



<b>1. Project Data:</b>		<b>Date Posted :</b> 09/22/2003	
<b>PROJ ID:</b> P003951		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Kalimantan Urban Development Project	<b>Project Costs (US\$M)</b>	251.3	153.1
<b>Country:</b> Indonesia	<b>Loan/Credit (US\$M)</b>	136.0	105.7
<b>Sector(s):</b> Board: UD - General water sanitation and flood protection sec (50%), Roads and highways (20%), Central government administration (10%), Sub-national government administration (10%), Housing construction (10%)	<b>Cofinancing (US\$M)</b>		
<b>L/C Number:</b> L3854; LP170			
	<b>Board Approval (FY)</b>		02
<b>Partners involved :</b>	<b>Closing Date</b>	06/30/2001	12/31/2002
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
John English	Laurie Effron	Alain A. Barbu	OEDST

**2. Project Objectives and Components**

**a. Objectives**

The project was implemented in the five major cities in the Kalimantan provinces, Balikpapan, Banjarmasin, Palangka Raya, Pontianak, and Samarinda . It had three principal objectives :

- (a) To improve the provision of urban infrastructure and services and the efficiency of urban investments;
- (b) to promote stronger, more autonomous, and financially more independent municipal governments; and
- (c) to contribute towards urban poverty reduction, mainly through better access to essential services and an improved urban environment.

**b. Components**

(a) *Water Supply*; (US\$44.0 million - or 21 percent of base cost). This included investments for water treatment plants, distribution networks, rehabilitation, increased O&M, and leakage control;

(b) *Urban Roads*; (US\$55.9 million - or 28 percent of base cost). Project expenditure was to improve routine maintenance, rehabilitate about 125 km. of existing roads and improve about 280 km., and construct about 30 km of new, major roads.

(c) *Solid Waste Management*; (US\$8.3 million - or 4 percent of base cost). This consisted of construction of new final disposal sites for each city and transfer stations, and procurement of relevant heavy equipment .

(d) *Sanitation/Human Waste Disposal*; (US\$11.8 million or 6 percent of base cost). Construction of on-site facilities of sewerage/interceptor schemes and septic sludge disposal sites, and procurement of septic sludge disposal trucks.

(e) *Kampung Improvement Program (KIP)*; (US\$21.1 million - or 10 percent of base cost). About sixty-four kampungs (informal settlements in the poorer parts of the cities ) were to be upgraded through provision of roads, paths, drainage, water supply, and sanitation . The component would also include new low cost housing developments and improve the infrastructure of about 24 markets in very poor condition .

(f) *Drainage*; (US\$23.8 million - or 11 percent of base cost). This included the rehabilitation and improvement of primary and secondary drains, normalization of river banks and deferred and incremental O&M .

(g) *Project Implementation Support TA*; (US\$10.3million - or 5 percent of base cost). This provided engineering services to assist with the final design stages of the work in the program and supervision of their construction .

(h) *Institutional Development Technical Assistance and Training*; (US\$11.7 million - or 5 percent of base cost). Assistance for project management and monitoring, institutional capacity building for each agency and technical and managerial training for the water enterprises.

The five cities and their water enterprises (PDAMs) were the principal implementing agencies. A project Management Unit (PMU) and Project Monitoring Office (PMO) was created in each city to coordinate all activities,

citywide. The central Directorate General of Human Settlements, Ministry of Public Works was responsible for overall management of the project.

### **c. Comments on Project Cost, Financing and Dates**

The rupiah was substantially devalued during the project period and, even accounting for an expansion of activities (see below), the final project cost was US\$153.1 million, compared to the appraisal estimate of US\$251.3 million. The final amount of the Bank loan was US\$105.7 million, US\$30.3 million below the agreed amount. Because of the economic circumstances the Bank increased its share of local financing (see below). The closing date was extended twice by a total of 18 months to complete an expanded work program.

### **3. Achievement of Relevant Objectives:**

The overall objectives were satisfactorily met.

(a) Infrastructure. The overall provision of infrastructure was substantially improved through the project. Achievements of the *KIP* were highly satisfactory (except for improvement of market facilities), those for *water supply, roads, and drainage* were satisfactory, and *sanitation and solid waste management* were marginally satisfactory. (Specific highlights are given in sections 4 & 5).

(b) Municipal government. Overall, this objective was also achieved. The project expanded the local government role in project planning and programming, strengthened the Local Government Water Enterprises (PDAMs), including their financial status, and improved the financial autonomy and strength of the municipalities.

(c) Improving the relative position of the poor and the overall environment. The *KIP* was specifically targeted at the low income areas and *KIP* activities are estimated to have benefited nearly half of the population of the five cities. In addition, the water supply programs targeted connections and public hydrants in low income areas, as did the sanitation program in its communal septic tank program.

The overall urban environment was also improved. The cities are markedly cleaner than before. Solid waste management and collection of human waste were significantly increased over the life of the project, and poorly managed old landfill sites, situated next to settlements, were closed down. The project also established the "One Stop Permit System" in the five cities. This is aimed at streamlining and simplifying local government permit procedures and is of particular benefit to traders and small contractors in the lower income, *kampung* areas. In addition, the use of mitigation plans was incorporated into all physical work contracts, to try and reduce the disturbance caused by the construction and other works.

### **4. Significant Outcomes/Impacts:**

The project was implemented during a period of considerable political, social and economic turmoil in Indonesia. Following the East Asian economic crisis in 1997 there was a massive devaluation of the rupiah from just over 2,000 to the dollar to more than 15,000 in mid-1998. The rupiah's value rebounded to around 9,000 per dollar at project completion. In dollar terms the cost of local construction etc. fell markedly, while in rupiah terms, the cost of imported goods sky rocketed. As a result, all contracts had to be reviewed and many were renegotiated. Economic activity slumped because of the devaluation etc., with an adverse impact on finances at all levels of government. To offset this, the Bank agreed to reduce counterpart funding requirements for civil works from 40% to 20%.

The project was also impacted by political and social turmoil, especially in 1999-2001. Civil disturbances in Pontianak, Banjarmasin and Palangka Raya, caused by ethnic clashes in those areas, seriously disrupted project implementation, including the destruction by fire in 2000 of the government building in Palangka Raya housing the local project unit and its files. Many contracts in these cities had to be extended due to a lack of labor during periods of turmoil, and supervision by the central government and the Bank was disrupted.

As noted, the devaluation of the rupiah reduced the dollar cost of the project. In order to mitigate the effects of the economic/financial crisis of 1998/99, advantage was taken of this to initiate a program of small, labor-intensive civil works to provide employment (largely expanded *KIP* activities), and the project's scope was also amended to cover technical assistance for poverty alleviation activities in urban centers in northern East Java, where the crisis was particularly acute. However, the ICR does not specifically report the costs incurred by these extra activities.

With five cities covered by the project and eight components, the project funded the implementation of a huge number of individual local operations. Performance inevitably varied, but the ICR presents a mass of detailed information on the individual components that reports that, overall, the quality of the works undertaken was satisfactory. Overall, performance is reported to have been best in Pontianak, and least satisfactory in Palangka Raya. However, the latter city was most affected by the social unrest and central support to the local project office was disrupted.

Among the components, as noted above, the *KIP* was most satisfactory. Because of the increased availability of funding, and in response to the economic crisis, the scope of activity was significantly expanded and the project was able to reach more than twice the originally proposed area, and worked in 181 locations versus the SAR target of 99. In addition to the project funding, the projects drew significant contributions from the communities.

Overall, the most significant achievement of the project was in satisfactorily carrying out the expanded program of works under very difficult circumstances.

**Note.**

The ICR observes that in operations such as those supported by the project, where the cities assisted had limited experience of working with external aid agencies or in managing significant contracts, the performance of individual units was very dependent upon the quality of their leadership . Staff were often limited in professional experience and dedicated leaders who were able to stay in post for a significant period were able to achieve a great deal and also contributed significantly to the effective use of external consultant inputs .

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

Two of the project's components had disappointing outcomes . The first of these was septic sludge disposal . Most of the facilities are operating only sporadically and none of them is operating near capacity . Most suffer from shortcomings in design and effective programs for emptying local septic tanks and disposing of the waste at the facilities have not been developed .

The second unsatisfactory component was the improvement of markets . This was an element of the KIP . There appears to have been inadequate consultation with the stall holders and other parties involved . As a result, designs were often unpopular and the facilities were poorly utilized after improvement .

On the institutional side, the ICR notes that there was generally a continuous rotation of staff at the local level and a weak system of orienting new staff to the project . This reduced the benefits from technical assistance inputs and was also linked to the uneven performance of consultants, as staff who were not fully familiar to the project could not provide effective guidance to consultants . This exacerbated the problems that resulted from the difficulty in attracting highly qualified consultants to work in Kalimantan because of the relative isolation of the project cities and the ethnic unrest there . These shortcomings on the institutional side are the principal reason why the institutional development impact is rated as "modest".

<b>6. Ratings :</b>	<b>ICR</b>	<b>OED Review</b>	<b>Reason for Disagreement /Comments</b>
<b>Outcome :</b>	Satisfactory	Satisfactory	
<b>Institutional Dev .:</b>	Modest	Modest	
<b>Sustainability :</b>	Likely	Non-evaluable	Because of the continued difficult economic and financial condition of the cities and the PDAMs, the outlook is highly uncertain, but an "unlikely" rating does not appear justified .
<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR :</b>		Satisfactory	

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

**7. Lessons of Broad Applicability:**

1. In a highly decentralized project, the quality and attitude of local project leadership are major elements that affect project performance. This argues for a more flexible approach to the design of project operations and technical assistance inputs, so that the latter can be varied so as to make best use of favorable circumstances .

2. Integrated urban development projects are suitable for secondary cities, where the bulk of operational decision making is decentralized to such cities .

3. In multi-activity projects of this type, Bank supervision missions can play an important facilitating role . The team needs to be pro-active and can play an important role in facilitating communication among the various agencies . However, it should endeavor to ensure that improved communication is built into the system, and does not remain dependent upon Bank actions .

**8. Assessment Recommended?**  Yes  No

**9. Comments on Quality of ICR:**

This is a good quality ICR. It handles a mass of information on a complex project and manages to produce a clear picture of the performance of the individual elements . The sections on the lessons learned and Bank and Borrower performance, in particular, are above average in the breadth and perceptiveness of their coverage .

