implemented by Kabupatens.

In the area of Basic Democratization, several reform agenda had legal umbrellas. Public consultation on the formulation of local regulations was stipulated in Undang-Undang Nomor 10 Tahun 2004 on Pembentukan Peraturan Perundangan, Peningkatan. Public access to public documents and information was regulated in Undang-Undang Nomor 14 Tahun 2008 on Keterbukaan Informasi Publik, Publikasi. ILPPD were stipulated in Peraturan Pemerintah Nomor 6 Tahun 2006 and participative planning process were regulated in Peraturan Pemerintah Nomor 8 Tahun 2008.

2) Declining quantity and quality of agenda reform implementation. Several reform agenda suffered declining quality in its implementation. One of the reform agendas that suffered declining quality was Publication, such as the publication of planning and budgeting documents, procurement documents, and licensing. The decline was due to the change in the type of media used (from poster to website) or in the area of distribution (the distribution that was supposed to reach villages had only reach the kecamatan or SKPD). The reason for the decline was the limited fund for publication, local governments' commitments, public's requests, and local governments' publication management. In addition, institutional issues related to the transition from PIU to the Dinas Teknis (Technical Unit) as the implementer of Publication had a significant impact on the continuation of the said reform agenda.

3) Discontinued agenda reform implementation. Several governance reform agenda were no longer implemented by the Kabupatens because of the absence of fund allocated to the implement the agenda due to limited fund. The reform agenda that the local government had stopped implementing were procurement survey, publication of procurement sanctions, and publication of contracted unit price.

Section 2.8 – Lessons Learned on Governance Reform

2.8 Lessons Learned on Governance Reform. From the implementation and the continuation of governance reform in Kabupatens, there was a number of important lessons learned, namely the difficulty in performing governance reform and "tidak berjalan dalam ruang hampa". A lot of factors influenced the implementation of governance reform in Kabupatens and these factors could be grouped into three categories, which were: [1] The commitment of Head of District; [2] The condition of internal bureaucracy, [3] The presence of non-governmental organizations, and [4] program facilitation. These factors not independent but interconnected.

1) The commitment of Head of District. The commitment of the Head of district was the main key in the implementation to improve governance in the Kabupaten. Without the Head of District's commitment, good governance could not be established. It was related to the function of the Head of District as the highest authority in the Kabupaten to determine public policies, which included the availability and allocation of fund, and the allocation of bureaucratic staffs. If the Head of District had low commitment in improving governance, there would be no fund allocated to improve governance. Even if the fund were available, the portion would have been very small. Morover, in the process of mutation, several Kabupatens conduct the process based of the will of the Head of District instead of the merit system. If the Head of District had good commitment in governance, the allocation of staff would be based on the merit system instead of subjectivity.

2) The condition of internal bureaucracy. Bureaucracy was the steering wheel of governance. The experience in implementing ILGRP showed that the bureaucracy condition contributed in improving governance reform and it became another key in achieving good governance. A good bureaucracy was achieved by being transparent with the public, by involving the public in the government process, and by providing public information to the public. In addition, bureaucracy with good vision on governance had good support on the implementation of governance reform. The experience of ILGRP showed that not every bureaucracy staff had good vision on governance. Some were unwilling to be open to the public. Nevertheless, even if a few people had good vision and was open to the public, the starting point of improving governance had been established. The improvement could be strengthen with the support of the Head of District and the non-governmental organizations.

3) The presence of Non-Governmental Organizations. The implementation of local governance reform in Kabupatens showed that active public participation in the governance process by individuals and institutions had a positive impact on the implementation of governance reform [Kebumen, Bulukumba, Lebak, Magelang, and Ngawi]. In contrast, the implementations of governance reform in Kabupatens with passive public participation were more likely to be stagnant [Gowa, Takalar, and Bolaang Mongondow]. As the local governments making rooms for public participation – whether in the process of planning, budgeting, implementation, monitoring, and evaluation – non-governmental organizations would fill those rooms. If non-governmental organizations were unavailable, there were no parties to fill the rooms that had been opened by the local government. In addition, non-governmental organization could act as a watchdog on the execution of governance and construction. If there was an indication of misuse, the public/non-governmental organizations, could file a warning to the local government. On that account, a number of NGOs made efforts to improve their quality in order to supervise good governance. In Kabupaten Lebak, for instance, had initiated School of Budgeting (Sekolah Anggaran/SANGGAR) with purpose to equip the NGOs activists with the understanding on how to analyse government budgeting.

4) Facilitation. The project executors in the Central level facilitated the implementation of ILGRP by providing consultants and facilitators. The facilitation process conducted by the consultants and facilitators had significant contribution in the implementation of governance reform and the entire Project. Good facilitation process encouraged favorably reform implementation in Kabupatens, whereas weak facilitation had negative impact towards the reform quality.

<u>Section 3.8 – Lessons Learned in the Implementation of Poverty Alleviation Investment</u>

3.8 Lessons Learned in the implementation of Poverty Targetted Investment. The following are several lessons from implementing the Poverty Alleviation Investments:

- The investment were unrelated to the instigated reformation substance. Investment fund was given to build infrastructures that were oriented to alleviate poverty, whereas governance reform was aimed to improve public transparency, participation, and accountability in the area of basic democratization, local financial management, and procurement. Meanwhile, the institution that implemented the reform agenda did not receive any incentive other than capacity building activities. As consequence, the orientation of the Project was changed from governance reform as its focus to investment.

- Pro-poor investments often needed large fund for operation and maintenance, therefore self-management by the general public was unfeasible. The operation and maintenance were consequently assigned to private parties.
- The mechanism used to distribute fund to Kabupatens should not be the Tugas Pembantuan mechanism. The usage of the mechanism was obviously incompatible with the existing regulations because Tugas Pembantuan mechanism was meant for Central Government's activities that were conducted locally/in Kabupatens. In addition, according to the law and regulations, this mechanism did not allow Kabupatens' executive and legislative to discuss budget allocation. Tugas Pembantuan mechanism also posed many problems for the Central Government, especially on issues related to budgeting and reporting.
- With the Tugas Pembantuan mechanism, the Subprojects constructed by ILGRP became the assets of the Central Government. As a result, the Central Government had to handover the assets to the Local Government. The handover process had to be prepared very early as the process needed a considerable amount of time.
- The implementation of investment in ILGRP was always in conflict with the regular planning and budgeting cycle. The results was oftentimes the budget allocation for the coming year could not match the specific needs of the program and therefore needs significant revision afterwards. To include the Subproject investments in the Budget Implementation Entry List (Daftar Isian Pelaksanaan Anggaran/DIPA), the Kabupatens' DIPA must be subjected to revision. Taking into account of the experience in executing the Project, the time needed for DIPA revision was considerably long. In 2007, 2008, and 2009 the Kabupatens' DIPA revision was finalized in March, October, and July, respectively. The DIPA revision for FY 2010 was finalized in May. The long process of DIPA revision was caused by (1) the prolonged process in gathering supporting data from Kabupatens and (2) the impression that the DIPA revision requirements were constantly altered. In addition, the incompatibility between the Project cycle and the regular planning also caused the delay in the DIPA revision process. Therefore, the said requirements must be discussed with the Ministry of Finance before the DIPA revision process.

<u>Section 4.6 – Lessons Learned on Implementation Support</u>

4.6 Lessons Learned on Implementation Support. The lessons learned from the implementation support were as follows:

- The mobilization of consultants was conducted in November 2006, whereas the Project had started since October 2005. In one hand, the number of NPS members was limited, which caused the Project implementation in the period of 2005 – 2006 was not under good supervision. This condition was due to the signing of Loan and Grant Agreement at the end of the financial year (October 11, 2005) which then caused the allocation of budget in FY 2006 for recruitment unadmissible as the cycle for budget allocation had passed. As consequence, the budgeting process for consultants and other activities financed by loan and grants had to be done through the mechanism of APBN Revision FY 2006, which were finalized in October. Thus, the activities could only be done in November 2006.

  Lesson that could be learned from this case were:
  1) The schedule for the signing of loan and grant agreement should consider the cycle of planning and budgeting in progress. This is important in order to put the loan and grant in effect in the current or the following year.

2) The process of consultant recruitment should be conducted at the start of the Project as the consultants were needed to supervise the Project implementation since the Project begun. The supervision could not be relied solely to the NPS due to the limited human resources to do assistancy, facilitation, and monitoring.

- RMC was only mobilized in May 2009. The delay was caused by the change from consultancy firm to individual consultant. A consultancy firm was initially used as RMC, however, the process started in 2006 and did not reach completion in 2008 due to the different the perception between the Procurement Team and World Bank about the evaluation method towards the companies that submitted the proposals. Therefore, the RMC was changed to individual consultant in 2008. The delay in the recruitment of RMC caused the presence of RMC insignificant as it was established towards the end of the Project. A number of lessons could be learned from this issue, such as:
  1) It is important for the Government of Indonesia and Donor to have the same perception before Project implementation. The matching of perception need to be done in detail, especially on the perception related to procurement process. Differing perception would only hinder the program implementation.
  2) Recruitment of consultants should follow the flow of the structure (The NMC first and followed by RMC and Facilitators) in order to avoid disparity and inconsistency in the Program implementation.

- The facilitators in Kabupaten level were located by considering their place of origin. A facilitator was not stationed in his place of origin in order to preserve the facilitator's independence in providing assistance, facilitation, and advocation. He was required to live in the appointed Kabupaten and housing benefit was included the salary. However, the housing benefit was not conducted as some facilitators live in their own house and others were absent for days. This situation reduced the speed of Project implementation and the image of the Project became unfavorable.

  The following lessons could be learned from this issue:
  1) The posting of facilitators should be based on professionalism. Independence was very important, but a good monitoring system was needed to ensure the facilitators were in the place of assignment.
  2) The placement of facilitators in their own place of origin was not always bad. IN some cases, it could be preferable as the facilitators were aware of the culture and the networks in the location. Therefore, the Project implementation could be more manageable.

- Capacity Building. The themes of capacity building were determined by two mechanisms, which were based on the Central Government's decision and based on Kabupaten's recommendations. As for Kabupaten's recommendations, the recommendations were proposed to the NMC as the Kabupaten did not have clear grand strategies on capacity building. The foundation of the recommendation was not on the strategy to improve governance, but the nature was incidental and founded on the need of the moment. As a result, some kabupatens did not do any follow up activities after the capacity building had completed. From this situation, the lesson that could be learned was that every kabupaten should be requested to give recommendations on capacity building and the recommendations should be founded on the big strategy in improving governance. The kabupatens should be required to submit follow up plans and target to achieve. These requirements were necessary to ensure the effectiveness of the capacity building in order to improve governance.

- With two institutions doing the monitoring and evaluation, the monitoring and evaluation process became more frequent. The frequent monitoring and evaluation were not always positive due to some issues, such as the lack of coordination during monitoring and when feedback on the monitoring and evaluation results were submitted by both institutions.

Section 4.7 – Lessons Learned on Project Design

4.7 Lessons Learned on Project Design. ILGRP was designed using the stick and carrot approach. Kabupatens that had succeeded in implementing all of the phases in the governance reform agenda would be given investment funds gradually. The following are several lessons that could be obtained from project design:

- The carrot and stick approach used by ILGRP was effective in urging the implementation of governance reform in Kabupatens when the Project was ongoing. Even so, this approach could not guarantee the continuation of the Project when investment had ended. The continuation of the Project was greatly influenced by the commitment of the Head of District in improving governance in his Kabupaten.
- The phases in ILGRP was not synchronized with the Government's planning and budgeting cycle. The selections of activities that must be executed in each phase of the Project could not be completed in one cycle of planning and budgeting. As consequence, Project implementation was behind schedule if compared to the initial plan. For future projects, it would be best to consider the Government's planning and budgeting cycle. There are two ways to accomplish this, which were (1) by completing the reform agenda within a year and preparing the investment in parallel with the completion process, or (2) by imposing multi yeas investment.
- There was too many governance reform agenda initiated by ILGRP. Based on the results of monitoring and evaluation conducted by NPS and M&E Secretariat, several agenda reform was incompatible with the public needs. In publication, for instance, the public had less need for the publication of Renstra SKPD, but had more need for the publication of the public services procedure. Therefore, the publication could be simplified to publication on the public services procedure, APBD and RPJMD. Improvement in the process of determining the initiated reform agenda would be needed for future Projects.

Section 4.8 – Notes on Institutionalization

4.8 Notes on Institutionalization. From the implementation of the Project, there were several notes related to the Institution of the Project, namely:

1) Steering Committee [SC]. Throughout Project implementation, the coordination between the SC Team was executed by formal correspondence. The SC Team had never met in a formal meeting forum due to their busy schedule. A number of efforts to bring together the SC Team were unsuccessful. At the Secretariat level (NPS and M&E Secretariat), however, coordinations were conducted intensively and the results of the coordinations were always reported to the SC Team. Therefore, the duties of the SC Team, which were related to Project related decisions, could be performed.

2) National Project Secretariat [NPS]. For the duration of Project in 2005 – 2011, the NPS had experienced four transitions, which were conducted by considering the progress in Project implementation and the mutation process in MOHA. Generally, NPS had succeeded in executing the ILGRP. Every year, there was improvement in management, especially concerning financial administration support. However, there were several notes about the NPS team, which were:

- According to the Decree of the Directorate General of Regional Autonomi MOHA, the total personel of the NPS Team was numerous. However, the ones that could actively work on the Project were only two to three people due to their responsibilities related to basic daily functions.

- The limitation on the number of active personels caused the NPS Team unable to supervise the substance of the Project. The NPS Team was more focused on their biggest responsibility, which was the administrative aspect.

3) Monitoring and Evaluation Secretariat (M&E Secretariat). Throughout the implementation of the Project, the M&E Secretariat had performed its duty well. The monitoring activities were conducted regularly, both incidentally and thematically. A number of the study and survey activities were executed, although some of the activities were late and cancelled. Some notes on the implementation of M&E Secretariat's activities are as follows:

- The mechanism on submitting the feedback of the monitoring and evaluation results was unclear. The monitoring and evaluation results were not entirely submitted to the executing agency, which was the party responsible of the Project implementation. Even throughout the Project implementation, there had never been any formal submission of monitoring and evaluation by the M&E Secretariat to the NPS. The monitoring and evaluation results were delivered/requested through informal processes. This arrangement placed the NPS in a difficult position in obtaining inputs on improving the Project implementation based on the completed monitoring and evaluation results.
- A number of studies and surveys were behind schedule, such as the implementation of Mid-Term Evaluation, which was supposed to be conducted in 2007, was only performed in 2007. Due to various reasons for the delay, the Governance and Decentralization Survei [GDS], which was planned to be performed in 2009, was rescheduled to 2010 and was eventyally canceled because of limited time. Meanwhile, the data from GDS was hoped to be used to measure the success of Project implementation.

4) Provincial Coordination Team [PCT]. The PCT's involvement in ILGRP did not begin at the start of the Project, but in the middle of Project implementation. This caused the performance of PCT's duties and responsibilities was less optimal. From all of PCT's duties, only two duties went relatively well, which were the monitoring of Project implementation and the process of socializing the implementation of ILGRP to other Kabupatens within its province. However, there were only six PCTs that conducted this socialization process, which were: [1] West Sumatera, [2] North Sulawesi, [3] Central Java, [4] East Java, [5] Yogyakarta, and [6] Gorontalo. Meanwhile, the replication of the implementation of governance reform agenda in Provincial level had never happened. However, the PCT of West Sumatera and Yogyakarta had good initiatives. These provinces encouraged the use of the governance reform indicators initiated by P2TPD as one of the indicators of budget allocation from the provinces to the Kabupatens.

5) Project Implementation Unit (PIU). Based on NPS's observation, the performance of PIUs was varied. The PIU, which had daily routines in Bappeda, performed well in Project implementation. This was related to the position of Bappeda that had a function in coordinating the process of planning and budgeting, and this position gave Bappeda a bargaining power to other work units. Another note related to PIU was the continuity of the PIU personnels. In some Kabupatens, the PIU understood the Project very well as personnels had never changed, even if the personnel had to be changed, the changed would have occurred after a long period of time. In other Kabupatens, however, the restructuring of PIU personnels often occur and it affected the PIU's understanding on the Project, which eventually had negative effect on Project implementation in the Kabupaten.

6) The World Bank. As the lender, the World Bank established the ILGR Task Team to supervise the Project implementation. Other than being the lender, the World Bank also administer the DFID Grant for the ILGRP implementation. In the execution, the World Bank's supervision in the implementation of ILGRP was very stringent, which was evident in the process

of No Objection (NOL) request for every activities, the implementation of supervision mission, and discussions. In other words, as a lender, the Bank never stopped in providing loans, however the Bank was very involved in the Project administration and substance. This situation caused the Project executor saw the lender as rigid and deeply intervening. In fact, the World Bank and the Government were both Project executors, but both parties had different bureaucracy system and procedure. Despite the differences, during Project implementation, there were continual improvements through intensive communication between the World Bank and the Government of Indonesia.

7) DFID. As the grant provider, the involvement of DFID was limited to the monitoring of Project execution. On the early phase of Project execution (2006-2009), DFID was involved in the World Bank Supervision Mission and a number of National Workshops. DIFD gave inputs related to the utilization of its grant. After 2009, however, DFID was no longer involved in the Project execution.

(b) Borrower Comments on Bank ICR

The borrower reviewed the Bank's final draft ICR, and through the letter below, formally conveyed a final revised English-language version of its own completion report "to complement the World Bank's ICR and to serve as our response towards the World Bank's version of ICR."

KEMENTERIAN DALAM NEGERI
REPUBLIK INDONESIA

Jakarta, 1 March , 2012

Number : 900/1360/OTDA
Annex : 1 (one) Package
Subject : Submission Implementation Completion Report (ICR)

To:
Franz R. Drees –Gross
Sector Manager
Indonesia Sustainable
Development Unit
East Asia and Pacific Region

In response to your letter dated February 13, 2012, **Re: Loan No. 4790 IND, Credit No. 4078 IND, DFID Grant TF055913 Initiatives for Local Governance Reform (ILGR) Project Submission of Draft Implementation Completion Report (ICR),** we would like to submit the Implementation Completion Report (ICR), which was prepared by the Directorate General of Regional Autonomy of the Ministry of Home Affairs as the Executing Agency of the Initiatives for Local Governance Reform Project (ILGRP), to complement the World Bank's ICR and to serve as our response towards the World Bank's version of ICR.

We would also like to express our gratitude for the cooperation between the Government of Indonesia and the World Bank in the effort to establish good governance in Indonesia, particularly in the participating Kabupatens of ILGRP. We are mindful of the importance of continuing the efforts although the Project had ended. We hope that ILGRP had left a significant impact and generated important learning process in achieving local governance reform in Indonesia.

Directorate General of Regional Autonomy,

Prof. Dr. Djohermansyah Djohan

Cc.
1. Mr. Max Pohan, Deput Chairman for Regional Autonomy and Development, Bappenas;
2. Mr. I Made Suwandi, Director General for General Administration, Ministry of Home Affairs;
3. Mr. Budhi Santoso, Director for Regional Autonomy Development, Bappenas;
4. Mr. Lukman Nul Hakim, Head of Bureau for Planning, Secretariat General, Ministry of Home Affairs; and
5. Mr. Gunawan, Head of Center for Foreign Cooperation Administration, Secretariat General, Ministry of Home Affairs.

Annex 8. Comments of Cofinanciers and Other Partners/Stakeholders

DFID did not provide any comments on this ICR.

Annex 9. List of Supporting Documents

Project Preparation Aide-Memoires

Project Appraisal Document. May 16, 2005.

Loan Agreement. Loan Number 4790-IND. October 11, 2005.

Development Credit Agreement. Credit Number 4078-IND. October 11, 2005.

Letter Agreement for DFID Grant. October 24, 2005.

Project Restructuring Document. August 27, 2009.

ILGRP Project Operational Manual

Project Supervision Aide-Memoires

Project Implementation Status and Results Reports

Project Monitoring and Evaluation

- Mid-term Evaluation Report. *Laporan Akhir Mid Term Evaluation.* BAPPENAS. September 2008.
- Procurement Reform Survey. *Laporan Akhir.* BAPPENAS. 2009.
- *Evaluation of Economic Feasibility and Cost Effectiveness of ILGR Infrastructure Investment.* M&E Secretariat, BAPPENAS. 2009.
- Exit Strategy report. *Strategi Mengakhiri Program Prakarsa Pembaruan Tata Pemerintahan*. BAPPENAS. 2010.
- Monitoring Implementation of the Local Governance Reform Framework. *Monitoring Pelaksanaan KKRTPD Program P2TPD*. BAPPENAS. 2010.
- Monitoring of Capacity Building. *Laporan Akhir Peningkatan Kapasitas Aparatur Pemerintah Daerah.* BAPPENAS. 2010.
- GOI *Implementation Completion Report.* MOHA. 2011.
- Final Evaluation Report. *Evaluasi Akhir Program Prakarsa Pembaruan Tata Pemerintahan Daerah (P2TPD/ILGR)*. M&E Secretariat, BAPPENAS. 2011
- Compendium of Sub-project Investments. *Profile Sub Proyek.* National Project Secretariat, Directorate General of Regional Autonomy, MOHA. 2011.

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FEBRUARY 2012