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**The World Bank**

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**Report No. 4620**

PROJECT PERFORMANCE AUDIT REPORT

INDONESIA - JAKARTA URBAN DEVELOPMENT PROJECT  
(LOAN 1040-IND)

June 30, 1983

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Operations Evaluation Department

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## ABBREVIATIONS

- BTN - Bank Tabungen Negara (State Savings Bank - cf. NMB)
- DKI - Government of Special District of Jakarta
- IPEDA - Local Property Tax
- KIP - Kampung Improvement Program
- LA - Loan Agreement (between Bank and GOI)
- NMB - National Mortgage Bank (cf. BTN)
- NUDC - National Urban Development Corporation (Perumnas)
- PCR - (Bank) Project Completion Report
- SAR - (Bank Staff Appraisal Report)

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Map IBRD 10728 R2 (PCR)

Photographs

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PROJECT PERFORMANCE AUDIT REPORT

INDONESIA - JAKARTA URBAN DEVELOPMENT PROJECT  
(LOAN 1040-IND)

PREFACE

Loan 1040-IND for the Jakarta Urban Development Project was signed in September 1974. The Loan of US\$25 million equivalent was closed after cancellation of about US\$0.8 million and after the original Closing Date had been extended by three years to December 31, 1980.

This report consists of a Project Performance Audit Memorandum (PPAM) prepared by the Operations Evaluation Department (OED) and a Project Completion Report (PCR) prepared by the East Asia and Pacific Regional Office. The PPAM is based on a review of files and documents, including the PCR, interviews with Bank and borrower staff and a visit to Jakarta in August and September 1982.

The PPAM agrees with many of the findings of the PCR regarding accomplishments of the project. However, the PPAM also notes that the innovations of the project concern primarily the public sector of the Indonesia housing industry which continues to be dominated by the informal sector and that the role of the innovations in Indonesia's housing sector remains to be fully explored and documented.

The draft PPAM was sent to the Borrower for comments; however, none were received.



PROJECT PERFORMANCE AUDIT BASIC DATA SHEET

INDONESIA: JAKARTA URBAN DEVELOPMENT PROJECT  
(LOAN 1040-IND)

KEY PROJECT DATA

<u>Item</u>	<u>Appraisal Expectation</u>	<u>Actual</u>
Total Project Cost (US\$ million)	51.0	52.3
Overrun (%)	-	2.4 <sup>/a</sup>
Loan Amount (US\$ million)	25.0	24.16 <sup>/b</sup>
Disbursed	-	24.16
Cancelled	-	0.84
Repaid to	-	3.48
Outstanding to	-	20.68
Date Physical Components Completed	06/30/ 7	09/30/80 <sup>/c</sup>
Proportion Completed by Original Completion Date (%)	100	99.0
Proportion of Time Overrun (%)	-	105.0
Economic Rate of Return (%)	17	31

Cumulative Estimated and Actual Disbursements  
(US\$ Millions)

	<u>FY75</u>	<u>FY76</u>	<u>FY77</u>	<u>FY78</u>	<u>FY79</u>	<u>FY80</u>	<u>FY81</u>
(i) Estimated	7.41	20.24	24.56	25.00	25.00	25.00	25.00
(ii) Actual	2.8	12.94	18.06	20.32	22.59	23.32	24.16
% of (ii) to (i)	39	64	74	81	90	93	97

OTHER PROJECT DATA

	<u>Original Plan</u>	<u>Revisions</u>	<u>Actual</u>
First Mention in Files	-	-	06/70
Government's Application	-	-	11/71
Negotiations	07/74	-	07/74
Board Approval	09/74	-	09/74
Loan Agreement Date	09/74	-	07/74
Effectiveness Date	01/75	08/72	01/75
Closing Date	12/77	12/80	12/80
Borrower	Government of Indonesia		
Executing Agency	National Urban Development Corporation		
Fiscal Year of Borrower	April 1 - March 31		
Follow-on Project Name:	Second Indonesia Urban Development Project		
Loan Number	1336-IND		
Amount (US\$ million)	52.50		
Loan Agreement Date	11/04/76		



MISSION DATA

<u>Item</u>	<u>Month/ Year</u>	<u>No. of Weeks /a</u>	<u>No. of Persons</u>	<u>Manweeks /a</u>	<u>Date of Report</u>
Identification I	05/ 1	3.4	3	10.2	07/71
Identification II	11/71	3.6	6	21.6	11/71
Preparation I	01/ 2	4.2	2	8.4	03/72
Preparation II	05/ 2	5.0	5	25.0	06/72
Preparation III	10/72	7.0	5	35.0	12/72
Preappraisal	04/73	5.6	4	22.4	05/73
Appraisal I	07/73	7.0	6	42.0	09/73
Appraisal II	11/73	4.2	2	8.4	01/74
Appraisal III	01/ 4	4.2	2	8.4	02/74
Total:		<u>40.0</u>		<u>173.0</u>	
Supervision I	09/ 4	4.2	4	16.8	10/74
Supervision II	11/ 4	2.4	3	7.2	12/74
Supervision III	02/75	2.5	4	10.0	04/75
Supervision IV	08/75	2.8	1	2.8	09/75
Supervision V	07/76	4.2	4	16.8	09/76
Supervision VI	11/76	2.8	4	11.2	01/77
Supervision VII	01/77	2.0	4	8.0	04/77
Supervision VIII	09/77	4.0	3	12.0	10/77
Supervision IX	02/78	3.5	3	10.5	04/78
Supervision X	02/79	1.0	1	1.0	03/79
Completion	09/80	1.50	1	1.50	11/80
Total:		<u>30.90</u>		<u>97.8</u>	

COUNTRY EXCHANGE RATES

Name of Currency (Abbreviation): Rupiah (Rp)

Year:

Appraisal Year Average 1973/74

Intervening Years Average <sup>/d</sup> 1974-78

Completion Year Average 1980

Exchange Rate: US\$1 = Rp 415  
 US\$1 = Rp 415  
 up to 11/ 8  
 US\$1 = Rp 615  
 US after 11/78  
 US\$1 = Rp 615

- /a Involves no significant change in scope for the principal project components.
- /b Includes post-devaluation exchange adjustment of US\$1 = Rp 615 (after November 15, 1978) for local cost financing.
- /c Construction delays occurring in Sites and Services component only (note: Kampung Improvement component was almost 100% complete by April 1977); even though about 95% of the core units in the Sites and Services component were completed by December 31, 1978, site activities involving the rehabilitation of roads/ditches remained until April 30, 1980, and activities involving the provision of the remainder of core units (delayed due to land acquisition problems) remained until December 30, 1980.
- /d A substantial part of the project was completed prior to the Rupiah devaluation in November 1978.



PROJECT PERFORMANCE AUDIT REPORT

INDONESIA - JAKARTA URBAN DEVELOPMENT PROJECT  
(LOAN 1040-IND)

HIGHLIGHTS

The primary objectives of the project were to demonstrate a sound approach to the provision of new low income housing in Indonesia, to support the ongoing Kampung Improvement Program (KIP, a program to improve Kampunges which are densely populated, mostly low income neighborhoods) and to aid institution building and planning in the urban sector. Being one of the Bank's first projects in the urban sector, it was well chosen for supporting the already successful KIP. This gave it a firm base upon which a successful demonstration effect of the sites and services component was, after some delay, eventually built. The project also gave an important stimulus to the new idea of mortgage finance but gave inadequate technical support for the necessary institution building of the mortgage system which was completely untried in Indonesia. The creation of the National Urban Development Corporation (NUDC), now Indonesia's principal housing authority in the public sector, was an important direct result of the project.

The implementation of the KIP component went smoothly as planned, but delays and difficulties were experienced with the project's other more innovative components not only because of lack of experience by both Bank and the Government, but also because of policy differences between the two. The slow pace in resolving this conflict contributed to significant delays in implementing the sites and services component. Some policy issues remain unresolved.

In general, the project's quantitative targets were achieved and its principal physical components were implemented essentially as planned with only minor changes.

For the issues they raise or the relevance they might have for future projects, the following points are of special interest:

- independently of Government policy on their behalf, civil servants inevitably would have an advantage in lot allocation in Jakarta since they can most easily meet the eligibility criterion (agreed by the Bank) of requiring a regular monthly income, thus making Bank's position which opposed the use of the sites and services component to house civil servants appear somewhat contradictory (para. 40);
- the KIP and sites and services components were essentially complementary, each contributing to urban development in a distinct way (paras. 44-46);



- in the light of the experience with the Jakarta KIP unit, careful attention should be given to the creation of special project execution units in all future projects whose terms of reference may give them a limited useful life (paras. 47-49);
- the project gave an important stimulus to the idea of mortgage finance (previously untried in Indonesia), although it singularly failed to provide concrete support for radical institutional changes needed (paras. 50-54);
- the project resulted in the successful creation of NUDC, now the major public sector housing institution in Indonesia (paras. 55-57);
- unnecessary rigidity was displayed by the Bank towards the Government's changing the design standards of the sites and services component although the design proposed fulfilled the agreed with affordability criteria (paras. 58-61);
- the sites and services component had excellent repayment experience but conclusions as to affordability must be tempered by the consideration that interest rates are greatly below market levels (para. 62); and
- the sites and services component had an important demonstration effect now being widely adopted in Indonesia by both the private and the public sectors, but the role of sites and services vis-a-vis other instruments of housing policy in Indonesia, for example KIP, remains to be fully explored and documented (para. 64).



PROJECT PERFORMANCE AUDIT MEMORANDUM

INDONESIA - JAKARTA URBAN DEVELOPMENT PROJECT  
(LOAN 1040-IND)

I. BACKGROUND

A. The Policy Context

1. With Jakarta's annual population growth of 4.6% (over half of which was due to migration), the local authorities in the early 1970's had become increasingly concerned with the worsening urban services and deteriorating conditions of the housing stock that accompanied the physical expansion of the city. The Bank financed project now under audit was potentially, therefore, a timely intervention into the formulation and execution of an urban development policy which, to some extent, was already underway. Among existing housing programs, the most important was the upgrading of low income housing via the Kampung<sup>1/</sup> Improvement Program (KIP) which had begun under the first five-year development plan (Repelita I 1969-74). Most of Jakarta's deficient housing was in kampungs which were generally located on marginal land subject to flooding and which were poorly served by urban services and suffered poor access. By 1974, some 2,000 ha of kampungs had been improved through the provision of roads, footpaths and drainage ditches.

2. In contrast to the clear policy commitment towards the improvement of existing low income housing areas through the KIP, the Bank-financed project (and, in particular, its sites and services component) encountered no such priority for the supply of new low income housing units. What little provision there had previously been had resulted from ad hoc projects by government departments for their employees and for the higher income groups, such as the building of the suburb of Kebayoran Baru in the south of Jakarta. Thus, the implicit assumption of policy had been that new low income housing units would be provided through the private informal sector by the establishment of new kampungs and the "densification" of existing ones. Here, therefore, was an opportunity for the project to have a major impact upon the clarification of policy by anticipating the demand for new housing units for low income families and supplying them accordingly. The Bank staff views these two programs as having somewhat contrasting objectives with KIP having the aim of meeting the shortfall in basic urban services while sites and services was designed to overcome the backlog in the provision of housing stock for low income households and the two programs are mutually complementary. The audit views the two programs as both contributing to the process of urbanization, KIP by improving the large number of settlement which are established informally (accounting for the bulk of additions to the urban population) and sites and services constituting a part of the settlements which result from formal subdivision procedures.

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1/ Densely populated, mostly low income areas.

3. On the urban planning side, the physical development of Jakarta was governed by the city's Master Plan, prepared with the assistance of the United Nations Development Program and officially adopted in 1967. Although now out of date with respect to the present urban population and the physical extent of the built-up area, which now spreads beyond the administrative boundary of DKI (the Jakarta Special Province), the Master Plan remains the legal document for guiding urban development. Throughout the KIP, for instance, reference was always made to the Master Plan to exclude, in some cases, kampungs located on land zoned for use other than residential. Already at the time of the project appraisal, it was recognized by both the Bank and the Government of Indonesia that a major review of Jakarta's planning was needed. This reflected what was in the early 1970's a new approach to urban planning in general which gave more emphasis to a multidisciplinary view of urban development in its dynamic regional context, as opposed to the more rigid and static approach exemplified by the Master Plan. Provision was, therefore, made in the project for technical assistance to stimulate the use of the new planning approach to the case of Jakarta.

4. Unlike that of most developing countries, Jakarta's rapid urban growth is not primarily due to industrialization,<sup>1/</sup> but still it provides a familiar checklist of associated problems. Underemployment and poverty, inadequate housing, infrastructure investments unable to keep pace through insufficient funding and planning and environmental health problems, are as evident in Jakarta as any other major metropolis in developing countries. It is surely no coincidence that the project was being appraised at a time when these problems became a new focus of the Bank's attention and its approach and policies were in a formative stage.

#### B. The Project

5. Besides being one of the Bank's early urban projects, the project under audit initiated urban lending in Indonesia, with special emphasis on aiding the urban poor. Project identification and preparation extended over a two-year period with Bank missions being carried out between May 1971 and April 1973, at the same time that the Government of Indonesia's basic policies and the Bank's approach to the sector were being defined. Thus, given the scale of the deficiencies in low income housing in most urban areas of Indonesia, particularly Jakarta, and the exploratory nature of both the Government and Bank operations in this sector, the 24-month project identification and preparation period was not unreasonable.

6. The project aided in financing the following principal components (PCR, para. 2.10 gives more details):

- (a) Kampung Improvement Program (KIP) - infrastructure improvements to about 1,980 ha of densely settled neighborhoods in Jakarta;

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<sup>1/</sup> This aspect is emphasized in: Sethuraman, S.V. Jakarta: Urban Development and Employment, International Labour Office, Geneva, 1976.

- (b) Sites and Services - development of 130 ha of land in eastern Jakarta to provide some 7,930 serviced residential lots (most with a basic core house); and
- (c) Technical Assistance - aid in establishing the National Urban Development Corporation (NUDC), known in Indonesia as Perumnas, project execution, preparation of additional housing projects and for the planning of metropolitan Jakarta.

7. As summarized in the PCR (para 2.07), the primary objectives of the project were to:

- (a) demonstrate a sound approach to the provision of new housing for low income families through the sites and services component;
- (b) support and help expand the on-going KIP in Jakarta;
- (c) aid in the establishment of NUDC and also a National Mortgage Bank (NMB)<sup>1/</sup>; and
- (d) assist in developing a regional strategy for the physical and economic growth of the greater Jakarta urban area.

8. While the scope of the project and its objectives were reasonable for a first project in this field, the project justification may have lent itself to overstatement of what the scale of the achievements were likely to be (SAR, paras. 6.01 and 6.02)<sup>2/</sup>

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<sup>1/</sup> The National Mortgage Bank as such has still to be formally constituted, so it is still known in Indonesia as Bank Tabungen Negara or BTN, the name of the National Savings Bank.

<sup>2/</sup> When the project was presented to the Board, for example, attention was drawn by one of the Executive Directors to excessive optimism regarding the likely improvements to overall health of the population of Jakarta as a whole when the actual funding of sanitary improvements was in fact very small. The Region notes, however, that the sanitation component is larger if various drainage and solid waste management components of the KIP are included. In addition, the claim in the SAR of the project's "long-term influence upon the direction of metropolitan economic development...through coordination of investments in industry, urban infrastructure and housing" seems untenable since this would have depended upon the effectiveness of Jakarta's metropolitan plan, a plan which was thought to need revision and for which the project provided technical assistance. This technical assistance covered only the strategic aspects and, in the event, was never provided under the project.

9. As noted in the PCR, the time schedules for the project were also overly optimistic, that is, except for the KIP component which supported an established program. Considering the Bank's substantial experience in other sectors in Indonesia prior to this project, it seems that a much more realistic implementation schedule could have been prepared, particularly with regard to the time required to make the new Government agencies, NUDC and NMB, operational.

## II. IMPLEMENTATION

### A. General

10. The PCR provides a fairly complete and detailed discussion of the project implementation. The two housing components were executed generally in accordance with the appraisal report, except that there were extensive delays in the implementation of the sites and services component whose basic housing unit underwent a major revision in design, something which is discussed later in this report (paras. 58-61). Adjustments were also made in the planned scope of technical assistance elements and some of them took a somewhat different course from the originally intended. Certain of the more important aspects of the two housing components are briefly reviewed in Sections B and C below which also refer to technical assistance where appropriate.

### B. The Kampung Improvement Program (KIP)

11. Jakarta's kampungs began to develop before Indonesia's independence. Most were located on marginal, often swampy land behind the main roads of the colonial city where poorer Indo-Europeans and Indonesians, including migrants from other parts of Java, came to settle. This migration later provided the main impetus to the establishment of new kampungs with the result that today, 80% of the city's population live in densely settled kampungs which occupy about 65% of the urbanized area (PCR, para. 1.03). The newer outer kampungs serve as the bridgehead for arriving migrants on the one hand,<sup>1/</sup> while the natural increase of their populations leads to the densification of the older and more settled inner kampungs which, according to officials of the KIP unit of DKI, enjoy the highest priority for improvement. (The KIP unit is the specialized project unit of DKI (Special District of Jakarta) responsible for all kampung improvement.) Were more attention given to the outer kampungs as argued later in this report (para. 49), it would be more difficult to conceive of the KIP coming to an end while the rapid urbanization of Jakarta continues.

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<sup>1/</sup> Typically, the newest and poorest migrants settle in squatter areas (Rumah Liar) in the interior of the outer kampungs. See: Sethuraman, S.V. op.cit. p. 138.

12. On the basis of strong community ties, housebuilding in the kampungs has proceeded through "gotong royong" (mutual self-help) within the informal sector, a process which, if not directly supported, is at least accepted by the Government in its housing policy. Recognition by the Government of the importance of low income housing supply via the private informal sector was given long before governments in most other countries who, in some cases, are still trying to eradicate this form of provision lest more "slums" should be created that would tarnish the modern image of their cities. In spite of considerable expansion of the public sector supply of housing recently, it is significant that some 90% of all new housing in Indonesia is provided by the private sector, mostly in the way just described.<sup>1/</sup>

13. Since the kampungs now account for such a large part of the urban area of Jakarta, it is not possible to regard the kampung as representing a homogeneous concept. In addition to the differentiation between the inner and outer kampungs already referred to, great social diversity can be found within each kampung internally. The audit mission was impressed during field visits by residents of quite different income levels living side by side in the same kampung where a few higher income houses could be seen located right next to a poor family's home in what was evidently a generally low income area. While there is no doubt that the majority of kampung residents have low incomes, the spatial mix of income levels just referred to means that an area specific project component such as the KIP, cannot avoid giving some benefit to the minority of higher income families who choose to live in Jakarta's kampungs.

14. Kampung improvement has a fairly long history in Jakarta and began with some modest efforts by the Colonial administration to improve the access to selected kampungs. But it was much later, under Repelita I (1969-74), that the KIP really got underway when some 2,000 ha of kampungs were improved by 1974 through the installation of basic infrastructure and simple community facilities. With this important experience behind it, the audit mission cannot agree with the PCR's perception (para. 1.01) that the Government of Indonesia had had no specific measures to deal with Jakarta's emerging urban problems, a perception which can give the false impression of a complete lack of preparedness on the Government's part to deal with the urban sector until the Bank's intervention. Bank staff believes, however, that the Central Government only began to take an active interest in KIP as a nationwide program following the success of Jakarta's expanded program.

15. On the contrary, there is no doubt that the previous experience of the Jakarta KIP unit was an important factor in ensuring the successful completion of the KIP component of the Bank project. The Region notes that the Bank also made a significant contribution to the success of an expanded KIP through improved institutionalization and implementation arrangements. With some minor exceptions, the physical elements of this component were executed as originally planned (PCR, paras. 3.03 and 3.04). The improvements were generally of good quality and most were completed in accordance with the original time schedules and cost estimates (PCR, para. 3.17).

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<sup>1/</sup> Data from: World Bank, Indonesia: Financial Resources and Human Development in the Eighties, Report No. 3795-IND, May 3, 1982, para. 6.81.

16. As indicated in the PCR (para. 6.01), the original KIP executing agency was changed under the project from an ad hoc coordinating unit of DKI to a greatly expanded and largely self-sufficient administrative unit (still under DKI). This change was considered necessary to more than double the rate of previous kampung improvements, a growth that was made possible through Bank financial assistance. Given the large number of Government agencies which would otherwise have been involved in planning, design and execution together with the major problems of coordination and obtaining proper priority for the necessary work, the expanded KIP unit proved to be a key element in the success of the KIP component. Similar self-sufficient KIP units have been established in about 50 large, medium and small sized cities throughout Indonesia and there is little doubt that they have been responsible for the successful expansion and acceleration of the program nationwide. The consequence of this success, in Jakarta at least, has been that the demand for the type of work carried out by the KIP unit has fallen off. What should be the future role of such units and the more general issue arising out of the creation of special project units are discussed later in this report (paras. 47-49). The technical status of these units is not entirely clear. According to Bank staff they are "non-structural" (paliksana darah) in the local government organization and thus not permanent. The audit recognizes that under Indonesian regulations the units may not technically be "permanent" but also notes that their disestablishment is presenting serious problems.

17. The project included technical assistance to the Jakarta KIP unit for management, engineering and accounting. However, long delays by the newly established NUDC in retaining consultants (PCR, paras. 3.02 and 3.11) meant that essentially no early management and design engineering assistance was made available to the KIP unit. The technical assistance input by consultants that was eventually provided consisted of reviewing contracting procedures and the inspection and certification of completed projects to provide a basis for preparing final cost summaries and Bank loan withdrawal applications. The shortfall in assistance, however, had no discernible effect upon the quality or pace of the KIP implementation. While KIP officials felt that the consultants' efforts under the first project were helpful, they were also of the opinion that its contribution under subsequent projects was unnecessary. This view was not shared, however, by officials of Cipta Karya,<sup>1/</sup> the Central Government agency with nationwide responsibility for KIP operations.

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<sup>1/</sup> Cipta Karya - the Directorate General of Housing, Building and Planning is the Government of Indonesia agency responsible for implementing national housing and planning policies set by the National Housing Authority which is a committee of Cabinet ministers. It operates under the Ministry of Public Works.

18. Field inspection of some of the kampungs improved under the Bank project clearly demonstrated to the audit mission that considerable improvements in the urban environment had been made, and furthermore, many residents through mutual self-help were consolidating and extending their houses. Also evident in the improved kampungs was an active commerce consisting of small shops and personal services, although such activities were taking place in unimproved kampungs too. Officials of the Jakarta Health Department informed the audit mission that the incidence of contagious diseases reported in the improved kampungs had fallen, but at the same time noted that residents demonstrated a lack of interest in using the new health facilities installed as a result of the KIP, indicating that environmental health education programs should be a part of future improvements. An example of another external benefit of the KIP is the stimulus that it has given to the local construction sector in Jakarta. DKI officials estimate that some 150-200 new firms have been established as a direct result of KIP contracts. The employment consequences of this expansion of construction are difficult to estimate for lack of data. The audit mission was informed that no special emphasis in the award of KIP contracts was given to the use of labor intensive technology, even though such a preference (as far as Bank procedures would allow) could perhaps have maximized employment creation. As the PCR correctly points out, however, project benefits such as these will only become fully understood after long-term impact studies have been undertaken (PCR, para. 7.07).

19. An important question asked by the audit mission is who now enjoys the benefits of the KIP. Is it mostly the original inhabitants remaining in the improved kampung, or do increased land values force many to leave so that new, higher income settlers move in and enjoy the benefits of the improvement? This question was answered by the findings of surveys undertaken by the LP3ES,<sup>1/</sup> an independent research institute in Jakarta, which indicate a very low turnover in the kampung population after improvement, indicating a successful result of the KIP effort to minimize community disruption. Studies have yet to be undertaken on the income level of the beneficiaries whom the project intended to be the urban poor. From inspection of the kampungs and meetings with the officials concerned, the audit mission is of the opinion that the beneficiaries were mostly of low income as targeted, but as has already been mentioned, some higher income families, albeit a minority, would have inevitably benefitted simply because they were living in a socially heterogeneous kampung prior to its improvement.

20. An assumption was made at appraisal that the benefits of the KIP component would be reflected in increased land values, thus allowing an estimated 17% internal rate of return on the project investment (SAR, Annex 9). The PCR reevaluation gave a 31% rate of return (PCR, para. 7.08), the

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<sup>1/</sup> LP3ES (Institute for Social and Economic Research, Education and Information) is an independently funded institute which undertakes research for Cipta Karya among others.

increase being due to the faster rise of land values than anticipated at appraisal. In a project component such as the KIP, whose social benefits may be quantifiable only after extensive research, an economic rate of return based upon increased land values can serve only as an interim guide to its performance. Furthermore, many factors independent of the KIP (such as an unexpected impulse to migrate from rural areas, for example) could affect the value of serviced land in Jakarta, in which case an increase might not have been due to the improvements resulting from the project.

21. On the other hand, for the KIP to be financially viable, the project authority ought to enjoy some form of cash return upon the increased land values. In Jakarta, this was intended to be obtained through improvements in the collection of local property taxes (IPEDA) whose rate of collection is very low compared with similar taxes in major metropolitan cities of other countries. This is largely due to the fact that Jakarta enjoys significant revenue from other sources such as taxation on gambling and vehicle licensing. On average, IPEDA taxes in Jakarta account for no more than 6% of total revenue. Nevertheless, improved IPEDA tax collection was made a major issue during the appraisal of the Bank project (SAR, para. 2.13) and included as a covenant of the Loan Agreement. The audit mission was informed by officials of Cipta Karya and DKI that increasing the IPEDA tax collection raised important political issues, relating to the financial independence of local governments vis-a-vis the Central Government. The Region points out that instruction issued by the Directorate General of Taxation, Ministry of Finance, in 1978 provided for guidelines for improved IPEDA tax collection by the municipalities. The Region disagrees with the audit's statements regarding (a) difficulties between the central and local governments over IPEDA tax collection as the reason for poor IPEDA tax performance which the Region attributes instead to the localities' reluctance to tax wealthy landowners and with the association in the minds of the people to the unpopular colonial tax and (b) the linkage between KIP and a specific tax as a test of KIP's financial viability and replicability. While the audit agrees with the Region that KIP does not involve a transfer of assets and that costs are thus not transferred or technically subject to recovery, the audit notes that implementation of the IPEDA tax improvement program in DKI was a covenant under the loan (Section 4.03) and such an increase was one of the key assumptions made at appraisal in calculating a long-range, low-cost improvement program for DKI (See Annex 2 of the Appraisal Report). Moreover, the audit notes that KIP costs which naturally result in increases in property values are, in fact, "recovered" through real property taxes provided, of course, that they are assessed and collected. In practice, the real property tax can and should be a means of recovering the costs of public improvements. This was also the conclusion of the PCR according to paras. 5.01 and 9.04. The other sources of income in Jakarta made it easier to shelve the issue than in other cities where more progress has been reported in increasing IPEDA tax collections. The result is little real increase in IPEDA revenues in Jakarta thereby preventing the generation of tax revenues which were supposed to provide a proxy for cost recovery from KIP beneficiaries. Even though the KIP benefits are more social than financial, in retrospect it seems that the Bank had correctly examined the arithmetic of the IPEDA tax issue, but perhaps had not sufficiently stated the difficulties of increasing collection of the IPEDA tax.

C. Sites and Services

22. The site and service component built at Klender, some 5 km east from the center of Jakarta, intended to demonstrate an approach towards meeting the demand for new housing units for low income families through the provision of 7,900 services lots over three years, unlike the KIP which was concerned with the improvement to existing housing. An additional difference from the KIP was that, by and large, the site and service approach was a new element for housing policy in Indonesia. NUDC officials informed the audit mission of the very limited previous experience there had been in Indonesia in providing a sites and services scheme for the relocation of families displaced by the construction of the National Stadium in 1959. It was not a success, however, as the low income families had neither their own resources nor mortgage finance with which to build their homes on the empty serviced lots. Partly for this reason, the Klender sites and services component included a habitable core house, and for the first time in Indonesia, the purchase was supported by a mortgage finance system.

23. In general, the Bank's general concept of sites and services was intended to be a flexible one where standards of services and the degree of completion of the housing unit, if any,<sup>1/</sup> would vary according to the particular requirements of a country or city. In spite of the emphasis on flexibility, the Bank's treatment of such projects is now recognized as having been more rigid than intended particularly in the application of standards.<sup>2/</sup> The audit mission is of the opinion that this was probably true in the case of the Jakarta project, where untried standards were too tightly specified at appraisal (SAR, para. 3.06), and subsequently too rigidly adhered to, leading to problems in project implementation that are discussed later (paras. 58-60). According to the Bank this rigid stand was needed and justified to caution the Government on the merits of adopting lower cost standards than those typical of traditional Government low cost housing schemes. Also examined later are the other important issues that arose with this component, namely the creation of a mortgage system for the first time in Indonesia (paras. 50-54) and the establishment of a completely new agency, NUDC, to buy and develop urban land (paras. 55-57).

24. As far as its physical facilities were concerned, the sites and services component met the target of building the number of units set out at appraisal (PCR, paras. 3.03, 3.05-3.07). The audit mission agrees with the PCR that the inaccuracy of the original site surveys that led to a 5% reduction in the number of planned lots and the need to change from wells to water

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1/ The Bank's approach is explained in: Sites and Services Projects, A World Bank Paper, April 1974.

2/ See: World Bank Retrospective Review of Urban Operations, Report No. 3919, April 22, 1982, paras. 3.10 and 3.11.

mains could not have been foreseen at the time of appraisal. The main roads and drains were reported to have been damaged by heavy construction traffic and additional costs were incurred to repair them. The PCR (para. 3.06) attributes these failures to the fact that the roads and drains were built to standards lower than those specified. Another explanation may be that the standards were too low to carry the traffic which would actually be using the roads or that weight limits on which the designs were based were not enforced or were unrealistically low in relation to the practice of Indonesian vehicles.

25. The quality of the completed facilities inspected during the field visit by the audit mission was found generally to have been good, although deficiencies were noted in the maintenance of public areas and main roads, and in the management of solid waste disposal. While the total cost of the site and service component was about 20% higher than the appraisal estimates (PCR, para. 3.17), only about one-fifth of the increase was due to physical changes in the components, while the remaining 80% stemmed from increased costs resulting from extensive delays in acquisition (PCR, para. 3.20). Considering the innovative nature of this undertaking both for the Government and the Bank, the cost overrun for the facilities provided cannot be deemed unreasonable. The delays in the construction schedule, particularly in the start up (PCR, para. 3.10), can be attributed to the experimental nature of the project.

26. The lots were intended for sale upon completion to low income applicants (Section 3.03), but here too, delays were experienced. NUDC officials informed the audit mission that, shortly before the lots were allocated, it was found that the great majority of potential purchasers had insufficient funds for the necessary downpayment of 5% of the total sale price. When the price of the lots was eventually doubled, the residents were required to make a downpayment of 5% and not 10% as envisaged at appraisal, the total amount of the downpayment, of course, being the same. The explanation which ascribed to the lot owners' insufficiency of delays in allocation of lots to them does not coincide with that in the PCR (para. 6.05) where the delays are attributed to difficulties in obtaining land titles. The audit mission is of the opinion, however, that problems related to land titles did not concern acquisition of land for development but ambiguity of the residents' legal status of occupation (i.e. as tenants, owners, or leaseholders) which made the issuing of land titles difficult. Because of problems with downpayments the residents were allowed to occupy the lots for a period of two years during which time they made monthly payments to NUDC which were, in fact, savings towards the downpayment. Although careful attention had been given at the time of appraisal to the ability of low income families to make monthly debt repayments, whether they would have sufficient cash savings for the downpayment, when their propensity to save must be minimal, appears to have been overlooked, and still is under subsequent projects. Explicit recognition of the savings constraint could eventually lead to 100% mortgage financing, with NUDC providing security by underwriting the last 5%. As well

as being a formal acknowledgement of the present arrangement which is a "de facto" 100% mortgage, such an approach would clarify right away the legal status of the residents and remove ambiguities about the functioning of the new and still little understood mortgage system. Bank staff has observed, however, that several studies have indicated that low-income people have a high propensity to save and that residents' reluctance to make down payment may have more to do with lack of clarity of their status (renter, owner, leaseholder?) and of the eventual title they would get.

27. The issue of the downpayment is obviously made more critical the higher the price of the lots. The prices charged were eventually over twice those estimated at appraisal, and the PCR gives no clear reason for the increase (PCR, Footnote to Table V-1). On questioning NUDC officials about this, the audit mission was informed that the prices were, in fact, fixed by the Ministry of Public Works, but a precise idea of exactly how these prices were calculated was not obtained during these discussions. It could not escape the mission's notice, however, that the new prices were essentially equal to the amount that, with 5% interest per annum, would allow similar monthly repayments to those planned with the original 12% interest rate. It seems a reasonable hypothesis, therefore, that, after the new low interest rate on the mortgages, the highest possible prices were charged for the lots that would not affect their original affordability. There seems to have been no market restriction in charging these prices given that demand was very buoyant with seven applications being made for each lot at the new price. Although subsidizing the mortgage interest rates for low income housing is now a part of Government policy, whether its incidence benefits low income families must be in doubt if the result of the measure is to double the value of NUDC holdings and also double the indebtedness of those families. Bank staff note, however, that the sites and services scheme was self liquidating in the sense that development costs on the scheme as a whole were recovered, though they were overrecovered on some parcels (commercial and other high value lands at the edge of the kampung) and underrecovered on others (the inner parcels for low income residents). The audit has no information on the relation between various lot prices under the scheme and market prices for similar property in Jakarta. The audit notes that the market rates of interest in Indonesia are greatly in excess of the 12% rate originally agreed for this sites and services scheme.

28. Nevertheless, due in part to the financial artifice just described, the beneficiaries of the sites and services component appear to have had income levels similar to those targeted at appraisal (PCR, para. 5.06). The large majority, some 85% of the residents were, in fact, civil servants in accordance with the Government policy which caused difficulties for project implementation that will be discussed later (paras. 39, 40 and 41). This group, the audit mission found in discussions with BTN officials, most easily fulfilled the "regular monthly income" requirement to qualify for a low income mortgage thereby meeting the eligibility criterion agreed with the Bank (Schedule 6, para. B of the Loan Agreement).

29. The economic rate of return on the sites and services component was estimated at appraisal to be 17% using imputed rental values to measure the main benefits. The reevaluation showed the return to be 20% following significant increases in rental values which more than offset delays in implementation and increased costs. Because of the difficulty of obtaining reliable estimates of rental values in Jakarta where the market is very restricted, not too much should be read into a small change of the rate of return observed in spite of the theoretical soundness of the approach. For this reason, the PCR is correct in pointing out that the main return from the sites and services component of the project was in demonstrating the viability of the approach in the context of Indonesia, a demonstration effect that is discussed later in this report (para. 64).

### III. POINTS OF SPECIAL INTEREST

30. Because of the issues they raise or their relevance to future projects, attention is drawn to a series of eight points arising out of the experience of the first Jakarta Urban Development Project that are considered to be of special interest. Most of these points relate to the sites and services component, the innovative aspect of the project, and each one is dealt with in turn in the present chapter.

#### A. Bank's Approach to Planning and Housing Policies in Indonesia

31. As has already been mentioned, the project's timing in the early 1970's was very opportune as far as policy formation by both the Bank and the Government was concerned. Such a formative stage required, of course, major effort by both sides to understand the other's position with regard to the imperatives of policy for dealing with the urban sector in general and the urban development of Jakarta in particular. Discussions with various Government officials and Bank staff have convinced the audit that important policy differences existed at the time of appraisal, and that some still remain. Different approaches to urban planning may have contributed to shelving a crucial part of the project's technical assistance, while divergence over housing policy led to considerable delays in project execution as well as complicating the working relationship between Bank and Borrower.

32. On the planning side, differences arose regarding the replacement of the Jakarta Master Plan, which had been prepared with the help of the United Nations Development Program and adopted in 1967 and which remained as the legal document governing the physical development of the city. Cipta Karya recognized the need to develop a regional approach to the planning of Metropolitan Jakarta in line with the new approach to planning being developed in the early 1970's (para. 3). With enthusiastic Bank support, the project included technical assistance to help develop a plan for the Jabotabek region of Jakarta. (The name of the metropolitan region of Jakarta, "Jabotabek" is derived from an abbreviation of the names of the administrative

units of which it is made up, namely: Jakarta, Bekasi, Bogor and Tangerang, the latter three being the surrounding regencies in the Province of West Java.) This not only ensured that the Bank project would be more than a traditional housing project, but would also give it greater influence over the development of other sectors in the metropolitan region (SAR, para. 6.01).

33. In the event, no progress was made on the study under the project from which it was eventually deleted because of what the PCR describes as a "lack of initiative" on the Government's part (PCR, para. 3.25). Officials of Cipta Karya, on the other hand, informed the audit mission of what they interpreted as a lack of interest by the Bank in fulfilling this component. Technical assistance by the Dutch Government had in any case been provided for the study whose first reports appeared at the time of the Bank project's appraisal in spite of lack of reference to them in the SAR and PCR. In the light of conflicting reports about what happened and lack of clarity concerning the timing of events, the audit is in no position to determine responsibility for the hiatus in metropolitan planning in Jakarta. With better Bank coordination with other lenders and a better understanding between the Bank and the Government, the study might have been carried out expeditiously and not delayed until subsequent Bank projects. Fortunately, the principal physical components of the first project were unaffected by the lack of an up-to-date planning context since, by chance, they were consistent with all the plans for Jakarta at the time of appraisal and the Jabotabek strategy since developed. According to Bank staff, Jabotabek strategy formulation was not a prerequisite to the KIP and sites and services components of the project and that technical assistance was not provided because (a) the Government was not fully ready to undertake the study, (b) DKI continued to state that the 1967 Master Plan was valid and all development should conform to it and hence there was little point in developing alternatives which would be unacceptable to DKI, and (c) Cipta Karya then favored the satellite town concept of metropolitan development, a view which was held without regard to investigating alternatives and their costs or recognition of actual growth trends of the city. The technical assistance was provided under Indonesia Second Urban Project when Bank staff thought that both the Central Government and DKI were willing to take a more open view.

34. On the housing policy side, the Government's position was probably even less clear precisely at a time when the Bank was defining its own approach to the sector, a situation that would call for a process of mutual learning lest there be misunderstandings over what the respective policy positions were. In this context, it is worth noting that the Bank's Sector Policy Paper on Housing was not published until May 1975, some nine months after the SAR of the present project. In spite of the lack of explicit formulation, however, it is possible to deduce from the Government's own actions, some elements of policy potentially in conflict with the Bank's approach. These would include the following:

- (a) more emphasis by the Government on upgrading (i.e. kampung improvement) than on the provision of new units for low cost housing;
- (b) (as a corollary of (a) above) most low cost housing units to be provided by the private informal sector,

- (c) the limited amount of low cost housing by the public sector to meet relatively high design standards and to be supported by subsidies; and
- (d) civil servants to be the priority beneficiaries of this housing.

The Region totally disagrees with the audit's interpretation under items (a) and (b) regarding the Government's housing policy. It agrees with regard to items (c) and (d) but notes that policies have now changed. The Region also disagrees with the audit's interpretation as to the Bank's own policies.

35. With regard to each of these elements, it is now possible to observe that the Bank's policy has been or still is somewhat divergent. From interviews with Bank staff and the study of Bank documents, the audit concludes the Bank's approach to each one in Indonesia to be as follows:

- (a) increasing emphasis by the Bank on the provision of new low cost units through sites and services as the focus of housing policy for low incomes;
- (b) new low cost housing units to be provided by an expanded public sector;<sup>1/</sup>
- (c) emphasis on minimum standards for low cost public sector housing with no subsidies so that costs may be recoverable.<sup>2/</sup> and
- (d) beneficiaries of this housing to be the general public, and not specifically civil servants.

36. With regard to the first, the Bank was undoubtedly trying to innovate with the introduction of the sites and services component, an approach that had been by and large untried in Indonesia. A measure of the Bank's success in persuading the Government of the viability of the approach would be the importance of the component in the Fourth Urban Project (Loan 1972-IND of April 21, 1981) where lending for sites and services is about twice that of the KIP whereas in this first project, it was only about one quarter. According to Bank staff, the proportion of Bank finance for various components under the Bank urban projects reflects a number of considerations and not necessarily the relative proportions which the Bank thinks appropriate for the

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<sup>1/</sup> World Bank, Retrospective Review of Urban Operations, April 22, 1982, Report No. 3919, para. 2.05.

<sup>2/</sup> Operations Policy Staff notes that it views the public sector role in both KIP and sites and services as limited because the public sector only provided minimal infrastructure and in the case of sites and services only core housing.

Government's different urban programs. Furthermore, NUDC is now building its own sites and services schemes entirely outside Bank-financed projects. There has, therefore, been a major shift of Government housing policy which now includes sites and services as an important low income component of the public sector housing program.

37. A second area of policy divergence is over the roles of the public and private sectors in new housing provision. At the time of the first project appraisal, new housing in Indonesia was provided almost exclusively by the private sector (mostly informal). Even with the expansion of the public sector that has since taken place following the establishment of NUDC, it still accounts for only some 10% of all housing provision. Bank policy in general has been to shift the financial burden of housing provision from the public to the private sector.<sup>1/</sup> With such a policy, the Government's KIP must have seemed attractive since it relied on the provision of the initial housing unit by the private informal sector. In spite of the fact that the vast majority of housing in Indonesia continues to be supplied by the private sector, the Bank more recently appears to have given more emphasis to the public sector as the focus of its approach to housing in Indonesia.<sup>2/</sup> The reasons for this apparent change of policy is not clear to the audit, although Bank staff did argue that excessive densities of traditional self-help housing (i.e. in kampungs) created an inadequate urban environment which led, among other things, to health and social problems. Given that the relationship

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<sup>1/</sup> World Bank, Retrospective Review of Urban Operations, April 22, 1982, Report No. 3919, para. 2.05. The Bank staff emphasize that both KIP and sites and services stimulate investment in the private formal and informal sector. Both relate to infrastructure or land development. They, therefore, disagree with the audit that in the Indonesian context sites and services is a public sector housing project. In the view of the audit both programs were intended to support housing even though technically much of the project's finance for the sites and services component went to "infrastructure" and all of the project's finance in the case of KIP went to this purpose. These infrastructure expenditures were integrally intended to improve housing conditions and were located right next to the houses. Moreover, the sites and services infrastructure are investments which, under alternative land development patterns used elsewhere, are assumed by private land developers who may be required to do so in order to obtain governmental permission to execute their schemes.

<sup>2/</sup> World Bank, Indonesia: Financial Resources and Human Development in the Eighties, May 3, 1982, Report No. 3795-IND, paras. 6.89 and 6.90.

between high densities and community breakdown may not be established,<sup>1/</sup> and that even in sites and services schemes densities cannot be completely controlled, it is rather surprising that the Bank should adhere to an approach which, in the final analysis, would lead to the eventual replacement of kampungs by low income public schemes.<sup>2/</sup> Such an approach would not give due recognition to efforts and investment by the urban poor in providing their own housing and the effective community action in consolidating the kampungs which made possible the success that the KIP is widely recognized to be.

38. A third area of policy conflict was over the standards of the new housing units in the sites and services component. In insisting on higher design standards of the core house than those agreed at appraisal, the NUDC informed the audit mission that they were acting in accordance with instructions from the Junior Minister of Housing. NUDC officials indicated that the minimal standards approach did not adequately satisfy the political imperatives of new housing to be built by the public sector in Indonesia. For example, much importance is attached, as the audit mission was informed, to the prestige associated with the completion of public works to a high standard. Housing built by the informal sector apparently is not subject to this constraint. The process which eventually led to the Bank accepting the higher standards after a shift in its position is analyzed later in this report (paras. 56-59).

39. An area of policy conflict that still remains unresolved, however, is the fourth one connected with priority given to civil servants by the Government in public sector housing allocation, housing being a traditional benefit for public employees in lieu of money income in Indonesia. Discussions with Bank staff indicated that the Bank did not consider that the priority housing of civil servants was in accordance with the equity aims of its projects. The substance of these objections is not clear to the audit given that the income levels of the final allottees were very close to those of the target group at appraisal, as stated in the PCR (para. 5.06) and as confirmed by random inspection by the audit mission of listed incomes of recent allottees at Klender.

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<sup>1/</sup> See for example: Gans, Herbert Urban Vitality and the Fallacy of Physical Determinism, reprinted in: Gans, Herbert People and Plans, Penguin Books (Article first published in 1962).

<sup>2/</sup> NUDC officials informed the audit mission that with an average of nine occupants per lot (against the appraisal estimate of five), densities at the Klender sites and services scheme were almost twice those planned. This being the case, densities at Klender would be higher than in the average kampung.

40. The requirement of a regular monthly income laid down in the loan documents also made it highly likely that, regardless of any Government rules in terms of civil servants and military personnel, these categories would have a large representation among the allottees. This requirement can be more easily met by civil servants than other groups in Jakarta since they probably account for one half of all those who enjoy a regular income on a monthly basis that can be readily verified.<sup>1/</sup> It would therefore appear that civil servants would by random selection account for 50% of the lot allocations. With a better understanding of the workings of the labor market in Jakarta in which civil servants enjoy a preeminent position as far as income stability is concerned, the profusion of their applications for lots at Klender could have been foreseen at the time of appraisal.

41. Although the Bank remains opposed to the priority housing of civil servants in its projects in Indonesia, there are signs that the issue will become less critical in the near future as the demand for civil servants' housing is now closer to being satisfied. Nevertheless, the question is raised whether Bank policy could reasonably accommodate the Government's political imperative of providing housing for low paid civil servants and military personnel. Bank staff believe that it would be inappropriate for the Bank to support a Government housing policy geared primarily to civil servants and continue to be concerned by the fact that civil servants were given preference in the allocation of plots and continues to assert that such a policy would be unacceptable in Bank financed schemes. Operations Policy Staff observes that the requirements for "regular" or "fixed" income originated with the Government and that the Bank was always agreeable to go along with this requirement on a short term basis in order to get the project started even though there might thus be a bias in favor of Government and military personnel.

42. A number of other policy divergences remain, but some important issues were settled as a result of the implementation of the first project. It is only to have been expected that an exploratory project such as this one would bring out some initial differences of approach, but the slowness in resolving such matters was found to have caused project delays on the one hand and may have interfered with the success of subsequent Bank financed projects in the sector. The Bank is, of course, in the business of influencing policies and the project provided an excellent opportunity for innovation, but such advocacy of new approaches would be more effective if it did not proceed

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<sup>1/</sup> An I.L.O. sponsored study of Jakarta estimated that in 1967 there were 220,000 working in the public sector (20.8% of total employment) while 376,434 worked in registered commercial enterprises, of whom 61% are employees with regular income or 229,625 (21.7% of total employment). The remainder worked in the informal sector, were self-employed or unemployed. See: Sethuraman, S.V. op.cit. Tables 29 and 70.

on the assumption of a policy vacuum prior to Bank involvement. Such an assumption was particularly inappropriate in the case of Indonesia with the considerable and successful experience in kampung improvement since 1969, something that goes unrecognized by the PCR's premise that there were no specific measures to deal with growing urban problems under Repelita I (1969-74) (PCR, para. 1.01). According to Bank staff, the Bank did not proceed with this project on the assumption of a policy vacuum prior to the Bank's involvement and does not interpret para. 1.01 of the PCR to this effect. Operations Policy Staff observes that the Bank was aware of a number of policy statements within the Government and negotiated with the different groups within the Government and the project attempted to build up a more consistent approach to overcome inconsistencies in various groups' positions.

43. An "unresponsive political climate" was, according to the PCR (para. 3.24), responsible for the limited effect of technical assistance to NUDC on Government housing policies. The important question to ask is why, if there was a formal agreement to work towards the same goals, should such unresponsiveness exist? To answer this question, the Bank needed to have tested whether the Government's professed goals could, in fact, have been implemented and whether the Government could have overcome the constraints on its housing policy. If a project component requires changes which the Government cannot reasonably be expected to implement, the component is unlikely to be successful and is better excluded from the project.

#### B. KIP and Sites and Services Compared

44. An important technical aspect brought into relief by the Bank project was the distinct role of the KIP component on the one hand and that of the sites and services on the other with respect to the urban development of Jakarta. The two components were essentially complementary, although alternative policies can find expression in the different relative emphasis given to each one. Thus, more emphasis on the KIP would reflect a greater priority for the private informal sector, for example, while more emphasis on sites and services would imply a greater role for the public sector.

45. The KIP is an ex post improvement to the urban environment through the provision of infrastructure and community facilities after the basic housing unit has been built, usually by self-help effort within the private informal sector. The sites and services component represents, however, an ex ante approach to the provision of infrastructure (together with a start to the building of the housing unit in this case) in order to create a new planned urban environment. This difference is further brought out by understanding the KIP as an attempt to overcome a qualitative deficit (principally of inadequate services and access) in the existing housing stock, while sites and services are intended to supply new units in an attempt to overcome the quantitative housing deficit. In a number of cases, developing green field sites is less costly than redeveloping existing sites to achieve a given standard of housing and urban environment. Probably because of the previous experience of the KIP, its efficient execution and the significant cooperation

by the local community, KIP in Jakarta has proved to be less costly, albeit with lower standards than the sites and services component. For this reason, the KIP in Jakarta has been able to benefit more lower income families than the sites and services component has, as the project intended. The latter component was able to benefit low income groups (if not the lowest) through the application of lower design standards than any previously used in public sector housing in Indonesia. One final difference to note here is that the KIP operations upon an existing community structure which, if successful, disrupts as little as possible, while sites and services deliberately set out to create a new planned community. During its field visit, the audit mission gained the impression that a new viable community was in the process of establishing itself at Klender as the result of the sites and services component of the Bank's first project.

46. A comprehensive approach to low income housing would include both these complementary components in proportions to be decided by the priorities of housing policy in each case. The project demonstrated that sites and services were a viable approach to the provision of low income housing in the Jakarta context and confirmed the outstanding success of the KIP in improving existing areas that were predominantly low income. In the context of Indonesia, it must not be forgotten that the large majority of housing (some 90%) is still provided by the private sector. This would suggest that the scope for the KIP is much greater for the future than presently thought by both Government officials and Bank staff who consider that the Jakarta KIP is now almost complete, a point taken up in the following section. Bank staff do not now consider the KIP program to be complete in DKI. The audit had gathered a contrary impression partly from statements made to it and partly from the fact that the Bank had given active assistance to consider the future role of the KIP unit (see para. 48 of PPAM).

### C. The Future of the KIP Unit

47. As mentioned earlier (para. 16), the KIP unit in Jakarta and those in other large and medium sized cities have become permanent (see discussion on this point in para. 16) elements of local governments which have considerably increased the volume and pace of kampung improvement. Now that the demand for their kind of work has fallen back as more and more kampungs have been improved, the future role of these KIP units is a matter which deserves very early attention. Officials of the Jakarta KIP unit advised the audit mission that Government rules do not permit the termination of the contracts of the unit's staff and the Government agencies from which most of them were seconded have no vacancies to which they can return. That being the case, the establishment of the KIP unit may have provided the solution to a short term problem at the expense of creating a long term one. Thus, the issue becomes one not of simply when and how to dismantle the unit, but of defining its useful role for the future. According to Bank staff, the active capital expenditure period of KIP units is 8 - 12 years for medium and large cities and that a special (though not permanent) unit for that period was a good idea. In the case of Jakarta, the Region has recommended that the KIP unit (most of whose staff have assured positions in other government offices) should be continued to work on KIP and related activities.

48. The audit mission was further informed about the declining morale in the Jakarta KIP unit and concern over the uncertain future, with the current budget being only 50% of the previous fiscal year's and a rapidly declining volume of work. The matter has been discussed with several Bank supervision missions and the Bank did retain an independent consultant to study the problem. Although the consultant has issued his report and recommendations, the KIP unit had not been officially informed of the results of this work. The audit mission was also advised that the matter was under consideration by the Jakarta City Planning Board, but no decision had been made at the time of the audit mission's visit.

49. While there had been good reason to create a large and self-sufficient KIP unit for the expanded program, its terms of reference were quite specific, and it was clear that these would be fulfilled once the backlog of established kampungs in Jakarta had been improved. Nevertheless, with the 4.6% annual growth of the population of the city, and its rapid physical expansion as new kampungs are established on the periphery, the work of kampung improvement can theoretically never be completed so long as Jakarta's present rhythm of urban growth continues. Thus, there would always be plenty of work for the KIP unit provided its terms of reference were suitably widened to include assistance in the settlement and improvement of the newer, outer kampungs, and not just the improvement of the older, inner ones. Since it was inevitable, the present problem of defining a continuing useful role for the KIP unit could well have been foreseen and steps taken early on to redefine its function. This could be a matter worthy of being given proper attention by Bank staff when contemplating the creation of special implementation units for any project. According to Bank staff, the DKI KIP unit is now in a transitional stage moving from a period of accelerated investments to a steady period during which "new" kampungs and old peripheral kampungs will be attended to. The Bank and DKI accordingly are making efforts to effect changes in the future emphasis of the KIP unit and in its future staffing.

#### D. Mortgage Financing

50. There can be no doubt that the introduction of a mortgage financing system for the first time in Indonesia was a very important step towards formalizing the functioning of the housing market. The fact that this initiative was a direct result of the stimulus given the idea by the Bank project, make it count as probably one of the project's most notable achievements. The mortgage system is, for the most part, still only available in support of housing production in the public sector and a whole series of problems have yet to be overcome before the system is working effectively to its full capacity; but the mere fact that the problems are now being addressed is a tribute to the stimulus of the project.

51. What is ironic, however, is that in spite of the initial encouragement for the idea and its crucial importance to the success of the project's sites and services component, the project provided for no concrete support

towards establishing the system, preferring to rely on other bilateral sources of technical assistance to help in the adaptation of the State Savings Bank, Bank Tabungen Negara (BTN) into a fully fledged mortgage Bank.<sup>1/</sup> The BTN was charged by the Government with establishing and implementing a national mortgage system whose first awards were to be made to finance the settlers' purchase of the sites and services lots built at Klender. A mortgage operation, just to mention its inclusion of risk and security analysis, was totally different from the traditional savings function of the BTN. The audit mission was informed by officials of BTN and its advisors that previously the institution had had no experience with mortgages and no qualified staff, so that, as things stood at the time of project appraisal, the BTN was in no condition to undertake the key task assigned to it. These limitations should have been apparent at that time, and given the importance attached to the mortgage institution in the SAR (paras. 1.02 and 2.15), greater attention should have been given to its needs by the project. Although, according to Bank staff, the Bank's technical assistance together with the promised bilateral aid was deemed adequate at appraisal. What BTN officials and advisors informed the audit mission as being lack of Bank support in the development of the institution, was later confirmed by subsequent discussions with Bank staff who recognize the first project's inadequate treatment of this aspect. However, Bank staff believe that the constraint in the development of BTN under the project was not lack of assistance but lack of pace and willingness at BTN in introducing reforms. In retrospect, it appears that much closer attention should have been given in the project to supporting the adaptation of BTN. This inadequacy has now been overcome, although somewhat late, by the provision of significant technical assistance support under the Fourth Urban Project (Loan 1972-IND of April 21, 1981. Bank staff strongly is of the view, however, that full establishment of BTN was not crucial to the success of the sites and services scheme during the formative stages. The audit notes that while finance for the lot occupants was eventually substituted from other means when BTN was unable to provide it, the intention was that BTN was to have been the source for this finance.

52. At the time of the project's appraisal, technical assistance was being sought by BTN from the Commonwealth Housing Corporation Ltd. (U.K.). The single advisor produced, as the PCR notes, "several relevant reports" (PCR para. 6.08), and the audit mission was informed by BTN officials that he had made an important contribution. While the PCR attributes the lack of implementation of the advisor's recommendations to BTN's lack of authoritative

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<sup>1/</sup> At the time of the audit mission, legislation to establish the National Mortgage Bank under the General Act on "Hipotik Banks" was still pending. The National Mortgage Bank (NMB) as frequently referred to in Bank reports, has therefore, yet to be legally constituted. All the discussions here, therefore, refers to the original title, Bank Tabungen Negara (BTN).

management (PCR para. 6.09), the audit considers that this view hardly does justice to the sheer magnitude of the task confronting a totally unprepared institution making the most of a single technical advisor to introduce a radically new concept to both the housing and financial systems of Indonesia. With the much greater support that BTN now enjoys with technical assistance being provided by a Dutch mortgage institution under the Fourth Urban Project (Loan 1972-IND of April 21, 1981), it has only now become possible to implement some of the recommendations made six years previously. The audit recognizes the efforts made by BTN management against considerable odds to adapt the institution by training programs for its staff in Malaysia and visits by management to mortgage institutions in Europe. Early attempts were made to separate the mortgage and savings functions of BTN, but even such a basic step as this, which is necessary to perfect its mortgage operations, had yet to be taken at the time of the audit mission's visit.

53. One further complication for BTN in breaking this new ground is that, as a Bank, it is subject to regulation and control by the Central Bank of Indonesia and at the same time as a Government instrumentality it must attend to the social requirements of housing policy. Thus, for example, BTN has to lend to low income families who, by ordinary banking criteria, would not be able to provide sufficient security for such lending. Closer collaboration between BTN and NUDC might help to reconcile the conflicts between banking and housing criteria that might arise. Perhaps the NUDC could underwrite unacceptable banking risks for very low income families, or help organize cooperatives which, jointly, would provide adequate security. BTN also needs to examine with the Ministry of Finance the interest rates which are fixed at subsidized rates for low income families, with a view to their eventual increase. The Bank is rightly concerned lest the present low rates should effectively exclude BTN's obtaining funding from private sources and thereby limiting its program to amounts that can be accommodated by public sector finances, and has therefore urged an increase. The audit agrees that such a move, in conjunction with a revised pricing policy of the lots based upon cost, is necessary, since, as has already been mentioned (para. 27), the present subsidy does not seem to benefit the low income families anyway. According to Bank staff, the scheme provides for an internal cross subsidy whereby big open lots and commercial areas were priced at market levels (above development costs) and the savings from this were used to bring down the price of the smaller lots aimed at low income groups. The audit recognizes that this scheme does not involve a subsidy in the sense of an expenditure from the public treasury. However, in so far as the smaller lots are sold at less than market value and the interest charged is less than at market rates, the Government as developer is foregoing revenues which it might otherwise have had and is thereby operating the scheme with a subsidy element.

54. As has already been said, many difficulties have yet to be overcome before Indonesia has a smooth functioning mortgage system, but the associated problems now appear to be receiving close attention, albeit rather late. It is worth repeating that the simple fact that the problems are being addressed

is a tribute to the stimulus that the project gave to the idea. Unfortunately, that stimulus was not matched by concrete support under the project, but BTN has been remarkably resilient in making some progress with limited help until the arrival of more appropriate technical support financed by the Bank under the Fourth Urban Project (Loan 1972-IND of April 21, 1981).

#### E. The Establishment of NUDC (Perumnas)

55. Another institution that was established as a direct result of the first project was the National Urban Development Corporation (NUDC) charged with acquiring and developing urban land and whose first task was to implement the sites and services component of the project. Being a completely new institution, NUDC experienced early difficulties with staffing and defining its management procedures (PCR paras. 6.03 - 6.06). Thanks to an extensive program of technical assistance, such difficulties have for the most part been overcome, making NUDC the principal public sector agency for housing in Indonesia. During Repelita II (1974-1979), it built 73,000 housing units and is charged with building a further 120,000 during Repelita III (1979-84), half of which will be sites and services projects.

56. There is no doubt that NUDC acquired considerable experience during the execution of the project and the Bank staff's close attention to technical assistance for its institutional development contributed to its successful operations. Such technical assistance has not always been easily assimilated, however, when it has touched upon areas of policy difference between the Bank and the Government as already mentioned (paras. 36, 38 - 41). In spite of this, however, it appears to the audit that a satisfactory working relationship has been established and maintained between Bank staff and NUDC.

57. NUDC today is a well staffed institution which has for the first time developed public sector housing on a large scale in Indonesia and which deals with housing right from the planning to the implementation and estate management stages. Its impact upon the urban development of Indonesia is significant albeit limited to 10% of housing production in public sector. Within this limit, NUDC represents a considerable improvement on the ad hoc efforts that had previously characterized the public sector's intervention in the housing market in Indonesia.

#### F. Core House Design for Sites and Services

58. The purpose of this first housing project by the Bank in Indonesia was aimed at benefitting families with low incomes. To this end, the sites and services component included a minimum standard core house which would permit rapid occupancy of the developed lots, and which could subsequently be improved by the occupants as their income allowed (SAR para. 3.06). The standards of the core house were established accordingly (SAR Annex 4 paras. 43-46).

59. As noted in the PCR (para. 3.10) extensive delays were encountered in implementing the sites and services component. When the core house design was finally prepared and its costs estimated, it was found that, because of

price escalation, significant reductions in standards would be necessary in order to keep the cost within the appraisal estimate. A demonstration house built to the lower standards was deemed unsuitable by NUDC officials who felt it was structurally unsound and did not provide the basic shelter necessary for early occupancy which was a vital aspect of the scheme. NUDC then proposed a core house design of somewhat higher standards than had been agreed at loan negotiations (PCR para. 3.05). The Bank initially did not agree with the proposed change because of its concern that the higher cost of the core house would price the lots out of the range of the intended low income occupants. Protracted discussions ensued and the Bank eventually accepted the higher standard unit.

60. In the final reckoning, the cost increase (about 11%) was not sufficient by itself to distort the intended income levels of beneficiaries under the scheme and it seemed to the audit that the increase could have been estimated earlier in the discussion so that fear of excessive costs would have been eliminated. According to Bank staff, the cost increases had been estimated earlier but in any event the 11% increase in costs was not the issue but rather the need to convince the Government to provide less on the serviced lots and thereby leaving most of the housing construction to the private sector. However, in the view of the audit, the issue not the amount of increases as such but whether they were large enough to distort the impact on the income level of beneficiaries. The Bank had earlier held the view that the cost increases would be such that the impact on income levels would be large but this turned out not to be the case. What is not made clear in the PCR is that the debate on core house standards apparently did not hinge on the issue of costs but resulted from policy divergence between the Bank and the Government over who (civil services and military or the general public) should occupy the lots (see para. 39).

61. The lengthy and at times difficult discussions needed to agree on the core house design and the lot allocation criteria were aggravated by the inexperience with this type of project on the part of both the Bank and the Government, and the latter's seemingly arbitrary deviation from agreements reached at loan negotiations, on the one hand, and the Bank's somewhat rigid attitude towards change, on the other. As made clear in the PCR (para. 3.05), this experience pointed up the need for greater flexibility in the type of housing unit offered. While this lesson has been applied in subsequent sites and services projects, the conflicting positions of the Bank and the Government over the housing of civil servants have yet to be resolved.

62. Since it was found that the applicants in general had insufficient funds to make the necessary downpayment (para. 26), the requirement for downpayments might have militated against the equity objectives of the project. However, applicants were not immediately awarded a mortgage upon occupying the lot, but instead were chosen as potential tenants. Although BTN as mortgage bank was represented on the selection committee, its officials informed the audit mission that they had little influence upon the choice of applicants since the formal decision about the mortgage was effectively being shelved for two years. Nevertheless, after this period, the allottees were expected automatically to receive a loan from the BTN. In spite of BTN's

claim that creditworthiness was not being taken into account in the selection of applicants, default on mortgage repayment at Klender has only been 2%. This indicates the successful establishment of a repayment habit by mortgagees under the new system and is especially noteworthy when one considers that payments are being made "voluntary" (i.e. not being deducted at source) and that residents at Klender are generally low income, as it appeared to the audit mission. However, any conclusions as to affordability aspects of the scheme must be tempered by the consideration that interest rates are greatly below market levels and imply substantial Government subsidies contrary to the statement in the PCR (para. 7.04) about unsubsidized interest.

#### G. Demonstration Effects and Replicability of the Project Components

63. As indicated in the SAR (para. 2.07), the KIP was already well established in Jakarta at the time of this first Bank project and the program's technical and social success clearly indicated the suitability of implementing a similar approach in other urban areas of Indonesia. Thus, the Bank financed project did not need to illustrate the replicability of the KIP, nor was it intended to have a demonstration effect, but was rather aimed at supporting and expanding an existing program and the Bank made a significant contribution to the success of an expanded KIP through improved institutionalization and implementation arrangements. At the time of the audit, the KIP had been extended throughout Indonesia to some 200 other cities, some of which had received technical assistance from the Jakarta KIP unit. This successful program did, however, have a somewhat unexpected demonstration effect in that officials from a number of countries have visited Indonesia to study the KIP procedures and results with a view to adapting the concept as an approach to their own urban development and housing problems.

64. The sites and services component of the project was, on the other hand, intended to demonstrate a new approach to the provision of low income housing units in Indonesia (PCR para. 2.07). Inasmuch as this led to a significant shift in Government policy (see para. 36) to the extent that 50% of NUDC's housing is now supplied as sites and services, the demonstration effect of this component was important and successful. Sites and services are now being undertaken in Indonesia by both the public and private sectors. At the time of the audit mission, some 189 sites and services schemes had been or were being developed to provide about 140,000 low income housing units in some 50 cities. This expansion has been made possible through the continuing activities of NUDC (paras. 53-55) and of mortgage financing under BTN (paras. 48-52), both being activities which were established under the project. While sites and services have become established in Indonesia's housing industry, the role of this instrument of housing policy in relation to others available in Indonesia, such as a policy to guide and assist the development of new kampungs, remains to be fully explored and documented, particularly in terms of their relative efficiency in meeting cost and equity objectives, of their comparative dependence on below market interest rates and of their capacity to achieve desired social and spatial patterns of settlement.

65. In addition to demonstrating the soundness of the sites and services approach and the necessary institutional developments, the project served to highlight the needs for better planning and design (PCR paras. 3.06, 3.07, 3.10 and 4.15) and more flexibility in the standards adopted for the core house (PCR paras. 3.05 and 9.05).



INDONESIA

PROJECT COMPLETION REPORT

JAKARTA URBAN DEVELOPMENT PROJECT

June 10, 1981

Urban and Water Supply Division  
Projects Department  
East Asia and Pacific Regional Office



## I. INTRODUCTION

### A. Sectoral Context and Bank's Role

1.01 Indonesia has a population of approximately 135 million (1976 estimates) of which about 24 million (or 18% of population) live in urban areas. The rapid urbanization which started in the 1960s and increased at an annual rate of about 3.7% in the early 1970s had led to a growing concern among the government officials with regard to the increased demands for shelter and related urban services. In particular, Jakarta, the nation's capital, and the largest city in the nation with a population of about 6 million and an annual growth rate of 4.5%, was faced with problems related to serious housing shortages and a grossly inadequate infrastructure. These problems were rampant in the low income, highly congested kampungs (urban neighborhoods) of the city. Even though the country's First Five Year Development Plan (Repelita I, 1969-74) failed to provide any specific measures to deal with the emerging urban problems, the Second Five Year Development Plan (Repelita II; 1974-79) addressed the problem and directed some efforts to solve some of institutional problems. Early Bank missions during 1971-72 in conjunction with the Resident Bank staff in Jakarta (RSI) discussed extensively with Government the implications of rapid urban growth and the institutions needed to deal with it. It was in this light and as a first pilot-effort that the Jakarta Urban Development Project, discussed in this report, was formulated in 1973. This project also represented the Bank's first major involvement in the urban sector in any country and provided an opportunity for the Bank to test its evolving concepts in low-cost, urban shelter.

1.02 Before the Jakarta Urban Development Project, the Bank and IDA had made 38 loans to Indonesia totaling approximately US\$609.8 million (as of July 31, 1974), but none in the urban sector. This project was the first urban project prepared by the then Special Projects Department of the Bank. The project was envisaged to be the first of several phases of selected urban investments needed to deal with the urban services and shelter-related problems of the low- and middle-income households in Jakarta and subsequently in other urban centers. The Jakarta Urban Development Project (Loan No. 1040-IND; 1974) was to be later succeeded by a second (Loan No. 1336-IND; 1976), third (Loan No. 1653-IND; 1979) and fourth (Loan No. 1972-IND; 1981) urban projects which have expanded the shelter approach on a nationwide basis to other cities. Bank's lending to date in the shelter-related urban sector has totalled \$168 million.

## B. Specific Conditions of the Project

1.03 Even though early Bank missions considered including in the first urban project other major urban centers that warranted immediate attention, lack of adequate institutional support or early feasibility studies precluded the selection of cities except Jakarta. (These cities were to be later covered in the follow-up urban projects.) Given the fact that about 24% of the nation's urban population was concentrated in Jakarta alone, and given the alarming magnitude of the urban problem in the city in terms of its severe deficiencies in housing /1 and infrastructure, /2 the selection of Jakarta over other major cities for the first project was indeed justifiable. The first project was also to provide a nationwide demonstrative support to its dual goals of providing new shelter through a financially replicable low cost housing program (sites and services approach) targeted mainly to the low- and middle-income households (between 15th and 50th percentile), and improving existing shelter conditions through the upgrading of infrastructure and social facilities on citywide priority basis. Feasibility studies were to be commissioned under the project to determine urban investments in other urban centers.

1.04 On the financial side, Jakarta's urban problems were exacerbated by a lack of revenue to finance urban improvements, which was partially a result of the poorly structured and use of the property tax (IPEDA). This tax was levied at a very low rate based on an index system, and provided only 4% of city revenues (FY71). Rather, it should have relied on the market value which could have provided 25-50% revenue that major cities in other countries obtain from similar taxation measures. The deficiencies of Jakarta's property tax system -- in conjunction with a low levels of tax collection -- was mirrored in other Indonesian urban cities as well, though to a lesser degree. At the national level, the absence of urban management institutions particularly, a land/housing development institution, and a housing mortgage institution further led to serious shelter-related problems.

1.05 The subject project was formulated to specifically address the problems outlined above. Titled Jakarta Urban Development Project (also referred to herein as the first urban project), it had a total project cost of about \$52.0 million of which \$25.0 million represented the loan amount

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/1 It was estimated in 1972 that about 50,000 units per year would be needed to meet the housing demands of the low-income households. Fifty percent of this was to be provided by the public sector.

/2 A 1964 Jakarta kampung survey estimated that about 68% of houses had no private toilet facilities, 60% had no access to piped water, and 80% had no electricity. It was also estimated that the kampungs encompassed more than 65% of the city's urbanized area and contained 80% of the total population.

(Loan 1040-IND). The Bank loan was to finance all foreign (direct and indirect) costs and some 37% of local currency costs. The loan was negotiated in 1974 and became effective on January 15, 1975. Originally envisaged for a two-and-half to three-year implementation period, the project was executed under the overall supervision of the newly established National Urban Development Corporation. Location of project components is indicated in Map 10728R2 (PCR).

### C. Principal Report Sources

1.06 A list of the principal document sources on which this completion report was based is presented in Annex 1. Discussions were also held with some of the members of the early missions (see Annex 1) in preparing this report.

## II. PROJECT IDENTIFICATION, PREPARATION AND APPRAISAL

### A. Origin

2.01 Bank's initial dialogue with the Indonesian Government on the national urban issues began in early 1971 with the active participation of the National Planning Board (BAPPENAS), the Ministry of Public Works (CIPTA KARYA) and the Office of the Governor of the Jakarta Region (DKI). At the invitation of the government, key identification missions were undertaken in May and in November 1971. These missions highlighted the need for formulating an immediate urban action program for Jakarta in conjunction with the development of a national urban planning and housing policy aimed to primarily benefit the low-income households. A project feasibility study was financed under IDA Technical Assistance Credit and was carried out by Planned Community Development, Ltd. (PCD) - a USA firm, selected by the government - for a 15-month period commencing in January 1972. The study reports were used as basis to formulate the project scope.

### B. Preparation, Appraisal, Negotiation and Approval

2.02 Preparation efforts for the project mainly centered on defining the scope of the program and the institutional framework involved. The PCD consultants' study recommendations, made available in early 1973, endorsed the Bank's shelter approach to the housing problems in Jakarta. Based on these recommendations and in consultation with the government, the Bank missions prepared a two-year urban investment program commencing April 1, 1974. There were however initial differences between the government and the Bank with regard to the adoption of minimum infrastructure standards for the KIP program and the "partial" core shelter designs for the sites and services program that were central to the Bank's low-cost approach to

housing. With some reservation, the Government finally accepted the Bank-recommended standards. Government's skepticism on the core housing standards however prevailed throughout the implementation phase.

2.03 At the time of the formulation of the project, parallel studies were being undertaken in planning some of the sectoral investments in the city. A Japanese group was planning the city water supply system, a German team was studying the transportation system and Dutch experts were preparing long-term programs for flood control. An effective liaison was maintained with these bilateral institutions to seek coordinated efforts in the development planning of Jakarta. Even though the need for immediate investments in the associated sectors was clearly recognized by the Bank missions, it was felt that the study recommendations in these sectors would not be ready for the schedule of the first project. Being the first project of its kind to be supported by the Bank, it was also decided to keep the institutional arrangements for the project simple. It was expected that selected investments could be supported by bilateral donors (the Dutch aid for drainage, for example), although most of these commitments failed to materialize in the later years. At the insistence of DKI, a marketing component for fresh fruits and vegetables was added to the project in its earlier phase, but it was later dropped from the project scope due to inadequate preparation of the component.

2.04 Because of DKI's prior involvement in the KIP program under Repelita I, preparation of this component proceeded satisfactorily with a major focus given to the comprehensive approach of the project and its accelerated pace of implementation. In contrast, the sites and services component was proposed as a demonstrative shelter project and thus the scope of the component was kept relatively small. The component was initially designed to provide about 25,000 serviced lots /1 in three sites Cengkareng, Klender and Depok. The site at Klender in the east part of Jakarta, with a potential for about 7,800 lots, was eventually selected because of its relatively low-price, minimal flooding problems and its close proximity to the Bank-financed industrial estate of Pulo Gadung which had a potential for about 15,000 jobs. The other two sites were later developed for low-cost, but heavily subsidized housing, with Government's own funds.

2.05 During the pre-appraisal phase, Bank mission intensified efforts to secure government agreement on the management and institutional aspects of the project, especially the formalization of a full-fledged KIP unit for Jakarta, and the establishment of NUDC and the National Mortgage Bank (NMB). In all, it took approximately 26 months from the identification phase to the appraisal (July '74) and 12 months from appraisal to negotiations.

2.06 Since the project was also intended to be a vehicle for institutional, financial and managerial improvements in the urban sector, it was deemed desirable to incorporate related covenants in the loan agreement.

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/1 Originally conceived as a 3-year project, this component was to serve the estimated one-year minimum housing needs for the low-income households of Jakarta.

The major loan covenants related to the property tax (IPEDA) improvement measures for Jakarta, low-cost design standards, and beneficiaries' selection criteria for the sites and services lots as well as an affordable housing mortgage scheme. These covenants were discussed with the Government in sufficient detail prior to negotiations and were agreed to by the Government without major reservations. Board approval of the loan was accorded in September 1974.

### C. Project Targets and Objectives

2.07 The primary objectives of the project were as follows:

- (a) demonstrate a sound approach to the housing problems of low-income households based on the concepts of financial viability, replicability, and affordability by the beneficiaries;
- (b) lend support to an expanded kampung improvement program in Jakarta to deal with infrastructure deficiencies of low income neighborhoods;
- (c) provide for the establishment of a national urban development agency (NUDC) in conjunction with a home mortgage financing institution (NMB);<sup>/1</sup> and to foster their growth through the development of the organization, staffing and appropriate policy measures; and
- (d) develop a regional strategy for the physical and economic growth of the greater Jakarta area.

2.08 The major fiscal objective of the project was the improvement of the municipal revenues for Jakarta - through increased property tax (IPEDA) assessments and improved collection measures - which could then be cycled for additional development efforts.

2.09 The project had the following specific targets for Jakarta:

- (a) to improve living conditions through improved access to basic infrastructural needs for nearly 20% of Jakarta's population or about 900,000 people living in the low-income and congested kampungs prioritized and selected on a citywide basis; and
- (b) to provide plots and core houses for about 40,000 people in the sites and services scheme to be built on a 130 ha area comprising about 7,900 lots; families with incomes ranging between the 20th (for the smaller 80 sq m lots which would constitute about 70% of the total lots) and the 50th percentile

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<sup>/1</sup> NMB was to be established by restructuring the existing Bank Tabungan Negara (BTN).

(for the larger 140 sq m lots) on the income distribution curve were the targetted beneficiaries of the scheme.

#### D. Project Description

2.10 Following are the principal components of the project with a total cost of \$51.0 million at appraisal.

- (a) Kampung Improvement Program (\$35.8 million; DKI-Implementing Agency). Consists of physical infrastructural improvements in about 1,980 ha of densely populated kampungs; components include roads, footpaths, drains, public water taps, communal toilets, garbage collection and community facilities including 98 primary schools and 42 health facilities (puskesmas).
- (b) Sites and Services Program (\$12.1 million; NUDC-Implementing Agency).<sup>/1</sup> Includes the following: (i) the provision of about 7,900 lots on a 130 ha site at Klender, 5 km east of Jakarta; the construction of a minimum-standard core shelter unit of 20 sq m size on the 80 sq m and 140 sq m lots; and the provision of community facilities; and (ii) sale of the lots to eligible low income settlers and the extension of loans to settlers purchasing a 80 sq m, or 140 sq m lot, on suitable terms and secured by mortgage, to finance the purchase of the lots by the settlers.
- (c) Technical Assistance (\$3.1 million):  
Includes advisory services to: (i) NUDC for management assistance, project execution and evaluation, and preparation of feasibility studies of urban development projects in selected cities and (ii) Cipta Karya for the preparation of an overall development plan for the Jakarta region.

2.11 The Bank loan did not provide for financing of the technical assistance for the establishment of NMB, since the Government had hoped to get bilateral funds from USAID. This funding, however, did not become available during the implementation phase and, hence, at Government's request, a small amount of the Bank loan for about 30 man-months of consultants' services was later diverted to assist in the establishment of NMB.

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<sup>/1</sup> As originally envisaged by the Bank, the execution of this component was to be delegated by NUDC to a DKI-owned real estate development corporation, called PTB which would then be supervised by NUDC. But because of serious staffing and institutional problems at PTB, the implementation of the sites and services component became the direct responsibility of NUDC from the very early stage. Since PTB ceased to participate in the project implementation stage, no further reference to its project involvement will be made in this report.

### III. IMPLEMENTATION

#### A. Loan Effectiveness and Project Start-up

3.01 The effectiveness of the Loan was contingent upon the fulfillment by the Government of the following requirements, namely, the appointment of a managing director and a project director at NUDC, the execution of the subsidiary loan agreements between the Government, DKI and NUDC, and the presentation of evidence of NUDC holding title to the Klender site, free from encumbrances. With some initial difficulties, the above three conditions were met by the Government and the loan became effective by the original deadline of January 15, 1975. As it later turned out, even though NUDC claimed legal title to the Klender project site, there were small land parcels at the site for which the legal acquisition could not be completed until late 1979.<sup>/1</sup> This situation did not, however, cause any significant start-up delays in the project implementation, but was responsible for the inordinate project completion delays and consequent cost escalations.

3.02 The KIP program started very smoothly with the DKI implementation unit already established and staffed adequately by the loan negotiation date. Because of the anticipated delays in the formation of NUDC and its formal establishment, the administrative responsibility of the sites and services scheme was temporarily vested in a special project unit under the Director General of Cipta Karya which was to be transferred to NUDC when the latter became operational. Initial delays were experienced in the appointment of the crucial project management consultants for the KIP program and the engineering design consultants for the Klender scheme.

#### B. Revisions in Project Scope and Implementation

3.03 A comparison of the project scope at appraisal and at project completion stage is presented in Table III-1.

3.04 The KIP component of the project was mostly executed in its original scope except for a minor expansion of the upgrading area from the originally planned 1,980 ha to about 2,080 ha, made possible from the cost

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<sup>/1</sup> This situation mostly resulted from the Government's slow compensation payment procedures to the claimants who were residents at the site.

Table III-1: A COMPARISON OF ACTUAL AND APPRAISAL PROJECT SCOPE FOR PHYSICAL COMPONENTS

Components	Unit	Appraisal target	Actual execution
1. Kampung Improvement Program			
Infrastructure	ha	1,980	2,080
Primary schools	no	98	82
Health clinics (Puskesmas)	no	42	33
2. Klender Sites and Services			
Total lots	no	7,930	7,507
80 sq m lots (20 sq m core)	no	5,590	5,827
140 sq m lots (20 sq m core)	no	1,900	1,045
200 sq m lots (open)	no	440	445
70 sq m lots (15 sq m core) <u>/a</u>	no	-	190
Major Community Facilities			
School (primary/secondary/high)		9	11
Health clinics (Puskesmas)		1	1
Community centers		3	5
Fire station/post office		1	1
3. Vehicles			
Garbage trucks	no	7	12
Vacuum trucks	no	3	8

/a Creation of these small size lots (with "subcore" units) was caused by the later inclusion in the site of scattered small land parcels for which land acquisition was delayed in the earlier years due to legal problems.

savings for the first year (1974-75) KIP program. By project completion (April 1977), there was, however, an overall shortfall of 16 schools (out of 98 planned) and 9 health facilities (out of 42 planned) caused by acute land acquisition problems. Some of these shortfalls had been made up by other construction programs such as the Central Government-funded INPRES program and DKI's own development programs.

3.05 Changes in the sites and services scheme were initiated by the government by substituting the minimum-standard expandable core unit on 80 sq m and 140 sq m lots with a more complete version, built from relatively more expensive building components such as Bataco blocks (instead

of bricks), steel frame (instead of timber), mortar floor (instead of stabilized mud floor), and corrugated asbestos roof (instead of clay tiles on rafters without truss). The above revisions led to an increase (about 14%) in the original cost of the core unit and thus seemed to affect the affordability level of the targeted low income households. This was viewed by the Bank as a major departure from the Government's previously agreed low cost shelter approach. It also cast doubts in the Bank's mind on Government's commitment to adopting an "unsubsidized" low-cost housing policy. After an extensive dialogue with the Government, the Bank subsequently accepted the Government's position on the grounds that the Klender scheme, despite the provision of the modified core units, still represented a low-cost housing solution in comparison to the Government's traditional and heavily subsidized low-cost housing schemes. It was not, however, until the later consolidation phase, that the Government as well as the Bank were to be convinced that a combination of onplot options comprising both completed and open type core units - in the place of a single core option - perhaps would have provided a better solution, more appropriate to the occupiers' ultimate intentions. The above lesson will be applied to ongoing sites and services schemes being financed under the fourth urban project.

3.06 In retrospect, most of the infrastructure changes implemented by NUDC at Klender involving the rehabilitation of the main roads and drains - which had been earlier built to a lower standard and had been subsequently damaged by intense construction activities after occupancy were justified as was the inclusion of security street lighting, which was not a part of the original project scope. An on-site water supply scheme involving deep wells and pumps had to be resorted to during the later phase of implementation when it became evident that the off-site, city water supply connection could not provide adequate quantity of water to the residents. It should be mentioned, however, that most of the infrastructure revisions could not have been foreseen at the design stage.

3.07 At the completion of the Klender scheme, about 7,500 lots were available as against the original estimate of 7,900 lots. This reduction is mostly attributable to the use of inaccurate site survey data available for the appraisal estimates, together with a less efficient site planning resulting from a switch in location of about 20 ha between the area allotted for the Bank project and another NUDC housing scheme which were located within the same project area. The gradual inclusion of small land parcels at the site also contributed to an inefficient site planning which resulted in fewer lots than was originally envisaged. In light of the foregoing, the resulting net target shortfall of 400 lots (5% of the total) would not be considered high.

3.08 Revisions in the Klender scheme resulting from the Government's lot allocation policy which was geared to serve a predominantly civil

service and military personnel, the initial rental arrangements for the units and the subsequent mortgage lending terms for lot purchase are discussed in Chapter V.

### C. Implementation Schedule

3.09 Construction Schedule. As mentioned earlier, the KIP program was executed on time except for the construction of schools and health clinics that were delayed due to land acquisition problems.

3.10 The Klender site and service component was beset with implementation problems. Unlike the KIP, the sites and services housing was a relatively new approach for both the Government and the Bank. Construction of the component began in November 1976, approximately 18 months behind schedule as a result of delays in the appointment of the design consultants and the frequent site-layout revisions that were necessary due to the consultants' lack of experience with planning and design of a low cost housing scheme such as Klender. Subsequent additional design revisions involving core house modifications and infrastructure works contributed to further construction delays. Even though a substantial part of the scheme was completed by December 1978, there were still acquisition delays for small land parcels at the site. This problem was eventually resolved in March 1980 and construction for the additional lots began in May 1980. By the end of September 1980, the number of lots generated at the Klender site totalled about 7,500 which represented a net target shortfall of about 400 units.

3.11 Consultants' Appointment Schedule. Considerable delays were experienced in the selection and appointment of consultants to provide advisory services to NUDC for project management and execution and for institution building and preparation of urban feasibility studies. These delays that averaged 12 to 18 months in most cases were obviously underestimated by the mission during project appraisal. NUDC's lack of prior experience with consultants' selection coupled with the Government's cumbersome appointment procedures were the major factors contributing to the above delays and required the Bank's constant attention throughout the consultants' selection process. The effect of the delays was most pronounced in the startup of the sites and services scheme (about 18 months behind schedule) and in the preparation of the urban feasibility studies (about 15 months behind schedule). In fact, the results of the feasibility studies were not in time to be considered for inclusion under the second urban project (appraised in June 1976) as was originally intended. These studies were to be later used in the formulation of the third urban project.

D. Procurement

3.12 Civil Works. During appraisal, Bank agreed that the KIP civil works would be executed by local competitive bidding (LCB) procedures. Given the size, nature and the relatively short duration (4 to 6 months on the average) of the KIP contracts, together with the need for the contractors to work in dense kampungs and in close coordination with local residents, Bank's approval for LCB procedures including the simplified prequalification requirements proved to be well justified. In all, about 325 contracts, totaling US\$35 million, were executed under KIP. It is worth noting that a substantial number of the KIP contracts were in the small to medium range (US\$10,000 to US\$100,000 per contract) which helped to foster the growth of the local small- and medium-scale contracting industry in the area (see Annex 3).

3.13 The high level of efficiency in executing KIP is attributable to sound administrative management of the KIP unit as well as an efficient packaging of the contracts.<sup>/1</sup> Because most procurement decisions were left to the KIP agency, except for large contracts in excess of \$250,000 for which a bid evaluation report was to be sent to the Bank for post review, contract awards could be executed in an expedient manner. Given the large number of KIP contracts, the above procedure proved highly satisfactory and has been adopted as a time-saving measure in the KIP civil works procurement of the second, third and fourth urban projects. Except in the case of civil works involving land acquisition - affecting schools, health clinics and public toilet/washing (MCK) facilities - no significant delays were experienced in the execution of other works under the first project. In general, bid price closely corresponded to the appraisal projections, and the quality of the executed works were very satisfactory.

3.14 Civil works for the sites and services scheme were tendered concurrently in four packages in accordance with the agreed Bank's guidelines for International Competitive Bidding (ICB) calling for a 7.5% margin of preference for local contractors. Of 60 prequalified contractors - including five foreign firms - 39 submitted bids, all local firms. Six lowest bids were evaluated in detail and PT Porta Negra was the lowest evaluated bidder for all four packages totaling US\$4.5 million. Subsequent amendments to core house design and earthworks in the PT Porta Negra contract, amounting to US\$1.8 million, were directly negotiated as were the contracts for certain specialist works (such as the provision of on-site

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<sup>/1</sup> In general, the infrastructural works for each kampung were tendered as one package, with the schools and health facilities being tendered in separate bids.

deep wells, pumps and street lighting) amounting to \$0.9 million and for rehabilitation works (for damaged roads and drainage) amounting to \$1.0 million. In general, the negotiated contracts met with the Bank's approval.

3.15 The NUDC experience clearly indicated that, despite the relatively large size civil work contracts involved, ICB procedures could not attract foreign firms to bid. This is apparently due to the nature of the site and services civil works which is relatively simple to execute is complicated by land acquisition problems, involves the use of local materials and labor to a substantial degree, and provides a tough competition to the foreign firms from a relatively well-established local contracting industry. This aspect has been given considerable attention in assessing the ICB requirements for civil works construction contracts in the later urban projects. Under the fourth urban project, for example, the Bank has agreed that procurement of all sites and services construction contracts would follow local procedures.

#### Consulting Services

3.16 In all, about 509 man-months of consulting services amounting to US\$2.9 million were provided under the projects, with the following breakdown:

Category	Man-months			Total
	Appraisal	Foreign	Local	
Project design and management	120	73	29	102
Management assistance to NUDC	144	160	-	160
Management assistance to NMB	-	30	-	30
Urban feasibility studies	96	115	102	217
Jakarta Metropolitan planning study	120	0	0	0

Attention was paid to ensure participation of local consultants (about 131 man-months) in these contracts to the maximum extent possible.

3.17 Total Costs. A comparison of appraisal and actual costs for the major project components is presented in Table III-2. The actual costs for most project components closely paralleled the appraisal estimates. Land acquisition delays, together with core house modifications and infrastructure revisions, led to a 20% increase in the original cost of the sites and services scheme. It is also worth noting that the 67% increase in the land cost alone - attributable to delays in land acquisition underscores the need in the future projects for NUDC to have full legal possession of the land prior to the start of the construction phase.

Table III-2: A COMPARISON OF ACTUAL AND APPRAISAL ESTIMATES OF PROJECT COSTS

Category	Actual cost			Appraisal cost			Actual cost expressed as % of appraisal costs	
	Local costs Rp million	Foreign costs \$ million	Total equivalent \$ million /a	Local costs Rp million	Foreign costs \$ million	Total /a \$ million	% Local costs	% Total US\$ equivalent
1. Kampung Improvement Program								
Infrastructure/h	12,562/b	-	30.27	11,771	-	28.36		
Community Facilities	1,807/c	-	4.36	3,025	-	7.29		
Topographic Surveys	149	-	0.36	75	-	0.18		
Subtotal	14,518	-	34.99	14,871	-	35.83	98	98
2. Klender Sites and Services								
Land	2,066/d		4.98	1,235	-	2.98		
Site preparation	39		0.09	49	-	0.12		
Infrastructure	1,836/e		4.42	1,534	-	3.70		
Core Units	1,577/f		3.80	1,387	-	3.34		
Community Facilities and Kiosks	150/g		0.36	457	-	1.10		
Design/Supervision	170		0.41	217	-	0.52		
Subtotal	5,838		14.06	4,884	-	11.76	120	120
3. Vehicles								
Garbage and Vacuum Trucks	-	0.32	0.32	-	0.34	0.34	106	106
4. Technical Assistance								
Project Management, Management assistance to NUDC, and NMB, Urban Feasibility Studies and Jabotabek Study	180	2.46	2.90	173	2.68	3.10	104	94
Total Project/i	20,536	2.78	52.27	19,928	3.02	51.03	103	102

/a Based on an exchange rate of \$1 = 415 both for appraisal and actual costs. (Since a substantial portion of project expenditure was incurred prior to the Rupiah devaluation date - November 15, 1975 - the pre-devaluation exchange rate is used in calculations).

/b Higher costs due to increase in infrastructural coverage by 100 ha.

/c Involves a reduced provision of schools and health facilities.

/d Higher cost due to land acquisition delays.

/e Higher cost due to infrastructural revisions involving drainage and road rehabilitation, provision of deep wells and pumps and street lighting.

/f Higher price due to increased standard of construction.

/g Involves reduced provision of schools.

/h Percent cost breakdown for major components are as follows: Main roads and drainage - 40 to 60%; footpaths - 20 to 30%; water supply - 12 to 15%; link drains - 10 to 15%; and sanitation - 1 to 4%.

/i Overall price contingency provisions are as follows: (based on contract analysis).

Year	Appraisal		Actual	
	Local	Foreign	Local	Foreign
1974	15%	10%	14%	8%
1975	15%	10%	16%	9%
1976	15%	10%	16%	9%
1977	15%	10%	17%	9%
1978	n.a.	n.a.	21%	8%
1979	n.a.	n.a.	19%	9%

3.18 Overall contingency provisions in the project were satisfactory. Price contingencies during the implementation period compared with the appraisal estimates as indicated at the bottom of Table III-2. Although a major 50% rupiah devaluation occurred in November 1978, it had no significant impact on the project cost due to the fact that a substantial portion of the project expenditures - in excess of 90% - had been incurred prior to that date.

3.19 Unit Costs. Observed per capita and per hectare unit costs for the KIP component correspond closely to the appraisal projections as follows:

	Per capita cost		Per hectare cost	
	Rp	\$	Rp million	\$
Actual	15,365	37	6.9	16,645
Appraisal	16,625	40	7.5	18,005

3.20 Unit cost data for land, site development and total development cost for the site and services scheme are compared in the following table for the actual and appraisal conditions:

	Land per sq m (net)		Infrastructure <sup>/a</sup> development per sq m (net)		Total develop- ment cost per sq m (net)	
	Rp	\$	Rp	\$	Rp	\$
Actual	2,450	5.9	2,610	6.3	5,060	12.2
Appraisal	1,470	3.5	1,735	4.2	3,205	7.7

<sup>/a</sup> Including community facilities and design costs that are to be recovered from beneficiaries (but excluding interest during construction).

It is noted from the above table that the actual total development cost chargeable to the beneficiaries was about 50% higher than the appraisal cost. The impact of this on the final sale price of the lots and on the affordability of the target groups is discussed in Chapter V.

3.21 Financing. The close correspondence between the actual fund flows and the appraisal projections of project financing is shown in the Table

in Annex 4. As expected, a substantial portion of the project costs represented local currency expenditures 43% of which was financed by the Bank. Requisite budgetary fund flows from DKI and GOI for project financing did not pose any major problem and were generally consistent with appraisal estimates.

3.22 Disbursement. Actual disbursement of the loan lagged behind appraisal expectations by a margin of about 40 to 60% during the early implementation period (see table and figure in Annex 5). This situation, however, improved in the later years of implementation when increasing progress was achieved in the construction of the sites and services scheme. It is noted from the annex Table that by the original loan closing date of December 31, 1977, only about 74% of the total loan amount was disbursed. At the request of the Indonesian government, the Bank thrice revised the original loan closing date to a final date of December 31, 1980 to accommodate the delayed execution of the sites and services scheme. At the time of loan closing, the undisbursed amount of about \$0.84 million was cancelled.

3.23 In retrospect, it appears that the Bank appraisal projections for loan disbursement - particularly during the earlier stages of the implementation period - failed to fully recognize the start-up delays. The appraisal implementation schedule for the sites and services scheme was also overly optimistic. It should, however, be noted that Government's procedural requirements on documentation, certification and processing of the reimbursement application forms were too time-consuming and contributed further to the loan disbursement delays. On the average, it took about 3 to 6 months of processing time for each reimbursement application form to be routed through the concerned agencies - DKI, Cipta Karya, NUDC and Ministry of Finance - before its final dispatch to Washington. Even though the processing delays have been minimized at Cipta Karya in the recent years, government's bureaucratic procedures still prove to be a major hurdle to the timely disbursement of the current urban loans.

#### Performance of Consultants, Contractors, Suppliers and Borrower

3.24 Consultants. KIP project management contract was executed efficiently by an expatriate firm (UK). Because the sites and services project represented a relatively new concept of low cost housing in Indonesia, the engineering consultants (Indonesian) for this component encountered initial problems with regard to the design of the scheme incorporating the minimum standards. Delays in the design also emanated from the government's disagreements with the consultants on the application of standards. Overall, however, it was a useful "on-the-job" experience for the local consultants. Further delays were experienced during implementation because construction supervision was handled by a different consulting firm (USA), whose main responsibility was to provide management advisory services to NUDC. In retrospect, some delays could have been avoided if the same consultants were used both for design and construction supervision phases. While the participation of the expatriate firm added impetus to NUDC's improved management skills and project formulation,

it did not significantly effect on the housing policy side due to an unresponsive political climate. Similarly, advisory services to NMB, provided by another expatriate firm (UK) failed to yield fruitful results due to a lack of direction from the Government with regard to NMB's basic policies.

3.25 Urban Feasibility Studies. Because of the delayed start of their contracts, the feasibility studies conducted by the respective expatriate firms--an Australian firm for the cities of Semarang and Surakarta, and a Malaysian firm for the cities of Ujung Pandang and Surabaya -- did not become available in a timely fashion to be considered for the second urban project. Even though the technical conduct of the above consultant's studies was satisfactory, these firms failed to adequately liase with the local governments in the early stages of project formulation. This warranted additional liason efforts from the Bank missions during the preparation of the third urban project. An expatriate firm from Denmark performed the KIP and sites and services feasibility studies for Botobek area (Bekasi, Tangerang and Bekasi). The performance of this study was satisfactory. Because of a lack of initiative on the Government's part as well as a lack of coordination among the various agencies involved, the "Jabotabek" study, aimed at investigating the Jakarta metropolitan growth and investment strategy, was deleted from the project scope but was later financed under the second urban project. The findings of this study, completed in March 1981 are currently under review by the various government agencies.

3.26 Contractors. Performance of the KIP works contractors (local) was satisfactory. The Klender project was mostly executed by a local contractor whose contract was frequently interrupted due to NUDC's change orders for core house modification and revised infrastructure schemes.

3.27 Borrower. The technical calibre of the KIP team was good and the project management highly efficient despite the numerous contracts administered. The performance of NUDC however was mixed as could be expected from a newly established institution. Even though the NUDC project team had a good project manager, it had chronic staffing problems, especially in the initial stages. This, coupled with a lack of experience of the staff with low-cost sites and services scheme, provided a tough challenge to NUDC in executing the project. But NUDC did gain valuable experience from the project which it has found useful to the execution of subsequent housing schemes. In recent years the output of NUDC-built housing has increased dramatically although problems with land acquisition, off-site infrastructure and estate management have remained.

#### IV. OPERATIONAL PERFORMANCE

##### A. KIP Program

4.01 Roads, Footpaths and Drainage. Basic responsibilities for maintenance of KIP roads and drainage are primarily assigned to the Department of Public Works (DPU) of DKI. Typically, most of the road maintenance budget (Rp 1.9 billion in FY79/80) had been used for repair of primary roads, 20% for the secondary roads, and very little, if any, for the kampung roads.

So far DKI has not paid adequate attention to the maintenance aspects of KIP facilities built under the first urban project.<sup>/1</sup> Serious attention to maintenance is now warranted in order to preserve the usefulness of the facilities over the long term. It is estimated that the requirement for a comprehensive maintenance program for the KIP roads and drainage built under the project would be on the order of Rp 100 to 200 million per year. Even though this level of funding is well within the financial capacity of DKI, budgetary allocations for KIP maintenance have been grossly inadequate to date. DKI should seriously consider the formulation and implementation of a metrowide KIP maintenance program along the lines recommended in the Bank study.<sup>/2</sup> This study also establishes a need to create a special maintenance/monitoring section (MMS) within the KIP unit that will have the responsibility for assisting the Public Works Department in planning, budgeting and financing the maintenance program for KIP facilities. This recommendation is currently under review by DKI.

4.02 Water Supply. The water supply enterprise (PAM) is the agency responsible for the maintenance of the water supply network and facilities for DKI. The operation of the public water taps under KIP was arranged under a franchise system according to which private concessionaires would manage the taps, collect money from the residents and pay PAM for the water consumption. Despite the good intentions for providing potable water to poor families at affordable rates, the following major problems have emerged during the operational stage:

- (a) High water prices charged by the concessionaires -- in the range of Rp 5 to 20 per one 20 litre can which amounted to a 4 to 15-fold increase over the price charged by PAM;
- (b) Lack of control, inadequate registration procedures and political factors in the selection of concessionaires (who were generally selected by the local leaders -- the Lurahs, and Camats in most cases); and
- (c) Public unwillingness to pay for the water in kampungs (especially in the east and southern region) where 'free' ground water is readily available.

4.03 Of the total of about 695 taps built under the first project, about 65% to 70% are currently estimated to be operational. The remaining taps are believed to be "non-operative" due to the reasons of non-registration (about

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<sup>/1</sup> Provision of about 167,000 m of vehicular roads and 295,000 m of footpaths, together with their associated drainage were provided under this project.

<sup>/2</sup> See report titled "Report on Maintenance Planning for Indonesian KIP" (October 1980) by Dr. Harvey Ludwig, Bank consultant. This report provides an overview of the financial aspects of the KIP O&M program and also examines the institutional linkages between the Public Works Department of the DKI and the KIP unit, regarding O&M.

10% of total), lack of adequate water supply (about 10% of total) and lack of demand for water (about 15%) in certain areas of the south and east parts of Jakarta. With the proposed formation of a special monitoring unit, PAM should eventually solve the above problems of illegal operators. Relief from the problems of inadequate pressure in some kampungs will be expected when PAM's new water supply expansion scheme (for Pulo Gadung plant) is completed in about two years. The solution to the lack of water demand in certain kampungs of the south and east is rather complex in that it would require time-consuming efforts in educating the residents on the public health benefits of an improved water supply and in convincing them over the price to be paid for it.

4.04 The problem emanating from the concessionaire system needs a careful analysis. Even though it partly relates to the lack of adequate institutional regulation by PAM, it also derives from the historic establishment and perpetuation of the concessionaire system in the kampungs as well as the traditional mode of their operations. The large one time concessionaire fee (about Rp 1 million) charged for the KIP taps built during Repelita I (1969-74) forced the concessionaires to have a high mark-up on the water sold to the public. Even though the concessionaire fee under the first urban project was reduced to an initial deposit of about Rp 30,000, the well-established practice of high mark-up for water sales, especially in the areas of considerable water shortage has tended to prevail in the kampungs. This situation presumably stems from collusion among the concessionaire as well as from lack of PAM's institutional control over the concessionaires system and needs to be further studied. In an effort to minimize the above problems related to the concessionaire's high water prices, a community-operated system -- under the direct supervision of the local leaders -- has been sought for the water taps being built in the project cities under the third urban project. In this system, the water sale prices would be determined by the local community groups and, while the floor price would repay PAM, the charges are not expected to differ significantly from PAM's billing rates. Implementation of the system -- which has been delayed -- is currently underway in the project cities and will be monitored closely as to its effectiveness.

4.05 Sanitation Facilities. The situation with regard to maintenance of the MCK's (public bathing, washing and toilet facilities) is difficult to "pin down" because of the diffusion of responsibilities at the local community level with regard to their routine operation and maintenance. In addition, the varying degrees of community participation in kampungs of different socio-economic structure makes the evaluation of MCK's a difficult task. Surveys to date have indicated the following:

- (a) Depending on the type of water (PAM supply or dug-well) used for the MCK's operation, the user charges typically range as follows:  
Toilet: Rp 5-10/each visit, bathing: Rp 10-20/each visit, and washing: Rp 20-25/each visit;
- (b) Of the 135 MCK's built under the project, about 60 to 65% are estimated to be in operation (the extent of underusage or overusage of these facilities is being studied); and

- (c) Where lack of adequate use or maintenance of the MCK's has been reported, it could be mostly traced to one or more of the following factors: (i) infrequent and inconvenient poor location of the facilities (due to initial land acquisition problems), (ii) the preference of the people to use nearby water courses, (iii) lack of willingness of the residents to pay for the use, and (iv) the extent of the self-help ("gotong royong") of the community and of the local leadership.

4.06 In an attempt to minimize the poor location problems of MCKs built under the project, smaller units (called Mini-MCK's) with 2 to 4 seats (instead of 12 seats of the original MCK's) were built under the later Bank-financed KIP projects. This is believed to have minimized the MCK operational problems because of their better location and closeness to the community. Pivotal to the success of the sanitation scheme, however, is the education of the residents regarding the health benefits to be derived from the scheme. As with the water supply scheme, the above aspect needs to be emphasized through the active participation of local community groups, the Health Department and the Education Department.

4.07 Refuse Disposal. Adequate number of garbage bins, carts and some trucks (12) were provided under the first project to collect and transfer garbage from the kampung households. The Cleansing Department is responsible for hauling of garbage from transfer points on the streets, while the community organizes garbage collection from households through hired labor, paid from family contributions.<sup>/1</sup> The efficiency of garbage collection varies considerably from kampung to kampung depending on the degree of local participation. In some kampungs, however, the lack of adequate hauling capacity of the Cleansing Department has led to a heightened visibility of the collected garbage on the streets. The above situation should, however, improve in time with the phased implementation of a metrowide comprehensive solid waste management improvement program -- embarked in 1980 under the third urban project. About 90 trucks and related equipments are being provided under this project to predominantly serve the low-income kampungs. In addition, household garbage collection and micro drain cleaning will be integrated at the kampung level under the project.

4.08 Community Facilities. The operational status of the primary schools (about 82) provided under the project is satisfactory both in terms of the staffing and the budgetary aspects. The major problem with the operation of the KIP health facilities (puskesmas) stems from their underutilization of services (40 to 50 patients per day for each puskesmas) which also has been a recurring nationwide problem, attributable mainly to the ignorance of the communities as to the usefulness of modern medicine. The City Health Department, in early 1981, has embarked on a monitoring program to seek remedial measures.

<sup>/1</sup> Typically, the households in the Jakarta kampung contribute a monthly sum of about Rp 100 to 500 depending on their income levels. This fee is collected by the local leader and is used for various local activities including garbage collection, maintenance, street lighting, security and social activities, etc. This practice is widespread throughout Indonesia.

## B. Sites and Services

4.09 Estate Management. The Klender site is managed by four operational units, each divided into operation and maintenance, and administration and finance sub-units. A total staff of about 65 is involved in the estate management operations at the site.

4.10 Monthly rental collection in 1980 averaged about Rp 22 million, with very low rental arrears. One month arrears were between 6 to 8% of the total units rented; and two-to-three month arrears were below 1% of the total units rented. The 80 sq m plots were rented at Rp 3,500 per month and 140 sq m plots, at Rp 4,500 per month. All the above rents include an estate management fee of Rp 800 per month.<sup>/1</sup> The total estate management costs amounted to about Rp 8.7 million per month (or Rp 1,160 per plot/month) of which about Rp 6.0 million represented administration expenses, and the remaining Rp 2.7 million was used for garbage collection. The occupancy status of the lots ranged as follows: 1,600 by June 1978, 2,700 by December 1978, 5,000 by February 1979, 6,000 by December 1979, and about 7,000 by December 1980. Starting in January 1981, the lots were offered for sale to the occupiers under NMB mortgage arrangement. (See Chapter V for terms and conditions of sale).

4.11 Site Consolidation Activities. Within a short time after occupation and in some cases prior to occupation, tenants started extending their core unit. As of January 1981, about 4,484 core units on 80 sq m lots and 1,072 core units on 140 sq m lots had undergone extension -- either through "self-help" labor or, hired labor -- representing about 75 to 80% of the occupied lots. Extensions ranged from small additions of verandas and lean-to kitchens to large modern buildings completely enveloping the original core. Temporary building materials (tin roofs, bamboo partitions, etc.) were not extensively used. NUDC had prepared ten alternative extension plans and occupants were allowed to select their preferred alternative while applying for the extension permit. Specific approval was required to proposals other than those contained in the standard alternatives. It was apparent that the sources of money for the core extensions in most cases were from savings and secondary incomes or from the credit available through the informal sector.

4.12 The Klender experience seemed to confirm the importance of granting secure tenure to the beneficiaries in eliciting 'self-help' investment. From discussion with residents and observations on their building activities, it could be inferred that a greater variety of onplot options comprising both completed and open core, units -- rather than providing complete units only -- perhaps would have been better suited to the various needs of the occupiers. In some cases, residents had torn down walls of core house units which had prevented easy expansion by the residents. It was observed that within a relatively short time, a normal community structure was established at Klender.

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<sup>/1</sup> It is expected that this maintenance fee will be transferred to DKI when the latter takes over the entire operation of the site infrastructure facilities (expected by mid- to late-1981).

4.13 Infrastructure Operation/Maintenance. The estate management office undertook the operation and maintenance responsibilities for the site facilities on a transitional basis until they could be handed over to DKI. Accordingly, routine road maintenance and repairs are currently carried out by the maintenance crew of the site offices. It appears in retrospect that the vehicular roads and the associated drains at the site should have been built to a higher standard in anticipation of the increased vehicular traffic resulting from the site construction activities. It was evident that extensive damage was caused to the roads and drains which needed to be rehabilitated subsequently. Alternatively, the roads could have been left unpaved during the site occupancy phase, and could have been later paved once the major construction activities ceased.

4.14 At the request of PAM, water meters were installed for each household to facilitate individual billings. The original design called for bulk metering rather than individual metering as a cost saving measure. It is still debatable whether the added cost due to the individual water metering and billing was worth the anticipated savings in the water consumption of the community. This situation, not too unfamiliar in other Bank-financed sites and services projects, underscores the conflict that can arise between the project implementing agencies seeking low cost design solutions and the operating agencies requiring conformity to 'conventional' practice.

4.15 Community/Commercial Facilities. The operation of the health clinics and schools by DKI are satisfactory as are the commercial facilities consisting of neighborhood shops (kiosks), and markets, and the community facilities consisting of post office, fire station and mosques. The site plan had not allowed for the numerous stores and small businesses which sprang up at the entrance to the site, to serve the self-help activities of the residents. Future schemes should provide a sufficient number of open plots at the major access points to allow for and encourage their new economic activity.

## V. FINANCIAL PERFORMANCE

### A. KIP Program

5.01 Tax Revenues. The project envisaged the KIP program to be financed entirely from DKI's general revenues. Direct cost recovery from beneficiaries in the form of user charges (or plot charges) were not considered feasible because of reasons of equity and administrative feasibility. Under the project, therefore, emphasis was given on improving DKI's general tax revenues. A study of property taxes (financed during project preparation from a Bank Technical Assistance Credit) had indicated substantial scope for improving yield from IPEDA taxes (increases of Rp 2.0-2.5 billion per year) by increased assessment (0.1% to 0.4% of capital value) and by moving to a market value-based system of assessment. Although the loan did not include specific agreement on the extent of increases to be obtained from IPEDA, there was a general understanding that DKI will implement gradually the recommendations of the study.

5.02 Actual collections of the IPEDA and other major urban tax revenues in Jakarta during the period 1974-79 were as follows:

Fiscal year	Actual IPEDA collection (Rp million)	Percent increase	Overall urban revenues (Rp million)	Percent increase
74/75	1,954	15	38,840	14
75/76	2,250	20	44,340	27
75/77	2,700	19	56,470	12
77/78	3,204	36	63,270	22
78/79	4,348	20	77,340	15
79/80	5,225		88,000	

5.03 As can be seen from the above table, IPEDA tax collections fell considerably short of the targets suggested by the study. The annual increases in IPEDA collections during project implementation period peaked to about Rp 1.0 billion -- an amount which is just enough to meet the DKI's debt service obligations under the loan. It is also evidenced from the above table that the KIP program was financed by DKI from its other general tax revenues (e.g. vehicle tax, casino tax) which are much more significant than the IPEDA tax. Other cities in Indonesia, however, do not have such other sources of revenue and it has been clear that these cities would need to make an effort to get increased yields from IPEDA taxes (currently inadequate in virtually every city) if they are to undertake a program of this nature. Recognition of this on the part of the Government led to the declaration of a 1978 Ministry of Interior Decree mandating a minimum increase of 30% in annual IPEDA collection nationwide including KIP project cities such as the Bank-financed third and fourth urban project cities. These targets have been generally achieved, except in Jakarta.

#### B. Sites and Services

5.04 Sale Price. The financial objective of the sites and services scheme was to recover the full onsite costs of lot and housing development directly from the beneficiaries through the sale of the lots. To this end, the project was designed to provide a suitable distribution of lots (80 sq m, 140 sq m and 200 sq m) and core house provisions to meet the affordability level of the target group (between 15th and 50th percentile of the income level). An internal cross-subsidy scheme was used based on differential pricing of the commercial and open lots as follows:

- (a) The commercial and 200 sq m (open) lots will be sold at the prevailing market price (anticipated to be 100% above the development cost);
- (b) The 140 sq m lots would be sold at the development cost; and
- (c) The 80 sq m lots would be sold at less than the development cost, calculated after taking into account the net revenues from the sale of commercial and 200 sq m lots.

5.05 The sale prices of lots estimated at appraisal time and their actual sale prices <sup>/1</sup> are compared in Table V-1. As noted earlier, the lots were initially rented for a two-year period beginning 1978 and that only recently (December 1980), they have been offered for sale to the allottees. As evidenced from Table V-1, NUDC's actual sale prices for 80 sq m and 140 sq m lots are much higher than the appraisal estimates (after adjustment for inflation) due to increased project costs (para. 3.18). It is also worth noting from the above table that the sale prices have been fixed at a much higher level than would be needed according to the cross-subsidy scheme outlined in para. 5.06. The rationale for the stipulation of the high sale prices has not been made clear, even though indications are that NUDC took into account two major factors, namely, the current market conditions for housing demand and the under-reporting of household incomes as evidenced by the high quality of the core-house extensions at the site. The latter situation with regard to the high quality of the core unit extensions by the target families is reminiscent of other sites and services schemes financed by the Bank - most notably in Philippines and Jamaica - and serves to underscore the difficulties experienced in the assessment of the target families' incomes including their access to the funds including secondary incomes and savings.

5.06 Sale Terms and Affordability. The affordability of target groups for the 80 sq m lots and the 140 sq m lots is indicated in Table V-1 and illustrated in Annex 6, for both appraisal and actual conditions.<sup>/2</sup> It is evident from the above that despite NUDC's high sale prices, the percentile income groups reached under NUDC's current sale terms are between the 17th to 24th for the 80 sq m lots and 42nd to 54th for the 140 sq m, both

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<sup>/1</sup> Two sale prices are distinguished in the actual case - one, calculated from the cross-subsidy and the other, charged by NUDC.

<sup>/2</sup> The affordability estimates are based on the following income data -- 1976 projected income for appraisal affordability and 1980 projected income for actual affordability calculations. See appraisal report for more income data. Based on a comparison of the actual income survey date (1978), the projected 1980-income data for DKI, used in the actual affordability calculations, seem to be rather conservative.

## INDONESIA

## PROJECT COMPLETION REPORT

## A Comparison of Lot Prices and Affordability Status Under Appraisal and Actual Conditions

Lot size (sq m)	No. of lots	Land cost (Rp)	Site Development Cost (including land)		Core housing cost (Rp)	Lot sale price		10% down payment (Rp)	Mortgage terms for loans		Monthly mortgage payment (Rp)	Required monthly income/a (Rp)	Affordability: percentile of the income group reached /h
			Before cross-subsidy (actual cost) (Rp)	After cross-subsidy (sale price) (Rp)		(Rp)	(\$)		Interest (%)	Repayment period (years)			
80	5,590	117,615	287,100	205,600	206,122	411,722	992	41,172	12	15	4,535	22,675	28th/g
140	1,900	205,835	502,500	502,500	206,122	708,622	1,708	70,862	12	15	7,803	39,015	65th/g
200 (open)	440	294,050	717,800	1,435,600	-	1,435,600	3,459	-	-	-	-	-	-
39,000 (commercial)	Total area	57(10 <sup>6</sup> )	139(10 <sup>6</sup> )	306(10 <sup>6</sup> )	-	306(10 <sup>6</sup> )	737,350	-	-	-	-	-	-
80	5,827	215,810	473,430	330,430/b 600,000/c	229,480 360,000/c	559,910 960,000	1,349 2,313	55,991 96,000	12 5/d	15 15-20/d	6,165 6,971- 5,806	30,825 34,855- 29,030	18th 24th-17th
140	1,045	377,665	828,500	828,500/b 1,190,000/c	229,480 360,000	1,057,980 1,550,000	2,549 3,734	105,798 155,000	12 5/d	15 15-20/d	11,650 11,199- 9,328	58,250 55,995- 46,640	57th 54th-42nd
200 (open)	445	539,520	1,183,560	-	-	3,000,000/e	7,228	-	-	-	-	-	-
4,000 (commercial)	Total area	10(10 <sup>6</sup> )	24(10 <sup>6</sup> )	70(10 <sup>6</sup> )	-	70(10 <sup>6</sup> )/f	168,675	-	-	-	-	-	-

/a 20% of monthly income is assumed to be spent for debt payment.

/b Calculated on the basis of the cross-subsidy scheme stipulated in the Loan Agreement.

/c Actual sale price being charged by NUDC; this sale price is presumably based on NUDC's judgement regarding prevailing market conditions and assumed additional income of the allottees from secondary sources not reported on the lot application form.

/d Indicated mortgage terms reflect NUDC's existing policy regarding sale of units with sale price less than Rp 2.5 million. (A 9% interest is chargeable for units costing more than Rp 2.5 million each.)

/e At prevailing market rate of Rp 15,000/sq m.

/f At Rp 17,500/sq m.

/g Appraisal report also illustrated various mortgage schemes by which income groups between 12th and 20th percentile could be reached for 80 sq m plots and income groups between 40th and 50th percentile for 140 sq m plots. The indicated affordability in this Table, however, relates to the basic mortgage scheme stipulated in Schedule 6 of the Loan Agreement.

/h Percentile reached refers to 1976 income for appraisal and 1980 income for actual conditions.

close to the appraisal target range. This was, of course, made possible as a result of NUDC's subsidized interest rate at 5% instead of the stipulated 12% per loan agreement terms.<sup>/1</sup> In terms of longer term financial viability, however, it would have been more prudent for NUDC to have fixed the lot sale prices according to the appraisal cross-subsidy scheme and set the interest rate at 12%, a situation which could have adequately served to reach the appraisal target groups, as indicated in Table V-1. It is important to observe that even though NUDC's high sale prices would mean a substantial profit margin for that agency from the lot sales, the low interest rate of 5% would signify an unfavorable situation to NMB (the mortgaging institution) in terms of the cash flow and funds mobilization. This situation could have been clearly avoided.

5.07 Lot Allocation. During the implementation of the project, a Presidential Decree was issued requiring all publicly-built low-cost housing units to be allocated on a priority basis to the lowest two groups of civil servants and military personnel. This policy - in comparison to an open allocation policy based solely on income eligibility criteria - was of major concern to the Bank during the lot-allocation stage. The Government insisted to assign 75% of the lots to civil servants and military personnel maintaining that these employees were within the income range of the targetted beneficiaries. After extensive and time consuming negotiations, a decision was agreed with the Bank in March 1978 to allot 50% of the lots to the general public and the remaining 50% to low income civil servants (including teachers and municipal employees) and military personnel. In the actual allocation of lots, however, about 85% were assigned to government employees. An analysis of the income profile for the allottees of the scheme (see Annex 6) seems to suggest that their incomes were, however, within the appraisal target range.

5.08 Partly as a result of the above-mentioned policy disagreement concerning lot allocation under the first project, the following second and third urban loans from the Bank did not include financing of sites and services schemes. However, in 1980, the Government decided to modify its allocation policy to allow more units to be sold to the general public in view of their large unmet demand for low-cost housing units. Consequently, the Bank agreed to participate in the site and services projects under the fourth urban project. As to the policy aspects concerning mortgage interest rates, the Bank has agreed -- as a part of the above project -- to finance a study aimed at evaluating the implications of NMB's current interest schemes and streamlining its financial operations.

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<sup>/1</sup> Public Work Ministry's Decree No. 456 (dated November 1980) stipulate a 5% interest rate for units costing less than Rp 2.5 million and a 9% interest rate for units costing more than Rp 2.5 million.

## VI. INSTITUTIONAL ANALYSIS

### A. KIP Institution

6.01 Execution of KIP during Repelita I (1965-74) was under the direction of an "ad hoc" unit of the Jakarta provincial government (DKI) comprising representatives from the Public Works Department (DPU) and the City Planning Department (Tata Kota). A successful expansion and acceleration of the program under the first project - at about twice the rate of KIP coverage achieved during Repelita I - was made possible through the consolidation of kampung improvement activities into a single administrative unit of DKI and the commitment of DKI's Governor to channel a substantial portion (as much as 30%) of the development budget through the newly formed KIP unit. The staff for the KIP unit were drawn from the various departments of DKI - in particular from DPU and Tata Kota - who had previously been involved in KIP activities. Starting with an initial staff of 40 professionals, the KIP unit rapidly expanded under the project with a total staffing of 275 employees, organized into three core units of planning, implementation and finance/administration. The unit also benefited from 102 man-months of advisory services in engineering, accounting and management aspects of KIP provided as a part of the technical assistance under the project. Even though the KIP unit initially suffered from a lack of adequate coordination with other sectoral agencies, particularly the water supply (PAM), and health agencies, its relationship with these agencies improved gradually. Since its formal inception, the KIP unit has gradually built up an extremely efficient project management. A further reason for success has been the mechanism for the flow of funds which was adopted in this project, and subsequently in Urban II. The Ministry of Finance onlent the Bank funds directly to the DKI who then had complete control over the project finances since the matching funds came from its own resources. This meant that the local government could effectively plan and implement a multi-year investment program.

6.02 The success of the KIP unit is attested by its becoming a model for setting up local KIP units throughout many cities under Repelita III, both for project design and execution of an integrated community infrastructure and service program focussed on providing basic services at low cost to informal and squatter settlements with minimum disturbance or relocation.<sup>/1</sup> The formal incorporation of KIP into the existing municipal organization framework and the declaration the basic policy objectives for KIP were accomplished in 1979 under the Bank-financed third urban project through the formalization of a decree from the Ministry of Internal Affairs (Dalam Negeri). Cipta Karya's involvement with the KIP started under the first project and the growth of its central KIP unit, established under the Subdirectorate of Housing (Perumahan), was slowly nurtured under the Bank-financed second and third urban projects. Currently, Cipta Karya has the responsibility of providing technical and financial assistance to cities for formulation and implementation of KIP.

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<sup>/1</sup> The average number of households which have to be relocated in KIP schemes is less than 1% of the households in the project area.

B. National Urban Development Corporation (NUDC)

6.03 The establishment of NUDC under the project had the dual objective of planning as well as implementing nationwide land development and housing projects aimed to primarily serve middle and low-income families. NUDC became operational in October 1974 with the appointment of the Managing Director. Initially the staffing at NUDC comprised primarily the project unit staff for the implementation of the Klender scheme. Severe staffing problems persisted at NUDC during its formative years, 1974-76.

6.04 Technical assistance consisting of 160 man-months was provided to NUDC under the first urban project to develop its management and financial systems. The reports and manuals, produced by the consultants in these areas, had some impact on the development of systems and procedures in the organization, and the design of some prototype developments. However, the work of the consultants was never fully integrated with that of NUDC and some of the potential training benefits were lost.

6.05 Initially, NUDC focused its attention almost entirely on housing construction. Its first year's production of units was understandably low, completing only 2,800 units. In its second year, production was almost tripled with 8,000 units completed, and in the third year, production output almost tripled again to 21,670 units. However, this level of performance was not matched in other areas, notably financial management and estate management, and coordination with other agencies on critical provisions such as water supply and land titles. In some instances, developments were built ahead of water supplies being available, some were completed before processing of applicants began and successful applicants were allotted units and moved into them before titles were available. No clear pricing policies were established, and no agreements reached with NMB on the criteria for selection and processing of beneficiaries. Sale prices of units generally reflected heavy subsidies in excess of 40%. Largely because of difficulties in obtaining land titles, units were initially rented for two years during which occupants were to accumulate the necessary down payment to purchase the units. However, the rental charges were also heavily subsidized. Despite these concession on rental, the majority of units remained vacant for periods exceeding a year because of the problems in processing applications and completing site works.

6.06 NUDC's lot allocation procedure at Klender reflected Government's policy of allocating as much as 75% of the units to civil servants and the military personnel. The Bank has since continued to advise the Government to adopt an open allocation policy based on income criteria alone. It is to be noted that NUDC has recently increased its lot allocations to non-government or non-military employees. A major policy issue still to be resolved concerns the National Housing Authority's /1 position on the low

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/1 NUDC's president-director is a member of the NHA board.

mortgage interest rates which need to be carefully reviewed to the extent that they make NUDC heavily dependent on government subsidy and weaken NMB's ability to raise funds for housing on the financial markets. This issue, together with the related management aspects, will be examined under the technical assistance being provided under the fourth urban project.

### C. National Mortgage Bank (NMB)

6.07 As a part of the Repelita II effort to stimulate urban development, a National Mortgage Bank (NMB) was established in March 1975 by restructuring the existing Bank Tabungan Negara (BTN) as a mortgage institution. This step represented the Government's first effort to introduce a mortgage system and make available long-term loans for housing development in Indonesia which could vitalize the residential construction industry. BTN's operational policies and procedures were to be developed with the help of technical assistance from bilateral donors. NMB's first experience with mortgage financing would be the sale of lots built under the Klender sites and services scheme.

6.08 The technical assistance program for NMB involved the provision of an advisor for three years to assist the management in developing the policies, programs, and procedures required of the institution's new role as a mortgage bank. While the consultant prepared several relevant reports for the management, very little development of institutional capacity took place.<sup>/1</sup> Indeed, despite being designated the institution for making housing loans in January 1974, the first loans were not made until the end of 1976, and for the following two years all loans went to civil servants and members of the Armed Forces. Up to December 1978, less than 10% of total commitments of 21,427 units for Rp 47.8 billion had been executed. NMB's income also began declining from 1976, the year it began making housing loans. Because the housing operations are not separately accounted for, it is not possible to readily determine the precise impact of these operations on NMB's overall finances. Nevertheless, given NMB's generally low efficiency at the time, and the low interest rates on its housing loans, it is likely that its housing loans operations have been a financial drain on the institution.

6.09 Many of NMB's problems, and their proposed solutions were identified by the consultant during his tenure. However, the management lacked the authority and direction in being able to respond to his proposals. More recently the National Housing Authority has indicated a willingness to restructure the policies, financial practices and management of NMB. Agreement has been made to provide technical assistance under the fourth

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<sup>/1</sup> It was noted that the majority of NMB staff did not have any prior experience in mortgage financing.

urban loan to assist NMB's new management in the formulation of effective housing mortgage schemes.

## VII. ECONOMIC RE-EVALUATION

7.01 The project was largely designed around the principal goal of providing improvements to the health, and efficiency and incomes of lower income residents in Jakarta through coordinated investments in housing, urban infrastructure and the related trade and service industries. It was also recognized that the project, through its phased expansion, could have a significant effect on the economic productivity of the low-income residents of Jakarta. Even though most of the benefits derived from the project are not readily quantifiable, a qualitative description of the benefits would be appropriate to indicate certain trends discernible during and following project implementation.

### A. Developmental Impacts

7.02 Under the KIP component, about 2,080 ha of low-income kampung were upgraded, affecting some 900,000 population which is about 20% of Jakarta's total population (1976). The provision of improved infrastructure and facilities -- comprising roads, footpaths, drainage, water supply, sanitation and community facilities -- in these areas provided an impetus to the developmental activities of the kampungs, especially through increased construction activity, leading to a better housing stock. There is also evidence of an improved supply of rental housing in the KIP areas brought about by the infrastructure improvements. There have been increased commercial and vendor activities in the improved kampungs. DKI estimates that numerous small-scale businesses ranging from food stalls to repair shops and home beauty salons had sprung up in the KIP areas as a result of improved access brought about by the KIP.

7.03 The sites and services schemes provided new housing to about 40,000 residents who could expect to purchase their properties through a long-term mortgage financing scheme which did not exist before. Housing construction involving "self-help" labor and hired labor were quite active during the consolidation stage. Commercial activities currently flourish in the area to a greater extent than was originally envisioned.

### B. Poverty Impact

7.04 The sites and services scheme represented the Government's first attempt in providing affordable housing to the low-income and poor households. About 94% of the total generated lots (approximately 7,500) were

allotted to households with income falling between the 15th to 55th percentile on the Jakarta income profile. Specifically, the 80 sq m lots, which constituted about 78% of the total lots, were aimed at income groups falling within the 15th to the 30th percentile range. Even though the Klender scheme did not have a substantial impact on the housing shortfalls for the poor,<sup>/1</sup> it provided an important demonstration effect to the Government regarding the viability of unsubsidized low-cost core housing schemes and the increasing public demand for such housing. Government has since built several low cost housing schemes in other cities focussed on the shelter needs of the low-income families. The total number of core units provided by NUDC during Repelita II (1974-1979) has totalled about 36,000 units.

7.05 The selection of kampungs for the KIP was based on a range of criteria with principal emphasis given to those which were poorest, which had the worst environmental condition and which had been the longest without services. Since the various income groups are mixed in the kampungs of Jakarta (except for the new subdivisions), the benefits of the KIP would accrue to all groups. An analysis of the typical income profile of the kampung population indicates that about 70% of the population could be considered to be living below the absolute poverty level of \$190/capita/year (1976 figure). It could then be expected in a crude sense that approximately 70% of the beneficiaries of the Jakarta KIP program were the urban poor.

### C. Social Impacts

7.06 Community participation was a major theme of the KIP program in the various stages of planning, implementation and operation. Efforts were made to obtain community agreement and to minimize socio-cultural disruption, due to the developmental efforts. In an overall sense, it can be said that KIP had been successful in strengthening the social fabric of the community. In the early stages of KIP, it was feared that the rising property values in the KIP kampungs could potentially displace the lower-income households with the higher-income households, thus defeating the very purpose of the KIP effort. However, recent monitoring data on the KIP households <sup>/2</sup>, suggest that the turnover rate of families had not been significantly different from the pre-KIP levels (about 5%). This is not

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<sup>/1</sup> Because the Klender scheme was a demonstrative project, its size was kept rather small. The number of 80 sq m and 140 sq m units provided under the project was to satisfy only about 5% of the estimated requirements (1976) for low-income housing units for Jakarta.

<sup>/2</sup> "Evaluation of the Jakarta Improvement Program" - Report under preparation by LP3ES, The Institute for Social and Economic Research Education and Information, Jakarta.

surprising in light of the rapidly extended city-wide coverage of KIP in subsequent years which has led to the provision of a roughly identical level of basic urban infrastructure throughout the kampung areas of Jakarta. Less than 1% of the existing structures in the kampungs were removed through the improvements. Though unquantifiable, the social impacts of the project - through improved hygiene, access, health care and education - appear to be substantial. The results of the resurvey of KIP areas - being conducted as a part of the ongoing monitoring study under the third urban project - will focus further on these aspects.

#### D. Economic Rate of Return

7.07 Given the social nature of the shelter components of the project, and given the fact that many of the project benefits are not readily quantifiable -- at least until long-term impact studies are conducted to establish reliable indicators and quantify the changes in their levels -- the same appraisal methodology of benefit valuation, using imputed rental values and increased land values as surrogate indicators of socio-economic benefits, will be applied for the project completion stage economic analysis.

7.08 KIP Program. The methodology here is to assume that the benefits of improved urban infrastructure that accrue to the land owners can be measured by the increased land values or rents. Using again the same assumptions as at appraisal regarding the distribution pattern and sizes of the houses -- according to their location whether they are along the main roads, footpaths or in the inner areas with no direct access -- the actual increases (about 18 Rp/sq m/month in September 1974 prices) in the rental values for the kampung area was determined. Actual cost streams were worked out for the implementation period, and a 17-year life period (same as appraisal conditions) for the improvements was assumed. Under these conditions, the economic rate of return for the KIP component is calculated to be 31% as against an appraisal estimate of 17%. The observed high rate of return is an indication of the extreme shortage of serviced land in the Jakarta area, and the priority accorded by kampung residents to live close to areas where potential for employment opportunities exist.

7.09 Sites and Services Program. The appraisal methodology assumed that the rental value of the completed core house would be taken as a gross measure of benefits. These values are estimated on the basis of current market value of similar, existing structures in a well-developed site in the general neighborhood. Recent rental surveys have indicated current rental values for units with comparable standard of living to be on the order of 150 Rp/sq m/month (September 1974 prices). After allocating the investment costs over the actual implementation period, and assuming a 25-year economic life for the investments, the revised economic rate of return is 20% as compared to the appraisal estimate of 17%.

## VIII. BANK PERFORMANCE

### A. Project Justification

8.01 In retrospect, the Bank's perception of the Borrower's priorities and its subsequent involvement in the preparation of the first urban project were both appropriate and timely. The project represented the first major effort of the Borrower in planning an urban shelter strategy geared to the low-income households and in strengthening the related institutions. The Bank's dual emphasis on the sites and services housing scheme and the KIP basic urban services expansion scheme was well conceived and reflected in the project formulation. The physical goals of the project were largely achieved. Although the progress in the achievement of the broader institutional goals -- related to the policy planning aspects of a comprehensive housing policy, and the formulation of an urban development strategy -- was slow, the project represented the right step in the policy orientation of NUDC and NMB.

### B. Project Content and Scheduling

8.02 The scope of the project and its scheduling were, in general, satisfactory. The Bank's support for an accelerated KIP program -- doubling its earlier pace -- proved well justified in light of the resulting output from the KIP unit. The sites and services component was a relatively new concept both for the Government as well as for the Bank, and, in retrospect, should have been timed at a somewhat slower pace. The planned regional study on the urban growth of Jakarta metropolitan area ("Jabotabek" study) was aimed to improve the regional planning and investment strategy aspects of urban development. However, the Government was not yet ready to actively participate in the study which was later conducted under the auspices of the second urban project. Despite their earlier neglect, the institutional concepts of the first project proved to be useful since they received increased recognition from the Government in the formulation of later urban projects.

### C. Project Implementation and Operating Outcomes

8.03 (i) Preparation Requirements. The project was well prepared with adequate participation from the Government. Being the first urban shelter project both from Bank's and Government's experience, caution was exercised to limit the project scope to shelter components alone even though the need for complementary investments in the related urban sectors - particularly, macro drainage and solid wastes - was well recognized during project preparation. Likewise, the Bank's decision to limit the scope of the project to one city, namely Jakarta, was justifiable.

8.04 (ii) Borrower's Implementation Capacity. Bank's assessment of the Borrower's implementation capacity proved to be correct in the case of the KIP component, but rather overestimated in the case of the sites and services component. The establishment of NUDC and NMB with the required staffing under the project was the right step, as was the decision to formalize and expand the KIP unit of DKI and for project funds to flow directly from the Ministry of Finance to the local governments.

8.05 (iii) Construction and Procurement Scheduling. It appears that Bank's procurement procedures did not pose undue problems to the Borrower except for the ICB procedures in the case of the sites and services civil works. Since it was NUDC's first experience with ICB bidding, they had to familiarize themselves with the Bank's guidelines. Since no foreign bidder was attracted to bid for the site and services ICB contract, it appears, in retrospect, that the time-consuming ICB procedures were not probably required. This, however, could not have been foreseen in the earlier stages. It is also evident that the Bank's as well as NUDC's original implementation schedule for the sites and services program was rather optimistic. While some of the implementation delays could not have been overcome due to NUDC's lack of experience with the project, they could have been considerably reduced, had there been no land acquisition problems and had there been no frequent design revisions after the contract was awarded. In contrast, because of their prior experience with Repelita I KIP program, the KIP staff were realistic in construction-scheduling and the works were executed by local contractors, mostly on time. It was also proved to be appropriate and certainly worthwhile that the Bank delegated most of the procurement decision responsibilities to the KIP unit and chose to have a post review only for the large contracts (see para. 3.13). Given the large number of KIP contracts, the above approach was justifiable and certainly expedited the procurement process for the borrower.

8.06 (iv) Loan Covenants. A major special covenant of the loan stipulated the implementation of improved IPEDA tax collection for Jakarta. Even though in the earlier years it proved to be a somewhat sensitive issue to the Government, the covenant did become accepted in the later years and was even continued under the second and third urban projects. Implementation of the covenant has been satisfactory, as was the covenant relating to the auditing of project accounts. Covenants regarding lot allocation and sale terms and their degrees of compliance are discussed in Chapter V.

8.07 (v) Bank Supervision. Overall, the Bank's supervision of the project was satisfactory. As expected, the institutional development goals of the project and the related policy aspects required considerable attention from the Bank staff during supervision. Continuity of the Bank staffing of the supervision missions was not interrupted to any significant degree except for the normal level of staff changes which could not be avoided. It can be said that the missions were adequately staffed to the fulfillment of the Borrower's requirements.

8.08 (vi) Working Relationship with the Borrower. For the most part, the Bank staff enjoyed a good rapport with the government agencies. There was however one occasion when a major disagreement existed between the Bank and one of the implementing agencies, NUDC, as a result of major revisions in the project standards. The progress reporting requirements of the Bank were adequate in providing useful data for supervision missions. Since these reports were invariably written by the consultants, the Bank did not have the benefit of knowing the Borrower's views or commentary on project implementation aspects before the time of supervision mission.

## IX. CONCLUSIONS

9.01 Because of the social nature of the components of the project, and because the project facilities are still in the early stage of operation, and self-help improvements are still going on, the usefulness of the project and its distributional benefits to the society -- including the accrual of direct benefits -- cannot be definitively stated at this time. But the trend seems to be clear that such shelter schemes involving an 'in-situ' upgrading approach and the site and services approach provide viable and socially acceptable alternatives to the traditional, heavily-subsidized low-cost housing schemes. The Indonesian context also serves to underscore the merits of attacking the major shelter problems of the very poor and the low to middle income households according to their immediate needs - namely, the provision of essential urban services in the former case and the provision of affordable serviced plots and mortgage schemes in the latter case. Overall, it appears that with only few modifications, the Indonesian KIP approach could be emulated in other countries as a viable alternative to the traditional massive squatter relocation and urban renewal programs of the governments.

9.02 The factor contributing to the success of the KIP upgrading scheme was the pace with which it was implemented -- a pace which had some relation to the magnitude of the problem being attacked and a reasonable time frame within which to achieve the desired results. Most kampung residents quickly got to hear about the scheme and kampung committees frequently applied for early implementation of the KIP in their kampung. The efficiency of the local KIP unit meant that Government could respond quickly to the demand from the communities and implement KIP schemes concurrently in many kampungs in all parts of the city. This speed and coverage also meant that there were no unduly rapid increases in land values in KIP areas, which might have had the effect of driving out low-income residents through increases in rents. Pivotal to the success of KIP, was also the adoption of minimum infrastructure standards which facilitated the city-wide replicability and affordability of the scheme from the viewpoint of the local government. Early provision of sorely lacking urban services, rather than provision of land title to the residents, was the theme stressed in the KIP program. Given the complexity of land tenure arrangements in the Indonesian context and the requisite time-consuming efforts implicit in the securing of tenancy rights, this approach, in retrospect, appears to be appropriate.

9.03 The financing strategy for KIP -- based on increased local tax revenues rather than collecting a betterment fee -- is to a great extent, country-specific and was warranted in the absence of provision of lot ownership for which direct cost recovery through a lot charge would be feasible. Jakarta's experience had clearly indicated that while there was room for improving IPEDA (property tax) collection, an overall improvement in the city's tax revenues would also be needed in order that the financing of KIP program could be sustained -- on a citywide basis -- in the long run. This aspect of KIP financing had become an important theme in the Government's policy for a nationwide KIP program under Repelita III.

9.04 In contrast to the large size of the KIP component, the size of the site and services component was small, being aimed to provide a demonstrative effect on the applicability of minimum-standard, core housing schemes that would be affordable to the low- and middle-income households and would also be replicable on a sound financial basis. The core-shelter concept represented a major departure from the traditional low-cost housing approach based on heavy financial subsidies. Being a new approach, there was initial skepticism on the part of the Government with regards to the standards being adopted and to the marketability of the lots. Only after the completion of the scheme did the Government become fully convinced regarding the marketable potential for serviced lots. In fact, the number of applicants for the Klender scheme exceeded the number of available lots in the ratio of 7 to 1.

9.05 It was learned from the project that there still remains a challenge to produce an adequate core shelter scheme keeping in mind the occupants' ultimate intentions and providing sufficient flexibility to those who do or do not wish to extend the cores immediately. The answer would lie in the provision of a greater number of 'on-plot' options in the desired mix including more completely open plots, in the use of building material loans and in the ingenuity of better designs of the core houses. These options will be studied in detail under the fourth urban project.

9.06 Targetting of the sites and services lots with regard to the income groups to be reached -- between 15th and 50th percentile as envisaged at appraisal -- proved to be difficult due mainly to the difficulties in accurately establishing the family's financial capability. As evidenced by the considerable quality of core house extensions as the Klender site, the reported family incomes which were used as major basis for lot allocation seemed to underestimate the actual amounts afforded by the families. Major factors such as family savings, secondary incomes, and credit availability through the informal sector, etc. should also be considered to the extent possible in defining the target groups.

9.07 Even though the development of NUDC and NMB under the first project was slower than anticipated, these institutions had since grown with experience gained from several government-funded housing projects. In retrospect, the Bank was probably over ambitious in the anticipation of a

rapid growth for these newly created institutions. Because of the sharp difference between the Bank and the Government on the housing policy aspects, -- especially concerning the lots allocation policy and the lending terms -- the Bank had not been able to participate in the financing of sites and services scheme in Indonesia since the first project. These policy differences were eventually resolved to a satisfactory degree which has led to Bank's current participation in the financing of about 12,000 serviced lots in six cities under the fourth project.

9.08 A more balanced approach to urban planning should have included complementary investments in the related 'macro' sectors (of water supply, drainage and solid waste disposal) to cope with the increasing demand for services. However, in the Indonesian context, this was not initially possible due to institutional problems. Significant improvements are still needed to macro drainage in the city. Even though some progress has been made in improving Jakarta's water supply distribution from bilateral source (Japan), much remains to be done in the expansion of water resources. A city-wide comprehensive solid waste improvement scheme has been recently embarked upon under the third urban project. An urban investment strategy for the city is currently under formulation by the 'Jabotabek' study team. Thus a coordinated effort in the physical and economic planning of the city seems to be evolving, albeit at a slower pace.

9.09 The urban sector poses several challenges to the problems of development in any country and more so in Indonesia where urbanization has increased rapidly in the last two decades. Yet, the solutions can only slowly emerge, given the complexity of the problems and the myriad of agencies involved in the urban sector. The most pressing urban issues in Indonesia -- and in other developing countries in the region, as well -- concern the institutional aspects of providing urban services consistent with agreed policy objectives and a rational investment strategy. The above task, is by no means an easy one. Bank's role in the coming years will be to assist the Government in formulating the required strategies for the sector. To this end, the first urban project has already served as a valuable experience to the Government as well as to the Bank.

PROJECT COMPLETION REPORT

INDONESIA: JAKARTA URBAN DEVELOPMENT PROJECT (LOAN 1040-IND)

Principal Report Sources

Report No.	Name	Report date
475a-IND	Appraisal of Jakarta Urban Development Project, Indonesia	08/30/74
P-1493-IND	Report and Recommendation of the President to the Executive Directors on a Proposed Loan to the Republic of Indonesia for a Jakarta Urban Development Project	09/05/74
Loan No. 1040-IND	Loan Agreement (Jakarta Urban Development Project) between Republic of Indonesia and the International Bank for Reconstruction and Development	09/27/74
1184a-IND	Indonesia: Appraisal of the Second Urban Development Project.	09/24/76
2211a-IND	Indonesia: Third Urban Development Project - Staff Appraisal Report	12/12/78
P-2440-IND	Report and Recommendation of the President to the Executive Directors on a Proposed Loan to the Republic of Indonesia for a Third Urban Development Project	01/04/79
	Urban Development Study, Jakarta. By Planned Community Development, Ltd.	04/73
	Sites and Services Project - Klender Jakarta: Completion Report by NUDC	05/79
	Kampung Improvement Program: Project Completion Report. By KIP unit, Jakarta	11/79
	Division (AEPUR) Files on Loan 1040: Correspondence Files and Report Files	Period 1971-80
	Project Progress and Evaluation for KIP and PADCO, Inc. for Klender Sites and Services	Period 1976-79

PROJECT COMPLETION REPORT

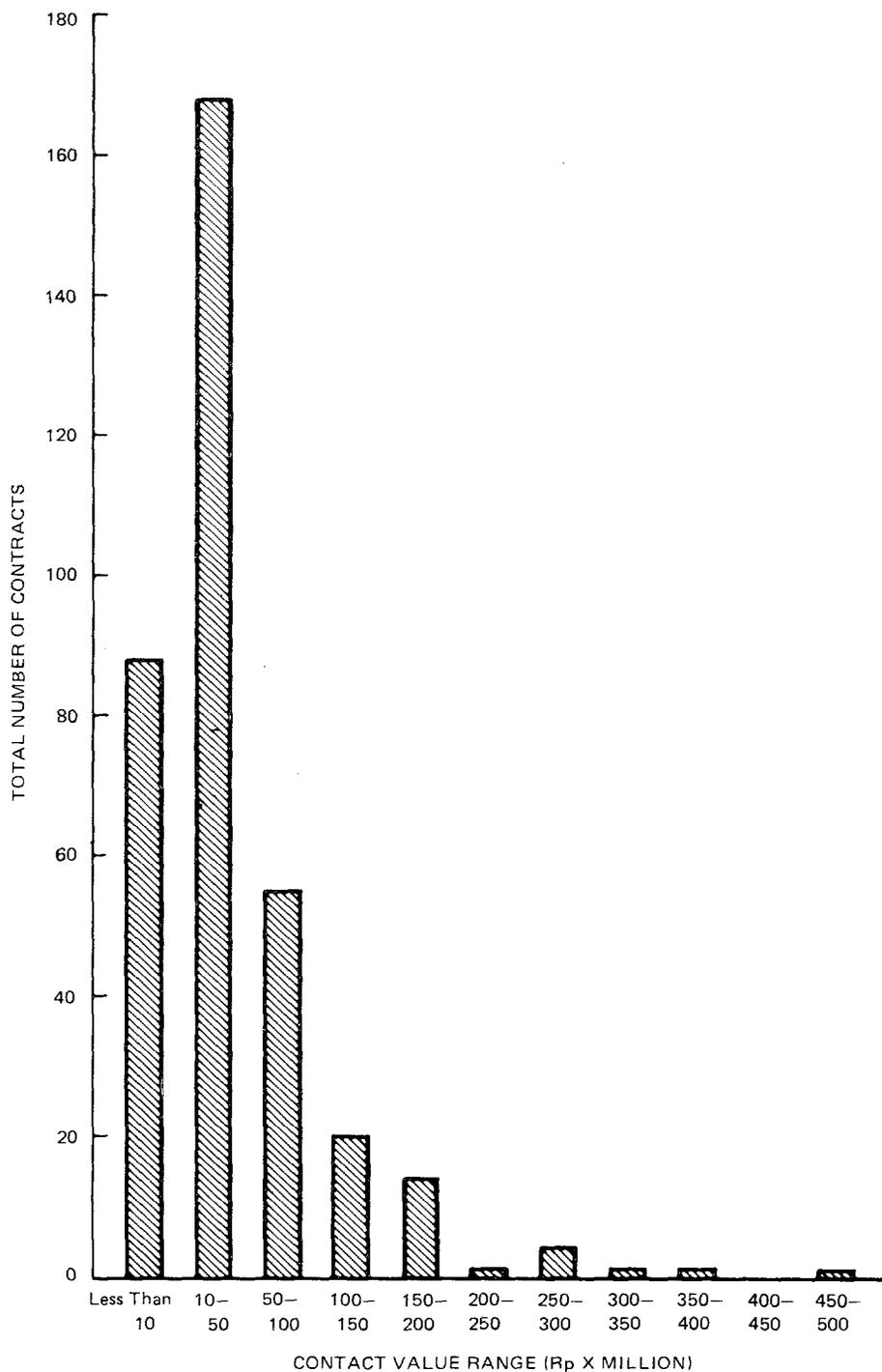
INDONESIA: JAKARTA URBAN DEVELOPMENT PROJECT (LOAN 1040-IND)

Listing of Key staff on Missions

Mission	Member(s)	Month/Year
Identification I	K. Iverson, K. Mera	05/71
Identification II	K. Iverson, L. Moss, D. Holland (c)	11/71
Preparation I	K. Iverson,	01/72
Preparation II	K. Iverson, N. Farmer	05/72
Preparation III	K. Iverson, N. Farmer	10/72
Preappraisal	N. Farmer, Sadove	04/73
Appraisal I	N. Farmer, K. Guinness	07/73
Appraisal II	N. Farmer, K. Guinness	11/73
Appraisal III (Post-appraisal)	N. Farmer,	01/74
Supervision I	N. Farmer, D. Cook, K. Guinness	09/74
Supervision II	D. Cook, A. Pellegrini	11/74
Supervision III	A. Pellegrini, D. Cook, S. Basta, J. Osborn	02/75
Supervision IV	A. Stone	08/75
Supervision V	A. Pellegrini, I. Sud	07/76
Supervision VI	A. Pellegrini, R. Ramani	11/76
Supervision VII	I. Sud, R. Ramani, S. Basta, F. Jorgensen (c)	01/77
Supervision VIII	I. Sud, D. Williams	09/77
Supervision IX	I. Sud, R. Ramani	02/78
Supervision X	R. Ramani, D. Williams	02/79
Completion	R. Ramani, D. Williams	09/80

PROJECT COMPLETION REPORT  
INDONESIA: JAKARTA URBAN DEVELOPMENT PROJECT  
LOAN 1040

CONTRACT SIZE DISTRIBUTION FOR  
KIP CIVIL WORKS CONTRACTS



ACTUAL AND APPRAISAL EXPECTATION OF PROJECT FINANCING  
(millions of US dollars)

Sources of funds	KIP component /a		Sites & services component /a		Vehicles /b		Technical assistance /c	
	Actual	Appraisal	Actual	Appraisal	Actual	Appraisal	Actual	Appraisal
DKI	17.0 (49%)	17.9 (50%)	0.8/d (6%)	0.8 (7%)	-	-	-	-
GOI	-	-	9.7 (67%)	6.9 (58%)	-	-	0.5 (17%)	0.4 (13%)
IBRD /b	17.9 (51%)	17.9 (50%)	3.6/e(27%)	4.1 (35%)	0.3(100%)	0.3(100%)	2.4 (83%)	2.7 (87%)
<u>Total</u>	34.9(100%)	35.8(100%)	14.1 (100%)	11.8(100%)	0.3(100%)	0.3(100%)	2.9(100%)	3.1(100%)

/a Involves 100% local currency expenditures.

/b Involves 100% foreign currency expenditure.

/c Involves 98% of foreign currency and 2% local currency expenditures.

/d Estimate.

/e Of this amount, about \$1.4 million was financed in the post-devaluation period (after November 15, 1978).

RELATIVE DISBURSEMENT TRENDS FOR INDIVIDUAL PROJECT CATEGORY

Category	Loan amount /a	Actual disbursement (cumulative) by Bank fiscal year						
		FY75	FY76	FY77	FY78/b	FY79/c	FY80/d	FY81/e
-----US\$ million-----								
Kampung improvement program	17.92	2.86	12.58	16.30	17.86	17.86	17.86	17.86
Sites and services	4.09	0	0	0	0	2.13	2.75	3.59
Vehicles	0.34	0	0	0.24	0.26	0.26	0.32	0.32
Technical assistance	2.65	0	0.36	1.52	2.20	2.34	2.39	2.39
<u>Total loan</u>	25.00							
Cumulative disbursement (actual)		2.86	12.94	18.06	20.32	22.59	23.32	24.16/f
Cumulative disbursement (appraisal)		1.41	20.24	24.56	25.00	-	-	-
% Disbursement		39	64	74	81	90	93	97

/a Including all applicable contingencies distributed according to category.

/b Original loan closing date per loan agreement - December 31, 1977.

/c First Revised Loan Closing Date - June 30, 1979

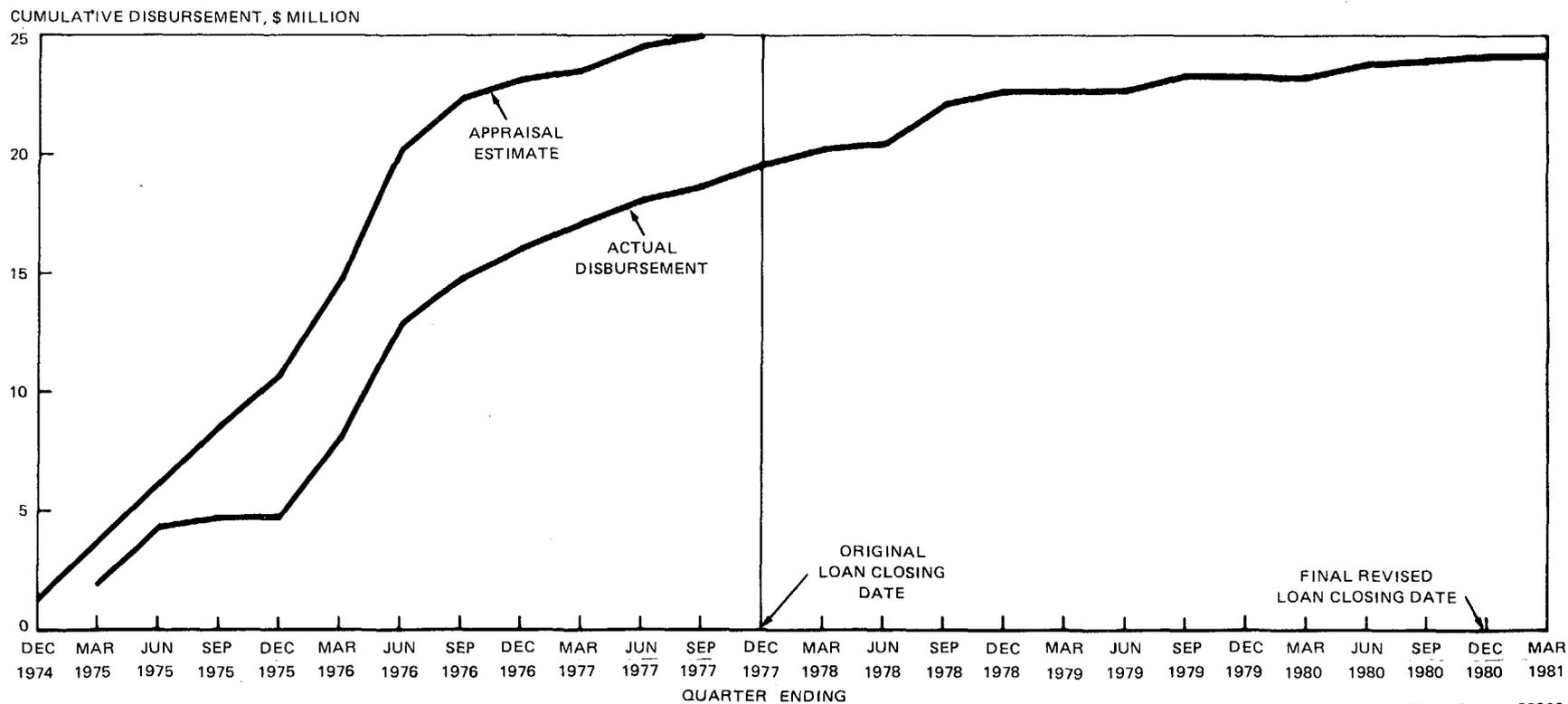
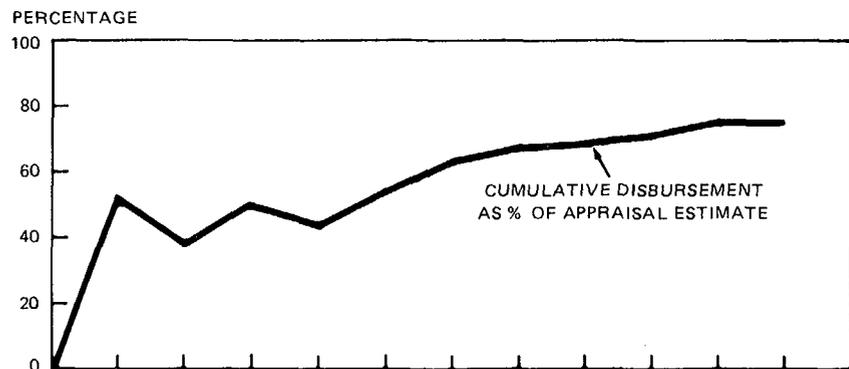
/d Second Revised Loan Closing Date - March 31, 1980

/e Third Revised Loan Closing Date - December 31, 1980

/f Cancelled Loan amount = \$0.84 million.

PROJECT COMPLETION REPORT  
 INDONESIA: JAKARTA URBAN DEVELOPMENT PROJECT  
 LOAN 1040

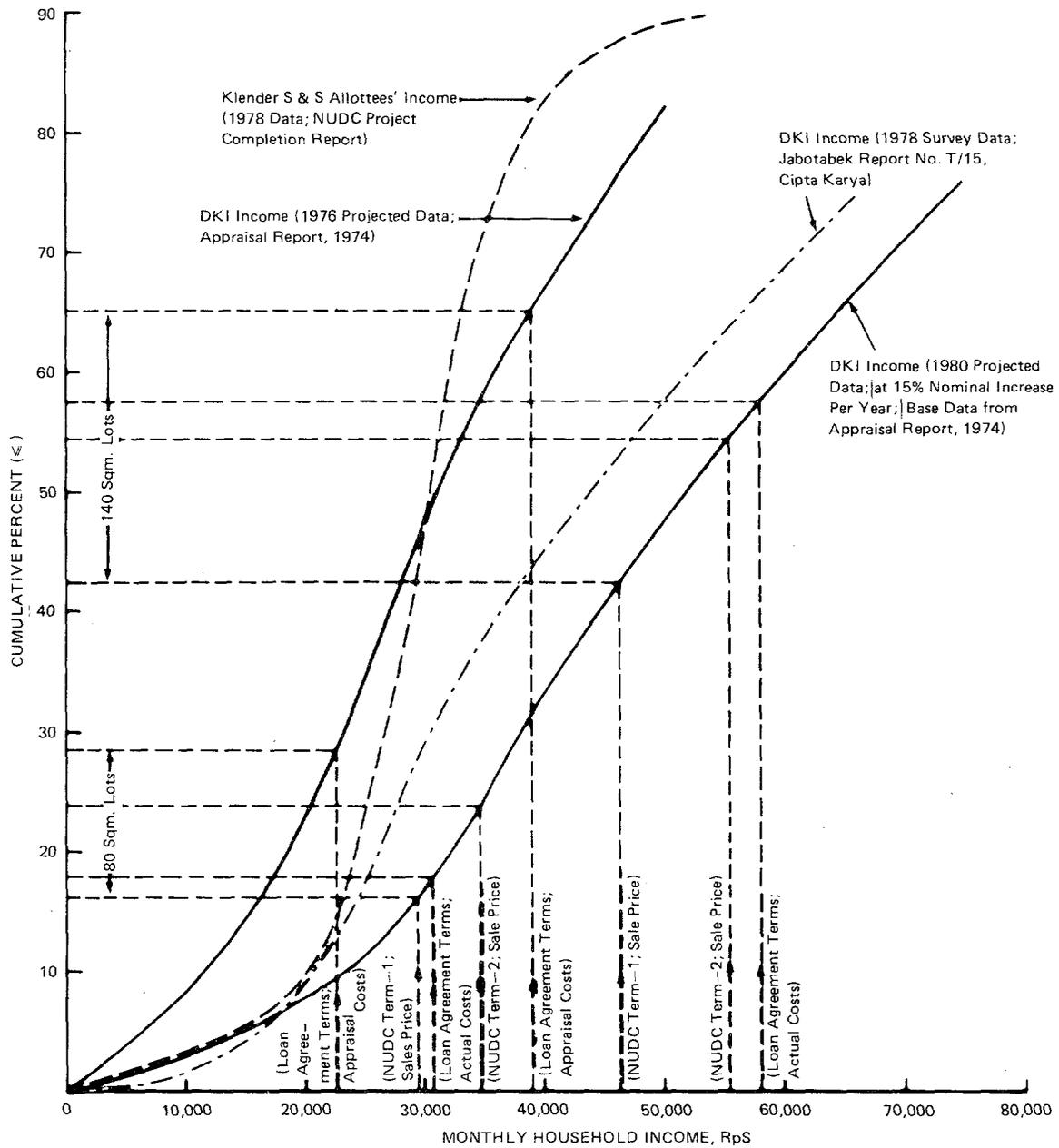
DISBURSEMENT PROFILES FOR ACTUAL  
 AND APPRAISAL ESTIMATES



World Bank - 22922

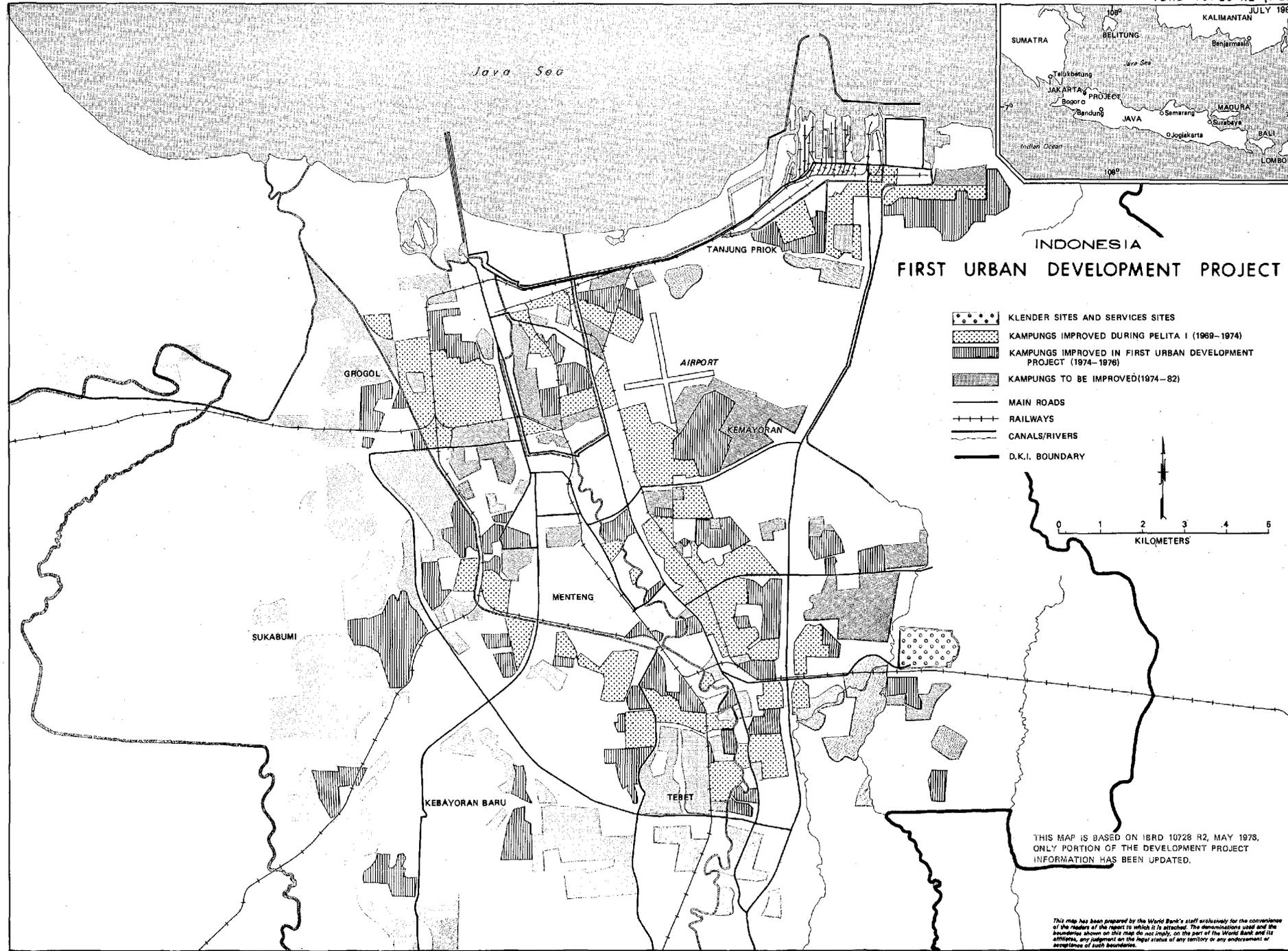
PROJECT COMPLETION REPORT  
 INDONESIA: JAKARTA URBAN DEVELOPMENT PROJECT  
 (LOAN 1040-IND)

FIGURE: INDICATIVE AFFORDABILITY PROFILES  
 FOR APPRAISAL AND ACTUAL CONDITIONS  
 (See Table V-1 for Details)



	% Interest	Repayment Period
Loan Agreement Terms	12	15 Years
NUDC Term-1	5	20 Years
NUDC Term-2	5	15 Years





INDONESIA  
**FIRST URBAN DEVELOPMENT PROJECT**

-  KLENDER SITES AND SERVICES SITES
-  KAMPUNGS IMPROVED DURING PELITA I (1969-1974)
-  KAMPUNGS IMPROVED IN FIRST URBAN DEVELOPMENT PROJECT (1974-1976)
-  KAMPUNGS TO BE IMPROVED(1974-82)
-  MAIN ROADS
-  RAILWAYS
-  CANALS/RIVERS
-  D.K.I. BOUNDARY

0 1 2 3 4 5  
 KILOMETERS

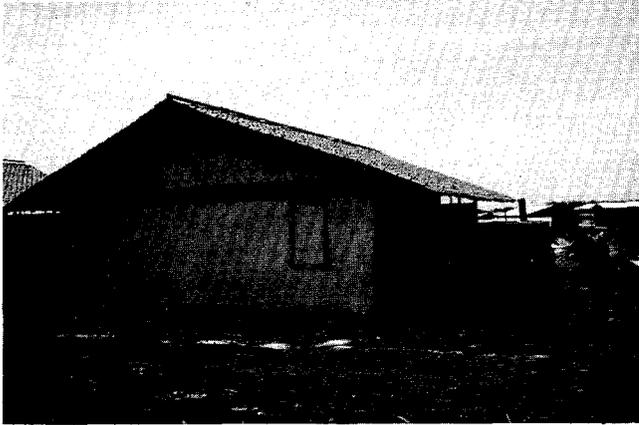
THIS MAP IS BASED ON IBRD 10728 R2, MAY 1978.  
 ONLY PORTION OF THE DEVELOPMENT PROJECT  
 INFORMATION HAS BEEN UPDATED.

This map has been prepared by the World Bank's staff exclusively for the convenience of the readers of the report to which it is attached. The demarcations used and the boundaries shown on this map do not imply, on the part of the World Bank and its affiliates, any judgment on the legal status of any territory or any endorsement or recognition of such boundaries.



INDONESIA URBAN I

SITES AND SERVICES PROJECT AT KLENDER, JAKARTA



Original Core Unit model.  
Subsequently discontinued  
and replaced by one below.



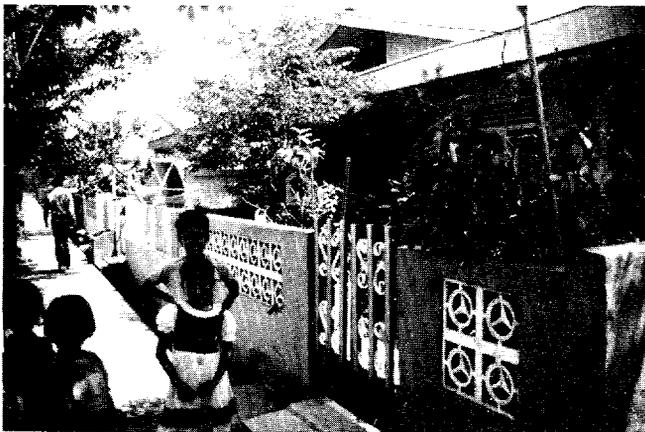
Core Unit  
before extension/  
modification



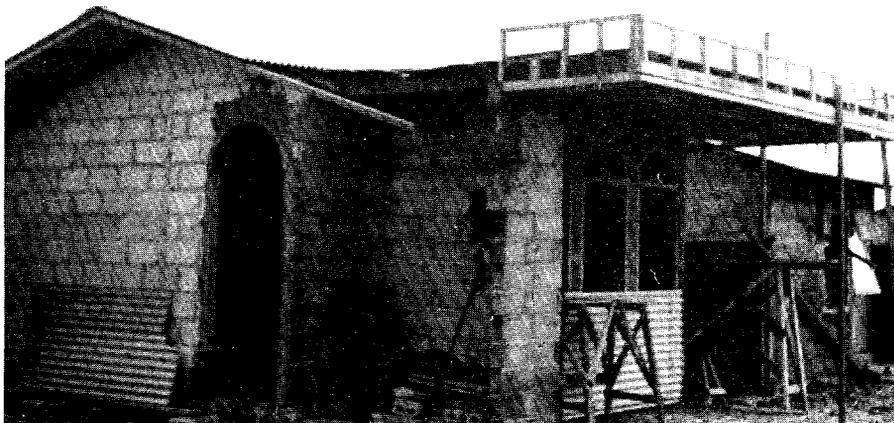
KLENDER continued.



Core Unit  
undergoing  
modification  
by owner



Footpath access in site.  
Note garden walls and  
new roof extensions  
built by residents.



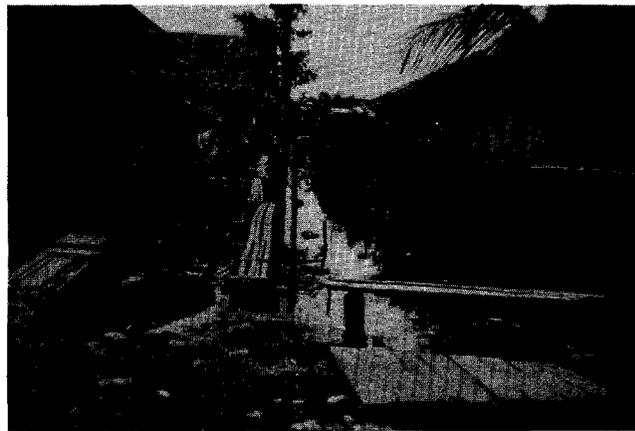
Core Unit  
substantially  
reconstructed  
and expanded  
by owner.



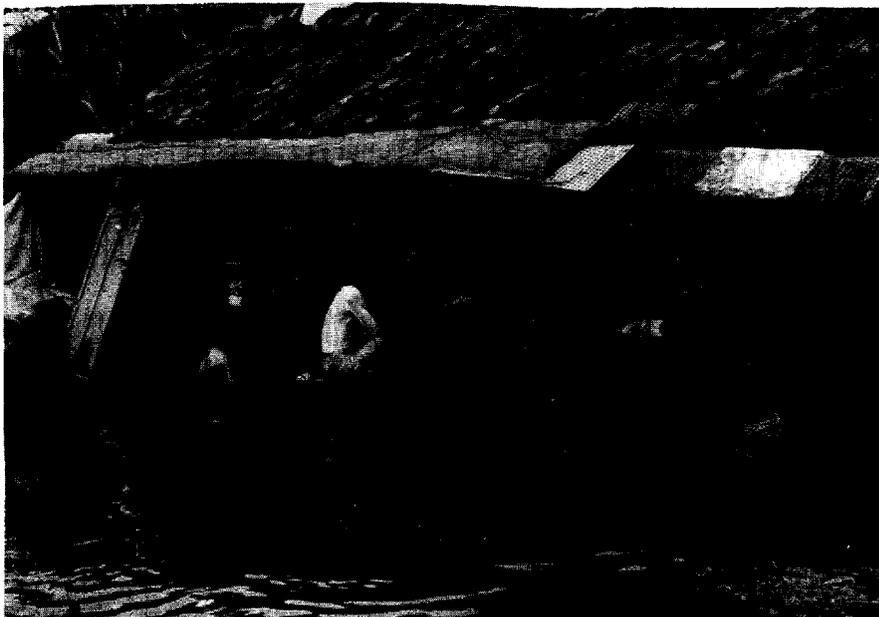
KAMPUNG IMPROVEMENT PROGRAM. Conditions before improvements.



Garbage thrown  
into open spaces.  
No collection or  
disposal system.



Stagnant sewage,  
unsafe access.



Kampungs regularly  
flooded.



KAMPUNG IMPROVEMENT PROGRAM. During upgrading.



Road installation.  
Note houses which have  
been chopped to allow  
space for road are now  
being reconstructed and  
improved by owners.



Major canal works  
and bridge.



Footpath constructed but  
side drains not yet  
completed.



KAMPUNG IMPROVEMENT PROGRAM. Completed KIP Works.



Road and side drains completed. Note earlier photo showing works in progress.



New water hydrant and toilet facility (MCK). Presence of vendor indicates that number of taps still insufficient.



Completed footpath and side drains. Note that stagnant water still collects in drains, requiring larger drainage system to link with KIP microdrainage.