



1. Project Data:		Date Posted : 08/14/2001	
PROJ ID: P003998		Appraisal	Actual
Project Name: Surabaya Urban Development Project	Project Costs (US\$M)	617.60	unknown
Country: Indonesia	Loan/Credit (US\$M)	175	93.6
Sector(s): Board: UD - General water sanitation and flood protection sec (67%), Roads and highways (24%), Sub-national government administration (5%), Other social services (3%), Central government administration (1%)	Cofinancing (US\$M)		
L/C Number: L3726			
	Board Approval (FY)		94
Partners involved : OECF financed a parallel project of roughly similar size	Closing Date	09/30/1999	09/30/2000
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives

(i) To improve the efficiency and equitability of urban infrastructure and service delivery by financing high priority infrastructure investments in Surabaya; (ii) to enhance local revenue generation and improve financial management; (iii) to strengthen local institutions for managing and providing city services, particularly the Integrated Urban Infrastructure Development Project (IUIDP) process, and assisting GOI/KMS (Kotamadya Surabaya) to move from the relatively confined IUIDP process to an enhanced IUIDP process embracing better development planning, land and environmental management, coordination arrangements in the framework of improved capital budgeting, O&M and policies with more explicit foci on efficiency and equity objectives; (iv) to improve O&M; and (v) to contribute towards urban poverty alleviation and improve and protect the environment, particularly for the urban poor.

b. Components

The project had seven components. The total funding needs for each component are the SAR totals including GOI, Bank and OECF funds proposed at appraisal. Bank share shown in brackets [xx].

(i) Roads and Traffic Management (*US\$121 million [\$19.577 million]*) ; (ii) Water Supply (*US\$160.6 million [\$85 million]*) ; (iii) Stormwater Drainage (*US\$141.7 million [\$19.675 million]*); (iv) Solid Waste Management (*US\$6.6 million [0]*) (v) Human Waste (*US\$19.9 million [\$13.059 million]*); (vi) Kampung Improvement Plan (*US\$22.7 million [\$11.871 million]*); (vii) Sites and Services for Resettlement (*US\$2.2 million [included in above component totals]*); (viii) Technical Assistance and Training (*US\$33.6 million [\$25.817 million]*).

Due to the land acquisition problems and the impacts of the financial and socio-political crises afflicting Indonesia during project implementation, the project components were significantly modified (downsized) during implementation. A "Revised Implementation Schedule (RIS)" was prepared and formally approved in January 1998. At the request of the GOI, also in January 1998 as part of the Bank's crisis response, a component was also added to the project to finance labor-intensive, small-scale civil works projects for employment generation and allocated \$5 million. The agreement was also amended to increase disbursement percentages on civil works and equipment to 80 percent, cancel \$30 million from the subsidiary loan to KMS, cancel \$35 million from the subsidiary loan to PDAM, and extend the project closing date by one year.

c. Comments on Project Cost, Financing and Dates

As noted in the ICR, the financial terms of the program seemed to be in a constant state of revision/renegotiation throughout the course of implementation. The project suffered nearly endless negotiation difficulties between KMS, East Java Province, and central GOI. Of the \$175 million approved for the loan, only \$93.6 was disbursed by the

closing date (which had been extended by one year to 9/30/2000.) Only approximately \$63.5 million of the Loan proceeds were invested in physical works, and substantial portions of this investment remain incomplete or were for unapproved subprojects. The OECF financed a parallel project of roughly similar size.

3. Achievement of Relevant Objectives:

Overall, the achievement of the project's objectives is rated highly unsatisfactory in the ICR.

- *Systematic upgrading of urban services delivery.* This objective was not achieved, as major gaps in key roads and drains remain, water supply coverage targets were not met, most of the sanitation program was cancelled from the project, and O&M of existing facilities was largely left unaddressed.
- *Enhance local revenue generation and improve financial management.* While some progress was made (tariff increase, relatively strong revenue streams), many needed reforms were left unaddressed.
- *Strengthening local institutions.* Little progress was made, partly due to a continuous series of changes in leadership at all levels. Water enterprise and Urban Management Unit (UMU) advisory assistance was mobilized, but advice was frequently ignored. A plan for the year 2018 was created but not used as consensus could not be reached. Almost no attention was paid to environmental management or improved capital budgeting. Land and O&M issues were not resolved. The O&M advisory services contract was never approved or mobilized. UMU never fully played its anticipated role as project focal point.
- *Improve O&M.* O&M levels were generally viewed as inadequate.
- *Poverty alleviation and protection of the environment.* The water enterprise failed to install the programmed 58,000 new water supply connections in KIP (poor) areas, citing the unwillingness of households to repay the connection cost, even with the availability of loan funds. The sanitation investments from the original project design were almost all cancelled. However, a labor-intensive works component for employment generation was added to the project in January 1998 at GOI request and allocated \$5 million; it appears to have been an effective source of emergency employment in the peak of the crisis.
- *Physical objectives.* Water supply and Kampung Improvement (KIP) were rated unsatisfactory. Roads and traffic management, stormwater drainage, human waste, and sites and services for resettlement were rated highly unsatisfactory. Solid waste management, included in the SAR, was not subsequently funded by the loan, but rather by the parallel OECF loan.

4. Significant Outcomes/Impacts:

The launching of the Comprehensive Kampung Improvement Program, including micro-credit schemes and neighborhood upgrading in 15 kampungs during the final year of the loan, though small, was relatively successful and will be carried on with GOI funds.

5. Significant Shortcomings (including non-compliance with safeguard policies):

- Several factors led to implementation difficulties. Almost immediately after the project was declared effective, BAPPENAS, the National Development Planning Agency, rejected the agreed arrangements for sharing land acquisition financing responsibilities and local government had to arrange for all needed land acquisition. This decision disrupted all the integrated implementation planning prepared for the project. The implementing environment proved extremely unfavorable—A continuous series of changes in leadership in the central and local level actors limited progress. Also, the final three years of the project were strongly affected by the crisis conditions, accompanied by social and political turmoil, which further complicated efforts and may have constrained local budget allocations to resolve land acquisition problems and related compensation/resettlement issues.
- Major gaps in key roads and drains remain, water supply coverage targets were not met, most of the sanitation program was cancelled, and O&M of existing facilities was largely left unaddressed. The project management unit (UMU) was never properly established or empowered to control project implementation. Many subprojects were initiated prior to completion of necessary land acquisition, in direct violation of project covenants, and resulting in the many unfinished or terminated works now scattered around the city—including a bridge that remains unfinished following its collapse while under construction. In short, none of the project's objectives were satisfactorily achieved.
- Lack of Borrower commitment is demonstrated in: the failure to adhere to program processes, their rejection of previously made agreements, the willful and repeated violation of the agreed project procedures, the lack of transparency in decision-making, the disproportional influence of the Mayor in many decisions of a technical nature, and related problems (especially the use of allocated land acquisition funds), including the persistent allegations of corruption, collusion, and nepotism.
- Poor Bank performance, including "woefully inadequate" supervision, was subsequently displayed in: discontinuity of task management and supervision staffing, inexperienced TTLs not receiving necessary support, lack of adequate supervision, and missed opportunities for proactive intervention.
- The GOI's Attorney General's Office and the Bank's Anti-Corruption & Fraud Investigations Unit are following up several matters related to this project.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments

Outcome :	Highly Unsatisfactory	Highly Unsatisfactory	
Institutional Dev .:	Negligible	Negligible	
Sustainability :	Highly Unlikely	Highly Unlikely	
Bank Performance :	Unsatisfactory	Unsatisfactory	
Borrower Perf .:	Unsatisfactory	Unsatisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- The bank needs to show the resolve to proactively intervene when problems such as preparation delays, broken agreements, and government inaction threaten to undermine the relevance and success of the operation.
- Major changes in fundamental project financial responsibilities MUST automatically trigger reappraisal.
- External shocks to project implementation should be continuously assessed, particularly when of the magnitude of the complex economic/financial/political crisis which has befallen Indonesia.
- The incentive structure behind project supervision needs to enable the straightforward reporting of the situation. Strong attention should be paid to projects especially during the crucial first two years of implementation.

8. Assessment Recommended? Yes No

Why? An audit would be a building block toward an upcoming OED study. Also, project lessons (positive and negative) are likely to be particularly relevant to future Bank operations.

9. Comments on Quality of ICR:

The ICR is thorough and straightforward. It looks beyond the surface and explains underlying factors in the outcome.