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Report No: PAD1477

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US$216.5 MILLION

TO THE

REPUBLIC OF INDONESIA

FOR A

NATIONAL SLUM UPGRADING PROJECT

June 9, 2016

Social, Urban, Rural and Resilience Global Practice
East Asia and Pacific Region

CURRENCY EQUIVALENTS
Exchange Rate Effective

Currency Unit = Indonesian Rupiah (IDR)
IDR13,378.15 = US$1

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AIIB	Asian Infrastructure Investment Bank
ASA	Advisory Services and Analytics
ADB	Asian Development Bank
APBD	Anggaran Pendapatan dan Belanja Daerah (Local Government Revenue and Expenditure)
APBN	Anggaran Pendapatan dan Belanja Negara (National Revenue and Expenditure)
BAPPENAS	Badan Perencanaan Pembangunan Nasional (National Development Planning Agency)
BAPPEDA	Badan Perencanaan Pembangunan Daerah (Local Development Planning Agency)
BI	Bank Indonesia
BKM or LKM	Badan Keswadayaan Masyarakat or LKM (Lembaga Keswadayaan Masyarakat or Community Board of Trustees)
BLHD	Badan Lingkungan Hidup Daerah (Local Environmental Agency)
BOT	Build-Operate-Transfer
BPBD	Badan Pengendalian Bencana Daerah (Local Disaster Management Authority)
BPKP	Badan Pengawas Keuangan dan Pembangunan (Finance and Development Supervisory Agency)
BPS	Badan Pusat Statistik (Central Bureau of Statistics)
Bupati	Regent
CDD	Community-Driven Development
CSP	Community Settlement Plan
DA	Designated Account
DED	Detailed Engineering Design
DG	Directorate General
DIPA	Daftar Isian Pelaksanaan Anggaran (Budget Implementation List)
DRM	Disaster Risk Management
DRR	Disaster Risk Reduction
EAP	East Asia Pacific
EMP	Environmental Management Plan
ESIA	Environmental and Social Impact Assessment
ESMF	Environment and Social Management Framework
FY	Fiscal Year
	Government of Indonesia

GOI	International Bank for Reconstruction and Development
IBRD	Islamic Development Bank
ISDB	Information and Communication Technology
ICT	Integrated Urban Infrastructure Development Program
IUIDP	Interim Financial Reports
IFR	International Public Sector Accounting Standards
IPSAS	Indigenous Peoples
IP	Investment Project Financing
IPF	Indigenous Peoples Plan
IPP	Indigenous Peoples Planning Framework
IPPF	Joint Management Committee
JMC	Regency
Kabupaten	District
Kecamatan	Kelurahan (Urban Ward)
Kelurahan	Kota Tanpa Kumuh (City without Slum)
KOTAKU	Kantor Pelayanan Perbendaharaan Negara (Treasury Office)
KPPN	Kelompok Swadaya Masyarakat (Self Help Group)
KSM	Land Acquisition and Resettlement Action Plan
LARAP	Land Acquisition and Resettlement Policy Framework
LARPF	Local Government
LG	Monitoring and Evaluation
M&E	Management Information System
MIS	Ministry of Finance
MOF	Ministry of Public Works
MPW	Ministry of Public Works and Housing
MPWH	National Affordable Housing Program
NAHP	National Community Empowerment Program [1]
NCEP	National Community Empowerment Program in Urban Areas
NCEP Urban	Neighborhood Development
ND	National Management Consultant
NMC	National Slum Upgrading Project
NSUP	National Urban Water Supply Program
NUWSP	National Working Group for Human Settlements
NWG-HS	Oversight Service Provider
OSP	Operations and Maintenance
O&M	Project Appraisal Document
PAD	Penyediaan Air Minum dan Sanitasi Berbasis Masyarakat (Third Water and
PAMSIMAS	Sanitation Project for Low Income Communities)
	Physical Cultural Resources
PCR	Perusahaan Daerah Air Minum (Municipal Water Company)
PDAM	Project Development Objective
PDO	Project Management Unit

[1] Often referred to by its Indonesian acronym, PNPM

PMU	Project Implementation Unit
PIU	Housing and Settlements Task Force
Pokja PKP	Project Operations Manual
POM	Quality and Cost-Based Selection
QCBS	National Urban Water and Sanitation Program
NUWSP	Regional Infrastructure Development Fund
RIDF	Rencana Kawasan Permukiman Kumuh Perkotaan (Slum Improvement Action Plan)
RKPKP	Rencana Pencegahan dan Peningkatan Kualitas Permukiman Kumuh Perkotaan (Slum Improvement Action Plan)
RP2KP-KP	Rencana Pembangunan dan Pengembangan Perumahan dan Kawasan Permukiman (Housing and Settlement Development Plan)
RP3KP	Rencana Pembangunan Jangka Menengah Daerah (Medium Term Regional Development Plan)
RPJMD	Rencana Pembangunan Jangka Menengah Nasional (Medium-Term National Development Plan)
RPJMN	Rumah Tidak Layak Huni (Non-Liveable House)
RTLH	Slum Alleviation Policy and Action Plan
SAPOLA	Project Implementation Unit
Satker	Systematic Country Diagnostic
SCD	Slum Improvement Action Plan
SIAP	Surat Perintah Pencairan Dana (Remittance Order)
SP2D	Surat Pernyataan Kesanggupan Pengelolaan dan Pemantauan Lingkungan
SPPL	(Letter of Environmental Management and Monitoring)
SUSENAS	Survey Sosial Ekonomi Nasional (National Socio-Economic Survey)
TA	Technical Assistance
TIPP	Tim Inti Perencanaan Partisipatif (Participatory Planning Core Team)
TMC	Technical Management Consultants
TP	Tugas Pembantuan (Delegated Function)
UKL/UPL	Upaya Pengelolaan lingkungan/ Upaya Pemantauan Lingkungan (Environmental Management Plan)
UPP	Urban Poverty Project
USAID	United States Agency for International Development
Walikota	Mayor
WBG	World Bank Group

Regional Vice President:	Victoria Kwakwa, EAPVP
Country Director:	Rodrigo A. Chaves, EACIF
Senior Global Practice Director:	Ede Ijjasz-Vasquez, GPSURR
Practice Manager/Manager:	Abhas K. Jha, GPSURR
Task Team Leader(s):	George Soraya, Evi Hermirasari, GPSURR

INDONESIA

National Slum Upgrading Project

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Republic of Indonesia

Indonesia National Slum Upgrading Project (P154782)

PROJECT APPRAISAL DOCUMENT

EAST ASIA AND PACIFIC

Social, Urban, Rural and Resilience Global Practice

Report No.: PAD1477

Basic Information		
Project ID P154782	EA Category B - Partial Assessment	Team Leader(s) George Soraya, Evi Hermirasari
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ] Financial Intermediaries [ ] Series of Projects [ ]	
Project Implementation Start Date 06-July-2016	Project Implementation End Date 30-September-2021	
Expected Effectiveness Date 01-September-2016	Expected Closing Date 31-March-2022	
Joint IFC No		

Practice Manager/Manager	Senior Global Practice Director	Country Director	Regional Vice President
Abhas Kumar Jha	Ede Jorge Ijjasz-Vasquez	Rodrigo A. Chaves	Victoria Kwakwa

Borrower: Republic of Indonesia (through Ministry of Finance)			
Responsible Agency: Ministry of Public Works and Housing			
Contact:	Andreas Suhono	Title:	Director General of Human Settlements
Telephone No.:	0622172796155	Email:	dirjenck@pu.go.id

Project Financing Data(in USD Million)					
[X]	Loan	[ ]	IDA Grant	[ ]	Guarantee
[ ]	Credit	[ ]	Grant	[ ]	Other

Total Project Cost:	1,743.00	Total Bank Financing:	216.50
Financing Gap:	0.00		

Financing Source	Amount
Borrower	1310.00
International Bank for Reconstruction and Development	216.50
Asian Infrastructure Investment Bank	216.50
Total	1743.00

Expected Disbursements (in USD Million)

Fiscal Year	2017	2018	2019	2020	2021	2022	
Annual	15.00	50.00	50.00	50.00	30.00	21.50	
Cumulative	15.00	65.00	115.00	165.00	195.00	216.50	

Institutional Data

Practice Area (Lead)

Social, Urban, Rural and Resilience Global Practice

Contributing Practice Areas

Cross Cutting Topics

[ ] Climate Change
[ ] Fragile, Conflict & Violence
[X] Gender
[ ] Jobs
[ ] Public Private Partnership

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Health and other social services	Other social services	20		
Transportation	Urban Transport	20		
Water, sanitation and flood protection	Solid waste management	60		
Total		100		

☑ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes		
Theme (Maximum 5 and total % must equal 100)		
Major theme	Theme	%
Social dev/gender/inclusion	Other social development	25
Urban development	Urban services and housing for the poor	25
Urban development	Urban planning and housing policy	25
Urban development	Other urban development	25
Total		100

Proposed Development Objective(s)
The overall project development objective is to improve access to urban infrastructure and services in targeted slums in Indonesia.

Components	
Component Name	**Cost (USD Millions)**
Institutional and Policy Development	7.00
Integrated Planning Support and Capacity Building for Local Governments and Communities	84.00
Urban Infrastructure and Services Investment Support	1,578.00
Implementation Support and Technical assistance	74.00
Contingency for Disaster Response	0.00

Systematic Operations Risk- Rating Tool (SORT)	
Risk Category	**Rating**
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Low
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	
OVERALL	Moderate

Compliance

Policy

Does the project depart from the CAS in content or in other significant respects?	Yes [ ] No [X]
Does the project require any waivers of Bank policies?	Yes [ ] No [X]
Have these been approved by Bank management?	Yes [ ] No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ] No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X] No [ ]

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	**X**	
Natural Habitats OP/BP 4.04		**X**
Forests OP/BP 4.36		**X**
Pest Management OP 4.09		**X**
Physical Cultural Resources OP/BP 4.11	**X**	
Indigenous Peoples OP/BP 4.10	**X**	
Involuntary Resettlement OP/BP 4.12	**X**	
Safety of Dams OP/BP 4.37		**X**
Projects on International Waterways OP/BP 7.50		**X**
Projects in Disputed Areas OP/BP 7.60		**X**

Legal Covenants

Name	Recurrent	Due Date	Frequency
Kelurahan Grant	X		CONTINUOUS

Description of Covenant
Schedule 2, Section I.E., paragraph 2. Sub-projects under Part 3.2 of the Project financed under Kelurahan Grants:
The Borrower shall make each Kelurahan Grant for a Sub-project under Part 3.2 of the Project to a Participating Kelurahan on terms and conditions acceptable to Bank which shall include those set forth or referred to in the Project Operations Manual, this Agreement.

Name	Recurrent	Due Date	Frequency
Implementation of SIAP	X		CONTINUOUS

Description of Covenant
Schedule 2, Section I.E.3. Sub-projects under Part 3.1 of the Project, paragraph (c):
In order to facilitate the implementation of Part 3.1 of the Project, the MPWH shall enter into a memorandum of understanding with each Participating City outlining the obligations of each part regarding implementation of activities in the SIAPs as further described in the Project Operations Manual.

Name	Recurrent	Due Date	Frequency
Mid-term Review		30-Jun-2018	

Description of Covenant
Schedule 2, Section II.A. paragraph 2:
No later than June 30, 2018, the Borrower shall, in conjunction with the Bank, carry out a mid-term review of the Project (the Mid-term Review), covering the progress achieved in the implementation of the Project. To this end, the Borrower shall prepare and furnish to the Bank not less than three (3) months prior to the beginning of the Mid-term Review, a report integrating the results of the Projects monitoring and evaluation activities, on the progress achieved in the carrying out of the Project during the period preceding the date of such report, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective of the Project during the period following such date. Following the Mid-term Review, the Borrower shall act promptly and diligently in order to take, or cause to be taken, any corrective action deemed necessary by the Bank to remedy any shortcoming noted in the carrying out of the Project in furtherance of the objective of the Project.

Conditions

Source Of Fund	Name	Type
IBRD	Article IV, 4.01 of the Loan Agreement	Effectiveness

Description of Condition
Co-financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.

Team Composition

Bank Staff

Name	Role	Title	Specialization	Unit
George Soraya	Team Leader (ADM Responsible)	Lead Municipal Engineer	Municipal Engineer	GSU08
Evi Hermirasari	Team Leader	Senior Urban Development Specialist	Urban Development	GSU08
Budi Permana	Procurement Specialist (ADM Responsible)	Procurement Specialist	Procurement	GGO08
Christina I. Donna	Financial Management Specialist	Senior Financial Management Specialist	Financial Management	GGO20

Evarist Baimu	Legal	Senior Counsel	Legal	LEGES
Dea Widyastuty	Team Member	Operations Analyst	Operations	GSU08
Gisella Elvir Lokopessy	Team Member	Program Assistant	Operations Support	EACIF
Hanesty Forisa	Team Member	Consultant	Urban Planning	GSU08
Indira Dharmapatni	Safeguards Specialist	Senior Operations Officer	Social Safeguards	GSUID
Iwan Gunawan	Team Member	Senior Disaster Risk Management Specialist	DRM	GSU08
Judy L. Baker	Team Member	Lead Economist	Urban Poverty and Evaluation	GSU08
Krisnan Pitradjaja Isomartana	Team Member	Senior Environmental Specialist	Environment Safeguards	GEN02
Kumala Sari	Team Member	Operations Analyst	Operations	GSU08
Linh X. Le	Team Member	Research Analyst	Urban Infrastructure	GSU08
Matthew John Sharp	Team Member	Consultant	Urban Development	GSU08
Parwoto Tjondro Sugianto	Team Member	Consultant	CDD	GSU08
Ratih Dewayanti	Team Member	Consultant	Evaluation	GSU08
Risye Dwiyani	Team Member	Consultant	Urban Planning	GSU08
Sri Probo Sudarmo	Team Member	Consultant	Infrastructure	GSUGL
Thomas E. Walton	Safeguards Specialist	Consultant	Environment Safeguards	GENDR
Virza S. Sasmitawidjaja	Safeguards Specialist	Consultant	Environment Safeguards	GENDR
Yuli Safitri Widyawati	Team Member	Consultant	MIS	GSU08
Ariel Glenesk Shepherd	Team Member	Consultant	Urban Development	GSU08
Andre Oosterman	Team Member	Consultant	Economic Analysis	GWA02
Retno Widuri	Legal	Operations Assistant	Legal	EACIF

Extended Team

Name	**Title**	**Office Phone**	**Location**

Locations					
Country	**First Administrative Division**	**Location**	**Planned**	**Actual**	**Comments**
Indonesia	Daerah Istimewa Yogyakarta	Daerah Istimewa Yogyakarta	**X**	**X**	
Indonesia	North Sulawesi	Sulawesi Utara	**X**	**X**	
Indonesia	Sulawesi Tenggara	Sulawesi Tenggara	**X**	**X**	
Indonesia	Central Sulawesi	Sulawesi Tengah	**X**	**X**	
Indonesia	South Sulawesi	Provinsi Sulawesi Selatan	**X**	**X**	
Indonesia	East Nusa Tenggara	Provinsi Nusa Tenggara Timur	**X**	**X**	
Indonesia	West Nusa Tenggara	West Nusa Tenggara	**X**	**X**	
Indonesia	Maluku	Provinsi Maluku	**X**	**X**	
Indonesia	East Kalimantan	Provinsi Kalimantan Timur	**X**	**X**	
Indonesia	Central Kalimantan	Provinsi Kalimantan Tengah	**X**	**X**	
Indonesia	South Kalimantan	Provinsi Kalimantan Selatan	**X**	**X**	
Indonesia	East Java	Jawa Timur	**X**	**X**	
Indonesia	Central Java	Provinsi Jawa Tengah	**X**	**X**	
Indonesia	Jakarta Raya	Daerah Khusus Ibukota Jakarta	**X**	**X**	
Indonesia	Papua	Provinsi Papua	**X**	**X**	
Indonesia	Bali	Provinsi Bali	**X**	**X**	
Indonesia	Gorontalo	Provinsi Gorontalo	**X**	**X**	
Indonesia	Maluku Utara	Provinsi Maluku Utara	**X**	**X**	
Indonesia	West Papua	Provinsi Papua Barat	**X**	**X**	
Indonesia	Sulawesi Barat	Provinsi Sulawesi Barat	**X**	**X**	

I. STRATEGIC CONTEXT

A. Country Context

1. **Rapid urbanization has placed cities at the center stage of Indonesia's development trajectory.**[2] Indonesia ranked among the top ten fastest urbanizing countries of the world during 1990-2014 and has the second-largest urban population in East Asia after China. The country has approximately 137 million urban dwellers that make up 53.7 percent of the total population. The urban population of Indonesia increased at an average rate of 4.1 percent per year between 2000 and 2010, faster than in any other country in Asia. The country's urban population density increased sharply between 2000 and 2010 - from 7,400 people per square kilometer to 9,400 - marking the largest increase in urban population density of any country in East Asia. By 2025, an estimated 68 percent of Indonesians will live in cities. But Indonesia has not benefited fully from the potential positive returns to urbanization that other countries in the region have experienced. From 1970 to 2006, every one percent increase in share of urban population correlated with an average of 6-10 percent increase in several middle-income Asian countries such as China, Thailand, Vietnam and India. In Indonesia similar rates of increase in urbanization related to less than two percent increase of per capita GDP.

2. **Urban poverty is increasingly acknowledged as a major problem.** Despite significant economic gains since the 1997-98 East Asian Financial Crisis[3], more than 28 million Indonesians currently live below the poverty line, and approximately 40 percent of all people remain clustered around the national poverty line set at IDR330,776 (US$22.6) per person per month, making them vulnerable to economic shocks. According to the Central Bureau of Statistics (BPS), the urban poverty rate was 8.16 percent in 2014, compared to the national poverty rate of 10.9 percent. World Bank estimates indicate that 36 percent of the poor in Indonesia live in urban areas (over 10 million people), and the number of urban poor is projected to be greater than that of rural poor by 2030, if current trends continue. While Indonesia registered a 25 percent decline in rural poverty between 2004 and 2012 (albeit from a higher threshold), there was a far lower decline of 6.5 percent in urban poverty in the same period. Income inequality as measured by the GINI coefficient increased from 0.35 in 1995 to 0.42 in 2011 in urban areas. The urban poor are concentrated in the provinces of Java and Sumatra, with internal migrants and slum dwellers being among the most vulnerable.

3. **Access to basic infrastructure services remains low, particularly for urban poor.** According to World Bank estimates, only 42 percent of urban households have access to a public water supply network and barely one-third have access to a house connection from the public utility company. The World Bank's latest assessments show that in urban Indonesia, access to piped water supply is much lower for the poorest quintile (nine percent) as compared to the highest income quintile (50 percent). Urban poor in Indonesia pay at least 10 to 30 times more to

[2] Of the 20 million jobs that were created from 2001 to 2011, 18 million were in urban areas.

[3] Indonesia now has the 10th largest economy in the world in terms of purchasing power parity (PPP) and 15th largest economy in terms of the size of GDP. Indonesia's GDP almost doubled from US$580 billion in 2001 to US$1.1 trillion in 2012, securing it a place as a member of the G20.

buy clean water from private providers as compared to the price paid by the wealthier households for water from water utilities. Public expenditure on road infrastructure has remained at 1.6 percent of GDP since the late 1990s, despite vehicle ownership tripling since 2001. Traffic congestion in urban areas and high road transport costs (compared to other East Asia and Pacific (EAP) countries) threaten Indonesia's growth potential.[4] There is significant inequality in access to improved sanitation by wealth quintiles in urban areas: almost 100 percent of the richest two quintiles have access to improved sanitation, compared to only 36 percent of the poorest quintile. 28 percent of urban Indonesians do not have access to improved sanitation facilities and 13 percent (18 million) still practice open defecation. Indonesia's urban population is estimated to generate approximately 85,000 tons of solid waste per day but only about 40 percent ends up in landfills, with many of these landfills being open dumps. A mere one percent of urban dwellers are served by sewerage systems, with only 12 cities having a substantial sewerage network. Nationally, over 70 percent of urban households discard wastewater into septic tanks or '*cubluks*' (open bottom pits). This has led to effluent waste being discharged largely untreated or partially treated into open drains, canals, rivers and ponds, resulting in widespread fecal contamination of urban ground water resources. With many people still reliant on wells for their drinking water, Indonesia continues to suffer a high incidence of water- and sanitation-related diseases, particularly typhoid.

4. **Slums remain a major challenge and are a visible marker of gaps in basic infrastructure and urban poverty.** Although Indonesia halved the proportion of its urban population living in slums between 1990 and 2005, the pace of reduction has stalled in recent years, with only a 4.5 percent decline in the last decade. About 22 percent of Indonesia's urban population (approximately 29 million people) is estimated to be living in slums with low levels of access to basic services. More than 50 percent of the poor live in slums.[5] In 2014, the Government of Indonesia (GoI) identified approximately 38,000 hectares[6] of slum areas (defined as dense neighborhoods lacking in access to infrastructure and with irregular buildings) spread across more than 3,500 urban wards (*see Annex 2, para 13 for the criteria used to define slums*). These areas are generally characterized by substandard housing, inadequate access to basic urban infrastructure and services (water, sanitation, roads etc.), poor health, vulnerability to disaster risks and, in larger cities, overcrowding. In 2014, an estimated 30 percent of slum dwellers (approximately nine million people) resided in units that lacked safe water and 37 percent of slum dwellers (approximately 11 million) with inadequate sanitation. In addition, about 30 percent of the roads and 50 percent of the drainage networks are considered to be in poor quality.[7]

5. **A large proportion of households in Indonesian slums have secure tenure (considered 'legal' slums); however, some slums are categorized as informal settlements ('illegal**

[4] According to World Bank's road sector Public Expenditure Review (2012), not only does Indonesia rank in the second-to-last quintile on the Global Competitiveness Index in terms of availability of road infrastructure, but it has some of the highest road transport costs in the region exceeding that of Vietnam, Thailand, Malaysia, and China.
[5] Based on a slum profiling by NCEP Urban 2015 carried out nationally.
[6] The Directorate General of Human Settlements in the Ministry of Public Works and Housing carried out a Quick Count of slums in 2014, measuring settlements in 33 provinces using a rapid assessment method.
[7] Based on slum profiling survey undertaken by NCEP Urban 2015.

slums'). Legal slums include those where land belongs to or is rented by the residents, and the residents' right to occupy the land is recognized by the local government. Informal settlements include settlements that are located on land that is not allocated for housing (based on official spatial plans), privately-owned land without the owners' consent, and environmentally risky land (e.g., along riverbanks). Current national urban policy and planning does not directly address this issue. But experience under National Community Empowerment Program (NCEP) Urban shows that many tenure issues can be resolved at the city level given that local governments have a wide latitude to take action within the existing legal frameworks on land tenure, environmental management and spatial development.

B. Sectoral and Institutional Context

6. **Alignment with Indonesia's National Medium-Term Development Plan (RPJMN) 2015-2019**. Under RPJMN 2015-2019, the GoI has committed to an ambitious target of eliminating slums and achieving universal access to safe water and sanitation by 2019, (popularly known as target 100-0-100[8]). In order to meet these targets, the GoI has launched sectoral platforms of service delivery in urban and rural water, sanitation and slum upgrading. For achieving the target of zero percent slums, the GoI has established the ***National Slum Upgrading Program*** (popularly known in Indonesia as KOTAKU) as a national collaborative platform financed by multiple sources, including central and local governments, the private sector, communities, as well as multi-lateral donors. The World Bank, the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB), and the Islamic Development Bank (ISDB) will each work on a subset of cities within the program. The World Bank and AIIB will work in the same subset of NSUP cities. KOTAKU aims to establish an integrated and collaborative system for slum upgrading interventions between ministries, as well as enable local governments to lead design and implementation in their respective cities. This platform seeks to leverage all resources (organizational and financial) available from national, provincial and local government programs, alongside donor financing.

7. **The World Bank has prepared the National Slum Upgrading Project (NSUP) as a coordinated response to support the GoI's 100-0-100 objective and targets defined in RPJMN 2015-2019.** Along with the National Urban Water Supply Program (NUWSP), the Community-based Rural Water Supply and Sanitation Program (PAMSIMAS) and the National Affordable Housing Project (NAHP), this project forms part of a well-aligned World Bank support to GoI efforts to eliminate slums and provide universal access to safe water and sanitation. In addition, the rich Advisory Services and Analytics (ASA) portfolio of the World Bank in Indonesia further strengthens the institutional capacity building components of this project, specifically on Land, Housing and Urban Settlements as well as on Sustainable Urbanization. This project supports a nation-wide, scalable upgrading approach, by designing infrastructure investments (including improvement of primary and secondary infrastructure, and construction of connecting and tertiary infrastructure and services) to address the context-specific needs of cities. It will also provide advisory support to the GoI to examine and analyze

[8] The target '100-0-100' refers to 100 percent household access to clean water supply; zero slums; and 100 percent household access to safe sanitation.

options for policy reforms necessary to achieving sustainability of slum alleviation efforts. Slum prevention will focus on building the capacity of local governments and communities to maintain infrastructure in upgraded slums, as well as in areas identified as emerging slums to prevent them from degenerating into fully-fledged slums. Slum prevention activities will include: (a) control and monitoring at kelurahan[9] level, including regular maintenance and checks on building permits and technical standards; (b) community empowerment through livelihoods-enabling facilities and access to information; and (c) community-level investment for basic infrastructure where gaps are identified.

8. **Collaboration among sectors is expected to be effective as most national programs supporting the GoI's 100-0-100 objective and targets defined in RPJMN are under the purview of the Ministry of Public Works and Housing** (**MPWH).** Except for housing, all programs are managed under the Directorate General of Human Settlements (DGHS), which is also the executing agency for the proposed project. Such institutional arrangements will ensure effective coordination between various national sectoral initiatives as well as the donors. Given that the aim of KOTAKU is to address slums nationally, the MPWH is making a concerted effort to ensure that a single platform is utilized for implementation by all donor agencies providing support for various cities. To this end, MPWH has decided that all projects under the KOTAKU umbrella will utilize a single program manual approved by National Working Group (NWG)-HS in line with the Consolidated Guidelines of the Slum Alleviation National Program with a single Monitoring & Evaluation (M&E) framework as developed under this project, and is further exploring a unified approach to safeguards framework across the entire program.

9. **NSUP internalizes the guiding principles of the Slum Alleviation Policy and Action Plan (SAPOLA) developed by GoI** to support the design and development of a national slum upgrading policy and action plan. The SAPOLA final report recommended the following actions: (a) create an enabling policy framework at the national level for long term slum alleviation and prevention, while providing financial resources to local governments to lead the design and implementation of slum upgrading initiatives; (b) enable urban local governments to improve living conditions in slums by transforming them into viable communities by building local governments' capacity to map slums, develop spatial plans and prevent new slums from emerging through a comprehensive set of strategies; (c) facilitate investments to upgrade and link slums to primary, secondary and tertiary urban infrastructure networks in a manner that integrates slums into the urban mainstream; and (d) ensure that community participation is incorporated in program design, implementation and supervision. An additional set of recommendations from SAPOLA pertaining to the provision of low income housing and improvement of land and housing markets are addressed in part by the Bank-financed National Affordable Housing Project, within which, there will be technical assistance to improve the capacity of Perumnas in managing land banking. Furthermore, policy development in regards to land issues will be managed by Bappenas through Component 1.

[9] The average size of the population of kelurahans is 8,100 people.

10. **Capacity building of urban local governments.** Within Indonesia's highly decentralized government structure, service delivery is the primary responsibility of sub-national governments. However, the majority of urban local governments have failed to improve public service provision as anticipated, resulting in continued low quality of services and failure to plan for the needs of the growing urban population, resulting in slum areas. In part, such failures arise from poor spending patterns with meager spending on capital investments and high allocations for personnel costs. In 2012, local/city/regency governments spent 52 percent of their budget on personnel and only 23 percent on capital expenditure. Other key reasons include a lack of capacity to carry out proper urban planning, low levels of coordination between line departments and an inability to enforce existing plans. Interventions to tackle the challenge of slums will need to pay considerable attention to improving the capacity of local governments.

11. **World Bank-GoI partnership on urban poverty alleviation.**[10] Bank projects in Indonesia have supported significant improvements to the wellbeing of low-income and extremely poor urban populations. Predominantly community-based approaches have been utilized for urban infrastructure, although the role of local governments and attention to spatial planning have increased over time. Bank support for the GoI Kampung Improvement Program (KIP, which started in 1969) focused on small-scale tertiary infrastructure and home improvements. After the Asian Financial Crisis, there was a greater emphasis on community-driven development (CDD) approach to tackling urban poverty. The Urban Poverty Program (UPP) and the National Program of Community Empowerment in Urban Areas (NCEP Urban) provided small-scale block grants directly to communities for tertiary infrastructure development, as well as micro-loans from revolving funds to support income-generating activities. Since 2006, MPWH also significantly developed its capacity in managing NCEP Urban, which covers all urban wards in Indonesia. The long-running NCEP Urban program has been successful in delivering much-needed CDD projects at scale and setting up community-level governance structures that are empowered to engage with local governments. In 2007, a spatially-focused slum upgrading model, Neighborhood Development (ND), was introduced as part of NCEP Urban to design integrated spatial plans with community participation to facilitate investment in infrastructure. Local governments were encouraged to lead the process of selecting priority areas and implementing the ND model in partnership with communities.

12. **This project not only builds upon the lessons learned from NCEP Urban but also moves towards a more ambitious city-level urban upgrading agenda** that differs from NCEP Urban in the following respects:

a. focusing on city-wide planning for slum upgrading;
b. financing construction of connecting infrastructure and, where needed, the improvement and rehabilitation of primary and secondary infrastructure in the vicinity of slums;
c. providing a central role for local governments in infrastructure delivery and providing them with substantial capacity building support to plan and implement city-wide slum upgrading;

[10] Outside the World Bank, the Neighborhood Upgrading and Shelter Project Phase 2 (NUSP2), funded by the Asian Development Bank, has operated since 2005, also providing community-driven slum upgrading.

d. providing technical assistance to both central and local governments to assess the options available for addressing land issues related to slum upgrading;
e. strengthening the monitoring system, with specific attention paid to Operations & Maintenance (O&M) aspects; and
f. leveraging multiple sources of funds at all levels.

13. **Rationale for World Bank's involvement.** The Bank's involvement with KOTAKU will enable the GoI to benefit from: (a) technical expertise and global knowledge on slum upgrading, urban infrastructure service provision, CDD, and disaster risk management (DRM); (b) effective, proven mechanisms to facilitate high quality management and oversight of the program, including project supervision and results monitoring and evaluation through continued working relationship with the MPWH; (c) innovative approaches targeted to the specific needs of slum dwellers across cities; (d) strong governance controls and fiduciary oversight mechanisms in the Indonesian context; and (e) capacity building for national and local governments and communities to plan for and implement a citywide slum upgrading approach.

C. Higher Level Objectives to which the Project Contributes

14. **The 2015 World Bank Group Indonesia Systematic Country Diagnostic (SCD) Report** has identified infrastructure gaps (especially roads, water and sanitation in urban areas) as undermining Indonesia's productivity, growth, competitiveness and poverty reduction efforts. This report emphasizes that eradicating poverty and increasing shared prosperity in Indonesia will depend on the country's ability to close its large infrastructure gaps through well-planned, and adequately supported urbanization to enhance the livability of Indonesian cities. This project addresses such a need. In addition, the approach of this project is in line with the World Bank Group's **Indonesia Country Partnership Framework (CPF, 2016-2020) (Report 99172)**, which recommends that World Bank-financed projects in Indonesia move away from *ad-hoc* or narrow sectoral interventions that work on a city-by-city basis. Instead, Bank-financed projects should support the GoI in delivering programs that have the potential for significant national impact, even if the Bank's financial contribution is relatively small.

15. **Relationship to World Bank Group's Twin Goals.** The project is targeted at poor and vulnerable populations living in slums, and as such, is closely aligned with the twin goals of ending extreme poverty and promoting shared prosperity. More than 50 percent of the urban poor live in slum areas[11], constituting about 16 percent (5 million people)[12] of the slum population. There is international evidence on the benefits of improved living conditions on health, livelihood opportunities, and property values, which in turn contribute to reductions in poverty and inequality.

[11] Based on slum profiling survey by NCEP Urban 2015.
[12] Calculated based on BPS data and slum profiling survey by NCEP Urban 2015.

II. PROJECT DEVELOPMENT OBJECTIVES (PDO)

A. PDO

16. The project development objective is to improve access to urban infrastructure and services in targeted slums in Indonesia.

B. Project Beneficiaries

17. Direct beneficiaries of the project are expected to include 9.7 million slum dwellers living in 153 cities and DKI Jakarta province, of which 4.85 million are expected to be women. Slum dwellers are likely to experience significant betterment of living conditions due to improvements in access to and quality of basic services.[13]

C. PDO-Level Results Indicators

18. Achievement of the PDO will be measured by the following indicators:

a. People provided with improved infrastructure under the project:
    - improved water sources (of which women)
    - improved sanitation (of which women)
    - access to all-season roads within a 500 meter range (of which women)
    - regular solid waste collection (of which women)
    - improved drainage (of which women)
b. Slum area alleviated (Ha)
c. Percentage of slum dwellers who are satisfied with the quality of urban infrastructure and services (of which women, of which bottom 40%, of which poor)
d. Percentage of complaints resolved
e. Establishment of a functional task force for slum alleviation at the local level
f. Direct project beneficiaries (in million, of which women)

III. PROJECT DESCRIPTION

A. Project Design

19. Infrastructure investments under this project will focus on 153 cities and one province (DKI Jakarta) in the central and eastern parts of Indonesia. Separately, IDB is expected to support about 116 cities in the western part of Indonesia and ADB is expected to support 20 cities nationally. Tertiary infrastructure investments and institutional capacity building support will be provided in all 154 project cities (153 cities plus the province of DKI Jakarta)[14], while

[13] The project will cover access to the following infrastructure and basic services: (1) building regularity; (2) water; (3) sanitation; (4) roads; (5) drainage; (6) solid waste; (7) fire safety plus public space.
[14] In regards to administrative decision making under NSUP the province of DKI Jakarta is considered a city, and will be referred to as such throughout the rest of the document.

improvement of primary and secondary infrastructure in the vicinity of slums, and construction of connecting infrastructure will only take place in a subset of 50 cities (out of 154 cities).

20. **City selection**. The 50 cities will be shortlisted from a long list of 65 cities that have been selected on the basis of: (a) population characteristics, including population density and percentage of urban population; (b) size of the slum area in the city; (c) gaps in access to infrastructure and services[15]; (d) commitment of local government to implement KOTAKU; as well as meeting the following criteria: (e) one of 30 (thirty) priority cities set by the MPWH; and (f) formulated a Slum Improvement Action Plan (SIAP)[16] which has been legalized and submitted. (*See Annex 2 for details of the selection process and Table A2.3 for long listed cities*). Infrastructure investments will commence in the first year of the project (2016) in a subset of cities (from the final list) and the project will subsequently be scaled up to all 154 cities (*see Annex 3, Project Cycle*).

21. **Slum characteristics in project areas**. In the 154 targeted cities (153 cities plus DKI province), 13,000 Ha of slum areas have been identified, of which about five percent are classified as heavy slums, 72 percent medium, and 23 percent light. These slums are home to about 12.7 million people, accounting for about 22 percent of the total urban population in the targeted areas. Among these slum dwellers, 2.1 million people are poor, which is about 55 percent of the total urban poor (3.7 million) in the targeted cities. With respect to infrastructure gaps, 60 percent of the population has less than 60*l*/per capita/day water supply; 75 percent are without adequate solid waste removal (i.e. minimum twice a week); 75 percent live in housing that does not meet building codes, and 25 percent live in housing with space less than 7 m^2/person.

B. Project Components

22. The project has five components that together will enable the achievement of the PDO. Project components are summarized below; more details are provided in Annex 2.

23. **Component 1: Institutional and Policy Development (Cost US$7 million, of which IBRD Loan US$1 million and AIIB loan US$1 million).** This component will support institutional strengthening and capacity building of central government agencies (e.g., BAPPENAS, MPWH) responsible for the management of KOTAKU (*see Figure A3.1 Project Organizational Chart in Annex 3*) and will include: (a) institutional analysis at the national level as well as for a sample of municipal governments to identify the nature of support needed to facilitate inter-agency coordination during program/project preparation, implementation and supervision stages; and (b) strategic national upstream policy level studies to facilitate the development of government policy to support the sustainability of slum upgrading and prevention efforts.

[15] Including: roads, clean water, sanitation, electricity, solid waste, drainage, housing space, and housing entitlement. Based on BPS data, 2010.
[16] Commonly known as RKPKP or R2KPKP

24. Strategic studies will focus on land administration policy reform, policies towards informal, and security of land tenure, and synchronization of slum definitions used by MPWH and BPS. Technical assistance under this component will also be triggered when existing frameworks are insufficient to resolve specific problems identified at the local level during project implementation, requiring national policy development.

25. **Component 2: Integrated Planning Support and Capacity Building for Local Governments and Communities (Cost US$84 million, of which IBRD Loan US$39 million and AIIB loan US$39 million)**. This component will finance the costs of experts and community facilitators throughout the project cycle to support capacity building (including training, workshops, and knowledge exchange events between cities as well as urban districts) of local governments and communities in 154 cities to design and implement slum improvements, including the development of Slum Improvement Action Plans (SIAPs) at the city level and Community Settlement Plans (CSPs) at the community level. The activities under this component will build the capacity of participating local governments to design and implement slum upgrading. Such capacity building is a necessary precursor for the implementation of Component 3.

26. SIAPs are five-year slum alleviation plans to be prepared by local governments through the City Housing and Settlement Task force, or any other related functional task force supported by urban planners. SIAPs comprise of an integrated strategy for city-wide slum alleviation including clear technical guidelines, indicative investments and financing. CSPs are five-year plans prepared by communities, facilitators and urban planner consultants to guide tertiary infrastructure planning at the kelurahan level[17] (*details on CSPs, SIAPs and their linkage are available in Annex 2)*. Funding dedicated to capacity building in each city will be determined by the needs of the city.

27. The component will also support the development of technical manuals providing instructions on the process of sub-project selection and financing under sub-components 3.1 and 3.2 (*para 29 and 31 below*), procedures for procurement and disbursement, monitoring and evaluation, and specification of accountability mechanisms (e.g. complaints handing).

28. **Component 3: Urban Infrastructure and Services Investment Support (Cost US$1578 million, of which IBRD Loan US$155 million and AIIB loan US$155 million):** This component includes two sub-components as summarized below.

29. *Sub-component 3.1: Improvement of Primary and Secondary Infrastructure and Site Development as well as Construction of Connecting Infrastructure* as identified in SIAPs in 50 selected cities. This will include improvements in area-level small-scale roads, sanitation, water and drainage systems, together with strengthening connectivity of tertiary and household-level systems with primary and secondary infrastructure through the construction of connecting infrastructure.

[17] Lowest administrative unit in Indonesia

30. Based on a survey of SIAPs in advanced stages of preparation (*see also para 46*), the maximum cost for a single sub-project under sub-component 3.1 will be US$2 million (and the average cost will be considerably less).

31. *Sub-component 3.2: Support for Tertiary Infrastructure Upgrading* in the project cohort of 154 cities based on a CDD approach. This will include, *inter alia*, small scale water supply, drainage, sanitation, footpaths, fire safety, site improvements (public spaces and sidewalks) and modest support for strengthening community-based livelihoods through the construction of livelihood enabling facilities and services as identified in CSPs. The project will support improvements to housing of the poorest where deemed necessary within the context of slum upgrading.

32. Under sub-component 3.2, it is estimated that on average, each ND kelurahan will receive US$150-250,000 during the project period.

33. **Component 4: Implementation Support and Technical Assistance (Cost US$74 million, of which IBRD Loan US$21.5 million and AIIB loan US$21.5 million).** This component will provide technical support, advisory services and training for Project Management Units (PMUs) at national level, and for Project Implementation Units (PIUs) at national, provincial and city levels. Strengthening implementation and project management capacity will involve support for the monitoring and evaluation system of KOTAKU and NSUP, enhancing stakeholders' collaboration at all levels, and training to make substantial use of participatory techniques at the tertiary level. Costs of National Management Consultants (NMCs), Technical Management Consultants (TMCs) and Oversight Service Providers (OSPs) will be financed under this component.

34. **Component 5: Contingency for Disaster Response (US$0).** Due to a high risk of catastrophic natural disasters in Indonesia, this provisional component is made available to finance preparedness and rapid response measures to address disaster, emergency and/or catastrophic events, in accordance with the applicable Emergency Response Operations Manual.

C. Project Financing

35. **Lending Instrument.** The proposed lending instrument for this project is Investment Project Financing (IPF).

36. **Project Cost and Financing:** The estimated total cost of the project is US$1,743 million equivalent, to be funded by an IBRD loan of US$216.5 million, AIIB loan of $216.5 million and counterpart funds of US$1,309 million equivalent. Technical details on how the funds would be disbursed are specified in the disbursement section of Annex 3, and also in the project operations manual. Counterpart funds include national, provincial, and local government budgets, community contributions, and funds from other stakeholders (e.g., the private sector, NGOs) where applicable. The project will follow a five-year funding cycle. Table 1 provides a summary of project costs and joint co-financing between the Bank and AIIB (*see also para 64*).

Table 1: Project Cost and Financing

Project Components		Project Cost (US$ million)			
	Total	**Central Government**	**Provincial and Local Governments, Communities, and others**	**World Bank**	**AIIB**
Component 1: Institutional Development and Policy Development	7	5	0	1	1
Component 2: Integrated Planning Support and Capacity Building for Local Government and Communities	84	6	0	39	39
Component 3: Urban Infrastructure and Services Investment Support	1,578	610	658	155	155
Component 4: Implementation Support and Technical Assistance	74	31	0	21.5	21.5
Component 5: Contingency for Disaster Response ($0).	0	0	0	0	0
Total	**1,743**	**652**	**658**	**216.5**	**216.5**

D. Lessons Learned and Reflected in the Project Design

37. The project builds on lessons learned from several decades of slum upgrading projects globally, including the Bank's urban poverty projects in Indonesia.

38. *Improving Sustainability of Slum Upgrading through Integrated and Phased Approaches.* Lessons recorded in Philippines' National Informal Settlements Upgrading Strategy highlight that investing in improvements and connections to primary and secondary infrastructure is more likely to ensure the sustainability of tertiary infrastructure, rather than focusing solely on tertiary infrastructure. The design of Component 3 of the proposed project takes this into account. Experience under Vietnam's Urban Upgrading Project underscores that infrastructure improvements should be in line with long-term city planning, while ensuring that community needs at the tertiary level, specifically those of the urban poor, are not compromised. Component 2 supports the development of SIAPs to identify city-wide infrastructure investment priorities along with CSPs. Experience from Ghana's Participatory Slum Upgrading Program highlights the importance of a phased approach to allow time for community buy-in and ensures flexibility in the design of infrastructure investments, with basic community level tertiary upgrading being undertaken in parallel with planning for larger infrastructure improvements. Such a phased approach is being utilized by the proposed project (*see Project Cycle in Annex 3*).

39. *Importance of Community Participation and Long Term Citizen Engagement.* The success of the NCEP urban program in Indonesia owes a great deal to substantial community participation and consultation. The proposed project will leverage the strong community structures and CDD foundations developed under the NCEP Urban program for both planning (through CSPs supported by Component 2) as well as implementing tertiary infrastructure upgrading and related

O&M activities (under Component 3). CSPs will be integrated with SIAPs to ensure community needs and concerns are incorporated in city-wide planning.

40. *Importance of Strong Political Commitment and Government Capacity.* Experience from Brazil's Bahia Slum Upgrading Project and the Kenya Informal Settlements Improvement Project shows that strong commitment from and coordination among government agencies is critical to success. The proposed project directly responds to GoI's RPJMN 2015-2019 target to achieve universal access to safe water and sanitation, and enjoys a high level of buy-in from the relevant agencies. Component 1 of the project will ensure an institutional design that maximizes cooperation, including the establishment of task forces at both national and local levels. The development of SIAPs under Component 2 will further facilitate coordination among stakeholders at the local level.

41. *Importance of M&E.* The success of scaling up NCEP Urban as a national program is largely attributable to the advanced monitoring system that was developed for M&E. Learning from this experience, this project is developing a management information system (MIS) tailored to the specific needs of KOTAKU.

42. *Importance of O&M Capacity*. Following international best practice, O&M training and socialization for both local governments and communities will be a central part of capacity building under Component 2. O&M arrangements for infrastructure constructed or improved under the project will be developed in CSPs and SIAPs, and explore the application of innovative approaches such as cash-for-work programs and/or performance-based incentives used in Indonesia and internationally.[18]

43. *Importance of Understanding Bank Procedures:* Experience from projects in Vietnam and Kenya shows that without a good understanding of Bank procedures, especially procurement, projects are likely to encounter delays. The proposed project will benefit from the lead executing agency's high level of familiarity with Bank procedures through its prior execution of national programs, e.g., NCEP Urban and UPP. In addition, the Bank will put in place sustained Bank-led procurement training throughout the project cycle. While the project will also benefit from AIIB co-financing, this will not entail a requirement to understand AIIB procedures. AIIB has agreed for the Bank to supervise project implementation, which will follow the Bank's procedures.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

44. MPWH will be the executing agency for this project and will be responsible for the procurement and management of all contracts, financial management of loan proceeds, and implementation of environmental and social safeguards in accordance with Bank policies and guidelines. A Project Management Unit (PMU) will be established under the Directorate General

[18] Such as in cash-for-work schemes under the Peru Rural Roads Project.

of Human Settlements (DGHS) in MPWH and will be headed by the Central Project Implementation Unit (Satker). The PMU will be supported by a combination of NMCs, OSPs, Technical Management Consultants (TMCs), City Coordinators and field-based facilitators. Task forces (Pokja PKP) will be set up at national and local levels to ensure effective collaboration and functioning between various levels of government, across multiple sectoral agencies as well as with communities (including the City Coordinator and a team of facilitators for each city). The National Development Planning Agency (BAPPENAS) will also be the implementing agency for Component 1.

45. Local and provincial governments will also be implementing agencies for Components 2 and 3. Local governments are involved in various aspects of the project implementation, including leading the preparation of SIAPs and execution of several activities defined under the SIAP. In addition, where local governments have capacity, a local government staff member will be assigned as the Project Implementation Unit for managing the central government funds, including procurement. Furthermore, local governments will authorize the release of funds to communities and manage the tasks of the facilitators using the same mechanisms at NCEP Urban (*Figure A3.1 in Annex 3 outlines institutional and implementation arrangements between government agencies).*

46. The project has a high level of readiness for implementation. While the time frame of the project seems ambitious, this is offset by a strong institutional foundation provided by well-established NCEP Urban structures and relatively advanced stages of preparation to enable smooth and expedited implementation. MPWH has made significant progress on drafting SIAPs in about 100 cities through its own funding, which will be further refined in Year 1 of implementation to align with the guidelines developed under this project. In addition, the GoI has made a budget allocation for 2016 for tertiary infrastructure development in 200 ND sites where CSPs have already been prepared under NCEP Urban. Facilitators for Year 1 have been mobilized through the extension of the existing contracts under NCEP Urban in all urban areas. The GoI has initiated the process of contracting some of the consultants required for implementation in 2016 and 2017. While the total area under slums for this project is relatively large most of it is under medium and light slums that require less complicated solutions. The percentage of area classified as ‘heavy’ (i.e. requiring more complex interventions) is very low (see para 21).

47. Implementation Arrangements between the World Bank and AIIB. As reflected in the WB/AIIB co-financing Framework Agreement dated April 13th, 2016, the World Bank would be the lead co-financier and will undertake all the usual services associated with project implementation which includes among others Environmental and Social safeguards, Procurement, Investigative, Financial Management and Disbursement. The World Bank will also be the GoI’s point of communication for project implementation.

B. Results Monitoring and Evaluation

48. **Monitoring**. NMCs will be responsible for project monitoring, under the close supervision of the PMU. NCEP Urban’s existing advanced web-based MIS will be adapted to meet the specific needs of the project. The project MIS will be publically accessible, provide updates and reliable information on project progress, and reduce fraud and fiduciary risks. Project monitoring will

also include spot checks[19] and complaint handling management, including safeguards. In high capacity cities, MIS will be integrated with GIS and used to facilitate more effective management and oversight of the project. The monitoring system will optimize the utilization of all sources of information by project stakeholders, especially by communities and local governments, through mechanisms such as quarterly gatherings involving local governments and stakeholders and annual development planning meetings. These opportunities for community consultations as well as publicly available complaint handling mechanisms will enable the project to carry out effective citizen engagement, including gathering beneficiary feedback and closing the feedback loop.

49. **Evaluation.** Evaluations will be carried out at mid-term and at the end-of-project to examine project performance, and to the largest extent possible, project outcomes. Evaluations will draw on quantitative and qualitative approaches to assess specific aspects of project implementation. Evaluation tasks will be contracted to qualified consultants. Both the GoI and the Bank will allocate resources to conduct the evaluation/studies/reviews under the joint supervision of both parties, which will be identified as the design is refined. Results will be compared to the baseline (which is being obtained from the detailed profiling of slums currently being carried out across the country) and performance will be evaluated.

C. Sustainability

50. **Government Commitment and Ownership.** Alleviation of urban poverty has been a strong priority of the GoI and the Bank has worked closely with the GoI on NCEP Urban and UPP, both of which were successfully scaled up through successive operations. The project enjoys a high level of political commitment and buy-in from the relevant GoI agencies (e.g. BAPPENAS, MPWH) as it is directly aligned with the RPJMN 2015-2019 target for slum alleviation (*see para 6*).

51. **Capacity Building.** Capacity building efforts at the local and community levels will facilitate effective implementation of slum upgrading efforts in each participating city and kelurahan to help ensure the sustainability of the project. The project will also emphasize strengthening local governments' ability to effectively manage funds transferred from the central government.

52. **Facilitator Sustainability.** Under current government procedures, facilitators are contracted as individuals on one-year contracts. However, the Government recognizes that multi-year contracts would be preferable in order to strengthen the sustainability of the project. As such, the GoI has requested that facilitators be financed fully by the loan at this stage in order to open the possibility of introducing multi-year contracts over the project cycle. During implementation, cost-sharing arrangements for facilitator financing will be also explored with the Government.

[19] Spot check monitoring involves regular monitoring visits (usually taking place every six months) to a number of randomly selected project areas in order to check the progress on activities and achievement of some intermediate indicators linked to KPIs. Spot checks monitoring is performed by national, provincial and city consultants using a set of questionnaires prepared by PMU.

Such an arrangement already has precedent, with 100 percent of facilitators under PAMSIMAS and approximately half under NCEP Urban being financed by the GoI.

53. **Infrastructure Sustainability.** SIAPs at the city level and CSPs at community levels will ensure an integrated approach for slum improvements that will be implemented over multiple years. Strong participatory approaches during the planning process will ensure that the technical designs present optimal solutions for local needs. Engineers hired under the project will supervise the technical design of infrastructure works, and spot checks will be carried out a regular basis to ensure infrastructure quality and that maintenance has been carried out properly. SIAPs and CSPs will facilitate inter-linkages between primary/secondary and tertiary infrastructure (through Sub-Components 3.1 with 3.2) thereby ensuring maximum technical complementarity and benefits, and hence sustainability.

54. **O&M.** O&M for improved primary and secondary infrastructure will be the responsibility of national and local governments respectively, who will finance the recurrent costs for infrastructure and services, including for O&M, through user fees or fiscal transfers.[20] Incremental O&M costs for each city (estimated at 3-4 percent of infrastructure capital costs) are likely to be on an average US$150,000 per year, which is affordable given the significant planned increase in transfers from the central government to local governments. Tertiary infrastructure will be maintained by communities in collaboration with local governments. The project will further open the space for innovation in maintenance through learning from international experiences (*see Annex 5*).

55. Maintenance strategies for city level infrastructure, will be developed by local governments with support from the central government. Maintenance is a systemic challenge in Indonesia. Under the proposed project, local governments - and especially the Pokja PKPs - will receive capacity building on developing infrastructure maintenance plans. SIAPs will include budgeting for the maintenance of investments. Local governments will be facilitated to set aside funds for infrastructure maintenance and to perform regular infrastructure evaluations. DAK funds can also be used for the maintenance of city level road infrastructure (but not for the maintenance of other kinds of infrastructure). The project will also explore innovative measures (such as financial incentives) to carry out maintenance, as well as performance-based incentives, e.g., those provided by national governments to districts and communities based on good performance, as under PAMSIMAS (*see Annex 5: Lessons Learned*).

56. The maintenance strategy for tertiary infrastructure will build on the strategy developed under NCEP Urban 2012-2015. Technical guidelines for maintenance will be provided in the project manual and technical training will be provided to community members by facilitators,

[20] In the last 10 years, there are more PDAMs with improved performance that have a relatively healthy and stable financial and operational situation as shown by an increase number of PDAMs in healthy category (from only 44 in 2008 to 176 in 2013). Various initiatives from the Government and other donors have encouraged PDAMs and LGs to provide piped water services to the urban slums, for example through the Water Hibah program (using an output-based approach to provide subsidies for house connections for urban poor) which now operates in more than 60 cities providing more than 320,000 new house connections for poor households. The Water Hibah program has been scaled up and the GOI has committed over US$100 million/year for this.

along with socialization on the importance of maintenance activities. At the community level, maintenance committees will be appointed to formulate a maintenance plan for tertiary infrastructure and collect funds from community members to cover utility fees and also for regular minor maintenance.

57. **Environmental and Social Sustainability**. Environmental and social safeguards management will be mainstreamed in the project documents and project cycle, and will involve strong participatory mechanisms at the community and city levels. Sub-projects financed under the project will require environmental and social screening, an assessment of potential environmental and social impacts (including disaster-related) and the preparation of acceptable safeguards instruments for mitigation measures. Safeguards training will be provided regularly as part of the project's capacity building activities to all stakeholders, including project staff of the participating local governments, consultants, and facilitators. Sustainability will be further assured through substantial inclusion and participation of urban poor communities as well as local governments in the design and implementation of upgrading options.

D. Citizen Engagement

58. The project is designed to maximize participation of stakeholders and beneficiaries at all levels in order to ensure better governance and accountability, and improve the quality of implementation. The project will place citizen participation and ownership at the core of implementation through various instruments, including consultations and discussion (in addition to consultations for safeguards), information disclosure, civil-society oversight in monitoring of sub-projects outcomes, a complaints handling mechanism, and peer-to-peer learning and knowledge sharing. There will be a focus on ensuring that poor and vulnerable actively participate in, substantively benefit from and are not in any way negatively affected by the project (*see Annex 2 para 13 for more details*). The project will develop a series of training sessions, hands-on learning, and guidelines on effective community engagement activities for facilitators, project management units, local governments and wider stakeholders. Community-based planning instruments (e.g. SIAPs, CSPs) have been integrated into the results framework. Beneficiary satisfaction and complaints resolution will be surveyed as part of the project's evaluation studies, and results will be disaggregated by gender. Along with SMS based complaints submission options, the executing agency will also use the project website as a platform to collect and respond to citizen feedback, and monitor its own performance on citizen engagement.[21] (*See also Annex 3, para 10*)

V. KEY RISKS AND MITIGATION MEASURES

Overall Risk and Explanation of Key Risks

59. The SORT table in the Data Sheet provides the overall risk rating of the project (moderate) as well as the individual ratings of the various risk categories. Risks pertaining to institutional capacity for implementation and sustainability are rated as substantial, with details provided

[21] The NCEP Urban website, which is the basis for the project website, attracts approximately 11,000 visitors per day, has been able to manage over 16,000 questions and complaints annually with over 99 percent rate of closure.

below. All other risks have been assessed as either moderate or low with details provided in Annex 7 for the following risk categories: Political and Governance, Macroeconomic, Sector Strategies and Policies, Technical Design, Fiduciary, Environment and Social, and Stakeholders.

60. **Institutional Capacity for Implementation and Sustainability.** Implementation arrangements will leverage experienced personnel from the successful set-up of NCEP Urban under MPWH, which has now accumulated much experience in leading national urban programs. Nevertheless, the proposed project is a massive undertaking, involving support for the development of the overall collaborative KOTAKU platform, capacity building for slum upgrading at national, provincial and local levels, and implementation of a range of infrastructure investments in over 150 cities. Furthermore, the project is adopting a phased approach, with the majority of investments to be identified and appraised during the initial years of project implementation. In addition, the Bank loan will cover only a small portion of project costs and the timely release of counterpart funding from the GoI, provincial and local governments, as well as community contributions, are essential for successful project implementation.

61. MPWH, the executing agency, has recently been established through the merger of the Ministry of Public Works and the Ministry of Housing, and this restructuring may present some disruptions during the early stages of project implementation. There are substantial differences within the group of 154 local governments in terms of their capacity to implement urban upgrading programs, especially in ensuring the effectiveness and efficiency of public spending. Capacity building activities will need to be tailored accordingly. There are risks regarding the sustainability of institutions, arrangements and policies developed under project Component 1, especially on slum prevention, once the zero-slum objective has been achieved. Infrastructure sustainability will depend on the enforcement of maintenance agreements (between communities and local governments for tertiary infrastructure, and between local governments and the national government for secondary infrastructure), socialization of communities and local governments to enhance ownership and ensure maintenance is undertaken, the smooth transfer of funds to local governments and communities for O&M, as well as the capacity building of these institutions to carry out these functions. *See Section IV.C for strategies to mitigate some of these risks*.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

62. **Economic Analysis.** Two types of economic analysis will be conducted: (a) standard economic feasibility analysis of infrastructure components with quantifiable benefits that can be converted in monetary units (such as monetary and time savings from access to piped water supply); and (b) an analysis of expected benefits that are quantifiable but not readily convertible into monetary units (such as health benefits from improved drainage or improved safety due to the installation of street lighting). The average cost of an infrastructure sub-project (defined as "a series of interrelated physical investments in a city") financed by the project will be about US$20

million.[22] Sub-projects to be financed by the project are not yet known; economic analysis of sub-projects will be carried out once they are defined. A standard economic feasibility analysis will be undertaken for the first 10 locations for which investment programs will be approved, covering a limited number of infrastructure components for which monetary benefits are quantifiable with a reasonable degree of accuracy (e.g. water supply, roads). It is anticipated that economic costs will be relatively low, because a substantial portion of the investment program will be undertaken through community contracting, the cost of which is, on average, at least 20 percent lower than using government contractors.[23]

63. **Fiscal/Financial Analysis.** The GoI will provide a portion of the IBRD/AIIB loan for primary, secondary, and tertiary infrastructure to local governments on a grant basis. Provincial and local governments will co-finance investments in primary and secondary infrastructure from their own budgets. For local governments, the average annual contribution is estimated to be IDR2-15 billion (US$0.2-1 million), which is two to five percent of their annual investment budgets of IDR120-300 billion per year; this is deemed politically and financially feasible. The average annual contribution of provincial governments is expected to be about IDR5.6 billion (US$0.4 million), which accounts for about three-five percent of the investment budgets of most provinces; these contributions are also considered politically and financially feasible.

64. **Project Financing Plan.** The total cost of the project is estimated at US$1,743 million, of which US$433 million (or approximately 25 percent of the total) will be financed from the proceeds of the IBRD and AIIB loan. The remaining US$1,310 million will be financed by the Borrower from a variety of sources. The proposed arrangements can be summarized as follows (*see also Annex 3, para 28 Flow of Funds*):

a. Central Government. MPWH has committed to allocate 20 percent of its total budget for slum upgrading to the project during the next five years. Most of this amount (estimated at US$530 million) will be invested in Components 3 and 4. The remainder of the central government contribution will finance US$71 million of output-based grants for piped water supply systems (known as the "Water Hibah").
b. Provincial and Local Governments. Provincial and local governments (both *kabupaten* and *kota*) will co-finance investments in secondary infrastructure from their own budgetary resources (APBD), estimated at US$358 million for the five-year project implementation period. Provinces are expected to contribute a total of US$40 million (about US$2 million per province) and local governments US$554 million (about US$3.6 million per *kabupaten* or *kota*).
c. Community Contributions. Communities will finance up to 20 percent of the cost of tertiary infrastructure in the form of cash and in-kind contributions for a total value of about US$64 million.

[22] The estimated cost of Component 3 (Urban Infrastructure and Services Investment Support) is US$1.5 billion. The program will directly fund the cost of infrastructure and services, as well as livelihood initiatives in 154 cities, including investment of primary and secondary infrastructures of US$25 million/city in about 50 selected cities.
[23] For example, *Finding of Post Construction Economic Impact Analysis Study for CDD Programs* (BAPPENAS, 2005) and *Laporan Akhir Studi Skala Kecil Analisis Manfaat Ekonomi Proyek Infrastruktur PNPM Mandiri Perdesaan* (PNPM Support Facility, 2012).

65. **O&M**. Several components of the planned investments in public infrastructure will generate incremental financial revenue.[24] For investments such as water supply and sewerage, a standard financial feasibility analysis will be conducted in tandem with the standard economic feasibility analyses for the first 10 project locations. For components that do not generate incremental revenue (such as roads or drains), the ability of local governments to finance incremental O&M expenditure from their own budgets will be assessed during preparation and confirmed at appraisal.

B. Technical

66. **Slum profiling data to determine infrastructure gaps**. The proposed project will utilize the national delivery platform that has proven effective in delivering the national NCEP Urban program in 269 cities and 11,000 urban wards. The NCEP program's city coordinators and facilitators (who will be in place until the end of December 2016) have been engaged in detailed profiling of slums across the country under MPWH oversight, including household socio-economic conditions and infrastructure access (residential building regularity, water, sanitation, drainage, road, solid waste, and fire safety). The preliminary results of such profiling have recently been made available and will guide the design of plans at the city and community levels.

67. **Local Governments.** A platform for collaboration among all stakeholders at the local level is necessary for regular communication and decision-making and is an integral part of project design. To this end, the preparation of SIAPs will involve significant engagement with communities in order to take CSPs into account. Critical information will be disseminated in the project guidelines to local governments on implementation arrangements, project design and the safeguards framework. In addition, new policy and instructions will be published on the project website. As has been the case under the NCEP Urban project, a national conference will be organized to allow for knowledge sharing between local governments. Smaller regional forums will be organized to engage local governments on specific issues.

68. **Primary and Secondary Infrastructure**. Primary and secondary infrastructure will be improved to connect slum areas to wider city networks and will cover roads, canals/drainage, embankment improvements, drains/sewers, etc.; these are expected to be straightforward and relatively small-scale in nature. The infrastructure will be designed in accordance with standards issued by MPWH. Designs proposed by the local governments will be reviewed by consultants at the city level, who will be funded under the project and managed by the PMU.

69. Construction of infrastructure and buildings will follow local building codes and regulations to mitigate disaster risks. For tertiary infrastructure, technical training will be provided to facilitators, community task forces and building teams to enable them to supervise communities' sub-projects and manage community grants. Communities will also receive training and technical assistance to undertake O&M, and prevent unnecessary development.

[24] The project is not financing micro-credit programs.

70. **Tertiary Infrastructure**. Tertiary infrastructure includes relatively simple activities, such as widening, straightening, and/or resurfacing access lanes and residential roads. No challenging technical issues are envisaged, and the works can be satisfactorily implemented by communities. The challenge lies more in the design of appropriately comprehensive packages that integrate all of the above elements in one relatively small area. As these are densely developed settlement areas, joint infrastructure activities (such as combined roads and drains/sewers) could be more technically appropriate, rather than the construction of separate systems. For these reasons, the preparation of CSPs under Component 2 is an integral part of the project design.

71. Infrastructure will be developed in slum areas with the following minimum standards:
   a. Roads which are at least 1.5 meters wide and have proper drainage.
   b. At least 60 liters per person per day of clean drinking water.
   c. At least one public toilet that fulfills technical standards to serve no more than five households.
   d. Solid waste removal at least twice a week.
   e. Flood-proof drainage.

C. Financial Management (FM)

72. Financial management of the proposed project has the following risks related to local government capacity in monitoring project implementation and verifying work progress, performance of national and regional consultants, and the capacity of field consultants to assist community groups on FM aspects: (a) payment verification at the local government level (PIUs) for primary and secondary infrastructure investments; (b) payment verification at the PMU level for consultants' expenditures; and (c) community groups' use of, and accounting for, funds.

73. Actions that will be taken to mitigate these risks include: an MIS that covers disbursements, contractor and consultant contracts with payment progress, FM performance of community groups, and follow-up of audit findings. In addition to the existing government verification procedures, the PMU and the PIUs will assign additional staff to conduct detailed verification prior to the issuance of payment orders (based on guidelines developed for verification, including random third party confirmation), improving the accountability of the verification team through official appointment of team members, as well as through ensuring that a verification report is produced; and the application of community-based controls, including facilitators' review and certification of community reports, establishment of community oversight, display of financial reports in public areas, and improved complaints-handling mechanisms through text messaging and web-based systems. The PMU and the PIUs will be supported through a combination of NMCs, TMCs, OSPs, city level Consultants and field-based facilitators. A separate manual for Sub-component 3.2 will be developed by the PMU, and will be reviewed by the Bank.

74. This project will be financed jointly by the Bank and AIIB with financing split of 50/50 for project activities/expenditures identified to be financed by the Bank and AIIB. The Government of Indonesia will enter into separate legal agreements with each lender. The Bank and AIIB will jointly co-finance all components under the project. Details on how the funds would be disbursed are specified in the disbursement section of Annex 3, and also in the project operations manual. The same FM arrangements will apply to project components financed by AIIB.

D. Procurement

75. Procurement for the proposed project will be carried out in accordance with the World Bank's Procurement Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers dated January 2011 (revised July 2014) and Consultant Guidelines: Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers dated January 2011 (revised July 2014). The project NMC will be selected through the Quality and Cost-Based Selection (QCBS) method, while the OSPs will be selected under the National Competitive Bidding (NCB) method. In the interim, the existing NMCs and OSPs of NCEP Urban will bridge the gap, whose contracts will be extended to have a smooth transition until the new NMC and OSPs are on board. In addition to NMCs and OSPs, several TMCs will also be hired through the QCBS method to provide implementation support and technical assistance. The procurement of NMC, OSPs and TMCs will be carried out at the central level by the PMU. The PMU will establish a monitoring and evaluation system for collecting data related to procurement and contract implementation (with the support of consultants) to enable the project to identify bottlenecks and areas for improvement. The PMU has prepared the procurement plan, dated May 30, 2016 for the initial 18 months of project implementation. The Procurement Plan will be updated on an annual basis.

76. Procurement of works under Sub-component 3.1 will likely be undertaken through the NCB method at provincial and city/regency[25] levels. Sub-component 3.2 will require procurement of small infrastructure and goods (material) for work to be carried out by communities under the community participation method as applied under NCEP Urban. The NCEP Urban Project Operations Manual (POM) will be updated for use under this project.

77. Packaging of civil works contracts for the improvement of primary and secondary infrastructure and construction of connecting infrastructure will be based on the type of works, financing sources available, and keeping in mind the efficiency of implementation. Given that the project is designed to leverage multiple sources of financing, one contract package per slum may not be always feasible. In cases where financing comes from one source, a single package bid will be considered. Where local governments lack the capacity required for carrying out rigorous procurement procedures, procurement will be done at the provincial or central government level.

78. Procurement for the proposed project has some risks related to sub-national governments' capacity in project implementation, especially pertaining to primary and secondary infrastructure works in sub-component 3.1, including: possible delays in procurement given provincial and local governments' relative unfamiliarity with Bank financed procurement.

79. Actions that will be taken to mitigate these risks include: (a) the PMU, with support from the Bank and consultants, will provide procurement training for Bank projects to staff at the Procurement Service Unit (ULP) at the provincial level; (b) the PMU, with support from the Bank and consultants, will monitor and evaluate the progress of major procurement activities; (c)

[25] This refers to Kota/Kabupaten

information on contract awards, management, and payments against contracts will be published on the program website; and (d) reports of fraud or corruption will be investigated through MPWH's internal system, as well as by the Bank, (e) information on bid prices and contract awards will be published on information boards, and procurement complaints will be resolved through the public complaint-handling mechanism.

E. Environment and Social (including Safeguards)

80. Given the expected nature of sub-projects, the project is classified as Category B as potential environmental and social impacts at the community level in slum areas will be low to moderate, site-specific and can be managed by the beneficiaries. The improvement of primary and secondary infrastructure and construction of connecting infrastructure with the tertiary infrastructure of slum areas will have low to moderate impacts that are not significant/sensitive, non-irreversible nor unprecedented. Implementation of CDD-type tertiary infrastructure improvement projects will have insignificant adverse impacts as is the case with the ongoing NCEP Urban and ND programs. Overall, the project will improve the environmental and social conditions of slum dwellers and cities/districts.

81. Where slums exist in disaster-prone areas or are very overcrowded and there is no alternative, the possibility of resettlement/relocation may be explored as a last resort in consultation with (and with the agreement of) local governments and communities to find a tailored solution. While the project does not cover housing development in relocation sites, it will coordinate with the housing programs available under MPWH. Resettlement will be kept to a minimum, especially since it is unlikely to be possible to carry out resettlement schemes within the five-year project period. Where it is necessary, the project will support the city government and slum communities in preparing the resettlement/relocation action plan during project implementation.

82. The project may require some land acquisition, particularly for the construction of connecting infrastructure to existing secondary and primary infrastructure, but to the greatest extent possible will avoid or minimize involuntary resettlement/relocation. As in the case of the ongoing NCEP Urban and ND programs, tertiary infrastructure in slum areas will highly likely use donated land or village land. Slum upgrading will be carried out on-site with improvement of tertiary infrastructure, and relocation will be avoided. Slum upgrading with land consolidation schemes is possible as this approach supports on-site development that avoids involuntary land acquisition and resettlement/relocation. Experience with land consolidation in Indonesia has shown that this process takes many years, and therefore this scheme (if necessary) needs to be carefully designed.

83. As has been the case in other projects involving local governments in Indonesia, there are risks of the project not fully implementing mitigation measures for environmental and social safeguards impacts as specified in the EMPs and/or LARAPs. Mitigation measures for environmental and social impacts during construction will be included in the bidding documents/contracts for any construction work to be carried out by contractors/third parties and in the sub-project's budget plan within the CSP. The PMU will ensure that all bidding documents/contracts issued by national, provincial and local governments include implementation measures for mitigating or compensating possible adverse environmental and

social impacts during construction. The costs for mitigation/compensation will be covered under the contracts as part of construction costs. This requirement will be specified in the ESMF and in Safeguards Technical Guidelines. The support system under the project will ensure compliance with the Bank's safeguards frameworks.

84. **Disclosure information.** The draft Indigenous Peoples Planning Framework (IPPF) was disclosed in Infoshop on February 3, 2016 and "in country" (www.p2kp.org or www.kotatanpakumuh.id) on February 9, 2016. The draft Land Acquisition and Resettlement Framework (LARPF) was disclosed in Infoshop on February 3, 2016 and "in country" (www.p2kp.org or www.kotatanpakumuh.id) on February 9, 2016. The draft Environmental and Social Management Framework (ESMF) was disclosed in Infoshop on February 3, 2016, and "in country" www.p2kp.org or www.kotatanpakumuh.id) on February 9, 2016. The draft ESMF was approved by the Bank on March 8, 2016 and the approved ESMF was adopted by the MPWH on May 31, 2016. This framework incorporates among others LARPF, IPPF, EMP (s), LARAP (s), IPP (s) and PCR Management Plan (s).

85. **Safeguards Policies Triggered.** Given the nature the project, the following Bank Safeguard Policies are triggered: OP 4.01 Environmental Assessment (EA); OP.411 Physical Cultural Resources (PCR); OP 4.10 Indigenous Peoples (IPs); and OP 4.12 Involuntary Resettlement (IR). The project has developed an Environmental and Social Management Framework (ESMF) to screen sub-projects, assess potential impacts, develop mitigation measures and establish institutional arrangements to manage such impacts. The ESMF will provide guidance for project management staff at all levels, consultants, facilitators and community groups to manage environmental and social safeguards. SIAP and CSP preparation will adopt the ESMF. This ESMF has been developed based on experiences from the ongoing NCEP Urban and other World Bank supported urban projects. Further details on safeguards policies triggered are provided in Annex 3.

F. Gender

86. Evaluation of PNPM Urban has shown that while numerically the target of women's participation in community meetings is met, qualitatively their participation has not been sufficiently meaningful. Several activities to address this gap have been undertaken, including development of the Gender Responsive Planning and Budgeting (GRPB) approach, which has been piloted in Aceh Province starting from 2013. This approach will be scaled up in this project along with the following activities: (a) a quota requirement of 30 percent for female facilitators; (b) maternity leave for female facilitators; and (c) mechanisms to disaggregate data on beneficiaries and the quality of implementation process in the MIS.

87. GRPB will continue to be implemented using gender gap analysis in the planning process and gender-responsive budgeting. Participation of men and women will be monitored through a web-based MIS. The national task force or steering committee for settlements and other community groups will be established to specifically monitor the gender approach and achievements, and gender-responsive skills of facilitators will be strengthened. The Project will develop guidelines, Standard Operating Procedures (SOP), and media campaigns and awareness building to ensure that the above approaches are mainstreamed during implementation. The project will also expand training on gender awareness to wider project

stakeholders by targeting village governments, other community groups and local government officials.

G. World Bank Grievance Redress

88. Communities and individuals who believe that they are adversely affected by a World Bank-supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

ANNEX 1: RESULTS FRAMEWORK AND MONITORING

Indonesia National Slum Upgrading Project

Project Development Objectives	
PDO Statement The overall project development objective is to improve access to urban infrastructure and services in targeted slums in Indonesia.	
These results are at	Project Level

Project Development Objective Indicators

Indicator Name	**Baseline**	**Cumulative Target Values**						
		YR1 (2016)	**YR2 (2017)**	**YR3 (2018)**	**YR4 (2019)**	**YR5 (2020)**	**YR6 (2021)**	**End Target**
People provided with improved infrastructure under the project (Number)-(see note 1)	0.00	--	--	2,900,000	--	--	9,500,000	9,500,000
People provided with "improved water sources" under the project (of which women) (Number - Sub-Type: Breakdown)	0.00	--	--	240,000	--	--	800,000	800,000
People provided with "improved sanitation" under the project (of which women) (Number - Sub-Type: Breakdown)	0.00	--	--	360,000	--	--	1,200.000	1,200.000
People provided with access to all-season roads within 500 meter range under the project (of which women) (Number - Sub-Type: Breakdown)	0.00	--	--	1,110,000	--	--	3,700,000	3,700,000
People provided with regular solid waste collection under the project (of which women) (Number - Sub-Type: Breakdown)	0.00	--	--	450,000	--	--	1,500,000	1,500,000

People provided with “improved drainage” under the project (of which women) (Number - Sub-Type: Breakdown)	0.00	--	--	1,080,000	--	--	3,600,000	3,600,000
Slum Area Alleviated (Hectare(Ha))	0.00	--	--	2,200	--	--	7,800	7,800
Percentage of slum dwellers who are satisfied with the quality of urban infrastructure and services (of which women, of which bottom 40%, of which poor) (Percentage)	--	--	--	60	--	--	80	80
Percentage of complaints resolved (Percentage)	--	--	--	80	--	--	90	90
Establishment of functional task forces for slum alleviation at local level (%Local Governments) (Percentage)	0.00	--	30	60	70	80	90	90
Direct project beneficiaries (Number) - (Core)	0.00	--	--	3,000,000	6,000,000		9,700,000	9,700,000
Female beneficiaries (Percentage - Sub-Type: Supplemental) - (Core)	0.00	--	--	1,500,000	3,000,000		4,850,000	4,850,000

Intermediate Results Indicators

Indicator Name	**Baseline**	**Cumulative Target Values**						
		YR1 (2016)	**YR2 (2017)**	**YR3 (2018)**	**YR4 (2019)**	**YR5 (2020)**	**YR6 (2021)**	**End Target**
Component 1: Institutional and Policy Development								
Indicator 1.1. Establishment of functional task force for slum alleviation at national level (Yes/No)	No	--	--	Yes	--	--	--	Yes
Indicator 1.2. Establishment of slum inventory database/profiling (Text)	No	--	Yes	--	--	--	Updated	Done and Updated

Component 2: Integrated Planning Support and Capacity Building for Local Government and Communities								
Indicator 2.1. Percentage of local governments that have completed Slum Improvement Action Plans (SIAPs) which have been approved by Bupati/Walikota (Percentage)	0.00	--	30	60	70	80	90	90
Indicator 2.2. Percentage of kelurahans which have Community Settlement Plans (CSPs) that have been consolidated with SIAPs (Percentage)	0.00	--	50	70	80	90	90	90
Component 3: Urban Infrastructure and Services Investment Support								
Indicator 3.1. Number of cities which have completed 80% of primary and secondary infrastructure works and services connected to slum areas (Number)	0.00	--	--	20	30	35	40	40
Indicator 3.2. Number of kelurahans that have completed 90% of tertiary infrastructure and services implemented in slum areas (Number)	0.00	--	1,400	1,600	2,000	2,200	2,500	2,500
Indicator 3.3. Percentage of good quality of infrastructure and services (Percentage)	0.00	--	--	80	90	90	90	90
Indicator 3.4. Percentage of infrastructure built that is fully functioning (Percentage)	0.00	--	--	--	--	--	70	70
Component 4: Implementation Support and Technical Assistance								
Indicator 4.1. Percentage of local governments that have a project monitoring structure and	0.00	--	20	30	50	60	70	70

provide regular information on project implementation (Percentage)								
Indicator 4.2. Percentage of kelurahans with completed annual financial audits (Percentage)	0.00	--	80	80	90	90	90	90

Note: PDO targets for people provided with improved infrastructure under the project represents the total population provided access to at least one of the services under the core indicators: improved water, roads, solid waste, sanitation and drainage. Achievements for each of these services will be monitored and recorded in the MIS.

Indicator Description

Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
People provided with improved infrastructure under the project	Number of people living in slums who are directly affected/benefited by infrastructure subprojects carried out under the project.	Mid year and end year	MIS and survey	PMU, NMC and Evaluation Consultant
People provided with “improved water sources” under the project (of which women)	Number of people living in houses receive improvement of water supply funded by the project	Mid year and end year	MIS and survey	PMU, NMC and Evaluation Consultant
People provided with “improved sanitation” under the project (of which women)	Number of people living in houses receive improvement of sanitation facilities funded by the project	Mid year and end year	MIS and survey	PMU, NMC and Evaluation Consultant
People provided with access to all-season roads within 500 meter range under the project (of which women)	Number of people living in the neighborhoods receive improvement of road condition funded by the project	Mid year and end year	MIS and survey	PMU, NMC and Evaluation Consultant
People provided with regular solid waste collection under the project (of which women)	Number of people living in the neighborhoods receive improvement of solid waste collection funded by the project	Mid year and end year	MIS and survey	PMU, NMC and Evaluation Consultant

People provided with "improved drainage" under the project (of which women)	Number of people living in the neighborhoods receive improvement of drainage funded by the project	Mid year and end year	MIS and survey	PMU, NMC and Evaluation Consultant
Slum area alleviated	Total slum area (Ha) which receive investments from the project, experience improvement of infrastructure and services	Mid year and end year	MIS and survey	PMU, NMC and Evaluation Consultant
Percentage of slum dwellers who are satisfied with the quality of urban infrastructure and services (of which women, of which bottom 40%, of which poor)	Results from beneficiary satisfaction survey administered to people receiving infrastructure and services under this project	Mid year and end year	Survey	PMU, NMC and Evaluation Consultant
Percentage of complaints resolved	Percentage of total complaints resolved/collected through various means (text message, emails, phone calls, letters, etc.) in line with manual.	Annually	MIS	PMU, NMC
Establishment of functional task forces for slum alleviation at local level (percentage of Local Governments)	Percentage of Local Governments with task forces established, funded and having regular meetings.	Annually	MIS	PMU, LGs
Direct project beneficiaries	Direct beneficiaries are defined as people or groups who directly derive benefits from an intervention (through, for example, a new piped water connection, use roads, and sanitation facilities).	Annually since the third year of intervention	MIS	PMU, NMC
Female beneficiaries	Percentage of female beneficiaries of the project.	Annually since the third year of intervention	MIS	PMU, NMC

Intermediate Results Indicators				
Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Component 1: Institutional and Policy Development				
Indicator 1.1. Establishment of functional task force for slum alleviation at national level	Task force for housing and settlements at national level established, allocate budget for operational cost of the task force, and holding regular meetings.	Annually	MIS	Bappenas, PMU
Indicator 1.2. Establishment of slum inventory database/profiling	Slum profiling/database participatory collected by facilitators and BKMs through survey and FGD. The profiling will include seven indicators of slum, plus availability of open/public space.	Initial and final year	Community mapping and survey	Bappenas, PMU
Component 2: Integrated Planning Support and Capacity Building for Local Government and Communities				
Indicator 2.1. Percentage of local governments completed Slum Improvement Action Plans (SIAPs) that has been approved by Bupati/Walikota	Percentage of Local Governments with SIAPs that have been completed, consultated and agreed by Bupati/Walikota (city mayor)	Annually	MIS	PMU, NMC
Indicator 2.2. Percentage of kelurahans have Community Settlement Plans (CSPs) that have been consolidated with SIAPs	Percentage of CSPs that have been completed by the community, consultated with the local governments (task force)/total participating kelurahan.	Annually	MIS	PMU, NMC
Component 3: Urban Infrastructure and Services Investment Support				
Indicator 3.1. Number of cities completed 80% of primary and secondary infrastructure works and services connected to slum areas	Percentage of cities completed 80% of work/ total participating cities	Annually	MIS	PMU, NMC
Indicator 3.2. Number of kelurahans completed	Number of kelurahan completed 90% of tertiary	Annually	MIS	PMU, NMC

90% of tertiary infrastructure and services implemented in slum areas	infrastructure subprojects and services in line with CSPs			
Indicator 3.3. Percentage of infrastructure and services that is of good quality	Percentage of all primary, secondary and tertiary infrastructure subprojects as well as services assessed and verified as good quality by national and provincial consultant through annual spot check.	Annually	MIS and spot checks	PMU, NMC
Indicator 3.4. Percentage of infrastructure built that is fully functioning	Percentage of infrastructure subprojects that are still functioning and utilized by the community in the surrounding areas	Annually	MIS and spot checks	PMU, NMC
Component 4: Implementation Support and Technical Assistance				
Indicator 4.1. Percentage of local governments that have a project monitoring structure and provide regular information on project implementation	Percentage of local governments that conduct regular monitoring, provide monitoring results and have reported up-to-date information for the MIS and published in the project website	Annually	MIS	PMU, NMC
Indicator 4.2. Percentage of kelurahans with completed annual financial audits	Percentage of participating kelurahans which have financial audit by an independent auditor on annual basis.	Annually	MIS	PMU, NMC

ANNEX 2: DETAILED PROJECT DESCRIPTION

Indonesia National Slum Upgrading Project

A. Project Development Objective

1. The overall project development objective is to improve access to urban infrastructure and services in targeted slums in Indonesia.

2. Achievement of the PDO will be measured by the following indicators:

a. People provided with improved infrastructure under the project:
    - improved water sources (of which women)
    - improved sanitation (of which women)
    - with access to all-season roads within a 500 meter range (of which women)
    - regular solid waste collection (of which women)
    - improved drainage (of which women)
b. Slum area alleviated (Ha)
c. Percentage of slum dwellers who are satisfied with the quality of urban infrastructure and services (of which women, of which bottom 40%, of which poor)
d. Percentage of complaints resolved
e. Establishment of functional task force for slum alleviation at local level
f. Direct project beneficiaries (in million, of which women)

B. Project Components

3. **Component 1: Institutional and Policy Development (Total cost US$7 million, of which IBRD Loan US$1 million and AIIB loan US$1 million).** This component will largely support institutional strengthening and capacity building of central government agencies (e.g., BAPPENAS, MPWH, PMU). It will also strengthen the management of KOTAKU through provision of support to the steering committee or National Housing and Settlements Task Force (e.g. Pokja PKP) and ensure effective participation of key stakeholders, such as high-level officials from the Ministry of Finance, the Ministry of Home Affairs, the Ministry of Land and Spatial Planning, the Ministry of Health, and BPS. The role of each agency with respect to the slum upgrading program at central and local levels during preparation, implementation, monitoring and maintenance will be strengthened as an integral part of this component. This component will finance institutional analysis at the national level and in a sample of municipal governments, to identify capacity gaps and the support requirements needed to facilitate inter-agency coordination. Strategic studies and advisory support will be also carried out to develop the policy and institutional support for slum upgrading and prevention.

4. **National Level Institutional Strengthening Activities.** In order to identify the most crucial capacity building activities, an institutional analysis to identify capacity gaps will be carried out. The analysis will examine the relationship of the executing agency MPWH with other agencies, and will be the basis for identifying activities for strengthening project coordination, including the facilitation of new roles for the national coordination team and BAPPENAS. Another

important area is the management of the transfer of funds from national to local governments and coordination required to ensure effective linkages with various sources of funding to be leveraged for slum upgrading investments. A skills assessment will be carried out in a representative sample of local governments to identify areas of support needed to carry out slum upgrading activities. Other activities that are likely to be financed under this component include: the establishment of a national slum profiling database, facilitation of the initial meetings of the coordinating team/task force, strategic analysis of policy documents to see how SIAPs will fit within broader city planning documents in the long run and financing, *inter alia*, the recruitment of consultants as well as workshops and training sessions at the national level.

5. **Support for Policy Development.** Support for policy development is necessary to ensure that each ministry within National Government develops necessary policies, regulations and guidelines that complement each other and supports the implementation of KOTAKU in a sustainable manner. At this stage of project preparation, three policy areas have been tentatively identified based on discussions with the Government and experiences within NCEP Urban (outlined in paras 6-9 below).

6. **Development of Policy on Options with Respect to Tenure Security of Informal Settlements.** Although the current project is focused on slums that have been recognized by the Government, Indonesian cities include informal settlements with varying tenure status that may sometimes be considered illegal. Development of a policy framework is needed that highlights these variations and offers possible options for resolving tenure issues. Within the scope of such a policy framework, issues such as challenges to securing documentation for internal migrants, which complicate individual tenure issues, will also be explored.

7. **Land Development Policies.** The examination of land development policies to understand the effects of the constraints on the land and housing markets will be led by BAPPEDA (local planning agencies), with the aim to generate recommendations for alternative policy measures to address the shelter needs of the urban poor. Based on a study of land administration and land market constraints in South Asia and East Asia commissioned by the World Bank in 2007 (including two Indonesian cities)[26], the following key issues were identified for consideration to develop effective land development policy instruments:

a. Increasing the supply of land, services and credit in line with existing and projected levels of need and demand, especially from the poor;
b. Creating a sense of civic responsibility in which all sectors, including public, private and civil society, develop a shared vision and strategy; and
c. Formulating and enforcing an equitable tax and other revenues streams to finance such increased supply.

8. Areas of strategic national upstream national policy studies and technical assistance recommended for developing effective land policy instruments are: (a) a systematic review of

[26] World Bank (2007) commissioned report titled "*The Evolving Role of World Bank Urban Shelter Projects: Addressing Land Market and Economy-Wide Constraints*"

regulatory and institutional frameworks to identify gaps in land information records and collection systems; (b) an examination of legislative barriers, such as outdated laws; (c) a plan to enhance spatial planning within local governments to ensure identification and utilization of un- or underused government-owned land. Among other technical assistance activities that align with these areas, one activity may include analyses of key master plans in select cities with high levels of urbanization to see whether the existing planning is conducive to future population growth and the socio-economic needs of the population.

9. **Support for Integrating and Synchronizing Slum Data and Definitions Used by the MPWH and the BPS.** This activity is important to improve data consistency between the MPWH, as the executing agency, and the BPS, given that the latter regularly measures socio-economic conditions of households in Indonesia through surveys and censuses. The National Socio-Economic Survey (SUSENAS) published by the BPS enumerates slums using the concept of 'non-livable houses' (RTLHs) and household-level indicators of access to basic services. These two criteria are used officially to enumerate slum households in Indonesia, for example, in the Indonesian reports on the Millennium Development Goals (MDGs) and in reports of the Ministry of Housing. However, because this metric does not capture neighborhood-level information, which is the basis for the MPWH definition of slums, it is difficult to use the BPS data to implement spatial programs and policies. The two methodologies for slum enumeration (MPWH and BPS) have understandably resulted in significantly different estimates in terms of the extent of slums in Indonesia. During initial conversations with BPS, they expressed openness to exploring possible options for incorporating the needs of MPWH.

10. **Component 2: Integrated Planning Support and Capacity Building for Local Government and Communities (Total cost US$84 million, of which IBRD Loan US$39 million and AIIB loan US$39 million).** This component will support capacity building of local governments and communities in 154 cities to design and implement slum improvements. This will be done through financing the costs of hiring about 200 urban planners and 3,000 community facilitators with different skills who will work closely with local governments and communities to prepare the Slum Improvement Action Plans (SIAPs) at the city level and Community Settlement Plans (CSPs) at the community level. Urban planners and community facilitators will be engaged throughout the project timeline. They will not only play a role in the planning phase (the initial 8-12 months) but also in later stages to facilitate the annual budgeting process at the city level and support local governments in facilitating cross-sectoral coordination as well as strengthening the engagement with communities.

11. The MPWH and the cities will be entering into an agreement for implementation of SIAPs through MOUs. The MOU will include the commitments of each party for implementation of activities in the SIAPs.

12. The following paragraphs describe the components and purpose of SIAPs and CSPs in detail:

13. **Slum Improvement Action Plans (SIAPs):**

a. SIAPs are comprehensive and integrated five-year planning documents aimed at city-level slum upgrading. Preparation of SIAPs will include mapping of slum boundaries, identifying infrastructure and service provision improvements needed across all slum areas identified

within a city, identifying the disaster-prone areas, documenting the legal status of the land and identifying the range of activities to be carried out under the scope of project. Infrastructure gaps will be identified based on seven criteria specified by the MPWH: (1) building conditions; (2) roads; (3) drainage; (4) water supply; (5) sanitation; (6) solid waste; and (7) fire safety and public space. The ongoing MPWH slum profiling activities will become the starting point for the development of SIAPs.

b. The SIAP technical manual will provide detailed guidance on the preparation of SIAPs in order to standardize SIAP development and implementation across cities. However, the guidelines will also allow for some flexibility in content and design to give room for innovation and in recognition of the fact that there is wide variation in local government capacities. All SIAPs will be held to a minimum technical standard and will be reviewed for consistency and quality by urban planners at the local level, who will be supervised by provincial level experts. In particular, reviewers will focus on the extent to which SIAPs have incorporated community priorities as set out in CSPs. Oversight of SIAP development will also happen during consultative workshops and during spot checks which will be carried out by consultants at central and provincial levels on a regular basis.

c. Slum Profiling. The slum profiling has been carried out through a two-step process. First, data are collected in all neighborhoods in the 154 cities using seven indicators of slums (housing conditions; availability and quality of roads; access to and adequacy of water supply; access to sanitation; sufficient drainage; collection period for solid waste; and availability of fire prevention facilities). These indicators are operationalized using 15 parameters, of which five are considered compulsory to the definition of slum. In the second step, slums are defined through these parameters. An area is therefore defined as slum if it registers less than 80% in terms of the following five compulsory parameters: (i) percentage of housing meeting building codes; (ii) percentage of neighborhood with sufficient roads; (iii) percentage of households with sufficient water supply i.e. 60 liters/person/day; (iv) percentage of households with latrines or public latrines that meet technical standards (i.e. connection to septic tank and using water-sealed closet); (iv) percentage of households with domestic solid waste removal to temporary or final disposal site at a minimum of twice a week.

d. Areas defined as slums are then assessed by each parameter using a scoring system, in which a score of 1, 3, or 5 is assigned to a percentage range whereas a score of 1 for value less than 50 percent, 3 for value from 50-75 percent, and 5 for value above 75 percent. The scores for each slum area are then tallied for all the 15 parameters to categorize the slum as light (total score of less than 36), medium (total score from 36 to 55), and heavy (total score from 56 to 75). This slum profiling will be the basis for the preparation of SIAPs. In some places further verification and refining will have to be carried out.

e. SIAPs will be used to plan the integration of larger-scale infrastructure (primary and secondary) improvement with the construction of smaller-scale, tertiary and connecting infrastructure, as well as livelihood development initiatives (such as, the building of community markets, multi-use halls, etc.) to be undertaken under the program. The planning for all infrastructure investments will take disaster management measures into account.

f. Maps of slum upgrading plans will be prepared for inclusion within SIAPs. Selected cities where draft SIAPs are currently under preparation as part of a pilot will begin revising the draft SIAPs at the onset of the project and will be ahead of others in implementation activities.

g. SIAPs will outline indicative investment plans on the one hand, while identifying all sources of financing (national, provincial and local government, communities and the private sector, as applicable) on the other hand. In doing so, investment plans and financing sources for five years (2016-2020) will be identified. Responsibilities of the various agencies with respect to the indicative investment plans will also be identified. In addition, SIAPs will include infrastructure maintenance and monitoring plans and define the roles and responsibilities of the local governments in carrying out O&M.

h. SIAPs will provide guidelines for slum prevention suited to the local context. Within the scope of this project, strategies for slum prevention will be limited to building the capacity of local governments and communities to maintain the upgraded infrastructure in existing slums, and prevent areas identified as emerging slums from degenerating into fully-fledged slums. To this end, SIAPs will identify activities to be undertaken for community empowerment as well as for ensuring monitoring and maintenance mechanisms at the local government level.

i. Finally, SIAPs will also outline the consultative process, tailored to the city context, through which CSPs will be integrated SIAPs to form the basis for detailed design to be undertaken. Detailed design of investments to be undertaken within slum areas will be beyond the scope of SIAPs and will be carried out separately to support the implementation of infrastructure upgrades.

j. Where SIAPs have identified particularly complex slum issues and complicated upgrading sub-projects (for example, those requiring resettlement and/or renewal), they will need to include detailed plans to guide these processes. Special consultants will be hired to oversee the design of these land redevelopment plans.

k. Area redevelopment plans will detail the spatial rearrangement of plots required to provide improved infrastructure and services, while avoiding the need for off-site relocation as far as possible and ensuring environmental sustainability. In addition, a cost and benefits assessment of implementing the new site plan will be carried out under an area redevelopment business plan, with specific attention to inclusion of the interests of various community members, particularly women, the poorest populations, those with home-based enterprises and the elderly. There will be clear provisions to enable community members to actively participate in the design of redevelopment plans and the decision making process.

l. The project will build upon practices involving inclusive neighborhood redevelopment approaches that have been implemented in Indonesia. For example, schemes like “kampung deret” have been used by the Government since 2014 to open up land and public space by converting slums houses into two or more storied residential structures, which required a rearrangement of plots. This approach was earlier applied in the redevelopment of dense low-income housing in Mojosongo, Sukoharjo for facilitating slum upgrading operations and

riverbank improvement (1992-94). In a post-disaster situation, the community of Lambung, a village in Banda Aceh decided to completely re-plot and rebuild the neighborhood with the reconstruction assistance (2005-08). Where community and government funds were not sufficient, such as in the case of Samarinda, private sector funding has been leveraged and a real estate developer supported the redevelopment of a neighborhood at Pasar Manggis (1988-89) in exchange for a Build-Operate-Transfer (BOT) deal. Similarly on a smaller scale, in Tangerang (1994-96), a dilapidated cluster of rental houses was redeveloped into a low-cost multi-story rental apartment building by the local municipality. In return the municipality was allowed to operate the property for five years and benefit from renting out the units before handing it back to the original owners.

m. Out of the 13,000 Ha of slums that the Bank will work across, the majority of land tenure issues are in heavy slums, which make up just 5 percent of the total slum area. The tenure situation varies considerably from one city to another, requiring localized solutions. Tenure information will be identified during the preparation of SIAPs and local governments will be supported by central government to develop solutions in cases where existing frameworks are not sufficient to resolve the issues.

n. SIAPs will include a section on social inclusion, where steps taken to ensure the inclusion of and maximize benefits for women and the poor in slums will be spelled out, including a description of how each local government will follow a Gender Responsive Planning and Budgeting Approach *(see Appraisal Summary)*.

Community Spatial Plans (CSPs):

a. CSPs will be prepared in selected kelurahans with high population density and high rates of poverty (including disaster-risk areas), which require more comprehensive spatial planning to address slum issues. CSPs are five-year plans prepared by community members assisted by urban planners to guide tertiary infrastructure for the purpose of slum upgrading in kelurahans. A primary focus of CSPs is creating a slum-level in-depth map that will help in identifying detailed tertiary infrastructure and service provision improvements (including disaster management measures) needed for slum upgrading. The spatial location of infrastructure gaps will also be identified according to MPWH's seven criteria for slums.

b. CSPs have been prepared in about 780 kelurahans in 167 cities under the ND program (of these 500 kelurahans fall under the Bank-funded areas). While ND started mainly as a community-based planning program, it has evolved into a participatory planning program that collaborates with local governments. Preparation of CSPs under this project will build upon existing efforts with an emphasis on further strengthening the consultative process between communities and local governments.

c. In the existing pilots, CSPs are prepared by the participatory planning core team (Tim Inti Perencanaan Partisipatif/TIPP) in the kelurahan, which consists of LKM members, community volunteers and kelurahan officials. The core team is assisted by an urban planner who is hired by LKMs and the Lurah (kelurahan head) to provide expertise on the technical aspects of spatial planning. LKMs in collaboration with Lurahs will lead in coordinating the CSP activities. The urban planner will ensure that the CSP is of good quality while also

drafted in a participatory manner, and will work closely with the LKM members, the Lurah, facilitators and the technical team to ensure that the community is engaged to the greatest extent possible. TIPPs will lead the collection of information on infrastructure gaps, building quality and other service provision issues. Thematic maps will be developed using participatory techniques.

d. CSPs will include infrastructure maintenance and monitoring plans and define the roles and responsibilities of the community in carrying out O&M and will also involve collecting information on issues and actions needed for the prevention of slums. In order to ensure the alignment of CSPs with SIAPs, the City Coordinator Team will work with the urban planner and LKMs to oversee the activities on one hand, and one the other hand, coordinate with the local government task force (i.e., Pokja PKP) through a consultative forum held at the city level involving all stakeholders.

e. CSPs will be developed with a special emphasis on ensuring that the poor, the vulnerable and women substantively participate in and benefit from the project. The poor and vulnerable have already been identified in the nation-wide slum profiling exercise, the results of which are available to and will be consolidated by LKMs. The project will have a strong gender focus (*see Appraisal Summary para 84 & 85*), which builds on lessons learned during NCEP Urban (*see Annex 5 Lessons Learned*). The project development objective indicator, 'Percentage of slum dwellers who are satisfied with the quality of urban infrastructure and services', will measure specific impacts on women, the poor and the bottom 40 percent. The number of female beneficiaries of the project will also be measured. During community self-surveys, poor and vulnerable renters will be identified. The development of CSPs and SIAPS will include consultation with renters, where applicable, and tailor-made solutions for this population group will be developed at community and/or local government policy level.

14. **Capacity building activities**: Several capacity building activities are planned under Component 2 as follows:

a. Facilitation of increased interaction of local government community development officers with communities and civil society organizations;[27]
b. Setting up mechanisms to enable sectoral departments at the city level to have a common understanding of infrastructural gaps and to create a culture of coordinated planning, including for harness different financing sources;
c. Strengthen participatory consultative processes between local governments and communities to align CSPs and SIAPs;
d. Finance, *inter alia*, the recruitment of city coordinators and facilitators as well as workshops and training sessions at the local level, along with peer-to-peer learning activities to facilitate the transfer of experiences and expertise between cities and between communities;

[27] For example, activities will include assisting local government officials to work with LKMs and LKM forums established under the Neighborhood Development program that has been reasonably successful in involving local governments in the planning and financing of cross-boundary tertiary infrastructure affecting two or more kelurahans.

e. Strengthen collaboration with already existing training centers of various agencies including "Balai Latihan Kerja" (training centers) and universities/research centers working with communities. This training collaboration will be initiated by the PMU with the training center of the Ministry of Public Works and Housing (such as the PIP2B that have been established in all provinces).

15. **Component 3: Urban Infrastructure and Services Investment Support (Total cost US$1578 million, of which IBRD Loan US$155 million and AIIB loan US$155 million).** This component will finance a multi-sectoral package of slum upgrading activities focused on primary, secondary and tertiary infrastructure and services improvements in 50 cities, and only tertiary investments in the rest. Component 3 has two main sub-components as follows: (a) Sub-component 3.1: Improvement of Primary and Secondary Infrastructure and Site Development as well as Construction of Connecting Infrastructure, and (b) Sub-component 3.2: Support for Tertiary Infrastructure Upgrading**.**

16. The level of Bank financing for each city and the type of infrastructure investment will be based on: (a) infrastructure gaps identified through the preparation of SIAPs, and (b) an assessment of all sectoral funding available to local governments. It is estimated that 60 percent of the total funds for this component will be allocated to 50 cities where improvements of and connections to already existing primary and secondary infrastructure investments will be made, in addition to tertiary infrastructure investments.

17. Livelihoods support under sub-component 3.1: Within the context of this project, livelihood-enabling facilities and services include, *inter alia*: community market places, kiosks, storage and treatment facilities, business-supporting infrastructure like access roads and drainage for industrial waste, and job and entrepreneurship training to promote access to existing GoI livelihood programs (e.g. *Pengembangan Penghidupan Berkelanjutan* (P2B)). It has been agreed with the GoI that modest livelihoods support will be part of the project to ensure its sustainability and increase community buy-in. This will be done in the form of livelihood-supporting facilities and services, and not direct financing of any livelihood activities. While the need to support livelihoods within communities is obvious, the effectiveness of such activities (specifically for the sustainability of slum upgrading) has not yet been conclusively demonstrated and is subject to further learning, which will be facilitated by this project. The design of this sub-project will build on the lessons learned from an ongoing pilot of CDD livelihood-supporting activities in Indonesia in over 50 kelurahans under NCEP Urban and IDB pilots in over 1,400 urban wards. The design of the livelihood-enabling activities will also draw on the experiences of several ongoing GOI-funded livelihoods pilots under the umbrella program called *Pengembangan Penghidupan Berkelanjutan* (P2B) which the Government hopes to scale up in the coming years. The pilots focus variously on micro-entrepreneurship, cooperatives and financial inclusion, and in the next stages they will be extended to promoting linkages to formal labor markets. The team will regroup, analyze the results, and work on a new design with the counterparts to incorporate those lessons and make it more relevant for the project.

18. As discussed in Section III, 154 cities in the central and eastern part of Indonesia were chosen in discussion with MPWH for World Bank interventions. These cities span a range of city size classifications.[28] The cities selected to be included in this project, vary not only in terms of population size (ranging from approximately 21,000 to 2.7 million people) but also in terms of the total area covered by slums. For example, the total area covered by slums in some cities is as low as only 1 hectare (0.01 sq. km) compared to a maximum of 710 hectares (7.1 sq. km), based on MPWH estimates. Similarly, in terms of service delivery gaps, there is a diversity of needs, with some slums areas being considerably better served than others. For example, some cities only have one percent of their population without access to proper sanitation as compared to others where over half of the population is underserved. Given such variation, the level and nature of investment required is likely to vary considerably across cities, requiring flexibility in terms of the design of investments.

19. **Cities for Primary and Secondary Infrastructure Improvements.** A long list of potential cities for investments related to the improvement of primary and secondary infrastructure and the construction of tertiary infrastructure has been drawn up in consultation with MPWH based on the criteria applied during the stage I of the selection process (see Table A2.1 for a list of criteria). Each criterion was given a weighted score, resulting in an overall combined score for a city across all criteria. Cities with an overall score of 60 or above were eligible for inclusion, which generated the long list of 65 cities, including 10 large, 18 medium and 37 small cities. The number of cities will be further reduced to 50 based on additional criteria applied in phase II of the selection process as discussed below. The distribution of these 65 cities across provinces is shown in Table A2.2 and Table A2.3, which present basic demographic and infrastructure gaps information for these cities.

Table A2.1: Stage I Selection Criteria for Generating the Long List of Cities for Primary and Secondary Infrastructure Investments

	Criteria	Data source	Weight of total score (%)
a.	Population characteristics, including population density and percentage urban population	Census Data 2010, BPS	10%
b.	Total size of slum areas in the city	Quick Count of Slum 2014, MPWH	40%
c.	Access gaps to settlement infrastructures in urban areas, including: housing space, clean water,	Census Data 2010, BPS	40%

[28] Classifications based on Government Regulations No. 26/2008 of the National Spatial Plan (RTRWN) across the following categories: (1) Small urban area (population: 50,000 – 100,000); (2) Medium urban area (population: 100,000 – 500,000), (3) Large urban area (population: 500,000 – 1,000,000); (4) Metropolitan area (an area or a core area that is functionally connected with its surrounding urban area, and with population of more than 1,000,000; and (5) Megapolitan area (an area that is formed by two or more interconnected metropolitan areas).

	Criteria	Data source	Weight of total score (%)
	sanitation, electricity, disposal, and housing entitlement		
d.	Commitment of local government, which is measured by among others the following components: • Mayor Decree on slum areas • Establishment of city level task force • Knowledge sharing and communication forum for LKMs	• NCEP Urban MIS data (2015) • List of Mayor Decree on Slum, MPWH • List of cities expected to complete SIAP by 2015, MPWH	10%

Table A2.2: Summary of Cities based on Province

No	Province	#cities
1	DKI Jakarta	1
2	Central Java	16
3	East Java	6
4	DI Yogyakarta	2
5	Bali	3
6	West Nusa Tenggara	4
7	East Nusa Tenggara	5
8	South Kalimantan	4
9	Central Kalimantan	1
10	East Kalimantan	3
11	Gorontalo	2
12	North Sulawesi	3
13	Central Sulawesi	1
14	South Sulawesi	3
15	Southeast Sulawesi	4
16	West Sulawesi	1
17	Maluku	2
18	North Maluku	1
19	Papua	1
20	West Papua	2
	Total	**65**

20. In stage II of the selection, a further evaluation of local governments will be carried out to assess their readiness to receive primary and secondary infrastructure investments in order to identify a final list of 50 cities. The selected local governments will be requested to do the following as part of their commitment:

a. Establish a task force to lead and to facilitate the project;
b. Allocate budget for operational costs during project implementation;

c. Include settlement and slum issues in Medium-Term City Development Plans (RPJMDs), with a view to exploring the inclusion of these issues in the City Master Plans; and
d. Prepare settlement plans or slum upgrading plans at city level (e.g. SIAPs, RKPKPs, RP3KPs, or similar documents).

21. **Priority Cities for Implementation in 2016**: A short list of 20 cities, out of a long list of 60 cities, have been recommended as priority cities (based on readiness of SIAPs and local regulation preparation, and among the priority cities to receive immediate intervention by MPWH, see Figure A2.1 outlining the selection process for priority cities) for implementation of the project in 2016. Priority cities include: **Surabaya; Malang; Yogyakarta, Samarinda, Gorontalo, Kabupaten Sidoarjo, Mataram, Kendari, Palu, Kupang, Jayapura, Surakarta, Semarang, Banjarmasin, Ternate, Manado, Makassar, Ambon, Sorong, and Pekalongan.**

22. **Completion of Detailed Engineering Design (DED) for Slum Area Investment Plans**. After the identification of slum areas requiring investments, detailed assessments and designs will be produced to link slum areas with city-level infrastructure as well as to meet the needs of tertiary infrastructure. At a minimum, DEDs will include maps of slum area sites, detailed design of infrastructure with maps of scale 1:100 or 1:50, details of services required, and specific costs for the package of infrastructure investments to be financed through the project. Component 3 will finance the detailed designs for the infrastructure investments as well as costs of construction supervision. The quality of DEDs will be reviewed by the Technical Management Consultants (TMCs) and OSPs.

23. **Nature of Subprojects.** Subprojects that will be financed by Component 3.1 include improvement of existing area-level small scale secondary and primary infrastructure and connecting infrastructure which connects slum areas with secondary and primary infrastructure. It would include possible small scale roads, drainage, water supply, and sanitation. This will integrate slum services with those of their neighboring areas. The nature of subprojects will be known once the SIAPs are finalized, which for the subset of 20 cities will completed in the first year of project implementation (2016). Learning from the LGDP (DAK) project, the improvement, rehabilitation and maintenance of existing secondary and primary infrastructure (e.g. city roads) has increased the service capacity of the infrastructure. Road improvement includes widening, straightening and/or surfacing/upgrading the surface quality of existing roads, as well as wall lining to protect erosion. Road rehabilitation involves hole patching, sidewalk fixing, and maintenance includes resurfacing, cleaning up road shoulders, fixing broken drains and cleaning up drainage. In LGDP, the contract size for these works is relatively small. For instance, in East Java, in 2014 the average contract size for road improvement was about US$87,000 and for road maintenance US$88,000. In West Sulawesi, the figures were US$111,000 and US$80,600 for road improvement and maintenance, respectively. In Central Kalimantan, contract amounts were approximately US$293,400 and US$183,400 for road improvement and maintenance, respectively. Connecting infrastructure, for example, can be installation of collector pipes that connect the underutilized existing waste water treatment plant to the slum area (Margasari) as has been carried out in the case of Balikpapan.

24. Similar to the ongoing NCEP Urban/ND, Component 3.2 will finance small-scale, community infrastructure including new infrastructure as well as the improvement or rehabilitation of existing infrastructure such as community roads, footpaths, small bridges,

drainage, water supply, communal and individual toilets, solid waste management, sub-standard housing, and community parks and greenings. The project will continue to support the CDD approach to slum improvement established under ND that has been piloted in 780 kelurahans in 167 cities under the NCEP-Urban/ND. Subprojects are relatively small. For instance, during 2012-2014, median costs of roads, drainage, public toilets, sanitation channels, and greening were US$26,700; US$12,500; US$4,800; US$6,000; and US$3,800 respectively. Under this project, the GoI plans to focus on in-situ slum upgrading which should minimize involuntary resettlement and connect the upgraded slums with the city infrastructure services.

25. **Sub-project Eligibility.** The project funds cannot be used to finance (a) purchase of land; (b) economic activities involving revolving funds; (c) activities with significant, sensitive, complex, irreversible and unprecedented potential adverse environmental and social impacts requiring a full environmental assessment to manage and mitigate such impacts in accordance with World Bank OP 4.12, Ministry of Environment Regulation No. 5, 2012 and Ministry of Public Works and Housing Regulation No. 10, 2008; and (d) a subproject with cost above US$500,000.

26. **O&M Arrangements.** O&M arrangements for primary and secondary infrastructure will be specified in SIAPs, and endorsed by the national government, along with agreements about the source of funds and the assigning of implementation responsibilities. Bidding for contractors will be done by local governments except for contractors for national/primary infrastructure, which will be under national or provincial control. Similarly, O&M arrangements for tertiary infrastructure will be spelled out in CSPs and endorsed through agreements with the local government. Communities will receive support from local governments for O&M. Training for O&M activities will be increased during the planning process as well as during the process of enhancing ownership of infrastructure by local governments and communities. Tertiary infrastructure will be maintained by the community and secondary infrastructure (primarily, drainage, water supply, secondary roads) by the local governments. All primary infrastructure investments will be the responsibility of the national government and maintained through central government funds. Overall O&M of the project will be the responsibility of local government and will be specified within the MOU.

27. The World Bank funding cannot be used to finance the following (details will be provided in the Safeguards Technical Guidelines):

a. The use of block grants for land purchase;
b. Economic activities involving revolving loan funds; or
c. Business plans and/or activities that have potential adverse environmental and social impacts that are significant, sensitive, complex, irreversible and unprecedented that would require a full environmental assessment to manage and mitigate the impacts.

28. As the first step, the project shall screen the project of the potential significant impacts using the ESMF, and shall define the appropriate safeguards instruments to be prepared (Refer to the Ministry of Environment Regulation No. 5, 2012 and MPWH's regulation No. 10, 2008). It is expected that sub-projects which will require a full environmental assessment shall not be funded.

29. In addition, World Bank funding is not eligible for activities which:

a. Use material that depletes the ozone layer in the atmosphere, tobacco or any products containing tobacco or pesticide;
b. Use asbestos as a construction material;
c. Use, produce, store or transport raw materials and hazardous & toxic waste (categorized as B3 under Indonesian law);
d. Are within, traversing or adjacent to forests, including conservation forests (natural reservation forest, conservation forest, and hunting parks), production forests and protection forests;
e. Are within, adjacent to or traversing protected and sensitive areas, natural habitats and critical natural habitats, or which may alter the function or effectiveness of protected and sensitive areas, or which causes significant conversion and/ or degradation of the natural habitat or any critical natural habitat environment;
f. Degrade or destroy the cultural value of a cultural conservation area, not only limited to artifacts and cultural structures, but also locations considered sacred or having high spiritual value for local people. In the contract agreement with the contractor, there must be provisions and guidelines concerning what measures must be taken if these artifacts and structures are found within the project site; or
g. Use timber from illegal logging. The project must not finance infrastructure related to or support illegal logging.

30. **Component 4: Implementation Support and Technical Assistance (Total cost US$74 million, of which IBRD Loan US$21.5 million and AIIB loan US$21.5 million)**: This component will finance implementation support and technical assistance to strengthen the capacity of staff of the PMU, provincial level government agencies, participating cities, participating kecamatans (districts), and participating kelurahans, including the hiring of NMCs, TMCs and OSPs. Local governments will be assisted in preparing SIAPs, mobilizing financing sources, strengthening collaboration among stakeholders at city level and supervising the preparation of the detailed design of infrastructure investments for the primary and secondary infrastructure. In addition, this component will also strengthen mechanisms to ensure local government accountability and a high level of transparency, etc.

31. Monitoring and evaluation activities to strengthen project implementation and to receive timely feedback on project progress will be an integral part of this component. The project will finance studies and surveys to evaluate outcomes. This includes baseline and follow-up surveys on institutional capacity, access to infrastructure and services in the targeted slums, and satisfaction among beneficiaries. These surveys complement the data generated by the MIS. Other types of support for project management and implementation include financing of management activities associated with project implementation including regular audits (including by external auditors as needed), establishing and operating a monitoring and evaluation (M&E) system, and a training for GIS mapping and the development of an ICT-based tool that will facilitate the use and updating of relevant city-level information. This component will finance the development of a digital platform to store and use relevant town-level maps, including updated settlement and land use maps, infrastructure, and land use maps of the select project cities.

32. **Component 5: Contingency for Disaster Response ($0).** This component will finance preparedness and rapid response measure to address disasters, emergency and/or catastrophic events, in accordance with the applicable Emergency Response Operations Manual. Due to the high risk of catastrophic natural disaster events in Indonesia, a provisional zero dollar component is included in the project that will allow for rapid reallocation of loan funds in the event of a natural disaster. Such a contingency was first included in PNPM-Urban III, in response to a request by the GoI to use the PNPM platform as a central part of the Government's disaster recovery strategy. The national government will inform the Bank when disasters have occurred which will trigger this component. A special manual will be prepared for approval by the Bank on the use of this component.

Figure A2.1 Process for Selecting Cities

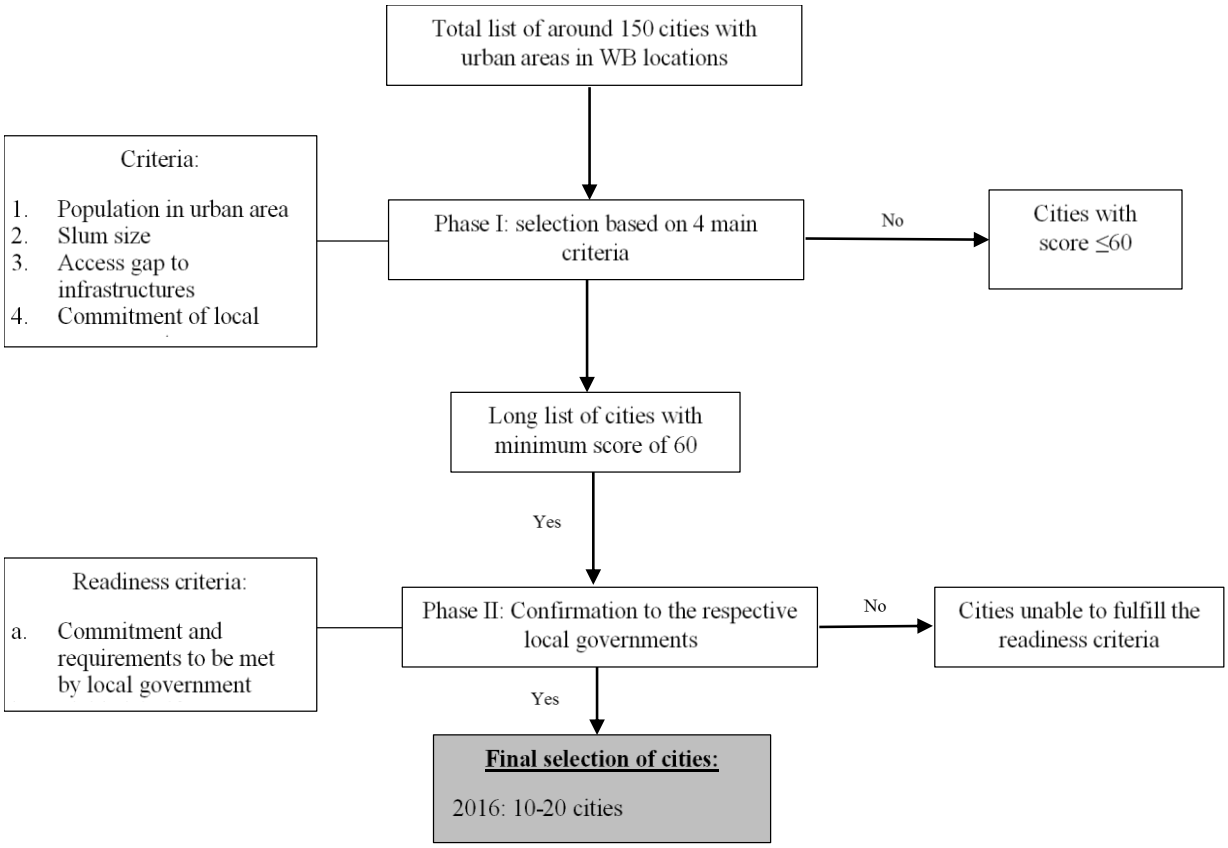

Total list of around 150 cities with urban areas in WB locations
Criteria:
1. Population in urban area
2. Slum size
3. Access gap to infrastructures
4. Commitment of local
Phase I: selection based on 4 main criteria
No
Cities with score ≤60
Long list of cities with minimum score of 60
Yes
Readiness criteria:
a. Commitment and requirements to be met by local government
Phase II: Confirmation to the respective local governments
No
Cities unable to fulfill the readiness criteria
Yes
Final selection of cities:
2016: 10-20 cities

Table A2.3 Tentative List of Cities from Stage I Selection

Rank	Regency/City	Category Of City	Demographic Criteria		Slum Size		Infrastructure gap in urban areas					LG Commitment (score)
			Total Population	Population Density (person/ km2)	# Urban Wards	Slum Size (Ha)	% Urban Households with Housing Space ≤7m2)	% HH Without Proper Access to Water	% HH Without Proper Access to Sanitation	% HH Without Proper Access to Waste Water Facility	% HH Do Not Own Housing in Urban Areas	
1	Kota Surabaya	LARGE	2,765,487	7,889	159	277.7	28.15	55.20	3.75	6.2	44.1	75
2	Kota Bontang	SMALL	143,683	353	15	91.6	14.99	52.19	4.15	11.2	48.1	78
3	Kota Balikpapan	MEDIUM	557,579	1,058	34	282.2	17.56	29.10	2.30	9.0	42.6	80
4	Kota Malang	MEDIUM	820,243	5,646	57	555.6	15.44	21.78	4.28	18.7	30.6	75
5	Kota Yogyakarta	SMALL	388,627	11,958	45	271.1	19.96	32.98	3.92	10.1	55.2	63
6	Kota Samarinda	MEDIUM	727,500	929	53	539.2	18.53	41.17	3.81	8.0	46.5	58
7	Kab. Pekalongan	MEDIUM	838,621	1,002	119	671.8	10.91	10.70	27.36	45.5	19.3	83
8	Kab. Kendal	MEDIUM	900,313	805	57	160.5	4.61	8.41	27.51	39.5	14.5	88
9	Kota Banjarbaru	SMALL	199,627	538	20	349.1	14.24	36.61	2.44	7.3	38.0	70
10	Kota Gorontalo	SMALL	180,127	2,263	50	159.3	28.71	19.73	19.34	15.1	39.7	65
11	Kota Palangkaraya	SMALL	220,962	92	30	50.0	18.17	35.56	3.10	8.4	45.1	68
12	Kab. Sidoarjo	LARGE	1,941,497	3,060	289	18.2	14.39	28.39	12.14	16.1	26.6	73
13	Kab. Muna	SMALL	268,277	91	8	95.0	21.12	9.66	15.26	66.8	27.2	63
14	Kota Denpasar	MEDIUM	788,589	6,171	43	15.0	29.92	71.57	0.83	1.4	60.9	88
15	Kota Mataram	SMALL	402,843	6,572	50	303.6	31.81	35.92	12.68	16.2	38.1	80
16	Kota Bitung	SMALL	187,652	620	69	34.6	30.35	33.81	8.91	15.1	34.0	85
17	Kab. Sumba Timur	SMALL	227,732	33	7	63.1	30.01	5.57	4.65	75.0	28.6	50
18	Kab. Banjar	MEDIUM	506,839	109	26	151.6	18.70	34.03	7.62	52.3	34.0	50
19	Kab. Kotabaru	SMALL	290,142	31	21	149.6	19.15	20.31	3.89	59.5	34.7	70
20	Dki Jakarta	LARGE	2,403,797	2,256	216	717	26.66	33.53	6.43	36.58	38.4	70
21	Kab. Purworejo	MEDIUM	695,427	637	27	109.3	6.48	8.80	14.53	37.4	23.7	63
22	Kab. Demak	LARGE	1,055,579	1,173	19	290.3	5.78	22.97	15.48	37.3	11.4	65
23	Kota Tegal	SMALL	239,599	6,038	27	191.1	11.50	2.16	7.98	14.8	35.7	48

Rank	Regency/City	Category Of City	Demographic Criteria		Slum Size		Infrastructure gap in urban areas					LG Commitment (score)
			Total Population	Population Density (person/ km2)	# Urban Wards	Slum Size (Ha)	% Urban Households with Housing Space ≤7m2)	% HH Without Proper Access to Water	% HH Without Proper Access to Sanitation	% HH Without Proper Access to Waste Water Facility	% HH Do Not Own Housing in Urban Areas	
24	Kab. Tulungagung	MEDIUM	990,158	938	81	150.1	7.50	10.96	8.18	38.1	16.2	68
25	Kota Kendari	SMALL	289,966	964	64	397.7	23.56	31.23	9.12	12.6	42.1	78
26	Kab. Manggarai	SMALL	292,451	139	11	2.7	30.59	8.21	5.26	74.6	32.4	75
27	Kota Palu	SMALL	336,532	852	45	85.2	19.10	42.01	12.51	9.7	43.4	95
28	Kota Baubau	SMALL	136,991	620	43	21.7	28.33	15.58	10.23	12.5	36.7	83
29	Kab. Gorontalo	SMALL	355,988	203	23	12.8	30.78	11.15	35.35	53.7	25.3	78
30	Kab. Lombok Timur	LARGE	1,105,582	898	67	181.5	26.27	13.10	44.56	57.7	16.3	53
31	Kota Bima	SMALL	142,579	642	38	59.5	31.73	32.91	22.22	28.8	29.7	55
32	Kota Kupang	SMALL	336,239	12,843	51	39.1	33.39	14.92	2.05	27.2	48.1	65
33	Kab. Belu	SMALL	352,297	144	4	8.0	36.58	13.32	3.07	59.3	37.7	63
34	Kota Jayapura	SMALL	256,705	274	39	101.7	34.00	24.48	8.15	17.0	56.8	80
35	Kota Surakarta	SMALL	499,337	10,853	51	467.6	18.77	18.69	11.45	12.5	40.3	80
36	Kota Semarang	LARGE	1,555,984	4,163	177	415.9	13.45	28.50	4.67	7.0	30.4	83
37	Kab. Sleman	LARGE	1,093,110	1,902	75	41.4	5.86	27.45	7.75	10.8	36.4	83
38	Kab. Lombok Tengah	MEDIUM	860,209	786	26	59.0	25.28	12.71	41.20	56.6	11.7	68
39	Kota Banjarmasin	MEDIUM	625,481	8,687	52	709.7	22.79	6.48	9.74	22.1	40.4	83
40	Kab. Kolaka	SMALL	315,232	46	14	105.2	17.89	31.27	14.65	50.7	39.1	83
41	Kota Ternate	SMALL	185,705	1,667	77	21.8	23.58	9.58	4.49	7.7	41.8	78
42	Kota Kotamobagu	SMALL	107,459	1,579	33	36.1	22.05	27.00	19.26	36.8	32.2	53
43	Kota Tual	SMALL	58,082	228	29	63.4	32.72	11.57	12.21	31.7	33.0	85
44	Kab. Purbalingga	MEDIUM	848,952	1,235	44	32.4	6.81	14.77	32.94	52.2	15.2	85
45	Kab. Semarang	MEDIUM	930,727	979	30	193.5	8.31	15.55	7.56	26.0	21.4	43
46	Kota Manado	SMALL	410,481	2,610	87	124.0	24.79	48.45	4.80	9.6	44.8	73
47	Kota Makassar	LARGE	1,338,663	6,718	143	740.0	25.81	37.91	4.62	5.7	44.3	70

Rank	Regency/City	Category Of City	Demographic Criteria		Slum Size		Infrastructure gap in urban areas					LG Commitment (score)
			Total Population	Population Density (person/ km2)	# Urban Wards	Slum Size (Ha)	% Urban Households with Housing Space ≤7m2)	% HH Without Proper Access to Water	% HH Without Proper Access to Sanitation	% HH Without Proper Access to Waste Water Facility	% HH Do Not Own Housing in Urban Areas	
48	Kota Pare-Pare	SMALL	129,262	1,301	22	274.0	21.21	35.51	9.71	11.3	36.4	70
49	Kota Palopo	SMALL	147,932	585	48	89.3	20.79	26.69	12.95	12.9	40.1	63
50	Kota Ambon	SMALL	331,254	1,109	50	102.6	30.64	11.66	10.82	13.6	39.0	55
51	Kab. Pemalang	LARGE	1,261,353	1,128	79	137.3	10.05	7.66	34.47	49.1	16.3	93
52	Kab. Bondowoso	MEDIUM	736,772	483	11	59.6	4.90	14.41	52.69	79.3	12.1	53
53	Kab. Sikka	SMALL	300,328	173	7	5.8	32.27	16.49	5.01	52.3	36.1	55
54	Kota Probolinggo	SMALL	217,062	3,830	29	198.0	10.19	15.78	23.23	30.0	17.4	88
55	Kab. Banjarnegara	MEDIUM	868,913	849	13	60.0	4.47	13.47	28.94	69.6	13.1	55
56	Kab. Rembang	MEDIUM	591,359	667	54	59.5	7.85	26.50	27.84	49.7	13.5	63
57	Kota Sorong	SMALL	190,625	290	31	51.7	34.14	43.46	3.89	15.7	50.9	65
58	Kab. Majene	SMALL	151,107	159	8	21.5	23.06	13.40	39.95	55.4	20.1	75
59	Kab. Wonosobo	MEDIUM	754,883	769	20	70.8	7.69	7.03	21.81	86.0	14.7	88
60	Kab. Grobogan	LARGE	1,308,696	650	17	50.8	3.24	40.71	11.41	49.1	13.6	85
61	Kab. Manokwari	SMALL	187,726	13	10	43.5	32.38	33.90	2.86	41.3	53.5	58
62	Kab. Gianyar	SMALL	469,777	1,277	17	30.8	23.21	14.70	4.57	11.9	19.1	95
63	Kab. Klungkung	SMALL	170,543	541	30	37.0	18.67	6.93	9.24	26.6	13.4	78
64	Kab. Sukoharjo	MEDIUM	824,238	1,685	83	35.3	7.75	10.25	11.02	15.6	23.0	83
65	Kota Pekalongan	SMALL	281,434	6,220	27	195.6	10.45	9.62	11.16	13.7	27.9	83

ANNEX 3: IMPLEMENTATION ARRANGEMENTS

Indonesia National Slum Upgrading Project

Project Institutional and Implementation Arrangements

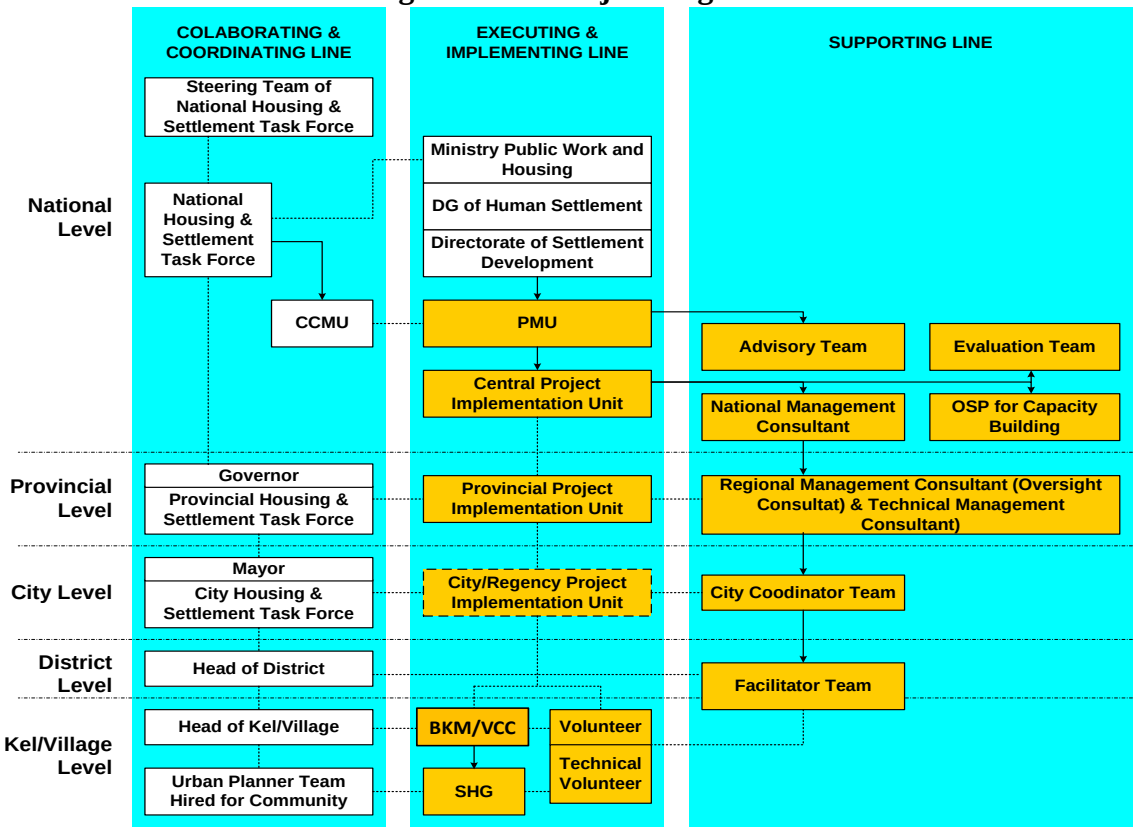
1. **Collaborating and Coordinating Line.** A steering committee or task force on housing and settlements (Pokja PKP), consisting of both high-level officials and more technical staff, will provide guidance and oversight to the program at the national level. The steering committee will ensure cross-sector coordination and will have different units dedicated to slums, housing, land, water and sanitation and data management. It will be chaired by the National Development Planning Agency (BAPPENAS) and will include high-level officials from the Ministry of Finance, the Ministry of Home Affairs, the Ministry of Land and Spatial Planning, the Ministry of Health, Ministry of Public Works and Housing, and the BPS. Similar structure to the one formed at national level, will be formed at the provincial and city levels. Task forces at the city level will be chaired by BAPPEDA (Local Planning Agency) and will include local government representatives from relevant agencies.

2. **Project Executing Agency.** MPWH will be the executing or implementing agency for this project. A Project Management Unit (PMU), with experienced personnel from NCEP Urban, will be established under the DG of Human Settlements under MPWH. Under the PMU, the Central Project Implementation Unit (Satker) will manage the contracts for consultants and facilitators to assist in capacity building and project implementation. Likewise, there will also be Project Implementation Unit (Satkers) at the provincial and city level, who will manage the contracts for consultants and facilitators to assist in capacity building and project implementation.

3. **Technical Assistance.** Technical assistance will be provided through: (1) an Advisory Team, made up of experienced consultants who will advise the PMU on policy and implementation arrangements for slum upgrading, (2) NMCs at the national level, (3) Oversight Service Providers (OSPs) teams at the provincial level, with OSPs offices in participating provincial and city governments, (4) Technical Management Consultants (TMCs) at the regional level, (5) Evaluations and Studies Consultant (ESC) and also city coordinators team at selected cities and facilitators team at the urban ward level. Each province will be led by a Provincial Team Leader and teams with expertise in urban planning, infrastructure, capacity building, safeguards, financial management, monitoring and MIS. Each city will have a City Coordinator, supported by assistants with expertise in urban planning, infrastructure, community empowerment, data management and also economic management to ensure all fiduciary responsibilities are properly managed. At the *kelurahan* level, a team of *kelurahan* facilitators will be assigned. The facilitator composition will be 5:7 (5 facilitators for 7 kelurahans) for kelurahans with slum areas, and 5:9 (5 facilitators for 9 kelurahans) for kelurahans that only have light slum areas.

4. The organogram below summarizes the institutional and implementation arrangements for KOTAKU:

Figure A3.1: Project Organization Chart



Project Cycle

5. The project implementation will follow *a phased approach* that will ensure local government and community buy-in as well as institutional capacity development. The initial phase of planning and capacity building will start simultaneously in all cities, to be financed by Component 2, in order to ensure that by the end of Year 1 (2016), SIAPs will be available for all cities and substantial progress will have been made in all cities by 2019. Simple interventions will be carried out first, with more complex challenges being tackled later in the project cycle. In 2016, the project will support: (i) tertiary infrastructure development in 200 ND sites in cities where CSPs and SIAPs have already been prepared; and (ii) the preparation or review of new SIAPs. It is expected that the entire support system, including consultants for this activity will be in place by June 2016. The existing NCEP Urban support system will provide a bridge until the new consultants are in place. World Bank funding for this program has just been extended from 31 December 2015 to 31 December 2016 to support a smooth transition to the new project.

6. At the city level, the city governments will prepare or finalize their SIAPs. It is expected that towards the end of 2016, 20 cities of the subset of 50 cities will have completed SIAPs, identified priority slum areas for intervention, and will have final detailed engineering designs (DEDs) for first priority infrastructure subprojects. Construction for these first priority subprojects, to be financed by Component 3.1, will be constructed in 2017. DEDs for the second priority subprojects as identified by the SIAPs will be completed in 2018, and their construction will take place in 2018. This cycle will continue for the remaining priority subprojects until 2021. Simultaneously during 2016, the remaining 30 cities from the subset of 50 cities will start preparing their SIAPs, which will be final in 2017 and will complete DEDs for selected priority infrastructure subprojects completed by the end of 2017. Construction of these subprojects will start in 2018. The cycle will continue for the next priority subprojects in the following years. Gradually all of the subset of 50 cities will complete their DEDs for all identified priority infrastructure subprojects in 2018 onwards, and their construction to be financed by the project is expected to be completed in 2021. In summary, during the project period, there will be simultaneous activities across the 154 participating cities with different levels of progress, i.e. SIAP preparation, DED preparation, construction, and operations and maintenance for the completed subprojects.

7. The project cycle can be captured in the following six stages:

Figure A3.2: Project Cycle

8. **Nationwide Appraisal of Slums (Year 0).** A nationwide appraisal based on a participatory methodology has been carried out by the MPWH for the purpose of profiling slums in preparation for the NSUP. The aim was to determine which kelurahans contain slums, classify the slums based on their intensity (heavy, medium or light, as per the MPWH's definitions) and estimate the total number of hectares to be upgraded per category. This will allow MPWH to

have a better idea of the total cost of upgrading and help local governments identify areas targeted for the NSUP. The assessment was carried out in all kelurahans in 269 cities in Indonesia, i.e. all the cities where the NSUP will operate. Data on slum indicators was based on the MPWH definition of a slum household, which includes seven infrastructure access criteria (related to roads, water supply, drainage, sanitation/sewerage, solid waste and fire protection) and one criterion on building conditions (state of the physical structure of a house and whether it is overcrowded or not).

9. **SIAPs and CSPs (Year 0 - Year 1).** Slum Improvement Actions Plans (SIAPs) were prepared in over 100 cities in 2015 with support from the MPWH. In 2016, NSUP will facilitate SIAP preparation in the remaining cities and will review, revise and complete the existing ones, as needed, according to the guidelines. Revised, completed and new SIAPs will be prepared in accordance with the ESMF. Consultants will be mobilized for providing capacity building, supervision, and quality assurance. Since CSPs were a feature of the ND program under NCEP Urban, they already exist in 500 kelurahans. These will also be revised in line with new MPWH guidelines and new CSPs will be created in the remaining kelurahans. A more detailed community-based slum mapping might be carried out for the purpose as part of the formulation of CSPs.

10. **Socialization Workshops and Capacity Building (Year 1 - Year 5).** In Year 1 of the project, socialization workshops will be held for government officials at national, provincial and local levels, as well as at the community level. Task forces on housing and settlements (i.e. Pokja PKPs) will be formed at provincial and city levels. Capacity building workshops and training will be held for members of these task forces as well as other stakeholders, and will continue to take place throughout the project cycle. The project will carry out advocacy efforts at the local government and community level, which will explain the project's objective, schedule, division of responsibilities and implementation arrangements to all stakeholders. Mayors, or representatives thereof, will be invited to a series of workshops. At the community level, facilitators will conduct socialization regarding the project activities throughout the project cycle. The publically accessible project website will provide a robust information dissemination system for all stakeholders with features such as profiles of the cities selected and slums identified, capacity building materials, project guidelines, financing, volume of investments, etc. The website will also have a Q&A forum for all stakeholders to interact and find answers to queries among the peers. A similarly functioning website under NCEP Urban currently attracts approximately 11,000 visitors per day.

11. **Infrastructure provision (Year 1 - Year 5).** Tertiary infrastructure construction will start at the beginning of the project. In 2016, the project will support infrastructure development in 200 ND sites in cities where both CSPs and SIAPs already exist (with revisions to the plans as needed). Improvement of primary and second infrastructure in the vicinity of slums and/or construction of connecting infrastructure will mainly start at the beginning of Year 2 when detailed design documents will be drawn up for the selected cities where the Bank will finance the improvement of connecting infrastructure.

12. **Monitoring (Year 1 - Year 5).** The NSUP will build on NCEP Urban's advanced web-based MIS, which is currently being improved to accommodate the specific needs of this project.

Facilitators will collect the data and give their logbooks to the City Coordinators. Data management assistants at city level will input data within the MIS. The Provincial Data Management Specialists will verify and analyze data in the MIS for further action. The NMC will monitor and supervise the provincial team to ensure MIS data is regularly and accurately updated, and verification procedures are performed.

13. **Evaluation (Year 3, Year 5).** The overall objectives of the evaluation are to examine project performance and to document good practices for lessons learnt. Evaluation studies and reviews will comprise of process evaluation as well as mid-term and final evaluations, using qualitative and survey methods. The period of evaluation will start from Year 2 until Year 5.

14. **Partnership Arrangements**. The Government has agreed to develop a national umbrella platform for KOTAKU that enables collaboration between different stakeholders. BAPPENAS is currently preparing a consolidated set of guidelines that will provide a framework for the line ministries and local governments to collaborate. MPWH through DGHS has also prepared a decree with national guidelines for KOTAKU. MPHW will serve as the coordinator for arrangements among donors, as was previously the case under NCEP Urban. From the World Bank perspective, this project is part of a series of complementary ongoing and proposed lending engagements in the immediate pipeline – including the NAHP, the NUWSP and the Regional Infrastructure Development Fund (RIDF) as well as a suite of umbrella advisory engagements – that aim to support Indonesia as it strives to close its infrastructure gap, reduce its housing deficit, and meet the critical development challenges created by a structural transition to a heavily urbanized economy. (*See Annex 6 for further details*).

Financial Management, Disbursements and Procurement:

Financial Management (FM)

15. **Overview.** From a FM perspective, the project can be viewed as supporting three main areas: (i) urban infrastructure financial support to local government through the Tugas Pembantuan (TP) mechanism and Kewenangan/Kantor Pusat (KP) amounting to approximately US$198 million; (ii) financial support for urban infrastructure and services to communities through block grants mechanism amounting to approximately US$112 million; and (iii) financial support for technical assistance to central, provincial and local governments, and communities in an amount of US$123 million. Three sets of control processes are in place:

- **Primary and Secondary Infrastructure and Resettlement.** Financial support to local government follows government regulation for Dana Tugas Pembantuan (MOF Regulation No. 156/PMK.07/2008) and Kewenangan/Kantor Pusat (KP) (PMK.208/PMK.02/2014).
- **Block grants.** Financial support to communities follows GoI regulations and the principles of CDD, including participatory governance, local empowerment and accountability.

- **Technical Assistance.** The provision of this type of support follows traditional principles of investment lending including financial accountability, control over activities and monitoring of controls.

16. The high volume of transactions for the first two parts of the project puts the controls over payment as the highest area of vulnerability with risk to be managed at all levels.

17. As mentioned earlier, this project will be cofinanced jointly by the Bank and AIIB. The Government of Indonesia will enter into separate legal agreements with each lender. The Bank and AIIB will co-finance jointly all components. Details on how the funds would be disbursed are specified in the disbursement section of Annex 3, and also in the project operational manual. The same FM arrangements will apply to project components financed by AIIB.

18. **Institutional and Staff Arrangements.** The MPWH will be the implementing agency for this project. The PMU, with experienced personnel from NCEP Urban, will be established under the DG of Human Settlements. In project implementation, DGHS will be supported by local implementing units, and Public Works works units, at provincial and city level.

19. The PMU will responsible for overall project coordination, day-to-day management, budgeting, financial administration, monitoring and reporting. The Project Implementation Unit (Satker) organization will include government officers with FM functions, such as commitment-makers, verification officers, treasurers and accounting officers. Following the Government's system, PIU Satkers at provincial and city level will also be established. A firm will be hired by the Satker to serve as the NMC team, to assist the PMU in managing the project. The NMC will assume overall responsibility for field-level implementation. It will include a FM consultant to assist in the project's FM arrangements at national level.

20. The Satkers at provincial and city level will be in Public Work's work units with similar FM staff composition as the national Satker. National Satker will hire Oversight Service Providers (OSPs) at the provincial level and City Coordinator team at city level. There will be one or two FM consultants at the provincial level (depending on the number of cities that they are assisting) and one FM consultant at the city level. Satkers at provincial level hire city and community level FM facilitators that will provide technical assistance and monitoring support to the local government and communities. The city level FM assistant will assist City PIU and oversee community FM facilitators at kelurahan level. Training arrangements will be put in place to ensure that the city consultants and facilitators are adequately trained to enable local government and community groups to maintain adequate account books.

21. Within kelurahans, communities will carry out planning through locally-elected Community Boards of Trustees (LKMs). Every kelurahan board forms a small team for project administration (LKM secretariat). A financial management unit is established within the secretariat, responsible for accounting and record keeping. The sub-project implementation team (KSM) is set up at sub-kelurahan (RW) level. FM facilitators assist the community groups to prepare the financial reports on infrastructure sub-grant implementation.

22. **Budgeting.** The budgeting system follows the existing government procedures. The project budget will be included in the annual government budget and line ministry budget document

(DIPA). There is a risk regarding the issuance of DIPA that creates potential for project implementation delay.

23. **Accounting and Reporting.** All PIUs at each level (provincial and local) will maintain separate accounting records for all payment orders (SPM) and remittance orders (SP2D) on a cash basis. All financial transactions will be recorded in the government accounting system and included in government accountability reports. All PIUs will keep original remittance payment records (SP2Ds) and maintain files for audit purposes.

24. LKMs will be required to prepare simple accounting and financial reports for the block grants they receive. LKMs will keep all supporting documents. In order to minimize accounting risks, facilitators will assist the LKMs in administering whole block grants and in certifying the report prior to submission to the city PIU.

25. The PMU will prepare a separate set of consolidated financial reports (interim Financial Reports) that are suitable for project monitoring purposes. The PMU will be responsible for submitting the reports to the Bank on a quarterly basis not later than 45 days after the end of each quarter. These reports cover all consultants/facilitators, infrastructure built, block grant payments and GoI contributions. In addition, the PMU will receive a copy of SP2D through submission from all local PIUs as a basis for preparing a consolidated project financial report and for Designated Account (DA) reconciliation purposes. A financial statement for this project will be prepared annually for audit purposes.

26. **Internal Controls.** For payments at the PMU and PIU level, in addition to the existing verification procedures, the PMU/PIU will assign dedicated staff within PMU/PIU to conduct detailed verification of the contractors and consultants' invoices prior to issuance of payment requests. This control measurement can be further improved through the provision of verification guidelines that include third party confirmation, and through improving the accountability of the verification team, such as official appointment of the team.

27. **Field Consultants (Facilitators) Countersign LKM Reports**. LKMs will not be able to withdraw funds without a countersignature from the facilitator. In order to obtain the approval of the facilitator, the LKM will have to produce an acceptable 'funds utilization plan' or provide a utilization report prepared by the KSMs (for each subsequent disbursement, if the activity is done in tranches). KSMs submit their project report to the LKM. These reports will be made public at annual community meetings and displayed in public areas. Internal controls at the kelurahan level are set out in the sub-grant manual, including sub-project implementation reports, facilitators' signatures, and public information. These control mechanisms are expected to create community controls over project implementation. Sub-grants are directly transferred from the treasury office (KPPN) to the community group accounts. FM facilitators assist the community groups with financial management through regular monitoring using FM performance indicator checklist. FM facilitators cover 100 percent of field supervision.

28. **Flow of Funds**. Under sub-component 3.1, the province and city offices will follow the Dana Tugas Pembantuan (TP) and/or Kewenangan Kantor Pusat (KP) mechanisms. Under TP arrangement the funds will be budgeted at the central government level but implemented by

respective local government at city level. Under KP arrangement the funds will also be budgeted at the central government level but implemented by Satker at province/city level. The disbursement of TP and KP follows DG Treasury guidelines for payments using APBN.

29. Under Sub-component 3.2, funds will be transferred to the LKMs established at kelurahan level. The release of funds will be carried out in tranches. The first payment will be made upon signing of an agreement (MOU) between the project and the community groups, and subsequent payments made upon satisfactory progress reports of financial and activities as certified by the project. A separate manual will be developed by the project, subject to the Bank approval.

30. **Audit Arrangements.** The PMU will be responsible for preparing general purpose financial statements in accordance with International Public Sector Accounting Standards (IPSASs). The audits of these statements will be carried out by independent auditors (BPKPs). An annual audit report will be furnished to the Bank no later than six months after the end of the government's fiscal year and shall be made publicly available.

31. The audit assignment will be in accordance with the agreed Terms of Reference (TOR). The auditors will not only provide an opinion on the accounts, but also include comments on the internal control framework and compliance with the project operations manual.

Disbursements

Disbursement Arrangements. The applicable disbursement method will be (1) "Advance", (2) "Direct Payment", and (3) "Reimbursement". One pooled Designated Account (DA) denominated in US dollars will be opened by DG Treasury (MOF) in the Bank Indonesia (Central Bank). Advances from the Bank and AIIB will be deposit to this DA and will be solely used to finance eligible expenditures. The ceiling of the advance to DA will be variable, and the advance(s) will be made on the basis of the six month projected expenditures. The reporting of use of the DA funds and expenditures for block grants will be based on the quarterly Interim Financial Report (IFR), which should be submitted to the Bank no later than 45 days after the end of each quarter. Applications for an advance to the DA will be submitted together with the reporting on use of DA funds, which will consist of: (a) IFRs and a list of payments for contracts under the Bank's prior-review; (b) projected expenditures for six months; and (c) the DA reconciliation statement. For block grants, expenditures are recognized when project funds are received by the community groups. Claims are made based on actual payment remittance (SP2D) issued by the State Treasury offices. SP2Ds define the source of financing with reference to each lenders' related budget allocation (DIPA) stating loan register number.

32. All documentation for the expenditures as reported for disbursements will be retained at the implementing units and made available to the auditors for an annual audit and to the Bank and its representatives, if requested.

33. The PMU at the DGHS level will be responsible for reconciling the DAs and preparing separate applications for the withdrawal of reimbursements and advances, duly approved by the DG Treasury, before their submission to the Bank. Copies of DA bank statements will be provided to the PMU by DG Treasury, MOF. For each withdrawal application received by the Bank against advances or eligible expenditures, the Bank will pay its share of co-financing to the

payee and simultaneously instruct AIIB to remit payment of their share of co-financing to the payee.

34. DG Treasury will authorize its relevant Treasury Offices (KPPNs) located near the implementation units to authorize payments of eligible project expenditures by issuance of SP2D (remittance order). For this purpose, DG Treasury shall issue a circular letter to the relevant KPPN Offices providing guidelines and criteria for eligible project expenditures in accordance with the loan agreements. When expenditures are due for payment, PMU/PIUs will prepare SPP (payment request) to the payment officer within the Satker. After document verification, the payment officer will issue SPM (payment order) together with the supporting documentation for submission to the relevant KPPN. The KPPN will check the budget eligibility and issue the SP2D to the KPPN's operational bank, which transfers the funds directly to the payee's account and arranges for debit for the loan portion to the DA. The same process will also apply to transactions paid using AIIB loan.

35. In Indonesia, financing arrangements for Bank projects implemented by Central Government Agencies are governed by Integrated Budget, or DIPA. Source of financing for project activities, including financing percentage, are detailed in DIPA and strictly followed. As such, project activities identified to be financed by the Bank and AIIB funds will be at 100 percent, with the Bank and AIIB financing at 100 percent of its respective share. For this project, disbursement category setup and description and allocation for activities financed by the Bank and AIIB are outlined in the table below whereby IBRD/AIIB financing is at 100 percent, inclusive of taxes.

Table A3.1 Allocation of the Loan Proceeds

Category	Amount of the IBRD Loan Allocated (expressed in USD)	Amount of the AIIB Loan Allocated (expressed in USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Kelurahan Grants under Part 3.2 of the Project	60,000,000	60,000,000	100% of Bank Share of Kelurahan Grant amount disbursed
(2) Goods, works, consultants' services, non-consulting services, training and workshops* under Parts 1, 2, 3.1 and 4 of the Project	156,500,000	156,500,000	100% of Bank Share of Total Lending
(3) Emergency Expenditures under Part 5 of the Project	0	0	100% of Bank Share of Total Lending
TOTAL AMOUNT	216,500,000	216,500,000	

* For the purposes of this Table: "training and workshops" means Project-related training and workshops conducted in the territory of the Borrower, including acquisition and publication of materials, rental of facilities, course fees, and travel and subsistence of trainees.

Table A3.2 AIIB Expected Disbursements (in USD Million)

Fiscal Year *(Jul 1 – Jun30)*	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Annual	15.00	50.00	50.00	50.00	30.00	21.50
Cumulative	15.00	65.00	115.00	165.00	195.00	216.50

Procurement

36. Procurement for the proposed project will be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated January 2011 (revised July 2014), and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated January 2011 (revised July 2014); the provisions stipulated in the Legal Agreements.

37. The procurement under the project will include: (1) selection of consulting firms for NMCs and ESCs following QCBS method and hiring Service Providers for individual consultants and CB events at national level to support the PMU in project implementation; (2) hiring several Oversight Service Providers (OSPs); (3) hiring several Technical Management Consultants (TMCs); (4) work contracts for primary and secondary infrastructure, including design, construction and supervision (procurement will be conducted by local and central government) which mainly consists of improvements in district-level sanitation, water and drainage systems as well as strategic connecting roads; and (5) low-cost civil works for tertiary infrastructure at community level under sub-grants expected to be procured through community participation in the procurement method. Contracts for the current NMC and most of the OSPs under the NCEP Urban project have been extended until end of December 2016 to enable a smooth transition with the new NMC and OSP contracts.

38. The existing PMU under the DG of Human Settlements is expected to be responsible for project implementation. Procurement under the proposed project, except for primary and secondary infrastructure, will be carried out by the current Procurement Service Unit (ULP). The procurement of primary and secondary infrastructure will be carried out by ULPs at provincial level/city/regency level.

39. According to the past experience and lessons learned from the NCEP Urban project implementation, it is expected that several key issues and risks concerning procurement could be anticipated and mitigated during the project implementation as follows:

40. There is a possibility of delays in procurement, particularly procurement of works for primary and secondary infrastructure which will be undertaken at the provincial/city/regency level, since the provincial/city/regency implementing units have not had any past experience of handling Bank-financed procurement. To address this, members of Pokjas/ULPs should be qualified and procurement activities should be properly planned to balance and anticipate the workload of the Pokja/ULP. The Bank will provide procurement training at the central level to enhance their capacity and understanding of the Bank's procurement guidelines. PMU with support from the Bank and consultants will also provide procurement training for staff at the

Procurement Service Unit (ULP) at the provincial/city/regency level with a focus on improving the understanding of the Bank's procurement guidelines.

41. To promote transparency, information on contract awards, management, and payments against contracts will be published on the program website (www.kotatanpakumuh.id), as in the case of NCEP Urban.[29] Any fraud or corruption cases will be followed up by the MPWH through their internal system, which are detailed in the POM, as well as by the Bank. Other measures include participation of beneficiaries in bid opening, publishing information of bid prices and contract awards on information boards, and complaint handling mechanism open to the community and public (including procurement complaints). The POM includes specific indicators and tables to measure the performance of consultants and contractors, as well as the respective sanction mechanisms for poor performance.

42. Based on the above analysis, the original procurement risk is rated as "Moderate," considering the past experience under NCEP Urban.

43. PMU has prepared the Procurement Plan of this project, dated May 30, 2016. It will be uploaded and published in the MPWH's website as well as on UNDB online. The Procurement Plan will be updated in agreement with the Bank at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity within the project.

44. In addition to the Bank's prior review, it is recommended that at least one implementation support mission to visit the field will be conducted each year during the project duration

Environmental and Social (including safeguards)

45. **Project Locations and Salient Physical Characteristics Relevant to the Safeguards Analysis**: 154 participating cities scattered throughout eastern and central Indonesia (list is available in the project file) will benefit from activities of Component 1, 2, 3.2 and 4, and 50 of those cities will also receive financing from Sub-Component 3.1. The 50 cities will be selected from a long list of 65 cities (refer to PAD) that have been selected based on population size, total size of slum areas, infrastructure gaps, and commitment of the city government. The cities in the long list are geographically located in 20 provinces (out of 34 provinces in the country), of which about 38 percent and 22 percent are located in four provinces in Java and in six provinces in Sulawesi respectively.

46. As explained above, the project implementation will follow *a phased approach*. At appraisal stage, the 50 participating cities that will receive financing under Component 3.1 have been selected, however, the sites of the secondary and primary infrastructure to be improved and connecting infrastructure to be constructed will only be defined after the SIAPs and associated

[29] Or new websites superseding this.

CSPs and detailed engineering designs are completed. The initial phase of planning and capacity building will start simultaneously in all cities, ensuring that by the end of Year 1 (2016), SIAPs will be available for the 20 cities of the sub-set 50 cities. Simple interventions will be carried out first, with more complex challenges being tackled later in the project cycle. In 2016, the project will support: (i) tertiary infrastructure development in 200 ND sites in cities where CSPs and SIAPs have already been completed; and (ii) the preparation or review of the draft SIAPs. It is expected that the entire support system, including consultants for this activity will be in place by September 2016. The existing NCEP Urban support system will provide a bridge until the new consultants are in place.

47. **Disclosure information**. The draft Indigenous Peoples Planning Framework (IPPF) was disclosed in Infoshop on February 3, 2016 and "in country" (www.p2kp.org or www.kotatanpakumuh.id) on February 9, 2016. The draft Land Acquisition and Resettlement Framework (LARPF) was disclosed in Infoshop on February 3, 2016 and "in country" (www.p2kp.org or www.kotatanpakumuh.id) on February 9, 2016. The draft Environmental and Social Management Framework (ESMF) was disclosed in Infoshop on February 3, 2016, and "in country" www.p2kp.org or www.kotatanpakumuh.id) on February 9, 2016. The draft ESMF was approved by the Bank on March 8, 2016 and the approved ESMF was adopted by the MPWH on May 31, 2016. This framework incorporates among others LARPF, IPPF, EMP (s), LARAP (s), IPP (s) and PCR Management Plan (s).

48. **OP 4.01 Environmental Assessment (EA):** Under project component 3, the project will focus on (a) construction of small and limited scale tertiary infrastructure including roads, clean water, sanitation, electricity, solid waste, drainage, and fire safety, (b) construction of small and limited scale connecting infrastructure from the slum areas to the existing city network, and limited improvement of the existing secondary and primary infrastructure to which the slum areas will be connected. The subprojects will have a contract size up to US$2,000,000. Eligible sub-projects are Category B sub-projects with impacts that are site specific, few if any are irreversible, and in most cases mitigation measures can be readily designed. As explained in the project description, subprojects eligible for financing should not include Category A sub-project activities with significant, sensitive, complex, irreversible and unprecedented potential adverse environmental and social impacts that may affect an area broader than the sites or facilities subject to physical work requiring a full environmental assessment to manage and mitigate such impacts in accordance with World Bank OP 4.12, Ministry of Environment Regulation No. 5, 2012 and Ministry of Public Works and Housing Regulation No. 10, 2008. Potential adverse environmental and social impacts from the project are likely from physical construction of tertiary infrastructure in slums areas and improvement of existing secondary and primary infrastructure as well as construction of connecting infrastructure from the slum areas to the existing secondary and primary infrastructure. Because of the small and limited scale of the subprojects, these impacts are expected to be low to moderate in magnitude and numbers, local in extent, and not significant/sensitive, irreversible, or unprecedented. Subprojects will either require environmental and social management plans (ESMPs), or be managed mostly by good engineering design and construction management practices. In some cases, an Environmental Assessment, Safety assessment or an Environmental Social Assessment commensurate to potential impacts may also be required. Each sub-project will be screened to determine the type of safeguards instrument required. As explained in Section 4, finalization of SIAPs and CSPs

will be completed during project implementation, and therefore the sites of improvement of secondary and primary infrastructure, construction of connecting infrastructure, as well as tertiary infrastructure in the slum areas cannot be defined at appraisal stage. Consequently, an Environmental and Social Management Framework (ESMF) has been prepared and disclosed. The current Technical Safeguards Guidelines of NCEP Urban/ND will be upgraded into the ESMF to manage the increased risk of types of activities not included in NCEP Urban as compared to a generic NCEP Urban/ND project.

49. **OP 4.11 Physical Cultural Resources (PCR).** Some possible urban slum improvement areas might be in the location of PCR sites, or the slum improvement might involve activities to better manage the PCR sites/structures. The ESMF will adapt the existing Environmental Guidelines of NCEP-Urban/ND that has covered the requirements for the preparation of PCR Management Plans (PMP) that will be prepared for this project and contained in the ESMF and ESMP as needed. PMP along with CSP will be prepared by the community group for subproject which is designed towards supporting the management or conservation of cultural heritage assets.

50. **OP 4.10 Indigenous Peoples.** The list of potential 154 participating local governments identified at this stage includes eight regencies/cities where IP communities are present (regencies of Tanah Laut, Malinau, Manokwari and Toli-toli as well as Kotas Gorontalo and Palopo). Of the cities long-listed (see Annex 2 for tentative list of 65 cities) to receive primary and secondary infrastructure improvements and connecting infrastructure to slums, IP communities are potentially present in Kabupaten Manokwari, Kota Gorontalo and Kota Palopo. Once the targeted slum areas and infrastructure sub-projects are identified, and interventions to improve existing primary and secondary infrastructure in the vicinity of slums and/or to construct connecting infrastructure (in SIAPs) are defined during project implementation, further screening for IPs will be carried out by the project at the community level and at the local government levels in accordance with OP 4.10, World Bank IPs Screening Study (2010), and MHA criteria. A detailed verification of IP presence and potential impacts, both positive and negative, as well as measures to manage the impacts, will be carried out by local governments and communities during SIAP and CSP preparation. In the case where a sub-project affects IP communities, the local government will prepare an Indigenous Peoples Plan (IPP) in accordance with the IPPF in the ESMF, and the LKM will prepare and include the IPP during the CSP preparation in accordance with the IPPF in the ESMF. Where IP communities make up the majority of target beneficiaries, the LG and LKM do not have to prepare an IPP, but SIAPs and CSPs must include the aspirations and needs of the IPs as part of overall community beneficiaries.

51. **OP 4.12 Involuntary Resettlement.** As has been the case with NCEP Urban and ND programs, it is likely that most land needed by sub-projects (tertiary infrastructure) will be small and will be obtained via voluntary land donation. In such cases, the proposal will include a letter of land donation/permit for passage/permit for use. The project will follow-up the legal processing of the donated land. Construction and improvement of connecting infrastructure to secondary and primary infrastructure may require some land acquisition, but as sub-projects will only be identified during SIAP preparation, the location and size of land acquisition cannot be defined at this point. The extent of land acquisition will likely be small or moderate and to the

greatest extent possible the project will avoid involuntary land acquisition and resettlement/relocation. Where involuntary land acquisition and/or resettlement/relocation is unavoidable, the local government will prepare a Land Acquisition and Resettlement Plan (LARAP) in accordance with the LARPF in the ESMF.

Environmental and Social Management Framework (ESMF)

52. At this stage, the location of sub-projects for the improvement of secondary and primary infrastructure and/or the construction of connecting infrastructure in the 50 cities (including the 20 cities in 2016) cannot be identified as the SIAPs will be finalized in the first year of implementation. Tertiary infrastructure in slum areas will be identified during the preparation of CSPs. The project has prepared a Draft ESMF for the PMU, local governments, consultants, facilitators and LKMs to screen, assess and identify impacts, as well as to prepare relevant safeguards instruments to manage environmental and social impacts. The final ESMF will be applied to technical assistance activities under Components 1 and 2, as well as to all investments under the project, regardless of financing sources. In other words, the ESMF will include procedures for evaluating environmental and social implications of policy options being considered in Component 1. For Component 2, the ESMF will provide identification of potential environmental and social issues at the planning stage – the preparation of SIAPs – which is the ideal point in project preparation to enquire whether there could be cumulative impacts of subprojects in multiple CSPs in one city, or whether the improvements in tertiary infrastructure in the slums could have indirect adverse impacts elsewhere as a result of exceeding the capacities of the primary and secondary infrastructure to which the tertiary systems will be connected.

53. The ESMF was prepared in accordance with the GoI's regulations and the triggered World Bank Safeguards Policies. The Draft ESMF has incorporated experiences and lessons learned from the implementation of the NCEP Urban and ND programs and covers the tertiary infrastructure development in slum areas, as well as city level improvement and/or construction of connecting infrastructure to secondary and primary infrastructure. The ESMF also includes Environmental Guidelines (including PCR management framework and Disaster Risk Management Framework), a Land Acquisition and Resettlement Policy Framework (LARPF) to address impacts caused by land acquisition, and an Indigenous Peoples Planning Framework (IPPF) to manage issues related to affected IP communities. In addition, the ESMF includes Guidelines for Land Consolidation based on GoI's regulations and the principles of OP 4.12. The Draft ESMF has been operationalized into Environmental and Social Safeguards Technical Guidelines.

54. The ESMF sets out the principles, rules, guidelines and procedures to screen, assess, and manage potential environmental and social risks (due to land acquisition and resettlement and in cases where IPs are affected, also including disaster risks), and manage and monitor the mitigation measures of environmental and social impacts. It contains measures and plans to reduce, mitigate and/or offset adverse impacts and enhance positive impacts, provisions for estimating and budgeting the costs of such measures, and information on the agencies responsible for addressing project impacts. It also describes the types, process, coverage, and timing of preparing relevant social safeguard instruments during project implementation,

specifying the requirements for consultation and disclosure of these instruments, and setting forth the institutional arrangements.

55. An approved ESMF will be adopted by project management staff, city governments, consultants, facilitators and LKMs to manage environmental and social safeguards impacts and risks both for the TA components and infrastructure components, regardless of financing sources. The ESMF is accessible through the MPWH and project's websites and Infoshop. Safeguards Technical Guidelines are available in the project's website, and hard copies are distributed to project management staff, city governments, consultants, facilitators and LKMs.

56. Safeguards screening, identification of potential impacts, and measures to address such impacts as well as preparation of relevant safeguards instruments (such as UKL/UPL, LARAP, IPP) will be carried out and included in the SIAPs and CSPs, as applicable. The BLHD (Local Environmental Agency) will be important to provide advice to the city's PIU and clearance for these environmental documents. In particular for IPs, screening of their presence and potential impacts as well as a social assessment will start from the city level down to the community level. The CSP is an important instrument to carry out screening and identification of potential environmental and social safeguards impacts, social assessment, and to decide on mitigation measures through participatory self-mapping and community consultations. PMU will also be responsible for preparing a LARAP and IPP in case that the proposed subproject involves involuntary land acquisition and resettlement and affects IPs communities, respectively. In the case that IPs communities are the sole or major beneficiaries of the proposed subproject, an IPP is not needed, instead, all aspirations and needs of the IPs communities are part of the CSPs. UKL/UPL will have to be approved by the BLHD, and LARAP and IPP will have to be approved by the central PMU and the Bank.

57. MPWH carried out public consultations on the Draft ESMF on January 18, 2016 and relevant feedback were included in the final ESMF which was disclosed in the (www.p2pk.org or www.kotatanpakumuh.id) on May 17, 2016. The Draft ESMF was translated into Bahasa Indonesia and was disclosed in the (www.p2kp.org or www.kotatanpakumuh.id), on April 1, 2016.

Safeguards Management Capacity and Capacity Building Plan

58. **Capacity of the Executing Agency.** The DG Human Settlements in MPWH has substantial experience on environmental and social safeguards management through the implementation of UPP, NCEP Urban and ND programs, and other projects (e.g. PAMSIMAS), as well as several IUIDPs. MPWH will continue to strengthen its capacity to manage environmental and social safeguards in this project through the development of safeguards technical guidelines based on the approved ESMF, and training for project management staff at national, provincial and city levels, as well as for consultants, facilitators, and LKMs as part of its overall regular training and capacity building programs. The safeguards technical guidelines will be distributed to all project management staff, consultants, facilitators, and LKMs. Draft TOR for a Capacity Building Plan has been developed under project Component 2 and is being reviewed by the Bank.

59. **Safeguards management is reflected in the project management structure.** At the PMU, the project will hire an environmental specialist and social safeguards specialist as part of the

National Management Consultants (NMC). Similar arrangements will be put in place at the provincial level. Complaints handling relevant to safeguards will continue as part of the project MIS.

60. **Institutional Arrangements**. Environmental and social safeguards management is mainstreamed into the overall project management organization. The existing PMU that manages NCEP Urban (including ND) will be responsible for managing the implementation of the ESMF. The PMU will be assisted by the National Management Consultant (NMC), which is staffed, among others, by an environmental specialist and a social safeguards specialist. These specialists have extensive experiences in the NCEP urban and ND programs. At the provincial level, there will be an environmental specialist and a social safeguards specialist, to assist the provincial PMU in overseeing, supervising and providing capacity building for city governments, consultants and facilitators. Furthermore, at the city level, urban planners and infrastructure specialists in the consultant team will be responsible for ensuring that the ESMF and safeguards technical guidelines are implemented consistently by the local government and slum communities.

61. Staff at the PMU and provincial PIUs will serve as the focal points for environmental and social safeguards assisted by an environmental specialist and social safeguards specialist at the national and provincial team. As is the case with the ongoing NCEP Urban and ND programs, at the city level, an infrastructure specialist, with the assistance of facilitators, will be in charge of the daily operations regarding environmental and social safeguards.

62. Financing implementation of safeguards. The project cannot finance the purchase of land, however, it could finance infrastructure related to safeguards impacts (such as mitigation measures for flood management, or infrastructure development for the relocation sites) and to a certain extent, houses and public facilities. Some proceeds of the grants to the LKM can be used to facilitate the administration costs for legal processing of the donated land. City governments will have to finance the preparation of the safeguards instruments (UKL/UPLs, LARAPs, IPPs, ESIAs) and their implementation (such as land purchase, livelihood restorations, transitional costs, etc.). The mitigation measures for environmental and social impacts mainly during construction will be included in the bidding document/contract for any construction works to be carried out by contractors/third party and in the subproject's budget plan in the community's proposal.

Monitoring & Evaluation

63. A monitoring and evaluation (M&E) framework has been developed for the NSUP to track progress in implementation, measure intermediate outcomes and evaluate project impacts. The framework includes monitoring efforts at national/local government and community levels, and an approach for beneficiary feedback at the individual level. The project will also carry out a baseline survey in a sample of communities, which would be repeated at the end of the project to evaluate specific aspects of the project. At the mid-term and the end of project, a process evaluation will be carried out to assess implementation and understand outcomes related to the project.

a. **Government Monitoring**. The project will assist MPWH in setting up and running institutional, monitoring and evaluation and training systems for the whole program. The government through its implementing entity, is responsible for managing, coordinating and monitoring all aspects of project implementation, including project monitoring and evaluation (M&E), in accordance with the Bank's policies and guidelines. Government officials at the national, provincial, city/regency, kecamatan and village/kelurahan levels are responsible for monitoring the program and ensuring that its objectives and principles are being met. The monitoring will include spot checks conducted through the project structures.

b. **Local Governments Monitoring.** As local governments will play a key role in implementation, the project will provide the monitoring platform, particularly an integrated MIS-GIS, to be used by LGs to monitor, update and use all the information provided for policy making. The application of MIS-GIS should be accessible for LGs and capacity building will be provided for their staff to manage the application and ensure its sustainability. Local governments with good long-term performance might be granted with additional support from the Central Government.

c. **Community Participatory Monitoring.** Participatory monitoring at the community level involves community groups or members to monitor and oversee program activities, including the involvement of communities in providing profiling data for the program. For community monitoring to be effective, certain activities are needed:
   - Information accessibility and transparency: Project information must be available and accessible for the community to check and verify. Transparency of information is critical. Information regarding the project activities and budgets should be posted on information boards and at project sites.
   - Open public meetings: To ensure community participation, transparency and accountability, all project meetings should be open to the public and community members should be allowed to participate and monitor proceedings. During project implementation, the project should also hold accountability meetings to report upon project progress and finances.
   - Technical assistance: To enable the community to collect the profiling data for the program, including community mapping and access to the information provided, the project should provide technical assistance to the community for capacity building activities.

d. **World Bank and Joint Implementation Support.** The World Bank together with central government agencies (Ministry of Public Works and Housing, Ministry of Finance, BAPPENAS, Ministry of Home Affairs, etc.) and the NMC will conduct full implementation support missions at least twice a year, complemented by several thematic field supervision missions. The missions will aim to review project progress, performance, and management issues and provide technical assistance and feedback to improve the overall performance of the project. Implementation support through teleconferences - a mechanism applied under NCEP Urban - will be further strengthened for NSUP.

64. The monitoring system will include the following tools:

a. **MIS.** The MIS for NSUP will be a web-based online tool that is being developed to build a robust information system on infrastructure access in slums and on the profiles of households, particularly relating to slum indicators. It will also provide information relating to project processes, outputs and outcomes. The MIS will be a databank that enables data input, analysis, monitoring and planning in each level. The MIS will be developed based on data profiling conducted earlier in communities, which will be used as a reference for project interventions. The NCEP Urban MIS mechanism will make some improvements including: a better user interface; the development of standard operating procedures for data collection, verification and validation to improve timelines and data accuracy; and strengthening the utilization of MIS for analysis of progress and performance by all stakeholders, particularly local governments in order to ensure sustainability of the program. The MIS will also be prepared as a platform for collaboration among sectors related to slum upgrading, such as housing, water sanitation, etc.

b. **Geographical Information System (GIS).** A GIS system will seek to integrate a large range of spatial and non-spatial information in cities with capacity with respect to topography and other spatial information including urban services, infrastructure and socio-economic information. The GIS will help to unify and enable updating information as and when required with ease and accuracy, and can be made available to all stakeholders through a web-based interface. The project MIS will then be integrated with the GIS to enable the ability to view the integrated data and reports for planning as well as policy making in selected cities. The project will develop standard operating procedures for GIS and its integration with project MIS.

c. **Project Website**. The website will be maintained as a powerful source of information, communication, and learning for the project. The design will draw upon the successful UPP/NCEP urban website (www.kotatanpakumuh.id) and it will be strengthened to create a more user-friendly interface (integrated with the MIS-GIS) and develop an e-learning center that enables distance learning through webinars for stakeholders.

d. **Spot Checks**. As part of project monitoring activities, spot checks will be conducted by project consultants and facilitators at the national, provincial, city/regency, district and kelurahan/village levels. Consultants will regularly visit project sites throughout the project cycle and report monthly, quarterly and annually. The results of spot checks will be communicated in a timely manner to facilitators for facilitating improvements, and will be published on the project website. Teleconferences will be also conducted by the NMC and OSPs to strengthen field supervision.

e. **Complaints Handling and Grievance Procedures**. The project will continue the NCEP Urban complaints handling process, which will allow community members and the general public to channel complaints and inquiries. Contact information for complaints handling via SMS or email, as well as communication with local government officials and facilitators should be publicized, and the record of complaints will publicized on the project website. Until July 2015, the 144,453 complaints were recorded for UPP2, UPP3, and NCEP Urban. Almost all recorded cases were resolved. For NSUP, the same complaints handling management system will be used but community awareness will be strengthened about their

rights and the capacity to resolve the complaints with the improvements in information on the website such as EIS (Executive Information System). The project will also develop an exit strategy for complaints handling management to ensure its sustainability at kelurahan and city/district level.

f. **Financial Audits** – Government official auditors, such as BPKP and ITDA, are responsible for annually auditing of the project' finances. Other private audit firms may also be requested to audit the program's finances, especially in relation to financing from specific development partners.

Evaluation

65. To prepare for this project, a profiling of slums has been carried out in 269 cities. This was conducted by the consultants, facilitators and BKM from NCEP Urban. The approach for NSUP will draw on the extensive monitoring data described above, and will go deeper into assessing several aspects of project implementation with this data, and carry out a process evaluation on specific aspects of project implementation at mid-term and project end. The specific issues to be evaluated will be identified as the design is refined to ensure that they are core to the project. Based on discussions with evaluation experts, an impact evaluation was deemed infeasible as the program will be rolled out across the country at the same time (e.g. SIAP preparation will be initiated in all cities in Year 1) in a relatively short time frame. In addition, since all slums within a city will be included from the outset, it would be impossible to identify a control group in the same city

66. Institutional arrangement for evaluation: To implement the evaluation studies, a team of external consultants with expert skills in evaluation and study would be hired to independently carry out the evaluations and studies with inputs from the Government and the World Bank.

ANNEX 4: IMPLEMENTATION SUPPORT PLAN

Indonesia National Slum Upgrading Project

1. Strategy and approach to implementation support. The strategy for implementation support has been developed based on the more than 15 years of experience in project implementation. The key aim of the implementation support is to assist the Government is their overall monitoring and supervision of the project implementation. The project includes a number of measures aimed at ensuring implementation proceeds as follows.

2. The Bank will maintain a sizable core team in Jakarta. The team includes specialists in policy, legal, urban planning, engineering, safeguards, economics, and monitoring and evaluation. Having the core team based in Jakarta will facilitate frequent dialogue with the government counterpart teams, and permits ongoing implementation support. The core team will be supplemented with specialists in spatial planning, urban poverty, social accountability, gender, and urban institutions and policy, land tenure, DRM, and others as needed.

3. The project team will conduct at least two formal missions per year covering cities under its responsibility. The missions will be carried out jointly with development partners, and will include the Bank‘s financial management and procurement staff, and other specialists as required.

4. Considerable safeguards have been put into place to guard against procurement fraud risk. These are presented in the procurement section of Annex 3.

5. The Bank will periodically conduct various types of audits, each of which will be designed to answer different questions about program implementation. Such audits include technical audits, value-for-money audits, forensic audits, and rolling audits. Decisions about which approach to pursue in a given year will be made in consultation with the MPWH and development partners.

6. The World Bank, AIIB, ADB, and ISDB are working together in implementing GOI’s NSUP. In relation to the Co-financing Framework Agreement entered into between AIIB and IBRD on April 13, 2016, IBRD will provide to AIIB the full range of implementation support services – including project supervision, fiduciary services (procurement and financial management), loan disbursement services, environmental and social safeguards and investigative services as necessary - with respect to the AIIB loan. ISDB and ADB will operate and supervise in their respective geographic areas. GOI provides a platform of MIS that is applicable to all international donors and financers working under KOTAKU. The outcome of the missions will be available to all development partners.

7. Findings and agreed recommendations in Aide-memoires will be used jointly by the Government and the task team for follow up meetings. Detailed inputs from the team are given below:

a. **Monitoring and Evaluation**. MIS specialists will provide continued support to the MIS development and maintenance and provide feedback on a regular basis about the

performance of the MIS operated by PMU. A specialist will support the PMU in improving the capacity of overall evaluation.

b. **Technical**. Appropriate technical specialists will review and guide the Technical Assistance component of the project, and participate in missions, and review the quality of infrastructure works and social activities financed in a sample of locations.

c. **Fiduciary.** Financial Management specialists will conduct regular financial assessments in a risk based sample of project locations to gauge compliance with key elements of formal and informal fiduciary controls, including: budgeting and counterpart funding; disbursement status; internal controls (including internal audits); accounting and financial reporting; and FM facilitation. Formal supervision of financial management will be undertaken as part of each formal supervision mission (twice a year). In addition to the procurement prior to the review to be carried out by the Task Team, continuous support missions will visit the field on an ongoing basis to carry out spot checks post review of community procurement actions. The procurement team will provide training at the central level, and suggest improvements to the operation manual. Special efforts will be made to further improve the community procurement process.

d. **Gender.** A gender specialist will participate in formal and routine supervision missions to assess whether women are active participants in planning and decision-making, and whether sub-projects funded respond to women's needs and increase the potential for women's participation. They will propose strategies and modifications to project design for effective gender mainstreaming, including the specialized programs targeting women's participation.

Implementation Support Plan

Table A4.1: Implementation Support Focus

Time	Focus	Skills Needed	Resource Estimate (# Staff Weeks)
ANNUAL	Team Leadership	TTL/co-TTL	15/15
	Capacity Building	Institutional capacity building	10
		Governance	12
		MIS	10
		Training	3
	Environmental monitoring	Environmental Specialist	3
	Social monitoring	Social Specialist	3
	Gender Specialist	Gender	4
	Engineering	Community Infrastructure	10
	Financial management	Financial Specialist	10
	Procurement training and support at central level	Procurement Specialist	4
	Procurement ex post review spot check	Procurement Specialist	4
	Urban and spatial planning	Urban Specialist	12
	M&E	M&E Specialist	20
	Safeguards	Safeguards Specialist (physical	8

		cultural resources and indigenous people)	
	Implementation Support	ACS	10

Table A4.2: Skill Mix Required

Skills Needed	# Staff Weeks	# Trips	Comments
Institutional capacity	10	4	International/Local
Governance	18	4	International/Local
MIS	6	2	Local
Training	6	2	International/Local
Urban Specialist	6	2	local
Environmental Specialist	12	6	Local
Social Specialist	12	6	Local
Gender	9	6	Local
Community Infrastructure	9	6	Local
Financial Specialist	12	6	Local
DRR specialist	5	2	International/Local
Procurement Specialist	9	10-12	Local
M&E Specialist	24	6	Local
ACS	12	6	Local
TTL/co-TTL	60/20	10/4	Local
Technical specialists	20	5	International/Local

ANNEX 5: LESSONS LEARNED AND REFLECTED IN THE PROJECT DESIGN

Indonesia National Slum Upgrading Project

1. The project design incorporates several lessons learned from experiences of relevant World Bank projects in Indonesia, other Asian countries (Philippines, Vietnam, Thailand, India, Bangladesh), Sub-Saharan Africa (Ghana, Kenya), Latin America (Brazil, Peru, Venezuela) and elsewhere. The team explored a range of World Bank project documents, as well as reports summarizing lessons from various projects and analytical pieces. The lessons learned are organized around six sub-headings presented below:

A. Importance of an Integrated and Phased Approach

2. **An integrated approach to slum upgrading works improves sustainability.** In addition to providing infrastructure, more successful slum upgrading programs have also developed social activities and built the capacity of community organizations. Much experience with this model has been gained under NCEP Urban.

3. **A phased approach can facilitate community buy-in and create flexibility in the design of infrastructure investments.** The success of Ghana's Participatory Slum Upgrading Program can be attributed in large part to its phased approach. Basic upgrades that were easier to roll out citywide encouraged initial buy in, along with the room for planning for larger infrastructure investments and better understanding the need for other social services, social infrastructure and support for income generating activities. The phased approach to the proposed project is described in detail in Annex 3, Project Cycle.

4. **Investing in connecting infrastructure and the improvement of primary and secondary infrastructure is necessary for the sustainability of tertiary infrastructure.** While a community-driven approach can deliver tertiary infrastructure that better meets the needs of communities than infrastructure projects planned in a traditional 'top-down' fashion, investments in complimentary higher-level infrastructure are necessary to secure the benefits of community-based infrastructure. One reason for this is that even tertiary upgrades at scale are likely to put greater pressure on existing infrastructure facilities, therefore scaling up slum upgrading should be approached in tandem with spatial planning for the development of connecting infrastructure. Ideally, as experience in Philippines shows, slum upgrading should consider working within a broader urban renewal agenda. Through the preparation of SIAPs under Component 2, the project will identify city-wide infrastructure improvement plans. However, given the scale of the proposed project as well as uneven local government capacity, the planning for infrastructure will be linked with investments directly needed to ensure slum upgrading rather than with an urban renewal approach that cannot be easily scaled nationally. Primary and secondary infrastructure upgrades will be supported through sub-components under Component 3.

5. **The design of connecting infrastructure primary and secondary infrastructure improvements should be in line with long-term city planning while ensuring that the community needs are not compromised.** Infrastructure design should not be in contradiction with future city plans, which could compromise project outcomes. At the same time, as the Vietnam experience shows, community upgrading plans are a useful tool to address overdesign

issues of Master Plans which tend to espouse a more technocratic, middle class vision of the city and may not properly account for the needs of urban poor. Guidelines for local governments under Component 2 will aim to ensure that SIAPs complement city planning and are linked with broader planning processes. Further, SIAPs will be integrated with CSPs in a manner that brings the needs of communities to the forefront of planning discussions.

B. Importance of Community Engagement

6. **The success of slum upgrading projects and their scaling-up depends on significant community participation.** Experience from projects in Indonesia and Caracas (Venezuela) shows that it is crucial to involve communities in the design of programs and not merely their implementation. This project leverages the strong community structures and the CDD foundation developed under the NCEP Urban program nationwide for both planning as well as implementing tertiary infrastructure upgrading and related O&M activities under Components 2 (development of CSPs) and 3 (CDD-based tertiary infrastructure provision).

7. **Prior relationships with communities are crucial for implementation of participatory approaches.** A further lesson learned from the urban upgrading project implementation in the Vietnam is that while local governments are able to successfully build constructive relationships with low-income communities, it takes considerable time to create active involvement of communities in the planning process when prior foundations of community engagement do not exist. This constraint does not exist in the case of Indonesia where the NCEP Urban program has created vibrant citizen engagement in all urban wards where this project has been implemented.

8. **A considered gender focused approach ensures that slum upgrading projects meet women's needs.** Recognizing that women are often affected more than men by urban poverty and that there are numerous obstacles to their equal participation in projects, slum upgrading projects should have a gender focus. NCEP Urban has achieved some success in terms of ensuring women's participation: women have been actively involved in construction works, become leaders for social and economic activities, taken up financial management positions in their communities, and their attendance at LKM meetings has been monitored. However, it has been found that women often do not speak up at LKM meetings and that are usually underrepresented on the Community Board of Trustees. In Selaras, a gender-focused pilot in Aceh province under the NCEP Urban pilot program, various other inclusionary mechanisms have been tried out. Special women-only community meetings have been held and these have directly influenced the development of community development plans. Furthermore, the local planning agency has incorporated a gender gap analysis into the city planning and budgeting process. Drawing on the experiences in Aceh, the National Slum Upgrading Project will follow a Gender Responsive Planning and Budgeting Approach, developing guidelines and media campaigns to ensure meaningful women's participation is mainstreamed into the program (*see Appraisal Summary*).

C. Importance of Strong Political Commitment and Government Capacity

9. **Political will is critical to success**. The IEG review of the Bahia (Brazil) Slum Upgrading Project identified changes in government administration that resulted in a non-supportive political environment as a key source of difficulties in project implementation. Similar political

economy problems caused delays in project implementation in the Kenya Informal Settlement Project, which has been extremely slow in disbursing. Fortunately, the Indonesia National Slum Upgrading project directly responds to the GoI's RPJMN 2015-2019 target to eliminate slums and provide universal access to safe water and sanitation, and so has a high level of buy-in from the relevant agencies.

10. **Capacity building of local governments is important, along with collaboration across different levels of government involved in implementation.** Municipalities are often in charge of physical infrastructure at city level and their lack of capacity for implementation can hamper the success of urban upgrading interventions, as was found in the case of Bahia as well as in Kenya. By design, the proposed project intends that local governments will lead planning and implementation at the city-scale, which will be supported through Components 2 and 3. In addition, effective coordination between central government, local governments and communities is critical for ensuring smooth execution and accountability, which will be facilitated through Components 1 and 4. Under Component 2, preparation and agreement on SIAPs will further facilitate departmental coordination. The development of CSPs will ensure community participation in planning. A consultative process will be set up to ensure that the SIAPs and CSPs are integrated.

D. Importance of Strong Operations

11. **Strong monitoring and evaluation is key to success.** The success of the scaling up of NCEP Urban as a national program is attributable to the advanced monitoring system that was developed for M&E. This provides early feedback on the effectiveness of the program, and reduces fraud and fiduciary risks. Learning from this experience, the project is working on developing a new management information system (MIS) that is aligned with the needs of this project. In selected cities with high capacity levels, MIS may be complemented with a GIS system.

12. **Prior experience of implementing agencies with the Bank's procedures is valuable.** Vietnam's urban upgrading experience shows that the implementing agency required considerable procurement support. Without a good understanding of the Bank's procedures, especially procurement, projects are likely to encounter substantial delays. Lengthy procurement processing times and delays in the awarding of contracts after Bank approval have also contributed to significant challenges in disbursement in the Kenya Informal Settlements Improvement Project. The proposed project is in a strong position in this regard given the high levels of familiarity of the national implementing agency with World Bank procedures, including procurement and financial management requirements (*see Appraisal Summary and Annex 3*). However, the procurement for primary and secondary infrastructure will be undertaken at the provincial and city level rather than at the national level. Given that the provincial implementing units have not had any past experience of handling Bank-financed procurement, the Procurement Specialists on the Bank project team have planned for sustained Bank-led procurement training throughout the project cycle. PMU-led oversight is also built into project design to this end. (See Annex 3).

E. Maintenance Planning is Essential for Success

13. **Maintenance cannot be considered as an ad hoc activity** and must be an integral part of the project design. In Bahia, it was found that the M&E actions of the project were vital for ensuring the transparency of the entire process and also for tracking stakeholder activities. O&M arrangements for improved primary and secondary infrastructure and new connecting infrastructure will be specified within SIAPs, which will include indicative maintenance costs, agreements about where the funds will be channeled and on assignment of implementation responsibilities. Similarly, O&M arrangements for tertiary infrastructure will be spelled out in CSPs and be supported by local governments. Training for O&M at both levels will be ensured during planning and implementation (Components 2 and 4).

14. **The project will further open the space for innovation in maintenance through the learning available from international experiences:** Experience shows that key to infrastructure sustainability is the formation of a strong partnership between communities and public works departments where both have been involved throughout the project cycle. The community monitors infrastructure conditions and ensures routine maintenance is undertaken (with paid or unpaid labor) and the public works department provides technical support and resources for heavier maintenance activities. For example, in the Peru Rural Roads Project, the Peru government initially invested significantly in building the capacity at local level and gradually handed over responsibility for the upkeep of rural roads to local governments. The inclusion of home-based micro-enterprises within communities to perform routine maintenance for the upkeep of the road network addressed the dual difficulties of ensuring central government maintenance for remote rural roads as well as the failure of traditional municipal accounts to provide sufficient funds for financing. In addition to being cost-effective, the micro-enterprise program had spillover effects on local development initiatives, creating employment opportunities for the rural populations. In the case of slum upgrading - and particularly the development of community cultural centers and social infrastructure - under the Growth Acceleration Program (PAC) in Brazil, it was found that capacity building and socialization for local governments and communities was key to the success of maintenance projects. Local governments were encouraged to draw up plans for infrastructure maintenance and management (including estimates of the financial cost). Socialization of the project was also crucial, so that communities and local governments both understood the need to look after infrastructure built as well as the nature of their responsibilities (e.g. financial obligation to maintain for local governments). From Bahia, the lesson learned was that the community has a role in pressuring the public authorities to carry out maintenance. Education/socialization contributes to making citizens more familiar with and supportive of services, resulting, for example, in a reduction of littering.

F. Importance of Enabling Livelihoods within Slum Upgrading

15. **Livelihoods support can be a useful complement to infrastructure upgrading.** One popular approach tried in many countries is to help poor youth and the unemployed to transition to long-term formal employment. Programs focusing on setting up and improving access to vocational training centers like the National Urban Livelihoods Mission in India have shown promising but inconclusive results. Another way to support livelihoods is by encouraging micro-entrepreneurship. Anecdotal evidence suggests that setting-up business advisory services and simplifying business processing steps in places like Bolivia and Peru can have positive effects on micro-entrepreneurs. Until recently, one of the most popular interventions in various countries

including Indonesia was micro-credit provision. Although it was assumed that removing capital constraints would be sufficient to enable the poor to become micro-entrepreneurs or to grow their businesses, most of the experimental evidence from microfinance have failed to find these positive results on income, assets and business profits. The revolving fund model used in NCEP Urban has not performed very well, and repayment rates were generally low. Considering the limited experience, the current project will start with a low-cost pilot sub-project involving both vocational and business training as well as livelihood-enabling facilities (like market places and kiosks). If a model is found to work well, it will be expanded to a larger number of project sites. Global experience has shown that livelihoods subprojects work best when partnerships are formed with NGOs and the private sector, which will be a key focus under the new project.

List of Projects Reviewed:

Project Name	**Duration**	**Partners**	**Geographical focus**
Bahia (Brazil) Slum Upgrading Project	2001-2006	The State of Bahia; Cities Alliance; WB; the Government of Italy, Avsi	1 city (Salvadore)
Growth Acceleration Program (PAC) Brazil	2007-2015	Government of Brazil	National
Peru Rural Roads Project	2001-2013	Peru Government, The World Bank, Inter-American Development Bank	28 provinces
Bangladesh Pro-Poor Slum Integration Project	2014-2019	Government of Bangladesh; WB	National
Caracas (Venezuela) Slum Upgrading Project	1999-2004	Government of Venezuela; WB	Selected slums within one city (Caracas)
Egypt Participatory Development Program in Urban Areas	2004-2018	Government of Egypt; GIZ; Gates Foundation;	National
Ghana Participatory Slum Upgrading Program	2008-2015	Metropolitan Assembly of Ghana; European Commission; UN-Habitat; African, Caribbean Group of States	1 city (Accra)
Indonesia National Program for Community Empowerment in Urban Areas - PNPM Urban	2008-2016	Government of Indonesia; WB	National
Kenya Informal Settlements Improvement Project	2011-2016	Government of Kenya; WB	Selected slums in 14 counties
Vietnam Urban Upgrading Project	2004-2014	Government of Vietnam; World Bank	4 cities
PAMSIMAS	2008-2016	Republic of Indonesia; World Bank	Rural wards nationally
National Urban Livelihoods Mission	2013-	Government of India	National

ANNEX 6: ALIGNMENT WITH OTHER WORLD BANK AND GOVERNMENT PROGRAMS

Indonesia National Slum Upgrading Project

1. This annex details the linkages between this project with other relevant World Bank projects and government programs that are ongoing or in the pipeline. In most cases, the executing agency, or the implementing agency or both are the same as for this project. MPWH has decided that all of its programs geared towards slums will use SIAPs as a reference for budgeting and planning at the city level. The Directorate General of Human Settlements has been assigned to coordinate all interrelated programs. These programs, and their relationship with the project, are detailed below.

2. **The project will work hand-in-hand with the National Affordable Housing Program's Low-Income Home Subsidy Component.** The National Affordable Housing Program (currently under preparation and scheduled to go to board August 2016) aims to address weaknesses in the housing value chain. The National Affordable Housing program, administered by MPWH finances two GOI subsidy programs to address the lack of housing finance and high construction costs for low income households, and provides technical assistance on land markets and local government housing policy. The Perumahan Swadaya (self-help housing) subsidy will be supported by the NAHP, to synchronize with the NSUP the subsidy will be prioritized in urban areas where the project is active. The precise mechanism for this geographical targeting is currently being worked out with MPWH policymakers as part of the National Affordable Housing Program.

3. **The National Urban Water Supply Program (NUWSP)** is a Bank-financed program (also under the same executing agency as NSUP) proposed for the period 2017-2021 intended to help close Indonesia's water connectivity gap. The program will follow an integrated and holistic approach with improved M&E, advocacy and facilitation, as well as improved (more pro-poor) targeting of investments. It is envisioned that the program will involve 200 local governments and the installation of 1.2 million household connections, benefiting 6 million people, part of which will be targeted towards the slums under NSUP.

4. **The National Urban Wastewater Program (NUWP)** is a Bank-financed program (also under the same executing agency as NSUP) proposed for the period 2018-2022 that aims to deliver improved wastewater services, including both sewerage and septic tanks. It is envisioned that the program will be piloted in two or three local cities before it is scaled up to the national level. The NSUP will work with the NUWP to ensure that the infrastructure undertaken under each program complement one another.

5. Funding through mechanisms set up by the Bank-supported **Indonesia Regional Infrastructure Development Fund (RIDF) project** in the pipeline will also be accessible to the cities included within this project and the funds could be one of the sources of funding utilized by the cities for slum upgrading. While it is not possible to prioritize the cities under this project

for RIDF funding, the focus on basic infrastructure development will enhance the competitiveness of the cities to be able to access these RIDF funds.

6. **DAK (Dana Alokasi Khusus) Funding for Infrastructure from Central Government.** Each local government in Indonesia submits a proposal for infrastructure projects to receive central government funding. In the Mid-Term Infrastructure Development Plan (RPIJM), the GoI commits budget support to a priority list of projects, which have to meet specific guidelines. Local governments could apply for these funds to fill financing gaps for projects identified in SIAPs. SIAPs will become an instrument for local governments in applying for DAK funding for slum upgrading.

7. **Programmatic AAAs:** This project is further complemented by a suite of World Bank umbrella advisory engagements including, most immediately, the Programmatic AAA on Land, Housing and Urban Settlements as well as the PAAA on Sustainable Urbanization, both of which aim to extend deep technical assistance and policy advisory support to GOI on managing the challenge of sustainable urbanization and access to affordable housing**.** The Land, Housing and Settlements ASA analyzed issues related to public housing policy, land markets, housing finance, and slums and created a list of recommendations as part of the Roadmap for Housing Policy Reform, published by Bappenas in May 2015. The ASA is continuing to provide TA related to urban land policy, housing and real estate information management and data collection, and housing delivery systems in parallel to both KOTAKU and the National Affordable Housing Program. While KOTAKU concentrates on infrastructure, the World Bank's engagements on housing aim to prevent the growth of new slums by addressing dysfunctions and inefficiencies in the housing value chain.

8. The project will also benefit from a range of ongoing and planned activities under the Indonesia Sustainable Urbanization Programmatic AAA. This PAAA supports sustainable urbanization in Indonesia and contributes to the development of policy and financing frameworks to effectively channel advisory and investment to Indonesian cities to meet pressing urban infrastructure and management needs. Specifically, technical assistance is provided in areas of public financial management, municipal finance, creditworthiness, spatial planning and analytics, and strategic investment planning. The activities within the PAAA provide support to the executing agency of this project as well as to a sub-set of local governments included in this project. Such capacity building will be directly beneficial to this project, particularly with respect to long term slum prevention through enhanced capacity to implement evidence based urban spatial development strategies.

9. **The SANIMAS Program (Sanitation by Communities**) was developed by Bremen Overseas Research and Development Association (BORDA) in close co-operation with the inter-ministerial Water and Environmental Sanitation Task Force, chaired by BAPPENAS. It is financed by the Asian Development Bank and the Islamic Development Bank. The SANIMAS approach is intended to assist local governments and poor urban communities to plan, implement and maintain community sanitation systems of their choice (simplified sewerage, community sanitation center sand shared septic tanks). After the first pilot phase (1998-2003), SANIMAS was improved and expanded to more than 100 cities and regencies in 22 provinces, and the program will run until 2018, part of which will be targeted towards the slums under NSUP.

10. **Local Government Infrastructure Programs.** Under Indonesia's decentralized system, local governments have the freedom to pursue their own infrastructure projects leveraging general allocation funds and tax revenues. In coming up with Slum Improvement Action Plans (SIAPs) under NSUP, local governments will be supported to identify which infrastructure works will be funded by central government funds allocated to slum upgrading and which will be financed from their own funds. In doing so, KOTAKU will serve as a collaborative platform to optimize the allocation of existing and new sources of funding available for slum upgrading activities.

11. **Hibah Program.** The Water and Sanitation Hibah is a program that has piloted an innovative output-based payment mechanism to encourage local governments (LGs) to invest in urban water utilities (PDAMs) to expand water networks through new household water connections. The program focuses on low-income households. LGs are paid upon completion and independent verification of new household water connections which have functioned for at least three months. The same principles apply to the sanitation/sewerage component of the program. The program was developed by AusAID (now part of the Australian Department of Foreign Affairs and Trade) and the Indonesia Infrastructure Initiative (IndII) with the Indonesia Ministry of Finance (MOF) and Ministry for Public Works (MPW). The program has been scaled up, and currently reaches around 1.2 million households. The NSUP will work with the Hibah program to ensure that the infrastructure undertaken under each program complement one another.

ANNEX 7: KEY RISKS AND MITIGATION: LOW AND MODERATE RISKS

Indonesia National Slum Upgrading Project

1. **Political and Governance Risks: Moderate**. There is expected to be a stable political environment in Indonesia over the next four years, with the completion of presidential and legislative elections in 2014. There is substantial political support for the project, which constitutes a key component of the Government's efforts to reach its RPJMN target to eliminate slums and provide universal access to safe water and sanitation, and builds on several successful national urban programs. While the scope and nature of project design include governance risks, they will be mitigated by the existing complaint handling and transparency improving system established under previous NCEP Urban projects, which had a very low level of misused funds, as confirmed by external audits.

2. **Macroeconomic Risks: Moderate**. External risks to Indonesia's macroeconomic outlook have intensified over the past six months, with global commodity demand and prices persistently low, especially due to China's economic slowdown and rebalancing. Financial risks also remain elevated with continued uncertainty about the path of US monetary policy normalization and relatively high global risk aversion. Responsive monetary and exchange rate policies, particularly since mid-2013, have placed an appropriate premium on maintaining macroeconomic stability. However, the Government faces significant fiscal pressures because of low commodity prices and weaker domestic activity. Steps have been taken, for example, through pre-financing, to mitigate financing risks arising from a shortfall of revenues, but expenditure cuts may be required to respond to any revenue shortfall in 2016. In 2017-2019, the fiscal revenue outlook is expected to improve somewhat with the projected acceleration in GDP growth and the lagged effect of revenue measures taken since 2015. Domestic private consumption remains relatively resilient owing to strong forces of structural growth, including a large, productive-age population, rapid urbanization and a growing middle class.

3. **Sector Strategies and Policies: Low.** The project is strongly aligned with the GOI's RPJMN 2015-2019, which focuses on infrastructure development. It operationalizes recommendations of SAPOLA for a comprehensive approach to slum alleviation and integration of primary, secondary and tertiary infrastructure. The project follows a series of successful NCEP Urban projects, demonstrating a strong, well-tested foundation. The project's 'service-delivery platform approach' further aims to leverage ongoing and planned sectoral operations relevant for slum upgrading.

4. **Technical Design of Project: Moderate.** Key risks will be at the national level in setting up the overall project for slum upgrading towards the zero-slum target, including the design and operationalization of a platform for collaboration at all levels. This platform will need to integrate participatory community based approaches with local government-level provision of more macro-scale infrastructure. Tertiary infrastructure interventions are low risk because they are relatively inexpensive to maintain and not technically complex. Primary and secondary infrastructure requiring improvement not yet been identified given the design of the project and may involve risks related to its technical complexity. Based on the experience of NCEP Urban and other CDD programs, delays in the mobilization of consultants who are central in supporting some of the technical aspects of the project may pose another area of risk.

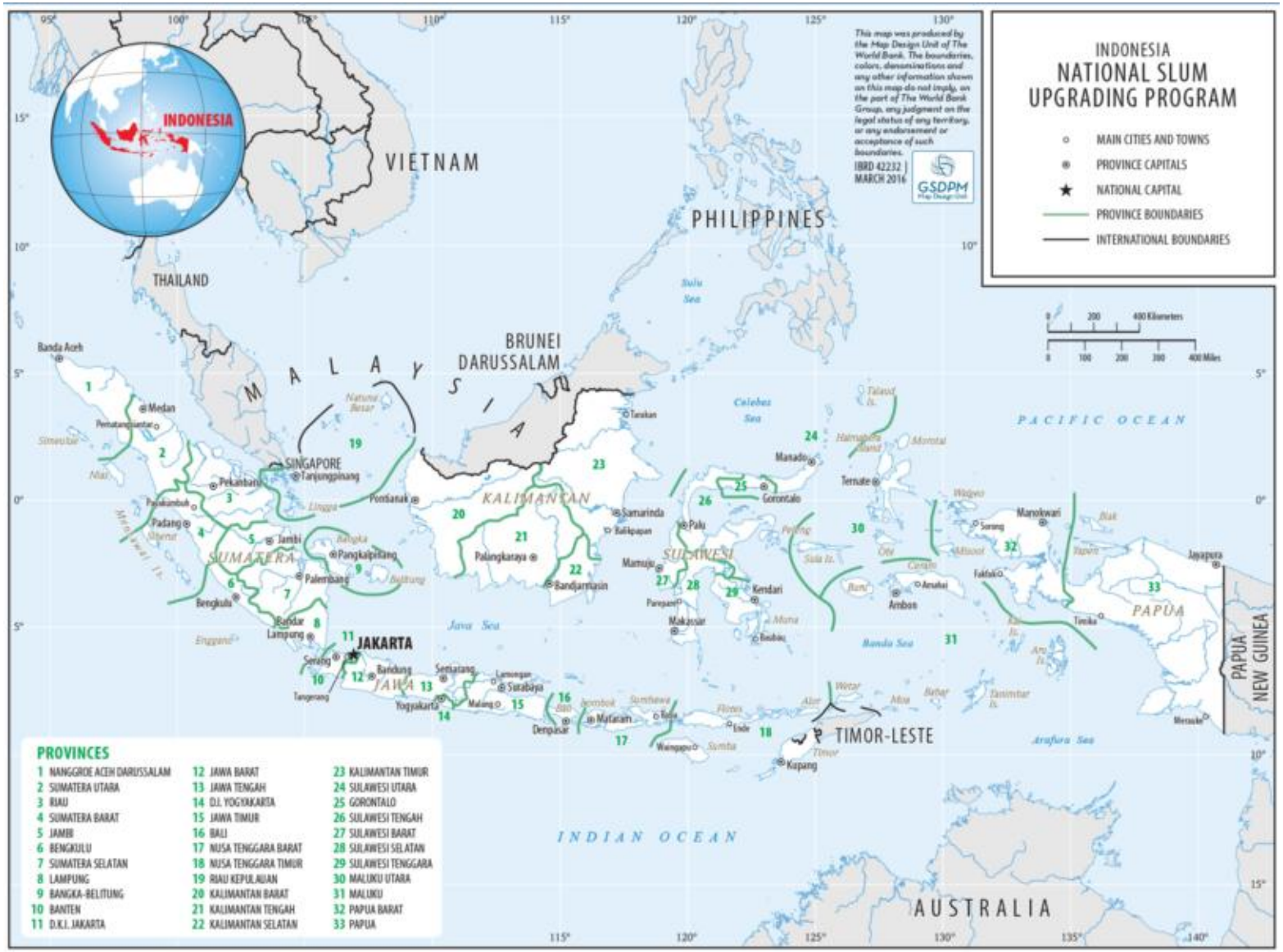
5. **Fiduciary: Moderate.** Co-financing of the project with AIIB may result in some additional complexity, with increased burden for the borrower. The performance of national and regional consultants as well as the capacity of the field consultants to assist community groups on financial management will impact the risk of communities accounting for the project funds. Another risk is related to the payment verification in PMU and PIUs, particularly for civil works and consultants' expenditures. These risks will be mitigated during implementation, through community-based controls, improved complaints-handling mechanisms, increased support to PMU and PIUs, and additional payment verification mechanisms including random third party confirmation. Procurement for this project will be undertaken in accordance with the Bank's Procurement and Consultant Guidelines. Procurement of small infrastructure and small goods (material) for small infrastructure to be carried out by the community will follow the procedures for community participation as applied under NCEP Urban projects. The NCEP Urban Project Operational Manual (POM) has been updated for use under this project based on experience and lessons learned under NCEP Urban. The PMU has prepared the procurement plan for this project with support by the Bank.

6. **Environment and Social: Moderate.** The project will improve the living conditions of slum dwellers and will contribute to the betterment of cities/regencies' environmental and social conditions as their slum areas will benefit from improved access to basic infrastructure and services. As the project will finance basic tertiary infrastructure at the community level under the CDD mechanisms, adverse environmental and social impacts in slum areas will be low to moderate, site-specific and manageable by community beneficiaries. Primary and secondary infrastructure interventions that will link to tertiary infrastructure in the upgraded slum areas will mostly involve improvement, but also, to a limited extent, construction of connecting pipes in the case of water supply, drainage and household domestic waste water (the latter would take place only in the cities that already have a domestic waste water network, which is rarely the case), along with the improvements of connecting roads to the existing city roads and improvement of solid waste management systems in slums. Potential adverse environmental and social impacts (including cumulative impacts) due to these improvements and network connections are likely to be moderate, not significant/sensitive, non-irreversible, and not unprecedented and can be managed by cities. As has been the case with NCEP Urban programs (including NCEP ND) and other CDD programs, most land needed to improve and build tertiary infrastructure will be voluntarily contributed by beneficiaries. Potential land acquisition and resettlement may take place but the scale would not be large. Social impacts will be mostly related to involuntary land acquisition and resettlement, especially during construction, as well as potential impacts on indigenous communities, if any. As explained in the Appraisal Summary and Annex 3, the subprojects will focus on in-situ slum upgrading, and improvements of secondary and primary infrastructure will avoid, to the greatest extent possible, land acquisition and resettlement. Environmental and social risks of the project will be manageable as ESMF and safeguards guidelines will be available, project staff, consultants and facilitators will be trained, and SIAPs and CSPs will prepared through consultation with communities and with city governments. The project thus has a Category-B classification.

7. **Stakeholders: Moderate**. The project will be aligned with the Affordable Housing Program's Low-Income Home Subsidy Component, with SANIMAS (Sanitation by

Communities) Program on complementary sanitation infrastructure as well as with different local and central government infrastructure programs (*See Annex 6 for full details*). The risk of poor coordination between any of these stakeholders may undermine the overall objectives of this program. Given the use of a participatory approach, the cooperation of local governments and communities will be key, especially to prevent elite capture and community tensions from affecting subproject selection.

MAP


INDONESIA
NATIONAL SLUM UPGRADING PROGRAM
MAIN CITIES AND TOWNS
PROVINCE CAPITALS
NATIONAL CAPITAL
PROVINCE BOUNDARIES
INTERNATIONAL BOUNDARIES
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PHILIPPINES
THAILAND
BRUNEI DARUSSALAM
MALAYSIA
SINGAPORE
KALIMANTAN
SUMATERA
SULAWESI
JAVA
PAPUA
PAPUA NEW GUINEA
TIMOR-LESTE
AUSTRALIA
INDIAN OCEAN
PACIFIC OCEAN
Java Sea
Celebes Sea
Sulu Sea
Banda Sea
Arafura Sea
JAKARTA
Banda Aceh
Medan
Pekanbaru
Padang
Jambi
Pangkalpinang
Palembang
Bengkulu
Bandar Lampung
Serang
Bandung
Tangerang
Semarang
Yogyakarta
Surabaya
Malang
Denpasar
Mataram
Kupang
Pontianak
Tarakan
Samarinda
Balikpapan
Palangkaraya
Banjarmasin
Manado
Gorontalo
Palu
Mamuju
Makassar
Parepare
Kendari
Bau-Bau
Ternate
Sorong
Manokwari
Jayapura
Ambon
Timika
Merauke
PROVINCES
1 NANGGROE ACEH DARUSSALAM
2 SUMATERA UTARA
3 RIAU
4 SUMATERA BARAT
5 JAMBI
6 BENGKULU
7 SUMATERA SELATAN
8 LAMPUNG
9 BANGKA-BELITUNG
10 BANTEN
11 D.K.I. JAKARTA
12 JAWA BARAT
13 JAWA TENGAH
14 D.I. YOGYAKARTA
15 JAWA TIMUR
16 BALI
17 NUSA TENGGARA BARAT
18 NUSA TENGGARA TIMUR
19 RIAU KEPULAUAN
20 KALIMANTAN BARAT
21 KALIMANTAN TENGAH
22 KALIMANTAN SELATAN
23 KALIMANTAN TIMUR
24 SULAWESI UTARA
25 GORONTALO
26 SULAWESI TENGAH
27 SULAWESI BARAT
28 SULAWESI SELATAN
29 SULAWESI TENGGARA
30 MALUKU UTARA
31 MALUKU
32 PAPUA BARAT
33 PAPUA