

Project Completion Report

PCR: INO 29592

Regional Development Account Project (Loan 1501-INO) in Indonesia

April 2005

Asian Development Bank

CURRENCY EQUIVALENTS

Currency Unit – rupiah (Rp)

		At Appraisal	At Project Completion
		31 October 1996	31 July 2004
Rp1.00	=	\$0.00043	\$0.00011
\$1.00	=	Rp2,327	Rp8,980

ABBREVIATIONS

ADB	–	Asian Development Bank
BAKD	–	Badan Analisis Keuangan Daerah (Agency for Regional Financial Analysis)
BAPPENAS	–	Badan Perencanaan Pembangunan Nasional (National Development Planning Agency)
BME	–	benefit monitoring and evaluation
BPD	–	Bank Pembangunan Daerah (Regional Development Bank)
BPKP	–	Badan Pengawas Keuangan dan Pembangunan (Finance and Development Supervisory Board)
DGFI	–	Directorate General of Financial Institutions
DPPP	–	Direktorat Pengelolaan Penerusan Pinjaman (Directorate for Subsidiary Loan Management)
DSCR	–	debt service coverage ratio
EA	–	executing agency
FINPRO	–	financial projection
FIRR	–	financial internal rate of return
FMIS	–	financial management information system
FS	–	financial statement
IUIDP	–	Integrated Urban Infrastructure Development Program
KMK	–	Keputusan Menteri Keuangan (Minister of Finance decree)
MOF	–	Ministry of Finance
MSRI	–	Ministry of Settlement and Regional Infrastructure
NPL	–	nonperforming loan
O&M	–	operation and maintenance
PCR	–	project completion report
PDAM	–	Perusahaan Daerah Air Minum (Local Government Water Supply Enterprise)
PSV	–	public service vehicle
RDA	–	Regional Development Account
RDS	–	real demand survey
RPD	–	Rekening Pembangunan Daerah (Regional Development Account)
SLA	–	subsidiary loan agreement
SPAR	–	subproject appraisal report
TOR	–	terms of reference

NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2004 ends on 31 December 2004. Until 2000, the fiscal year of the Government ended on 31 March.
- (ii) In this report, "\$" refers to US dollars.

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BASIC DATA

A. Loan Identification

1.	Country	Indonesia
2.	Loan Number	1501-INO
3.	Project Title	Regional Development Account Project
4.	Borrower	Republic of Indonesia
5.	Executing Agencies	Directorate for Subsidiary Loan Management Directorate General of Financial Institutions Ministry of Finance
6.	Amount of Loan	\$50 million
7.	Project Completion Report Number	PCR:INO 843

B. Loan Data

1.	Appraisal	
	– Date Started	22 July 1996
	– Date Completed	8 August 1996
2.	Loan Negotiations	
	– Date Started	25 October 1996
	– Date Completed	25 October 1996
3.	Date of Board Approval	5 December 1996
4.	Date of Loan Agreement	10 January 1997
5.	Date of Loan Effectiveness	
	– In Loan Agreement	10 April 1997
	– Actual	8 April 1997
6.	Closing Date	
	– In Loan Agreement	30 September 2002
	– Actual	29 November 2002
7.	Terms of Loan	
	– Interest Rate	Variable (pool-based United States dollar facility)
	– Maturity (number of years)	25
	– Grace Period (number of years)	5
8.	Terms of Relending	
	– Interest Rate	11.5% per annum
	– Maturity (number of years)	20 (maximum)
	– Grace Period (number of years)	5 (maximum)
	– Second-Step Borrower	local governments (cities and regencies) and local government enterprises (water utilities)

9. Disbursements

a. Dates

Initial Disbursement	Final Disbursement	Time Interval
15 May 1997	29 November 2002	66 months
Effective Date	Original Closing Date	Time Interval
8 April 1997	30 September 2002	66 months

b. Amount (\$ million)

Category	Original Allocation	Last Revised Allocation	Amount Cancelled	Net Amount Available	Amount Disbursed	Undisbursed Balance
Civil Works	21.00	10.00	11.00	10.00	4.48	5.52
Equipment and Materials – ICB/IS	13.00	1.00	12.00	1.00	0.00	1.00
Equipment and Materials - LCB	5.00	2.00	3.00	2.00	0.00	2.00
Consulting Services	3.30	1.00	2.30	1.00	0.89	0.11
Interest During Construction	7.70	3.00	4.70	3.00	2.37	0.63
Total	50.00	17.00	33.00	17.00	7.74	9.26

10. Local Costs (Financed)

- Amount (\$)	4.73
- Percent of Local Costs	29.7%
- Percent of Total Cost	25.0%

C. Project Data

1. Project Cost (\$ million)	18.90
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Cost	Appraisal Estimate	Actual
Foreign Exchange Cost	30.00	7.74
Local Currency Cost	60.00	11.16
Total	90.00	18.90

2. Financing Plan (\$ million)

Cost	Appraisal Estimate	Actual
External Source		
Bank	50.00	7.74
Internal Sources		
Central Government	23.00	5.19
Local Governments	17.00	5.97
Total	90.00	18.90

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

Component	Appraisal Estimate	Actual
A. Infrastructure Investments		
1. Land	6.50	1.73
2. Civil Works	40.50	12.03
3. Equipment and Materials	21.00	0.00
4. Design Engineering	0.00	0.09
Subtotal (A)	68.00	13.85
B. Project Implementation and Institutional Development		
1. Project Implementation	2.7	0.91
2. Institutional Development and Training	1.9	0.00
Subtotal (B)	4.6	0.91
C. Interest During Construction	17.4	4.14
Total	90.0	18.90

4. Project Schedule

Item	Appraisal Estimate	Actual
Date of Contract with Consultants	8 August 1996	14 May 1999
	8 August 1996	12 May 1999
Civil Works Contract (first subproject)		
Date of Award		25 January 1999
Completion of Work		25 May 1999

5. Project Performance Report Ratings

Implementation Period	Ratings	
	Development Objectives	Implementation Progress
From 1 November 1998 to 31 December 1998	Satisfactory	Satisfactory
From 1 January 1999 to 31 March 2000	Partly Satisfactory	Partly Satisfactory
From 1 April 2000 to 30 June 2001	Satisfactory	Satisfactory
From 1 July 2001 to 31 July 2001	Partly Satisfactory	Satisfactory
From 1 August 2001 to 31 August 2001	Satisfactory	Satisfactory
From 1 September 2001 to 31 December 2002	Partly Satisfactory	Satisfactory

D. Data on Asian Development Bank Missions

Name of Mission ^a	Date	No. of Persons	No. of Person-Days	Specialization of Members ^a
Reconnaissance	13–30 May 1996	5	62	a, b, c, d, e
Appraisal	22 July–8 August 1996	6	91	a, d, f, g
Inception	28 April–2 May 1997	2	10	f, h
Special Project Administration	17–27 November 1997	1	6	a
Midterm	16–25 February 1999	2	20	a, j
Special Project Administration	7–10 February 2000	2	8	a, i
Review	1–14 October 2000	2	20	a, h
Review	7–10 August 2001	1	4	k
Review	19–22 November 2001	1	6	k
Review	22–26 April 2002	2	10	k, i
Project Completion Review ^b	15–31 July 2004	3	38	b, g, j

^a a - financial analyst, b - economist, c - urban development specialist, d - programs officer, e - counsel, f - project engineer, g - consultant (financial analyst and economist), h - assistant project analyst, i - project implementation officer, j - consultant (development finance specialist), k - urban economist.

^b The project completion review Mission was led by M. Senapaty, project economist.

INDONESIA REGIONAL DEVELOPMENT ACCOUNT PROJECT (as completed)



I. PROJECT DESCRIPTION

1. During 1980–1995, rapid urbanization and strong economic growth had greatly increased the demand for urban infrastructure services. To meet the associated funding requirements, the Government established the Regional Development Account (RDA) as a financing facility for local governments within the *Direktorat Pengawas Keuangan dan Pembangunan* (DPPP). DPPP is also known as the Directorate for Subsidiary Loan Management, Directorate General for Financial Institutions (DGFI), Ministry of Finance (MOF). RDA funds were made available by means of grants and long-term loans, onlent by MOF to local governments and their enterprises. RDA was established with funds from the national budget and from development partner assistance. In 1995, RDA was facing a shortage of funds that threatened to delay the expansion of urban infrastructure services. In response to a related request to assist the Government in providing finance for a substantial number of revenue-generating investment projects submitted to RDA by local governments and their enterprises, the Asian Development Bank (ADB) formulated the Regional Development Account Project (the Project).¹

2. The primary objective² of the Project was to facilitate the access of urban populations to infrastructure and public services by (i) providing long-term credit to local governments and their enterprises through the financing of viable locally initiated urban investments, (ii) supporting and strengthening RDA as a revolving municipal credit facility, and (iii) strengthening the technical and financial capabilities of local governments and their enterprises. The Project was supported by an accompanying and parallel technical assistance grant to assist RDA in its long-term policy and gradual institutional transition from a retailer to a wholesaler of loans for the urban sector through financial intermediaries.³

3. The Project comprised two parts. Part A was to finance about 25–30 outstanding viable investment credit applications in water supply, transport terminal, market, wastewater, and solid waste revenue-generating subprojects with an estimated average investment cost of \$2.5 million. Part B was designed to provide consultant support to implementation of the physical investments and build the capacity of RDA and local governments and their enterprises. Project implementation support included assistance to (i) DGFI, being the executing agency for overall project management and coordination, for the review and appraisal of subproject investments, including the review of detailed engineering designs, environmental considerations, socio-economic aspects, and financial viability of the subprojects; and (ii) local governments and their enterprises to strengthen preparation of their subprojects. Capacity building under Part B focused on (i) assisting DGFI to strengthen RDA's financial management information systems (FMISs); (ii) enhancing RDA's ability to operate as a wholesale financial facility, lending through provincial government-owned regional development banks known as *Bank Pembangunan Daerah* (BPD) that are financial intermediaries between RDA and local governments and their enterprises; (iii) strengthening RDA appraisal procedures; and (iv) training BPD staff members in appraising urban development projects.

¹ The RDA Project is the literal translation of the name of the Government's credit facility, the *Rekening Pembangunan Daerah*. Loans for 'stand-alone' revenue generating urban infrastructure projects were provided through the RDA, while multi-sector revenue-generating projects were supported by development partner loan proceeds, onlent to local governments through the subloan agreement mechanism.

² ADB. 1996. *Technical Assistance to the Republic of Indonesia for the Regional Development Account*. Manila.

³ ADB. 1996. *Technical Assistant to Indonesia for Institutional Strengthening of the Regional Development Account*. Manila. The technical assistance final report was issued in January 1999.

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

4. The Project's design was relevant to the Government's development objectives and ADB's country strategy. The Government's urban strategy during the 1990s focused on (i) strengthening local government capacity to build, operate, and maintain urban services; (ii) improving planning and programming of urban infrastructure investments; (iii) facilitating financing and administration of local urban services; and (iv) strengthening consultative processes at various government levels. The strategy was made operational under the Integrated Urban Infrastructure Development Program (IUIDP) to promote balanced development of infrastructure in urban centers. ADB, together with the World Bank and bilateral agencies, was active in IUIDP projects at the time of appraisal of the Project.

5. Encouraging local governments and their enterprises to use loan finance through RDA as a source of investment funding for revenue-generating subprojects, whether by means of the RDA for single sector projects, or through the subsidiary loan agreement (SLA) mechanism for multi-sector IUIDP projects, was an important feature of the Government's strategy. Reinforcement of the decentralization policy by fostering local ownership of projects was another element of the strategy. The Project was intended to build capacity of local governments and their enterprises to prepare, implement, and manage their own urban sector investment initiatives.

6. Investments realized through the Project were expected to improve the living conditions of urban populations in 25–30 secondary cities and small towns throughout Indonesia. More than 500,000 people were envisaged to benefit from improved water supplies and sanitation services, while new or upgraded markets and bus terminals would stimulate urban economies and thus impact positively upon the entire population of the participating cities and towns. Project investments would directly generate revenue while indirectly producing increased property tax yields from consequent higher real estate values. Such local revenue mobilization was, and remains, an important component of the urban investment chain. In summary, the Project's design and formulation were relevant for addressing critical issues in the urban sector at the time of appraisal and for improving the access of urban populations to basic infrastructure and public services.

B. Project Outputs

7. The outputs projected at appraisal were: (i) improvement in the availability of long-term credit to local governments by making available about \$68 million in credit finance for an estimated 25–30 subprojects; and (ii) institutional development through a strengthened and more focused RDA, and improved project preparation and implementation capacities at regional levels of government. The achievement of these outputs fell short of appraisal targets. Appendix 1 provides details on outputs and targets at project completion. One of the primary causes of the underperformance was the Asian financial crisis of 1997/98, which severely affected Indonesia and produced a very pronounced devaluation of the currency and high inflation that resulted in serious financial problems for the national Government and for local governments. However, other factors, such as the faltering of the national Government's commitment to provide counterpart resources contributed to poor achievement of project outputs.

8. **Improvement in Availability of Long-Term Credit.** Only nine out of an estimated 25–30 subprojects were implemented under the Project. Subprojects investments were limited

to bus terminals and markets instead of funding a large number of water utilities benefiting about 500,000 users as envisaged initially. The reasons for the shortfall of subprojects were (i) the issuance of MOF's RDA decree⁴, which made all borrowers with arrears ineligible for any additional loans – thus making most local government water supply enterprises⁵ (the envisaged main target group) ineligible for further borrowing and excluding them from participating in the Project; (ii) reduction of the annual national budget allocation regarding investment funds for local government projects; (iii) delay in mobilization of the implementation consultants who were to assist with loans' appraisal; and (iv) the persistent inability of the executing agency to process loan documentation following the mobilization of the implementation consultants. This inability ultimately led in December 2001 to ADB's objection to a second extension of these consultants' contract, as had been requested by the executing agency. The decision, combined with the executing agency's lack of capacity to appraise loan applications, effectively halted subproject processing activities some 9 months prior to the scheduled loan closing date of 30 September 2002.⁶

9. **Institutional Development.** The Project did not achieve its institutional development targets regarding strengthening RDA, BPD, and local governments and their enterprises. Related Project support was to be provided in four packages. In Package A, Project support comprised (i) assisting the executing agency in overall project management and coordination; (ii) supporting the review and evaluation of loan applications for new subprojects and assisting local governments in strengthening and implementing these investments; (iii) reviewing the portfolio of existing borrowers, including an analysis of those with arrears and an evaluation of the options for rescheduling or other ways of restructuring their loans; and (iv) strengthening the appraisal procedures and overall management of RDA. Package B covered strengthening FMISs, including procurement of hardware and software. Package C provided training for RDA staff members. Package D focused on building capacity to implement reforms proposed for RDA by the ADB-financed parallel technical assistance grant (see footnote 3).

10. The institutional development part of the Project was substantially delayed due to the Asian financial crisis. While mobilization of the implementation consultants was scheduled for the middle of 1997, it did not take place until the middle of 1999. In particular, the effects of the crisis caused (i) uncertainty over the Government's commitment to the Project⁷; and (ii) a reformulation of the terms of reference for the implementation consultants, produced by the technical assistance grant in terms of an institutional development action plan and designed to take account of the changes in the context of the RDA since appraisal.⁸ Package A tasks were completed during the Project implementation period. Packages B, C, and D, which were essential for accomplishing the capacity building objectives of the Project, were subsequently cancelled at the executing agency's request. The reasons given included a change in the Government's priority and its preference to establishing laws and procedures for financial stability in the wake of the Asian financial crisis in addition to the climate of uncertainty

⁴ MOF decree KMK 347a/2000.

⁵ The local government water enterprise is referred to as the *Perusahaan Daerah Air Minum* (PDAM)

⁶ Letter from ADB to MOF dated 12 December 2000.

⁷ A letter from the *Badan Perencanaan Pembangunan Nasional* (BAPPENAS, National Development Planning Agency) to DGFI dated 27 April 1998 noted a lack of any disbursements from the loan and suggested project cancellation and reallocation of the Government's funds to the social safety net program designed to alleviate some of the worst impacts of the economic crisis.

⁸ Terms of reference for the Advisory Services for Project Implementation and Institutional Support of the Regional Development Account Project were issued by DGFI in March 1999.

surrounding the future of RDA in an era of decentralization.⁹ Appendix 2 provides a comprehensive list of the services under Package A.

11. The underachievement in Project outputs was thus due mainly to the smaller number of realized subprojects and the cancellation by the executing agency of most institutional development activities. No water supply and solid waste subprojects were carried out. Consequently, equipment and materials were not imported that would have maintained the dollar value of project costs. Investments were restricted to markets and bus terminals, for which total investment costs are lower because local materials are used. Due to the fourfold devaluation of the Indonesian Rupiah and the fact that price increases of local raw materials were well below the inflation rate, project dollar costs were further reduced. The savings could have resulted in even more implemented subprojects than the 25–30 estimated at appraisal had more use been made of the loan funds provided.

C. Project Cost

12. At appraisal, the Project cost was estimated at \$90.0 million, with ADB's share estimated at \$50.0 million (56%) and the Government's share at \$40.0 million (44%). The central Government was to contribute \$23.0 million and local governments \$17.0 million. The loan amount was progressively reduced during the portfolio restructuring exercises that were done in the wake of the Asian financial crisis. The final loan amount came down to \$17.0 million. Appendix 3 provides details on progressive reductions of the loan amount. The actual project cost was \$18.9 million, 21% of the appraisal estimate, of which ADB financed \$7.7 million (41%) and the Government \$11.2 million (59%).¹⁰ Appendix 4 compares actual Project costs with Project costs at appraisal by components. Appendix 5 shows the financing plans at appraisal and at closure of the Project.

D. Disbursements

13. Disbursements at loan closure totalled only \$7.74 million, of which \$4.48 million (58%) was for civil works, \$2.37 million (31%) was for interest during construction charges, and \$0.89 million (11%) was for consultancy costs. An imprest account that facilitated initial disbursement was established for the Project. Loan use was 45% of the final reduced loan amount of \$17.0 million. As outlined above, the low disbursement was largely due to the Asian financial crisis and a lack of commitment on the part of the executing agency to undertake most of the Project's components. Counterpart fund disbursements for implemented subprojects and consultancies were adequate. Upon the closing of the loan account on 29 November 2002, the unused loan balance of \$9.26 million was cancelled.

⁹ ADB. 2000. *Back-to-Office Report of the Loan Review Mission for Loan 1501-INO: Regional Development Account*. Manila.

¹⁰ Using a rupiah to dollar exchange rate of Rp9.197 for civil works and land. This was the average rate for funds disbursed from loan proceeds for civil works contracts over the period of the Project, based on the regional government budget (*anggaran pendapatan dan belanja daerah*) and the records of the Finance and Development Supervisory Board (*Badan Pengawas Keuangan dan Pembangunan*).

E. Project Schedule

14. The Project was approved on 5 December 1996 and the loan declared effective on 8 April 1997. The Project was completed as scheduled on 31 March 2002, and the loan account was extended by two months to close on 29 November 2002. Most of the activities under the Project were delayed. The first civil works contract was awarded in January 1999, 18 months later than estimated at appraisal. The first consultancy contract was awarded in May 1999, nearly 2 years and 6 months later than estimated at appraisal. The complimentary technical assistance project, expected at appraisal to commence at the beginning of 1997, did not mobilize consultants until September 1997, one month before the onset of the Asian financial crisis. The crisis also led to the Government to re-assess all ongoing loans, which resulted in a substantially weakened commitment to the Project. Notwithstanding delays, loan closure was extended by only two months and ADB did not agree to an extension of the completion date on account of poor performance by the executing agency since ADB's Midterm Review Mission in early 1999. Appendix 6 presents a detailed project implementation schedule that compares actual achievement with appraisal targets by components.

F. Implementation Arrangements

15. Implementation arrangements did not change during implementation, with DGFI appointed as the executing agency and DPPP acting as the project director. The Government's existing RDA project committee, comprising DPPP representatives, director general of budget, and provincial and national technical agencies, was to review and appraise all subproject investment applications and recommend approval by the Project. Coordination was the joint task of the National Development Planning Agency (BAPPENAS) and the directorate general of budget. Coordination committee meetings did not seem to have occurred as foreseen in the Loan Agreement. MOF asked ADB to take note that the Project was the first experience of DPPP as an implementing agency for an ADB-financed project.¹¹ At the local government level, implementation appeared to have worked well at the two locations visited by the Project Completion Review Mission, and - according to reports of the RDA - made inspection visits during the construction phase. Land acquisition, where required, did not cause delays to subproject implementation, which was completed on time except for one subproject in Aceh province where works were suspended due to civil unrest.

G. Conditions and Covenants

16. Most of the loan covenants were complied with. Lack of compliance concerns meeting the conditions of (i) implementing benefit monitoring and evaluation (BME), (ii) introducing a new RDA decree, and (iii) aligning progressively RDA's lending rate to market levels by 31 December 2000. The first issue was considered an act of omission by the executing agency; the second a result of the severity of the Asian financial crisis that preoccupied the MOF with more urgent macroeconomic issues allowing the decree to lapse; and the third a result of the difficulties created by the crisis and the continually fluctuating interest rate that precluded even a gradual approach to market rate alignment.¹² Partial compliance was noted in respect of the requirement to insure project facilities. Also, the executing agency did not submit a project completion report until 15 months after loan closure. Appendix 7 gives the status of compliance with loan covenants.

¹¹ MOF. 2004. *Project Completion Report*. Jakarta.

¹² ADB. 1999. *Back-to-Office Report of the Midterm Review Mission*. Manila.

H. Related Technical Assistance

17. At appraisal, the Government requested ADB to provide advisory technical assistance¹³ (TA) to assist in evaluating the long-term role of RDA, taking into account the national urban sector strategy. The TA comprised three parts: (i) a review of government policies and RDA's role in financing urban investments and supporting regional development; (ii) an analysis of options for transforming RDA into an autonomous financial intermediary and outlining a related action plan; and (iii) a review and assessment of financial intermediaries, including BPDs, for RDA's medium- and long-term development. The TA report was completed and a number of policy papers were prepared. Some of the outputs were reworked because of the Asian financial crisis. The TA report recommended an action plan for the RDA comprising three stages: urgent actions, transition actions, and transformation actions. The TA completion report (TCR) in its overall assessment noted that the TA accomplished its major objectives of evaluating the different options for the long term evolution of RDA and formulating a detailed and practical action plan for its implementation. The TCR rated the TA as generally successful, noting that it was premature to evaluate the long-term success of the TA, as the action plan was to be implemented over a 3-5 year period¹⁴. However, the executing agency only implemented recommended urgent actions to restore RDA's financial integrity, and cancelled the implementation of other actions relating to transition and transformation of the RDA into an autonomous financing facility. There was an obvious lack of ownership on the part of the Project's executing agency, which was not involved in the coordination of the TA.¹⁵ The executing agency's lack of commitment to implementing recommended actions and the cancellation of consultancy services for packages B, C, and D were seen as a clear lack of interest of the Government in reforming RDA financing and lending operations.

I. Consultant Recruitment and Procurement

18. The Asian financial crisis significantly delayed consultant recruitment and procurement. Consultants for project implementation were fielded only in December 1999. During the tender process for the implementation consultants, other consultants were engaged by direct selection for a period of 6 months to process subproject applications and bridge the time gap. Goods and services were procured from loan funds in accordance with *ADB's Guidelines for Procurement*. The recruitment of consultants was carried out in accordance with *ADB's Guidelines on the Use of Consultants*. The services of the implementing consultant were procured through international competitive bidding, while for all physical subproject works local competitive bidding was used. No major problems involving the borrower, the executing agency, or ADB were encountered in packaging the contract, preparing bidding documents, and tendering and evaluating bids.

19. The executing agency noted that ADB procurement regulations were cumbersome and difficult to understand and would have appreciated a more continuous hands-on support on procurement matters and procedures from ADB's Jakarta Resident Mission during the project period.¹⁶ Two subprojects were rejected by ADB because of eligibility problems or because of inconsistencies with ADB procurement guidelines. Given that the executing agency cancelled the consultancy assignments of packages B, C, and D, 75 percent of the original project cost estimates for consultant services was unused at project closure.

¹³ TA No. 2699-INO. *Institutional Strengthening of the Regional Development Account*. Manila.

¹⁴ Technical Assistance Completion Report, *Institutional Strengthening of the Regional Development Account* (TA No. 2669-INO), 21 June 1999.

¹⁵ The executing agency for the technical assistance was the Agency for Financial and Monetary Analysis at MOF.

¹⁶ MOF. 2004. Project Completion Report. Jakarta.

J. Performance of Consultants, Contractors, and Suppliers

20. The performance of the bridging and implementation consultants was satisfactory. A higher level of commitment and project ownership on the part of the executing agency would have resulted in better use of the consultants. The performance of contractors was generally satisfactory. The physical facilities of two subprojects visited by the Mission were of good quality, reflecting the satisfactory performance of contractors. Appendix 8 gives a list of contracts and procurement modes under the Project.

K. Performance of the Borrower and the Executing Agency

21. The performance of the borrower and the executing agency was partly satisfactory to the extent of the limited achievements of the Project. The lack of project ownership and commitment by the executing agency severely compromised the achievement of project objectives, especially after ADB's Midterm Review Mission in March 1999, as demonstrated by the cancellation of the Project's capacity building components. The assessment of the executing agency's capabilities at the time of appraisal is not disputed. Subsequent changes of senior personnel may have changed attitudes toward the attainment of original project objectives. The later institutional capacity and state of development of RDA may have decreased compared to the time of appraisal. Cancellation of capacity building components, combined with the gradual collapse of RDA as a lending facility due to the Asian financial crisis, and lack of an executive decision to produce a rescheduling or restructuring solution to nonperforming loans (NPLs), have almost certainly led to lower staff morale in the involved Government units. DPPP and RDA have failed to implement the bulk of the institutional strengthening recommendations of the implementing consultants.

L. Performance of the Asian Development Bank

22. A total of 11 ADB missions (265 person-days) were fielded. Approvals of subprojects, reviews of applied procurement procedures, and awards of subproject contracts were conducted in a timely manner, largely through Project management support. However, given limited experience, a continued support and assistance to the executing agency for complying with ADB procedures and procurement regulations, preferably through the Resident Mission in Indonesia, would have been required. Further, prior to cancelling subprojects, stronger efforts should have been made by the ADB to persuade the executing agency to retain the consultancy services tied to capacity building, which was a core element of the Project design at the time of appraisal. ADB missions had identified major issues related to a lack of commitment by the executing agency at an early stage of implementation and declined extending the services of the implementing consultants¹⁷ only after proposed remedial actions were not taken up. The performance of ADB is therefore rated partly satisfactory.

¹⁷ Letter from ADB to MOF dated 12 December 2001.

III. EVALUATION OF PERFORMANCE

A. Relevance

23. The Project was relevant at the time of appraisal and was in line with the Government's urban policy objectives and ADB's country strategy. Improving urban infrastructure services by providing access for local government to adequate finance using a sustainable municipal lending mechanism was and still is the order of the day in Indonesia. However, as a consequence of the Asian financial crisis, the Government's priority changed, and it re-assessed its borrowing position with the aim to reduce future liabilities and to reallocate loan proceeds to mitigate the impact of the crisis on the poor. In this new context, the Project was perceived as less relevant. Doubts about the feasibility of further lending to local government water supply enterprises (due to the proliferation of NPLs and the political difficulties to implement increased water tariffs) as well as reservations about the future of RDA itself compounded the doubts about the Project and resulted in the Government's decisions to partially cancel Project funds.

24. The Government stood firm on its view that construction and rehabilitation of markets and bus terminals would effectively stimulate local economies and benefit especially low-income groups. During the Midterm Review Mission in March 1999, the Government reaffirmed its commitment to that objective and emphasized the role of RDA as part of the newly accelerated decentralization process. The position of RDA within urban infrastructure finance was confirmed in principle. This justified the decision to proceed with loan implementation in accordance with the recommendations of the Institutional Development Action Plan produced under the TA. In recognition of the fact that water supply investment applications would no longer be considered under the Project, the loan was reduced to \$20 million in September 1999 and finally to \$17 million in October 2000. Appendix 9 and Appendix 10 provide details on subproject sources of funds and the status of subproject loans, respectively.

25. These modifications retained the philosophy of the Project's design but recognized the exigencies created by the Asian financial crisis. Urban infrastructure service delivery financed by the Project continued, although on a reduced scale, while the time horizon for implementing capacity building activities and the transformation of RDA itself was extended into an unknown future. Thus the Project remained partly relevant.

B. Efficacy in Achievement of Purpose

26. The Project is rated as less efficacious. It had limited success with its first objective of providing long-term credit to local governments, and had hardly any impact in supporting and strengthening RDA as a revolving municipal credit facility and in strengthening the technical and financial capabilities of local governments. Instead of being a flourishing wholesaler of loans for urban infrastructure investment, as intended at the time of appraisal, RDA was in decline by the end of the Project, approving only a few loans per year. The capacity of RDA to appraise and administer loan applications was not strengthened, and capacity of local governments to identify and prepare feasible projects in the urban sector was not improved. Administrative inefficiencies in loan application processing that were supposed to have been eliminated under KMK 347a/2000 continued to persist throughout project implementation. RDA is still organized as a government department rather than as a financial institution. RDA did not develop the kind of customer orientation and corporate culture that the Project was expected to promote.

27. The integrity of RDA's loan portfolio has continued to erode, and a substantial portion of its assets are nonperforming. Notwithstanding assistance from the Project, the executing agency did not take any proactive steps to provide defaulting borrowers with guidelines on how to reschedule or restructure their loans. Appendix 11 gives RDA's loan portfolio status during 1999 –2001. Without resolving this problem, it is unlikely that substantial lending to concerned local governments can recommence. DPPP is preparing a draft decree concerning rescheduling and/or restructuring of local government loans. However, DPPP's imminent transfer from DGFI to the directorate general of treasury is likely to lead to delays in producing such guidelines.

28. Partly as a result of the lack of access to finance, urban investment has slowed to a trickle. The Ministry of Settlement and Regional Infrastructure (it changed its name in 2005 to Ministry of Public Works) estimated that before the Asian financial crisis in 1997 investment in urban infrastructure was \$15 per capita. This has declined to \$5 per capita in 2004. The backlog of infrastructure continues to grow in relation to the expanding urban populations, while existing infrastructure is deteriorating. Therefore, the Project did not contribute to achieve the wider development goal of improved access to basic urban infrastructure and services.

29. The number of project beneficiaries, limited to those benefiting from reconstructed markets and new bus terminals, is considerably below appraisal expectations. As shown in Appendix 12, the reconstructed market in Surakarta succeeded in reaching the number of beneficiaries as forecasted in the subproject appraisal report (SPAR). However, due to the fact that DPPP and RDA did not establish the BME procedures as stipulated in the Loan Agreement, information on beneficiaries from the other subprojects is lacking.

C. Efficiency in Achievement of Outputs and Purpose

30. Since the executing agency cancelled the capacity building and RDA reform components, both major elements of the Project design, the Project is rated partly efficient in achieving its outputs and purpose. In terms of direct beneficiaries expected at appraisal as a result of the incremental urban service delivery, the results are disappointing because of the low number of subprojects implemented and because the water supply component was removed from the Project during the Midterm Review Mission.

31. The implementing consultants were productive in terms of the number of produced subproject feasibility studies. But the output in terms of subprojects implemented was not adequate because of systemic administrative delays within DPPP and RDA. Those few capacity building elements produced by the implementing consultants, such as real demand survey methodology, rescheduling procedures, and improved terms and conditions of the Loan Agreement, were used inefficiently by RDA - either because little new lending was offered by RDA since 1998 or because the executing agency never responded to the recommendations of the implementing consultants.

32. The Mission visited two urban centres where subprojects were constructed with loan proceeds: Kabupaten Ponorogo, East Java, where a bus terminal was constructed, and Kota Surakarta, where a market, shopping center and cinema complex was reconstructed after being burned down during riots in May 1998. In Kabupaten Ponorogo, the financial internal rate of return (FIRR) for the bus terminal was recalculated at 1.8%, compared with 12.7% in the SPAR (Appendix 13). The principal reasons for this unsatisfactory result include (i) lower unit terminal user tariffs as projected; (ii) significantly lower traffic volumes as anticipated; and (iii) a shortfall in other revenues of 40–50%, as compared to the assumed levels in the feasibility study. The tariff was last revised in 1999. This was justified with the adverse impact increases would have

had on low-income groups. Unless tariffs are increased by at least 50% in 2005, the subproject will not achieve full cost recovery over the tenure of the 10-year RDA loan. However, the local government undertakes full debt service, providing a subsidy from its general revenues. While the investment was not designed optimally, the terminal, even with a use lower than that forecast, is busy and provides economic benefits to low-income groups by making available links from the rural hinterland to the market center of Kabupaten Ponorogo and urban centers beyond this city.

33. Reconstruction of the market in Surakarta was completed on time and slightly below cost estimates. Facilities appear to be fully utilized. The FIRR was recalculated at 15.0%, well above the 11.5% interest rate of RDA's loan and higher than the 12.6% estimated in the SPAR. The financial performance of the facility is robust. A nominal price analysis demonstrates full cost recovery of the subproject throughout its 20-year operation (Appendix 13).

34. Nine subprojects (eight markets and one bus terminal) were implemented and eight of these were completed, with works on one subproject (Kutacane in Aceh Province) suspended due to persistent civil unrest. In addition, RDA was unsure about the full operational efficiency of the Barito Kuala market in Kalimantan because of the lack of proper access facilities that should have been provided by the local government. The local government made available adequate funds in the 2003 budget but RDA has not since monitored the extent of subproject operation. The two latter local governments are accumulating substantial arrears on their RDA loans. Loan repayments by the city of Surakarta are also in arrears although the local government assured the Mission that the debt service would be made regular by October 2004.

D. Preliminary Assessment of Sustainability

35. The Project is unlikely to be sustainable. Project components aimed at sustainability and institutional development for improving long term availability of credit for local governments and their enterprises were cancelled by the executing agency. Out of the limited number of subprojects implemented, all are not likely to be sustainable. For example, Kabupaten Ponorogo bus terminal visited by the Mission is not likely to be financially sustainable. Facilitation and regular tariff increases at the Kabupaten Ponorogo bus terminal are required to enable the facility to generate sufficient revenue to ensure cost recovery and contribute to subsidies for non-cost-recovery local government services. With respect to all subprojects, the executing agency failed to ensure the implementation of regular BME systems through appropriate contractual arrangements in the subblending agreements.

36. Less than 20% of the project funds allocated to consultancy services in the areas of project implementation and institutional support were actually expended. Although the TA and the loan portfolio review conducted by the implementation consultants provided clear evidence of deficiencies in the administration of the portfolio, the executing agency decided to cancel the Project's FMIS component as well as training and capacity building elements toward the end of 2000. This in itself was illustrative of its lack of commitment to RDA sustainability. RDA staff members informed the Mission that a new FMIS was being installed and that it was financed from the national budget (nearly 4 years after cancellation of the FMIS that would have been financed under the Project).

37. The implementation consultants' activities were mainly focused on subproject preparation and processing. These activities have not been sustained, as demonstrated by RDA's inability to process any significant level of loans following ADB's refusal to sanction a second extension of consultant services after 30 November 2001. The sustainability of this and

other support activities was gravely compromised by the lack of routine budget funds to enable RDA staff members to accompany consultants on field visits (project implementation support in Part B). In addition, the sustainability of capacity building activities for rescheduling or restructuring of NPLs, for carrying out real demand surveys, and for undertaking project appraisal and monitoring in accordance with methodologies and guidelines provided by the implementing consultants, is highly questionable.

38. As part of a substantial reorganization within MOF, DPPP and RDA will be transferred from DGFI to a newly created treasury directorate general. It remains to be seen whether this will result in a more proactive approach to municipal investment finance by DPPP.

E. Environmental, Sociocultural and Other Impacts

39. Environmental impact assessments were carried out for all subprojects. Since the subproject typologies were restricted to self-contained markets and bus terminals, potentially adverse impacts were limited. Construction phase activities were planned to reduce noise and dust pollution, while drainage and solid waste collection facilities were incorporated within project design. Since both subproject typologies were designed to improve traffic flows, and since parking facilities were included in the project design, the resulting reduction in traffic congestion may be expected to have lessened pollution levels prevailing prior to subproject construction.

40. Social and demand surveys were conducted as part of subproject feasibility study preparation, including an assessment of direct beneficiary groups. Subprojects made a positive impact in terms of gender issues, since market stalls and kiosk facilities in bus terminals are predominantly managed and operated by women. No other sociocultural issues or other types of impacts emerged during the Project.

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

41. The Project is rated unsuccessful. The Project only partially achieved one of its objectives: improving the availability of long-term credit to local governments through financing nine subprojects, against the appraisal target of 25–30 subprojects. The other two objectives, (i) supporting RDA as a revolving municipal facility and its further institutional development and (ii) strengthening the technical and financial management capacity of local governments and enterprises, were not achieved. Only a limited amount of new urban infrastructure actually implemented can be considered sustainable. Withdrawal by the executing agency from commitment to RDA capacity building and reform (activities pivotal for the Project's successful outcome) meant limited achievement of the Project regarding its purpose and long-term policy goals. The Government accepts that the Project has not fully achieved its declared objectives.

42. A major reason for the lack of success was the Asian financial crisis of 1998 and its protracted impact upon the country. The efforts required by the Government to contain and rectify the social impact of this event, stabilize the macroeconomic situation, and restore insolvent Indonesian financial institutions, pushed problems related to urban infrastructure on the back burner. Changes in implementation arrangements due to decentralization did not significantly impact on the Project. The Project was relevant at the time of appraisal. As a result of the economic crisis, the Project was redefined during the Midterm Review Mission, with more

modest objectives stretched out over a longer time period. The appraisal philosophy and concepts, however, were retained.

43. The other reason for the very limited success of the Project was the lack of Government leadership and commitment to the Project. The executing agency's commitment to, and ownership of, the Project were missing to a large degree. Reconciling the positive approach expressed in the memorandum of understanding of the Midterm Review Mission and the lack of interest in the Project displayed by the executing agency starting in 2000 is difficult. The change of attitude can only be explained by changes in the ranks of senior MOF personnel. Visits to subprojects suggested successful implementation of the limited number of subprojects financed by the Project. The visits also confirmed the continued need for support in providing basic urban services by local governments and their lack of resources to fund such investments. This suggests a continuing need for a mechanism catalysing and financing such projects.

44. Another important reason for the Project's limited success appears to be issues of institutional governance not addressed under the Project. Several Government institutions are associated with the urban sector, but with unclear roles and responsibilities. This lack of clarity severely impacts on urban service delivery by regional and local governments.

B. Lessons Learned

45. Major lessons learned from the Project comprise the following:

- (i) Strong and continuing ownership of the Government is required for successful implementation. The basic design, assurances, and project objectives need to be maintained during implementation.
- (ii) A supporting legal framework should be in place before implementation or should be established during the early stages of project implementation. Project success and sustainability becomes difficult without enabling laws and regulatory mechanisms.
- (iii) Revolving funds such as RDA may be difficult to manage by the Government, given political sensitivities and the limited capacity in required technical, monitoring, and banking skills within regulatory agencies.
- (iv) Capacity building and institutional strengthening of executing agencies and other stakeholders are keys for success, which require more attention in the project design. Ideally, capacity building activities should precede the actual implementation of sub-projects. ADB should provide more assistance in helping executing agencies to comply with ADB procedures and procurement regulations on a continuing basis.
- (v) Rigorous appraisal, monitoring, and recovery mechanisms must be in place before disbursement. Budgets for site visits and reviews must be made available by the executing agency as part of Government counterpart contribution.
- (vi) For sustainability reasons, only financially viable projects with clearly defined revenue streams and cost recovery mechanisms should be selected.

C. Recommendations

46. The Mission made the following recommendations to the Government:

- (i) Facilitate a detailed review and classification of the existing portfolio and initiate a clean up of the portfolio through a rigorous recovery process and restructuring of

unsustainable loans, as well as stronger enforcement of penalties against defaulting local governments. KMK 347a/2000 and KMK 35/2003 make an effort to regulate monitoring and recovery of future loans through intercept mechanisms, but do not cover existing loans and defaults. A general policy for recovery of arrears and the establishment of a strong monitoring mechanism against defaults are immediate needs.

- (ii) Approach selected development partners to mobilize support for the formulation of a clear strategy related to the provision of long-term credit for local government's investments in urban infrastructure.
- (iii) Review and clarify the roles of multiple government institutions associated with local government financing.
- (iv) Based on examples of good practice elsewhere, consider a governmental role as facilitator rather than a provider of local government financing. Following this role model, a short, medium, and long-term approach should be explored to develop an autonomous municipal credit facility outside the day-to-day control, but under the overall supervision of the Government.

PROJECT FRAMEWORK

Goals/Purpose	Project Targets	Actual Outputs and Outcomes	Issues/Way Ahead
<p>General</p> <p>1. Improve access to basic urban infrastructure and services.</p> <p>2. Assist the Government to achieve its urban sector policy and development priorities by supporting decentralization and the use of loan financing.</p>	<p>Benefit about 25–30 urban centers, with investment in the water supply, terminals, markets, waste water, or solid waste subsectors</p>	<p>The Project has not achieved its stated goals, a fact accepted by the Government.</p> <p>The Project failed to develop and sustain the loan financing mechanism for decentralization or contribute to the urban sector policy.</p> <p>The Government no longer seemed committed to the Project. At the time of project sanction, the Government had given the following assurances:</p> <ul style="list-style-type: none"> (i) provide the Asian Development Bank copy of the draft Regional Development Account decree for comment before finalization, (ii) align the Regional Development Account lending rates toward market rates over time, (iii) ensure that no government provision or regulation will prevent the implementation of the project as designed. <p>A decree announcing the future policy on long-term municipal funding was to be issued. The Government was unable to meet the assurances listed.</p>	<p>The Asian financial crisis in 1997 led to a total change of priorities and policy for the Government. The Regional Development Account was no longer a priority and was put on hold.</p> <p>Engaging in a policy-level dialogue with the Government is necessary and will assist in the formulation of a future policy on long-term credit finance for local governments.</p> <p>Multiple institutions associated with the urban sector have unclear roles and responsibilities, and these severely impact the smooth functioning of the regional and local governments. This issue needs to be reviewed and resolved for the success of future urban programs.</p>
<p>Purpose (Immediate Objective)</p> <p>1. Improve the availability of long-term credit to local governments and enterprises to finance locally initiated urban investments.</p>	<p>About 25–30 local governments and/or enterprises participate</p> <p>Sixty-eight million dollars becomes available for credit finance</p>	<p>The Project was unable to achieve any of the three objectives. No long-term credit mechanism for local projects was put in place on project completion. The Regional Development Account is not a government</p>	<p>On the date of sanction, the legislative framework essential for the success of the Project was inadequate. Subsequently, Law 22/1999 and Law 25/1999 were introduced</p>

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FRAMEWORK – *continued*

Goals/Purpose	Project Targets	Actual Outputs and Outcomes	Issues/Way Ahead
<p>2.Support the Regional Development Account as a revolving municipal facility and its further institutional development</p> <p>3.Promote the financial institutional autonomy of local governments.</p>	<p>Strengthen appraisal procedures</p> <p>Monitor loan portfolio</p> <p>Repay over 85%</p> <p>Local governments identify, prepare, implement, and operate</p>	<p>priority and is a nearly defunct entity. The Government seems to have no current intent to provide any budgetary allocation or fresh resources to make the Regional Development Account a revolving facility to extend fresh loans.</p> <p>Only nine subprojects were financed through the Project</p> <p>Total credit finance of \$9.68 million (\$4.48 million from loan proceeds) was extended through the Project for nine subprojects. The total disbursement on project completion was \$7.74 million, which included interest during construction of \$2.37 million (substantially lower than the sanctioned \$50 million).</p> <p>The appraisal and monitoring mechanism of the loan portfolio seems close to nonexistent, with minimal efforts for recovery.</p> <p>Subproject repayments against current maturities of the loans are 92%.^a However, arrears in excess of 40%^b existed in the overall portfolio as of December 2001.</p> <p>Local governments were unable to develop their capacity to identify and implement locally initiated urban investments.</p>	<p>by the Government to promote decentralization and define the fiscal balance between central and regional governments. This is a vital step toward decentralization and financial autonomy. The earlier laws need to be refined to strengthen local governments and define their role, financing, accountability, responsibility.</p> <p>Decree 347a/KMK 017/2000 makes an effort to regulate the monitoring and recovery of future loans but does not cover the existing loans and defaults. An immediate need exists for a portfolio review and policy for recovery of the existing arrears.</p> <p>The borrowing mechanism was not put in place on a sustainable basis for the balance borrowing. Guidelines for the local government contribution issued through decree 347a/KMK 017/2000</p>

KMK = *Keputusan Menteri Keuangan* (Minister of Finance decree).

^a DPPP document.

^b Ministry of Finance. *Project Completion Report*. Jakarta.

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FRAMEWORK – *continued*

Goals/Purpose	Project Targets	Actual Outputs and Outcomes	Issues/Way Ahead
	Local governments contribute at least 25% of the subproject costs and borrow the balance	In most of the subprojects under the Regional Development Account, the local governments were able to provide their counterpart funding of 25%.	
<p>Outputs</p> <p>1. Part A: Extend credit lines to local governments to finance pending investment applications.</p> <p>2. Part B: Extend implementation and institutional development support to the Regional Development Account, regional development banks, and local governments.</p>	<p>Sixty-eight million dollars in credit financing available</p> <p>Relending at an interest rate of no less than 11.5% plus commitment fees</p> <p>Repayment periods of a maximum of 20 years</p> <p>Grace periods of a maximum of 5 years</p> <p>Project management support to assist in overall implementation</p> <p>Subproject support for local government and appraisal support for Ministry of Finance</p> <p>Institutional development for Regional Development Account and local governments</p> <p>Training programs for regional development banks and financial intermediaries.</p> <p>Support to strengthen Regional Development Account's financial and management information system</p>	<p>The amount lent was \$9.8 million.</p> <p>Relending was done in the subprojects at 11.5% plus commitment fee.</p> <p>Only one loan was signed with the maximum repayment and grace period. Most loans were for 10 years with a 1-year grace period, in accordance with the economic life of the subproject.</p> <p>Part B was initially put on hold with the onset of the financial crisis, due to uncertainty over the Government's priority in regard to the Project. Subsequently, this component was cancelled, with none of the subcomponents essential for the success of the Project being implemented. This led to weak institutional support and capacity at all levels, severely hindering the success and sustainability of the Project.</p>	<p>Demand from local governments for credit lines was low, despite low levels of service delivery. The annual per capita urban infrastructure investment declined from \$15 to \$5 investments after the Asian crisis, resulting in a backlog and need for long-term municipal credit. No clear guidelines or policy exist for long-term municipal credit.</p> <p>Alternative sources, such as banks and municipal bonds and the private sector are not being seriously explored. Credit enhancement mechanisms, including escrow accounts, debt service reserve funds, partial risk guarantees, and credit ratings, are not being pursued. The Government needs to look at these areas. The issues of autonomy and professional management for the municipal development fund need to be examined, and a step-by-step approach needs to be designed to move ahead (immediate, interim, and long term) with simultaneous emphasis on institutional development and time bound implementation.</p>

SERVICES PROVIDED BY THE IMPLEMENTING CONSULTANTS FOR PACKAGE A

TABLE A2.1: Rescheduling Activities Under Component A (Loan Portfolio)

Borrower	Specific Reasons for Loan Nonperformance	Rescheduling Feasibility
Perusahaan Daerah Air Minum (PDAM) Kab Jayapura	(i) Large number of nonpaying domestic customers (ii) Illegal connections (iii) Lack of legal sanctions to resolve the problems mentioned (iv) Large consumers that are not metered	Yes
PDAM Kodya Padang	(i) Low tariffs (ii) Unjustified dividend demands by PEMDA	Yes
PDAM Kodya Kendari	(i) Supply-driven and oversized project (ii) Bilateral development partner funds (i.e., tied soft loan to the Government)	Yes
PDAM Pare Pare	(i) PDAM requested rescheduling but no reply from Direktorat Pengelolaan Penerusan Pinjaman (DPPP) (ii) No record of loan documents in DPPP	Yes
PDAM Kodya Manado	(i) Allocation of funds for purposes other than those in loan documents (ii) Large water losses (iii) Large number of nonpaying customers (iv) Bad management practices (v) Encouraged to default by lack of DPPP action	Not attempted Immediate action plan required first
PDAM Kodya Bitung	(i) Supply-driven and oversized projects (ii) Bunching of loan maturities (iii) Bad management practices (iv) DPPP encouraged passivity to nonperforming loans at PDAM Manado	Yes
PDAM Kab Bolmong	(i) Supply-driven project with no real demand survey (ii) PDAM has too many small units with poor economies of scale (iii) Severe overstaffing and lack of management control of overhead	Yes
PDAM Kab Sambas	(i) DPPP suspended disbursements to PDAM because of corruption, collusion, and nepotism. (ii) Remaining loan funds not sufficient to complete project (needs loan top-up) (iii) Tariff cannot be increased until project completed	Yes
PDAM Kodya Palembang	(i) Distribution pipes delivered years before production facilities completed (ii) Large water losses (iii) Many meters not functioning (iv) Poor collection efficiencies	Yes
PDAM Kab Luwu	(i) PDAM possibly never intended to repay loan (ii) Bad management practices	Yes

DPPP = *Direktorat Pengelolaan Penerusan Pinjaman* (Directorate for Subsidiary Loan Management), PDAM = *Perusahaan Daerah Air Minum* (local government water supply enterprise), PEMDA = *Pemerintah Daerah* (regional government).

Source: Ministry of Finance. Project Completion Report. Jakarta.

Table A2.2: Loan Application Assistance Under Component A
(Loan Portfolio)

No.	Project Title	Location	Level of Assistance	Result
1.	Gianyar Solid Waste	Bali	Advice on equipment	Not eligible (NPL)
2.	Gianyar Bus Terminal	Bali	Advice on FS	Not eligible (NPL)
3.	Dr. Soetomo Hospital	Surabaya	Assistance in preparing the Loan Agreement and approving contract amendments	RDA loan issued but not with ADB funds
4.	PDAM Kab Bulungan	East Kalimantan	Advice on disbursements related to works progress	Payment approved
5.	New Market at Tebet	Jakarta	Reviewed FS, design, and SPAR	Did not proceed
6.	Markets at Pasar Minggu, Cipete and Pal Merah	Jakarta	Assisted with completion report	Completed
7.	Bus Terminal at Kotabumi	Lampung	Site inspection for progress monitoring	Report to DPPP
8.	Banyuasin Bus Terminal	South Sumatra	Site inspection for progress monitoring	Report to DPPP
9.	PDAM Lebak	West Java	Assisted with rescue program after PDAM suffered huge commercial loss	Loan increase not feasible
10.	PDAM Sambas	West Kalimantan	Prepared rescue program to assist PDAM after major project malpractice	DPPP deferred action
11.	PDAM Tarakan	East Kalimantan	Reviewed progress and construction problems	Report to DPPP
12.	Singosaren Market, Surakarta	Central Java	Prepared documents for ADB funding approval	ADB NOL
13.	Bus Terminal, Ponorogo	East Java	Prepared documents for ADB funding approval	ADB NOL
14.	Integrated Market, Kutacane	Aceh	Assistance in preparing application, FS, DPPP presentation, SPAR, loan agreement and contract documents	ADB NOL. Started construction
15.	Main Market, Glodok	Jakarta	Prepared documents for ADB funding approval	Rejected by ADB
16.	Market, Jembatan Lima	Jakarta	Prepared documents for ADB funding approval	ADB NOL, and works completed
17.	Market, Petojo Ilir	Jakarta	Prepared documents for ADB funding approval	ADB NOL, and works completed
18.	Market, Jayapura	Irian Jaya	Prepared FS, presentation to DPPP, and follow-up	PEMDA postponed action
19.	PDAM East Lombok	Nusa Tenggara Barat	Preliminary assessment	DPPP deferred action
20.	Tourist Market, Pangandaran	Ciamis, West Java	Assistance in preparing application, FS, DPPP presentation, SPAR, loan agreement and contract documents	Rejected by ADB
21.	Market, Brondong	Lamongan, E Java	Assisted with FS and appraisal	DPPP deferred action
22.	Market, Baturaja	South Sumatra	Preliminary discussions with PEMDA	PEMDA postponed action
23.	Market, Barabai	South Kalimantan	Preliminary discussions with PEMDA	PEMDA withdrew interest
24.	Market, Tarakan	East Kalimantan	Preliminary discussions with PEMDA	PEMDA postponed action
25.	Market, Prambanan	Central Java	Preliminary discussions with PEMDA	PEMDA postponed action
26.	Market, Cikeruh	West Java	Preliminary discussions with PEMDA	PEMDA postponed action
27.	Market, Kadipaten	Majalengka West Java	Preliminary discussions with PEMDA	PEMDA postponed action
28.	PDAM Selayar	South Sulawesi	Preliminary assessment	PEMDA postponed action

ADB = Asian Development Bank, DPPP = *Direktorat Pengelolaan Penerusan Pinjaman* (Directorate for Subsidiary Loan Management), FS = financial statement, IUIDP = Integrated Urban Infrastructure Development Program, No. = number, NOL = no objection letter, NPL = nonperforming loan, PDAM = *Perusahaan Daerah Air Minum* (local government water supply enterprise), PEMDA = Pemerintah Daerah (regional government), RDA = Regional Development Account, SLA = subsidiary loan agreement, SPAR = subproject appraisal report.

Source: Ministry of Finance. 2004. *Project Completion Report*. Jakarta.

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Table A2.2 – continued

No	Project Title	Location	Level of Assistance	Result
29.	Bus Terminal, Banyuwangi	East Java	Preliminary assessment	Not feasible
30.	PDAM Tirtanadi, Medan	North Sumatra	Appraisal of SPAR associated with ADB IUIDP Loan 1587	SLA approved
31.	Terminal/Market, Karanganyar	Central Java	Preliminary assessment	PEMDA postponed action
32.	Terminal/Market, Penyabungan	Mandailing Natal North Sumatra	Assistance in preparing application, FS, DPPP presentation, SPAR, loan agreement and contract documents	ADB NOL, and works completed
33.	Terminal/Market, Barito Kuala	South Kalimantan	Assistance in preparing application, FS, DPPP presentation, SPAR, loan agreement and contract documents	Only market approved by DPPP; ADB NOL; and works completed
34.	Market, Ponorogo	East Java	Preliminary assessment	PEMDA postponed action
35.	Market, Polewali Mamasa	South Sulawesi	Assistance in preparing application, FS, DPPP presentation, SPAR, loan agreement, and contract documents	ADB NOL, and works completed
36.	Bus Terminal, Dairi	North Sumatra	Monitoring visit	Project too small for ADB loan
37.	Market, Palopo/Luwu	South Sulawesi	Pre-FS and field visit	PEMDA postponed action
38.	Market, Ciledug	Cirebon, W Java	Pre-FS and field visit	PEMDA revised FS
39.	Market, Garut	West Java	Discussions with PEMDA	PEMDA postponed action
40.	Hospital, Banjarnegara	Central Java	Preliminary assessment	DPPP rejected
41.	Markets, East Aceh	Aceh	Discussions with PEMDA and field visit	DPPP deferred action
42.	Hospital, Manokwari	Irian Jaya	Preliminary assessment	PEMDA preparing FS
43.	Market/Terminal, Timika	Irian Jaya	Preliminary discussions with PEMDA	PEMDA preparing FS
44.	Market/Terminal, Sorong	Irian Jaya	Preliminary discussions with PEMDA	PEMDA preparing FS
45.	Market, Ketapang	West Kalimantan	Review of PEMDA FS	Awaiting DPPP action
46.	Market, Kerinci	Jambi	Preappraisal field visit and recommended for FS	PEMDA preparing FS
47.	Market, West Lombok	Nusa Tenggara Barat	Preappraisal discussions with PEMDA	PEMDA postponed action
48.	Market, Kodya Kediri	East Java	Preappraisal discussions with PEMDA	Later approved, and ADB NOL
49.	Market, Kab Kediri	East Java	Preappraisal discussions with PEMDA	PEMDA postponed action
50.	Market, Malang	East Java	Preappraisal discussions with PEMDA	PEMDA postponed action
51.	Bus Terminal, Purwokerto	Central Java	Pre-appraisal discussions with PEMDA	PEMDA postponed action
52.	Market, Leuwiliang, Bogor	West Java	Pre-appraisal discussions with PEMDA	PEMDA postponed action
53.	Hospital, North Luwu	South Sulawesi	Pre-appraisal discussions with PEMDA	PEMDA postponed action
54.	Market, Kapuas Hulu	West Kalimantan	Pre-appraisal discussions with PEMDA	PEMDA postponed action
55.	Market/Terminal, Takalar	South Sulawesi	Pre-appraisal discussions with PEMDA	PEMDA postponed action
56.	Market, Wajo	South Sulawesi	Pre-appraisal discussions with PEMDA	PEMDA postponed action

ADB = Asian Development Bank, DPPP = *Direktorat Pengelolaan Penerusan Pinjaman* (Directorate for Subsidiary Loan Management), FS = financial statement, No. = number, NOL = no objection letter, SPAR = subproject appraisal report.

Table A2.3: Activities and Actions Taken for Component C
(Project implementation Support)

No.	Activity	Indicator	Action
C	Project Implementation Support		
C1	Provide Support to DPPP and Borrowers for Preappraisal		
C1a	Prepare Real Demand Survey Models	Manual	Manual produced
C1b	Train RDA staff in using RDS	Training sessions	Manual explained
C1c	Field visits to verify RDS	Report	Included in appraisal of proposals
C1d	Develop modified FINPRO for water supply projects	Report	Included in <i>Guidelines on Rescheduling</i>
C1e	Assist local governments and enterprises in strengthening FS and RDA loan applications to ensure consistency with government and ADB design criteria and regulations	Reports	Included in appraisals of proposals
C1f	Assist in selection, review, and approval of RDA subproject applications; review applications and FS reports; review technical and environmental aspects; and review demands and needs	Reports	Included in appraisals of proposals
C1g	Assist DPPP staff members in estimating borrowing capacity of loan applicants	Reports	Included in appraisals of proposals
C1h	Liaise with BAKD regarding assessments of borrowing capacity	Reports	Included in appraisals of proposals
C2	Provide Support to DPPP for Appraisal		
C2a	Assist DGFI to improve appraisal process	Reports	Included in appraisals of proposals
C2b	Assist DGFI to check that subproject is demand-driven, using RDS models	Reports	Included in appraisals of proposals
C2c	Assist in SPAR preparation	Reports	Four SPARS produced
C3	Project Monitoring Support		
C3a	Assist DPPP in monitoring and disbursement by (i) supporting DPPP in monitoring subprojects implemented by local agencies and advising on operational activities, (ii) assisting DPPP in monitoring preparation works of local governments and their enterprises, and (iii) assist DPPP in monitoring disbursements	Monitoring reports	Produced in consultants' monthly progress reports
C3b	Assist borrowers in project implementation by (i) assisting DPPP in monitoring local governments and their enterprises in recruitment of consultants for project preparation and supervision, (ii) assisting DPPP in monitoring preparation and tendering of LCB and ICB contracts for procurement of goods and civil works in accordance with government and ADB regulations, and (iii) assisting DPPP in supervision of subproject contracts to ensure compliance with government and ADB guidelines.	Reports	Constantly, via telephone and personal contact, and submission of contract documents to ADB Prepared draft loan agreements and minutes of all meetings regarding tendering and contract award and translated documents into English for submission to ADB Carried out in conjunction with preparing contract documents for submission to ADB

ADB = Asian Development Bank, BAKD = *Badan Analisis Keuangan Daerah* (Agency for Regional Financial Analysis), DGFI = Directorate General of Financial Institutions, DPPP = *Direktorat Pengelolaan Penerusan Pinjaman* (Directorate of Subsidiary Loan Management), FINPRO = financial projection, FS = financial statement, ICB – international competitive bidding, LCB = local competitive bidding, No. = number, RDA = Regional Development Account, RDS = real demand survey, SPAR = subproject appraisal report.

Source: Ministry of Finance. 2004. *Project Completion Report*. Jakarta.

Continued on next page.

No.	Activity	Indicator	Action
C4	Assist DPPP and Borrowers in Preparing BME Reports		
C4a	Assist in developing performance indicators	Report	Included in monitoring guidelines
C4b	Advise local governments and their enterprises on indicators and monitoring mechanism	Report	Included in monitoring guidelines
C4c	Assist DPPP in supervision of BME based on performance indicators	Report	No subprojects reached BME monitoring stage
C5	Assist DPPP Review of Initial Environmental Impact Assessments		
C5a	Assist DPPP review of initial environmental examination of each subproject	Report	Carried out at time of subproject appraisal
C5b	Advise local agencies conducting engineering designs		Included in appraisal reports
C5c	Ensure preparation and government review of EIA for each subproject with an identified adverse impact and incorporate recommended mitigating measures in subproject design		Recommendations made in SPARs

BME = benefit monitoring and evaluation, DPPP = *Direktorat Pengelolaan Penerusan Pinjaman* (Directorate of Subsidiary Loan Management), EIA = environmental impact assessment, No. = number, SPAR = subproject appraisal report.

Table A2.4: Activities and Actions Taken for Component D
(Project Management Support)

No.	Activity	Indicator	Action
D Project Management Support			
D1 General Support			
D1a	Provide general advice to DPPP in tasks related to consultant's contract	Reports and Memos	Wrote many memos and minor reports
D1b	Assist in monitoring progress of Action Plan of Institutional Strengthening of Regional Development Account Project	Reports and Memos	Consultant's prepared monthly progress reports
D1c	Present a final workshop on results of services provided	Workshop	Presented in July 2001
D1d	Prepare all project reports	Reports	14 monthly and three semiannual reports
D2 Liaison Support			
D2a	Liase with the Government and ADB	Reports	Included in progress reports and memos. Provided comprehensive comments on PDAM benchmarking report
D2b	Assist ADB missions	Reports	Prepared progress reports
D3 Assist with Programming and Budgeting			
D3a	Overall assistance provided to all DPPP activities	Reports	Attended meetings with DPPP and budget, as well as borrowers
D4 Review DPPP Mechanisms and Management			
D4a	Review all procedures, guidelines, etc., related to RDA tasks	Reports	Carried out when preparing appraisal and monitoring guidelines, as well as TOR for packages B, C, and D
D4b	Review findings and applicability of improvements identified by packages B, C, and D	Reports	Incorporated in progress reports and memos, as well as loan agreements
D4c	Provide advice on management and organization improvement	Reports	Meetings and progress reports
D5 Review Requirement for Training and Capacity Building			
D5a	Prepare TOR for Package B (Financial Management Information Systems)	Report	Prepared
D5b	Prepare TOR for Package C (Training)	Report	Prepared
D5c	Prepare TOR for Package D (Capacity Building)	Report	Prepared
D5d	Promote discussion on appropriate corporate culture	Reports	Incorporated in progress reports and comments on ADB missions
D5e	Present a workshop to conclude D5	Workshop	Presented in July 2001
D6 Potential for Follow-on RDA Loan			
D6a	Provide a report on the need for an additional loan	Report	No need was identified. Therefore, no report was created.

ADB = Asian Development Bank, DPPP = *Direktorat Pengelolaan Penerusan Pinjaman* (Directorate for Subsidiary Loan Management), No. = number, RDA = Regional Development Account, TOR = terms of reference.

Source: Ministry of Finance. 2004. *Project Completion Report*. Jakarta.

REVISIONS IN LOAN ALLOCATIONS

1. The amount of the Asian Development Bank (ADB) loan was reduced three times, by a total of \$33.0 million. From the original amount of \$50.0 million, the final amount became \$17.0 million. The first reduction of \$7.8 million took place following the third stage of a comprehensive review of ADB's loan portfolio with Indonesia (portfolio restructuring exercise). The second reduction was made following redefinition of the project design during the Midterm Review in February 1999. The third adjustment, of \$5.2 million, was made after a sector portfolio review mission for the water supply and urban development sector, which was conducted from 19 July to 1 August 2000.

Table A3.1: Loan Allocation
(\$'000)

Description	Original Loan Amount	First Change	Second Change	Third Change	Total Change	Final Loan Amount
Infrastructure	39.0	7.8	13.3	2.9	26.0	13.0
Consulting Services	3.3	0.0	0.0	2.3	2.3	1.0
IDC	7.7	0.0	4.7	0.0	4.7	3.0
Total	50.0	7.8	20.0	5.2	33.0	17.0

IDC = interest during construction.

Source: Asian Development Bank Back-to-Office Reports.

Table A3.2: Dates of Reduction in Loan Amount

Date of Loan Reduction	Amount of Reduction	New Loan Amount
25 September 1998	\$7.8 million	\$42.2 million
24 September 1999 ^a	\$20.0 million	\$22.2 million
6 October 2000	\$5.2 million	\$17.0 million

^a Approved on 6 March 2000 but made retroactively effective to the date shown.

Source: Asian Development Bank.

PROJECT COSTS BY COMPONENT
(\$'000)

Item	At Appraisal			At Completion		
	Foreign	Local	Total	Foreign	Local	Total
Part A: Infrastructure Investment						
Land	0.0	6.5	6.5	0.0	1.7	1.7
Civil Works	8.9	31.6	40.5	0.0	12.0	12.0
Equipment and Materials	10.8	10.2	21.0	0.0	0.0	0.0
Detailed Design and Construction Supervision	0.0	0.0	0.0	0.0	0.1	0.1
Subtotal (A)	19.7	48.3	68.0	0.0	13.8	13.8
Part B: Project Implementation and Institutional Development						
Project Implementation	1.6	1.1	2.7	0.6	0.3	0.9
Institutional Development and Training	1.0	0.9	1.9	0.0	0.0	0.0
Subtotal (B)	2.6	2.0	4.6	0.6	0.3	0.9
Interest During Construction	7.7	9.7	17.4	2.4	1.8	4.2
Total	30.0	60.0	90.0	3.0	15.9	18.9

Notes:

The Government's rupiah funding of *Rekening Pembangunan Daerah* (RPD or Regional Development Account) loans was taken from *Badan Pengawas Keuangan dan Pembangunan* (BPKP or Finance and Development Supervisory Board) Regional Development Account Project audit report dated 28 June 2003.

Rupiah conversion to dollars uses an exchange rate of Rp9,197, based on BPKP audited rupiah disbursements from loan proceeds for onlending, which is the average of the conversion of dollar proceeds for onlending for civil works subprojects and the dollar disbursements for civil works given in the Basic Data.

Civil works local costs include local government contribution of costs ineligible for loan funding plus 25% of eligible costs, based on the subproject appraisal reports (SPARs).

Local government-incurred interest during construction was calculated assuming that the loan amount was disbursed linearly over 1 year and the actual grace period of the Loan Agreement. The interest rate was 11.5%.

Sources: Basic Data and BPKP audit report on Regional Development Account Project dated 28 June 2003.

SOURCES OF FUNDS FOR PROJECT COSTS
(\$'000)

Item	At Appraisal				At Completion			
	Foreign	Local	Total	%	Foreign	Local	Total	%
External Source								
ADB	30.0	20.0	50.0	55.5	3.0	4.7	7.7	40.8
Internal Sources								
Central Government	0.0	23.0	23.0	25.6	0.0	5.2	5.2	27.5
Local Government	0.0	17.0	17.0	18.9	0.0	6.0	6.0	31.7
Subtotal	0.0	40.0	40.0	44.5	0.0	11.2	11.2	59.2
Total	30.0	60.0	90.0	100.0	3.0	15.9	18.9	100.0

ADB = Asian Development Bank.

Notes:

The Government's rupiah funding of *Rekening Pembangunan Daerah* (RPD or Regional Development Account) loans taken from *Badan Pengawas Keuangan dan Pembangunan* (BPKP or Finance and Development Supervisory Board) Regional Development Account Project audit, report dated 28 June 2003.

Central government funding includes \$1.35 million for replacing ADB loan proceeds in three Regional Development Account (RDA) loans (Polewali Mamasa, Kediri, and Mandailing Natal) that did not fully disburse at the close of Regional Development Account Project in November 2002.

Local government contributions, as required by *Keputusan Menteri Keuangan* (KMK or Minister of Finance decree) 347 and explained in the subproject appraisal reports (SPARs).

PROJECT IMPLEMENTATION SCHEDULE

Activities	1997				1998				1999				2000				2001				2002				2003			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Part A: Infrastructure Investments																												
1. Project Preparation																												
Appraisal	█				█				█				█				█				█				█			
Actual	▨				▨				▨				▨				▨				▨							
2. Appraisal																												
Appraisal	█				█				█				█				█				█							
Actual	▨				▨				▨				▨				▨				▨							
3. Physical Implementation																												
Appraisal	█				█				█				█				█				█							
Actual	▨				▨				▨				▨				▨				▨							
Part B: Institutional Support																												
1. Project Management																												
Appraisal	█				█				█				█				█				█							
Actual	▨				▨				▨				▨				▨				▨							
2. Project Implementation																												
Appraisal	█				█				█				█				█				█							
Actual	▨				▨				▨				▨				▨				▨							
3. Institutional Development																												
Appraisal	█				█				█				█				█				█							
Actual (cancelled by EA)	▨				▨				▨				▨				▨				▨							
4. Training																												
Appraisal	█				█				█				█				█				█							
Actual (cancelled by EA)	▨				▨				▨				▨				▨				▨							
5. PCR/BME																												
Appraisal	█				█				█				█				█				█							
Actual ^a	▨				▨				▨				▨				▨				▨							

EA = executing agency, BME = benefit monitoring and evaluation, PCR = project completion report.

^a BME was never established by EA. PCRs produced by EA and ADB in 2004.

STATUS OF COMPLIANCE WITH LOAN COVENANTS

Covenant	Reference in Loan Agreement	Status of Compliance
Particular Covenants		
1. The Borrower shall cause the Project to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental, urban development, and public utilities practices.	Section 4.01(a)	Partially complied with. The Project provided consultancy support, but the expertise was not transferred to the Regional Development Account (RDA).
2. The Borrower shall make available and shall cause the Executing agency and implementation agencies concerned also to make available, promptly as needed, the funds, facilities, services, land, and other resources that are required, in addition to the proceeds of the loan, for the carrying out of the Project and for the operation and maintenance of the Project's facilities.	Section 4.02	Complied with. Counterpart funds were made available promptly, and any land requirements were provided in a timely manner.
3. In the carrying out of the Project, the Borrower shall cause competent and qualified consultants and contractors, acceptable to the Borrower and the Asian Development Bank (ADB), to be employed to an extent and upon terms and conditions satisfactory to the Borrower and ADB.	Section 4.03(a)	Complied with. Performance of consultants and contractors was reported to have been good.
4. The Borrower shall cause the Project to be carried out in accordance with plans, design standards, specifications, work schedules, and construction methods acceptable to ADB. The Borrower shall furnish, or cause to be furnished to ADB, promptly after their preparation, such plans, design standards, specifications, and work schedules, and any material modifications made therein, in such detail as ADB may reasonably request.	Section 4.03(b)	Complied with.
5. The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Project and the operation of the Project's facilities are conducted and co-ordinated in accordance with sound administrative policies and procedures.	Section 4.04	Complied with.
6. The Borrower shall make arrangements satisfactory to ADB for insurance of the Project's facilities to such an extent and against such risks and in such amounts as shall be consistent with sound practice.	Section 4.05(a)	Partially complied with. Out of two site visits made, the Singosaren market in Surakarta has insurance coverage but the Ponorogo bus terminal does not. Other local governments have also possibly not complied. Ministry of Finance onlending agreements do not carry this provision.

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STATUS OF COMPLIANCE ... - continued

Covenant	Reference in Loan Agreement	Status of Compliance
7. Without limiting the generality of Section 4.05(a), the Borrower undertakes to insure, or cause to be insured, the goods to be imported for the Project and to be financed out of the proceeds of the loan against hazards incident to the acquisition, transportation, and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such goods.	Section 4.05(b)	Not relevant. No imported goods were used in the works.
8. The Borrower shall maintain, or cause to be maintained, records and accounts adequate to identify the goods and services and other items of expenditure financed out of the proceeds of the loan, to disclose the use thereof in the Project; record the progress of the Project (including the cost thereof); and reflect, in accordance with consistently maintained sound accounting principles, the operations and financial condition of the agencies of the Borrower responsible for the carrying out of the Project and operation of the Project's facilities, or any part thereof.	Section 4.06(a)	Complied with.
9. The Borrower shall (i) cause each project implementing agency to maintain separate accounts for its respective component under the Project; (ii) have the consolidated project accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied by independent auditors whose qualifications, experience, and terms of reference are acceptable to ADB; (iii) furnish to ADB through the Directorate General of Financial Institutions (DGFI) as soon as available but in any event not later than 9 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the loan proceeds and compliance with the covenants of the loan Agreement), all in the English language; and (iv) furnish to ADB such other information concerning accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.	Section 4.06(b)	Complied with.
10. The Borrower shall enable ADB, upon ADB's request, to discuss the Borrower's financial statement for the Project and its financial affairs related to the Project from to time with the Borrower's auditors and shall authorize and require any representatives of such auditors to participate in any such discussions requested by ADB, provided that any such	Section 4.06 (c)	Complied with.

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STATUS OF COMPLIANCE... - continued

Covenant	Reference in Loan Agreement	Status of Compliance
<p>discussions shall be conducted only in the presence of an authorized officer of the Borrower, unless the Borrower shall otherwise agree.</p> <p>11. The Borrower shall furnish, or cause to be furnished to ADB, all such reports and information as ADB shall reasonably request concerning (i) the loan and the expenditure of the proceeds and maintenance of the service thereof; (ii) the goods and services and other items of expenditure financed out of the proceeds of the loan; (iii) the Project; (iv) the subprojects; (v) the administration, operations, and financial condition of the agencies of the Borrower responsible for the carrying out of the Project and operation of the Project's facilities or any part thereof; (vi) the financial and economic conditions in the territory of the Borrower and the international balance-of-payments position of the Borrower; and (vii) the other matters relating to the purposes of the loan.</p>	Section 4.07(a)	Complied with.
<p>12. Without limiting the generality of the foregoing, the Borrower shall cause DGFI to furnish to ADB consolidated semiannual reports on the carrying out of the Project and operation and management of the Project's facilities. Such reports shall be submitted in such form and detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the period under review, steps taken to remedy these problems, and proposed program of activities and expected progress during the next 6 months.</p>	Section 4.07(b)	Complied with.
<p>13. Promptly after physical completion of the Project, but in any event not later than 3 months thereafter, or such later date as may be agreed for this purpose between the Borrower and ADB, the Borrower shall cause DGFI to prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including cost, performance of the Borrower of its obligations under the Loan Agreement, and accomplishment of the purposes of the loan.</p>	Section 4.07 (c)	Complied with. However, the report was not submitted until February 2004, 15 months after loan closure.
<p>14. The Borrower shall enable ADB representatives to inspect the Project, the goods financed out of the proceeds of the Loan, and any relevant records and documents.</p>	Section 4.08	Complied with.

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STATUS OF COMPLIANCE... - continued

Covenant	Reference in Loan Agreement	Status of Compliance
<p>15. The Borrower shall ensure that the Project's facilities are operated, maintained, and repaired in accordance with sound administrative, financial, engineering, environmental, urban development, public utilities and maintenance and operational practices.</p> <p>Project Execution and Implementation, Selection, Appraisal and Approval of Subprojects, and Other Matters</p> <p>I. Project Execution and Implementation Arrangements</p> <p>A. Project Executing Agency</p>	<p>Section 4.09</p> <p>Schedule 5</p>	<p>Complied with, on the basis that the two facilities visited conformed with Loan Agreement requirements</p>
<p>16. DGFI shall be the Project's Executing agency. DGFI shall ensure that the Project's implementing agencies perform their respective roles in accordance with current RDA practices and the provisions of the Loan Agreement.</p> <p>B. Project Director</p>	<p>5.1</p>	<p>Complied with.</p>
<p>17. DGFI shall appoint a project director to oversee overall project implementation. The project director shall be responsible for coordinating, supervising, managing, and monitoring project implementation, including the subproject appraisal process. The project director shall be supported by a working team from Directorate General of Budget; Directorate for Subsidiary Loan Management; known as <i>Direktorat Pengelolaan Penerusan Pinjaman</i> (DPPP); and National Development Planning Agency, known as <i>Badan Perencanaan Pembangunan Nasional</i> (BAPPENAS). The provincial or central technical agencies concerned shall provide their respective inputs on the technical aspects of subprojects to the working team. Line agencies of level II governments and local government enterprises shall be responsible for the identification, preparation, and day-to-day implementation and commissioning of subprojects.</p>	<p>5.2</p>	<p>Generally complied with. However, central government technical assistance was provided only in the case of the Singosaren market in Surakarta. However, such assistance was provided by implementation consultants, and the subprojects did not have complex technical content.</p>

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STATUS OF COMPLIANCE... - continued

Covenant	Reference in Loan Agreement	Status of Compliance
(ii) Social analysis. Each subproject proposal shall be supported by a social analysis, including assessments of community needs, community participation, opportunities and affordability, willingness to pay and gender issues.	5.5(ii)	Complied with, except for gender issues. However, the majority of market traders are women. Therefore, their needs have been implicitly taken into account.
(iii) Financial capacity assessment. The financial capacity of each level II government or enterprise shall have been assessed so that their ability to borrow is determined and availability of local counterpart funds assured. The standard debt coverage ratio for local governments and water enterprises shall be no less than the national Government's guidelines 1.5 and 1.3, respectively, throughout the subproject period.	5.5(iii)	Complied with. No water supply subprojects were implemented under the Project. See comment on Schedule 5.4.
(iv) Institutional capacity. The capability of the local government or enterprise concerned to prepare, implement, and manage the subproject shall have been assessed based on past performance and the capability of the local government enterprise to manage its existing urban infrastructure and services.	5.5(iv)	Complied with.
(v) Cost-effective solution. Each subproject shall have been based on a proper consideration of technical options, and the most cost-effective solution shall have been prepared.	5.5(v)	Partially complied with. Least-cost solutions were not presented in feasibility studies.
(vi) Proper design. The design shall be in accordance with sound engineering practices, as well as the national Government's guidelines.	5.5(vi)	Complied with.
(vii) Appropriate costing. The costs of the subproject components shall be estimated in line with standard unit prices.	5.5(vii)	Complied with.
(viii) Environmental impacts. The selection of environmentally sensitive subprojects shall be avoided to the extent possible. In addition, the level II government or local government enterprise concerned shall show evidence of compliance with identified statutory environmental requirements, including an assessment of adverse environmental impact and proposed mitigating measures. Compliance with the Borrower's environmental guidelines and requirements acceptable to ADB shall be ensured.	5.5(viii)	Complied with. Environmental impact assessments (EIAs) prepared, but adverse environmental impacts were minimal.

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STATUS OF COMPLIANCE... - continued

Covenant	Reference in Loan Agreement	Status of Compliance
(ix) Financial and economic analysis. For revenue-generating investments, the subproject's financial viability shall have been examined and a sensitivity analysis prepared. For subprojects that do not generate revenue, an economic analysis shall have been undertaken.	5.5(ix)	Complied with. No subprojects failed to generate revenue.
(x) Risk analysis. Subproject risks shall have been identified, including permit and land acquisition requirements, and processes to be addressed in order to minimize risks.	5.5(x)	Not complied with. Risk analyses were not presented in feasibility studies.
(xi) Benefit monitoring and evaluation. Each subproject shall provision for benefit monitoring and evaluation (BME) to ensure established objectives are achieved.	5.5(xi)	Not complied with. See comment on Schedule 5.13.
C. Subproject Approval		
21. The results of each subproject appraisal shall be summarized in an RDA report. Subprojects shall be considered for financing under the Project if they meet the following criteria: (i) the investments are well focused and are need and demand responsive and affordable; (ii) the subborrowers are willing to contribute at least 25% of total subproject costs and borrow the balance; (iii) the level II government or local government enterprise concerned is able to prepare, implement, and manage the subproject; (iv) the financial capacity of the local government or local government enterprise is able to meet the ensuing debt service obligations; and (v) the subproject is financially sustainable. If any part of a Subproject is concurrently being financed by multilateral or bilateral sources, that part shall not qualify for funding under the Project.	5.6	Complied with.
22. DGFI shall submit to ADB a summary of appraised subprojects that qualify for ADB funding. DGFI shall update each year the list of subprojects and provide this updated list to ADB for information. The first three subprojects financed under the loan and any subprojects with a total exceeding \$5 million shall be sent to ADB for approval, prior to their approval by MOF. All other subprojects shall be approved in the manner outlined in para. 3.	5.7	Complied with.

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STATUS OF COMPLIANCE... - *continued*

Covenant	Reference in Loan Agreement	Status of Compliance
III. Other Matters		
A. Funding for Subprojects		
23. Without limiting the generality of Section 4.02 of the Loan Agreement, the Borrower shall ensure that all necessary budget requests are submitted and all necessary budget approvals are issued in sufficient time to avoid delays in subproject implementation.	5.8	Complied with.
24. RDA loan agreements shall carry standard terms and conditions satisfactory to ADB, including the prevailing terms for MOF loans for urban sector projects. The Borrower shall bear the foreign exchange risk.	5.9	Not exercised by ADB. No evidence exists showing that ADB ever performed due diligence on RDA loan agreements, although the technical assistance refers to their inadequacy and lack of enforcement provisions, and not all provisions in ADB's Loan Agreement are passed on to subborrowers.
B. Land Acquisition		
25. Without limiting the generality of Section 4.02 of the Loan Agreement, the Borrower shall ensure that all land or rights to land required for the Project shall be acquired or made available in a timely manner, to ensure that the Project is implemented on schedule.	5.10	Complied with.
C. Operation and Maintenance		
26. Without limiting the generality of Section 4.09 of the Loan Agreement, the Borrower shall	5.11	
(i) cause the local government water supply enterprises, called <i>perusahaan daerah air minums</i> (PDAMs), to undertake responsibility for the operation and maintenance of water supply facilities improved under the Project; and	5.11(i)	Redundant. PDAMs did not participate in the Project. See comments on Schedule 5.4.
(ii) cause the level II governments and/or BUMDs concerned to undertake responsibility for the operation and maintenance of those facilities provided or improved under the Project for which they are respectively responsible.	5.11(ii)	Complied with, on the basis that the two subprojects visited were properly operated and adequately maintained.
D. Community Participation		
27. In the course of the preparation of all subprojects, including the market improvement component, the relevant level II government concerned shall consult with community leaders, community-based organizations, and informal groups concerned with regard to the planning, construction, and operation and maintenance of the Project's facilities.	5.12	Complied with. Feasibility studies contain references to consultations with community and potential beneficiaries.

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STATUS OF COMPLIANCE... - continued

Covenant	Reference in Loan Agreement	Status of Compliance
E. Benefit Monitoring and Evaluation		
28. The Borrower shall ensure that a comprehensive program acceptable to ADB is implemented to monitor the technical performance and social and economic benefits of the Project, especially to the poor and women. The BME indicators and procedures shall first be tested with respect to data availability and other constraints and revised, if necessary, and institutionalized as part of the management information system of the agencies involved. The program shall be developed and coordinated by MOF, with input from level II governments and their agencies. The Borrower shall cause the Project implementing agencies concerned to undertake future maintenance of the system and collection and analysis of data.	5.13	Not complied with. MOF's project completion report states that the implementation consultants prepared BME indicators but no requirement exists for BME monitoring in RDA's loan agreements. BME is not being carried out by subborrowers.
29. The Project's implementing agencies shall assemble relevant baseline data and monitor subsequent changes as a basis for evaluating the success of the Project. Annual reports, including recommendations for improvements, shall, where appropriate, be furnished to ADB, through MOF, throughout the Project's implementation period and for 1 year after the submission of the project completion report referred to in Section 4.07 of the Loan Agreement.	5.14	Not complied with.
F. First Year and Midterm Reviews		
30. In addition to periodic reviews of the Project, the Borrower and ADB shall carry out (i) a comprehensive review of the Project 1 year after the effective date and (ii) a comprehensive midterm review of the Project 2 years after the effective date. These reviews shall focus on implementation arrangements and evaluate progress. They shall also compare achievements with project objectives, identify any problems encountered, and facilitate midcourse adjustment for required remedial measures.	5.15	Complied with.
G. New Regional Development Account Decree		
31. The Borrower shall provide ADB with a copy of the draft RDA decree and take into account ADB's comments prior to its finalization. In finalizing the draft decree, the Borrower shall take into account any recommendation made by the consultants responsible for carrying out the technical assistance referred to in Recital (B) to the Loan Agreement. The Borrower shall also ensure that no provision under the new	5.16	A draft decree was prepared, but no evidence shows that ADB provided any comments or that, if provided, they were taken into account. The decree was never signed because of the economic crisis and the insolvency of many of the financial intermediaries proposed.

Continued on next page.

STATUS OF COMPLIANCE... - continued

Covenant	Reference in Loan Agreement	Status of Compliance
<p>RDA decree or any other law or government regulation prevents the implementation of the Project as provided hereunder.</p> <p>H. Regional Development Account Lending Rates</p> <p>32. The Borrower shall align over time RDA's lending rate to level II governments and their enterprises to market levels and to the Sertifikat Bank Indonesia rate by December 31 2000.</p>	5.17	Not complied with, but considered to be incapable of fulfilment because of the economic crisis, whose effects on the interest rate had still not been entirely removed by the time of project closure.

LIST OF CONTRACTS AND PROCUREMENT MODE

PCSS No.	Category No.	Name of Contract	Contract Amount		ADB Financing	Disbursed Amount		Procurement Mode
			\$	Rp	Rp	\$	Rp	
0001	02	Montgomery Watson	136,990	144,330,000		136,990	144,330,000	Direct Appt
0002	02	PT Sanitek Konsultindo		153,840,000	152,295,000		152,295,000	Direct Appt
0003	01A	PT Pacific Lembayung, Pasar Jaya		6,701,445,000	3,655,333,090		3,655,333,090	LCB
0004	01A	PT Handayani Reka Prima, Pasar Jaya		3,850,000,000	2,100,000,000		2,100,000,000	LCB
0005	01A	PT Dewa Apzara, Pasar Minggu		7,155,000,000	3,902,727,274		3,902,727,274	LCB
0006	02	DHV Consultants	485,501	2,082,674,360		485,501	2,082,674,360	ICB
0007	01A	PT Pembangunan Perumahan, Singosaren		13,345,169,000	7,273,177,090		7,273,177,090	LCB
0008	01A	PT Sumameja Farcon, Ponogoro		4,995,000,450	2,724,545,400		2,724,545,400	LCB
0010	01A	PT Tomako Jaya, Jembatan Lima		11,472,889,136	6,257,939,528		6,257,939,528	LCB
0011	01A	PT Wahyu Cipta Ragam, Petojo Ilir		10,139,863,466	5,530,834,617		5,530,834,617	LCB
0012	01A	CV Sepakat Segenep, Kutacane		2,514,000,000	1,371,272,727		959,890,909	LCB
0013	01A	CV Lasina, Kutacane		2,518,000,000	1,373,454,545		961,418,182	LCB
0014	01A	PT Taruna Nusa Bakti, Handil Bakti		7,000,221,000	3,780,119,339		3,780,119,339	LCB
0015	01A	PT Indah Seratama, Polewali		7,770,380,000	4,238,389,090		1,417,048,364	LCB
0016	01A	PT Berkat Jaya, Mandailing Natal		7,416,670,000	4,045,453,364		2,128,486,363	LCB
0017	01A	PT Sinar Jaya Megakarsa, Kabupaten		4,682,587,000	2,554,138,364		510,827,455	LCB
Total			622,491	91,942,069,412	48,959,679,427	622,491	43,581,646,971	

LCB = local competitive bidding, No. = number, PCSS = procurement contract summary sheet, PT = *Peersoroan Terbatas* (Incorporate Limited), CV = *Commanditaire Vennootschap* (Limited Partnership).

Note: The rupiah values of contracts used in the compilation of project cost estimates and sources of funds are those audited by *Badan Pengawas Keuangan dan Pembangunan* (BPKP or Finance and Development Supervisory Board) in its annual reports sent to the Asian Development Bank.

SOURCE: Executing Agency.

SUBPROJECT SOURCES OF FUNDS

No.	Subproject	Rp Million				%			
		ADB	Central Govt	Local Govt	Total	RDA Loan	Central Govt	Local Govt	Total
1.	PD Pasar Jaya Minggu, Cipete, and Palmerah Markets	9,658.1	8,048.4	4,434.1	22,140.6	43.6	36.4	20.0	100.0
2.	Kota Surakarta Singosaren Market	7,273.2	6,061.0	8,819.7	22,153.8	32.8	27.4	39.8	100.0
3.	Kabupaten Ponorogo Bus Terminal	2,724.5	2,270.5	3,429.5	8,424.5	32.3	27.0	40.7	100.0
4.	PD Pasar Jaya (Petojo Ilir and Jembatan Lima Markets)	11,788.8	9,962.7	5,420.6	27,172.1	43.4	36.7	19.9	100.0
5.	Kabupaten Aceh Tenggara Kutacane Market ^a	1,921.3	1,601.1	1,005.0	4,527.4	42.4	35.4	22.2	100.0
6.	Kabupaten Barito Kuala Handil Bhakti Market	3,780.1	3,540.9	5,304.7	12,625.7	29.9	28.0	42.0	100.0
7.	Kabupaten Mandailing Natal Panyabungan Market ^b	2,128.5	5,288.2	4,586.0	12,002.6	17.7	44.1	38.2	100.0
8.	Kabupaten Polewali Mamasa Polewali Market ^b	1,417.0	6,353.3	3,731.0	11,501.4	12.3	55.2	32.4	100.0
9.	Kabupaten Kediri Kandangan Market ^b	510.8	4,171.8	2,153.4	6,836.0	7.5	61.0	31.5	100.0
Total		41,202.3	47,297.8	38,884.0	127,384.1	32.3	37.1	30.5	100.0

ADB = Asian Development Bank, Govt = government, PD = *Perusahaan Dagang* (trading company), RDA = Regional Development Account.

^a Kutacane market not competed because of civil unrest.

^b Regional Development Account Project closed before disbursement was completed. The Regional Development Account substituted the undisbursed balance from its own funds.

Sources: *Badan pengawas Keuangan dan Pembangunan* (BPKP or Finance and Development Supervisory Board). 2003. Audit Report on Loan 1501-INO and feasibility studies for local government counterpart funding. Jakarta.

Source: DPPP. Ministry of Finance.

STATUS OF SUBPROJECT LOANS
(Rp million)

No.	Borrower	Loan No & Date	Amount	Interest Rate (%)	Tenor & Grace Period (years)	Disbursed	Current Maturities	Payments Made	Arrears	Date Last Installment Due
1.	PD Pasar Jaya ^a Minggu, Cipete, and Palmerah Markets	RDA-302 19-10-98	17,706.4	11.5	6.0 1.5	17,706.4	16,289.9	16,286.7	3.3	19.05.04
2.	Kota Surakarta ^b Singosaren Market	RDA-304 17-06-99	13702.15	11.5	20.0 5.0	13,334.2	6,910.2	5,961.3	949.0	15.03.04
3.	Kabupaten Ponorogo Bus Terminal	RDA-305 25-06-99	5,000.0	11.5	13.0 1.0	4,995.0	3,673.7	3,673.7	0.0	10.04.04
4.	PD Pasar Jaya (Petojo Ilir and Jembatan Lima Markets)	RDA-306 25-10-99	22,949.0	11.5	9.5 2.5	21,751.5	14,509.9	14,509.9	0.0	25.05.04
5.	Kabupaten Aceh Tenggara Kutacane Market ^c	RDA-309 15-02-01	5,033.0	11.5	10.0 1.0	3,522.4	1,571.3	117.8	1,453.5	15.02.04
6.	Kabupaten Barito Kuala Handil Bhakti Market ^d	RDA-310 10-04-01	7,350.0	11.5	10.0 2.0	7,321.0	2,891.0	1,970.7	920.3	10.04.04
7.	Kabupaten Mandailing Natal Panyabungan Market	RDA-313 15-07-01	7,435.0	11.5	10.0 1.0	7,416.7	1,579.2	1,349.7	229.5	27.02.04
8.	Kabupaten Polewali Mamasa Polewali Market	RDA-314 25-09-01	6,583.7	11.5	10.0 1.0	5,252.5	1,674.6	1,675.9	(1.3)	25.03.04
9.	Kabupaten Kediri Kandangan Market	RDA-320 14-06-02	4,703.0	11.5	10.0 1.0	4,682.6	1,198.0	1,190.3	7.8	14.06.04

PD = *Perusahaan Dagang* (trading company), RDA = Regional Development Account.

^a The loan to PD Pasar Jaya included funds for markets not financed by ADB. Current status is based on prorating.

^b Kota Surakarta assured that mission arrears would be cleared by October 2004.

^c Works suspended by Kabupaten Aceh Tenggara because of persistent civil unrest.

^d Market was not fully operational in 2003 because of lack of proper access roads. Funds were available in the Borrower's 2003 budget.

**REGIONAL DEVELOPMENT ACCOUNT LOAN
PORTFOLIO STATUS**

1. The deteriorating performance of the Regional Development Account's entire portfolio during the Project's implementation period (May 1999–November 2001) is shown in Table A11, with results expressed in billions of rupiah.

Table A11: Portfolio of Regional Development Account
(Rp billion)

Borrower	December 1999	December 2000	December 2001
Local Government ^a			
Disbursements	1,592	1,724	1,777
Repayments	540	759	976
Arrears	224	351	401
Local Government Enterprises ^b			
Disbursements	2,998	3,186	3,367
Repayments	631	737	808
Arrears	611	1,161	1,438
All Borrowers			
Disbursements	4,590	4,910	5,144
Repayments	1,171	1,496	1,784
Arrears	835	1,512	1,839

^a Includes provincial government borrowers, but their impact on the totals is not great.

^b All borrowers are *Perusahaan Daerah Air Minum* (PDAMs or local government water supply enterprise.)
Source: Ministry of Finance.

2. Lending slowed to a trickle, as disbursements from loans made prior to 1999 were wound down. The Regional Development Account issued only 18 new *Rekening Pembangunan Daerah* (RPD or Regional Development Account) loans between November 1998 and June 2002. A few subsidiary loan agreements were also issued in connection with ongoing Integrated Urban Infrastructure Development Program (IUIDP) projects. Arrears more than doubled over the 2-year period. Very few attempts were made to reschedule or restructure loans, because *Direktorat Pengelolaan Penerusan Pinjaman* (DPPP or Directorate for Subsidiary Loan Management) deferred action on an appropriate policy, and defaulting borrowers were without guidelines on this matter.

3. No current figures on the entire status of the portfolio are available. The last report was prepared in December 2003, but DPPP does not make the information available. However, reports indicate that total outstanding liabilities rose from Rp4.13 trillion at the end of 2001 to Rp5.56 trillion at December 2003.

PROJECT BENEFICIARIES: SURAKARTA MARKET

1. The Executing agency did not cause to be established a benefit monitoring and evaluation system, as required by Schedule 5.13 and Schedule 5.14 of the Loan Agreement. Information concerning project beneficiaries was therefore not available. The Project Completion Review Mission did manage to obtain data from the Kota Surakarta local government concerning the number of beneficiaries directly benefited by the Singosaren subproject in 2001 and 2002, through the creation of job opportunities, as given in Table A12.

Table A12: Singosaren Market, Kota Surakarta
(Direct Beneficiaries)

Category	FS	2001	2002
Kiosk	424	403	412
Matahari Department Store	1,500	1,410	1,459
Parking Area	35	35	35
Cinemas (3)	30	25	30
Total	1,989	1,873	1,936

FS = feasibility studies.

Source: Regional Government.

2. By the end of 2002, the subproject generated more than 97% of job opportunities forecast in the feasibility studies (FS). Assuming an average household size of four people, this means that the number of direct project beneficiaries reached 7,744. This subproject may therefore be regarded as having been efficacious from this aspect.

FINANCIAL PERFORMANCE OF SUBPROJECTS

A. Scope and Methodology

1. Financial Evaluation

1. The financial evaluation recalculates the financial internal rates of return for a new bus terminal in Kabupaten Ponorogo, East Java Province, and a reconstructed market and shopping center in Kota Surakarta, Central Java Province. Project costs and revenues and recurrent expenditures were revised in accordance with information provided during the Project Completion Review Mission, and the result is compared with the calculation made in the subproject appraisal reports (SPARs) produced in 1999. All costs are expressed in constant 2000 prices using the gross domestic product (GDP) deflator, where appropriate, to adjust actual values back to the constant price year. For comparative purposes, the financial internal rate of return (FIRR) was calculated by the conventional method, which was done in the SPAR developed by the consultant in 1999. The frequent fluctuations of domestic interest rates in 1999 and 2000 would also make using the weighted average cost of capital method difficult in respect of central and local government counterpart funding.

2. Subproject routine expenditures for the first 3 years of operation were obtained from the local governments, and in both cases the salaries of government staff members were stripped out to avoid double counting, since local government employee salaries are paid out of the block allocation grant from the central Government. Actual revenues for 2001–2003 for the specific facilities were also obtained from local governments.

2. Cost Recovery Analysis

3. The costs and revenues of the FIRR are adjusted by removing the GDP deflator to return to historical values and applying the inflator for forecast values. Inflation figures were obtained from recent project preparation.¹ Annual depreciation allowances use a 20-year economic life for each subproject on the basis of revalued fixed assets. Interest payments are based on a pro forma calculation from the loan profile in each loan agreement between the Ministry of Finance (MOF) and the local government. In the case of Regional Development Account loans, also known as *Rekening Pembangunan Daerah* (RPD) loans, interest during construction is accumulated and amortized over the repayment period (i.e., interest during construction is not capitalized and does not become interest bearing at the end of the grace period).

4. The cost recovery analysis is carried on the basis of revenue coverage of (i) operation and maintenance (O&M) costs, (ii) operation and maintenance plus interest expense, and (iii) operation and maintenance plus interest expense plus depreciation allowance. The calculation is made annually and cumulatively.

3. Financial Capability

5. Local government revenue-generating services in Indonesia do not operate as profit centers. Instead, revenues are deposited with the local government general exchequer. Assessing the financial capability of a local government to discharge its overall debt obligations by computing the annual debt service coverage ratio (DSCR) is therefore useful.

¹ World Bank. 2004. *Urban Sector Development Reform Project*. Kimpraswil.

6. However, producing a DSCR comparison with the SPAR projection is not possible. The entire basis of local government finance has changed in the meantime as a consequence of decentralization legislation passed in 1999 and which became effective in 2001.² This requires a new basis of calculation of the DSCR³ and the borrowing capacity of local governments,⁴ in accordance with government regulations implementing the legislation.⁵ Historical local government costs and revenues reflecting the new fiscal balance are therefore available only for 2001–2003 and the budget for 2004, which is not considered an adequate time series for projecting future costs and revenues. In addition, a new system of local government accounting was approved in 2002 and became effective in 2004.⁶ Differences of cost allocation and presentation in the budgets of the two local governments reviewed suggest it may take some time for local governments to adjust to the new accounting system. Consequently, a financial capability statement was prepared only for Kabupaten Ponorogo.

B. Kabupaten Ponorogo Bus Terminal

7. Actual project costs⁷ were in line with SPAR estimates, and the scope of facilities provided was unchanged. In 2003 and 2004 (budget), recurrent O&M costs were also approximately those forecast in the SPAR. (In 2001 and 2002, actual O&M costs were much lower.)

8. Revenues, however, were substantially below those projected in the SPAR. Unit user tariffs stated in the SPAR, compared with those prevailing at the time of the terminal entering operation (2001) show significant differences, as given in Table 13.1. Moreover, the local government did not adjust the tariff in the interim period to ensure financial sustainability. RDA's Loan Agreement between MOF and the local government does not contain any provision for regular and appropriate tariff increases.

Table A13.1: Comparison of Tariff

Tariff Item	SPAR Tariff (Rp)	Local Government Tariff ^a (Rp)
Intercity Bus Entry	700	500
Small Bus Entry	600	300
Minibus (Intracity) Entry	300	200
Intercity Bus Parking	1,400	1,000
Small Bus Parking	1,400	500
Minibus Parking	1,400	300
Carwash	6,000	4,000

^a Kabupaten Ponorogo Decree (Perda) No 15/2000, dated 27 July 2000.
Source: Regional Government

² Law 22/1999 concerning decentralization of responsibilities and Law 25/1999 on the fiscal balance between central and local governments in order to enable local governments to carry out their new responsibilities.

³ For example, prior to KMK 347a/2000 (footnote 5), the DSCR floor was 1.5, but the revenue base excluded central government transfers and targeted development grants. Following Law 25/1999 and PP107/2000, the DCSR is 2.5 and includes the block allocation grant, minus earmarked grants (e.g., special development grants and central government emergency funds) and government employee salaries.

⁴ Total local government outstanding debt obligations may not exceed 75% of the previous year's revenues.

⁵ (i) PP107/2000 concerning government borrowing; (ii) KMK 347a/2000 of MOF, concerning borrowing by local governments from the RDA; and (iii) KMK 35/2003 concerning onlending and ongranting of development partner loan proceeds.

⁶ KMK 29/2002 of the Ministry of Home Affairs, concerning local government accounting systems and their management, transparency, and accountability.

⁷ As provided by Kabupaten Ponorogo.

9. In addition, the actual volume of traffic using the terminal seems to be below the SPAR forecast. The performance projections of the SPAR and the number of active public service vehicles (PSVs), as provided by Kabupaten Ponorogo, are not strictly comparable. However, the SPAR made a forecast of 1,032 PSV using the terminal on a daily basis, while the local government data indicate that only 450 such vehicles are currently operational. Although some PSV, especially minibuses, will make multiple visits to the terminal in a day, the territorial area of the kabupaten (approximately 1,400 square kilometers) suggests that not all PSVs will access the terminal but will operate locally in rural areas. The forecast of 445 buses (paying the higher terminal retribution rate) using the terminal, compared with only 220 active buses, supports the view that terminal use is well below projections. Local government public transport staff members also stated that traffic volumes are falling as people buy their own vehicles. This view was backed up by shop and kiosk operators, although the development of the revenue profile (Table A13.2 and Table A13.3) suggests that use is actually growing, but not at the levels predicted in the SPAR.

10. Additional revenues are generated by the restaurant tax component of the Development I Tax (an *advalorem* impost) and rentals paid by shop and kiosk operators. Related revenue flows from the terminal were estimated by the local government finance department at 20% of the local government's total yields, but are still 40–50% below SPAR projections.

11. The FIRR is recalculated over a 20-year horizon, as in the SPAR. After adding back the land purchase value in the final year as salvage value, the base-case FIRR is 1.8%, compared with 12.7% in the SPAR. Decreasing revenue forecasts by 10% produces a revised FIRR of 0.9% (11.30%), a comparable increase in O&M also of 0.9% (12.65%), and the combination thereof is 0.1% (11.24%). Potential economic benefits in terms of increased connectivity, increased employment opportunities for the poor, and increased income and well being for the poor shop owners, are unlikely to be high given falling traffic volume. Therefore, the economic internal rate of return is likely to be well below the 10-12% economic opportunity cost of capital.⁸

12. In the cost recovery analysis, the interest payment profile is introduced for the 10-year loan used to cofinance the construction of the terminal, including a 1-year grace period, at an annual fixed interest rate of 11.5%. Kabupaten Ponorogo has not revised the terminal tariff since July 2000 (footnote 8). The analysis assumes a 50% increase in 2005, plus an inflation adjustment every 2 years thereafter. The FIRR has no financial benefit in this, since the 50% assumed increase simply accounts for cumulative inflation in the interim period. The results do not compare with the SPAR on account of the different methodologies: the depreciation allowance in the SPAR does not allow for revaluation of fixed assets, and profits are (erroneously) subject to taxation. In Table A13.3, full cost recovery of O&M, interest, and depreciation on revalued assets is projected to be achieved by 2007. This is because of (i) the assumed tariff increases and (ii) the loan profile. If the 50% tariff adjustment is not implemented, full cost recovery will not occur until 2011. (RDA's loan will be completely repaid by the end of 2009.) *Mutatis mutandis*, the cost recovery forecasts of the SPAR will be underachieved by a substantial margin, essentially for the reasons given for the shortfall in the FIRR projection and the failure of local government to increase the terminal user tariff. Consequently, the finances of the terminal are being subsidized by local government general revenues.

⁸ Economic internal rate of return could not be calculated by the Mission due to lack of necessary data.

13. Historical data for the financial capability statement of Table A13.4 were obtained from (i) the MOF for FY2001–2002, (ii) Kabupaten Ponorogo report on actual revenues and expenditures for 2003, and (iii) Kabupaten Ponorogo 2004 budget.

14. Because comparable historical data do not constitute an adequate time series, future revenues and expenditure are projected on a minimal basis, using forecast inflators, with no allowance for real GDP growth. Additional borrowings assume only short-term loans for bridging finance and repayments within the same fiscal year, which is therefore a zero sum activity. Loan repayments in the routine expenditure category consist of principal and accumulated interest during construction amortizations plus interest payments related to RDA's loan for the terminal. Kabupaten Ponorogo has no other current long-term debt.

15. With budgeted discretionary revenues of nearly Rp85 billion available in 2004, Kabupaten Ponorogo has no difficulty in paying down annual debt service on a loan of only Rp5 billion. The DSCR for 2004 is calculated at 84, compared with a minimum requirement of 2.5, while outstanding loan liabilities are less than 3% of revenue, vis-à-vis the 75% ceiling of PP107/2000. Thereafter, as debt liabilities decline and nominal revenues grow, the indicators improve. Although the financial performance of the bus terminal per se is less than satisfactory, local government can easily subsidize its current shortfall from full cost recovery from the general exchequer. The overall conclusion is that the local government is unwilling to use its financial capacity leverage to meet likely backlogs of urban public service deliveries.

C. Singosaren Market (Kota Surakarta)

16. The SPAR estimated project costs at Rp22.9 billion, including a local government contribution of land valued at Rp8.3, civil works of Rp13.7, and consultancy services and project administration costs valued at Rp0.9 billion. The financing plan consisted of a loan requirement for Rp14.1 billion (civil works, construction supervision, and project administration), with Rp8.8 billion provided as counterpart funding by the local government. Only Rp0.5 billion would be a cash contribution, since the kota (city) already owned the land on which the previously destroyed market stood.

17. The loan was issued in June 1999, prior to KMK 347a/2000 (footnote 3), and therefore the land could be treated at the time as an eligible contribution to the minimum requirement of 25% counterpart funding. RDA determined that Rp0.4 billion for construction supervision and project administration was not eligible for loan funding. Thus, loan-financed civil works were estimated at Rp13.7 billion. The local government negotiated a fixed price contract of Rp13.3 billion with the successful bidder, and this was the amount disbursed from RDA's loan.⁹ The former Directorate General of Human Settlements funded structural planning and detailed design for an undisclosed amount. No cost overruns occurred, and the new development was completed on time.

18. The subproject is better described as a four-story shopping centre development than a market. A national department store chain leases and manages space on two floors plus the top floor, where it operates a parking facility. Three cinemas are located on part of the second floor, while only the ground floor functions as a market, whose operations are managed by the markets department of the local government. O&M consists of electromechanical equipment and building maintenance; cleaning and security services; and electricity costs, which account

⁹ BPKP (State Audit Agency) report on the audit of Loan 1501-INO at closure, dated June 28, 2003.

for 70–80% of annual O&M.¹⁰ This component was underestimated in the SPAR, and annual O&M is three times greater than forecast.

19. The SPAR accurately forecast revenues from leasing and market retributions, but income from other sources was overestimated by a factor of three and actually contributes less than 20% of total annual revenues. The market fee was adjusted in 2003,¹¹ but the percentage increase cannot be calculated because of a change in categories from the previous decree.¹² An adjustment is made to 2003 actual Singosaren revenues (data provided by the local government) to simulate a return to 2000 constant prices for the FIRR.

20. The local government finance department provided copies of Kota Surakarta actual revenues and expenditures for 2003, plus the budget for 2004. Contributions from other revenue sources in the market were also provided in the form of percentages of total 2003 yields from these various taxes and fee. Table A13.5 provides the percentages. These percentages were applied retroactively to 2001 and 2002 revenue yields based on data provided by MOF.

Table A13.5: Revenues of Singosaren Market

Revenue Item	Subproject Contribution (%)
Parking Fee	1.17
Advertisement Tax	0.16
Land and Building Tax	1.29
Development I Tax	2.72
Cinema Tax	4.47

Source: Regional Government.

21. Since the land value was not included in the SPAR calculation, the value was not included in the recalculation, because this was not a cash transaction. The recalculated base-case FIRR over 20 years is 15.0%, compared with 12.6% in the SPAR. Given the significant under-estimation of O&M and overestimation of nonmarket revenues in the SPAR, the SPAR FIRR clearly should have been much higher. The methodology used in the SPAR is not understood and appears to have double-counted the investment. Decreasing revenue forecasts by 10.0% produces a FIRR of 12.8%, a comparable increase in O&M also 12.8%, and the combination thereof is 10.7%. Whatever the problems with the SPAR calculation, the subproject delivers an excellent result, well above the 11.5% RDA loan interest rate (also used as the discount rate), and exhibits robustness to potentially adverse revenue and expenditure impacts. Table 13.6 shows the recalculation. The economic benefits in terms of improved access to goods and services, employment and income are likely to lead to a high economic internal rate of return¹³.

22. In the cost recovery analysis of Table 13.7, the interest payment profile is introduced for the 20-year loan used to cofinance the construction of the terminal, including a 5-year grace period. Since the local government increased the market retribution in 2003, the analysis assumes an inflation adjustment in 2005 and every 2 years thereafter. O&M costs are inflated annually. As might be expected from the strength of the FIRR, the subproject demonstrates full cost recovery of O&M, interest, and depreciation throughout the 20-year forecasting horizon,

¹⁰ Information provided by Kota Surakarta.

¹¹ Kota Surakarta Decree (Perda) No. 11/2003, dated 17 September 2003.

¹² Kota Surakarta Decree (Perda) No. 9/1999, dated 12 June 1999.

¹³ It was not possible to quantify the benefits and calculate the economic internal rate of return for the subprojects.

with a minimum coverage of 1.4 times during the early years of the loan repayment period. The subproject is therefore self-sustainable and requires no subsidy from the local government treasury.

23. For the reasons given in para. 6, a financial capability forecast to demonstrate the local government's capacity to repay all its debt obligations was not prepared. In addition, obtaining access from DPPP to information about Kota Surakarta's other loans was difficult. DPPP did provide data showing that the local government is overdue on the current installment of its debt service on RDA's Singosaren market loan in an amount of Rp0.95 billion. The local government confirmed this and stated that it would pay this and an overdue installment on a subsidiary loan agreement loan from DPPP in October 2004. The local government has approximately Rp17.00 billion due on two other obligations and redeemed a further obligation of Rp7.00 billion in April 2004. These relate to infrastructure development by local contractors and concern leasing agreements made to avoid the *Keputusan Menteri Keuangan's* (MOF decree's) prescription against long-term borrowing except through MOF.¹⁴

24. Due to temporary liquidity problems, Kota Surakarta has prioritized payment for these arrangements rather than for its RDA loans. Unlike most local governments, the kota has a good record of servicing its RDA debt. By the end of 2004, its long-term principal debt is estimated to be about Rp20 billion, of which Rp7 billion must be repaid by 2014 and Rp13 billion by 2019. With discretionary revenues of nearly Rp108 billion available in the 2004 budget, debt service is not seen as a problem for this local government. The real problem concerns restructuring its financial management and assuming more debt to fund urgently required urban infrastructure services, as admitted by the local government.

¹⁴ KMK 569/2003.

Table A13.2: Financial Analysis of Bus Terminal – Kabupaten Ponorogo
(Rp million in 2000 constant prices)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Source of Data	0%	Actual	Actual	Actual	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Terminal Fee		369.0	369.0	400.0	409.0	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Restaurant Tax		31.0	28.0	25.0	26.0	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Shop and Kiosk Rentals		110.0	98.0	90.0	93.0	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Total Revenues		510.3	494.9	514.9	527.7	527.7	527.7	527.7	527.7	527.7	527.7	527.7	527.7	527.7	527.7	527.7	527.7	527.7	527.7	527.7
Investment Costs																				
Land	1,600.0	1,600.0																		
Physical Investment		6,829.5																		
Total Investment		8,429.5	0.0	0.0	0.0	0.0	na	na	na	na	na	na	na	na	na	na	na	na	na	r
Incremental O&M			12.6	33.6	115.0	71.5	71.5	71.5	71.5	71.5	71.5	71.5	71.5	71.5	71.5	71.5	71.5	71.5	71.5	71.5
Salvage Value (Land)																				(1,600.0)
Total Costs		8,429.5	12.6	33.6	115.0	71.5	71.5	71.5	71.5	71.5	71.5	71.5	71.5	71.5	71.5	71.5	71.5	71.5	71.5	71.5
Net Revenues		(8,429.5)	497.7	461.2	399.9	456.2	456.2	456.2	456.2	456.2	456.2	456.2	456.2	456.2	456.2	456.2	456.2	456.2	456.2	2,056.2
NPV	(4,270.0)																			
FIRR Base Case	1.8%																			
FIRR-Costs + 10%	0.9%																			
FIRR-Revenues - 10%	0.9%																			
FIRR-Costs + 10%, Revenues - 10%	0.1%																			

FIRR = financial internal rate of return, NPV = net present value, O&M = operation and maintenance.

Table A13.3: Cost Recovery Analysis of Market Nominal Prices Kabupaten Ponorogo
(Rp million)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Annual Inflation (%)	13.00	11.00	8.00	6.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Inflation Index	1.06	1.19	1.30	1.40	1.48	1.55	1.63	1.71	1.80	1.89	1.99	2.09	2.19	2.30	2.42	2.54	2.67	2.81	2.95
Tariff Increase(% Inflation)					50.00	0.00	10.25	0.00	10.25	0.00	10.25	0.00	10.25	0.00	10.25	0.00	10.25	0.00	10.25
Revenues	510.30	494.90	514.90	527.70	791.50	791.50	872.60	872.60	962.10	962.10	1,060.70	1,060.70	1,169.40	1,169.40	1,289.20	1,289.20	1,421.40	1,421.40	1,567.10
Costs																			
Annual O&M	13.40	40.00	150.00	100.00	105.60	110.90	116.50	122.40	128.60	135.10	142.00	149.20	156.70	164.70	173.00	181.80	191.00	200.60	210.80
Annual Depreciation	362.80	406.10	445.40	477.60	504.20	529.70	556.50	584.70	614.30	645.40	678.10	712.40	748.50	786.30	826.20	868.00	911.90	958.10	1,006.60
Interest Charges		510.60	446.80	383.00	319.10	255.30	191.50	127.70	63.80	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Costs	376.20	956.70	1,042.20	960.50	928.90	895.90	864.50	834.80	806.80	780.50	820.10	861.60	905.20	951.00	999.20	1,049.70	1,102.90	1,158.70	1,217.40
Net Income	134.10	(461.90)	(527.20)	(432.90)	(137.40)	(104.40)	8.10	37.80	155.30	181.50	240.60	199.10	264.20	218.40	290.10	239.50	318.50	262.70	349.70
Cumulative Net Income	134.10	(327.80)	(855.00)	(1,287.90)	(1,425.30)	(1,529.70)	(1,521.60)	(1,483.80)	(1,328.50)	(1,147.00)	(906.40)	(707.30)	(443.10)	(224.70)	65.40	304.90	623.40	886.10	1,235.80
Monitoring Ratios																			
Revenue: O&M	38.1	12.4	3.4	5.3	7.5	7.1	7.5	7.1	7.5	7.1	7.5	7.1	7.5	7.1	7.5	7.1	7.4	7.1	7.4
Revenues: O&M + Interest	38.1	0.9	0.9	1.1	1.9	2.2	2.8	3.5	5.0	7.1	7.5	7.1	7.5	7.1	7.5	7.1	7.4	7.1	7.4
Revenues: O&M + Interest + Depreciation	1.4	0.5	0.5	0.5	0.9	0.9	1.0	1.0	1.2	1.2	1.3	1.2	1.3	1.2	1.3	1.2	1.3	1.2	1.3

O&M = operation and maintenance.

**Table A13.4: Financial Capability Forecast – Kabupaten Ponorogo
(Rp million)**

	2001 Actual	2002 Actual	2003 Actual	2004 Budget	2005 Forecast	2006 Forecast	2007 Forecast	2008 Forecast	2009 Forecast	2010 Forecast
A. Revenues										
1. Balance From Previous Year	3,294.8	10,623.3	14,208.4	9,644.8	2,644.8	7,805.8	14,343.7	22,416.9	32,200.0	43,885.8
2. Own Source Revenues	14,262.4	16,037.8	23,873.5	22,825.4	23,966.7	26,171.7	28,579.4	31,208.8	34,080.0	37,215.3
a. Local Taxes	2,801.5	3,765.0	4,709.2	4,748.5	4,985.9	5,444.6	5,945.5	6,492.5	7,089.8	7,742.1
b. Local Retributions	8,683.1	6,748.2	9,590.1	15,298.9	16,063.9	17,541.8	19,155.6	20,917.9	22,842.4	24,943.9
c. Local Government Enterprise Dividends	132.2	117.5	138.7	173.0	181.7	198.4	216.6	236.5	258.3	282.1
d. Other Own-Source Revenues	2,645.6	5,407.1	9,435.4	2,605.0	2,735.3	2,986.9	3,261.7	3,561.8	3,889.4	4,247.3
3. Shared Revenues	256,982.0	270,379.1	297,767.8	320,885.0	349,324.7	366,790.9	385,130.5	404,387.0	424,606.3	445,836.7
a. Shared Revenues -Tax Receipts	9,898.3	13,130.9	19,078.6	17,732.5	18,619.1	19,550.1	20,527.6	21,554.0	22,631.7	23,763.2
b. Shared Revenues - Non-Tax Sources	1,303.4	1,486.5	1,539.2	372.5	391.1	410.7	431.2	452.7	475.4	499.1
c. General Purpose Grant (DAU)	245,780.3	255,081.9	271,650.0	295,130.0	322,282.0	338,396.1	355,315.9	373,081.7	391,735.7	411,322.5
d. Special Purpose Grant (DAK)	0.0	679.8	5,500.0	7,650.0	8,032.5	8,434.1	8,855.8	9,298.6	9,763.6	10,251.7
e. Other Shared Revenue Receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4. Borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
a. MOF Rupiah Source Loan (RPD)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
b. MOF Foreign Source Loan (SLA)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
c. PSP Preparation Facility Loan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
d. Other Borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5. Other Receipts	5,932.8	19,783.8	50,992.0	30,365.6	31,883.8	33,478.0	35,151.9	36,909.5	38,755.0	40,692.8
a. Receipts from Central Government	0.0	2,903.2	34,138.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
b. Receipts from Provincial Government	5,011.3	13,250.3	16,745.8	14,322.0	15,038.1	15,790.0	16,579.5	17,408.5	18,278.9	19,192.8
c. Receipts from Other Local Governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
d. Emergency Funds	0.0	3,249.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
e. Other	921.5	380.5	107.3	16,043.6	16,845.7	17,688.0	18,572.4	19,501.1	20,476.1	21,499.9
Total Revenues	280,472.1	316,824.0	386,841.7	383,720.8	407,820.0	434,246.4	463,205.6	494,922.2	529,641.4	567,630.6

Table A13.4 – continued

	2001 Actual	2002 Actual	2003 Actual	2004 Budget	2005 Forecast	2006 Forecast	2007 Forecast	2008 Forecast	2009 Forecast	2010 Forecast
B. Expenditures										
1. Routine	199,810.7	207,873.7	257,536.2	286,146.4	300,338.3	315,242.9	330,895.9	347,334.7	364,598.7	382,078.4
a. Personnel Costs	169,411.3	166,320.7	204,092.6	251,166.9	263,725.2	276,911.5	290,757.0	305,294.9	320,559.6	336,587.6
b. Supplies	13,917.8	22,748.4	24,074.3	25,756.2	27,044.0	28,396.2	29,816.0	31,306.8	32,872.2	34,515.8
c. Maintenance	1,920.5	2,325.5	4,678.5	2,873.1	3,016.7	3,167.5	3,325.9	3,492.2	3,666.8	3,850.2
d. Departmental Travel and Allowances	1,198.5	1,358.1	2,293.6	3,316.6	3,482.5	3,656.6	3,839.4	4,031.4	4,232.9	4,444.6
e. Other	5,580.2	8,375.7	15,871.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
f. Debt Service (Principal, Interest, etc.)	1,292.8	1,016.3	938.0	1,033.7	969.9	906.0	842.2	778.4	714.6	0.0
g. Lower-Level Subsidies & Grants	1,580.3	1,886.1	2,767.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
h. Pensions	1.9	1.9	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
i. Other Routine Expenditures	4,194.6	1,487.7	2,418.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
j. Contingencies	713.0	2,353.5	400.0	2,000.0	2,100.0	2,205.0	2,315.3	2,431.0	2,552.6	2,680.2
2. Development	70,038.2	94,741.9	119,465.6	94,929.5	99,676.0	104,659.8	109,892.8	115,387.4	121,156.8	127,214.6
Total Expenditures	269,848.9	302,615.5	377,001.8	381,076.0	400,014.3	419,902.7	440,788.7	462,722.2	485,755.5	509,293.0
DSCR per PP107/2000	78.8	117.5	119.5	82.1	104.7	118.8	135.5	155.5	179.6	na
Financial Capability (per PP107/2000)	yes	yes	yes	yes	yes	yes	yes	yes	na	na
Outstanding Loans as % of Eligible Revenues	4.1	4.8	3.8	2.8	2.0	1.4	0.8	0.4	na	na

Table A13.6: Financial Analysis of Singosaren Market Kota Surakarta
Rp million (2000 constant prices)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Source of Data		Actual	Actual	Actual	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Market Retribution		2,278.0	2,208.0	2,400.0	2,415.0	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Parking Retribution		13.0	15.0	14.0	16.0	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Advertisement Tax		2.0	2.0	3.0	3.0	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Land and Building Tax		75.0	83.0	90.0	89.0	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Development I Tax		184.0	204.0	207.0	209.0	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Cinema Tax		109.0	121.0	161.0	199.0	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Total Revenues		2,661.7	2,633.1	2,875.2	2,931.0	2,931.0	2,931.0	2,931.0	2,931.0	2,931.0	2,931.0	2,931.0	2,931.0	2,931.0	2,931.0	2,931.0	2,931.0	2,931.0	2,931.0	2,931.0
Investment Costs																				
Land	0.0																			
Physical Investment	13,334.2																			
Total Investment	13,334.2	0.0	0.0	0.0	0.0	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Incremental O&M		568.6	702.0	716.3	716.3	716.3	716.3	716.3	716.3	716.3	716.3	716.3	716.3	716.3	716.3	716.3	716.3	716.3	716.3	716.3
Salvage Value (Land)																				0.0
Total Costs	13,334.2	568.6	702.0	716.3	716.3	716.3	716.3	716.3	716.3	716.3	716.3	716.3	716.3	716.3	716.3	716.3	716.3	716.3	716.3	716.3
Net Revenues	(13,334.2)	2,093.0	1,931.1	2,158.9	2,214.7	2,214.7	2,214.7	2,214.7	2,214.7	2,214.7	2,214.7	2,214.7	2,214.7	2,214.7	2,214.7	2,214.7	2,214.7	2,214.7	2,214.7	2,214.7
NPV	2,791.0																			
FIRR Base Case	15.0																			
FIRR-Costs + 10%	12.8																			
FIRR-Revenues- 10%	12.8																			
FIRR-Costs + 10%, Revenues - 10%	10.7																			

FIRR = financial internal rate of return, NPV = net present value, O&M = operation and maintenance.

Table A13.7: Cost Recovery Analysis of Market Nominal Prices – Kota Surakarta
(Rp million)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Annual Inflation (%)	13.00	11.00	8.00	6.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Inflation Index	1.06	1.19	1.30	1.40	1.48	1.55	1.63	1.71	1.80	1.89	1.99	2.09	2.19	2.30	2.42	2.54	2.67	2.81	2.95
Tariff Increase (% Inflation)					11.30	0.00	10.25	0.00	10.25	0.00	10.25	0.00	10.25	0.00	10.25	0.00	10.25	0.00	10.25
Revenues	2,661.70	2,633.10	3,157.50	3,214.90	3,578.20	3,578.20	3,944.90	3,944.90	4,349.30	4,349.30	4,795.10	4,795.10	5,286.60	5,286.60	5,828.50	5,828.50	6,425.90	6,425.90	7,084.50
Costs																			
Annual O&M	604.20	834.80	934.30	1,001.80	1,057.60	1,111.10	1,167.40	1,226.50	1,288.60	1,353.80	1,422.40	1,494.40	1,570.00	1,649.50	1,733.00	1,820.70	1,912.90	2,009.80	2,111.50
Annual Depreciation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Charges				766.70	1,482.30	1,380.10	1,277.90	1,175.60	1,073.40	971.20	868.90	766.70	664.50	562.30	460.00	357.80	255.60	153.30	51.10
Total Costs	604.20	834.80	934.30	1,768.50	2,539.90	2,491.20	2,445.30	2,402.10	2,362.00	2,325.00	2,291.30	2,261.10	2,234.50	2,211.80	2,193.00	2,178.50	2,168.50	2,163.10	2,162.60
Net Income	2,057.50	1,798.20	2,223.20	1,446.40	1,038.20	1,086.90	1,499.70	1,542.80	1,987.30	2,024.30	2,503.80	2,534.00	3,052.10	3,074.80	3,635.40	3,649.90	4,257.40	4,262.80	4,921.90
Cumulative Net Income	2,057.50	3,855.70	6,079.00	7,525.40	8,563.60	9,650.50	11,150.20	12,693.00	14,680.30	16,704.60	19,208.40	21,742.40	24,794.40	27,869.20	31,504.70	35,154.60	39,411.90	43,674.70	48,596.60
Monitoring Ratios																			
Revenue: O&M	4.4	3.2	3.4	3.2	3.4	3.2	3.4	3.2	3.4	3.2	3.4	3.2	3.4	3.2	3.4	3.2	3.4	3.2	3.4
Revenues: O&M + Interest	4.4	3.2	3.4	1.8	1.4	1.4	1.6	1.6	1.8	1.9	2.1	2.1	2.4	2.4	2.7	2.7	3.0	3.0	3.3
Revenues: O&M + Interest + Depreciation	4.4	3.2	3.4	1.8	1.4	1.4	1.6	1.6	1.8	1.9	2.1	2.1	2.4	2.4	2.7	2.7	3.0	3.0	3.3

O&M = operation and maintenance.