

Third Party Evaluator's Opinion on Rural Electrification Project (2)

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Relevance

There is no doubt that rural electrification will reduce poverty, improve health and education of the beneficiaries and their families, and can reduce the rate of urbanization. The project has also proven this through the impact survey conducted by the project, which has shown the relevance of this project at time of implementation until now and in the future. Nevertheless, poverty is still so large in actual figures¹, despite Indonesia's commitment and ability to reduce poverty in percentage at the national level. Significant disparities (between regions, also between urban and rural areas²) still and will continue to exist for some time. Poverty eradication is the main priority of the Indonesian national development program (*Propenas*), and will remain a priority of the new government under president Yudhoyono. Hence, provision of infrastructure for the poor will continue to play a vital role in enabling the poor to conduct economic activities, to get themselves out of poverty and to increase their access to basic social services.

With the decentralization of Indonesia launched in the year 2000, poverty eradication has also become the local governments' priority, as stipulated in law no 25/2000. Local governments with sound poverty reduction strategies received special central government extra allocation of funds (*Dana Alokasi Khusus*). Appropriate poverty reduction strategy will also increase the district's or city's eligibility to receive direct foreign grants or very soft loans. With the MDGs increasingly becoming the overarching goals of almost all multi- & bilateral donors, infrastructure for the poor on a cost-sharing basis has also become more and more eligible for development grants.

Efficiency

The project planned to finish in 24 months, but actually it took 37 months, with the increase of Rp. project cost yet a decrease in yen cost. Since it had increased significantly its coverage of villages, transmission lines and small diesel generators, this project can be seen as efficient for its time and condition of implementation. Yet the efficiency of similar projects in the future can be better, with present decentralized situation and increased opportunities mentioned previously.

First, in planning and implementation: it is not enough to give priority to on-grid installations anymore, as most severe poverty exist mainly in remote and isolated areas, which need more off-grid systems. Hence more effort is needed to combine installations on higher and lower economic efficiency within one district to enable a cross-subsidy or multi-financing system. Decentralizing project leadership to district level will also allow a more holistic and efficient planning with other poverty alleviation infrastructure projects (rural roads, clean water, fishing boat ports, etc).

Second, in the financing system: it is not appropriate anymore to calculate it solely on economic efficiency. It should be combining JBIC loans for the larger socio-economic potential areas, with poverty alleviation budgets from central/district governments or grants from JICA/other bilateral donors for poorer villages still low in economic potential, both within the same district. This "affirmative action" is necessary for just an agreed limited time until the villages have improve their economic potential to be able to increase their individual and communal ability to pay.

¹ According to the Indonesian MDGs (Millennium Development Goals) Report, 2004, in the year 2002 approx. 10,3% of the population or 21,8 million people live in extreme poverty or \$1 a day, but 54% or 115 million people live below the \$2 a day national poverty line.

² Also from the Indonesian MDG Report, 2004: Jakarta has 4 % while Papua has 55% of its population living below national poverty line, and approx. 72% of all those below poverty line live in the rural area.

Third, in the O & M system, with more ownership of local governments with their cost sharing requirements, the motivation for more efficient O & M system will also increase.