I. Introduction and Context

Country Context
The cities that emerge from Indonesia’s rapid urbanization will be key determinants of the country’s overall economic development and competitiveness. It is critical to support sustainable and equitable urban growth through investment and innovation. Providing economic growth that is environmentally sustainable and extends access to basic services to all residents will require investments in infrastructure as well as in institutional capacity.

Sectoral and Institutional Context
As part of the ongoing policy dialogue and engagement on urban development issues with the Government of Indonesia (GOI), key national ministries and the mayors of several Indonesian cities have participated in technical workshops on implementing the Eco2Cities approach in the East Asia and Pacific region. The Eco2Cities approach provides an analytic and operational framework that can be applied to tackle the challenges of rapid urban growth through investment decisions that promote both economically and ecologically sustainable cities. The Eco2Cities approach is structured around four key principles: (i) a city-based approach; (ii) a platform for collaborative and inclusive decision-making across all stakeholders; (iii) a one system approach; and (iv) identifying...
catalyst projects that transform the city’s development trajectory towards sustainability and resilience. The Eco2Cities approach is in line with the GOI’s National Medium-Term Development Plan (RPJMN) 2010-2014. By investing in improving the economic performance and livability of cities, the program will also contribute to making the Master Plan for Accelerated Regional Development (MP3EI) more effective. Improving the functioning of the urban nodes along the planned corridors will ensure that regional development is further strengthened, as linking dynamic urban areas will create opportunities for the wider region.

Relationship to CAS
The MUD Project would contribute directly to the Bank’s current Country Partnership Strategy (CPS) for Indonesia 2009-2012, Investing in Indonesia’s Institutions. Specifically, it contributes to the CPS’ cross-cutting engagement on strengthening sub-national government institutions and systems, and to the core thematic area of infrastructure. The overall Urban and Local Government engagement include a pillar on metropolitan areas and large cities, where the Bank engaged directly with these cities through investment lending operations and analytical work. The Bank has initiated direct engagements with local governments through Specific Investment Lending (SIL), starting with DKI Jakarta, where these operations use an on-lending mechanism to large cities. Another important pillar of engagement is the results-based approach such as the Local Governments and Decentralization Project (DAK Reimbursement) and the proposed Strengthening DAK Transfers to Local Government PforR, which both aim to support the reform of government systems through improving outputs delivered and promoting governance and accountability in the usage of transfers in local governments.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)
The objective of the project is to improve planning and investment in participating cities in projects that will be economically and ecologically sustainable. This will be done by applying the Eco2 Cities principles in participating cities and focusing on two components, namely:
i) Catalyst investments that promote both economic development and ecological sustainability.
ii) Analytical Support and Institutional Strengthening (TA) to support capacity building for each participating city to develop their Eco2 Cities framework, improve planning, budgeting, and design of investment priorities, as well as carry out analytical studies on urban expansion, metropolitan management, and land use planning.

Key Results (From PCN)
In order to achieve these objectives, the PDO will be monitored using several key results indicators below:
- Development of catalyst investments corresponding to local mid-term and long-term plans. These catalyst investments include: (i) Surabaya – tramway and monorail to reduce traffic congestion and air pollution from private vehicle emissions, possibly linked to riverfront redevelopment; (ii) Makassar – conservation of natural lake that will also serve as water supply, public space, and tourism, neighborhood upgrading through development of low-income housing and improved urban land-use planning; and (iii) Balikpapan – eco-tourism development as new economic activity in mangrove center and botanical garden.
- Improved overall urban coordination and improved planning processes as measured by: (i) increases in community level consultations; (ii) development of integrated land-use plans; (iii) work
plans for metropolitan management across LG borders; and (iv) greater regional economic coordination.

III. Preliminary Description

Concept Description

As a baseline of this proposed project, the Urban and Local Government team has done analytical work to support the Bappenas (Planning Ministry) on analyzing urbanization and agglomeration issues, which include case studies in the four largest metropolitan areas. The result of the reports indicate that Indonesia needs to leverage urbanization for socio-economic development to a much greater extent. Indonesia’s large metropolitan areas—those over 5 million in population are not leveraging their populations as expected to produce rapid increases in economic productivity. Although Jakarta and Surabaya have relatively high levels of productivity, their rate of growth in productivity is relatively low, averaging less than 1.5 percent (in real terms) between 1993 and 2007. Metropolitan areas in the 5-10 million ranges have actually experienced a decline in real productivity. Such sluggishness appears to be at least partly due to transportation and land use challenges. These metropolitan regions are highly congested, do not have adequate systems of transit to facilitate commuting, have inefficient spatial and land use patterns, and they have problems with goods movement. These cities therefore urgently need investments in infrastructure, together with improved land use planning, including transit and traffic management, as well as urban design solutions to reduce congestion. This proposed project will address challenges faced by cities on integrated urban development by supporting their proposed investments, which promotes both economic and ecological sustainability.

The project will be designed as a Specific Investment Loan (SIL), with a proposed amount of IBRD financing of US$ 400 million, to be implemented in a period of five years. The project will use an on-lending mechanism to each city supported by capacity building and technical assistance activities to strengthen the planned investments. The project is intended to be the first in a program that will engage a series of cities over time.

The initial set of participating cities will be Surabaya, Makassar, and Balikpapan. These cities were selected by the GOI based on their demand and commitment from each mayor to improve investment priorities, which promote Eco2 Cities principles.

Component 1: Investment in Catalyst Projects

Based on each local government’s Medium-Term Development Plan (RPJM-D), each city has identified a set of initial investment priorities, which have been presented and discussed at both East Asia and Pacific region-wide and national workshops. These investment priorities are described below:

City: Surabaya
(Population 2,765,908)
Priorities: Urban mass transport and waterfront development are two main priorities in the city’s long-term spatial plan for 2005- 2025. The city government is planning an integrated urban transportation system and transformative riverfront redevelopment.
Catalyst Projects:
• North-South tramway corridor
• East-West monorail corridor
• Non-motorized transport facilities
• Kalimas riverfront redevelopment

Estimated Cost USD350 million

City: Makassar
(Population 1,272,349)
Priorities: As the largest metropolitan area in Eastern Indonesia, Makassar has some environmental issues in its coastal area such as sedimentation, abrasion, water pollution, and sea level rise.
Catalyst Projects:
• Proposed infrastructure to support Balang Tonjong Conservation Lake’s function as natural reservoir, public green open space, water sports facilities, fishery, water treatment plant, and location of informal sector activity
• Proposed slum upgrading project by building low-income flats to be financed by the project, in coordination with State Ministry of People’s Housing that will build supporting infrastructure and facilities

Estimated Cost USD35 million

City: Balikpapan
(Population 609,552)
Priorities: Balikpapan’s development plan of 2011-2016 prioritizes maintaining 52 percent of the city’s area as green area. The proposed projects will focus on eco-tourism development.
Catalyst Projects:
• Investment in Balikpapan Botanical Garden: Proposed main infrastructure and facilities and capacity building to be financed by the project; synergy with central and local budget.
• Mangrove center development: Proposed infrastructure, facilities and capacity building for the development of mangrove center to be financed by the project

Estimated Cost USD15 million.

Total Estimated Cost USD400 million

Component 2: Analytical Support and Institutional Strengthening

The technical assistance component for this project will support the preparation of feasibility studies and detailed designs specific to the investments planned by the cities. However, the investments will also be supported by broader analytic work, which will ensure that the task team and government counterparts have an adequate understanding of the spatial, institutional, and infrastructural contexts in which these investments are being planned, in order to ensure successful outcomes. The analytical work will have five components:

i) The broad spatial dimensions of metropolitan growth will be analyzed using data obtained from satellite imagery. This analysis will help understand the role that infrastructure has played in shaping patterns of urban settlement, and how the proposed infrastructure can meet the demand for urbanization made evident through the spatial data.

ii) Detailed ground-level analysis of land use, urban form and the modalities of urbanization will be carried out, using indicators relating to demography, housing typologies, land use regulations, and transportation infrastructure. This detailed understanding of how the cities function will serve as an input into decisions made regarding the location, characteristics and dimensions of
infrastructure investments.

iii) Land and housing market segmentation studies will be conducted, which will form a baseline against which the transformative economic impact of the projects can be measured. These studies will help local governments understand the impacts of the infrastructure investments on land and housing prices, particularly the impact on the accessibility of land and housing to the urban poor. The cities will be encouraged to institutionalize such studies as regular practice.

iv) A local government urban planning capacity diagnostic will be conducted, in which the team will work with local planning agencies (Bappeda) to determine the strengths and areas for improvement with regard to organizational structure, relationships with other institutions, technical skills, staff recruitment and training, data systems, and use of data analysis in decision-making.

v) A study will be carried out focusing on the governance and management of metropolitan regions requiring multijurisdictional cooperation. As the proposed infrastructure is likely to have impacts on entire metropolitan regions, which in many cases extend beyond the cities with which the team will directly engage, it is crucial to understand the means by which cities in metropolitan region communicate and cooperate, and whether successful outcomes can be better ensured by facilitating dialogue between the cities in a metropolitan region and between cities and provinces.

This component will also focus on institutional strengthening, to enhance the ability of cities to develop urban systems that promote sustainable and equitable growth. Developing urban systems that integrate land use regulations, transportation networks, housing and services requires strong urban planning capacity at the local government level. Helping local governments develop the required capacity will be a key element in ensuring that there is an institutional environment that can support the infrastructure being built. Based on the results of the local government urban planning capacity diagnostic exercise described above, the team will work with the Bappeda to build their capacity to integrate the planning of proposed investments with a broader planning system that is able to respond to the cities’ needs.

Capacity building will also be supported by South-South collaboration to facilitate knowledge exchange from cities in other developing countries which have found innovative ways to strengthen local planning capacity, e.g. Brazil and Mexico. There will also be a knowledge exchange between Bappeda within Indonesia. The exchanges will help cities learn from successes achieved and challenges faced elsewhere, relating to integrated infrastructure and service provision, land management for urban expansion, municipal fiscal strategies, and structuring planning institutions.

At the request of the GOI through the President’s Office, the World Bank will expand this institutional strengthening and knowledge exchange to Eastern Indonesia, e.g. Manado, Kupang, Ambon, Ternate, and Jayapura.

IV. Safeguard Policies that might apply

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V. **Tentative financing**

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