



**REPUBLIC OF INDONESIA  
MINISTRY OF NATIONAL DEVELOPMENT PLANNING/  
NATIONAL DEVELOPMENT PLANNING AGENCY**

**“NATIONAL POLICY ON  
PROJECT MONITORING AND PROJECT  
PERFORMANCE EVALUATION”  
as a management tool of ODA in Indonesia**

Prepared by

**Benny Setiawan**

Director of Monitoring and Fund Evaluation  
National Development Planning Agency (BAPPENAS)  
Republic of Indonesia

**Presented at the**

**Third Tokyo Workshop on ODA Evaluation  
12-13 November 2003**

*Mr. Chairman,  
Distinguished Delegates,  
Ladies and Gentlemen,*

First, it is an honor for me from the Government of Indonesia to be here, to take part in this very important workshop. I believe that in this workshop, we can learn best practices and share ideas with the Government of Japan as well as with all participants from other recipient countries of Japan's ODA and the representatives of multilateral organizations, on how to monitor and evaluate projects, which will contribute to promoting and strengthening the effectiveness of the ODA itself.

As you can see on the screen, my presentation today is about **“NATIONAL POLICY ON PROJECT MONITORING AND PROJECT PERFORMANCE EVALUATION”**: as a management tool of ODA in Indonesia.

After several years of development, the scale and scope of development programs in Indonesia have become very large. The total number of sectors that have to be financed has also increased. The government has limited options in financing various development programs, because the amounts of the budget and other resources have been limited. For that reason, development programs have to be put in a priority list. Those programs that can be financed from the development budget should be scrutinized very carefully. The selected programs or projects should fulfill criteria that give positive impact on both the beneficiaries and the society. Any possible measures and tools should be utilized in order to guarantee optimal achievements. A good monitoring and reporting system will be an important source of information for the evaluation of performance and thus is one of the planning tools that can be used to scrutinize proposed projects.

ODA loan, undeniably, has been playing an essential role for development financing in Indonesia, particularly for activities, which have high demands and considerable benefit for the people. Although the Government's policy stipulates that Indonesia should pursue the principle and the target of self-reliance, foreign borrowing provides a big share of the national development expenditures and thus reflects its crucial function rather than just complementary function.

In absolute figures, foreign assistance has been growing tremendously from US \$ 3.5 billion in the First Five-year Development Plan [1969/70 - 1973/74] to US \$ 28.4 billion in the Sixth Five-year Development Plan



[1994/95-1998/99]. The large amount of foreign loan results in the increase of the country's indebtedness. Moreover, the need of foreign loan as a source of the country's development financing has increased in line with the greater development objectives (goals).

Our intensive monitoring and evaluation mechanism on ODA departs from the fact that ODA loan has not been utilized optimally yet. The delays in the implementation of ODA projects and un-used balances remain significant problems in the country's management of ODA. As a result, the country faces disadvantages such as the increases of interest payments, the delays in project implementations, and penalties from donors. In order to minimize these disadvantages, the government has to increase the amount of loan disbursement. In this context, monitoring becomes increasingly crucial and important because monitoring is the key to ensuring that ODA loans (projects and program process) are planned and managed professionally and, equally important, are used correctly.

For Japan's ODA, our data show that during the period of 1967-2003, Japan has committed development assistance to Indonesia of around US\$ 42.6 billion. This is about 33% of the total loan commitment of US\$ 127.3 billion from all donors' countries and donors' agencies. The status as of June 2003 indicated that around 41% of all on-going projects (US\$ 12.7 billion) come from the Government of Japan. On this occasion, please allow me, to express on behalf of the Government of Indonesia, our gratitude and sincere appreciation to the Government of Japan for its long standing and continuing support.

However, our question is how effective has been the use of this assistance for the Indonesian development?

The Indonesian People's Consultative Assembly has given a mandate to the government through its State Policy Guidelines for 1999-2004 to optimize the use of government's foreign debt for productive economic activities to be carried out in a more transparent, effective, and efficient manner. Moreover, our Law No. 25 of 2000 on National Development Program 2000-2004 related to Foreign Debt Management Policy also to emphasizes the improvement of the mechanism and procedures for acquiring foreign loans including planning, selection process, utilization, and supervision. Foreign loans must be managed transparently, accountable and in line with development priorities. The law also directs to improve the



review process for each project and to sharpen budget expenditure priorities through intensified and systematic supervision.

*Mr. Chairman,  
Distinguished Delegates,  
Ladies and Gentlemen,*

Before going further, allow me to refresh briefly about the basic concepts of monitoring and evaluation.

Most models of the development project usually have the same basic concepts. The project cycle highlights the important stages of planning – implementation – monitoring/reporting – evaluation.

To observe the progress of project implementation continuously and evaluate whether the activities have been implemented according to its plan, policies and/or the existing regulation, we need a monitoring and reporting system, and an evaluation of development projects in order to control the implementation and to provide feedbacks for the next planning.

Monitoring is the continuous assessment of project implementation in relation to agreed schedules, the use of inputs, and infrastructure, and services rendered to project beneficiaries (*World Bank*). Its primary purpose is to ascertain whether a program/project is being implemented in line with the plan. Monitoring identifies actual or potential problems as early as possible to facilitate timely adjustments to project operation or implementation.

In line with the increase of development activities, monitoring efforts should be maintained to improve the effectiveness and efficiency of the targeted goals. The result of monitoring provides managers and other related stakeholders with continuous feedback on implementation.

Evaluation, on the other hand, is a process in which, at a certain point in time, the result of a defined output issued into a system is systematically assessed and reported. For the on going projects, these activities are very useful as a tool for controlling, to improve the implementation and giving feedbacks to improve planning in the future. Evaluation is the final phase (stage) of a standard planning cycle. Therefore, we can define evaluation as a discontinuous function dealing with assessing the degree of which objective are being achieved and dealing with the validity of approaches. Evaluation entails a more in-depth and comprehensive analysis of relevant



information to determine not only what have been accomplished and how much, but also how and why the achievement have been enabled.

Evaluation comprises an element of judgment of a program based on number of pre-established standards or criteria. Moreover, evaluation is one of the activities in a circular series of the project cycle. Therefore, evaluation activity has an important impact on the development of project achievements all chain of a project cycle forming a unit each, which depend on one another. One tool that can assist the government in this regard is performance evaluation. It will support sustainability of the national development.

To assure the efficient and effective achievement of the targets and objectives of national development, the planning system has to have a capacity to monitor the effectiveness of planning implementation.

As everywhere else, the government of Indonesia must adopt the concept of efficiency and effectiveness in implementing its development programs. One tool that can assist the government is performance evaluation.

The concept of performance evaluation must evolve from concerns about resources to concerns about achievements. This is about inputs and outputs towards an examination of how resources are properly used and yielding the outcomes, benefits and impacts.

Evaluation can be classified into ex-ante evaluation, on-going evaluation, terminal evaluation, and post evaluation.

Ex-ante evaluation is an early effort to exercise all anticipated outcomes and impacts before the real project starts. Ideally all development preparation involve ex-ante activities such as feasibility studies or similar of its kind. However, not all development preparation is going through the ex-ante process. The reason for that may be due to the limited time to prepare such document or due to other practical reasons. In this process, several factors, such as social, economic, political or environmental factors can be exercised to assure the expected achievement.

On-going evaluation takes place at interval during the implementation and draws on the data and information gathered through on-going monitoring. The primary focus of on-going evaluation is usually on the process of implementation. Therefore, the outputs of on-going evaluation can be used to make necessary adjustment in the implementation of a project for its remaining life so that in the end, the objective can be



achieved. *On-going evaluation on limited scale can be used as a management tool.*

Terminal evaluation is the analysis of the program/ project at or about the end of its life in order to determine its relevance, effectiveness and likely impact. Terminal evaluation can be carried out shortly after project completion.

Ex-Post Evaluation concentrates on the impacts of a project. This entails evaluating to what extent the presence of a project felt has lead the intended beneficiaries, while physical construction has been completed.

Performance evaluation is not monitoring, inspecting, and auditing the process, but it is an assessment of the results, benefits, and impacts of the project. It is part of developing management activities that systematically collects and analyzes data and information regarding the results, benefits, and impacts of a planned development project, to asses and evaluate the development of goal and target achievements.

Its purpose is to derive lessons from experience (both positive and negative) regarding the results and benefits of development projects and to feed back these lessons into the management cycle, namely, planning, budgeting and implementing in order to improve performance and better allocate limited resources.

There are two ways of measuring the performance of a program or project; namely by building performance indicators and doing performance evaluation studies. Performance indicators will provide information more easily and more quickly, but evaluation studies will provide more in depth knowledge. Both are needed, and both will produce useful performance information for the use by the management in the departments and in the government. These two tracks should reinforce each other over time. The focus of performance evaluation will be on the results and benefits of development projects, and not on the procedures and processes, which lead to these.

However, so far project performance evaluation, either through building performance indicators or through doing performance evaluation studies have not been done in a systematic and institutionalized manner. It is also still limited, on input and output indicators of the implemented project only, such as the absorption capacity of the available fund and physical project achievement. This leads to weaknesses in future planning and the



allocation of development budget.

As you are probably aware, the Government of Japan (GOJ), through JBIC also conducts a routine post evaluation survey aimed, among others, to review the implementation of the project and to assess the effectiveness/impact resulting from the project and to review the current situation, operation, maintenance and management of the completed projects. JBIC has been conducting joint evaluation with GOI using DAC's five components of evaluation such as Relevance, Efficiency, Effectiveness, Impact, and Sustainability.

*Mr. Chairman,  
Distinguished Delegates,  
Ladies and Gentlemen,*

In Indonesia, the monitoring system as part of the controlling system of development projects, comprises a number of forms and reporting mechanism on information about the progress of implementation and the problems faced, that are needed to control the implementation of the projects. It is preceded by a reporting system based on the Monitoring and Reporting System on Development Project Implementation as stated in Presidential Decree No. 42/2002 about Guidance for Implementation of State Budget. According to this decree, it is necessary to set up a project monitoring and reporting system for the purpose of monitoring, evaluation and controlling. This decree is elaborated in the Joint Decree between Minister of Finance and State Minister of National Development Planning/Chairman of BAPPENAS<sup>1</sup> No. KEP-102/MK.2/2002 & No. KEP-292/M.PPN/09/2002 about Guidelines of Monitoring and Reporting System of Project Implementation. Any ministry/institution, either on central or local government level is obliged to implement these decrees within their respective responsibility and jurisdiction.

Monitoring and reporting activities cover projects financed by national budget from domestic revenue as well as financed by foreign aid, even though because of the complexity of the project loans, we also conduct the monitoring meeting separately every three months especially for projects aid.

The evaluation system in Indonesia is based on Decree of State Minister of National Development Planning/Chairman of BAPPENAS No. Kep.178/K/07/2000 of Performance Evaluation of Development Project.

---

<sup>1</sup> BAPPENAS = Badan Perencanaan Pembangunan Nasional is a National Development Planning Agency



The purpose of this decree is to focus on how to prepare or select project priority together with paying more attention to the results/outcomes, benefits, and impacts.

In the Government of Indonesia's (GOI) mechanism, Bappenas periodically conducts a three-monthly meeting to monitor the progress, both physically and financially of projects' implementation; to identify the problems that arise in the execution of the projects; and to find out the solutions to overcome those problems. Executing agencies as well as donor representatives attend the meetings. The forms that we use to conduct the monitoring are referred to Action Program Forms.

The Action Program consists of five forms, namely:

Form A: loan description and contact person of the project

Form B: summary of action plan in the fiscal year

Form C: problem status

Form D: status of contract packages, and

Form E: details of the budget documents.

The result of the joint monitoring status as of September 2003, (as an example for the Yen loans), indicates that out of 53 on-going projects financed by JBIC, there are 19 projects encountered problems that cause serious delays in their implementation period. Obstacles that are identified and reported generally embrace the delay in the procurement process, shortage of counterpart funds (i.e. for land acquisition compensation), and social issues (people refused to resettle); project location and projects design revision, and security problems (particularly in Aceh and Maluku provinces). Out of the total of on going projects, the implementation of 22 projects have experienced loan extension, excluding five projects that potentially need loan extension.

By identifying the problems, the executing agencies can then take some follow up actions to speed up the execution of the projects. By doing so, we can expect to gain more benefits through the ODA projects in our development efforts.

However, two important issues are sometimes conflicting to each other in some ways. On the one hand, due to our economic condition we still need Japan's ODA in form of soft loans, grant aid, and technical



assistance. We expect that with the support of Japan's ODA, we can enhance and expedite our development efforts.

On the other hand, based on our experience, some problems have occurred repetitively in the implementation of ODA projects that we call as “*systemic issues*”. These obstacles cause delays and even adverse effects in the implementation of ODA projects that eventually, of course, bring negative impact to the country economic development. In the joint Country Portfolio Performance Review (CPPR) 2002 conducted between the Government of Indonesia and three major donors (World Bank, Asian Development Bank, JBIC), the same problem has been restated and it has focused the CPPR to prepare concrete solutions to solve specific implementation issues concerning the need to turn around the problems project (project that experience low disbursement), upgrade the quality of project management, improve the budget process and disbursement, and mainstream the project implementation readiness filter for new projects. In addition, the CPPR also focused on urgent actions required to control corruption in development projects, and to address a problem that is likely to be created by the disallowance in Presidential Decree No 42 of 2002 of rolling over unspent allocated budget amounts in one fiscal year to the next year commencing from 2003, this change could potentially delay project implementation and further slow down disbursement.

That is why we noted that the need of effective monitoring and evaluation for improving the performance of development assistance is increasingly recognized as in indispensable tool of both project and portfolio management.

For the moment, the joint monitoring process is limited to the financial cooperation portion of Japan's ODA (Yen loans). Unfortunately, we have not yet set up similar mechanism for the technical assistance portion of the Japan's ODA, which is mostly managed by the Japan International Cooperation Agency (JICA). The government of Indonesia through Bappenas has a close cooperation with JICA in the projects' preparation stage, such as surveys, meetings with the survey or mission teams, etc. However, at the implementation and post evaluation stages, starting from this year, we will develop such a monitoring and evaluation mechanism and procedures on grant aid involving Bappenas, JICA, as well as the related executing agencies.

Integrated management for ODA in Indonesia recognizes the National Development Planning Agency (Bappenas) and the Ministry of Finance to manage ODA loan based on one gate policy. At the national level, Bappenas coordinates monitoring on the implementation of ODA projects. It begins



once projects' effective date is valid with determination of disbursement target for the GOI fiscal year. The agreed target, then, is monitored in the quarterly monitoring meeting. Indicators used are physical progress and financial progress (progress of disbursement), and backlog, and cancellation amount. Both donors and GOI fully concern on the progress of disbursement because this is one of their considerations in deciding the amount of loan commitment. Particularly JBIC maintains a full and close dialog with the GOI in respect to promoting better implementation of development projects. Strong coordination and cooperation between JBIC and GOI in addressing ODA management resulted in increasing disbursement.

*Mr. Chairman,  
Distinguished Delegates,  
Ladies and Gentlemen,*

The focus of the CPPR can be stated as follows:

#### **I. Improving Project Management**

- *Budget Process and Counterpart Funds*

Delays are still being experienced in the issuance of the *Budget Approval Document*, thereby delaying release of both external and counterpart funds. In addition, there are some projects with inadequate allocation of counterpart funds. These problems continue to affect project implementation.

- *Weak Project Management*

Weak institutional and project management capacity is one of the main constraints that affect project implementation. This includes weak capacity of project managers, the part-time nature of their assignment and their annual appointment resulting in the lack of continuity of project management.

- *Delays in the procurement process have continued to slow implementation*

The Government of Indonesia and Lenders have agreed to be more disciplined in adhering to the service standards for the important steps in procurement.



## **II. Turning Around Problem/Low Disbursement Projects**

Percentage of slow disbursement projects in the JBIC projects remains high and some projects have been stagnating.

## **III. Streaming of Disbursement Process**

Backlog of special accounts still remains high. It is amounted Rp. 3-4 billion of backlog per month that cannot be replenished due to obstacles faced in preparing application for replenishment.

## **IV. Recognizing the Need for the Roll Over of Unspent Funds in the Budget Approval**

Government's budget process for projects financed by foreign aid need to recognize the reality of multi-year contracts and the need for allowing automatic roll-over of unspent budgeted amounts into the next fiscal years.

According to Presidential Decree No. 42 of 2002, the budget approval document starting FY 2003 will disallow an automatic roll-over of unspent budgeted amounts for foreign financed projects into the following year(s). This new regulation is likely to delay project implementation and significantly slow down disbursements beginning 2004.

## **V. Combating Corruption in Development Projects**

Following the Country's crisis, the issue of systemic corruption in the project implementation has become a major concern. This has become even more difficult because we are in the transition of decentralization in which Lenders have to work with almost 400 local governments.

## **VI. Mainstreaming of the Project Implementation Project Readiness Criteria**

Experience has shown that part of the problem also lies in the inadequate implementation readiness of the project at the time of their approval by the Government and Lender alike. Future projects should therefore be judged to be *implementation readiness* before negotiation/approval. In the CPPR, it was agreed to support the application of uniform implementation readiness criteria before approval (these relate to setting up of implementation unit and their staffing, commitments of counterpart funds for the first year, preparation of plans and funding for land acquisition and resettlement for the first year, preparation of procurement and financial management arrangements for the first year, having project management



manuals/project management manuals in place, and other monitoring and evaluation activities).

*Mr. Chairman,  
Distinguished Delegates,  
Ladies and Gentlemen,*

The planning cycle in its process should be continuous and become a closed loop. However, in practice we hardly find a process in form of continuum. It has been good and sophisticated in each isolated activity, but it lacks in consistency in its full cycle. The most frequent problem that has always been found is ‘evaluation is left behind’. Or, when the evaluation was done, it had no impact, because it seldom was used to improve the planning for such program or project in the future. The positive and negative lessons have not been used to improve coming programs or projects. Therefore, the improved understanding of the achievement of government activities, and in particular, development projects, will enhance the ability of departments/line agencies as a whole to allocate and manage resources in a more effective manner.

Since the type of problems and obstacles faced in the implementation of projects financed, by different donors are similar, GOI and major donors (JBIC, ADB, and IBRD) have to cooperate to follow up the progress that has been made in solving the actions agreed. In addition, it is needed to identify and to prepare concrete actions in priority areas where progress is lacking, and to prepare for actions to address the new issues that have emerged recently.

The GOI has recently raised concerns about slow disbursement of many ODA financed by major donors. Slow implementation of projects also raises concern about the achievement of intended benefit of projects and entails cost to the government and project beneficiaries. Experience has shown that a part of the problems also lies in inadequate implementation readiness of the project at the time of their approval by the government and donors alike. Future projects should therefore be judged to be ready for implementation before negotiation/approval. Through the coordination between GOI and the major donors, it was agreed to support the application of uniform implementation readiness criteria before approval. (These relate to the setting up of implementation units and their staffing, commitment of counterpart funds for the first year, preparation of plans and funding for land acquisition and resettlement for the first year, preparation of procurement and financial management arrangements for the first year, having project



management manuals/ project administration in place, and other monitoring and evaluation activities).

In the current reform-era, good governance has become an unavoidable agenda not only for the government, but also for the rest of society including other corporate institutions. Performance Evaluation in its logical-framework includes measurable indicators. If they were established from the very beginning of the planning process, they would provide an opportunity for all members of society to exercise accountability because the process is transparent. The key word of success of good governance is commitments from all parties including government and society. Good governance will be effective if coordination and clear interpretation are in place.

Since evaluation has been less developed compared to planning, expertise in conducting evaluation is very scarce in line agencies as well as in regional governments. Because skills and expertise in the planning have accumulated relatively sufficiently. Planning exercise is “easier” compared to evaluation exercise that requires more factors. Evaluation needs expertise, data, methodology, analysis, budget, and many other back-up supports.

Evaluation is an art. There is no single best way to do evaluation. To build-up the skills and expertise, it is recommended to accumulate experience in the field of ‘planning’ first before developing the sense to evaluate.

The effort of evaluation needs coordination between cross-sectoral institutions and regional programs. The experience shows that many coordination efforts are not optimally conducted. This weakness has become one of the factors that hamper the result of evaluation. To conduct an evaluation study, besides other factors, a certain amount of budget is required to back up the activities. Executing evaluation will require quite a big amount of money. Therefore, experience has shown that budget allocation for executing an evaluation study has always been left behind. The available budget has been mostly allocated for “planning”. In view of monitoring and evaluation activities, Project Implementation Units seem to have interest on how to reach the project objectives, but seems to be interested in building up a data bank. Building up a data bank requires a rigorous effort within monitoring and evaluation. This loophole actually should be compensated not by the project unit itself, but by other structural (permanent) institutions within the structural organization in line agencies or regional governments. By having this arrangement, data collection in the form of regular monitoring will be available on timely basis.



One of the primary steps is that all program or project proposals have to be consistent with all planning documents (PROPENAS, PROPEDA, and RENSTRA<sup>2</sup>). Besides that, the proposals should come together with its logical framework. The logical framework, consisting of elements such as inputs, outputs, results/outcomes, benefits and impacts, contains all measurable indicators that can show and demonstrate the importance of achievement to the project or program. This measurement also has a function of accountability. Project proposal, which lack of a logical framework should be rejected. If project monitoring shows under-performance than strict punishment should be made. Samples of punishments may vary, from reducing budget allocation for the following year to replacing the project management. On the other hand, a project, which performs better than expected then a reward may be granted. There are many alternatives for rewards, for instance a special announcement on the project manager achievement.

Experience in Indonesia confirms that success in monitoring and evaluation depends on the awareness, appreciation and common understanding by decision makers and evaluation managers of the importance and necessity of evaluation, and on the subsequent commitment of adequate financial and human resources to support a professional, dedicated and effective cadre of evaluators.

*Mr. Chairman,  
Distinguished Delegates,  
Ladies and Gentlemen,*

Finally, let me conclude my speech by - once again - expressing my great pleasure for attending this workshop to share our experience in managing ODA loan, particularly from our first and major donor (Japan) over a period of more than 30 years. We believe that Japan's ODA has significantly contributed to Indonesia's economic development, improved people's welfare and reduced poverty among the poorest.

However, it is also our concern on how to improve the mechanism and procedures for acquiring ODA loans including planning, the selection process, utilization on implementation, supervision, monitoring and evaluation; and further our concern is how to manage ODA loans in a more

---

<sup>2</sup>) Propenas = Program Pembangunan Nasional, is a 5 years national development plan; Propeda = Program Pembangunan Daerah, is a 5 years regional development plan; Renstra = Rencana Strategis is a strategic plan of line agency annually.



transparent, accountable manner, and in line with the development priorities in Indonesia.

Thank you very much for your attention.

Tokyo, November 12, 2003.

