

Document of
The World Bank

Report No.: 17397 IND

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED LOAN
IN THE AMOUNT OF US\$225 MILLION
TO THE
REPUBLIC OF INDONESIA
FOR A
KECAMATAN DEVELOPMENT PROJECT
APRIL 21, 1998

Rural Development and Natural Resources Sector Unit
Indonesia Country Department
East Asia and Pacific Region

CURRENCY EQUIVALENTS

Exchange Rate Designated for Negotiations March 26, 1998

Currency Unit = Indonesian Rupiah
Indonesian Rupiah = US\$.0002
US\$1 = 5,000 rupiah

FISCAL YEAR OF BORROWER
APRIL 1-MARCH 31

ABBREVIATIONS AND ACRONYMS

AMDAL	Environmental Impact Assessment
ANDAL	Environmental Impact Statement
APBD	Annual district development budget
APBN	Annual central government development budget
Bangdes	Block grant to villages (bantuan desa)
Bappenas	National Planning Agency
Bappeda	Provincial/district Planning Agency
BANGDA	Directorate General for Regional Development, MoHA
BKKBN	National Family Planning Program
BPKP	Central Audit Bureau
BPS	National Statistics Bureau
BRI	Bank Rakyat Indonesia
Bupati	District head
DATI 1/2	Province/district government
DIP/DIPDA	Central/regional project budgets
DPUK	Kabupaten Department of Public Works
CAS	Country Assistance Strategy
Camat	Subdistrict head
Dusun	Subvillage unit, or hamlet
INPRES	Presidential Instruction (type of central block grant)
IDT	Program for left-behind villages (Inpres desa tertinggal)
Kabupaten	District
Kecamatan	Subdistrict
KDP	Kecamatan Development Project
Kepala desa	Village head
KPKN	Local Office of National Treasury
LKMD	Village Council (Lembaga Ketahanan Masyarakat Desa)
LSM	NGO (Lembaga Swadaya Masyarakat)
MOF	Ministry of Finance
MoHA	Ministry of Home Affairs
MPW	Ministry of Public Works
NGO	Non-governmental organization (same as LSM)
PKK	Official women's groups
PMD	Directorate General of Community Development, MoHA
PMU	Project Management Unit
PODES	Village yearly survey (potensi desa)
P3DT	Village Infrastructure Project
Pimpro/PJOK	Project Manager (pimpinan proyek)
RKL	Environmental Management Plan
RPL	Environmental Monitoring plan
SOP	Standard Operating Procedure
SPAPB	Grants from central to local government
SUSENAS	National Expenditure Survey of households
UDKP	Kecamatan Council of Village Heads
UKL	Environmental Management Procedures
UPL	Environmental Monitoring Procedures
VIP	Village Infrastructure Project
WSSPLIC	Water Supply and Sanitation Project for Low Income Communities

Vice President: Jean-Michel Severino
Country Director: Dennis de Tray
Sector Manager : Geoffrey Fox
Task Team Leader/Task Manager: Scott Guggenheim

Indonesia
Kecamatan Development Project

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INDONESIA
KECAMATAN DEVELOPMENT PROJECT

Project Appraisal Document

East Asia and Pacific Region
Indonesia Country Department

Date: April 21, 1998	Task Team Leader/Task Manager: Scott Guggenheim
Country Director: Dennis de Tray	Sector Manager: Geoffrey Fox
Project ID: IDPE 45337 Sector: Rural Development	Program Objective Category: Poverty/Rural Development
Lending Instrument: SIL	Program of Targeted Intervention: <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Project Financing Data	<input checked="" type="checkbox"/> Loan	<input type="checkbox"/> Credit	<input type="checkbox"/> Guarantee	<input type="checkbox"/> Other [Specify]
For Loan:				
Amount (US\$m): 225.0				
Proposed terms:				
Grace period (years): 3	<input type="checkbox"/> Multicurrency	<input checked="" type="checkbox"/> Single currency		
Years to maturity: 15	<input type="checkbox"/> Standard Variable	<input checked="" type="checkbox"/> Fixed	<input type="checkbox"/> LIBOR-based	
Commitment fee: 0.75%				
Service charge: %				
Financing plan (US\$m):				
Source	Local	Foreign	Total	
Government	42.0	5.0	47.0	
IBRD	175.0	50.0	225.0	
Ln. 3888 (start up financing)	0.6	0.4	1.0	
	Total	217.6	55.4	273.0
Borrower: Government of Indonesia				
Guarantor:				
Responsible agency(ies): Bappenas				
Estimated disbursements (Bank FY/US\$m):				
	1999	2000	2001	2002
Annual	30	70	110	15
Cumulative	30	100	210	225
For Guarantees:				
n.a.	<input type="checkbox"/> Partial credit	<input type="checkbox"/> Partial risk		
Project implementation period: FY99-FY02 Expected effectiveness date: 30/7/98 Expected closing date: 30/09/02				

A: Project Development Objective

1. Project development objectives and key performance indicators (see Annex 1):

(a) Project development objectives are to:

- raise rural incomes
- strengthen kecamatan and village government and community institutions
- to build public infrastructure through labor intensive methods

(b) Performance indicators are in Annex 1, and relate to inputs, outputs and impacts.

B: Strategic Context

1. Sector-related Country Assistance Strategy (CAS) goal supported by the project (see Annex 1):

CAS document number: 1661-IND. Date of latest CAS discussion: June 13, 1997

The project will contribute to four major CAS objectives: poverty reduction, efficient delivery of basic services, participation in development planning and implementation, and decentralization.

Indonesia's current crisis has brought to the fore several themes discussed but not highlighted in the CAS that are of relevance to the proposed Kecamatan Development Project. Although Indonesia has made significant progress on poverty reduction, many of the gains are fragile and easily reversed. Clustering around the dollar-a-day poverty line is high, which means that small drops in income translate into substantial numbers of people newly falling below the poverty threshold. Both the economic recession and the drought caused by El Nino virtually ensure that this will happen. GOI and Bank strategies to address these problems hinge on labor-intensive work programs and direct cash payments to the poor, as KDP will do. The crisis has also highlighted many of the problems in Indonesia's economic governance; again, these were signaled in past strategy documents, but their significance was downplayed because of the sustained growth record. Many of the right conceptual tools are in place for improving local governance, such as a national decentralization strategy and an institutionalized, bottom-up planning process. KDP will strengthen decentralized planning at the lowest levels of the administrative system, though it will not resolve the structural problems of a relatively unaccountable and opaque administrative system. Changes in the countryside have weakened the traditional bases of rural social structure: reduced authority of traditional leaders, commodification of customary land tenure systems, high rates of rural-urban migration, etc. Yet many of the government's "safety-net" programs presume that traditional organizations remain strong enough to cushion the impacts from the recession. KDP block grants to projects planned at the lowest levels of Indonesian social structure are intended to provide the resources and responsibilities to fortify grassroots organizations. Improving the capacity, transparency, and responsiveness of local government are basic conditions for Indonesia's future recovery and growth.

2. Main sector issues and Government strategy:

- The government's overall poverty strategy has the following main elements: (i) poverty reduction through financial transfer programs, such as the IDT program for "left-behind" villages, and highly subsidized small business credit administered through BKKBN (family planning); (ii) extending the scope and quality of basic social services; (iii) regional development programs to correct for poverty-related spatial inequalities; (iv) developing better methodologies and information systems for identifying and targeting poor groups; and (v) support for local economic initiatives and labor-intensive civil works. Total national (GOI) poverty reduction funds channeled through the IDT umbrella amounted to approximately Rps. 520 billion/year. These reached 28,000 IDT villages. Some of these programs overlap with the "crash" program being prepared and implemented as part of

Indonesia's response to the financial crisis. KDP is expected to become the government's umbrella for community-based poverty relief.

- **Rural development** issues are (i) developing efficient ways to provide sustainable rural infrastructure and economic activities to sub-district levels; (ii) expanding demand-driven service delivery; (iii) improving market integration through better communication and more information, especially for poor farmers in isolated areas; (iv) the multiplication of mechanisms and approaches for delivering essentially identical community infrastructure, particularly rural roads and village water supply; and (v) growing (though still unsystematic) evidence from across the country also suggests that credit access for the rural poor is not readily available; expanding rural credit markets through increased competition between commercial banks is becoming an increasingly important sectoral concern.
- **Social** issues are (i) improving capacities, responsibility, and access to resources for local-level decision-making; (ii) reducing the lack of government transparency for non-government stakeholders; and (iii) improving the degree of beneficiary ownership of development investments. Government strategy for the first and third of these problems consists of moving responsibilities to lower administrative levels that began with a national pilot decentralization program to twenty-six kabupatens. No government strategy exists yet to increase transparency. However, there are a number of regulations and laws that provide a strong mandate for greater participation and consultation, including, *inter alia*, regulations governing the national consultative planning system (P5D); the law on spatial planning, and the environmental assessment regulations.
- **Infrastructure** issues include (i) cost-effective provision of infrastructure; (ii) quality; (iii) maintenance; (iv) use of labor-intensive methods for employment generation; and (v) responsiveness to local needs.

3. Sector issues to be addressed by the project and strategic choices:

KDP will develop improved systems for measuring poverty reduction from project investments. Targeting the project on districts and kecamatans (subdistricts) with high proportions of poor villages directly addresses poverty reduction goals. Strengthening kecamatan level governments and direct financing of community level activities supports both decentralization and participatory approaches that will improve local-level transparency and ownership. The project will also determine the feasibility and mechanisms for improving local revenue generation so that local decision-making relies less on external transfers, including options to unify and transfer downwards the various Inpres grants. Subdistricts traditionally have not handled such block grants. Nevertheless, their capacity has developed somewhat in recent years. Subdistricts are the last government level with some measure of accountability to local communities. Developing their capacity and promoting their responsiveness to constituents are high priorities for Indonesia's rural administration.

KDP is a core part of the medium and longer-term response to rural development. The project will (i) introduce a competitive system of project proposals by villages within the kecamatans; (ii) introduce demand-driven (and paid) technical assistance; and (iii) provide temporary funding for economic activities and grants for infrastructure. Experience across sectors in Indonesia shows that demand-responsive, community-built infrastructure in rural villages costs less, is better maintained, and meets or exceeds quality standards for comparable infrastructure provided by public sector agencies.

C: Project Description Summary

1. *Project components (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown):*

<u>Component</u>	<u>Category</u>	<u>Indicative Costs US\$M 1/</u>	<u>% of Total</u>
<i>Kecamatan Development Grants</i>	Investments	221	81.0
	Technical/Implementation Assistance	9	3.3
	Service contracts	23	8.4
	Monitoring, reviews etc.	2	0.7
	GOI administration	16	5.9
<i>Policy Studies</i>	Technical Assistance	2	0.7
	Total	273	100.0

^{1/} Contracts are not subject to VAT taxes; therefore, the costs in this table do not include taxes.

2. *Key policy and institutional reforms supported by the project:*

The primary institutional reform supported by the project is the strengthening of the participatory planning process. Indonesia's bottom-up planning process (P5D) contains many of the right principles, but funding decisions remain the prerogative of higher levels of the system. Moving resources to kecamatans and villages shortens the lag between planning requests and funding availability, and ensures implementation of local priorities. Whereas the centralized delivery of early government development efforts may have undermined local institutions by removing their resource base and ability to deliver services to community members, KDP will strengthen local institutions by giving them resources and clear responsibilities. The review of the Inpres and local taxation (PBB) system should also result in more resources becoming available at the local level.

3. *Benefits and target population:*

- 725 kecamatans, selected from among the poorest in the country, will be assisted by the project. They comprise some 9,000 villages, with a total population of some 25 million people, though of course not all villagers will benefit;
- More efficient allocation of government investment resources based on local development priorities.

Poverty targeting is a controversial issue in Indonesia because much rests on the accuracy of survey statistics and the realism of a uniform poverty line in one of the world's most diverse countries. The target population for this project are people living in rural areas of poor kecamatans. Indonesia has a total of 3,800 kecamatans. They are distributed within 300 kabupaten, and together they contain 65,000 villages, 28,000 of them classified as poor (IDT). These numbers are daunting, but it is also known that the rural poor are relatively concentrated. Most live in areas with poor soils or insufficient water, or else where population densities are too high and landholdings too fragmented to allow a farming surplus even when soils are fertile. Thus, Java has the largest number of rural poor in its dense villages, even though the eastern islands have a higher incidence of poverty for people living on their less densely populated, poor quality soils.

Villages are classified as "poor" for the IDT program through PODES, the national survey of village potential that uses 26 indicators, a majority of which refer to the availability of public infrastructure, to code the poverty status of villages. These are typically combined with Susenas (expenditure survey) scores to determine village eligibility for poverty programs. Highly specific targeting is difficult because (i) the main statistical measures have aggregation, sampling, and reliability

problems, especially for sub-kabupaten targeting; and (ii) a majority of poor people do not live in poor villages even though the number of poor villages accounts for a disproportionate share of poor people. In addition, excessive reliance on statistical indicators alone leads to logistical problems for any project involving technical assistance since distances in Indonesia are large and access often poor. Such a reliance also ignores the diversity of cultural and natural environments in the archipelago.

Studies suggest that kecamatans are relatively homogenous in terms of poverty, and thus form a good basis for project targeting. In the eastern islands, for example, the poorest 33% of the kecamatans account for 55% of the poor desas. Susenas data representative to the kabupaten level were grouped over several years (1993-96) to generate a sample sufficiently large for results to be significant at the kecamatan level, thus permitting a ranking of eligible kecamatans. Combining the Susenas scores with PODES kecamatan rankings yields a list of priority kecamatans (i.e. bottommost 10%, 20%, etc.).

Project kecamatans and kabupatens will be clustered so that technical assistance can be provided at a reasonable cost. Minimum kecamatan population sizes for eligibility to participate in KDP are 15,000 except for 25,000 on Java, and with a special exception of 5,000 for Timor Timur, where higher thresholds would exclude virtually all kecamatans. A long list of eligible kecamatans will be verified and shortened through consultations with the provinces and kabupatens to make the final annual list since local agencies can make a more informed selection. The list of Year 1 Kecamatans (1998/99) has been agreed and is in project files. The lists for Year 2 shall be agreed with the Bank by February 1, 1999, and for Year 3, by February 1, 2000.

Self-targeting mechanisms (e.g. wages at local rural minimum wage for infrastructures, and repayment of credits with interest) in KDP will orient project funds towards the poor. Past experience with this targeting system has been positive for the Bank-supported VIP projects. CARE's review of VIP participants found that 90% of the project's participants owned less than 0.5 ha or were landless; 32% reported earning less than the basic minimum; and 71% of village respondents themselves reported that the project's workforce did come from the poorest segment of the villages.

4. Institutional and implementation arrangements:

Overall coordination, budgeting, and monitoring responsibilities will be with the P3DT Secretariat of Bappenas, the national planning agency. The Secretariat is under the section responsible for regional development. An inter-ministerial coordination committee chaired by Bappenas resolves coordination problems. It includes director-level representatives of Public Works, Home Affairs, Finance, Statistics, Education, Health, and Agriculture. Two units will be formed within the Secretariat to manage the project: (i) a planning, monitoring and training unit; and (ii) project implementation. As KDP is expected to evolve into a sustained national program, the monitoring and training unit would later provide the same services for the nationwide program.

The project will be implemented at the kecamatan (subdistrict) level. PMD will provide an administrative manager (pimpro). Grants will be transferred from the Local Treasury office (KPKN) to the local branch office of a national development bank (BRI), a system successfully used under VIP 1&2. The kecamatan planning council will review project proposals prepared by communities and reach agreement on which ones receive funding from the KDP grant. Withdrawals from the KDP account with BRI will be made against the signature of the village council head, the kecamatan facilitator, and the UPK. All funds will be owned by the individual villages implementing the subproject rather than the kecamatan. Other than a small, temporary kecamatan administrative unit elected by the UDKP to manage their day-to-day affairs, no new kecamatan or village institutions are created by the project, but substantial new functional responsibility is being transferred to the kecamatan and village councils.

Technical assistance and services for implementation will be provided through four types of contracts: (i) National and province-level management consultants, who will help the government oversee the program, supervise the kabupaten engineers and kecamatan facilitators, and strengthen coordination with other agencies and with other IDT programs; (ii) Kabupaten Engineers, who will review village subproject proposals and supervise the engineers contracted by villagers; (iii) Kecamatan Facilitators hired at the provincial level under service contracts, to support participatory planning and implementation in the kecamatan, village, and sub-village levels, and to review LKMD economic proposals; and (iv) Technical assistance hired by villages for civil works as needed for their subproject design. The first three types of contracts will be through Bappenas. Village-level TA will consist of individual contracts entered into and paid by LKMDs from planning funds held by the Kecamatan facilitator and, later, from the grant allocation.

Technical assistance for monitoring and poverty studies will also be contracted by the P3DT Secretariat.

D: Project Rationale

1. Project alternatives considered and reasons for rejection:

Strategic choices are (i) continuing the program as one-off grants, as in VIP; (ii) greater involvement of sectoral agencies; (iii) adoption of a contractor-based VIP model, as in the VIP-OECF; and (iv) a smaller project scope or a more extended learning period.

The VIP grant program was designed to assist poor villages, each receiving the grant only once. Continuation of such targeting was not intended because it would eventually overcompensate the target group but exclude poor though not impoverished villages. Improving the targeting system is especially necessary because of the current crisis: many of the most badly affected villages, whether hurt by drought or by recession, may not be among the villages currently classified as IDT. Also, VIP's *de facto* restricted infrastructure menu limits opportunities for the project to address diverse local needs. KDP succeeds VIP and makes VIPs mechanisms sustainable.

Sectoral agencies have greater technical expertise and offer economies of scale not available to kecamatans. However, technical agencies are already stretched, and their presumed economies of scale are not realized in practice at a village-level. This was demonstrated by the alternative VIP-OECF model, in which villages identify civil works and private contractors execute them under contract with sectoral agencies. This approach has had several management and monitoring difficulties. Comparative reviews of water supply and rural roads also found that in most parts of Indonesia, community-based approaches on average produce infrastructure that costs less and is at least as high quality as working through contractors. Even so, a contractor-based system seems more suited than the approach proposed under KDP for low-density kecamatans, where any meaningful water or transport infrastructure involves long distances and/or specialized technical equipment, and coordination among villages is difficult and time consuming; thus these areas will not be included in the KDP.

The strongest alternative scenario is to introduce KDP gradually, so that lessons brought back from the field can be used to devise solutions to the project's inevitable start-up problems. Arguments for the scope of the current project are that (i) the core institutional objective of the project is to commit at a systemic level to the decentralization reforms implicit in the project's design; and (ii) VIP 1&2 provided a successful test of the basic project mechanisms in 4,000 villages over a three year period, while the fourth year will cover some 3,000 villages as of May, 1998. Once a tested system of this type is in place, the success of any one village/kecamatan is independent of the number of kecamatans in the program. Therefore, the scale-up from 350 kecamatans the first year, adding 375 the second year and the 725 kecamatans assisted also for a third year, seems warranted so as not to delay the expected benefits. KDP includes annual reviews to assess the project's pace and, if necessary, to adjust the scale-up schedule.

2. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned):

Sector issue	Project	Latest Supervision Form 590 Ratings	
		Impl. Prog. (IP)	Dev. Obj. (DO)
		(Bank- projects only)	
Feasibility of quality control in large-scale community-based management of infrastructure projects	Village Infrastructure Projects 1&2	HS/S	HS/S
Local-level capacity and institutional responsiveness	Local Institutions and Participation Sector Study	NA	NA
Scaled-up use of NGOs and participatory planning approaches	Water Supply and Sanitation for Low Income Communities	S	S
Utility of community-level facilitators	Integrated Pest Management Community Health and Nutrition 3 Bengkulu Area Development (Starting up)	Completed S	S
Other development agencies GTZ, Decentralization Monitoring IFAD, Support for Economic Investments/ P4K program SwissAid, AusAid, Community-built infrastructure in Eastern-Indonesia		NA	NA

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

3. Lessons learned and reflected in the project design:

KDP builds on a broad range of studies and project experiences, both those financed by the Bank and a large number from other agencies. While KDP is not, strictly speaking, a social fund, it draws on many of the lessons gained from experience with social funds and other kinds of demand-driven investment projects. The Bank's 1997 review of social funds found that they are good ways to target the poor, provide basic services more cheaply and speedily than can public sector agencies, and report somewhat fewer than average implementation problems. Some particularly important design lessons for Indonesian projects from these studies and project experiences are :

About village organization and capacity

- Though varied, community capacities are nearly always higher than official agencies initially believe;
- Effective use of local organizations requires giving them resources and responsibilities;
- Most Indonesian communities can satisfactorily manage simple administration, procurement, and bookkeeping, and can comply with national standards provided they are given appropriate formats;
- Participatory planning takes place most effectively at sub-village levels;
- Kecamatans are the last administrative level where rural communities have direct access to government decision-making.

About designs for community-based projects

- Clear financing lines are critical to the success of community-based projects;
- Good system design minimizes the number of approval steps required for project activities;

- Assistance by qualified NGOs provides better participation (esp. for women and marginal poor) and higher project demand-responsiveness;
- Development projects, particularly those requiring local ownership, need better approaches than those used by sectoral agencies for transparency and dissemination of information for local control and accountability systems to function effectively;
- Technical assistance needs to be on-site.

About the role of central government

- Government involvement should concentrate on frameworks, letting community organizations, private companies, and NGOs manage execution;
- Decentralized implementation requires strong central project management units to establish and enforce project rules;
- Technical and financial audits provide useful quality checks for community-based projects, but if not done properly they run the risk of introducing excessively complicated report formats and administrative requirements;
- Indonesia lacks strong monitoring capacities and projects should not depend heavily on monitoring for their programming and management. However, strong in-house management information can provide the basis for structuring periodic reviews.

Because KDP is a follow-on to the Village Infrastructure Projects 1&2, it is worth highlighting some of the lessons from those two particular projects:

- i) VIP Field Engineers served both as community facilitators and as engineering technical assistance. However, community involvement (esp. women) could be improved, as could the technical quality of the civil works. KDP splits the two functions;
- ii) transparency and information disclosure improved over time and helped local social controls work, but there is substantial scope for expanding the scope and accessibility of project information;
- iii) the effectiveness of internal quality control in the field varied; particularly problematic was engineers' and supervisors' unwillingness to report problems;
- iv) VIP's MIS proved to be highly effective and is replicated in KDP. This includes a centralized project status database, "problems" database, monthly field reports and quarterly project reports;
- v) The VIP approach does not work well in parts of Sumatra, where high-paying alternatives and hierarchical social structures make community-based development less attractive to villagers.

Lessons from the KDP pilot project. Beginning in June, 1997, VIP funded a 6 kecamatan pilot project that was a small learning laboratory for KDP. The pilot is almost complete. Some recommendations from the pilot are that: (i) the number of meetings should be limited; (ii) there should be few if any opportunities in the kecamatan council's decision-meeting to modify village proposals; (iii) technical verification of proposals is important (sectoral agencies can assist); (iv) there should be set minimum and maximum sizes for subproject proposals; (v) there should be a maximum number of projects allowed from each village to encourage screening at the village level; (vi) few women will participate and their proposals will drop out at higher-level meetings unless special arrangements are made; (vii) PMD facilitators will require on-the-job skills training and some guidance; (viii) formats and procedures for preparing and reviewing village proposals must be extremely simple and transparent; (ix) even at low-levels of the system, decision-meetings should include representatives from outside the apparatus to broaden the base of local representation.

4. Indications of borrower commitment and ownership:

- Assignment of a strong central management unit
- Organization and frequent meetings of technical steering committee
- Leadership on providing detailed design of project innovations

5. Value added of Bank support in this project:

Bank value added comes from (i) assistance with improved participation and methodologies for transparency; (ii) provision of disinterested technical advice, critical review, field supervision, and follow-up dialogue to provide independent progress feedback to GOI agencies; (iii) funding at a critical time.

E: Summary Project Analysis (Detailed assessments are in the project file, see Annex 8.)

1. Economic (supported by Annex 4):

Cost-Benefit Analysis : NPV=US\$ million; ERR= 20% Cost Effectiveness Analysis:
 Other (SWOT)

Cost-benefit. The economic rate of return of small public infrastructures undertaken by villagers normally exceeds 20%. In the case of bridges, ERRs may exceed 50%. Economic activities often yield returns greater than 20% in less than a year, and, since funds are to revolve, the loan funds may achieve 60% returns on economic activities. Required payment of some 20% interest on funds borrowed for economic activities should ensure a minimum 20% return. There is a risk of failure, from poor construction quality and maintenance or the failure of economic activities. Risks are larger for agricultural activities that can be affected by bad weather or a market glut. However, even if the fiscal cost of raising revenue to repay the World Bank loan is included, kecamatan returns would in no case be less than 10%. By not pre-setting the KDP shares for infrastructures and economic activities, villagers are free to choose the activities with the highest returns.

Cost-effectiveness. Infrastructures built by the communities cost some 20% less than when built by contractors to Dinas TkII, and are more likely to be maintained by the community, thus lasting longer as well. The system allows villagers to select their priorities, thus avoiding mismatches between public provision and private demand, and mobilizes contributions from the community (even more than 25% in some cases under the pilot KDP), contributions that would not be available for subprojects implemented by public agencies. Sub-loans, expected to carry a 20% market interest rate, are a more efficient way than grants of providing fiscal funds for high return activities that otherwise would not be funded. They will also provide capital to the poorer people until rural credit markets improve. However, the added technical assistance costs should also be factored in.

At Rp500-750m per year per kecamatan, and some 40,000-45,000 persons per kecamatan on Java, the cost per beneficiary may be no more than Rp20-30,000 (with 50% benefiting) or Rp40-60,000 (with only 25% benefiting); each kecamatan is assisted 3 years, but even the higher cost per beneficiary is lower than the cost per beneficiary under other rural projects. Furthermore, the system allows assistance to many villages in a short time: some 9,000 villages in 725 kecamatans over 3 years, though not each village may be assisted) compared to conventional projects (i.e. 250-370 villages are assisted over 6 years under the Bengkulu and Maluku development projects), thus greatly accelerating the accrual of benefits and development, and reducing overheads.

Fiscal impact. To the extent that KDP gives grants to kecamatans, there is no public cost recovery, though the increased activities would result in increased tax revenues from income and other tax bases. However, the fiscal impact of assisting poor kecamatans is minimized as a) fund leakage is minimized with the disbursement design, b) communities are responsible for maintenance of the infrastructures built, and c) a Bank loan at international interest rates and repayable over 15 years postpones the fiscal cost and deadweight losses of raising tax revenues to pay for the program. GOI funds only 10% of the grants in Years 1&2, though this rises to 20% in Year 3. The Government would find it difficult to finance more of the program in the current crisis.

2. *Financial (see Annex 5): NA*

Economic activities provide full cost recovery normally within a year, and the infrastructures provide economic cost recovery normally within 5 years.

3. *Technical:*

Technical issues mostly refer to the quality of the civil works, particularly roads and water supply systems; also, because of the expanded menus of KDP compared to VIP, a broader range of technical skills will be needed. Rather than prepare a comprehensive design manual which would be too large and also unreflective of the great variability in physical conditions in KDP provinces, KDP engineers will use standard designs available from local provincial and kabupaten public works offices as well as from NGOs and bilateral programs (esp. in the eastern islands). The field-tested VIP manual will also be used wherever relevant; it has lower technical (i.e. simpler) standards than those of the public works offices.

Strong engineering management and facilitators will be key to KDP's success. One provincial management consultant will be located in each provincial capital, though the first year he or she will be expected to cover two provinces. A relatively experienced engineer will be located in kabupaten capitals to review UDKP proposals, design the more complex works and feasibility studies, and to supervise the performance of TA contracted by the villages drawing on candidates pre-qualified by the kabupaten TA. All engineering contracts other than the village-level TA will be procured at the central government level by the P3DT Secretariat. Villagers will pay for field TA from their grants; final payment should not be made until civil works are completed and their quality certified by the kabupaten engineer and LKMD head. Availability of engineers is not thought to be a constraint, even for the kecamatan in the eastern islands, but their ability to work effectively in low-technology environments requires some reprogramming. Facilitators would have to assist with all administration and the economic activities.

4. *Institutional:*

- a) Executing agencies: Bappenas is an agency with a positive record of innovative approaches to project design and management. Procurement arrangements for KDP are familiar from the VIP experience. No institutional strengthening of the executing agency is required.
- b) Project management: Project Management will be through a small unit formed within the P3DT Secretariat. The unit will include two wings: (i) targeting, monitoring and training; (ii) project implementation. The central unit will support provincial management consultants, who will assist implementation and compile provincial, kabupaten, and kecamatan documentation.

5. *Social:*

No stand-alone social assessment will be carried out for KDP, but the project is a direct outflow of EACIF economic sector work on local institutions and participation. Preliminary reports from this study are in project files (the final report will be available May 1998). Main inputs from this work refer to (i) assessing local capacity; (ii) identifying decision-making units in local communities; (iii) reviewing the factors accounting for more effective facilitation; (iv) comparative study of alternative ways to deliver development information and rural services; (v) analysis of project features that account for consumer satisfaction and sustainability. A parallel study carried out on social capital, gender, and rural water supply identified many of the same variables that accounted for project success. More specific social issues relevant to KDP are:

Gender -- Gender issues in rural Indonesia are far from straightforward. In several areas, female enrollment in primary and secondary education now exceeds male enrollment by a statistically significant amount. A special women's organization (PKK) headed by the wife of the village chief is an official

participant in the LKMD and often plays an active role in village development. In practice, the role of women in community decision-making varies widely. Women are often silent at or excluded from village and kecamatan decision-making groups, and this is especially likely to be true when outside projects or government resources are involved. The current crisis will accentuate gender concerns because of (i) the stress already placed on fragile village safety nets; (ii) changes in off-farm labor markets that traditionally provided incentives for girls' and boys' education and employment; (iii) the overall absence of poverty programs targeted towards women workers.

Women in many areas play a significant role in village economic activities, and will benefit from KDP's economic investment opportunities. Opening up project menus to a broader range of options than village infrastructure is also likely to produce subproject proposals that reflect women's choices. KDP will improve opportunities for women's participation in developing proposals by (i) encouraging women's participation in early project development through dusun-level meetings; (ii) requiring that if there are two subproject proposals at least one come from village women's groups; (iii) limiting the role of the UDKP in final decision-making to technical verification and validation, so that project proposals are made in fora in which more women are likely to participate; (iv) adding two women (and one man) as non-voting members selected by each village to the UDKP.

Can gender awareness make much difference on the ground? VIP 1&2 recorded the number of paid days that men and women worked on the project. Even though more than 80% of VIP subproject selections ended up being roads or bridges, women's participation rose steadily over the projects' three year lifespan, rising from 15-17% in Year 1 to an average of approximately 30% by Year 3, with some kabupaten achieving rates that approach 50%. Since this trend was evident across all four Javanese provinces, it shows that a variable beyond a given cultural context is at work that explains women's increasing participation in VIP. VIPs' MIS data showed that women's participation was highly correlated within the 5 village clusters, a finding which suggests that project staff may play an active role in increasing women's involvement in project activities. Thus, KDP training programs and facilitator TOR include practical steps intended to bring women into the planning process and workforce more actively than usual. All kecamatan facilitators and kabupaten engineers will receive this training.

Institutional competition from district agencies poses one of the highest risks to KDP success. Public policy across Indonesia towards rural communities has combined greatly increased provision of basic services with consistent loss of community self-sufficiency. In a significant number of kabupaten, for example, regulations were passed in the last decade that ban community construction and maintenance of facilities such as schools, instead transferring these responsibilities and resources to district level line agencies. Both the Inpres reforms proposed under the project and the increased authority of communities to manage community projects themselves initially may not be welcomed by agencies whose staffing and budgets will be affected. National policy is now attempting to reverse this history by strengthening local government and reallocating resources within the administration, so that to some extent district level resistance may be mitigated by increases in the overall resource envelope available to district governments. Within the KDP design, control over resistance by district agencies will rest largely in the highly centralized project management team, and through field surveillance and reporting by the facilitators. Provincial and kabupaten "ownership" come from the kecamatan selection process, the eventual improvements in infrastructure provision, and grassroots support for project concepts.

Stratification within rural areas restricts information access and leads to elite control of decision-making. The risk of moving from the village level to the kecamatan is that there is a potential for less participation: kecamatan decision making also facilitates kecamatan level interference. KDP will try to compensate for these risks by (i) keeping planning and project proposals at the village and subvillage level; the UDKP's role will be limited largely to initial planning, open and transparent inter-village

negotiations, and final approval, with no opportunity to unilaterally modify proposals submitted by villages; (ii) providing on-site facilitation during project planning.

Information, participation, and transparency -- procedures are not well developed in villages in Indonesia, leading to abuses and private rent-seeking. Under VIP, transparency was helped by providing fixed amounts to each village (Rps. 120 million); under KDP the fixed amount is for all of the villages within the kecamatan and this will make it harder for individual villagers to know how much they are entitled to or were allocated by the kecamatan. KDP will strengthen mechanisms developed under projects such as VIP and WSSLIC (i.e. information boards indicating amounts, wages, etc) and introduce more systematic disclosure methods, such as publically posted monthly bank statements showing kecamatan and village accounts. KDP is designed to increase participation; however, participation also carries costs with it (i.e. travel to meetings) which villagers in isolated communities may be unwilling to bear. Villager evaluations of the pilot suggested that the final planning procedure reduce the number of meetings needed to make a decision.

KDP introduces three extra steps to promote better transparency in project management. First, each year the lists of kecamatans selected to participate in KDP, including their BPS locator number, will be published in a publically circulated journal produced by the P3DT Secretariat. Second, project site and activity lists as well as kecamatan maps will be made available for public consultation. Third, the P3DT Secretariat's monitoring unit will contract journalists to visit project sites and publish their findings in their home newspapers. These activities are reflected in the project performance indicators.

Ethnicity and social organization -- lead to different social capital endowments, thus making design flexibility essential for adapting procedures and menu options to widely varying village capacities. Cultural factors such as the strength of local adat (traditional law), the responsibilities of indigenous institutions, and prior experience with community decision-making vary widely across Indonesia, and this will strongly affect the ability to manage KDP resources. One main objective of KDP is to strengthen local institutions by giving them much greater choice, responsibility, and resources for managing local development. The main social "risks" are that (i) communities without much capacity will not manage funds well; (ii) having real resources flowing through the system may exacerbate local conflict; (iii) higher-level interference in the project will frustrate local expectations. Should "indigenous communities" be included in the project, OD 4.20 objectives will be met through project design, which provides the means for participating communities to receive culturally compatible benefits from projects through their informed participation. Typically, however, such communities do especially well with demand-driven funds such as KDP because of their strong community organizations. Project management guidelines give prominent roles to traditional leadership, and one purpose of the expanded kecamatan council is to broaden the space for involvement of traditional leadership in development decision-making. TA selection criteria give preference to fluency in local languages. Monitoring will include field sites to isolated areas to ensure that all provisions are being implemented; the project is also inviting NGOs to provide independent monitoring of isolated areas.

f. Resettlement

[X] (list issues below, e.g., resettlement, compensation payments.) [] To be defined None

Some minor land acquisition is to be expected. Any land acquisition or resettlement would follow the approach adopted for VIP: (i) all land acquisition is kept to a minimum, alternative road alignments are reviewed carefully by the TA, and subprojects involving physical displacement be redesigned unless villagers themselves agree to relocate; (ii) subproject proposals indicate how compensation will be provided for land and other assets so that at a minimum full asset replacement is possible; (iii) affected landowners be consulted through village meetings; (iv) village proposals include signed voluntary consent forms from affected parties; and (v) any grievances not resolved locally be submitted to the office of the Bupati for disposition. Any subprojects involving more than minor (i.e. 5 households) land

acquisition would not be approved unless site visits confirmed that land surrender was voluntary and all compensation requirements have been met. Full records will be reviewed by Kecamatan Facilitators and made available to the Bank and Bappenas. Resettlement has been incorporated into the training programs for the project's facilitators and engineers. Annex 14 provides the guidelines. VIPs' resettlement experience over 3 years of implementation has been satisfactory.

6. *Environmental assessment:* Environmental Category A B C

The project will not undertake investments with significant negative environmental impacts. Methods to address environmental concerns for the infrastructure investments have been built into project manuals and the project supervision checklists. Kabupaten engineers will signal impact issues during subprojects' technical review; kecamatan facilitators will also review economic investments for their environmental impact. Net environmental benefits from the project are expected to be positive because investments will stabilize communities' resource base and provide basic social services, including clean water and sanitation. The main potential area of significant environmental impact will be whether improved rural community welfare affects their ability to exploit fragile marine and forest islands, particularly in the eastern islands. Annex 13 contains greater detail on the environmental screening and review procedures that KDP will follow.

7. *Participatory approach [key stakeholders, how involved, and what they have influenced; if participatory approach not used, describe why not applicable]:*

a) Primary beneficiaries and other affected groups:

Primary stakeholders in KDP are villagers and their representatives. Project facilitation, bottom-up planning, transparency mechanisms, and fiscal decentralization are all designed to promote stakeholder ownership of the project process. KDP will include independent NGO monitoring to provide ongoing feedback on KDP performance.

b) Other key stakeholders:

The central government agencies that participate in the P3DT Steering Committee have been involved in project design since the outset. PMD (community development) has been an active player. Some provincial and kabupaten governments have been consulted through meetings in Jakarta and workshops in the pilot project areas; their full involvement will develop through the workshops and consultations that are programmed into the project planning process. Kecamatan PMD staff will be trained through "twinning" and participation in consultants' workshops.

NGOs have been consulted in several ways. The core preparation team and the pilot program management consist of NGOs and NGO-trained staff hired by Bappenas/the Bank. Information about KDP has been circulated through the NGO networks in the country. Since most kecamatan facilitators are expected to be drawn from the NGO community, province-level workshops will be held to consult with NGOs and other interested groups during preparation. And last, information about participating kecamatan (their name, subproject type, and BPS number) will be posted on the KDP Web page to facilitate independent spot reviews of project implementation.

F: Sustainability and Risks

1. Sustainability:

Sustainability of the physical works is likely to be fairly high because of the participatory planning process and higher sense of community ownership than is the norm. KDP subproject proposals must include plans for their maintenance. Year 1&2 VIP roads and water systems show better performance on maintenance than do works built by other government providers (i.e. ABRI, Public

Works), although there remains scope for improvement by closer supervision of initial works quality. Community infrastructure repair and cleaning through traditional cooperation ("gotong-royong") remains a strong, functioning tradition across most parts of the country, where communities themselves have built the project. Economic activities are expected to be sustainable and continue beyond the project period. The UDKP will enforce repayment, helped by pressure from designated future beneficiaries to receive credit; villages that do not repay loans will be banned from any further participation in KDP until their arrears are rectified.

Government plans to institutionalize a KDP system following the three year project. The national approach will phase out economic activities/credits (by then rural credit markets should be working more efficiently following the general banking sector reforms and possibly a rural credit institutions project) and lower the amount, to approximately Rps. 200-250 million per kecamatan (at Jan. 1998 prices).

Sustainability of the system may be further enhanced by (i) improving local tax revenue generation or retention (people are more likely to pay taxes when they see revenues going for their direct benefit); and (ii) improving local procurement rules and practices to allow more competitive contracting and to support participation by villages and small contractors in kabupaten contracts. Both topics will be reviewed under the "Study" component.

2. Critical Risks (reflecting assumptions in the fourth column of Annex 1):

<u>Risk</u>	<u>Risk Rating</u>	<u>Risk Minimization Measure</u>
Outputs to objectives		
1. Scale-up is too fast	High	Project fundamentals are simple and needs for agency coordination are minimal. Risk minimization measures are (i) graduated scale up; (ii) well planned contract and training packaging; (iii) annual and mid-term programming reviews. Impact of this risk is somewhat cushioned by the fact that each kecamatan's performance is independent of any other kecamatan's.
2. Macro targeting mechanisms do not reach poor: sample size, over-aggregation, and quality problems make statistics questionable.	Moderate	Kecamatans are selected based on SUSENAS and PODES data providing long-lists, with further targeting by provinces and kabupaten agencies.
3. Community/kecamatan financing system is not sustained	Moderate	Built-in mechanisms including monitoring should help sustainability of revolving funds and infrastructure, and incremental improvements. Anticipated efficiency gains from the KDP approach compared with district alternatives should develop a broader constituency within government that favors a routine transfer of Inpres funds to lower levels.
Project components to outputs		
1. Delays in counterpart funding	Moderate	KDP has strong GOI support; year 1 is inscribed in the national budget already.
2. Inadequate local government support	Moderate-High	Support for KDP pilot at Dati 1&2 levels is quite high. Bupatis finalize kecamatan selection. Project is helped by need for local governments to demonstrate support to poor communities during crisis; project is hurt by squeeze on officials' incomes.

(Cont'd)

3. Micro targeting: village social structures skew participation and decision-making towards village elites.	Moderate	Facilitators will help expand participation in villages; KDP also has a strong focus on information dissemination beyond the villages. The project design uses self-selecting screens, such as wage at local rural minimum for works and repayment with interest for economic activities.
4. Technical quality of investments is low	Moderate	KDP will try to have experienced TA in the kabupaten. New menu options would not be more difficult than those under VIP. Considerable supervision effort to improve quality.
5. Low repayment levels	Moder-High	UDKP's and future beneficiaries' interest in sustainable revolving funds should help repayment.
6. Inadequate monitoring	Moderate	Monitoring includes provision for expert assistance such as in interpreting BPS data.
7. No follow-up to studies	Moderate	Good supervision should improve the quality of studies and probability of adoption of recommendations
Overall risk rating	Moderate	

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N (Negligible or Low Risk)

3. Possible Controversial Aspects:

No major controversies are envisaged. Economic activities benefiting the better-off in villages is a possible source of controversy. Localized leakages are likely to occur, as is interference by higher government levels.

The key controls will be through the kecamatan, kabupaten, and provincial TA, which are independently contracted by Bappenas and will provide close field supervision. The P3DT Program has set up a system for reporting complaints. All problems reported in the media or through the PO Box 5,000 are logged and investigated in the field. VIP appears to have had less leakage than traditional rural development projects. KDP will also set up a special PO Box and follow-up response unit.

G: Main Loan Conditions

1. Effectiveness Conditions:

Standard requirements only.

2. Other [classify according to covenant types used in the Legal Agreements.]:

The project will follow all the principles described in Annex 2. The main loan conditions are that the Borrower will:

- a) select project kecamatan according to agreed criteria and by agreed dates;
- b) appoint project managers at the kecamatan level no later than May 15 each year;
- c) comply with agreed conditions for subproject selection and implementation;
- d) minimize the acquisition of land or assets, and follow the agreed guidelines in case acquisition is needed;
- e) carry out studies in accordance with terms of reference acceptable to the Bank;
- f) monitor and report on project progress according to agreed modalities and indicators.

Bank-GOI reviews will be carried out in January of each project year to decide the scope and content of the coming year's program. The project will also include a mid-term review, by January 30, 2000.

Policy studies will be completed within the first project year and their recommendation discussed no later than June 30, 1999 and an agreed action plan, by September 30, 1999.

H. Readiness for Implementation

The engineering design documents for the first year's activities are complete and ready for the start of project implementation. Not applicable.

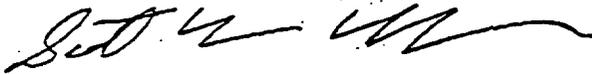
The procurement documents for the first year's kecamatan activities and studies have been drafted (for TA). Call for bids have been issued for TA.

The Project Implementation Plan, including the list of Year 1 kecamatans, was reviewed at appraisal and found to be realistic and of satisfactory quality (Annex 11).

The following items are lacking and are discussed under loan conditions (Section G):
n.a.

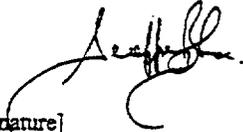
I. Compliance with Bank Policies

This project complies with all applicable Bank policies.



[signature]

Task Team Leader: Scott Guggenheim



[signature]

Sector Manager: Geoffrey Fox



[signature]

Country Manager: Dennis de Tray

Annex 1
Kecamatan Development Project
Project Design Summary

Narrative Summary	Key Performance Indicators ¹	Monitoring and Supervision	Critical Assumptions and Risks
<p>CAS Objectives</p> <ul style="list-style-type: none"> • Reducing Poverty • Efficient provision of basic services • Participation in development • Decentralization 	<p>% of absolute poor</p> <p>Increased transfers to Kecamatan and desa levels</p>	<p>CAS and CEM reports</p>	<p>(CAS Objective to Bank Mission)</p> <p>No gaps between macro and project objectives.</p>
<p>Project Development Objectives</p> <ul style="list-style-type: none"> • Strengthening kecamatan and village level government by empowering them to manage increased funding and becoming accountable for it <p>Rural development by providing increased economic opportunities at the village level in the poorest kecamatans</p>	<p># participating kecamatans: year 1: 350 year 2: 350+375 = 725 year 3: 350+375 = 725</p> <p>Transfers to kecamatan: Baseline: Rp6m per desa KDP: Rp500m /year for kecamatans with 25,000/50,000 people on Java; 15,000/25,000 people off Java; Rp750 million for kecamatans exceeding these thresholds; RP 250m on Timor Timur</p> <p># participating desas: year 1: 2000 year 2: 4000 year 3: 6000</p> <p>Susenas household expenditure surveys</p>	<ul style="list-style-type: none"> . Bappenas' PMU records . KPKN records . Provincial records . Kecamatan UPK records . Journalist reports <p>Susenas analysis Ad-hoc surveys and Kecamatan field visits Provincial records</p>	<p>(Development Objectives to CAS Objective)</p> <p>The project's development objectives are fully in line with CAS objectives.</p> <p>Risks:</p> <ul style="list-style-type: none"> (a) Scale up is too fast; (b) Central government does not complete transfers; (c) Districts appropriate funds for kecamatans/desas (d) No improvement in local mobilization of maintenance resources <p>(a) Current economic crisis may increase poverty; thus changes in the % poor by SUSENAS may not reflect on KDP results;</p> <p>(b) Inadequate targeting may miss the poorest</p>

¹⁾ See more detailed attachment overleaf

Project Outputs			(Outputs to Development Objectives)
<ul style="list-style-type: none"> Improved planning process and plans 	<ul style="list-style-type: none"> # of desas with <u>dusun</u>/desa meetings held; .implementation agreements; .UPKs established/operative; .transparency rules applied 	UPK; KPKN & BRI records	Risks: Elite and higher-level domination of planning process/exclusion of poor; directed investment
<ul style="list-style-type: none"> Public infrastructures 	<ul style="list-style-type: none"> # proposals implemented # completed works by type and total amounts; # O&M committees formed and funded/operational from Year 2 onwards 	Overall: <ul style="list-style-type: none"> . Technical audits; . TA qualitative evaluations of participation; . Random field checks; . Summary reports from facilitators 	(a) Poor technical quality, inadequate engineering support (b) Inadequate maintenance;
<ul style="list-style-type: none"> Economic investments 	<ul style="list-style-type: none"> #proposals implemented by type and amounts .Compliance with repayment .Benefit returns 	<ul style="list-style-type: none"> . Bank-GOI site supervision of 3-5% of recipient kecamatans . Annual review of project performance .Bappenas records 	(a)Inadequate facilitators, poor choice of activities could limit sustainability; (b) High leakage rates; (c) Low repayment
<ul style="list-style-type: none"> Studies, in particular to improve kabupaten procurement guidelines to encourage small contractors 	Issued new regulation and if necessary MoHA clarification, repeal of SKs (local regulations) Project Year 2	Database on contracts with communities	Risk: removing one set of barriers to local contracting may prompt issuance of other, new restrictive guidelines. Critical assumption: local contractors and artisans can provide quality goods and services at competitive prices if procurement is opened to them.

KDP - Key Performance Indicators

INDICATORS	FISCAL YEAR			
	98/99	99/00	00/01	01/02
I. INPUTS ^{1/}				
Number of kecamatans	350	725	725	
Number of villages	2000	4000	6000	
Grants and subloans: billion Rp. disbursed	227	450	450	
II. OUTPUTS				
Number of subproject agreements ^{2/}	>3,000	>6,000	>6,000	
Percent of works agreed, completed, by type, value, workdays, women participation, etc. ^{3/}	>80%	>80%	>80%	
Number of sites visited by supervision staff	>20%	>15%	>10%	
Recommendations from studies	x			
III. IMPACTS				
1. Subproject impacts: ^{4/}				
benefits/returns	>20%	>20%	>20%	
number of beneficiaries (million)	1	3	3	
subloans: % repaid per schedule	>80%	>80%	>80%	
2. Poverty: ^{5/}				
SUSENAS household expenditures surveys	x	x	x	x
3. Governance				
Number of infrastructure subprojects with O&M committees formed	>50%	>50%	>50%	
In kecamatans with subloans:				
% of UPKs operative	>50%	>50%	>50%	
% of revolving funds with increased capital	>80 %	>80%	>80%	
Audits, kecamatan sample	5%	2.5%	2.5%	
Independent monitoring:				
Number of locations providing information on where to find kecamatan lists	12	20	20	
Number of trips by journalists to monitor villages	10	20	20	20
Agreed study recommendations:				
Implementation and related surveys of rural areas	x	x	x	x

^{1/} Data from P3DT Secretariat, local Treasury offices, UPK accounts, supervision missions.

^{2/} Subproject agreements will provide baselines for each year work program

^{3/} As recorded in monthly, quarterly and yearly MIS records of the P3DT Secretariat and other records

^{4/} Reviewed on sample basis, by June 30, starting 1999

^{5/} SUSENAS: 1997 base lines are available. SUSENAS results for a) project kecamatans, b) villages with subprojects, and c) province level results; to be available years 2, 3 and 4 of the project

Annex 2

Kecamatan Development Project Project Description

1. Project development objectives (see Annex 1 for key performance indicators):

- (a) To raise rural incomes;
- (b) To strengthen local government and community institutions;
- (c) To improve public infrastructure.

2. Background Summary

The Kecamatan Development Project (KDP) builds upon the lessons learned in the two Village Infrastructure Projects (VIPs), but enables greater decision-making at the kecamatan level. VIP uses simple block grants and highly restricted menus, a system which has proven appropriate for a "one-off" allocation of funds to the poorest villages which previously had very limited experience with managing government resources. The current proposal aims to set up a more flexible system which will use regular government channels while still retaining the effectiveness and nimbleness of the VIPs. It will provide financial resources directly to kecamatans (subdistricts), which will select from among competing investment proposals submitted by village LKMDs, the village councils that have managed VIP programs with such success. The three year Kecamatan Development Project will build on the VIP experience by (i) moving the decentralized approach into the regular administrative budget; (ii) introducing a flexible financing system that can match financing to differing local subproject needs, with a minimum size of Rps. 50 million and a maximum of Rps. 150 million; (iii) providing a sustainable mechanism for locally managed development investments; (iv) strengthening the capacity of local governments to plan and manage suitable development expenditures; (v) broadening the menu of activities that can be financed; and (vi) continuing and expanding support for community participation and local choice. Kabupaten (district) and larger infrastructure will not be eligible to receive KDP support.

The poorest 725 kecamatans of the 3,800 kecamatans in Indonesia will be covered by the KDP project (some 9,000 villages). Thereafter it is expected to be made a nationwide program. Targeting will use SUSENAS (expenditure) and PODES (mainly infrastructure) surveys to compile long lists of eligible kecamatans, which will be narrowed and clustered through consultations with the provincial and kabupaten administrations. Minimum kecamatan population size will be 25,000 people for Java, and 15,000 for the other islands, except 5,000 for Timor Timur, where lower thresholds are justified because of low kecamatan population densities but high poverty rates. The number of kecamatans covered by the project will expand year 2 i.e. 350 kecamatans the first year, an additional 375 the second. All villages in a kecamatan will be eligible to participate. Studies suggest relative homogeneity within kecamatans; thus, targeting kecamatans with high poverty incidence is an efficient way to identify and reach a large number of the rural poor. Government has proposed a rough 60:40 division between eastern and western provinces.

Main characteristics and innovations of the KDP are (i) use of the kecamatan-level council to review and fund village proposals (one vote per village plus one vote for the Camat); (ii) collective village decision making on the use of funds allocated to the kecamatan through public voting; (iii) high priority paid to transparency through consultations, public information boards, local media, and technical assistance; (iv) opportunities to consolidate activities between villages, depending on local needs and wishes; (v) trained community development facilitators operating at the kecamatan level; (vi) infrastructure and economic investment menus that involve a balance between loans and grants; (vii) village-level technical assistance managed by LKMDs and paid from the subproject allocation; (viii) addition of one man and two women to the UDKP meeting as non-voting members to encourage greater transparency and dissemination.

The following sections (paras. 3-13) summarize KDP as it is described in the Bappenas public information circular, which will be distributed to local governments, NGOs, and participating agencies.

3. Village selection

Kecamatans with more than 25,000 people on Java and 15,000 elsewhere can be selected for KDP from the long list of poor kecamatans prepared by Bappenas. This list cannot be changed. KDP uses two grant sizes so that people living in large kecamatans have the same chances as people living in smaller ones. Kecamatans with 50,000 people or more on Java and 25,000 or more off-Java receive Rps. 750 million. Eligible kecamatans that are smaller than this receive Rps. 500 million. In Timor Timur, kecamatans with 5,000-15,000 are eligible for a grant of Rp250 million to allow them to participate.

In Year 1, only half the kecamatan villages would participate (up to a maximum of 10 villages) in order to limit the amount of facilitation required. In Year 2, the other half will participate. All villages will be eligible to participate the third year (not all villages necessarily receive funds). Provincial Management Consultant will assess the choice of villages, and can limit the number of villages because of accessibility. Which villages participate will be decided in the first UDKP meeting. Special cases requiring exceptions should be referred to the Provincial Management Consultant.

4. How KDP works

KDP provides a block grant to each selected kecamatan, which will be repeated each year for up to three years. Distribution of funds within the kecamatan will be through the kecamatan level UDKP forum to the village LKMDs, assisted by a Kecamatan Facilitator. The UDKP itself must create a unit called a UPK (Unit Pengelolaan Keuangan) to manage the funds and to oversee any large procurement. The UDKP must also nominate additional, non-voting, broadly respected people (such as religious leaders, kepala adat, teachers) to attend UDKP meetings that discuss KDP proposals. Three additional members from each village should also be nominated through election for this "UDKP plus" by LKMDs. They should be one man and two women from each participating village. The functions of the "UDKP plus" members are to (i) participate in UDKP discussions about subproject proposals; (ii) monitor the process and ensure that all KDP principles are respected; (iii) report back to the communities on UDKP decisions.

The KDP can finance public infrastructure on a grant basis. It can also support economic subprojects, which are loans. Project menus are open to all productive investments except for a short negative list which excludes activities that are environmentally damaging (manufacture or use of asbestos, fishing boats of 10 tons or more and tackle, pesticides, dynamite, and agro-chemicals are banned). Expenditures for religious and government buildings and government salaries are also prohibited because they have their own construction and maintenance budgets; and for military or paramilitary purposes. Villages can prepare joint proposals (for example, for multi-village irrigation, road, or water supply systems). KDP does not support kabupaten-level infrastructure, which also has its own budgets and responsibilities. KDP can support school maintenance if LKMDs select this option, but villagers should be informed that there is a separate Inpres being given to desas to support school rehabilitation which they should request.

Project planning begins with meetings in all dusuns and RT/RWs and with various existing groups. Subproject concepts will be made on a simple, pre-formatted form (PMD's RPTD form), after which still simple but more detailed proposals will be prepared that explain the project's purpose, cost, requirements, etc. No scoring method shall be prescribed by facilitators or government. Each village LKMD can submit up to two proposals to the UDKP. If there are two proposals, the second must come from a village women's group. Each proposal must be between a minimum of Rps. 50 million and a maximum of Rps. 150 million. Small activities of various types, both economic and infrastructure, can be bundled to meet the proposal minimum threshold of Rps. 50 million. Villagers will be encouraged to use TA even during proposal preparation so that better proposals reach the later review meetings. TA during the stage of proposal preparation will be paid from a small budget managed by the kecamatan facilitator.

Verification of proposals made by the LKMDs will take place in 2 meetings: a kecamatan review; followed a few days later by a review by the kabupaten engineer. The kecamatan verification team will include tokoh-tokoh masyarakat (traditional representatives), the kecamatan facilitators, and appropriate technical staff recommended by the kabupaten engineer. Following both reviews, all proposed project sites will be inspected and surveyed by the verification team previously assembled. Projects that are technically difficult, complex, or large should always be reviewed by the

kabupaten engineer. The results of the verification will be presented and considered in the UDKP forum as part of its decision-making discussion.

Verification will review proposals before they are voted on by the UDKP according to a small number of criteria to ensure that they contribute to the KDP's objectives:

- Are the proposals technically and economically feasible?
- Do proposals benefit larger numbers of people, especially poor people?
- Do proposals meet project requirements such as maintenance plans for infrastructure? or repayment plans for economic projects?
- Did people genuinely participate in their formulation?
- Do people contribute labor, materials, or money?

Once proposals have been submitted by the LKMDs and reviewed by the kecamatan verification team, they cannot be changed except for minor technical adjustments. Any changes must be with the knowledge and approval of the villages. Proposals that do not receive KDP support can be resubmitted the following year. The Kecamatan Facilitator is also encouraged to help LKMDs submit proposals to other funding sources and programs besides KDP.

5. Subprojects

Village contributions in labor, cash, or materials to enhance the KDP are expected. They can vary by type of subproject and according to the means of the village/beneficiaries. There is no preset fund share for each type of subproject, but all participating villages must contribute something to their own projects, both for implementation and for their subsequent maintenance and operations. Villagers that contribute more can do more with the resources, and UDKP review will favor project proposals that show greater commitments of contributions.

5.1 Public infrastructure

KDP funds may also be used for public infrastructure that is proposed by communities through the LKMD and selected during the UDKP meeting. Funds for public infrastructures are provided as grants, without interest, but villagers are expected to contribute labor and/or materials so that more works can be completed. There is no pre-set menu for public infrastructure, which can include roads, water supply, school and clinic rehabilitation, crop storage and processing facilities, and other activities. Activities already being financed by other projects or funding sources should not be submitted for KDP support. Public infrastructure subprojects must meet technical design quality standards, must benefit the poor, and must include a plan and a budget for maintenance after completion, including arrangements to collect and manage user fees, as appropriate. Proposals can also include payments for labor for construction, but rates should be set slightly below the local minimum rural wage to ensure that the poor benefit most.

Proposal requests should identify needs for technical assistance. TA requests will be reviewed by the project's kabupaten engineer, who will also provide the UDKP and LKMD with a list of qualified personnel from whom they can choose for helping with project implementation. It is expected that TA used for project preparation will be used for implementation whenever possible once the project design has been approved by the UDKP. Responsibility for contracting and managing the implementation TA is with the LKMD, which will have money in the grant that is earmarked for village engineering assistance. For purchase of materials not available within the village, the LKMD should obtain three cost estimates and select the one at lowest cost.

5.2 Economic activities

The KDP provides seed capital for economic activities for which banking credit is not available to poor villagers. Repayment requirements help select good subprojects, and make the funds available to further beneficiaries. The UDKP manages funds to provide amounts that are likely to vary from one beneficiary group to the next. Economic projects are verified by the kabupaten engineer, who can request support from technical specialists (such as BRI staff, private banks, Tk. II Dinas Peternakan, etc.), before they are sent to the UDKP forum for voting.

The maximum credit per group would be Rps. 150 million; the minimum, Rps. 50 million. Borrowing groups must have existed in the prior year. Recipients would be expected to self-finance a share of the cost in accordance with their means (this may be as labor contributions). Economic projects may also include some basic TA to improve proposals; this would follow the same procurement rules as for infrastructure TA.

Recipients of KDP seed capital have to repay it with commercial rates of interest (20%), according to an agreed schedule/date reflecting expected benefit flows. The UDKP will hold the reflows in a separate bank account, but it can be in any financial institution agreed by the UDKP members. This will become the UDKP's "capital" for future use. Reflows should be reallocated as quickly as possible.

6. Sanctions and Complaints

KDP funds belong to all of the men and women in the kecamatan. It is their right to know how they are being used, and to be confident that they are being used well. No fees and charges should be made to any KDP participant other than those described in official KDP documents and agreements. Complaints and questions about KDP should be directed to the kecamatan facilitator and to the UDKP. Kabupaten engineers visit, and can also be reached in the Tingkat 2 Bappeda office. Complaints can also be sent to PO Box 5,000, or directly to the KDP office in Bappenas (Jl. Mangunsarkoro 5, Menteng, Jakarta). Supervision teams from Bappenas and the World Bank will be making frequent field visits to be sure that KDP rules are being implemented properly.

Villages also have obligations to the project. Although KDP funds are a grant to the kecamatan, money borrowed for economic projects must be repaid according to the schedule described in the LKMD-KDP loan agreement. Kecamatans whose subprojects that do not receive a certificate of completion will recover the funds from villages using traditional community dispute resolution practices that will be agreed during the first UDKP meeting. In addition, villages that do not repay the funds to the UPK according to the agreed schedule will not be able to participate in future KDP programs until their debts have been settled. Project infrastructure does not have to be repaid, but villagers are responsible for ensuring that the quality of works meets the design standards, and that agreements to maintain and repair the infrastructure are met.

7. Land acquisition

No proposal should require more than minimal land acquisition, and none will involve involuntary resettlement. PAD Annex 14 (Attachment 2 of the circular) contains the project's land acquisition and resettlement guidelines. Records of any land acquisition and people's consent will be maintained by the UPK and should be available for inspection. KDP funds cannot be used for land compensation.

8. Subproject agreement

For each village there will be a subproject agreement between the Pimpro and LKMD and the UPK. This agreement is supported by the agreed work plan (infrastructure) and/or the agreed subloans to the beneficiaries, specifying the date, beneficiaries, the cost, schedule of fund needs/release, O&M plan, and for economic subprojects, the repayment schedule.

For infrastructure, engineering would be financed from the grant (TA for economic subprojects will follow the same procedure). A lump sum fee for local TA up to a maximum of 10% of subproject cost is agreed; TA is contracted and paid a 30% advance when the kabupaten engineer has approved the design and funds for the subproject are released. The rest of the technical assistance is paid in monthly payments based on work completed, up to 70%. The last 30% is withheld as a **final** payment pending certification by the kabupaten engineer and ketua 1 LKMD that the completed works followed all design and quality standards.

9. Accounts

The UDKP opens a KDP joint account at the local BRI. When the subproject agreements for the first year are finalized, they are endorsed by the PMD Kecamatan PIMPRO, copy is sent to KPKN, and KPKN orders an initial transfer to the KDP-BRI of 50% of the total grant. When that has been expended by at least 90%, a second tranche of 40% is released by KPKN. The final 10% is released upon completion of works as certified by Kabupaten Engineers.

Although money will be deposited in the kecamatan account in three tranches, there is no limit on the number of village withdrawals and there are no minimum periods between withdrawals by villages. Withdrawals are made against certified requests of expenditure by the village's Ketua 1 LKMD, the UPK, and the kecamatan facilitator. Accounting for the kecamatan grant will be carried out by the UPK, with assistance from the kecamatan facilitator.

10. Forms and Signatures

KDP tries to keep bookkeeping and administration simple and clear. Kecamatan facilitators and PMD staff will help UDKP and LKMDs become familiar with project management. KDP forms will also be provided by the facilitator. Basic signature requirements are as follows:

Establishing the KDP Bank Account:	Kecamatan Facilitator, UPK, Camat (3 people)
Withdrawing Money:	UPK, Ketua 1 LKMD, KF (3 people)
KDP-LKMD subproject agreement:	Pimpro, Ketua 1 LKMD, UPK, Camat (4 people)
Subproject Completion:	Kab. engineer, Pimpro, ketua 1 LKMD, UPK (4 people)

Questions should be referred to the KDP kecamatan facilitator or the kabupaten engineer.

11. Project Information

Transparency is a key part of KDP, and information needs to be easily accessible by all families. The UDKP should ensure that all LKMDs are fully aware of KDP, and UDKP decisions on subproject selection should be communicated to LKMD membership. Every month the UPK will provide the members of the UDKP with a balance statement, which will report on progress for each subproject. Within villages, all subprojects will be identified by a large signboard that identifies the subproject, its cost, progress, and dates of completion. LKMDs, assisted by the kecamatan facilitators, will post project information in publicly visible places in each dusun as well as the village center. Project information should include the name and type of the subproject (both economic projects and infrastructure), its cost, responsibilities, daily salaries for participants in infrastructure works, a sketch map, and a design drawing. Signboards are updated on the 5th day of each month with information on disbursement, employment, and percent of project completed. Project circulars will be posted in public buildings, including mosques, churches, clinics, and schools. Project manuals will be available for consultation in kecamatan offices.

12. KDP Monitoring and control

Center. Close monitoring and a strong sanctioning mechanism are key elements of making decentralized investment programs like KDP successful. KDP's main Management Information System (MIS) will be based in the P3DT Secretariat. Each village is identified by a BPS number that allows different databases to be linked. The MIS receives monthly status updates on input, progress, and completion information from the different TA staff participating in the project. The project MIS also records locally determined standard unit cost data for labor and materials. Information is stored in linked databases. For the purposes of project monitoring, key fields covered by the database include: subproject descriptions and amounts, administrative and physical targets and their realization, expenditure (anticipated and actual), economic timetables and repayment records. Disbursement records are kept independently by BRI, and are also integrated into the central MIS system.

Local. A second level of monitoring comes from the TA reporting system. Each kecamatan facilitator files

monthly reports using a standard set of indicators given by the project's objectives in different stages of the project cycle. During implementation they also fill in pre-coded survey forms to keep track of progress. Provincial engineers assemble the reports and enter them in written and coded formats for the central PMU. A separate set of forms are used by the project engineers to report design status and quality problems; each engineer's field visit follows a standard engineering, economic, and administrative checklist that is compiled through the database. The PMU maintains a central, cumulative "problems" database that records problems reported by any of the field personnel and proposals for fixing them. On the 5th of each month the database is sent to the provincial consultant responsible for that area. By the 7th day of the month, the database will have been corrected, added to, and inspected by the provincial supervisor; it is then returned to the kecamatan team leader, with a copy to the central Secretariat.

Regional. A third source of monitoring data will come from the provincial and regional evaluation and refresher workshops for the kecamatan facilitators and kabupaten engineers. These are attended by representatives of the national team, and include several modules on problems encountered in the field. Workshops have proven to be the most effective way to get field staff to report problems, particularly harassment or interference by local officials.

Supervision. Bank and Central Government supervision will build on the MIS to make visits to sites selected on a random basis. Supervision will distribute teams over broad areas (i.e. one GOI and one Bank person per province) to maximize coverage. Assuming that four kecamatans are covered by each staff member per visit, more than 80 kecamatans (10%) will be visited by Bank staff over the life of the project. A protocol of standard questions is being developed for Bank supervision teams. Project financial audits will be performed annually and their results sent to the Bank.

13. Sanctions

KDP's sanction and accountability frameworks function from opposite ends of the spectrum. Because it is a national project, the project Secretariat, which is in Bappenas, carries significantly more weight in the system than do normal implementing agencies; conversely, Bappenas have fewer vested interests and contradictory relationships with local officials in any one site. KDP will benefit from central protection. Remedial action against government officials in offending cases requires action by Bappenas through the Ministry of Home Affairs' representative on the KDP Steering Committee. In the VIPs, strong measures were taken against government offenders, as it was important to set the tone of low tolerance for misconduct. Bappenas informally notes that during the VIP start-up period, approximately 10-12 village heads and camats caught abusing the project were summarily fired. Such actions are extremely rare in the Indonesian system. They have significant demonstration effects; field records from supervision missions and project engineers indicate continued use of sanctions against offending officials. KDP's pilot program showed a similar willingness to invoke legal and administrative sanctions.

Project-level sanctions consist primarily of refusals to release more funds, or to allow future participation in KDP until remedies have been applied. Kecamatans that do not respond to requests from the Secretariat for corrective actions will be dropped from the program. Contracts for the village engineers are structured to give a significantly larger final payment than the norm, 30% versus a standard 10%. This cannot be released until the kabupaten engineer has certified that the quality of the physical works meets design standards and contract requirements; its high final payment discourages engineers from simply walking away from the last payment rather than fixing problems.

Box 5,000 complaints are individually logged by the Office of the Vice President, which requires written resolution of how the problems have been addressed. Complaints under VIP were recorded and followed-up in the field. Many turned out to be false accusations.

14. How well does this system work?

Current practices provide some useful guides to how effective the KDP monitoring system will function. In 1998/99, VIP is funding some 3,000 villages, about twice the number that will be funded by KDP that year, its first. Independent reports confirm that the control system functions relatively well. Both technical and financial audits have produced "unqualified" favorable reviews; the World Bank's Quality Assurance Group review also found VIP-2 to have

features of a best practice project. Independent checks of village accounting by Bank staff also noted that accounts were well-maintained and anomalies speedily addressed. Principal sources of leakage appear to be chargebacks from project administrative managers and overcharging on materials. Recurrent administrative problems have been interference from district authorities, although these have diminished as the system became more familiar to local governments. There has also been a slowly improving trend of reporting problems to project management, but unwillingness to report problems in the field is a main source of technical failure. KDP puts more emphasis on special workshops, which in practice proved to be a better way to unearth problems than formal reporting. However, it should be kept in mind that all independent reviews show that VIP's monitoring system is effective. After finishing the first 1,230 villages under VIP-1, the PMU assembled a list of the problems reported by every Bank supervision mission since project launch. A random selection was re-visited in the field during the mid-term review; virtually all problems had been corrected. Completed construction costs for all VIP activities have cost an average of 20-30% below similar contracts executed through Public Works.

15. Impact evaluations

Project evaluations will use quantitative and qualitative techniques. The project is sufficiently large so that impacts should appear in Susenas; Susenas already identifies IDT and VIP households. Results from Susenas can be available by kecamatan, and it will be possible to compare those with and without KDP. Because the kecamatan facilitator surveys villages on basic socioeconomic indicators (i.e. transport costs, expenditures, infrastructure quality, etc.) before KDP planning begins, follow-up surveys can assess the sustainability of investments and their impacts.

Project Component 1 - US\$221 million: Block grants to kecamatans

The component supports block grants of Rp1.5 billion or Rps. 2.25 billion over 3 years to, respectively, smaller and larger kecamatans (subdistricts). Proposals are generated from the village, subvillage, and/or neighborhood; one or two from each village are ratified in the LKMD forum and sent to the kecamatan UDKP (association of village heads) for verification, review, and funding. The UDKP will be the final decision-making body for the KDP. The UDKP forum will be strengthened by additional non-voting, notable community members who will be selected by UDKP members. UDKP's role is primarily to enforce rules and to provide a forum for deciding which proposals get funded. Within each kecamatan, KDP will form a small financial management unit (UPK) to receive and manage money. Technical assistance in participatory planning and administration will support the UDKP and improve the kecamatan's ability to support bottom-up decision-making

Project Component 2 - US\$ 32 million: Technical Assistance for Implementation

Three types of technical assistance support the KDP:

National Management Consultants (NMC) will help the government supervise and monitor the program and coordinate it with other activities. NMC must ensure that information flows smoothly and promptly from and to the field and the central management group. The NMC will train the other consultants and the Kabupaten and Kecamatan level PMD (Community Development Agency). Through frequent site visits, the NMC will evaluate whether the main goals of the program are being met and that physical, economic and social targets are being achieved. The NMC will be responsible for overseeing the work of the other KDP consultants, and reporting on progress at regular intervals. Other consultant inputs will be provided at the national level to supplement the NMC for poverty and project monitoring, data analysis, production of training materials and studies. The NMC will be based in the P3DT Secretariat (Bappenas).

Province Management Consultants (PMC) and the Kabupaten Engineers (KE) provide links between the field activities and the NMC. The PMC will coordinate and supervise the work of the KE and provide technical assistance to the province level government for the KDP. The PMC will train PMD staff and their consultants. They will be based at the province level Bappedas. The KE will provide technical support to the kecamatans by reviewing subproject proposals, pre-qualifying local engineers who can provide technical assistance to villages, and will provide final sign-off on the technical quality of all civil works proposals before works can proceed. Through frequent site visits, KEs will evaluate

whether the program is fulfilling the physical, economic and social targets. The KE will periodically monitor and supervise the work of the Kecamatan Facilitators (see below) in their respective areas and also have regular meetings with the Kecamatan Facilitators as a group. The KEs will be civil engineers with a wide range of previous experience. There will be one KE per kabupaten.

Kecamatan Facilitators (KF) procured under service contracts will ensure the use of participative planning and implementation mechanisms at the Kecamatan, Desa and Dusun levels as part of local government strengthening. The KF must assist in the subproject selection process including identification of problems and potentials (e.g. identification of additional technical input needs), implementation (e.g. supporting the development of new and existing village groups and training them in the required skills), and "post-project" activities (e.g. operation and maintenance plans and further planning activities).

Project Component 3 - US\$2 million: Monitoring

- (a) Impact monitoring through surveys run by BPS;
- (b) Monitoring unit within P3DT Secretariat;
- (c) Ad-hoc surveys and qualitative reviews.

Project Component 4 - US\$2 million: Policy studies

This component would cover studies during the first year of KDP implementation; each study would address constraints on community development:

- (a) opportunities to improve revenue at the community level;
 - (b) kabupaten procurement reforms;
 - (c) spatial targeting review;
- (a) community revenues are extremely low. The only systemic source of community finance is the annual Rp6.5 million Inpres Bantuan Desa, most of which arrives earmarked for administrative functions. Only small portions of land and asset tax revenues (PBB) remain in the desas. Collection rates are low, although PBB tax collection efficiency rose by more than 7% per year in the 1991-1996 period. This review will also identify opportunities for Inpres reform by detaching government transfer funds for community development activities from the district (Dati II) grant. The review will identify which Inpres's can be transferred, and how they should be split to avoid devolving functions that remain more suitably handled at higher levels.
 - (b) although there are many projects and economic opportunities in which villagers could participate (local road maintenance, school furnishing and repair, etc), over time local governments have passed decrees banning them from receiving government contracts;
 - (c) Indonesia uses a small, standard number of targeting tools (basically PODES and Susenas); the working hypothesis of the study is that this leads to overconcentration on a small number of poverty districts and thus an inefficient use of public resources for poverty alleviation.

Annex 3
Kecamatan Development Project
Estimated Project Costs

<u>Project Component</u>	<u>Local</u>	<u>Foreign 1/</u>	<u>Total</u>
	-----US \$ million-----		
Kecamatan grants ^{2/}	177.0	42.0	219.0
Implementation TA ^{3/}	4.5	4.0	8.5
Facilitators (Service Contracts)	20.0	2.5	22.5
Monitoring	1.5	0.5	2.0
Government Administrative Costs ^{4/}	10.5	5.0	15.5
Studies	1.5	0.5	2.0
<u>Total Baseline Cost</u>	215.0	54.5	269.5
Physical Contingencies ^{5/}	1.4	0.4	1.8
Price Contingencies ^{6/}	1.4	0.3	1.7
<u>Total Project Cost¹</u>	217.8	55.2	273.0

^{1/} This amount does not include expected village contributions. It does include the start-up costs financed under VIP (expected at \$1.4 million) but not the PHRD grant of \$251,000; nor taxes. The project will not be subject to taxes.

^{2/} 350 kecamatans for 3 years; 375 kecamatans for 2 years; (KDP would be continued with another project) for a total of 1,800 kecamatan grants, or Rp 1,571.5 billion. About one-third the kecamatans are expected to get Rps. 500 million; the other two-thirds, Rps. 750 million.

Most expenditures will be for labor, and locally made goods and services, but some are tradable and these are reflected in the estimate of "foreign" costs, such as cement, steel, fuel.

^{3/} National Management Consultants \$2 million
 Provincial Management Consultants
 and Kabupaten Engineers \$7 million
 Kecamatan Facilitators \$23 million
 Total (including contingencies) \$32 million

^{4/} GOI allocates 7% of grant costs for administration at various levels.

^{5/} In case more kecamatans selected are eligible for larger grants and for eventual additional TA needs.

^{6/} Domestic inflation would be covered with rupiah depreciation.

Annex 4

Kecamatan Development Project Cost Benefit Analysis Summary

The KDP is programmatic, expected to have institutional, system-wide impacts that are not easily quantified. A discussion below in the SWOT framework (Strengths, Weaknesses, Opportunities, Threats) explores the risks and potential advantages for those impacts. This Benefit section then also discusses some specific economic return estimates for the infrastructures that will be built, expected increased returns from decentralizing some budget funds, and the economic activities to be undertaken with the grant funds (see also main text).

Institutional aspects (SWOT)

Strengths of moving from VIP to KDP. During the VIP missions it was seen that providing public infrastructure through community-based block grants is useful to the village. However, most engineers assumed that only 5 types of infrastructure were eligible (those described in the Manual) for VIP support. In some villages the infrastructure selected, even if the “most needed” within the menu, was not making a considerable difference to incomes (eg some desas improved their internal roads with little impact on transport costs) though it would improve living standards; conversely, in some large villages, the grant sufficed to help only a single *dusun*. Widening the menu and allowing villages to join efforts would allow them to build *more “significant” infrastructures*, though not infrastructure at the “kabupaten” level. This would allow converting the individual village grant system *into a permanent system* providing grants to the collective of villages in the kecamatan, thus a KDP, starting in the poorer kecamatans. Clustering of only “poor” villages in groups of 5, which was becoming increasingly difficult on Java and Sumatra, is also avoided. Finally, the KDP allows “*economic*” activities in addition to building public infrastructures with the grants. The evolution of VIP into a KDP was foreseen at the VIP 2 start up.

Weaknesses/risks of moving from VIP to KDP. There is a potential *loss of transparency*: while under VIP each village received a fixed amount (Rp120 m) and this allowed transparency, under the KDP the fixed amount (Rp500 or 750 million) is for all the villages in the kecamatan without pre-set individual amounts; this will not allow villagers such ready knowledge of what their village gets, what they may be entitled to, or how to access the funds. There is also potential for *less participation*: participation in the kecamatan level UDKP will be onerous where there are many villages (on average there are 15 villages per kecamatan), the kecamatan area is large, and distances to meetings are long and/or have to be done walking, and where villages are large. Kecamatan level decision also facilitates kecamatan level interference, so less “aggressive” villages may give up early.

Strengths of moving some tasks from kabupaten responsibility to UDKP (kecamatan level village council). The KDP intent is not only to modify a poverty reduction project approach, but to improve the effectiveness of some of the standard central government transfers, to further the decentralization and participation/private sector involvement objectives of the Government. Benefits of moving some Inpres funds from kabupaten budgets to village funds: the funds will be used with *more demand responsiveness*, as the villagers know better their needs and priorities. It has also been seen, that when empowered, villagers will devote effort to achieve *better quality at lower cost* than contractors hired by government agencies, especially if the savings are theirs to invest in serving other needs, or they may enforce better quality from the contractors they still need to hire. The LKMDs will *contract the technical assistance* they need for their approved subproject, further enhancing their responsibilities. *Increased village participation* will also provide *greater accountability*, provided there is transparency. And a systematic change with meaningful tasks assigned and a budget to perform them will *accelerate institution building at the kecamatan and village levels*, capacity building that otherwise is missing. The *continuity* of the program will enable *better planning* over time and across villages. The kabupaten staff can devote their efforts to tasks in which they have a comparative advantage, such as larger contracts and providing technical advice to villages. The KDP, which will provide facilitator assistance to the same village for more than a year, could make sustained improvements to planning and service delivery easier in Eastern Indonesia.

Weaknesses of moving some tasks from kabupaten responsibility to UDKP. The potential exists for moving more tasks than should be moved to village level, based on the capacity at the village level--thus, the KDP counts on moving only a few initially, namely tasks at which villagers have already demonstrated their capability (school and health buildings, markets). Also, the potential exists that kabupaten level staff "losing" tasks could reduce other assistance to villages or budgets benefiting villages--but instead, they could also increase efforts on other tasks where they have a comparative advantage, as mentioned under strengths. The potential exists for losing economies of scale, though there would be few in village level works. Multiple discussions among villagers will also impose costs, of time and travel (as was noted under the shift from the VIP approach).

Strengths seem to outweigh weaknesses. The benefits (more significant infrastructure, eventual maintenance, avoidance of individual desa targeting, permanency of the system and thus building up local institutions; and expansion of the menu to allow economic activities) are considered to outweigh the risks of less transparency, and eventually of less grass-root participation compared to the VIP. Overall, more efficiency and effectiveness and institutional development at the lower level are considered to outweigh the risks of loss of economies of scale and more time required from villagers, compared to the kabupaten level decision making.

Opportunities. A KDP project provides the opportunity to try a system that should be an improvement over the current system and is in line with general Government policies. By targeting the poorer kecamatans first, more poor people should be able to benefit from the government's fiscal expenditure. A main determinant of success will be how the institutional changes and criteria are disseminated, in terms of clarity and timeliness, and internal consistency.

Threats. A major threat is poor quality of facilitators: facilitators are essential to inform villagers of the project's changes and opportunities; and as much as possible, to facilitate a fair process in the dusuns and villages for project decision-making and implementation (LKMDs have proven to be capable of implementing, though they need some technical assistance). All facilitators have to be trained first, for their own understanding of the system objectives and their tasks and responsibilities. Facilitator training also imposes a limit of how fast the changes can be extended to kecamatans.

Summary of benefits and costs

At this stage only total project costs are known, including the expected 19% overheads (TA for implementation and costs of government administration, but excluding the TA hired by the village and monitoring TA). Individual subprojects will be determined by the villagers, and then costs and benefits will be known, as in VIPs, whose experience provide the basis for the following paragraphs.

Infrastructure benefits and sustainability

Under VIP some 80% of the grants normally go into building all-weather access roads. Returns are high, but on a conservative basis, they can be estimated at 20%. Transport costs are reduced and increase farm gate prices, more children can go to schools that are beyond walking distance, more people needing urgent medical attention can reach health/maternity centers. Systems built tend to be low cost and often serve a whole dusun, even more than 500 persons. Furthermore, the construction costs tend to be some 20-30% below costs for similar works by contractors. Occasionally, villages hire contractors to do the more specialized works, and supervise them closely; they also achieve lower prices than Dinas PU partly because of the early payment with the VIP funds, that should also be the case with the KDP funds. Details can be found in VIP and VIP2 SARs, supervision reports and progress reports, and in the village reports.

The VIP menu of infrastructure choices is enlarged under KDP, and competition for funds, enhanced. KDP will accommodate larger and different types of works, such as check dams, small irrigation schemes, markets, etc. and eventually also maintenance. To facilitate choices and emphasize the public nature of the infrastructures, a minimum size subproject will be set at Rp50 million, and a few types of infrastructure will be on a negative list (eg. religious buildings, arms). Villages will compete to get the funds and the best subprojects will be selected through verification and voting

procedures. Further, villages shall have to volunteer contributions, to show they value the subproject. It is unlikely that the returns will be any lower than they are now for works under the VIP, since it will be in the interest of the village to maximize its benefits with the funds; ERRs for VIP subprojects average 20% conservatively. Thus, unless the transparency of the process is greatly reduced or facilitators and engineers fail in their tasks, the returns on the investments should be high, and even more so on the fiscal outlay given the required village contributions. The risk of inadequate facilitation and engineering is very real: even with careful selection and good pay, consultants may not be as good as needed. The project will provide some training, but even so, some failures are to be expected (perhaps 5%). This has been taken into account in the conservative ERR shown.

Villages will be responsible for maintenance of the infrastructures they build, mostly with their own effort. The systematized KDP follow-on may provide maintenance budgets.

Economic activities with KDP funds and sustainability

There are many known and simple possibilities that require seed capital greater than microcredits available from arisans or from the IDT grants, but farmers have no source of capital. Poor people's access to commercial credit remains constrained in many parts of Indonesia, and the economic crisis will worsen villagers difficulties in accessing credit. Banks such as BRI ask farmers without "physical" collateral such as a land title, or some other guarantee, to provide 120% cash collateral to access bank credit--not surprisingly, few farmers access formal credit. Money lenders charge higher interest rates, but these are seen as less onerous than the total formal system costs, or at least, more accessible.

Villages readily give examples of how they could increase their incomes were financing available. Returns could easily exceed 100% in short periods; farmers normally already know what they would do and how to do it. In NTT, planting one kilo of onions yields 4 kilos in 3 months; thereafter beans can be planted, that mature in one month. The net yield is easily 200% in just 4 months--but funds for the seeds are not available. The "expected return" is of course lower, given the risk of failure in agricultural activities due to weather, in particular, but is unlikely to be less than 50%. Waiting to sell for some months after the harvest glut greatly increases prices to farmers; loans could finance consumption needs during the wait. Women can repay a loom and thread with the first cloth they sell; in the poorest areas, capital is so scarce they often cannot afford start-up materials. Indeed in some places economic activities could yield higher returns on capital than building further infrastructures. During VIP visits, villagers often indicated they would like to widen the infrastructure menu to include economic activities that could be highly profitable.

The risks of non repayment of credit provided to farmers under government programs are well documented. Repayments are lax when they mean returning funds to outside the village. However, repayments within informal systems and for small loans from formal, commercial banks, have a high rate of compliance; the small borrowers and the borrowers graduated into "large" loans having the best records, according to some BRI branch staff, of 98%, while the mid-size loans, for the small borrowers graduating into new style businesses, are more risky but still good "business". No government program should compete with available formal or informal credit sources, and the funds should be "grants" to the villages or kecamatans, if not to individual beneficiaries. KDP, therefore, requires credit repayment only within the kecamatan, and borrowers would have to a) have been ineligible to access bank loans; b) to pay a 20% interest, close to normal market rates but without the collateral cost, to ensure that only good proposals are funded, and c) repay within 18 months. The funds would be returned to a commercial bank or registered financial institution in the name of the UDKP, akin to a capital fund of the kecamatan, with periodic review of transactions by the village council. The interest accrual on the project financing will be 60% or more, as the funds revolve several times and even allowing for some business failures, or eventual non-repayments. The latter should be minimized by the pressure of people in line to receive the revolving funds.

The potential distortion in choices due to some subprojects (infrastructure) receiving grants and others being repayable (credit), was found to be preferable to not allow choices. The criteria distinctions may create a gap between ERRs for infrastructure and credits, with starter ERRs for credits having to be higher than for infrastructure, but this should help weed out doubtful proposals. Not requiring repayments would allow only a few people reap large benefits.

Main Assumptions

The main assumptions reflect the project criteria and modalities described in Annex 2, and risk minimization measures described in the main text, such as:

- a) local TA: facilitators and engineers are essential for a good project performance and achievement of benefits. If they are not satisfactory, the project would not be scaled up.
- b) project funding: even though the Bank finances a very high share of the costs, it is essential that the grants be available at the kecamatan level around May-June; the government has promised an early release of funds.
- c) subproject selection: to ensure the working of the system, villages have to be reasonably close. Kecamatans with low population densities and remote villages should not be in the program--they would require a different type of assistance.
- d) adequate choices of equipment and labor: often equipment use will have a lower cost than labor intensive methods, and the kabupaten engineers will have to ensure that the most efficient method is used.

Annex 5
Kecamatan Development Project
Financial Summary

Years Ending March 31
(US\$ MILLION, CURRENT PRICES)

	Implementation Period ^{3/}						2001/2 ...
	1997/98	1998/9	1999/0	2000/1	2001/2	Total	
Project Costs							
Investment Costs							Government is expected to continue the KDP system, but without economic projects. Amount to be determined (est. Rp200m per kecamatan per year)
Kecamatan grants		45.0	88.0	88.0		221.0	
Implementation TA	0.4	2.6	2.9	2.9	0.2	9.0	
Facilitators	1.0	3.7	9.0	9.0	0.3	23.0	
Monitoring		0.5	0.5	0.5	0.5	2.0	
Policy Studies		1.5	0.5			2.0	
Government Administration		3.2	6.0	6.0	0.8	16.0	
Total	1.4	56.5	106.9	106.4	1.8	273.0	Villagers have to agree to maintain infrastructures built.
Financing Sources (total project costs)							
IBRD: a) Grants		40.5	79.2	70.3		190.0	70%
b) TA + Facilitators	1.4	8.3	12.9	12.4	1.0	36.0	13% (4% + 9%)
Government		7.7	14.8	23.7	0.8	47.0	17%
User Fees/Beneficiaries ^{2/}							
Total	1.4	56.5	106.9	106.4	1.8	273.0	100%

^{1/} About \$1m will be financed by Loan 3888 for 1998 startup.

^{2/} All beneficiaries are expected to contribute some amount to KDP activities, but contributions are not pre-determined. The KDP pilot program also reported contributions averaging 25% for both economic and infrastructure selections.

^{3/} By year 3, if the project is going well, a follow-on project can be prepared to cover the outstanding kecamatans from Years 2 and 3, plus additional kecamatans.

Annex 6
Kecamatan Development Project
Procurement, Disbursement and Auditing Arrangements

Procurement

Procurement methods (Table A)

Procurement of works and goods will follow the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated January, 1995, and revised in January and August, 1996 and September, 1997. Standard Bidding Documents will be used for all Bank-financed procurement. Employment of consultants and the format for consultants contracts will be based on the "Guidelines for Selection and Employment of Consultants by World Bank Borrowers" of January, 1997, as revised in September, 1997. All TA procurement in this project except for village-managed TA will be done through Bappenas, P3DT Secretariat which is acquainted with Bank requirements.

Services, goods, and works procured through the Kecamatan Grants (\$221m)

Procurement of works, goods and services under the KDP village grants and subloans are expected to be relatively small, below the amount of the grant to the kecamatan (the maximum is Rp750 million per kecamatan, or \$125,000 at a Rp5,000 per dollar exchange rate). The procurement procedures foreseen under the project are national shopping, procurement of small works and procurement of goods and works by community participation.

For each funded proposal there would be a one page subproject agreement between the LKMD and the UDKP, specifying the date, beneficiary/s, the cost, schedule of fund needs/release, O&M plan, and for economic subprojects, the agreement will also include a repayment schedule. The Bank will not be involved in the approval process for every contract and disbursement at the kecamatan or village level. Random inspections of kecamatan and village contracts will take place during project supervision. The Kabupaten Engineer Consultant will approve any engineering prior to BRI releasing funds, and will supervise every project at least once on behalf of the KDP Secretariat.

For infrastructure, engineering would be financed from the grant. The engineer consultant is selected by the village through shopping from a list provided by the kabupaten engineer, and a lump sum fee is agreed; he is contracted and paid a 30% advance when the KE approves the design and funds for the subproject are released. The rest is paid in monthly payments based on work completed, 30% is withheld for a final payment pending certification by the kecamatan facilitator and ketua 1 LKMD. The project will pay for output (itemized works) against measured progress and pro-rated lump-sum contracts. For economic subprojects, the agreement will include the fund release schedule, which is likely to be in one tranche.

The BRI unit desa branch closest to the kecamatan will disburse village allocations against withdrawal requests from the ketua 1 LKMD certified by the kecamatan facilitator.

Consulting Services (\$36m)

There may be a total of 23 TA/consulting service packages to be procured the first year under the project:

- 2 National Management Contracts (\$2.4m)
- 3 Provincial Management and Kabupaten Engineering Contracts (\$6.6m)
- 11 Kecamatan Facilitator Contracts (\$23m)
- 1-3 Monitoring contracts (\$2 m)
- 4 Study Contracts (\$2 m)

Procurement will be in line with Bank procurement guidelines and procedures. One NMC contract, and the 3 contracts for facilitators for the provinces of East, Central and West Java that each cover between 36 and 46 kecamatans,

may exceed \$1 million. All other TA/service contracts are expected to be below \$500,000 equivalent. The NMC packages, the PMC and KE, Monitoring, and Studies, will be procured on the basis of shortlists to be agreed with the Bank. NGO will be eligible for all packages. The Kecamatan Facilitators will be recruited in each province, as familiarity with local conditions and language is essential, and foreign consultants would not be able to compete with local cost, local NGOs, especially at current exchange rates. Expressions of interest will be ascertained and shortlisted firms invited to bid. Selection will be based on agreed criteria spelled out in the letter of invitation. The first project year contracts would include contract provisions for annual renewals and expansion contingent upon performance; longer contracts would attract better offers, reduce administrative work, and allow to retain trained facilitators. For some services, new contracts may have to be entered into the second year, particularly for newly added provinces in the kecamatan selection. All KDP TA procurement will be through the P3DT Secretariat. There may be some 40 TA contracts.

Prior review thresholds (Table B)

Prior review is not standard procedure for projects of this type, which involve large numbers of small investments. Project consultants employed directly by the executing agency, and parallel records maintained by the BRI, provide additional safeguards. The project will also carry out random reviews of SOE documentation. Nevertheless, lack of familiarity with the procedures is likely to necessitate some prior review, especially during the project start-up period. The Bank will therefore carry out a prior review for each kabupaten's first contract for goods valued above \$10,000 equivalent. The provincial management consultant will be responsible for tracking contracts. At least 5% of kecamatan will receive ex post review of their documentation.

Disbursement

Allocation of loan proceeds (See Table C)

The project involves large numbers of small works and activities (min Rp50 m and max Rp150m). The UDKP opens a KDP joint account at the local BRI. Village Implementation agreements are signed between the LKMD and the project Pimpro (Kecamatan PMD). When the subproject agreements for the first year are finalized, they are endorsed by the Kabupaten Engineer, copy is sent to KPKN, and KPKN deposits in the KDP-BRI account an initial 50%, and when 90% is used, another 40%, and upon certification of the KE, the balance 10%. BRI will disburse against measured progress and pro-rated lumpsum contracts for infrastructure. Grant authorization, fund and reporting flows, and administrative responsibilities are summarized overleaf.

Use of statements of expenses (SOEs):

Disbursements will be against Statement of Expenditures (SOEs) for all subloans, grants and service delivery contracts, individual consultant contracts of less than \$50,000 equivalent and consulting firm contracts of less than \$100,000 equivalent. Consulting contracts above these limits will be fully documented. The SOE documentation for all expenditures other than village grants and subloans will be retained by Bappenas and made available to the Bank on request. Documentation for village grants and subloan expenditures will be retained at the village level. All other disbursements from the loan would be fully documented.

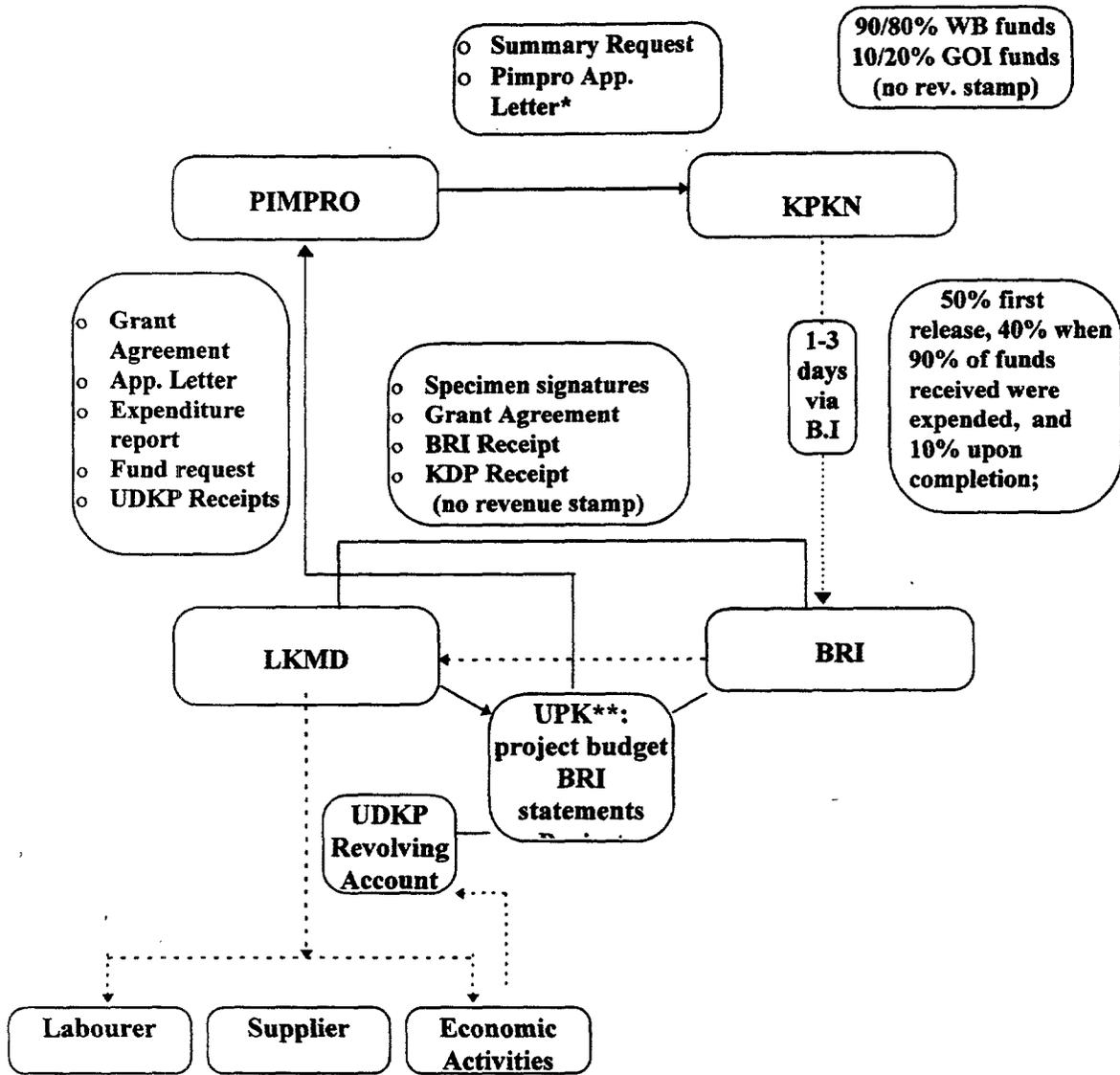
Special Account:

The Government will open a Special Account at Bank Indonesia or an agreed commercial bank totaling \$21,000,000. This Account will be managed by the Directorate General of Budget, Ministry of Finance. The authorized allocation will initially be limited to \$10,500,000 until disbursements reach \$42,000,000, at which stage the balance of \$10,500,000 can then be deposited into the Account.

Auditing Arrangements

Under the GOI established system in administering all foreign assisted projects, KPKN (Local treasury office) releasing payments of funds channeled through special account is responsible to provide, on weekly schedule, documents evidencing payments to DG Budget, who in turn account for these expenditures and prepare disbursement applications to replenish the special account. This weekly provision of documents and the KPKN monthly reports of payments made will be the basis for preparing financial statements for annual audits. DG Budget will prepare the financial statement of the SA (special account) and SOE (statement of expenditures) for audits by BPKP. The P3DT Secretariat will also receive KPKN's monthly reports and the DG Budget's reports showing the details of payments made by KPKN to each kecamatan, against which the consolidated project accounts are prepared for audits by BPKP. Project accounts prepared by the Secretariat will reflect the breakdown of sources and uses of funds by province, kabupaten and kecamatan to enable BPKP to select samples appropriately. BPKP head office may assign its BPKP regional office to audit the selected kecamatan samples. BPKP's head office would provide the consolidated audit findings and opinions no later than six months after the end of GOI fiscal year. It was agreed during the negotiations that the audit reports would be made available to the general public. Bappenas/MoHA will also prepare a juklak (government regulation) that clarifies for the MoHa Inspectorate the financial reporting requirements for KDP. The Secretariat, with the assistance of contracted independent experts, would monitor the impact of the program in selected kecamatan/villages during implementation and prepare an ex-post evaluation.

KDP GRANT FLOWS



..... funds flow
 _____ documents flow

A flow chart of the funding process for approved KDP subprojects. Start with the LKMD box. They prepare (with the facilitator's help) a request to the Pimpro. The Pimpro can get this over to KPKN the next day, but more probably he/she will wait for other villages. KPKN is same-day service if documents are in order. Depending on geography and which banks are involved, it can be 1 to 3 days to the UDKP's bank, which may require 1 day notice for big withdrawals because it may be short of cash. Remote BRIs do not keep much money on hand. Once the bank has the transfer, the LKMD can get it immediately. Copies of the withdrawals and subproject running accounts are sent to the UPK (kecamatan administration) for record-keeping and public posting.

* Pimpro appointment letter is from Bupati
 **UPK-UDKP appointment letter is from Camat

Annex 6, Table A: Project Costs by Procurement Arrangements²

(in US\$million equivalent)

Expenditure Category	Procurement Method				Total Cost (including contingencies)
	ICB	NCB	Other ^{1/}	N.B.F	
A. Subprojects under Kecamatan Grants ^{2/}			221.0 (190)		221.0 (190)
B. Consultant Services (per Table A1) ^{3/}			36.0 (36.0)		36.0 (36.0)
<u>Total</u>			257.0 (226.4)		257.0 (226.4)

Notes: N.B.F. = Not Bank-financed (includes elements procured under parallel cofinancing procedures, consultancies under trust funds, any reserved procurement, and any other miscellaneous items). Government 7% support for project administration is excluded.

Figures in parenthesis are the amounts to be financed by the Bank loan/IDA credit

- ^{1/} Others : national shopping, community participation and procurement of small works.
^{2/} Given the programmatic nature of the project, breakdowns by type of purchases is not feasible.
^{3/} Includes \$1m financed under Loan 3888

² For details on presentation of Procurement Methods refer to OD11.02, "Procurement Arrangements for Investment Operations."
Details on Consultant Services can be shown more easily in the Table A1 format (additional to Table A, where applicable).

Annex 6, Table A1: Consultant Selection Arrangements (optional)(in US\$million equivalent) ^{1/}

Consultant Services Expenditure Category	Selection Method							Total Cost (including contingencies)
	QCBS	QBS	SFB	LCS	CQ	Other	N.B.F	
A. Firms								
NMC-1					1.4 (1.4)			
NMC-2 (support)		1.0 (1.0)						
Prov. & Kabupaten Consultants					6.6 (6.6)			
Kecamatan Facilitators					23.0 (23.0)			
Monitoring		2.0 (2.0)						
Studies (policy)		2.0 (2.0)						
Total		5.0 (5.0)			31.0 (31.0)			36.0 (36.0)

Note: QCBS = Quality- and Cost-Based Selection
 QBS = Quality-based Selection
 SFB = Selection under a Fixed Budget
 LCS = Least-Cost Selection
 CQ = Selection Based on Consultants' Qualifications
 Other = Selection of individual consultants (per Section V of Consultants Guidelines), Commercial Practices, etc.

N.B.F. = Not Bank-financed.

Figures in parenthesis are the amounts to be financed by the Bank loan.

^{1/} Excluding taxes, that are waived

Annex 6, Table C: Allocation of Loan Proceeds

Expenditure Category	Amount US\$million	Financing Percentage
1. Grants and Subloans	189	90% 1998/9 90% 1999/0; 80% 2000/1
2. Service delivery contractors	24	100%
3. Consultants' services	10	100%
4. Unallocated	2	
Total	225	

Annex 7
Kecamatan Development Project
Project Processing Budget and Schedule

A. Project Budget (US\$000)	<u>Planned</u>	<u>Actual</u> (to 2/15/98)
Rural Development Unit	120	81
Japanese Grant for KDP Preparation (PHRD No.: 025518) KDP Pilot ^{1/}	251	110
B. Project Schedule	<u>Planned</u> (At final PCD stage)	<u>Actual</u>
Time taken to prepare the project (months) ^{1/}	7	7
First Bank mission (identification) ^{1/}	9/1/1997	9/12/1997
Appraisal mission start	3/23/1998	3/23/1998
Negotiations	3/15/1998	3/26/1998
Planned Date of Effectiveness	7 /30/1998	7/30/1998

Prepared by: Bappenas/Bank

Bank staff who worked on the project included:

Name	Specialty
Scott Guggenheim	Anthropologist
Frida Johansen	Economist
Gillian Brown	Engineer/Gender
Yogana Prasta	Financial Specialist
Bridie Champion	Disbursements
Karin Nordlander	Lawyer
Thomas Walton	Environmentalist
Vivianti Rambe	Environmentalist

^{1/} Excludes KDP pilot financed and undertaken under VIP.
Total time since identification to negotiation was 12 months.

Annex 8
Kecamatan Development Project
Documents in the Project File*

A. Project Implementation Plan:

- Pedomam Umum (general guidelines)
- Juklaks for KDP (detailed guidelines)
- Petunjuk Pelaksanaan (implementation plan)
- KDP Petunjuk Juknis (technical guidelines)
- KDP Schedule
- KDP technical manual (draft)
- KDP Training Curriculum
- GIS-locators of participating kecamatans, Year 1
- List of kecamatans Year 1
- Terms of Reference
 - for implementation support (NMC, PMC, KE, KF)
 - for studies (spatial targeting, Inpres reform)
- Detailed Cost table for TA estimates in Year 1
- Detailed Implementation Charts

B. Bank Staff Assessments:

- QAG Review of 2nd Village Infrastructure Project
- Review of rules, incentives, and participation in Indonesian Water Supply projects (G. Brown)

C. Other:

- CARE review of VIP Year 1
- Transparency and information in Indonesian Villages (K. Chandrakirana)
- Village government in Indonesia (P. Evers)
- PACT Interim report on KDP pilot program
- GTZ reviews of KDP pilot program

* Including electronic files.

Annex 9
Kecamatan Development Project
Status of Bank Group Operations in Indonesia
IBRD Loans and IDA Credits in the Operations Portfolio

Project ID	Loan or Credit No.	Fiscal Year	Borrower	Purpose	Original Amount in US\$ Millions				Difference Between expected and actual disbursements a/			Last ARPP Supervision Rating b/	
					IBRD	IDA	Cancellations	Undisbursed	Orig	Frm Rev'd	Dev Obj	Imp Prog	
Number of Closed Loans/credits: 459													
Active Loans													
ID-PE-36956	IBRD 42070	98	GOI	SAFE MOTHERHOOD	42.50	0.00	0.00	41.15	-1.35	0.00	S	S	
ID-PE-41894	IBRD 4095A	1987	GOI	SUMATRA SEC EDUC	94.65	0.00	0.00	93.02	2.52	0.00	S	S	
ID-PE-3960	IBRD 3209A	1990		GAS UTILIZATION	24.15	0.00	0.00	18.06	18.09	13.34	S	S	
ID-PE-3922	IBRD 3340A	1991	GOI	SULAWESI/IRIAN JAYA	4.17	0.00	0.00	2.17	2.15	0.00	S	S	
ID-PE-3977	IBRD 3246A	1991	GOI	THIRD JABOTABEK URB	13.41	0.00	0.00	12.16	12.16	0.00	S	S	
ID-PE-3916	IBRD 3501A	1992		SURALAYA THERMAL POWER	88.17	0.00	0.00	72.50	139.39	47.14	S	S	
ID-PE-3969	IBRD 3496A	1992	GOI	PRIMARY SCHOOL TEACH	8.47	0.00	0.00	7.02	7.02	0.00	S	S	
ID-PE-3997	IBRD 3482A	1992	GOI	TELECOM IV	148.13	0.00	0.00	133.53	103.50	0.00	HS	HS	
ID-PE-4012	IBRD 3454A	1992	GOI	BAPEDAL DEV PROJ	.30	0.00	0.00	.30	.32	0.00	S	S	
ID-PE-3940	IBRD 3448A	1992	GOI	PRIMARY EDUC QUALITY IMPROVE	13.40	0.00	0.00	11.75	11.45	0.00	S	S	
ID-PE-3966	IBRD 3431A	1992	GOI	NON-FORMAL EDUC III	5.94	0.00	.27	4.46	4.74	0.00	S	S	
ID-PE-3928	IBRD 3402A	1992	GOI	AGRICULTURAL FINANCI	39.06	0.00	0.00	38.91	38.92	0.00	S	S	
ID-PE-3990	IBRD 3629A	1993	GOI	WTR & SANI FOR LOW I	43.23	0.00	0.00	40.70	32.72	13.92	S	S	
ID-PE-4007	IBRD 3602A	1993	GOI	POWER (CIRATA II)	61.44	0.00	0.00	58.79	53.31	0.00	S	S	
ID-PE-4018	IBRD 3589A	1993	GOI	FLORES EARTHQUAKE RE	2.95	0.00	0.00	1.52	1.55	0.00	S	S	
ID-PE-3999	IBRD 3588A	1993	GOI	GROUNDWATER DEVT.	11.91	0.00	0.00	10.76	12.10	-1.30	S	S	
ID-PE-4009	IBRD 3586A	1993	GOI	INTEGRATED PEST MGMT	13.28	0.00	0.00	11.41	9.91	0.00	S	S	
ID-PE-4006	IBRD 3579A	1993	GOI	E.INDONESIA KABUPATE	21.20	0.00	0.00	16.65	16.62	0.00	S	S	
ID-PE-3914	IBRD 3550A	1993	GOI	THIRD COMM HEALTH &	30.74	0.00	0.00	27.66	8.64	0.00	S	S	
ID-PE-3954	IBRD 3762A	1994	GOI	JAVA IRR IMP & W R M	108.27	0.00	0.00	99.09	38.16	0.00	S	S	
ID-PE-3910	IBRD 3761A	1994	GOI	SUMATERA & KALIMAN P	216.28	0.00	0.00	206.80	110.05	0.00	S	S	
ID-PE-3937	IBRD 3755A	1994	GOI	INTEGRATED SWAMPS	38.42	0.00	0.00	35.27	10.51	0.00	S	S	
ID-PE-4017	IBRD 3754A	1994	GOI	UNIV.RESEARCH FOR GR	33.12	0.00	0.00	31.53	10.41	0.00	HS	S	
ID-PE-3890	IBRD 3749A	1994	GOI	SEMARANG-SURAKARTA U	110.67	0.00	3.67	94.45	44.86	0.00	S	S	
ID-PE-4010	IBRD 3742A	1994	GOI	DAM SAFETY	38.25	0.00	0.00	35.55	19.99	0.00	S	S	
ID-PE-4020	IBRD 3732A	1994	GOI	KABUPATEN ROADS V	25.59	0.00	0.00	19.94	5.94	0.00	S	S	
ID-PE-3998	IBRD 3726A	1994	GOI	SURABAYA URBAN	113.14	0.00	0.00	106.90	57.26	-14	S	S	
ID-PE-3952	IBRD 3721A	1994	GOI	SKILLS DEVELOPMENT	10.24	0.00	0.00	8.49	13.40	5.99	S	S	
ID-PE-3945	IBRD 3712A	1994	GOI	HIGHWAY SECTOR II	196.44	0.00	0.00	181.42	128.92	0.00	S	S	
ID-PE-3905	IBRD 3658A	1994	GOI	WTRSHED CONSERVATION	44.22	0.00	0.00	43.41	17.39	0.00	HU	U	
ID-PE-3860	IBRD 3464A	1994	GOI	TREECROPS SMALLHOLDE	27.12	0.00	0.00	24.00	16.92	0.00	S	HS	
ID-PE-39754	IBRD 39136	1995		TA FOR INERA. II	28.00	0.00	0.00	24.69	13.49	0.00	S	S	
ID-PE-3965	IBRD 39056	1995	GOI	HEALTH IV:IMPR HEALT	87.00	0.00	0.00	76.43	10.42	0.00	S	S	
ID-PE-3965	IBRD 3905S	1995	GOI	HEALTH IV:IMPR HEALT	1.00	0.00	0.00	0.00	10.42	0.00	S	S	
ID-PE-4001	IBRD 39046	1995	GOI	TELECOM SECTOR MODER	325.00	0.00	0.00	300.31	105.31	0.00	HS	HS	
ID-PE-34891	IBRD 38886	1995	GOI	VILLAGE INFRASTRUCTU	47.10	0.00	0.00	3.78	.04	0.00	HS	HS	
ID-PE-3968	IBRD 38876	1995		BOOK & READING DEV	130.40	0.00	0.00	113.42	3.52	0.00	S	S	
ID-PE-3968	IBRD 3887S	1995		BOOK & READING DEV	2.10	0.00	0.00	.10	3.52	0.00	S	S	
ID-PE-3972	IBRD 38866	1995	GOI	AG. RESEARCH II	61.00	0.00	0.00	53.57	22.82	0.00	S	S	
ID-PE-3951	IBRD 3854A	1995	GOI	KALIMANTAN UDP	77.43	0.00	0.00	68.35	40.84	0.00	S	S	
ID-PE-3979	IBRD 3845A	1995	GOI	RURAL ELECT II	252.09	0.00	0.00	214.12	162.76	0.00	S	S	
ID-PE-3988	IBRD 3825A	1995	GOI	PHRD II	40.57	0.00	0.00	36.81	6.31	0.00	S	S	
ID-PE-4019	IBRD 3801A	1995	GOI	ACCOUNTANCY DEV II	18.64	0.00	0.00	17.33	13.41	0.00	S	S	
ID-PE-3984	IBRD 3792A	1995	GOI	LAND ADMINISTRATION	56.45	0.00	0.00	51.51	14.24	0.00	S	S	

Project ID	Loan or Credit No.	Fiscal Year	Borrower	Purpose	Original Amount in US\$ Millions				Difference Between expected and actual disbursements a/		Last ARPP Supervision Rating b/	
					IBRD	IDA	Cancellations	Undisbursed	Orig	Frm Rev'd	Dev Obj	Imp Prog
					ID-PE-4016	IBRD 40540	1996	REPUBLIC OF INDONESIA	STRATEGIC URB. RDS I	86.90	0.00	0.00	76.83	16.83	0.00	S	S
ID-PE-4004	IBRD 4043A	1996	GOI	HIGHER EDUC SUP. (III	56.80	0.00	0.00	51.27	-2.00	0.00	S	S
ID-PE-37097	IBRD 4042A	1996	GOI	E. JAVA SEC. EDUC.	96.50	0.00	0.00	95.81	9.50	0.00	S	S
ID-PE-41896	IBRD 4030A	1996	GOI	HR CAPACITY BUILDING	19.31	0.00	0.00	19.22	5.22	0.00	U	U
ID-PE-39312	IBRD 4017A	1996	GOI	SECOND E. JAVA UDP	129.64	0.00	0.00	129.46	65.17	0.00	S	S
ID-PE-4014	IBRD 4008A	1996	GOI	KERINCI SEBLAT ICDP	18.47	0.00	0.00	18.44	3.53	0.00	S	S
ID-PE-4011	IBRD 4007A	1996	GOI	SULAWESI AGRI AREA	23.97	0.00	0.00	22.95	.95	0.00	S	S
ID-PE-4008	IBRD 3984A	1996	GOI	NUSA TENGGARA DEV.	24.80	0.00	0.00	24.16	3.67	0.00	U	U
ID-PE-39643	IBRD 39810	1996	GOI	STD/AIDS	24.80	0.00	0.00	22.99	13.45	0.00	S	U
ID-PE-4003	IBRD 3979A	1996	GOI	SECONDARY SCHOOL TEA	54.40	0.00	0.00	52.09	20.27	0.00	S	S
ID-PE-4021	IBRD 3978A	1996	GOI	POW. TRANS & DIST II	362.74	0.00	0.00	359.99	155.59	7.99	S	S
ID-PE-3978	IBRD 3972A	1996	GOI	IND'L TECHNOLOGY DEV	40.08	0.00	0.00	38.83	22.83	0.00	S	S
ID-PE-42882	IBRD 41980	1997	GOI	RENW. ENER SMAL PW P	66.40	0.00	0.00	66.40	0.00	0.00	S	S
ID-PE-49051	IBRD 41940	1997		BEPEKA AUDIT MODER P	16.40	0.00	0.00	15.40	1.30	0.00	S	S
ID-PE-40195	IBRD 41930	1997	GOI	QUAL OF UNDERGRAD ED	71.20	0.00	0.00	68.70	2.50	0.00	S	S
ID-PE-36047	IBRD 41550	1997	GOI	BALI URBAN INFRAS.	110.00	0.00	0.00	106.80	-3.20	0.00	S	S
ID-PE-35544	IBRD 41320	1997	GOI	SOLAR HOME SYSTEMS	20.00	0.00	0.00	20.00	1.96	0.00	U	U
ID-PE-42540	IBRD 41250	1997		IODINE DEF. CONTROL	28.50	0.00	0.00	26.99	.89	0.00	S	S
ID-PE-4026	IBRD 41060	1997	GOI/PERUMKA	RLWY EFFICIENCY	105.00	0.00	0.00	105.00	10.00	0.00	S	S
ID-PE-36053	IBRD 4105A	1997	GOI	SULAWESI UDP II	149.58	0.00	0.00	147.00	29.41	0.00	S	S
ID-PE-40521	IBRD 41000	1997	GOI	VILLAGE INFRA II	140.10	0.00	0.00	104.39	15.54	0.00	S	S
ID-PE-3987	IBRD 4062A	1997		C.INDONESIA SEC.EDU.	101.14	0.00	0.00	100.10	13.40	0.00	S	S
ID-PE-39644	IBRD 43080	1998	GOI	W. JAVA BASIC EDUC.	103.50	0.00	0.00	103.50	0.00	0.00		
ID-PE-3993	IBRD 43070	1998	GOI	N.SUMATRA REG. ROADS	234.00	0.00	0.00	234.00	0.00	0.00		
ID-PE-37095	IBRD 43060	1998	GOI	MALUKU REG. DEV	16.30	0.00	0.00	16.30	0.00	0.00		
ID-PE-36048	IBRD 43050	1998	GOI	CORAL REEF MGM REHAB	6.90	0.00	0.00	6.90	0.00	0.00		
ID-PE-40061	IBRD 42900	1998	GOI	BENGKULU REG DEV	20.50	0.00	0.00	20.50	0.00	0.00		
ID-PE-55755	IBRD 42550	1998	TBD	BANKING REFORM ASST.	20.00	0.00	0.00	20.00	0.00	0.00		
ID-PE-48715	IBRD 42440	1998		IIDP	34.50	0.00	0.00	34.50	2.01	0.00		
Total					4,938.07	0.00	3.94	4,558.31	1,743.49	87.94		

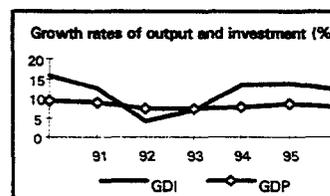
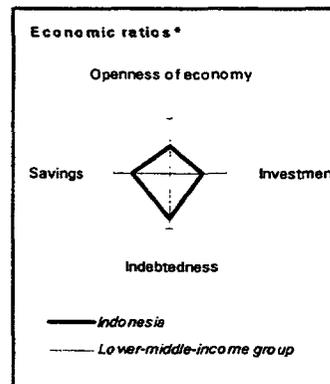
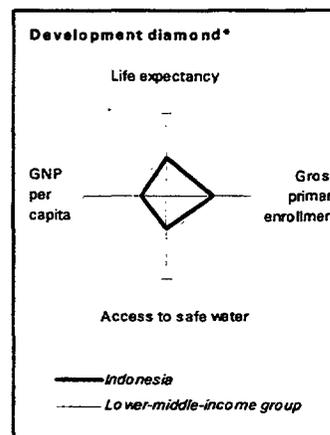
	Active Loans	Closed Loans	Total
Total Disbursed (IBRD and IDA):	391.21	18,322.73	18,713.94
of which has been repaid:	0.00	7,729.45	7,729.45
Total now held by IBRD and IDA:	5,001.91	10,638.53	15,640.44
Amount sold :	0.00	88.08	88.08
Of which repaid :	0.00	88.08	88.08
Total Undisbursed :	4,558.31	45.26	4,603.57

- a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.
b. Following the FY94 Annual Review of Portfolio performance (ARPP), a letter based system was introduced (HS = highly Satisfactory, S = satisfactory, U = unsatisfactory, HU = highly unsatisfactory): see proposed Improvements in Project and Portfolio Performance Rating Methodology (SecM94-901), August 23, 1994.

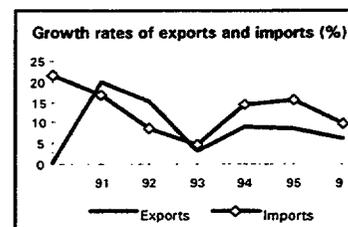
Note:
Disbursement data is updated at the end of the first week of the month.

Annex 10
Kecamatan Development Project
Country at a Glance
Indonesia At a Glance

POVERTY and SOCIAL	Indonesi a	East Asia	Lower Middle- income	
Population mid-1996 (millions)		1,726	1,125	
GNP per capita 1996 (US\$)	197.1	890	1,750	
GNP 1996 (billions US\$)	1,090	1,542	1,967	
Average annual growth, 1990-96	213.7			
Population (%)		1.3	1.4	
Labor force (%)	1.7	1.3	1.8	
More recent estimate (latest year available since 1989)	2.5			
Poverty: headcount index (% of population)	11	31	56	
Urban population (% of total population)	36	68	67	
Life expectancy at birth (years)	64	40	41	
Infant mortality (per 1,000 live births)	51	..	..
Child malnutrition (% of children under 5)	62	17	..	
Access to safe water (% of population)	16			
Illiteracy (% of population age 15+)		117	104	
Gross primary enrollment (% of school-age population)	115	120	105	
Male	117	116	101	
Female	113			
KEY ECONOMIC RATIOS and LONG-TERM TRENDS				
	32.1	201.2	225.8	
	23.7	87.2	31.1	
	24.0	26.1	26.2	
GDP (billions US\$)	26.6	23.0	32.3	
Gross domestic investment/GDP	..	28.6	24.7	
Exports of goods and services/GDP	..	..	-3.5
Gross domestic savings/GDP	1.0	..	2.5	
Gross national savings/GDP	35.8	2.3	61.7	
Current account balance/GDP	..	42.1	29.8	
Interest payments/GDP	..	..	..
Total debt/GDP	..	..	..
Total debt service/exports	1975-1985	1986-1995	1996	
Present value of debt/GDP	7.0	7.9	8.2	
Present value of debt/exports	4.3	6.1	5.8	
(average annual growth)	-1.0	8.9	8.6	
GDP				
GNP per capita				
Exports of goods and services				
STRUCTURE of the ECONOMY				
(% of GDP)	1975	1985	1995	1996
Agriculture	30.2	23.2	17.2	16.3
Industry	33.5	35.9	41.5	42.7
Manufacturing	9.8	16.0	24.2	25.2
Services	36.3	40.9	41.4	41.0
Private consumption	64.3	59.6	59.9	59.2
General government consumption	9.0	11.8	7.9	7.7
Imports of goods and services	21.0	20.5	25.2	24.9



(average annual growth)	1975-	1986-96	1995	1996
Agriculture	85	3.4	4.2	1.9
Industry	4.2	9.9	10.4	10.5
Manufacturing	7.0	11.2	10.8	11.0
Services	14.5	8.0	7.7	6.9
Private consumption	9.0	7.2	9.6	7.4
General government consumption	10.0	4.4	1.3	3.8
Gross domestic investment	10.5	10.8	13.5	11.8
Imports of goods and services	12.1	9.4	15.8	9.6
Gross national product	8.8	7.9	7.5	7.5



Note: 1996 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

	1975	1985	1995	1996
Domestic prices (% change)				
Consumer prices	19.1	4.7	5.1	6.6
Implicit GDP deflator	11.2	4.3	9.4	8.7

Government finance

(% of GDP)	1975	1985	1995	1996
Current revenue	..	19.2	15.5	15.3
Current budget balance	..	6.0	6.4	6.2
Overall surplus/deficit	..	-3.2	-0.2	0.9

TRADE

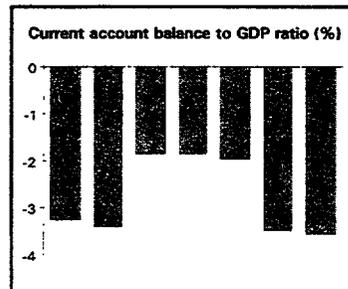
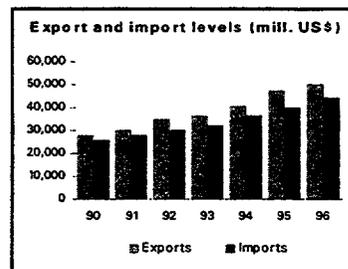
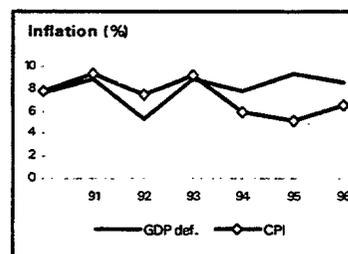
(millions US\$)	1975	1985	1995	1996
Total exports (fob)	..	18,823	47,454	50,188
Fuel	..	12,804	10,465	11,722
Rubber	..	714	1,986	1,894
Manufactures	..	2,287	30,853	32,653
Total imports (cif)	..	14,056	40,286	44,240
Food	..	812	3,397	3,852
Fuel and energy	..	2,870	3,841	4,693
Capital goods	..	5,394	18,957	20,783
Export price index (1987=100)	..	121	137	131
Import price index (1987=100)	..	85	127	127
Terms of trade (1987=100)	..	143	108	103

BALANCE of PAYMENTS

(millions US\$)	1975	1985	1995	1996
Exports of goods and services	..	..	52,683	58,060
Imports of goods and services	..	..	51,589	56,961
Resource balance	..	..	1,349	1,099
Net income	..	..	-7,832	-8,548
Net current transfers	..	..	-284	-400
Current account balance, before official capital transfers	..	..	-6,987	-7,849
Financing items (net)	..	..	9,418	11,747
Changes in net reserves	..	..	-2,651	-3,898
Memo:				
Reserves including gold (mil. US\$)	592	13,184	26,139	27,519
Conversion rate (local/US\$)	415.0	1,110.6	2,248.6	2,342.3

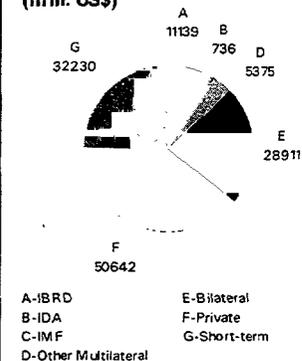
EXTERNAL DEBT and RESOURCE FLOWS

(millions US\$)	1975	1985	1995	1996
Total debt outstanding and disbursed	57	3,590	12,503	11,139
IBRD	318	844	756	736
IDA	1,060	5,823	16,416	21,462



Total debt service	2	384	1,875	2,249
IBRD	2	12	26	26
IDA				
Composition of net resource flows	..	..	249	190
Official grants	515	980	1,115	-805
Official creditors	1,749	154	2,314	6,971
Private creditors	..	..	4,348	7,986
Foreign direct investment	..	..	4,873	3,099
Portfolio equity				
World Bank program	311	1,068	1,312	1,194
Commitments	164	777	1,045	905
Disbursements	0	133	975	1,429
Principal repayments	164	644	69	-523
Net flows	3	262	926	846
Interest payments	160	382	-857	-1,370
Net transfers				

**Composition of total debt, 1996
(mil. US\$)**



Development Economics

Note: Government finance and trade fiscal year (April to March)

KDP: FY98/99 Kecamatan

Province	#kabupatens	# kecamatan		Total
		at Rp500m	at Rp750m	
DI Aceh	4	1	19	20
Sumatra Utara	2	1	9	10
Sumatra Barat	3	-	10	10
Riau	2	-	5	5
Sumatera Selatan	2	-	5	5
Lampung	3	1	14	15
Sumatra	16	3	62	65
Jawa Barat	13	15	31	46
Jawa Tengah	14	10	33	43
Jawa Timur	12	15	21	36
Yogyakarta	1	1	4	5
Jawa	40	41	89	130
Kalimantan Selatan	3	3	7	10
Kalimantan Tengah	1	4	1	5
Sub-total	4	7	8	15
Sulawesi Selatan	4	3	12	15
Sulawesi Utara	3	4	6	10
Sulawesi Tengah	4	7	8	15
Sulawesi Tenggara	1	1	4	5
Sub-Total	12	15	30	45
Maluku	3	5	10	15
NTT	12	19	31	50
Timor Timur	5 13 ^{1/}	5	2	20
Irian Jaya	3	10	-	10
East Indonesia	39 13	57	81	151
Total	95 13	105	232	350

Criteria for kecamatan selection:

--no less than 3 kecamatan per kabupaten and no more than 6

--no more than 5 P3DT villages in the kecamatan

--no less than certain population sizes, as follows:

for grants of	Rp500m	Rp750m
	population sizes	
on Java	25,000-50,000	>50,000
elsewhere	15,000-25,000	>25,000
^{1/} Special provisions for Tim Tim are:	Rp250m for kecamatan with 5,000-15,000	

Annex 12

Attachment 1

**INDONESIA
KECAMATAN DEVELOPMENT PROJECT**

AGREEMENT

**BETWEEN LKMD AND PIMPRO
FOR THE KECAMATAN DEVELOPMENT ASSISTANCE GRANT**

TABLE OF CONTENTS

General Conditions of Agreement	1
Sample Form of Agreement	2
General Specifications (developed per nature of works in Project Manual)	3

GENERAL CONDITIONS OF IMPLEMENTATION AGREEMENT

- 3.1. Duties of the Kecamatan Facilitator (acting for PMD pimpro)
 - a) Verify subproject proposal and assist with preparation.
 - b) Supervise implementation of works.
 - c) Arrange payment documentation for work performed.
 - d) Accept completed works.
- 3.2. Duties of the LKMD
 - a) Implement the works in accordance with the specifications and Technical Guidelines for Works in the Project Manual provided by the Kecamatan Facilitator.
 - b) Provide materials, equipment and personnel; unskilled personnel will have to be village labor as per the Manual, in accordance with the agreement and Technical Guidelines.
 - c) Provide local management (team leader, foreman, administration) and pay at appropriate cost based on the agreement.
- 3.3. The works shall not be contracted without approval from the Kecamatan Facilitator/Pimpro.
- 3.4. The LKMD must obey existing rules and regulations, and respect local customs.
- 3.5. Force Majeure is an event outside the control of the LKMD which obstructs or damages the work. Such an event must be reported to the Kecamatan Facilitator within 7 days. The Kecamatan Facilitator may agree to costs resulting therefrom, and prepare an agreement addendum if needed.
- 3.6. Differences of opinion that may occur between the LKMD and the Kecamatan Facilitator should be brought for discussion with the Engineer/management consultant immediately at the kecamatan. Settlement of such differences shall be decided by the Engineer/management consultant and be based on factual evidence and the Agreement. If they entail costs justified in the opinion of the Engineer/management consultant due to changes of original specifications, then an Agreement addendum has to be prepared.
- 3.7. Non-compliance by the LKMD
The LKMD shall be judged negligent if it does not comply with clauses 3.2. or 3.4. or does not obey the warnings of the Kecamatan Facilitator. The Kecamatan Facilitator shall give written notice to the LKMD of any non-compliance and send copy to the Engineer/management consultant and to the UDKP.
- 3.8. Sanctions
 - a) In relation to negligence of the LKMD under clause 3.7., payments to the LKMD shall be postponed until the cause of negligence is corrected and accepted by the Kecamatan Facilitator in accordance with the Agreement.
 - b) If within 15 days of receiving a warning under clause 3.7. the LKMD leader takes no corrective action, then the Kecamatan Facilitator may propose to the Pimpro to appoint an alternative leader or to appoint a third party to carry out the works.
- 3.9. Payment for the works shall be based on the amount of works certified by the Kecamatan Facilitator in accordance with the Agreement or addendum if any,
- 3.10. Reporting by the LKMD
 - a) Weekly personnel records.
 - b) Weekly equipment record.
 - c) Weekly progress of works.
 - d) Monthly cumulative progress.

Attachment 2

LKMD: _____
 Address: _____

 _____ Date: _____

KDP IMPLEMENTATION AGREEMENT

NO.

for

WORK/SUPPLIES

IN KABUPATEN _____ IN KECAMATAN _____ VILLAGE _____

No.: _____ / _____ / 199/200 _____
 Date: _____
 Location: _____

A. We, the undersigned:

1. NAME: _____
 TITLE: Pimpro
 ADDRESS: Jl. _____
 hereinafter referred to as the FIRST PARTY.

Authorized to act on behalf of the Government Dati 11 Kabupaten as Employer, by assignment letter dated:
 No.: _____

2. NAME: _____
 TITLE: _____ (Ketua I LKMD)
 ADDRESS: Jl. _____
 hereinafter referred to as the SECOND PARTY.

B. Both parties agree:

- a. Type of Works: _____
- b. Location: _____
- c. Description: _____
- d. Value of Agreement: Rp. _____ (in words)
- e. Execution period: _____ calendar days from the date of signing the agreement, without warranty period.
- f. Payment: Initial advance of Rp.20%. Payments proportional to physical progress as stated in bills certified by the Kecamatan Facilitator and the final hand-over.
- h. Condition for Execution: As stated in the attached General Conditions of Agreement
- i. Miscellaneous: - 5 copies of agreement, 1 copy with Rp. 2,000 duty stamp for KPKN.

SECOND PARTY
Head of LKMD

FIRST PARTY
for Pimpro

Acknowledged by
Camat

(_____)

(_____)

(_____)

Attachment 3

INDONESIA
KECAMATAN DEVELOPMENT PROJECT

Documentation for Procurement of Small Civil Works/Supplies
(for contract values between Rp. 10 million and Rp. 150 million)

TABLE OF CONTENTS

Invitation to Bid and Instructions to Bidders	1
General Conditions of Contract	2
Sample Form of Contract/Work Order	3
Sample Form of Quotation	4
General Specifications	5
(to be developed per nature of works in forthcoming Works Project Manual)	

1. INVITATION TO BID

1.1 Works: _____

1.2 Kabupaten/Kecamatan/Village:
SPABP Inpres _____

Date _____ No. _____

Date _____ No. _____

1.3 Appointment Procedure

	Activity	Location	Date	Hour	Remark
1.3.1	Collect Bid Document	LKMD			Free of Charge
1.3.2	Explain Documents	idem			Site Visit
1.3.3	Submit Bid	idem			Duty Stamps Rp.2000
1.3.4	Evaluate/Negotiate	idem			
1.3.5	Appoint contractor	idem			Duty Stamps
1.3.6	Sign Contract	idem			Rp.2000

2. INSTRUCTION TO BIDDERS

2.0 The contractor will be selected after review of 3 quotations from different sources for local shopping and 1 quotation for direct contracting, contract values cannot exceed Rp. 10 million for direct contracting and Rp. 50,000,000 for local shopping.

2.1 Quotation Form attached.

2.3 Contract Form attached.

2.4 Attachment to the Quotation Form: Schedule of Activities and Prices

2.4 Contract Period: (3-6) months from the date of signing of Contract.

2.5 Type of Contract: Unit Price or Lump Sum, without escalation.

2.6 Payment for Achievement (output):

Semi-Monthly: After certification for works completed in 2 week period; the last payment, after issuing a Certificate of Hand-over.

GENERAL CONDITIONS OF IMPLEMENTATION AGREEMENT

- 3.1. Duties of the LKMD Head (contract/owner)/Kecamatan Facilitator (acting for PMD)
 - a) Supervise implementation of works.
 - b) Arrange payment documents for work performed.
 - d) Accept completed works.
- 3.2. Duties of the Supplier
 - a) Implement the works in accordance with the specifications and technical guidelines in the Project Manual provided by the Kecamatan Facilitator.
 - b) Provide materials, equipment and personnel; unskilled personnel will have to be village labor as per the Manual, in accordance with the agreement and Technical Guidelines.
- 3.3. The works shall not be contracted without approval from Kecamatan Facilitator.
- 3.4. The Supplier must obey existing rules and regulations, and respect local customs.
- 3.5. Force Majeure is an event outside the control of the LKMD which obstructs or damages the work. Such an event must be reported to the Kecamatan Facilitator within 7 days. The Kecamatan Facilitator may agree to costs resulting therefrom, and prepare an agreement addendum if needed.
- 3.6. Differences of opinion that may occur between the Supplier and the LKMD should be brought for discussion with the Kecamatan Facilitator immediately. Settlement of such differences shall be decided by the Engineer/management consultant and be based on factual evidence and the Agreement. If they entail costs justified in the opinion of the Kecamatan Facilitator due to changes of original specifications, then a contract addendum has to be prepared.
- 3.7. Non-compliance by the Supplier
The Supplier shall be judged negligent if it does not comply with clauses 3.2. or 3.4. or does not obey the warnings of the Contract Owner or Kecamatan Facilitator. The LKMD or Engineer shall give written notice to the Supplier of any non-compliance.
- 3.8. Sanctions
 - a) In relation to negligence of the Supplier under clause 3.7., payments to the Supplier shall be postponed until the cause of negligence is corrected and accepted by the LKMD/Kecamatan Facilitator in accordance with the Contract.
 - b) If within 7 days of receiving a warning under clause 3.7. the Supplier takes no corrective action, the LKMD/Kecamatan Facilitator may terminate the contract and appoint a third party to carry it out.
- 3.9. Payment for the works shall be based on the amount of works certified by the LKMD/Kecamatan Facilitator in accordance with the contract or addendum if any,
- 3.10. Reporting by the Supplier
 - a) Weekly personnel records.
 - b) Weekly equipment record.
 - c) Weekly progress of works.
 - d) Monthly cumulative progress.

Attachment 1 — Agreement Form

Attachment 2 — Bid Form

LKMD: _____
Address: _____

SPABP No.: _____ Date: _____
Implementation Agreement No.: _____ Date: _____

KDP CONTRACT AGREEMENT
for

_____ WORK/SUPPLIES

IN KABUPATEN _____ IN KECAMATAN _____ VILLAGE _____

No.: _____ / _____ / 199 _____

Date: _____

Location: _____

A. We, the undersigned:

1. NAME: _____

TITLE: Project Manager of the Works-LKMD

ADDRESS: Jl. _____

hereinafter referred to as the FIRST PARTY.

Authorized to act on behalf of the Government Dati II Kabupaten as Employer, by assignment letter dated:

_____ No.: _____

2. NAME: _____ (Supplier)

TITLE: _____ (Director)

ADDRESS: Jl. _____

hereinafter referred to as the SECOND PARTY.

B. Both parties agree to enter into Contract as the result of tendering::

a. Type of Works: _____

b. Location: _____

c. Description: _____

d. Value of Agreement: Rp. _____ in words)

e. Execution period: _____ calendar days from the date of signing the agreement, without warranty period.

f. Payment: Up to 10% advance to be netted out of payments of the first 2 months. Payments every 2 weeks proportional to physical progress as stated in bills certified by the Kecamatan Facilitator and the final hand-over.

h. Condition for

Execution: As stated in the attached General Conditions of Agreement

i. Miscellaneous:

- 5 copies of agreement, 1 copy with Rp. 2,000 duty stamp for KPKN.

- Copy of contract shall be sent to Pimpro.

SECOND PARTY
SupplierFIRST PARTY
LKMDAcknowledged by
Pimpro

(_____)

(_____)

(_____)

To: The Project Manager (Pmpro) of the Kecamatan Development Project

QUOTATION

- 1. Having examined the Quotation Documents, comprising the Invitation to Bid, the Instruction to Bidders, the General Conditions and Technical Guidelines in the Project Manual, related to the following works:

Description : _____
 of : _____
 Works : _____

I/We the undersigned offer to implement the whole of the said works in conformity with the aforesaid documents for the sum of:

Rp _____
 (in words) _____

As detailed in the Attachment to the Quotation showing schedule of Activities and Prices (form to be developed in Manual)

- 2. I/We undertake to commence the works on the date of signing the Contract and to complete and to hand-over the works comprised in the contract within the period stated in the bid document.
- 3. This Quotation is valid for one month from its date.

Date: _____

Supplier Name: _____

Address: _____

Supplier Signature

Annex 13
Kecamatan Development Project
Environment Criteria

Environmental Screening

1. As a highly decentralized investment project, KDP will support thousands of small subproject investments in poor villages. Many are in fragile locations potentially susceptible to damage to their physical and biotic environments.
2. Indonesia's environmental review procedure is acceptable to the Bank and will form the framework for KDP's approach to environmental management. Because KDP subprojects will be small, no major adverse impacts are anticipated; however, the project will institute screening, review, and "red-flag" procedures to help ensure that problems are flagged and corrected:
 - 1) Prior to final approval in the UDKP forum, subprojects will be screened and approved by KE (Kabupaten Engineers). The screening will ensure that environmental requirements are met during the project preparation and implementation.
 - 2) Subproject screening:
 - (a) ANDALs (environmental assessments) are required for large³ subprojects in the following areas: marine/freshwater conservation areas, peat areas, water catchment areas surrounding lakes and reservoirs, areas surrounding springs, scientific areas, areas susceptible to natural hazards, coastal mangrove areas, coastal edges, forest protected areas, and cultural reserves. No infrastructure projects will be allowed in national parks, forest parks, river edges, or nature tourism parks. Kecamatan in protected areas will be screened out of project sites at the outset of kecamatan selection.
 - (b) The scale of most KDP subprojects ordinarily should not be so large that they require a UKL-UPL⁴. If UKL-UPLs are needed (i.e., if a subproject exceeds the limit for SOP in the table), then a consultant will prepare them and the World Bank will review the documents.
 - 3) Since the scale of most subprojects is expected to be small, no major adverse impacts are expected. Standard operating procedures (SOPs) should be sufficient to manage environmental concerns, provided that guidelines are followed and supervision corrects implementation mistakes promptly.

³ KEP-39/MENLH/8/1996 *Concerning the Types of Businesses or Activities Required to Complete an Environmental Impact Assessment.*

⁴ KEPMEN PU-481/KPTS/1996 *Concerning Decisions on the Types of Activities in the Field of Public Works that are required to Prepare UKL-UPL.*

The following table describes the scale of subprojects that require SOPs. All subprojects (i.e. most KDP subprojects) below the scale will not need any special environmental studies or review.

Sectors and Projects	Units	SOP
		<
Irrigation: new construction	ha	500
Irrigation: rehabilitation & Upgrading	ha	500
Irrigation: New Paddy-field (pencetakan)	ha	200
Tidal swamp area development	ha	500
Non-tidal swamp area development	ha	500
River normalization	km	5
Flood control	km	5
Rural roads	km	5
Bridges	m	60
Drainage	km	5

- 4) Special screening will be applied on the following cases:
- *Fishery*: standards from the kabupaten Fishery Service Agency (Dinas Perikanan) should be used properly in any fishery subproject proposals.
 - *Asbestos, pesticides and other agrochemicals*: No subprojects under this category will be financed (according to the negative list).
 - *Development on protected areas*: no new settlement or expansion of settlement will be supported in protection areas. Where settlements already exist, and if it is the policy of the kabupaten government to allow the settlement to remain, proposals for funding under KDP may be used by the existing residents using standard KDP procedures and in compliance with any local regulations on land management.
- 5) Subproject types not mentioned on the above list and table do not require SOP. However, good practice should always be applied. Project engineers will screen all but minor subproject proposals involving land and water use changes (i.e. reclamation, irrigation); economic projects with environmental impacts will also be screened by kecamatan facilitators and the kabupaten engineers to be sure that alignments, effluent, etc meet best practice standards.
3. Design specifications for water supply, rural roads and bridges will be applied to KDP as Standard Operating Procedures using the VIP project manual.
4. Provincial consultants will review screening results and report to the Bank (RSI) to ensure that OD 4.01⁵ requirements are being fulfilled.

⁵ The World Bank Operational Directive 4.01, *Environmental Assessment*.

Environmental TOR for project TA

Kabupaten Engineers (KE) should monitor the implementation of the works (described on the following paragraphs) and inform the findings to the UPK and kecamatan facilitator, with copies to provincial consultant.

Rural roads:

The major direct environmental impact associated with rural roads is erosion. Construction in the rainy season, or improper construction methods which leave soils exposed unnecessarily, can cause significant erosion. Erosion also causes serious sedimentation and siltation problems in nearby surface waters. In addition, improper drainage can ruin roads and has adverse impacts on adjacent lands.

The following points should be taken into consideration when preparing rural roads projects:

1. Description of the proposed project: location of roads, type of roads and expected volume of use, and construction activities.
2. Field Reconnaissance: to identify any natural and cultural features that may be affected by road construction.
3. Prediction of potential impacts based on the field reconnaissance.
4. Management of impacts:
 - a) Avoidance: if any construction may result in any of the features mentioned above, then alternative alignments or sites may avoid the problem at low cost.
 - b) Good practice should be applied in road alignment and construction such as ensuring proper drainage, to mitigate impacts.

Irrigation and drainage:

Irrigation and drainage projects manage water supplies for the purpose of agricultural production. The most significant direct negative environmental impacts of groundwater extraction for irrigation arise from overtapping groundwater supplies (withdrawing water in excess of the rate of recharge). This can result in the lowering of the local water table and failure of local wells. If surface waters are diverted, downstream users may be adversely affected.

These following points should be taken as consideration in preparing irrigation and drainage project:

1. Description of the proposed project: general design and extent of irrigation and drainage works, size catchment area, operation and maintenance of irrigation works.
2. Field reconnaissance: land use (including current crops and cropping patterns), present water supply and water uses (including current distribution of water resources if irrigation systems already exist in area).
3. Identification of the impacts based on the field reconnaissance. Potential impacts to be assessed include:
 - (a) project location: impact on historic and cultural sites, effects on water resources outside and inside command area.
 - (b) Project design: drainage problems, crossing for people and animals.
 - (c) Construction works: soil erosion
 - (d) Project operation: pollution by agrochemicals.
4. Measures to mitigate impacts include: use of alternative water sources, re-sizing system, design modifications, and good operating procedures.

Annex 14
Kecamatan Development Project
Guidelines for Resettlement, and Land and Asset Acquisition

Objectives

3. Land acquisition will be kept to a minimum and no person will be physically displaced under subprojects financed under the Project. Subproject proposals that would require demolishing houses or acquiring productive land should be carefully reviewed to reduce their impacts through alternative alignments. Proposals that require more than minor expansion along rights of way should be reviewed carefully.

4. Land or other assets may be acquired through:

- a) *Voluntary contributions.* In accordance with traditional practices, villagers may elect to voluntarily contribute land or assets and/or relocate temporarily or permanently from their land without compensation;
- b) *Contributions against compensation.* A contributor considered "affected" will be eligible for compensation from the village.

2. These guidelines provide principles and instructions to compensate affected persons under 1.(b) above, to ensure that all such persons negatively affected, regardless of their land tenure status, will be assisted to improve, or at least to restore, their living standards, income earning or production capacity to pre-project levels. However, if acquired assets are less than 20%, the Kecamatan Facilitator may dispense with the procedural requirements delineated in para. 5 below.

Compensation Principles

3. The LKMD shall ensure that any of the following means of compensation are timely provided to affected persons (the village grant cannot be used to pay compensation):

- a) replacement land with an equally productive plot or other equivalent productive assets;
- b) materials and assistance to replace fully solid structures that will be demolished;
- c) replacement of damaged or lost crops, at market value;
- d) other acceptable in-kind compensation.

Consultation Process

4. The LKMD will ensure that all occupants of land and owners of assets located in a proposed subproject area, are consulted. There will be a village meeting to inform villagers about their rights to compensation and options available in accordance with these Guidelines. The Minutes of the village meeting shall reflect the discussions held, agreements reached, and include the following:

- a) for any voluntary contributions, name of contributor and details about the contribution;

- b) for land/asset acquisition against compensation, names of affected persons and details about the nature and level of compensation.

Summary
Agreement reached

Amount Compensation

- (1) agric. land (m²)
- (2) plots:
area affected (m²)
houses/structures
to be demolished (units/m²)
- (3) trees or crops affected
- (4) signatures of villagers, kepala desa
- (5) record of any complaints
raised by affected persons
- (6) map attached
(showing affected areas and replacement areas)

5. The kecamatan facilitator shall provide a copy of the Minutes to affected persons and confirm in discussions with each of them their requests and preferences for compensation, agreements reached, and any eventual complaint. Copies will be recorded in the UPK project documentation and be available for supervision.

Subproject Approval

6. In the event that a subproject involves acquisition against compensation, the Kecamatan Facilitator shall:
- (a) not approve the subproject unless a satisfactory compensation has been agreed between the affected person and the LKMD, as mentioned above;
 - (b) not allow works to start until the compensation has been completed satisfactorily to the affected persons;
 - (c) in the highly unlikely event that more than 200 persons were affected and required compensation in a village, a compensation plan has to be prepared, and approved by the P3DT Secretariat, before the subproject can be approved.

Complaints and Grievances

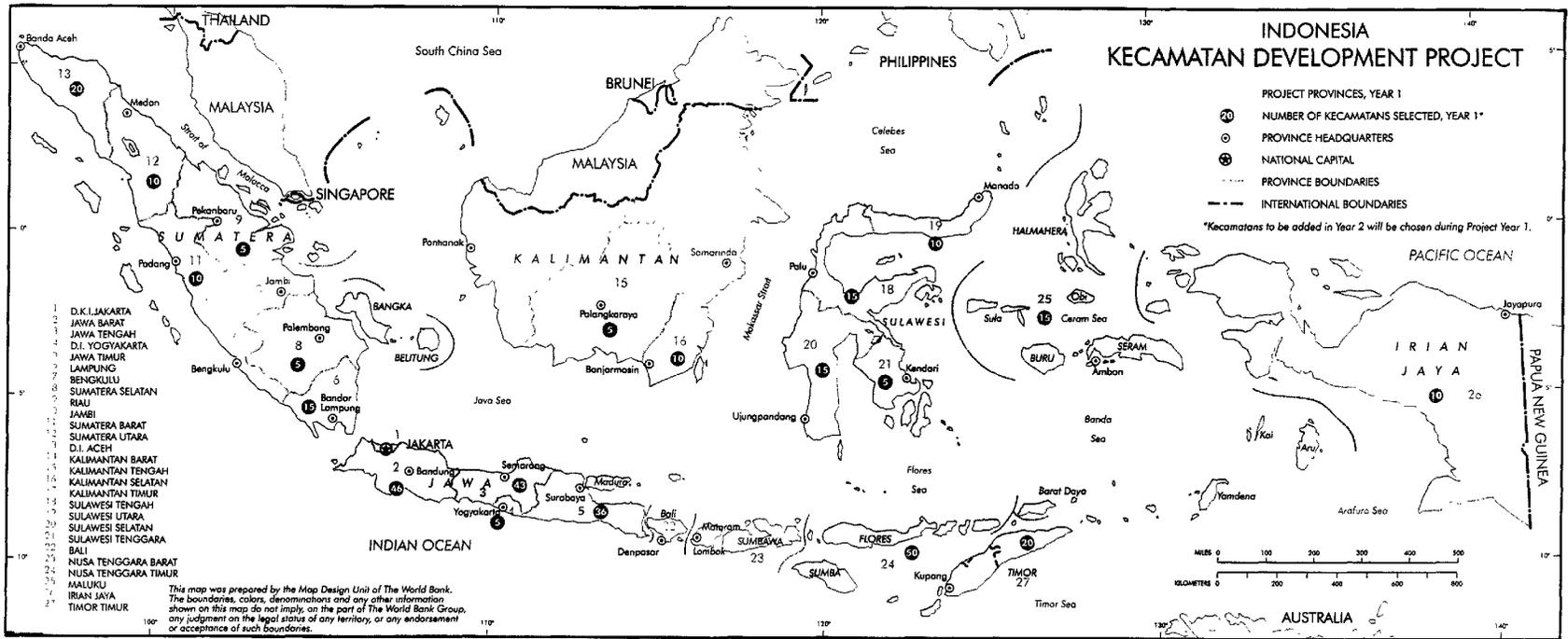
7. All complaints should first be negotiated to reach an agreement at the village level. If this fails, complaints and grievances about these Guidelines, implementation of the agreements recorded in the Village Minutes or any alleged irregularity in carrying out the project can also be addressed by the

affected persons or their representative at the kecamatan level. If this also fails, the complaint may be submitted to the Bupati for a decision.

Verification

8. The Village Minutes and evidence of compensation having been made shall be provided to the kecamatan facilitator assisting the village, to supervising engineers, auditors and socio-economic monitorers when undertaking reviews under the Project.

MAP SECTION



- 1 D.K. IAKARTA
- 2 JAWA BARAT
- 3 JAWA TENGAH
- 4 D.I. YOGYAKARTA
- 5 JAWA TIMUR
- 6 LAMPUNG
- 7 BENGKULU
- 8 SUMATERA SELATAN
- 9 RIAU
- 10 JAMBI
- 11 SUMATERA BARAT
- 12 SUMATERA UTARA
- 13 D.I. ACEH
- 14 KALIMANTAN BARAT
- 15 KALIMANTAN TENGAH
- 16 KALIMANTAN SELATAN
- 17 KALIMANTAN TIMUR
- 18 SULAWESI TENGAH
- 19 SULAWESI UTARA
- 20 SULAWESI SELATAN
- 21 SULAWESI TENGGARA
- 22 BALI
- 23 NUSA TENGGARA BARAT
- 24 NUSA TENGGARA TIMUR
- 25 MALUKU
- 26 IRIAN JAYA
- 27 TIMOR TIMUR