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LEAKAGE FROM WB PROJECT BUDGETS: SUMMARY OF RSI STAFF VIEWS

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Leakage from World Bank Project Budgets: Summary of RSI Staff views

Top Secret

SUMMARY OF RSI STAFF VIEWS REGARDING THE PROBLEM OF "LEAKAGE" FROM WORLD BANK PROJECT BUDGETS

(The following summarizes informal discussions with RSI operations staff, confidential inputs from a small number of contractors and consultants, and the views of the RSI Working Team of experienced project officers; this does not presume to represent the results of a rigorous analysis, rather it is an operational overview of the problem.)

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Any review of the problems of budget "leakage" from Bank projects must begin with two unequivocal statements of fact:

1. Documentation of procurement, implementation, disbursement and audits for Bank-financed projects are generally complete and conform to all Bank requirements; we have moved aggressively to resolve each and every irregularity for which we have documents (as well as many cases of preventive action and informal corrections of problems).

2. Bank staff members have not been implicated in any form of misconduct; the Bank is widely regarded as one of the few "uncorruptable" institutions in the Indonesian development process, but many of our staff (particularly HQ TMs) are viewed as ignorant or uncaring (as in "they don't really want to know") of local practices and thus subject to being misled or deceived rather easily.

However, even with these facts established, our projects are being implemented in an administrative culture which is not just tolerant of collusion and diversion of funds, but which blatantly expects civil servants to supplement their incomes by such means; Bank projects are not immune to these practices. One of the difficulties in attempting an analysis of the nature and magnitude of such diversions is the wide range of variation in operational methods among GOI organizations. As described in the accompanying note on "Typology of Informal Payments in GOI Development Projects" (perhaps to be retitled: "A Guide to GOI Worst Practice"), there are a variety of techniques commonly used, but with very different amounts and percentage diversions, by the project officers of GOI agencies. **In aggregate we estimate that at least 20-30% of GOI development budget funds are diverted through informal payments to GOI staff and politicians, and there is no basis to claim a smaller "leakage" for Bank projects as our controls have little practical effect on the methods generally used.**

BACKGROUND

To establish appropriate cultural context for the description of GOI practices, two fundamental facts of Javanese life must be understood: (1) the Javanese social order is extraordinarily hierarchical, requiring respect and deference to those holding higher positions; and, (2) dating from the colonial era, civil servants are paid in two separate components, a base salary and allowances (usually rice, transport, etc.) package, which is only minimally sufficient to cover subsistence requirements, is paid to each employee for simply reporting for duty; any significant task assigned is expected to be renumeralated

with a separate honorarium or project bonus, which officially is to be budgeted as administrative overhead in each project budget request, but this is not regularly provided, leaving nearly all civil servants in constant search of supplemental income. A common slang expression classifies civil services positions as being "wet" or "dry" depending on the relative accessibility of supplemental income. Those assigned to "dry" positions frequently spend most of their days in other forms of employment of all types (e.g. an engineer might "moonlight" for a private developer, an office boy may work as a private courier, etc.). These practices represent a significant loss to GOI in terms of administrative capacity and efficiency, but are not classified as "leakage" per se.

It must also be understood that the GOI officials occupying "wet" positions, i.e. responsible for administration of development projects or in other positions of significant responsibility, are faced with expectations of income assistance from both higher and lower officials within their work unit. The distribution of diverted funds thus becomes a quite elaborate system in many agencies. Unlike corrupt practices in many other developing countries, the GOI system still expects an acceptable project outcome/result and peer pressures and scrutiny by others in the system tend to limit incomes. (Particularly in recent years, the same cannot be said of higher levels of the structure, and there are serious concerns about the recent erosion of the expectations of quality results.) Another variable in the system is the fact that some GOI officials have been expected to pay for their appointments to "wet" positions (this is frequently reported to be the case in provincial and local governments; e.g. the price of appointment as Mayor of a major city is said to range from Rp. 1 -5 billion), thus some of the diversion must be regarded as a form of cost recovery! The demands of the ruling political faction GOLKAR on their core membership of civil servants in "wet" positions has frequently been cited as a key determinant of leakage, especially during the past two years ahead of the May 1997 elections. Of course, there is an element of simple greed in all parts of the system as well, but it is extremely difficult to determine if a seemingly greedy demand by a senior official is inappropriate or simply a pass-through demand from an even higher level. It is clear that the accumulation of such demands weighs most heavily on projects executed at local government level, where GOI controls are weakest and staff are least willing to question instructions of superiors.

On a more positive note, in those implementing agencies where professional competence and compensation have been improved substantially, and where adequate project management expenses have been brought on budget, the demands for diversion of funds seem to have been quite significantly reduced (e.g. PLN, Telecoms, PGN, and our Health project offices wherein the Bank is financing salary top-ups and other expenses). The primary distortion in these agencies appears to center on firms owned or controlled by senior government officers or their family members seeking to subvert the established procurement processes for major contracts. Of course, it must also be noted that in such large-budget operations (MPW, PLN and Telecoms particularly) even relatively small percentage diversions can total huge sums, but we see no clear pattern of diversion.

While we regard the accompanying "typology" paper as broadly indicative of the patterns and magnitudes of institutionalized diversions of the GOI development budget, the Working Group wishes to illustrate with the foregoing paragraphs the complexity and variability in the patterns of diversion which have to date frustrated any attempt to more precisely quantify or analyse the problem. There are significantly diverging opinions regarding the potential value of attempting to conduct "representative" sampling of projects or contracts, with some members strongly supportive and others feeling it would provide little more than an expanded group of anecdotal cases, but all recognize the difficulty of defining a truly representative subset within the Bank's portfolio. We would welcome the opportunity to discuss this further with you.

In addition to the typology/summary, we are also forwarding notes from our Working Team members with the request that they be "for your eyes only". Your request for some examples of Bank projects impacted by these practices is partially fulfilled by these papers; I will prepare a more concise note summarizing the examples if you wish. We will also revise the previous draft note regarding recommended improvements to our procurement processes, and supplement this with other recommended actions to be undertaken by the Bank in cooperation with GOI. The Team would also like the opportunity to meet with you at your earliest convenience to discuss your reaction to this material, next steps and/or additional material you wish us to generate.

TYPOLOGY OF INFORMAL PAYMENTS IN GOI DEVELOPMENT PROJECTS (INCLUDING WORLD BANK FUNDED INVESTMENTS)

(This listing is indicative only, as all parties contributing to this summary have stressed the wide variation in types and amounts for individual projects and implementing units.)

Pre-Project Expenses (5-10% or more of project budget)

- Payment by project sponsor to BAPPENAS for budget allocation (3-5% or more? Local government project agencies must also pay local and provincial BAPPEDA similar %)
- For donor assisted projects, payment by project sponsor to BAPPENAS for Blue Book listing (1-2% for listing, more if donor commits financing)
- Payment by project sponsor to MoF for budget (DIP) release; local governments pay MHA for release of INPRES, SPABP, etc. and MoF for subsidiary loans (1-2% or more?)

Land Aquisition and Resettlement Costs (extremely variable, but generally “wet”)

- Numerous reports of diversion of 50-80% of funds budgeted for project land aquisition and resettlement assistance, either by production of falsified documents showing higher amounts than actually paid or by use of “middlemen” to aquire land at a low price for resale to GOI at inflated values. Local governments agree undertake much of the land aquisition for central agency projects, only because of the potential for diversion.

Contract Procurement and Award Process (extremely variable, 5-35%, see below)

- All contractors, suppliers and consultants pay sponsoring agency to be pre-qualified, then pay for place on shortlist of invited bidders (variable, typically <1% of project value)
- Invited bidders frequently form an *arisan* (collusion among bidders with predetermined winner who will pay 1-2% to each unsuccessful firm for submission of losing bids) at the suggestion of agency staff or contractors' association-GAPINSI for civil works- (or both). In a typical shortlist of 4-6 firms, payments to *arisan* members would total 3-10% plus GAPINSI fee (2-5%) plus a payment to members of the tender committee (3-7%).
- Payments to contract signatory and/or GOI project manager (*pimpro*) at the time of final award and contract signing (this is the single most variable element the “game” with reports ranging from 0% - for international advisors in several agencies - to 35% or more of contract value in local construction/consulting contracts awarded by some local units. MPW and other central ministries have attempted to limit/control these payments with reported averages of 7-12% for international firms (often paid through local partners) and 12-20% for domestic firms contracts or share of joint ventures; averaging 15% of budget)

Contract Implementation Period

- Facilitation payments for required progress reports and invoice processing (1-3%)
- Commissions to KPKN or other disbursement unit for payment of invoices (0.5-2%)
- Political contributions and other demands by sponsor and/or GAPINSI (highly variable, but reports indicate many contractors were required to contribute 10% to GOLKAR via GAPINSI within the past year, in addition to demands by local officials; perhaps 2-15%)
- Business tax collectors are almost always willing to negotiate the tax bill (no net cost to contractor, but loss to GOI revenue of as much as 50-70% of amounts due)

Audits and Inspections

-Staff of BPKP and ministerial or provincial inspectorates are almost uniformly reported to be seeking to find issues or “mistakes” in project implementation which can be “fixed” or ignored in final audit/inspection documents for a fee (variable, from near 0% to 10%)

Other Issues

-Delays in GOI contract payments imposes interest costs on contractors (2% per month)
-Where prefinance funds have been advanced to implementing unit, delays sometimes are the result of Pimpro wishing to collect interest on deposited funds (GOI system very poor in capturing/reporting such project level income or earnings)
-Substitution of lower quality materials is also a serious problem, but often specifications are not sufficiently tight to allow proper enforcement; bills of quantity are also inflated.
-Unit prices/billing rates are typically based on recent contract values which include margins for “average” levels of payments as noted above; thus diversion is included.

Classification of GOI Implementing Units by Estimated Magnitude of Development Budget Diversion

Estimated Diversions	Agency/Ministry	Comments
Relatively Low (less than 15%)	PLN	*Relatively small percentages of very large numbers
	PGN	
	Telecoms	*Major problems with firms owned/related to senior GOI officials
	Jasa Marga	
	Min. of Health ?	
Moderate (15-25%)	Min. of Mines and Energy	
	Min. of Public Works	
	Min. of Education	
	Min. of Agriculture	
	Min. of Housing/Perumnas	
	Min of Environment	
	Min. of Communications ?	
	Min. of Religious Affairs ?	
High (more than 25%)	Min. of Tourism, Post & Tel. ?	
	Min. of Home Affairs, including all provincial and local gov'ts.	
	Min. of Transmigration	
	Min. of Cooperatives & SMEs	
	Min. of Forestry	

Draft
DISCUSSION POINTS REGARDING
IMPROVED TRANSPARENCY IN PROCUREMENT PROCESSES

Several potential actions could be taken by the Bank to further enhance the transparency of our procurement processes. However, essentially none of the action options are viable without the full and active cooperation of GOI at very senior levels. The following may, thus, be best viewed as a discussion agenda for exploring with key GOI officials the steps which they may regard as politically and practically feasible for the near- and medium-term enhancement of our mutual procurement transparency.

1. **Significantly tighten/restructure prequalification procedures for contractors and consultants wishing to participate in Bank-financed projects.** In the view of many RSI staff and other participants in Bank projects, the single most important reform or strengthening of our procurement processes would be the serious application of stringent prequalification requirements to assure that only professional, capable bidders can respond to Bank-financed tenders for goods, works and services. This would require only that GOI enforce the prequalification regulations already in place for each implementing agency, although we could offer some suggestions for refining/improving the criteria for assessing and checking the potential contractor/consultant's prior experience claimed (see further on this point below). However, this would imply a major departure from current practice by nearly all GOI offices where now essentially anyone can be listed as a qualified contractor or supplier of any type of goods or works for which the applicant is willing to pay the registration fee. The prequalification process for domestic tenders is largely viewed as a revenue-generation process, rather than a serious screening of the quality of potential contractors. Even for consulting services where shortlists are generally developed for each potential assignment, most implementing agencies regard places on the shortlist as a commercial asset to be sold to the highest bidder with only minimal regard to the actual qualifications of potential consultant organizations. Three (3) additional steps could also be taken to assure the quality of potential contractors, suppliers and consultants for Bank-financed project implementation, as follows:

a. **Develop procedures to identify firms owned/controlled by GOI officials or their family members at all levels of government, and provide all Bank project implementing agencies with a "negative list" of such firms not eligible to participate in the procurement processes.** This would obviously be a difficult and sensitive matter which would also require substantial continuous effort to keep updated, but may help to avoid many of the most serious distortions of the procurement process.

b. **Place on the "negative list" for Bank-financed procurements all GOI-owned or sponsored firms (e.g. the MPW "Karya" contractors and consultant firms, DKI's partial ownership of Pembangunan Jaya, firms affiliated with BPPT, etc).** Again, this would be a very contentious matter with the GOI agencies involved, but would remove the source of some significant past distortions in our procurement process.

c. Expand outreach and information activities, and streamline the procedures for international contractors, suppliers and consultants to prequalify and participate in Bank-GOI tenders by all implementing agencies (perhaps including a “one-stop” prequalification clearinghouse (at EKKUWASBANG?) for international firms to register their capabilities and routinely receive notification of all tenders by any GOI implementing unit in their fields of qualification) to intensify competition. –

While the Bank could assist in the development of such procedures, it is quite likely that bilateral assistance, professional organizations and others would be quick to respond if GOI announced its intentions and requested assistance in this regard.

2. Advise GOI that the Bank will not routinely finance works tendered as “reserved for economically weak contractors” (typically Class C of the standard GOI prequalification system). These small contracts with weak contractors have been one of the most consistently problematic areas of the Bank’s implementation portfolio. To the extent practical within each project, implementing agencies should be required to package civil works and goods into tender packages large enough to attract the more capable Class A and B contractors, with Bank financing offered for smaller packages only on an exceptional basis. (Note: Many GOI units also use this provision to limit potential contractors and suppliers to “pribumi”-owned business, excluding firms owned by Chinese Indonesians; this practice cannot continue to be condoned by the Bank.)

3. Modify composition and role of the tender committee to include independent members drawn from the community (local universities, targeted beneficiaries, NGOs or other appropriate project participants), perhaps even as a majority of membership, and expand to role of the committee to include all tender steps from contract package definition, through distribution of documents and evaluation of bids, to award and contract signing. The details of such a major modification to GOI tendering process would require serious discussion with GOI but could result in significantly changing the current decision-making structure. The key would lie with having truly objective and independent members appointed to the committee, which raises the obvious question of who would make the appointments. Would the Bank wish to have NOL review of the membership? The GOI would surely object.

4. Require wide-circulation newspaper advertising of all tender opportunities, provision of tender documents to all interested parties, and evaluation of all bids received from any qualified contractor/supplier (i.e. eliminate the common practice of restricting tenders to an invited shortlist of prequalified firms). This should produce a larger number of bids for each potential contract, which would clearly complicate the work of the tender committee, requiring additional time and budget for their work (the reason most commonly given for restricting the tender to invited firms).

5. Remove the contractors’ association (GAPENSI) from any role in the tender process and aggressively discourage the formation of contractors cartels (“arisan”). Current practices of posting tender announcements at GAPENSI offices as a primary

form of tender advertising and consulting GAPENSI regarding the listing of invited tender participants, simply encourages the formation of “arisan” to rotate awards of contracts among a fixed set of firms, thus circumventing the intended open competition and allowing price-fixing to become commonplace. GAPENSI is also reported to be a primary mechanism of contractors’ inappropriate access to budget and owner estimates. While the potential usefulness of GAPENSI in the prequalification process for civil works contractors is obvious, extending their (informal) role into the tendering process is clearly a serious problem to be addressed. The linkage of GAPENSI to the political system cannot be ignored, nor can the influence of GAPENSI on key appointments.

6. **Insert the newly-developed Bank anti-corruption clauses in all Bank-financed tender documents and open a confidential channel for reporting violations of tender procedures to the Bank-GOI prior to the award of contracts.** Too frequently the Bank hears of alleged irregularities only after contracts have long-since been awarded and construction or other services performed, when our range of potential action is limited.

7. **Develop performance evaluation system for all Bank (or GOI) contractors and exclude poor performers (negative list) from future tenders.** See companion paper on more general implementation process improvements, including **AUDITS!!!**

Indonesia

Second Village Infrastructure Project

QAG Post Approval Assessment

Bev
001 ✓
Aft
See
14.3.7
yet.
= poor line
full report
SEB

Overall Assessment

1. This project is rated fully satisfactory at entry because of its clear objectives, a design clearly directed to achieve quick visible results on the ground, smooth implementation with ongoing fine tuning and learning-by-doing, cost effectiveness, and success in increasing community participation and institutional capability at the village level relative to Indonesia's initial highly centralized public sector management of rural development.

2. This is a thoughtfully designed project with relatively simple objectives, which are (a) to alleviate poverty directly by creating employment and indirectly by providing basic infrastructure such as roads and water supply to poor villages, and (b) to give communities an active participatory role in project selection, design and implementation, thus increasing institutional capacity and social capital at the village level. The project reaches directly down to the village level. A criterion for identifying poor villages eligible for the program has been laid out. Villages can select from a menu of infrastructure projects, and apply for a grant from the kecamatan or district level. Funds go directly to the villages, but on a force account basis and statements of expenditure are subject to regular scrutiny, thus providing incentives so that work is completed and construction quality is acceptable.

3. The project takes the position that assistance is to poor villages, and therefore, should take the form of a grant, with no fiscal cost recovery. The benefits accruing to the villagers from improved infrastructure, however, will lead to economic cost recovery. Construction is not contracted out, as in the OECF project, but is carried out by village members with supervision from field engineers. Thus VIP II provides not only infrastructure to the villages, but also employment, income, and experience managing and constructing civil works to members of the village communities.

4. VIP II differs from other projects visited by this Panel in certain important regards: (1) this project *bypasses* intermediate levels of the government bureaucracy, with funds going directly from the national level to the villages, with only small involvement at the kecamatan level, (2) funding is *outside the normal budgetary cycle*, (3) the funding of the project comes *overwhelmingly from the Bank* (nearly 90%), and despite its great simplicity (4) project administration relies to much greater extent on hired consultants, as compared to the other three projects which have much greater involvement of country agencies and officials. These features of the project appear to be

aimed at creating a demonstration effect by side-stepping various weaknesses in the Indonesian institutional capacity, and they give the project considerable flexibility, reduce unit costs, and free the project from delays due to rigid budgetary processes.

5. This project also differs from the other three projects visited by the Panel in that it has a relatively large expenditure (\$159.6 million compared to \$47.6 million in NST) focused on a single task: building rural infrastructure using simple technology and local materials and labor. In addition, the project benefits from high quality of technical assistance. These features of VIP II contribute to its considerable achievements. Its approach to community participation offers potential to replicate it in other sectors, although the project design as a whole raises questions about its replicability in total to other higher levels of infrastructure in public works, to other sectors or other countries. The project also raises questions of its long-term sustainability.

Strengths

6. The project fits in well with Indonesia's poverty alleviation strategy and decentralized development. It has been incorporated into a national program of village infrastructure development.

Ongoing learning-by-doing:

7. VIP II has successfully incorporated many of the lessons learned from VIP I, but does not stop there. The project implementation process is characterized by an active openness to identifying weaknesses in design and implementation as they arise and responding to them in a timely fashion. Consequently the project is continually being improved and fine-tuned, with considerable learning by doing.

Village participation:

8. As in VIP I, the project is designed to increase village participation by giving villages the choice of infrastructure schemes, involving villages in project planning, decision making, implementation and management, and using village labor in construction. This approach has many advantages, including the fact that it builds local capacity and enhances the local sense of commitment and ownership.

9. While there is scope for further improvement in this regard (see additional comments below regarding participation and sustainability and maintenance), the project provides greater scope for local participation than seems typical in government operations and donor-funded projects in Indonesia, where villages seem to have been less involved in decentralized planning and decision making than is the case in China. The opportunity afforded by this project to villages to exercise their choice in selecting the type of village infrastructure has contributed to decentralized planning and democratization in decision

making. The project has increased institutional capacity and human capital at the village level, as evidenced by the establishment of village bookkeeping systems, exposure of village leaders and villagers to concepts of accountability and transparency, hands-on experience in routine rural works common villagers, etc. The Panel was impressed to see villagers follow construction specifications diligently of which even skilled labor elsewhere may not be much aware.

Well-conceived project design:

10. The project design is well-conceived in several regards. First, it uses simple engineering principles and employs locally available materials. This greatly simplifies implementation as the infrastructure can be built using human and material resources that are readily available at the local level, and so avoid delays and complications that can arise when there is dependency on higher bureaucratic levels when using more complex procurement procedures.

11. Second, the institutional framework for the project is simple, well organized and cost-effective. The LKMD is designated as the implementing agency, DPUK (District Department of Public Works) as administrative project managers, and kecamatan/kabupaten levels as motivators for beneficiary participation and facilitators. For technical support to LKMD a field engineer is appointed, one for each cluster of five villages. The entire program is under a PMU secretariat at the central level and assisted by an engineering and management team with a team leader and one to three senior consultants for each province. Within this framework, the project channels grant funds directly to villages, largely bypassing the usual bureaucratic channels, so that the funds reach the villages effectively and in a timely fashion. Direct overheads are negligible and chances of pilferage low. This has resulted in a cost saving of 30-35%.

12. Third, the project operates outside the usual budgetary cycle. This gives the project flexibility and allows it to avoid the delays and rigid budgetary cycle that often occur with funds channeled through normal budgetary processes.

13. Fourth, the project funds are largely (88%) from the Bank with low counterpart contributions. While this is not usual practice, it gives the project considerable freedom and reduces bureaucratic and budgeting impediments. This enhances the project's cost-effectiveness.

Strong government commitment, good leadership by individuals involved in designing and implementing the project, excellent supervision and engineering support:

14. The project has strong national-level support with BAPPENAS taking responsibility for project implementation compared to the Ministry of Home Affairs or Public Works for similar routine projects. The project fits well with the Government of Indonesia's objective of poverty alleviation as provided in Repelita VI. Due to the

prestigious position enjoyed by the ministry in charge of overall coordination, the project's consistency with national objectives, operating outside of normal budgetary processes, and probably also the low share of counterpart funds, availability of resources and the problems of governmental approvals are faced by other projects seems largely to be overcome.

15. The task manager, the Bank's Regional mission in Indonesia and project officers have together exercised good leadership by pushing for innovative, appropriate project design, encouraging an open implementation environment and learning-by-doing, and in providing continued strong support and close supervision of the project during implementation.

16. Effective engineering by a dedicated group of well-qualified field engineers supervised by equally dedicated, highly qualified consultant engineers contributes greatly to project implementation and quality of infrastructure construction. Quality of construction is good, although it could be improved further as discussed below.

Excellent overall supervision and engineering support:

17. Engineering supervision in the field is carried out by a dedicated group of well-qualified (mostly) graduate engineers. Each field engineer supervises a cluster of five villages, with assistance from a skilled person in each village. The field engineer is thus able to closely monitor operations personally and to direct his village assistant to follow up when he is absent. The field engineer has strong back-up support from the higher level engineering and management team.

18. In sites visited the Panel observed methodical fieldwork and the careful laying and adherence to quality standards. The layout and construction drawings are prominently displayed outside the village (desa) offices. Samples of acceptable materials that meet specifications and have been approved by the field engineers are also displayed in the desa offices. These materials serve as guides and can be compared to actual materials employed.

19. The effective engineering supervision, combined with transparency of procedures and the use of simple technical designs, contributes to good quality of construction. The quality of construction compares well with similar works in Indonesia and in some cases is even better than rural works constructed by the Department of Public Works. There is, however, scope for further improvement (see below).

20. The project, together with OECF, has resulted in its replication into a national program of village infrastructure development.

Weaknesses

Targeting:

21. Although the program is intended to reach the poor, the Panel is not convinced that the project is reaching the poorest villages or the poorest households within the villages. Some of the villages visited by the Panel, while perhaps poor by Javanese standards, did not seem terribly poor compared to those seen in Nusa Tenggara or in China. (Here the Panel recognizes that criteria for the selection of villages was to a great degree given to the project by the government's designation of poor villages and so was outside of its control.)

22. The extent to which benefits in these villages go to the poorest members of the communities is also unclear. In some cases inequality within villages seemed to be greater both in absolute terms and relative to what the Panel observed in China, in part because hamlets within the administrative villages can be quite distant from each other and face different water, land, and transportation conditions. While the VIP project increases participation by the village, the nature of intra-village social and political relationships and dynamics is opaque.

23. The project design calls for targeting the poor within villages by using self selection by workers in paid infrastructure construction. The project has intended to set the wages for work done on construction low, with the idea that only poorer households would volunteer for this work, but in most of the villages the Panel visited the demand for these jobs far exceed expectations. This suggests that the wages may be set too high, so that the pay may be so attractive that non-poor villagers seemed to the Panel to compete with poor villagers for the jobs.

Participation:

24. While the project increases participation at the village level, decision-making within the village does not seem to involve all members of the community equally. The main question here is who within the villages participates in choosing and designing the projects. Is it the village elite? Do poorer segments of the village population have an adequate voice? Do women have adequate voice?

25. The fact that village leaders are elected does not ensure that they are responsive to their constituencies and that participation is broad-based. (Interestingly, this contrasts with the situation in parts of China visited by the Panel, where the Panel was told that the recent introduction of elections has made village leaders more accountable and responsible to their constituencies.) Village-level politics in Indonesia is apparently complex and characterized by vote-buying and other questionable practices, with the result that village leaders can have considerable power and may represent special interest groups or elites within the village.

26. Another question is why more than 80% of investment under the VIP II program is for village roads, and why asphaltting of roads is preferred to building longer, unpaved

roads or saving some money for other facilities. The Panel wonders whether the infrequent selection of water supply projects suggests that women are not effectively represented in the decision-making process. Inquiries in the field elicited responses that suggest that this is indeed the case. With respect to asphaltting, the Panel observed a difference of opinion between the project staff and virtually everyone in the localities, including the villagers. The issue of asphaltting has implications for the choice of appropriate technical design for road construction, as a different design may be appropriate if the road will eventually be paved.

27. The extent to which participation within the village is broad-based seems to vary considerably among villages, and it depends in part on whether the field engineer is sensitive to these issues and knows how to facilitate broader participation. The project officers recognize that few engineers have experience as facilitators, and they have been considering ways to involve trained facilitators in project implementation.

Replicability:

28. The project approach is bold and opens up avenues for decentralization of planning and greater participation. Furthermore, the increased local capabilities that result from VIP II will increase the returns to future projects in these villages that address other issues such as education and health, as those projects can make use of the social capital created by this project. Some of these lessons are already being applied in a national program of village infrastructure development including a development fund at the Kechamatan level.

29. Still, VIP II enjoys unusual privileges of government support and political commitment at the highest level, as well as an unusually high proportion of Bank funding, which are unlikely to be available to routine development programs. This project may not, therefore, be fully replicable under normal circumstances or for projects funding construction of infrastructure that is technically more complex.

Occasional inadequate design and insufficient reporting and follow-up:

30. Although simplicity of design and the consistently high standards to which the simple designs are constructed, with a 95% success rate, have been commended by the Panel, there are instances of oversimplification and somewhat neglect. For example, in Desa Tertingal of Kabupaten Sragen, the approach ramp to the village road built under the project is poorly designed, with the result that it is dangerous to use. In the same village, the wing walls of a bridge have already collapsed primarily, due to faulty design of the drainage inlet, which is combined with the bridge.

31. The case of damage to this bridge also indicates failure of reporting. Quarterly reports are to be prepared for each village where the failures and damages are to be reported. In the case under reference, either the reports were not prepared, or the damages were not reported or the reports were not followed up.

32. In some cases after a village program is complete, the follow-up seems to have been inadequate. The project calls for a visit by the project engineer after one year to examine how the infrastructure has performed since completion. The Panel believes that the first year of operation is critical, particularly for bridges, culverts etc. Therefore, during this period more frequent inspections of the structures should be made by the field engineers or other qualified individuals.

Sustainability & maintenance:

33. Since the project provides one-time grants, the main issues for sustainability are follow-up (see above) and maintenance of the infrastructure. Although action is currently underway in some villages to maintain roads built last year, some roads were seen to be beginning to fall into disrepair. Most of the villagers interviewed by the Panel acknowledged that maintenance of the roads was their responsibility, but they had not always initiated repair work. There exists a possibility that in a few years some of the infrastructure built under the project may have substantially deteriorated.

34. Maintenance is hampered by the general lack of a "maintenance culture" the absence of which is by no means confined to Indonesia and by the need for stronger mechanisms within the project design to ensure maintenance. It is likely that the virtually total absence of village contributions to the construction of the infrastructure tends to view it more as a source of employment, rather than as a community asset which they own. The absence of the maintenance culture seems to prevail despite the fact that, to its credit, the project has developed manuals which request that villages provide plans and pledges for maintenance in their grant applications. Efforts should be made to identify ways in which to cultivate a "maintenance culture". One possibility is perhaps to require some counterpart contributions of funds or unpaid labor by the villages, thus creating a greater sense of local ownership. Another possibility is to prepare user-friendly O&M plans during the course of project implementation and to train the villagers in these procedures. Also, on completion of construction the maintenance plan could be launched by agreeing on the specific responsibilities of the village committees and perhaps by designating responsibility for reporting maintenance needs to specific individuals in the village committees.

Monitoring and evaluation:

35. The supervision reports are quite comprehensive and issue oriented. Progress on institution building as a separate area is not available in the reports, and while there is no specific rating on institution building it is supposed to be built into the "DO" rating. It is therefore important to learn whether or not on a fast moving (disbursing) project like the VIPs, the local level institutions are being strengthened.

36. The Panel learned that the project staff has made great efforts and paid substantial amounts to hire qualified consultants to carry out evaluation and impact assessment, but

the quality of assessment work completed by the consultants to date has been disappointing to the Panel as well as those provided in project management including in the Bank. This could be partly the result of poor luck, but it could also reflect common difficulties faced by many projects in obtaining useful, good quality impact assessments.

Recommendations

Need for greater follow-up and review:

37. Although structures are simple, designs straightforward, and quality of infrastructure construction is generally high, there is still a need for review of design and construction, especially of bridges and culverts, to ensure quality and to correct faults in the application of standard design procedures. Post-construction monitoring and reporting procedures should be reviewed and perhaps strengthened. Villages could be asked to provide regular quarterly reports to the Kecamatans or Kabupatens on the condition of infrastructure, and follow-up would help ensure that reports are reaching concerned offices in a timely manner.

38. To create a maintenance culture, responsibility for inspection and maintenance could be more clearly defined and designated to the village committees or a representative in the village. This could perhaps be accomplished by assigning responsibility to the field engineer's village counterpart, who could be given formal, part-time employment to monitor and promote adherence to the maintenance plan for the year following project completion. For this purpose some funds could be provided in the project budget. The amount can be small, say about \$2500 per village, but these funds would be well spent. The year following project completion could be clearly designated as a "maintenance period" so as to help develop a maintenance mentality.

Improving targeting:

39. Wages paid for infrastructure construction work should be reexamined and perhaps adjusted so that they elicit self selection by poorer members of the communities. Thought could also be given to the question of how to reach the poorer hamlets within villages, and whether it is possible to target at the sub-village or hamlet level.

40. Although the criteria used for village selection were set outside of the project design by the Indonesian government, these criteria perhaps deserve reexamination, with an eye towards enhancing targeting of this and other projects through improved village selection.

Improving participation:

41. The project would benefit from more explicit attention to how decision making works within villages. (This is also true for other projects visited by the Panel.) Greater understanding of social, political, and cultural factors that drive the community response to such projects might solve certain puzzles, e.g., why roads are the overwhelming choice from the menu of infrastructure schemes, why there is such a strong desire for asphalted roads, why the maintenance culture is weak, why the poor seem to be less included in VIP II than in China, and why the maintenance culture seems less apparent in Indonesia than in China, although these projects have attempted to include it during implementation. Better knowledge of what is inside the village "black box" might also aid efforts to increase participation by women and poorer, non-elite groups in village decision making.

42. Project staff have been considering the idea of giving field engineers some training in facilitation methods, or involving trained facilitators with knowledge of appropriate methods for expanding community participation in project implementation. The Panel supports and applauds efforts in this regard. Evidence of participation by women and poorer groups in the village could perhaps be made a condition for grant approval.

Counterpart contributions:

43. The projects in China reviewed by this Panel required substantial contributions towards the project from the villages/villagers in the form of loan repayment and/or unpaid labor in construction of project infrastructure. The justification for such contributions is that they create a greater sense of local ownership, and indeed the sense of ownership in the Chinese villages visited by the Panel seemed very strong.

44. VIP II follows a policy of lack of contribution by villages--all labor is paid, and there is no expectation of cost recovery or grant repayment. Perhaps it would make sense to reexamine the question of village counterpart contributions, although any decisions on this front need to take into account intra-village relationships. It is important that the burden of counterpart contributions not be borne disproportionately by some groups in the village.