RESTRICTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING
OF THE
URBAN SECTOR DEVELOPMENT REFORM PROJECT (USDRP)
LOAN 7760-IND

CO-FINANCED BY
PHRD GRANT No. TF053555-IND

TO THE
THE REPUBLIC OF INDONESIA

May 17, 2012
ABBREVIATIONS AND ACRONYMS

APBN  Anggaran Pendapatan dan Belanja Negara (Central Government Budget)
CPMU  Central Project Management Unit
DIPA-SLA  Budget Document for SLA
FM  Financial Management
IP  Implementation Progress
KPI  Key Performance Indicator
LED  Local Economic Development
LUSPD  Local Urban Strategy and Policy Development
NUSPD  National Urban Strategy and Policy Development
PDO  Project Development Objective
PMM  Project Management Manual
SLA  Subsidiary Loan Agreement
TPA  Transparency, Participation and Accountability
ULG  Urban Local Government

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URBAN SECTOR DEVELOPMENT REFORM PROJECT

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URBAN SECTOR DEVELOPMENT REFORM PROJECT

RESTRUCTURING PAPER

1. This Restructuring Paper seeks Country Director approval to introduce the following changes in the Republic Indonesia: Urban Sector Development Reform Project (USDRP), Loan 7760-IND (formerly Loan 4786-IND) and the related PHRD Grant TF 053555, P071296, and any accompanying amendments to the project’s legal documents.

A. SUMMARY

2. The project supports 10 Urban Local Governments (ULGs) in rebuilding/building 13 markets, one bus terminal, and one fish auction facility and in implementing their local reform agenda. These markets would benefit about 6,000 traders. Seven ULGs have completed the construction of their markets and terminal. Whereas two ULGs (Banda Aceh and Morowali) are still in the construction process and one (Sawahlunto) is in the process of rebidding its civil works for the market. All ULGs are implementing their reform agenda in three areas, i.e., transparency, participation and accountability (TPA), financial management, and procurement. Construction delays in these three ULGs were mainly due to the delays in the bidding process and in the issuance of the DIPA-SLA (budget document). The Executing Agency confirmed that all of the construction in the three ULGs will be completed in the end of May 2013, and by this time, indicators of reform areas will be fully achieved, except for one of the three procurement reform indicators, i.e. “announcement in public domain and award the contractors/suppliers with best performance at least once a year in at least one local agency by using the agreed criteria”.

3. Given the above, the proposed changes are (i) to extend the current Loan closing date and the current PHRD grant closing date from June 30, 2012 to May 31, 2013, and (ii) to simplify one of the three performance indicators for procurement reform. This will be the second extension of the project, and if it is granted, the cumulative extension will be 23 months from the original loan closing date of June 30, 2011. The proposed extension is necessary to: (i) complete construction of three subprojects in three participating ULGs; (ii) promote ULGs in accelerating subproject operation; and (iii) ensure that all reform indicators are fully achieved.

B. PROJECT STATUS

4. The project was approved by the Bank’s Board of Directors on June 7, 2005 and became effective on January 18, 2006. The original closing date was June 30, 2011. The project has been formally amended on five occasions: (a) on January 18, 2006, to deal with delays by several ULGs in meeting the effectiveness condition of adopting the Project Management Manual (PMM); (b) on March 26, 2007, to include Least Cost Selection as a procurement method; (c) on July 14, 2008, to add four new participating ULGs to partially compensate for the eight ULGs that had either dropped out of the program or failed to launch project activities; (d) on May 7, 2010, to modify the Project Development Objective (PDO) and reorient Project indicators, to reallocate loan proceeds
and revise disbursement categories as well as to include two additional participating ULGs and to extend the loan closing date for one year; and (e) on February 14, 2011, to implement a partial loan cancellation and reallocation. The PDO is to assist the Borrower to strengthen local governance and improve the provision of selected urban services by participating ULGs and additional participating ULGs. This project is one of a number of sub-national projects currently financed by the World Bank that support the Indonesian government’s ambitious decentralization agenda. The projects are being implemented in a highly complex and challenging environment, and seek a breakthrough on vital issues related to effective implementation of Indonesia’s decentralization program.

5. **Project Performance.** Overall Implementation Progress (IP) is rated “moderately satisfactory” since the Project has made reasonable progress toward achieving its objectives through the implementation of the core urban reform agenda and priority urban investments as specified in the Key Performance Indicators (KPIs) in ten ULGs. The following describes the progress of the project for each component.

6. **Progress of Component A.** The project has made good progress under the urban reform and institutional support component. Most of indicators in Component A have been achieved and sometimes exceeded\(^1\), among others: maintaining disclosure of various public information through websites, set-up of public complaints handling mechanism by establishing responsible institution, promote public participation by ensuring block grant mechanism or indicative budget for financing local development, issuance of local regulations to improve financial management and transparency, completion of district/municipality/local economic development (LED) plan, and establishment a provincial center of excellence for urban development and core governance reform in South Sulawesi. The project also assisted BAPPENAS in preparing the National Urban Strategy and Policy Development (NUSPD) and helped eight municipalities/districts to develop Local Urban Strategy and Policy Development (LUSPD). There are a few indicators which have come in slightly\(^2\) below target such as: publication of annual audit reports, institutionalizing complaint handling mechanisms in the form of operational standards, implementation of LED activities. The indicator of “announce in public domain and award the contractors/suppliers with best performance at least once a year in at least one local agency by using the agreed criteria” at the ULG level is difficult to implement due to discrepancy with local regulations applied at local level. The Executing Agency is planning to implement 25 capacity building activities during 2012 with the support of the loan, grant and national budget (APBN) to ensure that the performance indicators are fully achieved. As of to date CPMU has carried out six capacity building activities. CPMU is planning to carry out all of the capacity building activities up to December 2012.

7. **Progress of Component B.** All ULGs have signed subsidiary loan agreements (SLA). Among ten ULGs, seven have completed subproject construction. Among the seven ULGs, five have initiated subproject operations. At least two ULGs are able to generate additional revenues from subproject operations (traditional markets and small

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\(^1\) More than 70-80% participating ULGs have achieved the indicators, except for implementation LED activities which depends on annual local budgeting process

\(^2\) It is only 10-20% ULGs that are currently below the target for each lagged behind indicator s
bus terminal) while another two ULGs initiated operations in January 2012 and one ULG has a subproject in partial operation. Two ULGs are in the construction stage and one is re-tendering its works. The Table below shows the status subprojects in each ULG.

Table 1: Subprojects Financed by Urban Sector Development Reform Project

<table>
<thead>
<tr>
<th>District/Municipalities</th>
<th>Subprojects</th>
<th>Loan Amount (USD Million)</th>
<th>Subproject Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cimahi</td>
<td>New Pasar Atas Market</td>
<td>1.53</td>
<td>Partial operation</td>
</tr>
<tr>
<td>Palopo</td>
<td>Big Market</td>
<td>4.80</td>
<td>Initial operation (in selection process of market manager)</td>
</tr>
<tr>
<td>Pare-pare</td>
<td>Lakessi Central Market</td>
<td>4.48</td>
<td>Initial operation (traders relocation from temporary to the new market, negotiating new tariff structure)</td>
</tr>
<tr>
<td>Sidenreng Rappang</td>
<td>Pangkajene Central Market</td>
<td>4.71</td>
<td>Full operation (has generated approximately 2-3 times local revenue)</td>
</tr>
<tr>
<td></td>
<td>Rappang Central Market</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tanrutedong Market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ParigiMoutong</td>
<td>Parigi Central Market</td>
<td>3.04</td>
<td>Not yet in operation, needs to complete construction of additional facilities financed by local budget</td>
</tr>
<tr>
<td></td>
<td>Toboli Terminal</td>
<td></td>
<td>Full operation</td>
</tr>
<tr>
<td>Palangkaraya</td>
<td>Kahayan Market</td>
<td>2.39</td>
<td>Initial operation</td>
</tr>
<tr>
<td>Barru</td>
<td>Pekkae Market</td>
<td>5.15</td>
<td>Initial operation (refining tariff structure based on loan repayment rate)</td>
</tr>
<tr>
<td></td>
<td>Mangkoso Market</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Palanro Market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Morowali</td>
<td>TPI (Fish Auction Market)</td>
<td>2.08</td>
<td>In construction (20 % progress)</td>
</tr>
<tr>
<td>Banda Aceh</td>
<td>Aceh Market</td>
<td>4.33</td>
<td>In construction (36 % progress)</td>
</tr>
<tr>
<td>Sawahlunto</td>
<td>City Market</td>
<td>1.90</td>
<td>Retender (bid opening is scheduled for the end of April 2012)</td>
</tr>
</tbody>
</table>

8. **Disbursement.** Disbursement from the loan and grant up to March 31, 2012 is USD 29.21 million (76% of the total loan) and 4.06 million (81% of the total grant), respectively. As of March 2012, of the IBRD loan of $38.4 million, $34 million has already been committed under works and consultant services contracts (about 88.4% of the loan amount). Whereas of the $ 5 million Grant amount, $4.4 million (94%) has been contracted. The remaining loan amount has been committed under SLAs and for consultant services, while the remaining grant amount will be used for financing technical assistance and capacity building activities. Some of these committed activities will be implemented during the expected Project extension period.

C. **PROPOSED CHANGES**

9. **Extension of Loan closing date and PHRD Grant closing date.** An extension of the loan closing date and grant closing date from June 30, 2012 until May 31, 2013 is proposed. This is necessary to (i) complete construction of three subprojects in three
participating ULGs; (ii) support ULGs as they put subprojects into operation; (iii) ensure that all reform indicators are fully achieved; and, (iv) complete the implementation of the remaining capacity building activities at both the central and local levels.

The schedule of construction and handover including the defect liability period for the three ULGs, i.e., Banda Aceh, Morowali and Sawahlunto is as follows:

- Banda Aceh completion is expected in end of May 2013
- Morowali completion is expected in end of February 2013
- Sawahlunto completion is expected in end of May 2013

Capacity building activities (25 training and workshops packages overall) will be implemented by December 2012. Some capacity building activities (LED and FM) will be carried out in cooperation with professional training centers, such as University of Indonesia Training Center, while others will be undertaken as self-management by Ministry of Public Works in cooperation with relevant ministries and agencies. Technical assistance will be provided up to March 30, 2013 for ULGs that show less progress in implementing their reform agenda. Capacity building activities cover areas to support the implementation of reform agenda, improve the quality of the achievement of key performance indicators, develop better management of subproject operation in order to generate local revenues, and improve construction quality, including maintenance.

Concerning subproject operation, based on previous experience, ULGs will need a three (3) to six (6) month period for preparing subproject operation.

10. **Key Performance Indicators (KPIs).** The Executing Agency proposed that one of three indicators of procurement reforms need to be adjusted as a response to the constraints of the local regulations. The proposed changes is included in Schedule 9 (Performance Indicators), Indicator (iii) under Part A “Urban Reform – Participating ULGs practice sound procurement” in Schedule 6 is amended as set out below. The revised indicator is in italics for ease of reference. This change remains in line with the Project’s objectives.

<table>
<thead>
<tr>
<th>Participating ULGs practicing sound Procurement</th>
<th>At least 60 % of Participating ULGs achieve (i), (ii) and (iii)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Min. 75% of the bids be awarded within the bid validity period, and publicized in the public domain, e.g. website, local bulletin</td>
<td></td>
</tr>
<tr>
<td>(ii) Min 50% of tendering committee members have national procurement certification</td>
<td></td>
</tr>
<tr>
<td>(iii) Performance evaluation of contractors/suppliers is conducted in at least one Dinas in the particular ULG and records are available</td>
<td></td>
</tr>
</tbody>
</table>
For the purposes of the foregoing performance indicator, “Dinas” means the local unit at the ULG level.
ANNEX 1
Revised Performance Indicators

Key Performance Indicators

Part A: Urban Reform—Participating ULGs practicing sound procurement

Original indicator:

"(iii) announce in public domain and award the contractors/suppliers with best performance at least once a year in at least one local agency using the agreed criteria"

changed to:

"(iii) performance evaluation of contractors/suppliers is conducted in at least one Dinas in the particular ULG and records are available".

11. The proposed changes are included in Schedule 9 (Performance Indicators), Indicator (iii) under Part A “Urban Reform – Participating ULGs practice sound procurement” in Schedule 6 is amended as set out below. The revised indicator is in italics for ease of reference.

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<td>(iv) Min. 75% of the bids be awarded within the bid validity period, and publicized in the public domain, e.g. website, local bulletin</td>
<td></td>
</tr>
<tr>
<td>(v) Min 50% of tendering committee members have national procurement certification</td>
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<tr>
<td>(vi) Performance evaluation of contractors/suppliers is conducted in at least one Dinas in the particular ULG and records are available</td>
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For the purposes of the foregoing performance indicator, “Dinas” means the local unit at the ULG level.
ANNEX 2
Extension of Closing Date

INDONESIA — URBAN SECTOR DEVELOPMENT REFORM PROJECT
P071296
(LN. 7760-IND/TF 53555)

Restructuring Paper

1. The closing date for Indonesia, URBAN SECTOR DEVELOPMENT REFORM PROJECT, LN. 7760-IND/TF 53555, P071296 will be extended from June 30, 2012 until May 31, 2013.

2. The Project progress. Disbursement to the loan and grant up to March 31, 2012 is USD 29.21 million (76% of the total loan) and 4.06 million (81% of the total grant) respectively. The current project closing date is June 30, 2012.

   The project has made good progress in Urban Reform and Institutional Support component. Most of indicators in this component have been achieved beyond target\(^3\), except publication of annual audited report, institutionalizing complaint handling mechanism in the form of operational standard, implementation of local LED activities, and establishing procurement award mechanism. For ensuring achievement the lagged behind indicators, the Executing Agency (EA) is planning to carry out a series of capacity building activities and technical assistance to ULGs that have less progress in reform implementation. These capacity building activities will be financed by loan, grant and national budget (APBN) and which will be executed up to December 2012.

   Meanwhile, the project has made reasonable progress in urban investment component, among others: all ULGs have signed subsidiary loan agreement (SLA), however, as of March 31, 2012 only seven ULGs have completed subproject construction. Another three ULGs will complete construction beyond the current loan closing date. Among seven ULGs, five are having subprojects in operation, in which at least two ULG has benefitted from increased revenue.

3. Proposed extension. The project is progressing towards the achievement of its objectives. In order to fully achieve its objectives, it is necessary to extend the current loan closing date of June 30, 2012 to May 31, 2013 to (i) complete construction of three subprojects in three participating ULGs; (ii) promote ULGs in accelerating subprojects operation; (iii) ensure that all reform indicators are fully achieved; and, (iv) complete the implementation of the remaining capacity building activities in both central and local levels. The Borrower has an action plan which confirmed that:

   (i) subproject construction in three ULGs will be completed on May 31, 2013;

   (ii) performance indicators will be fully achieved

\(^3\) more than 70-80% participating ULGs have achieved the key performance indicators
4. This will be the second extension of the project. The first extension of one year from the original closing date (June 30, 2011 until June 30, 2012) was approved on May 7, 2010 along with the modification of the Project Development Objective (PDO) and reorientation of project indicators, reallocation of loan proceeds and revision of disbursement categories as well as inclusion of two additional participating ULGs.