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**INDONESIA  
PROJECT RESTRUCTURING  
REQUEST FOR BOARD APPROVAL**

**URBAN SECTOR DEVELOPMENT REFORM PROJECT (USDRP)  
LOAN 7760-IND (FORMERLY LOAN 4786-IND)  
PROJECT ID – P071296**

**COFINANCED  
by  
PHRD GRANT No. TF053555-IND**



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Memorandum of the President

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**MEMORANDUM AND RECOMMENDATION OF  
THE PRESIDENT OF THE  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
TO THE EXECUTIVE DIRECTORS  
ON A PROPOSAL TO RESTRUCTURE  
THE URBAN SECTOR DEVELOPMENT REFORM PROJECT (USDRP)  
LOAN No. 7760-IND (FORMERLY LOAN 4786-IND)  
FOR THE REPUBLIC OF INDONESIA**

1. I submit for your approval a proposal to restructure the Urban Sector Development Reform Project (USDRP) Loan 7760-IND for the Republic of Indonesia.
2. The proposed restructuring would (a) reword the project development objective (PDO) and reorient the project indicators; (b) simplify and refocus the requirements of the urban reform component; (c) revise the consultants services category to include training and workshops, and reallocate a portion of the funds from the “unallocated” disbursement category to such category; and (d) include two new urban local governments (ULGs) in the project.
3. There are no relevant matters that the Borrower has requested not to be disclosed in this Project Paper.
4. **Recommendation.** I am satisfied that the proposed restructuring of the Republic of Indonesia: Urban Sector Development Reform Project (USDRP) Loan No. 7760 would comply with the Articles of Agreement of the Bank. I recommend that the Executive Directors approve this proposal in accordance with the terms of this Memorandum and attached Project Paper. Upon approval, the Loan Agreement will be amended accordingly.

Robert B. Zoellick  
President

By Juan Jose Daboub  
Managing Director

Washington DC  
March 24, 2010



**INDONESIA**  
**URBAN SECTOR DEVELOPMENT REFORM PROJECT (USDRP)**  
**PROJECT PAPER**  
**DATA SHEET**

Date:	March 18, 2010	Task Team Leader:	Ida Ayu Indira Dharmapatni
Country:	Republic of Indonesia	Sector Manager:	Sonia Hammam
Project Name:	Urban Sector Development Reform Project (USDRP)	Country Director:	Joachim Von Amsberg
Project ID:	P071296	Environmental category:	A

Borrower:	Republic of Indonesia
Responsible agency:	Ministry of Public Works Director General of Human Settlements Jl. Pattimura No. 20, Kebayoran Baru, Jakarta Selatan 12110

Revised estimated disbursements (Bank FY/US\$ millions)							
FY	2006	2007	2008	2009	2010	2011	2012
Annual	0.23	2.01	6.27	4.53	5.96	17.69	8.32
Cumulative	0.23	2.24	8.50	13.03	18.99	36.68	45.00

Current closing date: June 30, 2011  
Revised closing date: June 30, 2012

Indicate if the restructuring is:		
Board approved	<input checked="" type="checkbox"/>	
RVP approved	<input type="checkbox"/>	
Does the restructured project require any exceptions to Bank policies?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Have these been approved by Bank management?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Is approval for any policy exception sought from the Board?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Revised project development objective/outcomes:  
The project development objective is to assist the Borrower to strengthen local governance and improve the provision of selected urban services by participating urban local governments (ULGs) and additional participating ULGs.

Does the restructured project trigger any new safeguard policies?  
No further safeguard policy will be triggered by the proposed restructure; however *Environmental Assessment (OP/BP/GP 4.01)* and *Involuntary Resettlement (OP/BP 4.12)* were triggered at project design and will continue to be applicable (see paragraph 18 below).

Financing Plan (US\$ million)			
Source	Local	Foreign	Total
Borrower	13.35	0.00	13.35
IBRD	34.54	10.46	45.00
Others (Japan PHRD)	4.04	0.96	5.00
Total	51.93	11.42	63.35

## **I. Introductory Statement**

1. This Project Paper seeks the approval of the Executive Directors to introduce the following changes in the Republic of Indonesia: Urban Sector Development Reform Project (USDRP), Loan 7760-IND (formerly Loan 4786-IND), P071296 and any accompanying amendments to the project's legal documents.

2. The four principal changes proposed are to (a) state the project development objective (PDO) more clearly and accurately, and also make corresponding modifications to the project's performance indicators to provide an improved results framework for measuring progress toward, and attainment of, project outputs and outcomes; (b) simplify and refocus the requirements of the urban reform component; (c) revise the consultants services category to include training and workshops, and reallocate a portion of funds from the "unallocated" disbursement category in the amount of US\$0.95 million to such category to finance technical assistance for component A, specifically for UIDP, capacity building program and management support to the CPMU, and (d) include two new participating urban local governments (ULGs) in the project. This Project Paper also proposes to extend the original project closing date by 12 months, from June 30, 2011 to June 30, 2012, to permit a realistic timeframe within which to accomplish the objectives of the project. This is the first extension of the original closing date for this project.

## **II. Background and Reasons for Restructuring**

3. 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 is June 30, 2011. The project has been formally amended on three 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; and (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. 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 are seeking to break through on vital issues related to effective implementation of Indonesia's decentralization program.

4. **Project Development Objective (PDO).** The Project Appraisal Document dated May 11, 2005 states that "The project's principal development objective is to improve urban services in the participating Urban Local Governments (ULG). This is the first step toward achieving the Government of Indonesia's (GOI) long-term goal to develop self-reliant cities. To achieve this objective, the project focuses on reforming municipal governance, developing institutional capacity and financing priority urban investments." The PDO as stated in Schedule 2 of the Loan Agreement (LA) dated October 20, 2005 is "...to assist the Borrower in improving the provision of urban services by Participating ULGs and Additional Participating ULGs."

5. **Project Design and Scope.** The project is supported through an IBRD loan in the amount of US\$45 million, accompanied by a grant of US\$5 million from Japan under the Policy and Human Resources Development Fund (PHRD). Section B of the PAD describes the project as consisting of two components:

**Component A: Urban Reform and Institutional Support**, is comprised of two subcomponents. Subcomponent A.1, *Urban Institutional Development Reform Program (UIDP)*, supports participating ULGs in implementation of urban reform programs in the areas of (a) core governance reforms in the areas of civic participation and transparency, procurement and financial management; (b) long-term urban development strategies and plans, including local economic development and urban poverty reduction strategies; and (c) institutional and capacity development programs identified by ULGs, including professionalization of municipal managers and staff as well as e-governance. This subcomponent also helps the Government of Indonesia to formulate national urban policies on key strategic areas, particularly urban finance, poverty reduction and local economic development. Subcomponent A.2, *Project Implementation Support*, provides technical assistance to the Central Project Management Unit (CPMU) for project management, coordination and supervision.

**Component B: Urban Investment**, finances priority investments for improving urban services in the participating ULGs.

6. The project originally allocated US\$2.5 million of the Bank loan to the Urban Reform and Institutional Support Component, US\$40.27 million to the Urban Investment Component, US\$2 million was left unallocated, and the front-end fee was US\$0.23 million. The entire US\$5 million of the PHRD grant was allocated to the Urban Reform Component. The PAD and the LA anticipated that USDRP would support 13 participating ULGs from 8 different provinces.

7. **Status of Project Implementation.** Since project effectiveness, slightly more than 60 percent (8 of 13) of the ULGs have withdrawn from the project, mainly for reasons beyond the control of the project. The most common issues were (a) a non-conducive political environment due to local elections; (b) failure to secure final approval from the local representative council (DPRD); (c) prolonged delays in settlement of arrears to the Ministry of Finance (MoF), (d) prolonged delays in processing of subproject approval and subproject loan agreements (SLAs), and/or (e) disagreement with the internal subproject loan channeling mechanisms ratified by MoF.

8. **Project Performance.** Overall Implementation Progress (IP) has been rated “moderately unsatisfactory” since June 2008 because of significant lags in overall implementation progress and disbursements, mainly related to the turnover in participating ULGs (which has prevented the start of new investment subprojects) and delays in hiring consultants for the reform component. Although a midterm review (MTR) of the project, carried out from March 16, 2009 to June 12, 2009, found signs of improvement, there was not sufficient justification to upgrade the IP rating in the most recent Implementation Status and Results Report (ISR), archived in November 2009.

Although these lags have persisted for some time, the project has nevertheless made substantial progress to date in many respects (see Annex I for detailed ISR ratings):

- (a) Five of the eight subprojects approved for subsidiary loans in the original participating ULGs have been completed, three more are in the construction stage, and one is in the pre-construction stage. Two of the participating ULGs that joined the project in the third project amendment have started construction, while one is in the process of obtaining its SLA.
- (b) The two new participating ULGs included in the current project restructuring are in the process of obtaining SLAs. Another ULG is under consideration as a potential participating ULG, has met the key eligibility criteria, and may be added to the project at a later date as an additional participating ULG after it finalizes the feasibility study for its subproject proposal.
- (c) Two key UIDP consultancies (UIDP Management and UIDP National Urban Strategy and Policy Development) have been awarded and are now under implementation, and some technical assistance for ULGs to support implementation of their reform programs has been provided despite continuing delays in selection of a PHRD-financed consultant for the UIDP Local Governance Reform package.
- (d) All ULGs are making relatively good progress toward achieving the intended results indicators for core urban reforms, despite the delays mentioned above in awarding a key consultancy. This progress has been achieved as a result of the ULGs' strong commitment and with their own institutional capacity and resources, with some technical assistance provided by a bridging consultant and individual consultants carrying out other parts of the UIDP component. Preparation of the UIDP business plan (BP) has started.

9. It is expected that in the next 6-12 months, the DO and IP ratings will improve further a result of (a) the SLA being signed by one new participating ULG that is currently in the SLA process, (b) mobilization of the consultant for the UIDP Local Governance Reform Package, (c) two ULGs starting to process SLAs, and (d) at least one ULG starting construction.

10. **Disbursement Level.** The project now has eight participating ULGs. The original project design included 13 ULGs, but 8 of the original ULGs were dropped from the program and four new ones included in the third project amendment. Due to this situation, at the end of 2009 the disbursement lag was approximately 63 percent (US\$14.06 million of the US\$37.7 million originally projected to be disbursed by the end of 2009). Disbursement of the PHRD grant portion of the project that finances technical assistance for the ULGs has reached US\$1.38 million, which represents a lag of 54 percent (US\$1.38 million of a projected US\$3.0 million). While this disbursement performance does not in itself compare unfavorably with general experience in the sector and country for projects at a similar stage of implementation, disbursement is expected to continue to lag behind the original estimates, particularly for subproject loans because the

project now has only four participating ULGs at the subproject construction or completion stage, while three other ULGs have just started their construction.

11. Two of the four additional participating ULGs in the third project amendment have now signed SLAs and started work on their subprojects, and another ULG is close to finalizing its SLA (one of those four ULGs has withdrawn from the project). Furthermore, as mentioned above, two additional ULGs have been approved to participate in the project under the current restructuring proposal, and it is possible that a third will be added to the project later. The PHRD-funded individual technical assistance consultants to support ULGs implementing the reform agenda have been mobilized since July 2007. The UIDP management consultant intended to strengthen the capacity of the Central Project Management Unit (CPMU) in overseeing implementation of the ULGs' reform agenda and to develop the UIDP Business Plan was mobilized in January 2009.

### **III. Proposed Changes**

12. **Modify PDO and Reorient Project Indicators.** The principal indicators in the Results Framework Matrix (PAD Annex 3) are worded in a way that does not allow them to respond to the need for change as described above. Moreover, the indicators call for absolute numbers as a gauge of the progress toward outcomes (with the risk of these becoming meaningless in a changed context), rather than as a percentage. In their current formulation, the PDO and indicators also fail to capture appropriate measures of improved governance. The proposed rewording of the PDO as stated below will provide greater precision in expressing the intended achievements of the project interventions. The revised Results Matrix (detailed in Annex II) will provide clearer measures of the achievement of the intended outputs and outcomes.

*Original PDO in the PAD (Data Sheet of PAD, Report No: 28393-ID, May 11, 2005)*

The project's development objective is to improve urban services in the participating ULGs. This is the first step toward achieving the above mentioned GOI's long-term goal to develop self sustaining cities. To achieve this objective, the project focuses on reforming municipal governance, developing institutional capacity and financing priority urban investments.

*Original PDO in the Loan Agreement (Schedule 2, Loan Agreement, October 20, 2005)*

The project's development objective is to assist the Borrower in improving the provision of urban services by Participating ULGs and Additional Participating ULGs.

*Proposed Revised PDO*

The project development objective is to assist the Borrower to strengthen local governance and improve the provision of selected urban services by participating ULGs and additional participating ULGs.

13. **Simplify and Refocus the Requirements of the Urban Reform Component.** Some of the reform requirements developed during project preparation or at the initial stage of project implementation are no longer relevant or are incompatible with other regulations, are unrealistically difficult or not achievable by the ULGs, or are already covered by other activities in USDRP or by central government regulations. The project's reform requirements are therefore simplified and tailored to the current needs and capacity of the ULGs. In doing so, the project will have a more relevant, narrowly targeted, and better defined set of reform activities that will help achieve more tangible and useful outcomes for the ULGs.

14. Below is a brief summary of the reform areas with general information about the types of changes made to the project's activities and requirements in each area. For a detailed list of the activities, see Annex III.

<b>Reform area / original activities</b>	<b>Summary of changes</b>
<b>Transparency, Participation and Accountability (TPA)</b>	
1. Improve access to public documents (three activities)	One of the activities, development of an integrated information system, was changed to development and/or improvement of official websites for information dissemination.
2. More systematic handling of public complaints (three activities)	Unchanged.
3. Promote public participation in decision making (three activities)	Activities are unchanged but will be focused specifically on strengthening the process for making block grants from ULGs to <i>kecamatan</i> (sub-district) or <i>kelurahan</i> (villages, and/or developing indicative budgets for development activities.
4. Improve the role of Urban Forums	Unchanged.
5. Issue local regulations on public participation	More flexibility in type of regulatory instrument used.
6. Issue local regulations to improve transparency	More flexibility in type of regulatory instrument used.
<b>Financial Management</b>	
1. Institutional and legal frameworks (two activities)	More flexibility in type of regulatory instrument used.
2. Planning and budgeting (issue decree or local regulations with five specific requirements)	Two of the requirements were dropped because they were already covered either by other central government regulations or another part of the USDRP Urban Reform Component.
3. Budget execution and	For one requirement, more flexibility is allowed in type of

<b>Reform area / original activities</b>	<b>Summary of changes</b>
monitoring (six activities or specific decrees)	regulatory instrument used. Three activities or regulatory measures were dropped because they are already covered by other central government requirements.
4. Accounting and financial reporting (two mayoral decrees)	More flexibility in type of regulatory instruments used, and one requirement was modified to reflect coverage of some aspects by other parts of USDRP or to be compatible with central government regulations.
5. Capacity building	No longer included because it is beyond the scope of the project and can be more effectively addressed through current training programs conducted by the central government.
<b>Procurement</b>	
1. Establish procurement anchor unit (PAU)	Unchanged
2. Regulatory reform and streamlining of local regulations (six requirements / activities)	Only one requirement, adoption of standard bidding documents, is retained. The other five are already stipulated in national regulations.
3. Improve information systems (three requirements on publishing bidding and procurement information)	The number of specific requirements for publishing bidding and procurement information was dropped from eight to only six. Publication of Procurement Bulletin may be in either print or electronic form.
4. Improve control, auditing, and feedback systems at the district level (six activities)	Only one requirement, awarding 75% of bids within the bid validity period, was retained. The others are already covered by national regulations.
5. Training and capacity building (three activities / requirements)	Two activities related to assessing needs and providing training are dropped because training is already provided by the central government.
6. Improve procurement services (new category)	Two new activities were added to help improve procurement services: (a) periodically announcing the contractor/vendors with good performance records, and (b) establishing a Procurement Services Unit.

*Note:* Annex III provides a detailed list of activities and requirements in each reform area, along with the changes proposed in the restructuring.

15. **Reallocation of Loan Proceeds and Revision of Disbursement Category.** The disbursement category for consultants' services will be amended to also include "training and workshops." Unallocated loan proceeds of US\$0.95 million (out of US\$2 million unallocated) will be reallocated to the consultant services, training, and workshops category to help finance technical assistance for the Urban Reform Component, specifically in the areas of (a) UIDP Local Governance Reform, (b) preparation and

implementation of the ULGs' urban development strategies and plans, and (c) capacity building and management support to the CPMU. Details are provided in Annex IV.

16. **Additional Participating ULGs.** The project's Inter-ministerial Steering Committee (IMSC) has approved two new participating ULGs for inclusion in the project: Kabupaten Morowali (Central Sulawesi) and Kota Banda Aceh (NAD Province). Both have fulfilled the project eligibility criteria of having (a) a Bupati or Mayoral Decree on the reform agenda; (b) a five-year Development Plan (RPJMD); (c) adequate borrowing capacity; and (d) no outstanding arrears.

17. **Extension of Closing Date.** The project closing date will be extended by 12 months, to June 30, 2012, to enable the project to achieve its objectives.

#### IV. Analysis

18. The proposed changes do not have a major effect on the original economic, financial, technical, institutional, or social aspects of the project as appraised. The rewording of the PDO and revision of the results matrix is intended to provide greater clarity around the intended outcomes of the project and more appropriate measures of that outcome.

19. **Safeguards.** None of the proposed changes affect the environmental category of the project (Category A) or trigger new safeguard policies. The *Environmental Assessment (OP/BP/GP 4.01)* and *Involuntary Resettlement (OP/BP 4.12)* safeguards will continue to be applicable for the restructured project and for the loan extension. All subprojects prepared by ULGs are evaluated and treated as either Bank environment category A or B and are required to develop the appropriate safeguard reports, plans, and instruments for that category. ULGs have to prepare land acquisition and resettlement actions plans (LARAPs) and environmental assessments (EAs) that are acceptable to the Bank, disclose these documents to the public, and hold consultations with stakeholders. If a ULG subproject to rebuild a market requires relocation of vendors to either temporary markets or a new one, the ULG has to prepare a LARAP in consultation with the affected traders, and the plan must be approved by the Bank prior to carrying out the subproject or beginning any relocation. The two new participating ULGs will follow the provisions of the Project Management Manual (PMM) pertaining to environmental and social safeguard guidelines.

20. **Procurement.** Procurement of goods, works and services (other than consultants' services) for the new ULGs will be carried out in accordance with the provision of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004, which was revised in October 2006. All consultants' services shall be procured in accordance with Sections I and IV of the Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, which was revised in October 2006. The new ULGs will use the current project's methods of procurement of goods, works and services (other than consultants' services) and of procurement of consultants' services for the new ULGs, which are elaborated in the PMM.

21. **Financial Management.** The Bank has received acceptable annual audit reports throughout project implementation. Since the MTR, the rating for FM has been upgraded to “satisfactory” due to more timely submission and improved quality of reports and documentation to the Bank. The Financial Management arrangements for the new ULGs will follow the existing financial management system of the project.

22. **Urban Reforms.** The new participating ULGs will carry out a reform agenda that is in line with the existing project requirements as specified in the PMM. Rapid assessment for the two ULGs indicated that both are implementing reform activities in the direction of the reform areas that are promoted by the project.

23. **Exceptions to Bank Policy.** The proposed restructuring does not involve any exceptions to Bank policies.

## V. Expected Outcomes

24. The combined effect of the clarified PDO and the revised Results Framework matrix, along with an extended implementation period, simplification of the Urban Reform Component, the reallocation of a portion of funds from the “unallocated” disbursement category to the consultants’ services, training, and workshops category, and inclusion of new participating ULGs, will strengthen project implementation and facilitate the achievement of more targeted and clearly defined governance and service delivery objectives in the participating ULGs.

## VI. Benefits and Risks

25. The risk that participating ULGs may lack the political commitment or have insufficient capacity to carry out reforms was rated at project appraisal as “substantial” even after mitigation measures. In retrospect the risk may more accurately have been rated as “high” given that at a local level continuity of political commitment is often inextricably interwoven with elections and changing administrations. Experience with this project through midterm reinforces this lesson, as 8 of the original 13 ULGs identified at the appraisal stage have dropped out of the project.

26. On the other hand, experience with the project does provide some reason for optimism. There has been a growing willingness and commitment of the participating ULGs to implement reforms, and all of them have made progress toward achieving their reform agenda, with their own resources and capacity, and some assistance from the project’s UIDP consultants. Almost all participating ULGs are quite advanced in transparency, participation and accountability (TPA) reform, particularly in public complaints handling and information dissemination. Some ULGs are implementing reforms beyond the core reform agenda.



**Annex I: Performance Ratings Summary in Each Supervision Mission**

	ISR#1 03/29/06	ISR#2 05/23/07	ISR#3 11/07/07	ISR#4 06/23/08	ISR#5 08/26/08	ISR#6 04/15/09	ISR#7 11/09/09
Project Development Objective	S	MS	MS	MS	MS	MS	MS
Implementation Progress	S	MS	MS	MU	MU	MU	MU*)
Financial Management	S	MU	MU	MU	MS	MS	S
Project Management	S	MS	MU	MS	MS	MS	MS
Counterpart Funding	S	S	S	S	S	S	S
Environmental and Social Safeguards	S	S	MS	MS	MS	MS	MS
Procurement	S	MS	MS	MS	MS	MS	MS
Monitoring and Evaluation	S	MS	MS	MU	MU	MS	MS

Note: S= Satisfactory; MS= Moderately Satisfactory; MU= Moderately Unsatisfactory; U= Unsatisfactory.  
 \*) This is mainly due to the project's low disbursement level. As 8 of 13 ULGs withdrew from the project, this project's low disbursement level does not reflect the subprojects' disbursement level. Subprojects' disbursements have been progressing relatively as planned.

## **Annex II: Revised Performance Indicators**

### **Project development objective**

Original: Assist the Borrower in improving the provision of urban services by participating ULGs and additional participating ULGs.

Revised: Assist the Borrower to strengthen local governance and improve the provision of selected urban services by participating ULGs and additional participating ULGs.

Original Outcome Indicators	Original Targets	Revised Outcome Indicators	Revised Targets (at Closing)	Current Status
At least ten (10) ULGs improve priority urban services in areas financed with USDRP support	<ul style="list-style-type: none"> <li>Year 3 : 5 ULGs</li> <li>Closing (Year 5) : 10 ULGs</li> </ul>	<ul style="list-style-type: none"> <li>(i) Increase in ULG revenues from urban services financed by the project</li> <li>(ii) Increase in expenditures for O and M of infrastructure financed by the project</li> <li>(iii) increase satisfaction of the users for doing business</li> <li>(iv) increase satisfaction of consumers in using the facilities built through project investments</li> </ul>	At least 70 % of participating ULGs that have completed the subproject: <ul style="list-style-type: none"> <li>(i) Increase their local revenue by at least 10% that due to the investment.</li> <li>(ii) Increase their O&amp;M expenditure by at least 10%</li> <li>(iii) at least 50% users express increased satisfaction of doing business</li> <li>(iv) at least 50% consumers express increased satisfaction of using the facilities</li> </ul>	(information to be collected during the PBME survey that will be carried out at the loan closing date)
<b>Part A: Urban Reform</b>				
Greater public availability of information, especially related to plans, strategies, budgets, financial and procurement information audits, service fees in at least 10 (ten) ULGs	<ul style="list-style-type: none"> <li>Year 3 : 5 ULGs</li> <li>Year 5 : 10 ULGs</li> </ul>	<b>Transparency, Participation and Accountability</b> Percent of ULGs that post semi-annual updates on websites or in printed media providing information on: <ul style="list-style-type: none"> <li>(i) Local development activities/programs</li> <li>(ii) Mid-term Development Plan (RPJMD)</li> <li>(iii) Summary of Local Budget ( APBD)</li> <li>(iv) Audited Annual Financial Report</li> <li>(v) Procurement plan for the on-going fiscal year and contracts awarded in the past six months</li> </ul>	At least 80% of Participating ULGs post the specified information at six month intervals	Percentage of Participating ULGs post the specified information at six month intervals: <ul style="list-style-type: none"> <li>(i) 40%</li> <li>(ii) 10%</li> <li>(iii) 40%</li> <li>(iv) 40%</li> <li>(v) 10%</li> </ul>

Original Outcome Indicators	Original Targets	Revised Outcome Indicators	Revised Targets (at Closing)	Current Status
Participating ULGs have public feedback mechanisms in place (consultation, grievance resolution, etc)	<ul style="list-style-type: none"> <li>Year 3 : 5 ULGs</li> <li>Year 5: 10 ULGs</li> </ul>	Participating ULGs have public feedback mechanisms in place including: <ul style="list-style-type: none"> <li>(i) The use of at least one type of media(s) for public complaints which is managed by complaint handling unit</li> <li>(ii) Availability of Standard Operating Procedures (SOP) for public complaints handling</li> </ul>	At least 80% of Participating ULGs have in place (i) and (ii)	100% of seven ULGs have achieved (i); and, none has achieved (ii)
Participating ULGs have participatory planning processes and public consultations/hearings held re: strategies, plans and budget	<ul style="list-style-type: none"> <li>Year 3 : 5 ULGs</li> <li>Year 5: 10 ULGs</li> </ul>	<ul style="list-style-type: none"> <li>(i) allocation of block grants to <i>kecamatan</i> and/or <i>kelurahan</i> from the ULG and/or from at least one agency with Standard Operating Procedure for the use of block grants through participatory planning. <b>OR</b> indicative budget for financing development activities proposed through participatory development planning process or <i>musrenbang</i></li> <li>(ii)</li> </ul>	At least 50% of Participating ULGs achieve (i) <b>OR</b> (ii)	10% of seven ULGs have achieved (i) or (ii)
Number of ULGs practicing sound financial and procurement management practices	<ul style="list-style-type: none"> <li>Year 3 : 5 ULGs</li> <li>Year 5 : 10 ULGs</li> </ul>	<b>Participating ULGs practicing sound Financial Management</b> <ul style="list-style-type: none"> <li>(i) Issuance of local regulation (PERDA or Decree or <i>Perbup/Perwal</i>) on Principle of Regional Financial Management</li> <li>(ii) Issuance of local regulation (PERDA or Decree or <i>Perbup/Perwal</i>) on Policies, Systems, and Procedures for the Preparation and Execution of APBD</li> </ul>	At least 80% of Participating ULGs achieve (i) and (ii)	50% of seven ULGs have achieved (i); 30% of seven ULGs have achieved (ii)

Original Outcome Indicators	Original Targets	Revised Outcome Indicators	Revised Targets (at Closing)	Current Status
		<p><b>Participating ULGs practicing sound Procurement</b></p> <ul style="list-style-type: none"> <li>(i) min. 75% of the bids be awarded within the bid validity period, and publicized in the public domain, e.g. website, local bulletin</li> <li>(ii) min 50% of tendering committee members have national procurement certification</li> <li>(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</li> </ul>	<p>At least 60 % of Participating ULGs achieve (i), (ii) and (iii)</p>	<p>60% of the seven ULGs have achieved (i) and (ii) and no ULG has achieved (iii)</p>
<p>The Borrower implements UIDP. Percentage of UIDP's annual Business Plan undertaken</p>	<p>75% in each year of implementation</p>	<p><b>Center of Excellence</b></p> <ul style="list-style-type: none"> <li>(i) "Unit Informasi Pembangunan Permukiman dan Bangunan" or UIP2B functioned as a Provincial Center of Excellence to support reforms in the ULGs in the province</li> <li>(ii) Work Plan for the Provincial Center of Excellence or- UIP2B</li> </ul> <p><b>Local Economic Development and City Development Strategy</b></p> <ul style="list-style-type: none"> <li>(i) Local Economic Development (LED)-City Development Strategy developed by participating ULGs</li> <li>(ii) ULGs implemented 10% of activities specified in the City Development Strategy of ULGs</li> </ul>	<p>At least 1 Province has (i) and (ii)</p>	<p>No province has (i) and (ii)</p>
			<p>At least 60% of Participating ULGs have (i) and at least 50% of Participating ULGs having the LED-focused City Development Strategy achieve (ii)</p>	<p>No Participating ULG has (i) and (ii)</p>

Original Outcome Indicators	Original Targets	Revised Outcome Indicators	Revised Targets (at Closing)	Current Status
<b>Part B: Urban Investments</b>				
ULGs prepare and implement subprojects in infrastructure services worth a minimum of US\$52.1 total during the project period	Year 1 : USD 10.4 M Year 2 : USD 31.3 M Year 3 : USD 46.9 M Year 4 : USD 52.1 M	<b>Participating ULGs implemented subprojects:</b>  (i) Participating ULGs sign Sub- project Loan Agreements (SLAs) with Ministry of Finance for urban investment subprojects;  (ii) Participating ULGs complete construction of urban investment subprojects	100% of Participating ULGs signed SLAs  At least 80% of Participating ULGs completed construction of urban investment subproject	Seven Participating ULGs have signed SLAs,  Three Participating ULGs completed subprojects.

**Annex III**  
**Revised Core Urban Reform Requirements and Rationale**

1. **Rationale for the changes of reform requirements.** The project was prepared during the initial stage of the country's decentralization and democratization process. Project implementation has progressed along with the advancement of decentralization and democratization process. Since loan negotiation in 2005, Central Government has issued new regulations, some of which, are directly or indirectly related to the three project's core urban reform areas designed during project preparation. Some of the requirements and activities to implement these core urban reform areas are in line with these new regulations, but some others are no longer relevant. Furthermore, some requirements and activities are already systematically implemented by the local governments as required by the national regulations. There is also a case that the Central Government is now in the stage of finalizing a Presidential Decree and a Guideline for complaint handling and procurement audit, which would duplicate the current activities in the project procurement reform areas. Given this situation, while the project keeps the three core urban reform areas, the scope of requirements and activities to achieve these will have to either be simplified, discontinued, and/or refocused in such a way that they will be more and provide more useful impacts for the ULGs and at the same time will achieve the revised PDO by the new loan closing date.

2. **Changes of the core urban reform requirements.** As described in the PAD, the participating Urban Local Governments (ULGs) are required to implement urban core reform in three areas (as part of the project's Component A), i.e., transparency, public participation, and accountability; procurement and financial management reforms. Table 1 below presented the proposed changes of scope of the requirements and activities for the ULGs in implementing these reforms.

**Urban Core Reform Area 1: Transparency, Participation and Accountability  
Revised Reform Requirements and Activities**

No.	<b>ORIGINAL REFORM REQUIREMENTS AS DESCRIBED IN THE PAD AND ACTIVITIES AS AGREED BY THE ULGs AT APPRAISAL</b>	<b>REVISED REFORM REQUIREMENTS AND ACTIVITIES</b>
1.	<p>Improve access of people to public documents through the following activities:</p> <ul style="list-style-type: none"> <li>a. Utilization of various media for information dissemination</li> <li>b. Utilization of media for monitoring development activities</li> <li>c. Development of integrated information system</li> </ul>	<p>This requirement is unchanged</p> <p>All activities remain the same, except for the development of integrated information system will be replaced by developing/improving official website.</p>
2.	<p>Carry out a more systematic way of public complaint handling through the following activities:</p> <ul style="list-style-type: none"> <li>a. Develop legal and institutional foundation</li> <li>b. Develop Standard Operating Procedures</li> <li>c. Develop media/tools</li> </ul>	<p>This requirement is unchanged.</p> <p>All activities remain unchanged</p>
3.	<p>Promote public participation in decision making through the following activities:</p> <ul style="list-style-type: none"> <li>a. Develop legal framework</li> <li>b. Develop Standard Operating Procedures or mechanisms</li> <li>c. Carry out public consultation in development planning activity</li> </ul>	<p>This requirement is unchanged.</p> <p>These activities will be focused towards strengthening participatory planning process for block grants to <i>kecamatan</i> (subdistrict) or <i>kelurahan</i> (village) level, <u>or</u> developing indicative budget for development activities proposed through participatory planning process.</p>
4.	<p>Improve the roles of Urban Forums</p>	<p>This requirement remains unchanged, ULGs are encouraged to strengthen the existing Urban Forums according to local conditions</p>
5.	<p>Issue a local regulation (<i>PERDA</i>) on participation in public decision making</p>	<p>This requirement remains unchanged but ULGs are given an option to have different legal basis, i.e. Mayor or <i>Bupati</i> regulation.</p>
6.	<p>Issue a <i>PERDA</i> for improved transparency</p>	<p>This requirement remains unchanged but ULGs are given an option to have different type of legal basis, i.e. Mayor or <i>Bupati</i> regulation.</p>

**Urban Core Reform Area 2: Financial Management  
Revised Reform Requirements and Activities**

No.	<b>ORIGINAL REFORM REQUIREMENTS AS DESCRIBED IN THE PAD AND ACTIVITIES AS AGREED BY THE ULGs AT APPRAISAL</b>	<b>REVISED REFORM REQUIREMENTS AND ACTIVITIES</b>
1.	Institutional and legal framework issues through the following activities: a. <i>PERDA</i> on the Principles of Regional Finance as required by Government regulation 58/2005 b. <i>Bupati</i> /Mayor Regulation/Decree on the policies, systems, and procedure for the preparation and execution of <i>APBD</i>	This requirement remains unchanged but ULGs are given an option to issue different type of legal basis, i.e. Mayor or <i>Bupati</i> regulation.
2.	Planning and budgeting process through: a. the issuance of a Decree or local regulations which stipulates that : (i) Bank accounts to receive or disburse public funds can be opened only with authorization from Head of <i>Kabupaten/Kota</i> (ii) Head of each unit shall submit quarterly reports to finance department and <i>Bupati</i> /Mayor declaring the name, location, and balances of all bank accounts in the name of units or officials thereof (iii) Allocation of a minimum percentage (proposed at 5 % at entry and 10 % by the end of the project) of the annual budget to support programs/activities identified during the participatory planning process (iv) SK to authorize local government officials to make mid-year revisions in the annual budget allocation or target line items subject within certain pre-determined financial limits, similar to authorities given to central government officials (v) Local regulation that specifies clear criteria for expenditures that shall be funded from 'contingency budget ( <i>belanja tidak terduga</i> )' & procedure governing the authorization and commitment	This requirement remains unchanged.  This activity remains unchanged, except it does not include points (ii) and (iii)
3.	Budget execution and monitoring mechanism, through the following activities: a. Issue decree ( <i>SK</i> ) requiring (i) Department Heads to issue annually a Statement of Responsibility to Mayor/ <i>Bupati</i> , with copy to <i>Bawasda</i> , affirming compliance with applicable rules and regulations (ii) all revenue collected and donations received are deposited to the authorized Kas Daerah	This requirement remain unchanged but ULGs are given an option to issue different type of legal basis, i.e. Mayor or <i>Bupati</i> regulation, or be included in the <i>PERDA</i> or Mayor/ <i>Bupati</i> regulations on Principles of Regional Financial Management.

	<p>bank accounts (this does not apply to <i>BUMD</i>)</p> <p>b. Instruct <i>Bagian Keuangan</i> to undertake periodic comprehensive reconciliation of cash account covering accounting records, bank statements, official and temporary proof of collections and actual cash collection.</p> <p>c. To improve checks and balances in the functioning of local treasuries, discontinue the existing practice of locating regional treasury office (<i>Kas Daerah</i>) at the same premises as regional development banks (<i>Bank Pembangunan Daerah</i>).</p> <p>d. Issue a Decree of Mayor/<i>Bupati</i> that stipulates</p> <p>(i) A clear segregation of the functions of the Finance Department (which shall be responsible for the issuance of the payment instructions – <i>SPM</i>) and the Local Treasury (<i>Kas Daerah</i>)</p> <p>(ii) Instruct Regional Treasuries not to receive, disburse or hold cash.</p>	<p>This item will no longer be included</p> <p>This item will no longer be included</p> <p>This item will no longer be included</p> <p>This requirement is unchanged</p>
4.	<p>Accounting and financial reporting systems through the following activities:</p> <p>a. Issue a Mayor/<i>Bupati</i> decree ensuring completion and publication of financial/budget realization reports every quarter within 2 months of quarter ends</p> <p>b. Issue a Mayor/<i>Bupati</i> decree to make available to public and civil society details of budget, program information, annual financial or budget realization report and audit follow-up reports from audited units</p>	<p>This requirement is unchanged</p> <ul style="list-style-type: none"> <li>• This is unchanged but ULGs are given an option to include this activity in the <i>PERDA</i> or Mayor/<i>Bupati</i> regulations on Principles of Regional Financial Management..</li> <li>• This activity is no longer implemented as summary of local budget and its realization will be put in the website. According to the <i>Permendagri</i> 13/2006 pertaining Guidelines for Regional Financial Management, only BPK's annual audited report is published.</li> </ul>
5.	Capacity building	<p>This requirement is no longer be included, as the need for capacity building in financial management for ULGs is beyond the scope of the project. Also, central government agencies are now giving regular trainings to local government particularly in relation to the issuance of new regulations.</p>

**Urban Core Reform Area 3: Procurement  
Revised Reform Requirements and Activities**

No.	<b>ORIGINAL REFORM REQUIREMENTS AS DESCRIBED IN THE PAD AND ACTIVITIES AS AGREED BY THE ULGs AT APPRAISAL</b>	<b>REVISED REFORM REQUIREMENTS AND ACTIVITIES</b>
1.	Institutional reform by establishing a procurement anchor unit (PAU)	This requirement is unchanged
2.	Regulatory reform affecting procurement, including streamlining all existing local procurement regulations, through the following activities: a. Mayor/Bupati's Decree on the Keppres 80/2003 operation at the local level b. Adoption of Standard Bidding Documents c. Establishment of mechanism for recording and handling of procurement complaints d. Enforcement & public disclosure of sanctions e. Removal Pre-Qualification and use the Post Qualification for contracts < IDR. 50 Billion f. Removal of bid restrictions to bidders registered in the respective district only	This requirement is unchanged, but only include for the activity point b. Other activities are already stipulated in the national regulation pertaining procurement process ( <i>Keppres 80/2003</i> )
3.	Improving information system on procurement, through the following activities: a. Publish of bid evaluation, winner contracts, contract scope & price b. Publish the Procurement Bulletin c. Publish the procurement plan, contract rosters and progress report	This requirement is unchanged  <ul style="list-style-type: none"> <li>• This activity is unchanged except for bid evaluation</li> <li>• This activity is unchanged but could be in other type of media</li> <li>• This activity is unchanged except for procurement plan</li> </ul>
4.	Improving controlling, auditing, feedback system at the district level, through the following activities: a. Publish trends of unit rates for major components of civil & goods contracts b. A qualified members of civil society participate in the bid evaluation process c. Annual survey on bidders'	This requirement is unchanged, but only includes activity of point e, as all others are already regulated in or beyond the <i>Keppres 80/2003</i> .

	<p>experience in ULG procurement and civil society perception on ULG procurement practices</p> <p>d. 75 % of complaints could be handled appropriately and within the established deadlines</p> <p>e. 75% of the bids could be awarded within the bid validity period</p> <p>f. The procurement activities audited by <i>Bawasda</i> and results of the audits are included in <i>Bawasda's</i> regular audit report</p>	
5.	<p>Training and capacity building of staff involved in procurement, through the following activities:</p> <p>a. Asses the capacity building need for the tendering committee, <i>Bawasda</i></p> <p>b. Implementation procurement training</p> <p>c. At least 50% of PPK, members of tender committee and <i>Bawasda</i> staff involved in procurement audits have national procurement certified</p>	<p>This requirement is unchanged, except for the activities first two points, as all local staff involved in tender process are given regular trainings by central government agencies</p> <ul style="list-style-type: none"> <li>• This activity is unchanged</li> </ul>
6.	<p>Improve procurement services, include the following activities:</p> <p>a. Announce contractors/vendors who have good performance</p> <p>b. Establish a Procurement Service Unit</p>	<p>New requirements</p>

**Annex IV**

**Proposed Reallocation of Unallocated Loan Proceeds**

<b>Category</b>	<b>Proposed utilization</b>	
	<b>Activities</b>	<b>Amount (US\$)</b>
Consultants Services, Training, and Workshops	PBME Consultant (Management Support)	190,000
	Addendum to Technical and Advisory Services Consultant to CPMU	311,126
	Individual Consultant of Transparency, Participation and Accountability (TPA)	200,000
	UIDP Local Governance Reform	248,874
<b>TOTAL</b>		<b>950,000</b>

*Note:* US\$1.05 million would still remain unallocated after the restructuring.