

PD-ABF-036
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A.I.D. EVALUATION SUMMARY - PART I

1. BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS.
2. USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE.

IDENTIFICATION DATA					
A. Reporting A.I.D. Unit: Mission or AID/W Office <u>USAID/Indonesia</u> (ES# _____)		B. Was Evaluation Scheduled in Current FY Annual Evaluation Plan? Yes <input checked="" type="checkbox"/> Slipped <input type="checkbox"/> Ad Hoc <input type="checkbox"/> Evaluation Plan Submission Date: FY ____ Q ____		C. Evaluation Timing Interim <input checked="" type="checkbox"/> Final <input type="checkbox"/> Ex Post <input type="checkbox"/> Other <input type="checkbox"/>	
D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report.)					
Project No.	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
497-HG-001	Municipal Finance Project	FY 89	9/94	120,000	120,000
497-0365	Municipal Finance Project	FY 89	9/94	5,000	4,000

ACTIONS		
E. Action Decisions Approved By Mission or AID/W Office Director	Name of Officer Responsible for Action	Date Action to be Completed
<ul style="list-style-type: none"> 1. New HG program to be designed will continue to support the basic elements of the current Policy Action Plan but will also place emphasis on new key elements of policy identified in the Evaluation Report. PP to be approved and first \$25 million tranche authorized by 10/92. 2. In order that resource allocations under the Investment Plan may reinforce the policy objectives of the Policy Action Plan, the PP for the proposed new HG program (497-HG-006) will define the Investment Plan as (1) carrying an indicative allocation of funds for the RDA; (2) including expenditure on environmental impact assessments (the AMDAL process) as a category of eligible expenditure; (3) requiring GOI to certify that all investments have been subject to the AMDAL process. PP to be approved by 10/92. 3. Quarterly meetings of the MFP Interministerial Counterpart Committee will be convened by the GOI. BAPPENAS will be invited to participate. First meeting of the Committee, including a BAPPENAS representative, to be held in October 1992. 4. Study to be undertaken to identify the most effective means of monitoring the targeting, by income and gender, of urban investments and tariff policy. Study to be completed by 11/92. 5. The MFP Indicators report will be updated annually and will incorporate detailed suggestions for improvements made in the Evaluation Report. The next update to be circulated by 1/93. 6. TA support to be extended by amending the MFP. PP to be amended by 3/93. 	<p>WMFrej</p> <p>WMFrej</p> <p>GOI (Min. of Finance)</p> <p>WMFrej</p> <p>GOI (Min. of Finance)</p> <p>WMFrej</p>	<p>10/92</p> <p>10/92</p> <p>10/92</p> <p>11/92</p> <p>1/93</p> <p>3/93</p>

APPROVALS			
F. Date Of Mission Or AID/W Office Review Of Evaluation:	(Month)	(Day)	(Year)
	7	1	92

G. Approvals of Evaluation Summary And Action Decisions:				
	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Name (Typed)	William M. Frej	Dono Iskandar Djojsubroto	Edward Greeley	Charles F. Weden
Signature	<i>William M. Frej</i>	<i>Dono Iskandar</i>	<i>Edward Greeley</i>	<i>Charles F. Weden</i>
Date	10/25/92	10/20/92	10/24/92	11/2/92

ABSTRACT

H. Evaluation Abstract (Do not exceed the space provided)

This interim evaluation of Indonesia's Municipal Finance Project was conducted to provide a basis for considering the design of a possible new Housing Guaranty loan program, and possible amendments and changes to the current Project. The Project's goal is to improve the shelter conditions of the urban poor by developing the means by which municipal governments can more effectively finance shelter-related urban services and infrastructure. The evaluation entailed a review of urban sector documentation provided by the GOI and written products from the Project, and interviews with counterparts, consultants and trainees.

Major Findings and Conclusions. The Project has made, and continues to make, substantial progress. Major accomplishments include: decentralizing and coordinating (across sectors) the urban infrastructure programming process; substantially improving the management and yields of the property tax and other local own source revenues; setting a sound base for expanding private sector participation in urban services; establishing the Regional Development Account (RDA) as a major step toward an effective credit finance system for local government; and institutionalizing ministerial coordination at the central level. The technical assistance and training component has been effective in advancing priority program initiatives and interagency collaboration. The Project's accomplishments are sustainable. Even so, national urban infrastructure investment is falling behind national targets and decentralization has proceeded slowly in some areas. To respond to this situation the program should give priority to developing a strategy for local finance reform that goes beyond better tax administration, preparing an action plan for building the RDA into a market-based credit system, and establishing an indigenous system for building local capacity in urban management. It is also critical that policies to address urban environmental degradation be added as a high priority. A.I.D. support has played an influential role in the program to date and the potential payoff from further assistance is high. A new HG program and substantially expanded technical assistance and training efforts are warranted to extend sector progress. A.I.D. should continue to support the integrated urban program as a whole but give special emphasis to the achievement of new goals in urban environmental management and infrastructure provision, local government finance, and private sector participation.

Lessons Learned. The Project provides a model for operating a policy-based sectoral HG program. It shows how long term involvement in an integrated program with clearly focused sub-objectives can lead to important and measurable policy change while avoiding the risks of fragmentation inherent in more narrowly defined projects. It also shows that decentralization to the local level of revenue sources must occur in tandem with decentralization of investment planning for either to be fully effective.

COSTS

I. Evaluation Costs

1. Evaluation Team		Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. \$)	Source of Funds
Name	Affiliation			
G. Thomas Kingsley	The Urban Institute	PDC-1008-I-00- 9067-00 D.O. No. 26	\$ 55,000	App. 72-1101021 BPCQDSA-90- 27497-KG13
George E. Peterson	The Urban Institute			
2. Mission/Office Professional Staff Person-Days (Estimate) _____ 30		3. Borrower/Grantee Professional Staff Person-Days (Estimate) _____ 20		

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A.I.D. EVALUATION SUMMARY - PART II

SUMMARY

J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)

Address the following items:

- | | |
|--|--|
| <ul style="list-style-type: none"> • Purpose of evaluation and methodology used • Purpose of activity(ies) evaluated • Findings and conclusions (relate to questions) | <ul style="list-style-type: none"> • Principal recommendations • Lessons learned |
|--|--|

Mission or Office:

USAID/Indonesia

Date This Summary Prepared:

9/18/92

Title And Date Of Full Evaluation Report:

Interim Evaluation: Indonesia Municipal Finance Project, July 1992

This is a summary of the interim evaluation of the Indonesia Municipal Finance Project (MFP). Under the project: (a) A.I.D. is providing a \$100 million Housing Guaranty (HG) loan for capital investment and \$5 million in Development Assistance grants for technical assistance and training; and (b) the Government of Indonesia (GOI) is implementing a Policy Action Plan whose goal is to "improve the shelter conditions of the urban poor by developing the means by which municipal governments can finance shelter-related urban services and infrastructure at a pace sufficient to overcome present deficits and match the pace of urban population growth". The GOI has made a commitment to transfer both the responsibility and authority for the leading public sector role in urban development to local governments, and to substantially improve local management capacity and resource mobilization. The Policy Action Plan provides the framework for achieving these ends.

PURPOSE OF THE EVALUATION AND METHODOLOGY EMPLOYED

The evaluation assesses GOI progress under the Policy Action Plan and performance under the Project's technical assistance and training component. It is intended to provide a basis for decisions about amendments to the existing program and design of a possible new HG program. The evaluation was conducted by two senior urban policy specialists (in Indonesia for three weeks) who examined the record of policy change as documented by GOI and international donor reports, interviewed GOI officials in all agencies dealing with the urban sector and gathered unpublished information regarding sectoral investment and financing, reviewed the products of the MFP technical assistance team, interviewed 14 participants in training programs supported by the Project, and met with consultants under related programs as well as the World Bank urban sector team.

MAIN FINDINGS AND CONCLUSIONS

Performance under the Policy Action Plan. The GOI has made, and continues to make, substantial progress toward the program's basic objectives. Over the course of the program, its major accomplishments have been: transforming the process by which urban infrastructure is programmed to one in which coordinated planning and project preparation occur across sectors for individual cities (with strong local government participation and linkage to local resource mobilization); substantially improving the management of the property tax and other local own source revenues, and enhancing their yields; setting a sound base for expanding private sector participation in urban services; establishing the groundwork for increased municipal borrowing for urban infrastructure and operationalizing the Regional Development Account (RDA) as a major step toward a market-based credit system for local government; and establishing and maintaining a viable framework for interministerial coordination at the central level.

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These accomplishments are noteworthy and are sustainable if appropriate support is given in the next stages of program development. The GOI's continuing commitment to the program was underscored by the 1992 *Issues and Priorities* Report prepared by the National Planning Agency (BAPPENAS), which presents a critical evaluation of progress under the current program and priorities for the next stages in its development. Nonetheless, the program faces serious challenges at this point. Urban infrastructure investment is falling behind in relation to needs and government targets. Urban environmental degradation--not now being addressed by the program--threatens the basic objective of improving the living conditions of the urban poor. Some of the key reforms--particularly, the transition to a market-based credit system and decentralization of investment priority-setting--are vulnerable unless they receive further external reinforcement. Priority should be given to: central reforms that allow local governments to raise the revenues necessary to manage urban development effectively; preparation of a focused strategy for building on the RDA as a transition institution designed to open municipal access to private credit markets; new initiatives for effective urban environmental quality management; rapid development of an indigenous system for building local capacity in urban management; and establishing processes that allow clearer expression of local demand in framing, financing, and implementing local investment programs.

Technical Assistance and Training. Performance under this component has been effective. Advisors have produced valuable outputs in all phases of the Project and their services are clearly valued by counterparts. They have reached out strategically to address priorities under the overall Plan and to promote interagency collaboration. Their activity is in large part responsible for key achievements under the Plan since 1990, particularly in private sector participation and program monitoring. Accomplishments include issuance of a series of research reports tied to critical policy choices; several major seminars to promote management reforms; and an extensive training program. Initial planning for an indigenous urban management training program, in collaboration with other donors, is an important achievement. Still, more forceful effort should have been provided in policy analysis and design to help motivate full achievement of basic reforms in the finance agenda.

A.I.D.'s Role. USAID support has played an influential role in the GOI's program. It was critical in advancing the agendas for private sector participation and the RDA, has filled an important void in motivating the overall continuity of an urban sector program, and appears to have achieved true additionality in urban infrastructure investment. Continued support from AID and other donors for some years will be essential if the delivery system promised by this Plan is to become fully institutionalized and self-sustaining.

PRINCIPAL RECOMMENDATIONS

1. The overall program has been successful and should be continued through a new HG program and extension and intensification of technical assistance support.
The Policy Action Plan
2. The basic elements of the current Policy Action Plan should be carried forward as the basis for measuring progress in sectoral reform in the new HG program.
3. Emphasis in a new HG program should be placed on key policy elements where AID's technical assistance can have the most effect: development of a market-based credit system for municipal lending, new initiatives to create effective (and locally directed) urban environmental quality management, and the introduction of a greater element of local choice into local revenue generation and investment planning.

4. The RDA should be strengthened as the principal source of municipal credit in the near future. It should operate according to an intermediate-term plan for opening municipal access to private credit markets.

5. Local sample surveys of household beneficiaries disaggregated by gender should be conducted to monitor more effectively the income targeting of investments and tariff policy.

Technical Assistance

6. Technical assistance will be required over the lifetime of a new HG program, and should be planned by AID.

7. Although the long-term advisors will have to continue to be responsive to work requests from counterpart agencies, greater efforts should be made to focus TA products on the principal bottlenecks to implementing the Policy Action Plan. The quarterly meetings recommended below should be used to agree on priority tasks.

8. Short-term TA should be used more directly to reinforce the long-term TA advisors. The new long-term TA agreement should include a budget for short-term TA.

9. Topics deserving more TA emphasis include: development of a strategy for building the RDA into a market-based credit system and to ensure its sustainability; introduction of strategic planning and forceful implementation for environmental quality enhancement into urban investment planning and management; institutional devices for building community and private-sector demand into the process of local investment priority setting and for streamlining processes of project appraisal, financing, and implementation; implementation of plans for indigenous training in urban management; design and implementation of household surveys disaggregated by gender to determine the income incidence of the urban investment program.

Investment Plan

10. Resource allocations under the Investment Plan should more directly reinforce the policy objectives of the Policy Action Plan. This implies directing a larger proportion of funds through the RDA and using the Investment Plan to finance public-sector support for private participation in urban services and environmental infrastructure.

Administration and Monitoring

11. Quarterly meetings of the MFP Interministerial Counterpart Committee, USAID, and the TA team should be held. Objectives: to agree on a work program that reflects Policy Action Plan priorities, and to monitor progress on previous TA work plans.

12. The MFP Indicators report should be updated semi-annually, and be incorporated within a broader regular report on Policy Action Plan progress to be reviewed as a basis for planning and corrective actions in regular meetings of TKPP.

13. BAPPENAS should be clearly invited to participate as a member of the MFP Counterpart Committee. Because of its central role in relation to the Policy Action Plan, the addition of MFP technical assistance support directly to BAPPENAS should also be considered.

LESSONS LEARNED

1. The Project provides a model for how a policy-based sectoral HG program should function. It demonstrates that long-term involvement in an integrated program with clearly focused policy sub-objectives can lead to important, measurable policy change while avoiding the dangers of project fragmentation.

2. Decentralization to the local level of revenue sources must occur in tandem with decentralization of investment planning for either to be fully effective.

ATTACHMENTS

K. Attachments (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report.)

Full evaluation report

Urban Institute (G. Thomas Kingsley & George E. Peterson) "Interim Evaluation: Indonesian Municipal Finance Project" July 1992.

COMMENTS

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

- The Mission was well pleased with the evaluation. The evaluation report meets all of the requirements of the Scope of Work, and, in draft form, has proved invaluable as input for the design of a new HG program, and as a vehicle for designing minor changes to the current project. The conduct and work product of the two members of the evaluation team were well received by members of the Mission committee reviewing the evaluation, by GOI counterparts and by members of the MFP technical assistance team.
- The evaluators used standard techniques to conduct the evaluation. The Contractor examined the record of policy change documented by a) 125 GOI and International donor reports, b) 30 individuals interviews, c) various prime contractor work products and d) interviews with 14 participants. Their review was comprehensive and sought out different interlocutors to discuss common topics. The Mission's Urban Policy Division staff believe the evaluation team availed themselves of all significant reports and that interviewees were representative of the full spectrum of responsible professional opinion regarding the project. The Mission regards this evaluation as an objective, comprehensive, and candid appraisal of project performance and as extremely useful in developing appropriate mid-course corrections to project implementation.
- The findings of the evaluation in general correspond to the conclusions reached by the Mission and GOI counterparts, especially regarding the design implications for a new HG project and for extension of technical assistance under MFP. The Mission does, however, have reservations concerning the detail of two of the Principal Recommendations:
 - The Mission concurs with the GOI decision to decline to accept the consultants' recommendation that the MFP Indicators report should be issued semi-annually, as this is not believed to be practical. An annual update is felt to be sufficient.
 - The Mission is uncertain whether sample surveys of beneficiaries are the most effective means of monitoring targeting of urban investments and tariff policy, or whether, for instance, analysis of existing national household surveys might not provide more timely and cost-effective information.
 - The Mission also believes that equivalent information is lacking on targeting of urban programs to women. The Mission has therefore contracted with a consultancy to advise on the options for obtaining information on targeting, by income and by gender.