

Evaluation Summary

Policy-based loan on maritime logistics sector in Indonesia

Country: **Indonesia**

Sector: **Transport/Maritime Logistics**

Evaluator: Ecorys

Date of the evaluation: 09/2020 to 02/2021

Key data on AFD's support

Project numbers: CID 1070 (DPL 1); CID 1072 (DPL 2); CID 1073 (TA)

Amount: € 300 million (loan) + € 400,000 (TA – grant from FEXTE fund)

Disbursement rate: 100%

Signature of financing agreement: 03/2017 (DPL 1) and 11/2018 (DPL 2)

Completion date: 11/18 (loan); TA still ongoing (till 12/2021)

Total duration: 2 years (loan component)

Context

As the largest archipelagic country with a population of 270 million inhabitants, transport and maritime logistic sectors are at heart of Indonesia's development policy and crucial for reducing the territorial inequalities between the islands. Sector performance has been weak, leading the Government to commit to **regulatory and policy reforms** in 2015.

The World Bank launched a DPL operation in 2017 to support those reforms, which AFD and KFW joined later.

Actors and operating method

Contracting authority: Ministry of Finance.

Executing agency: Coordinating Ministry of Economic Affairs (CMEA).

The loans consisted of un-earmarked budget support.



Objectives

The programme focused on **improving the logistical performance of the maritime sector** and promoting and securing investments in that sector, especially from private actors.

Expected outputs

- Strengthening ports' governance and operations
- Enabling a competitive business environment for logistics service providers by increasing competition
- Making trade processing more efficient and transparent

Performance assessment

Relevance

Overall, the DPL Logistics has been a relevant programme. It has been consistent with Government's strategic priorities, and the reform has benefited from strong government ownership. The focus of the programme has also been consistent with AFD strategies. AFD intervention was relevant: it supported the right reform with the right instrument.

For the Government and the DPL Logistics partners, the use of the budget support instrument was logic, following a long tradition of using that instrument relatively successfully in the country. Given the particularly demanding project selection procedures in Indonesia, direct project support in the sector would have been a less efficient alternative, and as such a less attractive option for a relatively small development partner like AFD in Indonesia.

For AFD, joining a DPL led and coordinated by a multilateral agency like the World Bank constituted an adequate approach. By doing so however, its role in the policy dialogue remained fairly limited. This, together with shortcomings in design and sequencing, limited somewhat the potential for AFD to bring real added value.

Coherence

The overall internal and external consistency of the DPL Logistics has been strong. In particular, the policy matrix was well aligned to government policies. In terms of internal consistency, the TA provided by AFD was an important complement to the associated policy matrix, because the reform was putting more responsibilities on the shoulders of the newly created port authorities, which have been weak institutions.

Effectiveness

The DPL Logistics had positive effects on government capacity in all the pillars of the policy matrix. In particular, government capacity to improve port efficiency and governance has improved. The roles of port stakeholders have been clarified, albeit slowly. The entry of private port operators has been increasing, as shown by the increased number of private investors in ports and logistics operations. The effectiveness of the TA provided by AFD was fairly limited though. It was relatively short-term and it did not include enough active support to structural changes.

Efficiency

The efficiency of the loan was highly positive, while the efficiency of the TA component was lower. The size of the loan was large enough by Indonesia standards and, as importantly, it did not lead to additional transaction costs for the Government of Indonesia, partly because it was well coordinated and harmonised with the World Bank approach and also because AFD proved to be a flexible and predictable partner.

In such a context, AFD's engagement in the policy dialogue was fairly limited and AFD had a modest influence on the content of the policy matrix.

AFD's TA intervention through Grand Port Maritime du Havre (GPMH) was executed smoothly. The integration of the GPMH training material into the Indonesia training curriculum is still work in progress.

Sustainability

Sustainability of the results achieved under the DPL has been satisfactory. Indonesia's efforts to strengthen maritime logistics have outlived the DPL Logistics cycle and have had further (positive) effects beyond 2018, the year the DPL ended. The strong alignment and ownership of the policy matrix has ensured the sustainability of the effects. Government commitment to improving maritime logistics has remained strong despite the reduced engagement of two important actors in the DPL Logistics reforms, the CMEA and the World Bank.

Added value of AFD's contribution

The added value of the AFD intervention as a development action has been limited. Through its financial support, policy dialogue and TA, AFD influenced only modestly the content/ambition of the DPL. AFD's "niche" focus on environment sustainability has generated some modest added-value in the short term, but contributed somewhat to the emerging emphasis put by the government and ports' management on this issue, as observed in particular since 2019. Meanwhile, support to the DPL Logistics partners has generated some added value for France/AFD, mostly in terms of positioning AFD better in the sector for the future.

Conclusion and recommendations

Conclusion

Overall, the DPL Logistics has been a relevant programme, consistent with the Government of Indonesia's strategic priorities, and the reform has benefited from strong government ownership. The focus of the programme has also been consistent with AFD strategies. The programme achieved its objectives: it had positive effects on government capacity in all the pillars of the associated policy matrix. As a co-financier of a World Bank-led operation, AFD's added value was fairly modest.

Recommendations

In light of this positive assessment and in view of the interest expressed by the Government of Indonesia and some development partners to continue using the development policy lending instrument in Indonesia, the evaluation has made a series of recommendations to AFD focused on identified shortcomings which, if correctly addressed, could increase the added value of AFD, in particular:

- A more explicit intervention logic should be defined, based on a detailed contextual analysis.
- For AFD, joining DPLs led and coordinated by a multilateral agency like the World Bank, is an adequate approach. By doing so however, its role in the policy dialogue might remain fairly limited. In such a setting, the choice of AFD's thematic focus in the programme needs to be based on a careful assessment of the level of policy alignment between the multilateral agency and the AFD on that topic.
- In parallel, an enhanced role in policy dialogue is likely to require a stronger local presence, with ideally a project manager based in Jakarta.
- Any future DPL operation should include a TA component. Consideration will have to be given to increase the size of the TA programme, to ensure that the support is more structural and long-term in nature.