



Concept Paper

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Proposed Loan Indonesia: Neighborhood Upgrading and Shelter Project

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 16 April 2013)

Currency unit – rupiah (Rp)

Rp1.00 = \$0.000103

\$1.00 = Rp9,715

ABBREVIATIONS

ADB	–	Asian Development Bank
AIF	–	ASEAN Infrastructure Fund
BAPPENAS	–	Badan Perencanaan Pembangunan Nasional (National Development Planning Board)
CIO	–	community implementation organization
CWSIAP	–	city-wide slum improvement action plan
COBP	–	country operations business plan
CPS	–	country partnership strategy
CDD	–	community-driven development
DGHS	–	Directorate General of Human Settlements
EA	–	executing agency
GAP	–	gender action plan
LG	–	local government
LLFM	–	loan fact-finding mission
MDG	–	millennium development goals
MOF	–	Ministry of Finance
MPW	–	Ministry of Public Works
NSD	–	new site development
NUSSP	–	Neighborhood Upgrading and Shelter Sector Project
OCR	–	ordinary capital resources
PDAM	–	Perusahaan Daerah Air Minum (local water supply company)
PIU	–	project implementation unit
PLN	–	perusahaan listrik Negara (national electricity company)
PMU	–	project management unit
PNPM	–	Program Nasional Pemberdayaan Masyarakat (national program for community empowerment)
PPMS	–	project performance and monitoring system
PPP	–	public-private partnership
	–	Program Nasional Pemberdayaan Masyarakat (national program for community empowerment)
RIS PNPM	–	Rural Infrastructure Support to PNPM Mandiri
RPJMN	–	Rencana Pembangunan Jangka Menengah Nasional (National Medium Term Development Plan)
RRP	–	report and recommendation of the President
TA	–	technical assistance
USRI PNPM	–	Urban Sanitation and Rural Infrastructure Support to PNPM Mandiri Project

GLOSSARY

bupati	–	Administrative head of a kabupaten
kabupaten	–	The third level of government in Indonesia, a subdivision (district) of a province

NOTE

- (i) The fiscal year of the government and its agencies ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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I. THE PROJECT

A. Rationale

1. Indonesia is one of the fastest urbanizing countries in Asia. Today, a little more than half of the population (51%) live in cities. The rapid urbanization rate is set to continue. By 2025, it is projected that 68% of the population will live in urban areas.¹ Many of Indonesia's growing cities face issues to cope with the rapid growth of in-migrants, who are seeking new economic opportunities in cities, but forced to settle in disadvantaged neighborhoods/slums due to limited financial resources, lack of affordable adequate housing and/or failure to find well paid jobs. In 2011, about 12% of the urban population was forced to live in slum areas.

2. Better public infrastructure is considered vital to sustain inclusive economic growth and further stimulate economic opportunities of the growing urban population. Yet infrastructure improvements have not been able to keep up with the rapid urbanization and infrastructure investment has lagged economic development. Mostly, infrastructure and public services in poor neighborhoods are inadequate to serve the needs of their growing inhabitants. Environmental and social problems related to accessibility to adequate services for the people's daily needs are increasing due to widespread constraints in provision of clean water, insufficient sanitation facilities, deteriorating roads, pathways and drainages, ineffective flood control, lack of constant power supply, and poor solid waste management. Only about 40% of the urban population has access to safe water, and about 28% do not have access to improved sanitation facilities. About 35% of urban areas lack proper drainage systems. Problems are further aggravated by the absence of sound land use planning and land management regulations that are contributing to increased congestion and haphazard development. A multi-faceted approach is required to address these challenges, which include strengthening the capacities of city administrations to manage urban development in an environmentally and socially sustainable manner, modernization of land policies and permitting regulations; expanding access to, and targeting of, housing finance and subsidies; increasing community involvement in spatial planning; and engaging the private sector in development planning. Aside from investment in basic urban infrastructure, the rapid urbanization has triggered a growing demand for housing, which needs additional attention. The availability of affordable housing in cities for low-income groups appears to be declining. While estimates of Indonesia's housing deficit vary, all indicate a significant backlog in supply.² The constraints often relate to access to land and finance.

3. To address issues of the rapid urbanization the Government launched the "Cities without Slums Program"³ and issued Law No. 1/2011 on "Housing and Settlement Areas".⁴ To contribute to the "Cities without Slums Program" the Government requested the Asian Development Bank (ADB) to prepare and partly finance the Neighborhood Upgrading and Shelter Project (NUSP). NUSP will assist about 20 large and medium sized towns to develop and implement inclusive pro-poor city development plans and improve living conditions in slums, through (i) providing resources to local governments and communities for upgrading basic infrastructure in slum areas; (ii) strengthening planning and management capacities of local administrations for inclusive pro-poor urban planning; (iii) establishing sustainable mechanisms to engage communities in urban development planning processes; and (iv)

¹ The average annual urbanization rate between 1993 and 2007 is estimated at 4.2%.

² According to World Bank estimates published in the Indonesia Economic Quarterly Report, March 2013 between 600,000 and 900,000 housing units are required per year. The number increases as urbanization continues: as for the period of 2014 to 2021 it is estimated that 700,000 to 1 million units of housing per year will be needed.

³ The "Cities without Slums Program" is incorporated in the Long Term Development Plan 2005-2025. The policy aims at alleviating slums in cities by 2025 through promoting concerted initiatives by the central government, local governments, private sector, and civil societies.

⁴ The law specifies roles and responsibilities of central and local governments for the provision of housing and settlements, including their responsibilities to provide housing for the poor and upgrade slum areas.

launching public-private partnerships (PPPs) to establish affordable housing areas for poor families.⁵ Mechanisms for participatory approaches to incorporate upgrading-plans for individual slum areas into overall city development planning will be confirmed during the loan fact finding mission (LFFM).

4. Poverty incidence in Indonesia fell to 12% in 2012; the national urban poverty rate was estimated at 9.1%. Insufficient investments in infrastructure had been identified as one cause for poverty in the National Medium Term Development Plan 2010-2015 (RPJMN), thus improving basic infrastructure is considered an effective catalyst to alleviate poverty and close gaps in income inequality in disadvantaged urban neighborhoods. The ADB study *Diagnosing the Indonesian Economy* also identifies inadequacies in infrastructure as one of the critical constraints to further inclusive growth. While Indonesia has generally made good progress towards accelerating achievement of the millennium development goals (MDG), the MDG targets for achieving significant improvement in the livelihood of slum dwellers (MDG target 7D) and halving the proportion of households without sustainable access to safe drinking water and basic sanitation (MDG target 7C) need special attention.⁶ The project's purpose of upgrading basic public infrastructure in slums will contribute towards meeting both MDG targets.

5. The proposed project is included in the ADB Country Operations Business Plan (COBP 2013-2014). Supporting government's efforts to achieve more inclusive growth through improving infrastructure, particularly by supporting catalytic projects to develop community-driven basic infrastructure for poor communities, and improving access to water supply and sanitation in selected cities is included in ADB's country partnership strategy (CPS) 2012-2014. The project will contribute to achieve the targets of the CPS Results Framework and ADB's Strategy 2020. The proposed project builds on lessons from the Neighborhood Upgrading and Shelter Sector Project (NUSSP, Loans 2072/2073-INO), which closed in December 2010 and was rated successful.⁷ In particular the following lessons and recommendations have been taken into consideration: (i) the importance of involving beneficiaries in the planning and implementation of neighborhood upgrading, (ii) clearly defined landownership and strong political commitment to support pro-poor urban development, (iii) advantages to promote integrated approaches and link upgrading investments of individual communities with the overall city development planning. Particular lessons that will be incorporated in the project are documented in the Supplementary Appendix.

B. Impact, Outcome, and Outputs

6. The expected impact of the project will be improved living conditions in urban areas. The outcome will be improved infrastructure and access to service delivery in poor urban neighborhoods in 20 project cities.⁸ The expected outputs will be: (i) institutional capacities for

⁵ The project will promote PPPs whereby: (i) local governments will provide land; (ii) MPW will establish the infrastructure (roads, water and electricity supply, sanitation facilities) financed by loan proceeds; (iii) private developers will pre-finance the house construction; (iv) commercial banks will provide loans to poor families to buy new houses.

⁶ While the MDG target for the proportion of the urban population living in slums is 6% in 2011, still 12.6% of the urban population lived in slum areas. The MDG target for the proportion of households with sustainable access to an improved water source is 75.5% by 2015. However, in 2011 only 40.5% of urban households had access to an improved water source.

⁷ ADB. 2011. *Indonesia: Neighborhood Upgrading and Shelter Sector Project Completion Report*. Manila.

⁸ About \$60 million of the loan proceeds will be earmarked for upgrading basic infrastructure in about 300 poor neighborhoods in 20 cities. The project cities will be selected during the project preparation phase. Selection criteria will include (i) availability of a pro-poor city development strategy, (ii) firm commitment of local governments to actively support the project by providing sufficient counterpart funding and assigning qualified staff, (iii) number of poor households in the city, (iv) level of access to social services for the poor, including education services, sanitation facilities, safe water, road conditions, (v) expected investment needs to improve living conditions for the poor. Each participating city administration will select a cluster of 10-20 neighborhoods to be upgraded under the project. The criteria to select the project neighborhoods will be agreed upon during the LFFM. Further details are provided in the Supplementary Appendix.

managing pro-poor urban development are strengthened; (ii) infrastructure investment plans to upgrade poor neighborhoods are aligned with the overall city development plans and implemented, and (iii) public private partnerships are established to promote new settlements for poor families. The proposed project is expected to improve about 4,000 hectares of slum areas for the benefit of about 670,000 poor families. More details on the expected outputs are provided in the Supplementary Appendix.

C. Investment and Financing Plans

7. The indicative project investment cost is estimated at \$99.7 million, of which ADB will provide \$54.4 million from its ordinary capital resources (OCR) while \$20.0 million will be financed by the ASEAN Infrastructure Fund (AIF). The Government (comprising both central and local) contribution is estimated at \$19.3 million. Private sector/communities are expected to contribute about \$6.0 million. The detailed fund flow and implementation mechanisms will be further discussed and confirmed in close cooperation with the Ministry of Finance (MOF) during the LFFM. Based on preliminary estimates and discussions with the Ministry of Public Works (MPW) and the National Development Planning Board (BAPPENAS), the major share of the investment (\$66.9 million) will be utilized for infrastructure upgrading/civil works under output 2. About \$17.8 million is planned for new site development under output 3. The remaining \$15.0 million is planned for capacity building, engagement of consultant teams, project management, taxes and duties. Detailed cost estimates will be confirmed during the LFFM.

Table 1: Tentative Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank (OCR)	54.4	54.6
ASEAN Infrastructure Fund (AIF)	20.0	20.0
Government	19.3	19.4
Private Sector/Communities	6.0	6.0
Total	99.7	100.0

Source: Asian Development Bank's estimates.

D. Indicative Implementation Arrangements

8. The Executing Agency (EA) for the proposed project is the Directorate General of Human Settlements (DGHS), at the MPW. DGHS financial management and procurement capacity to carry out the project is considered adequate, since it has successfully implemented many internationally-funded projects.⁹ The project will use the effective and well-established implementation arrangements under the NUSSP and the ongoing RIS-PNPM and USRI-PNPM projects. City administrations participating in the project will establish project implementation units (PIUs), which will be supported by consultant teams. The proposed project will be implemented for four years starting from January 2014 to December 2017. Procurement of firms to implement complex civil works will be managed by the EA and carried out in accordance with ADB's *Procurement Guidelines* (2010, as amended from time to time). The Government requested to apply advance procurement for engaging consultant teams to accelerate the preparation of joint investment plans. Any consultants to be engaged shall be selected and engaged in accordance with ADB's *Guidelines for the Use of Consultants* (2010, as amended from time to time)."

⁹ Including (i) the ADB financed Urban Sanitation and Rural Infrastructure Support to PNPM Mandiri Project (Loan 2768-INO) and Rural Infrastructure Support to PNPM Mandiri Project II (RIS PNPM Mandiri II, Loan 2575-INO), which are currently ongoing; (ii) the NUSSP and (iii) the RIS PNPM Mandiri Project I (Loan 2449-INO), which closed in 2011.

II. DUE DILIGENCE REQUIRED

9. **Governance.** Due diligence is required to ensure that neighborhoods covered under the project will focus on poor communities. The project will support a community driven development (CDD) approach by strengthening community capacity and empowerment to (i) prioritize, design, and implement infrastructure upgrading plans for their neighborhoods, and (ii) ensure that specific investments plans are incorporated in overall pro-poor urban development plans to reflect the needs of slum communities. It will be crucial to make certain that communities are fully involved in planning and decision making processes. This will require efficient project sensitization at all levels and competent community-level facilitation. Lessons from NUSPP and RIS-PNPM indicate that careful selection and supervision of consultant teams, who will support city administrations and communities in the development and implementation of investment plans, is essential. During the preparatory phase ADB's Anticorruption Policy will be explained to all project stakeholders at the national level and the city level.

10. **Poverty and social.** The expected economic and financial benefits of the project which will be further assessed during the LFFM include (i) improved public health status and reduced per capita costs for health care/medical treatment due to increased coverage of sanitation services and improved hygiene, (ii) sustained impacts on the economies of participating neighborhoods villages by improving essential infrastructure and access to basic services, and (iii) considerable short-term employment generation. In general, CDD approaches provide good quality community-level infrastructure at significantly lower costs than technically comparable projects using traditional (non-CDD) modes of government contracting. The project will target poor communities in urban slums that lack basic services and infrastructure. The selected neighborhoods will have higher than average poverty levels and lower than average achievement levels for MDGs. Improvements in basic infrastructure will, in turn, increase the availability and accessibility of education and health services for the poor and near poor, and will improve income-earning opportunities. The Gender mainstreaming category is EGM (effective gender mainstreaming). The project will ensure that women and the poor actively participate in decision-making meetings, and that women and men can equally access and receive benefits from the improved services and basic infrastructure. The project will include targets on representation of women in planning meetings and in community implementation organizations.

11. **Safeguards.** The proposed project is expected to have positive impacts on the living environment in slum neighborhoods. All specific investment proposals will be reviewed and assessed to mitigate negative environmental impacts. Land acquisition issues are not expected. Under the new site development (NSD) output, one of the pre-conditions for participating in project activities will be the proof of land titles and an assurance that the local government will allocate the land for the project purpose. Preliminary observation indicates that there are no indigenous people in the project locations.

III. PROCESSING PLAN

A. Risk Categorization

12. The project is categorized as *low risk* because: (i) the loan amount is less than \$200 million per country; (ii) ADB's previous urban infrastructure assistance in Indonesia is rated *successful*; (iii) the executing agency has demonstrated capacity to effectively administer externally financed assistance; and (iv) safeguard categorization is considered category B for environment and involuntary resettlement and C for indigenous peoples.

B. Resource Requirements

13. The project will be processed by the Indonesia Resident Mission (IRM). ADB staff requirements include: Principal Social Sector Economist, (8 weeks, intermittent), Senior Project Officer (8 weeks, intermittent), Associate Project Analyst (4 weeks, intermittent), Counsel (2 weeks). The project preparation will be supported by the Senior Urban Development Specialist, SERD (4 weeks intermittent). To ensure that readiness criteria are met, the Government requested to engage a team of national consultants for 5 person-months to assist MPW in the preparation of project manuals (implementation and technical guidelines) and the final selection of the 20 cities.¹⁰

C. Indicative Processing Schedule

Concept Clearance	First week of June 2013
Loan Fact-finding Mission	Second week of June to 30 June 2013 (intermittent)
Circulation of Draft RRP	First week of July 2013
Staff Review Meeting	15 July 2013
Loan Negotiations	End of August 2013
Circulation of RRP to Board	10 October 2013
Board Consideration	31 October 2013

Source: Asian Development Bank.

IV. KEY ISSUES

14. At this stage, there are no issues for management attention. All concerned government agencies, including BAPPENAS, Ministry of Public Works, and Ministry of Finance are supportive to assist the team in the development of the project concept. In order to utilize funding from the AIF, special guidance will be required from SERD/SERC, CTL and OGC.

¹⁰ The cost for the consulting services is estimated at \$25,000; IRM is providing this from its 2013 staff consultant budget.

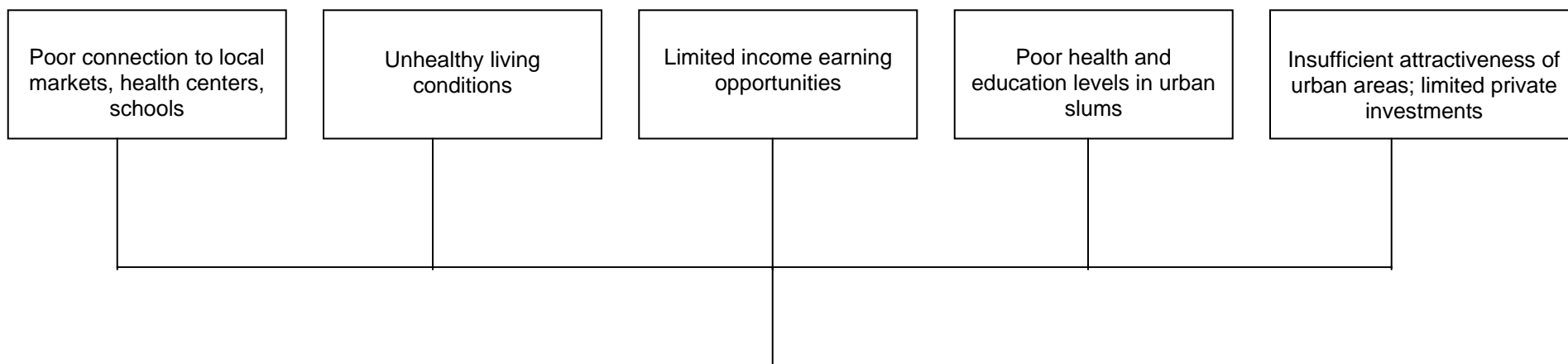
BASIC PROJECT INFORMATION

Aspects	Arrangements
Modality	Project Loan
Financing	<p>A loan of \$54.4 million from the Asian Development Bank (ADB)'s ordinary capital resources (OCR), and \$20.0 million from the ADB-administered ASEAN Infrastructure Fund (AIF) will be provided.</p> <p>The OCR part of the loan will be provided under the ADB's London interbank offered rate (LIBOR)-based lending facility. The loan will have a 25-year term including a grace period of 5 years, an interest rate determined in accordance with ADB's LIBOR-based lending facility, a commitment charge of 0.15% per annum, and such other terms and conditions to be set forth in the loan agreement. Conditions for the AIF part of the loan will be confirmed during the LFFM.</p> <p>The Government of Indonesia (central government) will contribute about \$1.3 million; participating local governments (about 20 local governments) will contribute about \$18.0 million; while the private sector/community is expected to contribute about \$6.0 million.</p>
COBP (country operations business plan) / RCOBP (regional cooperation operations business plan)	The Project is included in the Country Operations Business Plan (COBP 2013–2014).
Classification	<p>Sector (subsectors): Multi sector: water supply and other municipal infrastructure and services (water supply and sanitation, urban sector development)</p> <p>Themes (subthemes): (1) environmental sustainability (urban environmental improvement), (2) private sector development (public private partnership), and (3) capacity development (institutional development).</p> <p>Targeting classification: Targeted intervention – Millennium Development Goals, MDGs (TI-I, MDG targets 7C and 7D)</p> <p>Gender mainstreaming category: EGM (effective gender mainstreaming)</p> <p>Location impact: The project will have urban (high) impact in about 20 cities.</p> <p>Safeguards:</p> <p><u>Environment</u>: Category B. The Project will have significant positive impact on the quality of life and environment of the participating communities.</p> <p><u>Involuntary Resettlement</u>: B. The project might require limited land acquisition for small community facilities; but will not require any resettlement of people. In cases that land acquisition is required, the issue will be addressed in the process of formulating slum upgrading plans and investment proposals, land might be donated or purchased from and by community members – based on their acceptance. Under the new site development output, one of the conditions for participating is that the land allocated for the NSD should have been owned by the participating local governments for at least two years prior to project implementation (land titles will be requested). To address potential issues, a resettlement framework will be prepared.</p> <p><u>Indigenous Peoples</u>: C. No Impact. The Project is not expected to have any impacts on Indigenous People.</p> <p>These will be further confirmed after completing due diligence.</p>

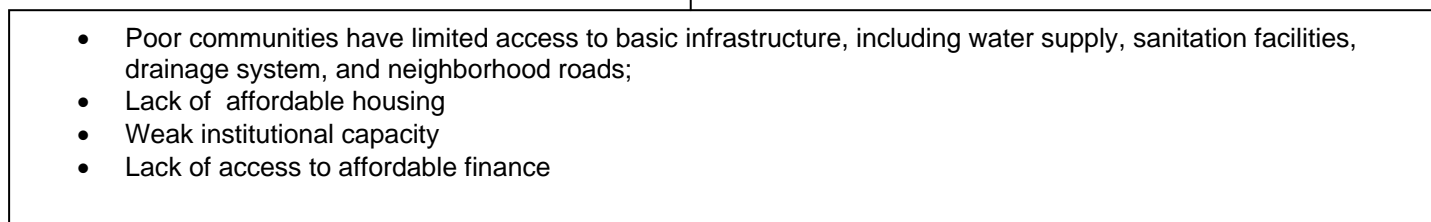
Aspects	Arrangements
Risk categorization	Low Risk
Partnership(s)	Partnerships will be actively sought during project preparation with private sector and key development partners.
Use of a PBA (programmatic based approach)	None
Parallel PIU (project implementation unit)	Not Required
Department and division	South East Asia Department (SERD)/Indonesia Resident Mission (IRM)
Mission leader and members	W. Kubitzki (Mission Leader); S. Hasanah, F.A. Arifin, Suzana (Mission members)

PROBLEM TREE

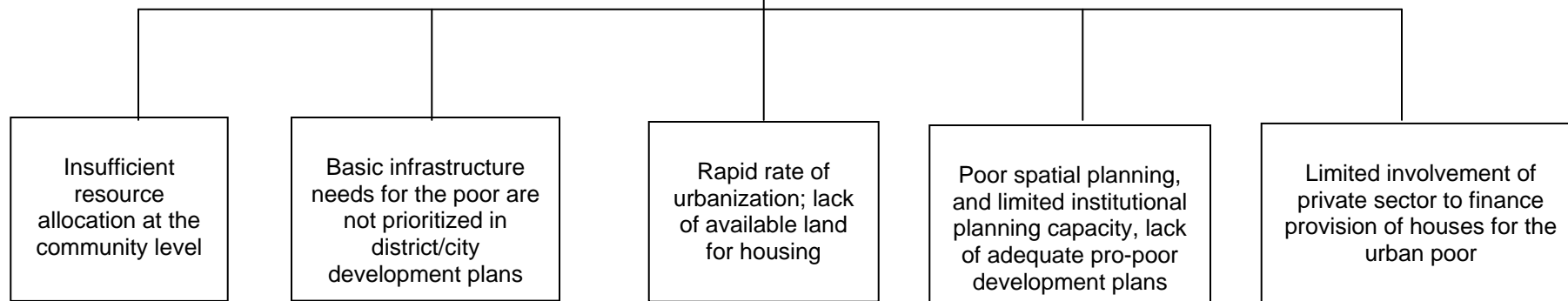
Effects



Core Problems



Causes



DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines*	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Improved living conditions in urban areas.	<p>By 2020: The proportion of families living in slums in participating local governments is reduced by 50%.</p> <p>Provision of social services increased by 50% (baseline will be established during the loan fact-finding mission).</p>	<p>Central Bureau of Statistics (Biro Pusat Statistik, BPS) reports.</p> <p>Baseline and follow-up impact evaluation surveys in target project areas (Ministry of Public Works)</p> <p>Central Bureau of Statistics (Biro Pusat Statistik, BPS) reports.</p> <p>Baseline and follow-up impact evaluation surveys in target project areas (Ministry of Public Works)</p>	Assumption National and local governments continue to support community-driven development.
Outcome Improved infrastructure and access to service delivery in poor urban neighborhoods in project cities	<p>By 2017: About 670,000 families in 300 neighborhoods will have access to improved basic urban infrastructure and better service delivery (baseline 0). At least 50% of community members in project locations, of which half are women, are satisfied with improvements in roads, provision of drinking water, sanitation facilities, and other basic urban infrastructure (baseline 0).</p>	<p>PPMS reports Consultant reports</p> <p>District and city administration evaluation reports</p>	Assumptions National and local budget funds are adequate and provided in a timely manner. Central and local governments continue to prioritize reduction of slums. Risks Natural or financial disasters will impact the project areas.
Outputs 1. Institutional capacities for managing pro-poor urban development are strengthened	<p>By 2017 Integrated urban development plans /city-wide slum improvement action plans (CWSIAP), adopting community driven development approaches, are prepared in 20 cities. At least 100 local government staff dealing with spatial planning are trained to improve their capacity. User groups in 300 neighborhoods are efficiently functioning to operate and maintain facilities/infrastructure constructed/rehabilitated under the Project. Community implementation organizations (CIOs) in about 300 neighborhoods are functioning with at least 40%</p>	<p>PPMS reports Consultant reports</p> <p>District and city administration evaluation reports</p>	Assumptions Participating local governments continue to be committed to pro poor spatial planning. Risks Informal leaders dominate the decision making process during preparation of slum upgrading plans and community investment plans.

Design Summary	Performance Targets and Indicators with Baselines*	Data Sources and Reporting Mechanisms	Assumptions and Risks
	<p>representation of women in each CIO.</p> <p>The planning divisions in the 20 participating cities are strengthened and integrated pro-poor spatial plans are drafted.</p>		
2. Infrastructure investment plans to upgrade poor neighborhoods are aligned with the overall city development plans and implemented	<p>The needs of at least 300 neighborhoods are integrated in CWSIAP and confirmed and approved by the CIOs and Mayor offices.</p> <p>Infrastructure and facilities are upgraded and built according to the jointly developed plans, in 20 cities.</p> <p>Men and women participate equally in all stages of consultation process to develop the integrated slum development plans/ CWSIAP.</p> <p>At least 230,000 person-months of immediate employment opportunities generated in the project neighborhoods, with at least 30% provided to women.</p> <p>More than 80% of infrastructure works are evaluated as being of in accordance with the national standard and have functioning O&M arrangements.</p>	<p>PPMS reports</p> <p>Consultant reports</p> <p>District and city administration evaluation reports</p>	<p>Assumption:</p> <p>Community members have enough resources to carry out simple civil works/construction.</p>
3. PPP established to promote new settlements for poor families.	<p>New housing areas for poor families are constructed in at least 5 cities.</p> <p>PPP schemes to finance and construct new housing areas for poor families are established in at least 5 cities.</p> <p>At least 800 poor families (priorities will be extended to female-headed households) living in slums are provided with affordable houses in new housing areas.</p>	<p>PPMS reports</p> <p>Consultant reports</p> <p>MoUs/agreements between developers, commercial banks, and city administrations; contracts with low income families</p> <p>District and city administration evaluation reports</p>	<p>Risks:</p> <p>Limited provision of electricity (from the national electricity company, PLN) and water services (from local water companies/PDAMs) will hamper the completion of NSDs.</p>

*specific gender targets will be agreed upon during the fact finding mission and incorporated in the final DMF and RRP documents.

Activities with Milestones	Inputs																										
1. Institutional capacities for managing pro-poor urban development are strengthened 1.1 Recruitment of consultant teams to support the EA, local governments in communities in preparing and implementing project activities (starting Q1 2014) 1.2 Identifying training needs for local government staff (starting Q2 2014) 1.3 Selection of local government staff to be trained on pro-poor spatial planning/CDD approach (starting Q3 2014) 1.4 Implementation of training for local government staff dealing with spatial planning (starting Q4 2014) 1.5 Workshops to develop the national housing and settlement network starting Q4 2014 1.6 A national housing and settlement network is established with members at least 20 cities (Q1 2015) 2. Infrastructure investment plans to upgrade poor neighborhoods are aligned with the overall city development plans and implemented in 300 cities 2.1 Socialization of the CWSIAP to project neighborhoods (starting at Q2 2014). 2.2 Guide the project neighborhoods to identify their needs to be integrated into the CWSIAP (Q2 2014) 2.3 Obtain and integrating inputs from project neighborhoods (Q2 2014) 2.4 Revision/Completion of draft CWSIAP in 20 cities (Q3 2014) 2.5 Approval of the draft CWSIAPs by Mayors/ <i>Bupatis</i> (Q4 2014) 2.6 Agreement between EA and Mayors on the specific investment plans to be carried out by communities or contractors (Q3 2014) 2.7 Establishment of user groups and CIOs in 300 neighborhoods (starting Q1 2015) 2.8 Civil work Contracts for neighborhoods upgrading are awarded (starting Q1 2015) 3. PPP to promote new settlements for poor families are established 3.1 Selection criteria of potential beneficiaries are approved Q3 2014 3.2 Completion of MOUs between local governments and commercial banks and developers to finance and construct NSD Q4 2014 3.3 Selection of contractors by the EA for the construction of infrastructure at NSD starting Q2 2015 3.4 Construction of infrastructure at NSDs Q4 2015 3.5 Construction of houses at NSD Q1 2016 3.6 Final selection of beneficiaries Q1 2016 3.7 Signing of loan agreements between beneficiaries and banks Q2 2016 3.8 Strategies developed to share model PPPs for new settlements with other local governments in Q3 2016	Loan ADB's OCR: \$54.4 million AIF: \$20.0 million <table> <tr> <th>Item</th><th>Amount (\$ million)</th></tr> <tr> <td>Infrastructure</td><td>65.4</td></tr> <tr> <td>Policy and Institutional Development</td><td>2.0</td></tr> <tr> <td>Consulting Services</td><td>7.0</td></tr> </table> Government \$19.3 million <table> <tr> <th>Item</th><th>Amount (\$ million)</th></tr> <tr> <td>Land</td><td>8.8</td></tr> <tr> <td>Infrastructure</td><td>4.5</td></tr> <tr> <td>Policy and Institutional Development</td><td>2.3</td></tr> <tr> <td>Project Management, Monitoring and Supervision</td><td>2.2</td></tr> <tr> <td>Tax and Duties</td><td>1.5</td></tr> </table> Private Sector/Community contribution: \$6.0 million <table> <tr> <th>Item</th><th>Amount (\$ million)</th></tr> <tr> <td>Infrastructure/in-kinds</td><td>2.0</td></tr> <tr> <td>Houses (at NSD)</td><td>4.0</td></tr> </table>	Item	Amount (\$ million)	Infrastructure	65.4	Policy and Institutional Development	2.0	Consulting Services	7.0	Item	Amount (\$ million)	Land	8.8	Infrastructure	4.5	Policy and Institutional Development	2.3	Project Management, Monitoring and Supervision	2.2	Tax and Duties	1.5	Item	Amount (\$ million)	Infrastructure/in-kinds	2.0	Houses (at NSD)	4.0
Item	Amount (\$ million)																										
Infrastructure	65.4																										
Policy and Institutional Development	2.0																										
Consulting Services	7.0																										
Item	Amount (\$ million)																										
Land	8.8																										
Infrastructure	4.5																										
Policy and Institutional Development	2.3																										
Project Management, Monitoring and Supervision	2.2																										
Tax and Duties	1.5																										
Item	Amount (\$ million)																										
Infrastructure/in-kinds	2.0																										
Houses (at NSD)	4.0																										

ADB=Asian Development Bank, AIF=Asian Infrastructure Finance, BPS=Biro Pusat Statistik (central statistics bureau), CIO=community implementation organization, CWSIAP=city-wide slum improvement action plan, MOU=memorandum of understanding, NSD=new site development, NUP=neighborhood upgrading plan, O&M=operation and maintenance, PDAM=Perusahaan Daerah Air Minum (local water supply company), PLN= Perusahaan Listrik Negara (national electricity company), PPMS=project performance monitoring system.

Source: Asian Development Bank's estimates.

Prepared by:

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country: Indonesia Project Title: Neighborhood Upgrading and Shelter Project

Lending/Financing Modality:	Loan/Project	Department/ Division:	South East Asian Department/Indonesia Resident Mission
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I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

Economic growth averaging about 6% over the past 6 years has helped to lift 8.6 million people out of poverty. Yet 29 million Indonesians continue to live below the government's poverty line; another 30 million would fall back into poverty in the event of even a small reduction in their incomes. Overall, poverty incidence fell to 12.4% in September 2011, from 13.3% in March 2010; the urban poverty rate was 9.1%.

Poverty reduction is a key focus of government's current national medium term development plan (RPJMN 2010-14) with the target to reduce poverty to 7-9% by 2014. Insufficient investments in infrastructure had been identified as one cause for poverty in the RPJMN, thus improving basic infrastructure in poor communities is considered a key strategy to contribute to improving living conditions, access to social services, and closing gaps in income inequality and further stimulate economic opportunities. The project will also contribute towards achieving MDG targets, in particular MDG Target 7D: "Significant improvement in the livelihood of at least 100 million slum dwellers by 2020"; and MDG Target 7C: "Halve the proportion of households without sustainable access to safe drinking water and basic sanitation by 2015". Both particular MDG need special attention as they are falling behind targets. By (i) providing resources to local governments and communities for upgrading slum areas; (ii) strengthening planning and management capacities of local administrations for urban infrastructure planning; (iii) establishing sustainable mechanisms to engage communities in urban development planning processes; and (iv) launching public private partnerships (PPP) to establish affordable housing areas for poor families, the proposed project will contribute to government's efforts to reduce poverty and achieve MDG targets. By focusing particularly on improving the living conditions and economic opportunities of slum dwellers, the proposed project directly targets the urban poor. The project will address infrastructure issues particularly faced by poor families in urban neighborhoods including deteriorating roads and pathways, inadequate clean water supply, unsafe sanitation facilities, perennial flooding, lack of electrification, and insufficient solid waste management systems.

The Project is in line with ADB's country partnership strategy (CPS) 2012-2014, and included in the Country Operations Business Plan (COBP 2013-2014). Supporting government's efforts to achieve inclusive more growth through improving infrastructure, and particularly support catalytic projects to (i) develop community-driven basic infrastructure for poor communities, and (ii) improve access to water supply and sanitation in selected cities is programmed under pillar I of the CPS. The project will contribute to achieve the targets of the CPS Results Framework and ADB's Strategy 2020 and is supported by the forthcoming urban ASR.

B. Targeting Classification

☐ General Intervention ☐ Individual or Household (TI-H) ☐ Geographic (TI-G) ☒ Non-Income MDGs (TI-M1, M2, etc.)

The Project includes investments in urban infrastructure as strategic key area of engagement to address poverty and regional disparities, and achieve the MDGs.

The Project has been identified as a Targeted Intervention. Access to basic urban services has been identified as a basic human right and such services are generally in poor condition. The basis for the Project's targeting classification is that it will indirectly assist in facilitating economic growth in the regions and in the pursuit of equality through poverty alleviation. Improvement of urban infrastructure will support economic growth. Improved environmental conditions of the urban poor will support general efforts at poverty alleviation.

C. Poverty and Social Analysis

1. Key Issues and Potential Beneficiaries. By 2025, it is projected that 68% of the population will live in urban areas. However, many of Indonesia's growing cities face issues to cope with the rapid growth of in-migrants, who are seeking new economic opportunities in cities, but forced to settle in disadvantaged neighborhoods/slums due to limited financial resources, lack of affordable adequate housing and/or failure to find well paid jobs. In 2011, about 12% of the urban population was forced to live in slum areas. Infrastructure and public services in poor neighborhoods are inadequate to serve the needs of their growing poor inhabitants. Environmental and social problems related to accessibility to adequate services for the people's daily needs are increasing due to widespread constraints in provision of clean water, insufficient sanitation facilities, deteriorating roads, pathways and drainages, ineffective flood control, lack of constant power supply, and poor solid waste management. Only about 40% of the urban population has access to safe water, and about 28% do not have access to improved sanitation facilities. About 35% of urban areas lack proper drainage systems. Problems are further aggravated by the absence of sound

land use planning and land management regulations that are contributing to increased congestion and haphazard development. Through the project, about 670,000 poor families living in slums will benefit from improvements in basic services and infrastructure including better roads and pathways, bridges and culverts, water supply and sanitation facilities, and drainage works, power supply. It is expected that investments in basic infrastructure will significantly improve living conditions in slum neighborhoods, improve mobility and productivity of informal enterprises, creating the basis for economic growth, and improving the welfare of the local population.

2. Impact channels and expected systemic changes In particular, the project will promote good governance through (i) involvement of community members in the preparation of the city-wide slum improvement action plans, (ii) pro poor spatial planning, and (iii) involvement of private sector in city development with special focus on the poor. Participatory planning and implementation of upgrading activities contributed to positive gender impacts for women and men. Improved neighborhoods will contribute positively to the life of families, women, and children; and will help to enhance their economic productivity. The project will ensure that only poor families living in slums will benefit from the provision of new houses under the NSD component. Priority to woman-headed households will be extended.

3. Focus of (and resources allocated in) the due diligence. Due diligence is required to ensure that neighborhoods covered under the project will focus on poor communities. Communities/neighborhoods to be covered under the Project will be based on certain selection criteria including the poverty incidents and number of families living in slums based on data from the national statistics bureau. In the process of developing inclusive investment plans to be financed by the project -integrating investment needs of cluster neighborhoods into the overall city development planning- efficient project sensitization at all levels and competent facilitation will be crucial to ensure adherence to the core principles of community participation. Lessons from previous similar projects indicate that careful selection and supervision of consultant teams, who will support city administrations in the facilitation of the development of joint integrated investment plans, is essential to ensure that communities are aware of the project scope and fully integrated in the project implementation. During the preparatory phase ADB's Anticorruption Policy will be explained and discussed with all project stakeholders at the national level and during planned workshops at city level. Within six months of loan effectiveness, the EA is expected to establish a project specific web-site for public disclosure on the use of loan proceeds. The Project will ensure that women and the poor actively participate in decision-making, enhance women's capacity to participate as key stakeholders, and ensure that both women and men can equally access and get benefit from the improved services and basic infrastructure.

4. Specific analysis for policy-based lending. Not applicable.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program?
Women in poor communities are often not fully involved in decision making processes.

2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?

☒ Yes ☐ No

The Project will enhance women's ability to participate in decision making process and will ensure that women and men will benefit equally from improved urban infrastructure. The key gender issues addressed by the project include: (i) women's particular needs and preferences related to type and location of public and neighborhood facilities; reduced work and time burdens related to familial and community chores; greater access to information and participation in local decision-making processes related to basic services and infrastructure and improved ownership of and control over resources and assets. A gender action plan will be prepared during due diligence.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

☐ Yes ☒ No

The Project will enhance women's ability to participate in decision making process of basic infrastructure including sanitation facilities development and will ensure that women and men in the project sites benefit equally from increased access to improved infrastructure.

4. Indicate the intended gender mainstreaming category:

☐ GEN (gender equity theme) ☒ EGM (effective gender mainstreaming)
☐ SGE (some gender elements) ☐ NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

Local governments; community members, local banks: The project will adopt a CDD approach to ensure efficient community involvement. Local governments will be the implementing agencies and provide land the provision of new housing locations. Local banks will provide loans to low income families. Stakeholders will be involved in the project design through workshops, local governments will provide commitment letters specifying their engagement to ensure a smooth project implementation.

2. How can the project contribute to engaging and empowering stakeholders and beneficiaries, particularly, the poor,

vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded? The project will adopt a community driven development approach (CDD) and promote good governance through (i) involvement of community members in the preparation of the city-wide slum improvement action plans, (ii) pro poor spatial planning, and (iii) involvement of private sector in city development with special focus on the poor.

3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?

☒ Information generation and sharing (H) ☒ Consultation (H) ☒ Collaboration (H) ☐ Partnership

Project preparation will include consultations with community members in the proposed project cities. The project implementation will be based on a CDD approach which will involve community members throughout the planning and implementation of upgrading activities.

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? ☐ Yes ☒ No

IV. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category ☐ A ☒ B ☐ C ☐ FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? ☐ Yes ☒ No

The project might require limited land acquisition for small community facilities; but no resettlement of people. In cases that land acquisition is required, the issue will be addressed in the process of formulating slum upgrading plans. Land might be donated by or purchased from community members – based on their acceptance. Under the new site development output, the land will be owned by the participating local governments. (land titles will be requested). To address potential issues, a resettlement framework will be prepared.

2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?

☐ Resettlement plan ☒ Resettlement framework ☐ Social impact matrix
☐ Environmental and social management system arrangement ☐ None

B. Indigenous Peoples Category ☐ A ☐ B ☒ C ☐ FI

1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? ☐ Yes ☒ No

The project sites are urban areas, thus the likelihood of affecting Indigenous Peoples communities is quite remote.

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? ☐ Yes ☒ No

3. Will the project require broad community support of affected indigenous communities? ☐ Yes ☒ No

4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?

☐ Indigenous peoples plan ☐ Indigenous peoples planning framework ☐ Social Impact matrix
☐ Environmental and social management system arrangement ☒ None

V. OTHER SOCIAL ISSUES AND RISKS

1. What other social issues and risks should be considered in the project design?

X Creating decent jobs and employment (low) x Adhering to core labor standards (low) ☐ Labor retrenchment
☐ Spread of communicable diseases, including HIV/AIDS ☐ Increase in human trafficking ☒ Affordability (M)
☐ Increase in unplanned migration ☐ Increase in vulnerability to natural disasters ☐ Creating political instability
☐ Creating internal social conflicts ☐ Others, please specify _____

Covenants will ensure that the core labor standards will be adhered to.

2. How are these additional social issues and risks going to be addressed in the project design?

The design will be prepared in consultations with community representatives and local administrations. The project will select commercial banks that offer the lowest interest rates to finance new houses under the NSD component. In coordination with other government agencies alternative financing schemes will be reviewed.

VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (vi) other social risks. Are the relevant specialists identified?

☒ Yes ☐ No

2. What resources are allocated for conducting poverty, social and/or gender analysis, and participation plan during the PPTA or due diligence? ADB staff and national staff consultants. The project will be developed in close cooperation with national and local governments, workshops will be conducted to ensure a transparent process.

Description of Impact, Outcome and Outputs and Lessons

1. The expected **impact** of the proposed project is improved living conditions in urban areas. The **outcome** will be improved infrastructure and access to service delivery in poor urban neighborhoods in project cities. The **expected outputs** will be: (i) Institutional capacities for managing pro-poor urban development in an environmentally and socially sustainable manner are strengthened; (ii) Infrastructure investment plans to upgrade poor neighborhoods are aligned with the overall city development plans and implemented; and (iii) Private Public Partnerships to promote new settlements for poor families are established. The proposed project will adopt a community driven development (CDD) approach and will promote public private partnerships (PPP) among commercial banks, developers, local governments, civil society organizations and poor families to develop new settlements for the poor.

Output 1: Institutional capacities for managing pro-poor urban development are strengthened.

2. Under this component, the project will provide capacity building assistance to local administrations in the project cities. Based on capacity needs assessments, training programs and other capacity building measures will be financed in the following areas: (i) approaches to integrated urban development/spatial planning systems, (ii) adopting community-driven development approaches in spatial planning, (iii) pro-poor city development planning in an environmentally and socially sustainable manner, and (iv) approaches to foster public private partnerships in city development with special focus on the poor.

Output 2: Infrastructure investment plans to upgrade poor neighborhoods are aligned with the overall city development plans and implemented.

3. About \$60 million of the loan proceeds will be earmarked for upgrading basic infrastructure in about 300 poor neighborhoods in 20 cities. About 50 cities have expressed general interest to participate in the project. Out of these cities, the Directorate General of Human Settlements, DGHS (the project executing agency, EA) will select 20 cities to be included under the project. Selection criteria will be agreed during the FFM and include (i) availability of a pro-poor city development strategy, (ii) firm commitment of local governments to actively support the project by providing sufficient counterpart funding and assigning qualified staff, (iii) number of poor households in the city, (iv) level of access to social services for the poor, including education services, sanitation facilities, safe water, road conditions, (iii) expected investment needs to improve living conditions for the poor.

4. Substantial evidence demonstrates that broadening and deepening community participation in basic infrastructure development are likely to offer better cost recovery and maintenance of completed infrastructure facilities and services due to community members' strong sense of ownership. Involving communities also provides better accountability as transparency in decision making and procurement has demonstrably reduced corruption and leakage. Based on lessons from the previous Neighborhood Upgrading and Shelter Sector Project (NUSSP) and from other ADB financed infrastructure upgrading projects implemented by the EA under the PNPM umbrella, the project design will adopt a CDD approach by engaging communities from slum areas in the planning and implementation of upgrading measures in their neighborhoods.

5. Based on their current pro-poor city development strategy/overall city development plan,¹ each participating city administration will select a cluster of 10-20 neighborhoods to be upgraded under the project. The criteria to select the project neighborhoods will be agreed upon during the FFM. Supported by consultant teams, communities of the cluster neighborhoods will assess their infrastructure needs and jointly review the current pro-poor city development strategy/overall city development plan, to assess whether their needs have been reflected in the plan adequately. The review process will be facilitated by consultant teams and conducted through extensive consultations among neighborhood communities and city planners within the first 6 months of the project.

6. Supported by consultant teams, each neighborhood included under the project will establish a community implementing organization (CIO)² to facilitate the review of the city development plans and ensure that the needs of the individual neighborhoods are addressed by the development plan. Following the successful approach of the NUSSP, consultants will assist CIOs and communities in identifying problems and needs, evaluating community implementation capacity, establishing efficient planning and decision-making processes, formulating specific investment plans to be integrated in the overall city development plan; preparing simple technical designs, organizing civil works to be carried out by community members, and formulating O&M plans to ensure sustainability of completed facilities.

7. To achieve a wider development impact at the city level, individual neighborhood upgrading plans will be integrated into the overall city development plans. At the end of the joint review process participating neighborhoods and the city administration will agree on a consolidated development plan, which will include specific investment plans to be financed by the project. Depending on the complexity of civil works, investment plans will specify works that can be implemented by community members. More complex civil works will be carried out by competent firms to be engaged by the city administration or the EA based on ADB's procurement guidelines. The final proposals from the 20 cities will be reviewed and approved by the EA.

8. Following the same approach established under the ongoing ADB-financed RIS-PNPM projects, funding for works implemented by communities will be transferred directly to community bank accounts managed by the CIOs. A contract will be executed between the CIO and the city administration, which will specify the payment modalities. The proposed project will utilize the same funds flow mechanism for block grants as in the ongoing RIS-PNPM projects. Detailed guidance related to eligibility criteria and procedures to use grant funds will be explained in the JUKLAK and JUKNIS (guidelines and manuals) that will be developed with the help of consultants and approved by the EA at the beginning of the project. Procurement of firms to implement complex civil works will be managed by the EA and carried out in accordance with ADB's *Procurement Guidelines* (2010, as amended from time to time). The Government requested to apply advance procurement for engaging consultant teams to accelerate the preparation of joint investment plans.

Output 3: Private public partnerships to promote new settlements for poor families are established.

9. The proposed project will provide about \$5.0 million to develop new settlements for poor families. The intention of this component is not to tackle housing issues of poor families at a

¹ A precondition for participating cities is the availability of an integrated urban development plan, which includes specific action plans for upgrading slum areas: (*aksi peningkatan kualitas permukiman kumuh perkotaan*, CWSIAP)

² At least 40% of the CIOs will be women.

large scale, but to establish models of partnerships between central government, local administrations, developers, and commercial banks to provide housing for poor people. The project will take a catalytic role to develop examples for replication and promote PPPs whereby: (i) local governments will provide land from their own resources and issue land titles for potential new house owners, which are required as collaterals to receive loans from commercial banks; (ii) MPW will establish the basic infrastructure (roads, water and electrify supply, sanitation facilities) financed by loan proceeds; (iii) private developers will pre-finance the house construction; (iv) local commercial banks will provide loans to poor families to buy new houses; (v) community implementation organizations (CIOs), will in close cooperation with the local administration organize socialization campaigns to explain the scheme among poor families, develop transparent criteria to select poor families to be eligible to apply under the new site development scheme, and facilitate the selection process.

Lessons Incorporated in the Project Design

10. The project design will incorporate lessons from the Neighborhood Upgrading and Shelter Sector Project (Loans 2072/73-INO) and Rural Infrastructure Support to PNPM Mandiri Project (Loan 2449-INO) including: (i) the importance to involve beneficiaries in the planning and implementation of neighborhood upgrading, (ii) clearly defined landownership and strong political commitment to support pro-poor urban development, (iii) advantages to promote integrated approaches and link upgrading investments of individual communities with the overall city development planning, (iv) reduce the number of project cities and neighborhoods to cut down transaction costs, and (v) increase the investment amount per neighborhood to boost up means for improving the living conditions in slums in a more broader way.

11. Key lessons from previous PNPM initiatives for good project design that will be incorporated particularly for setting up the fund flow and implementation mechanisms for infrastructure works to be carried out by communities include (i) community control of decision-making over resources and investment choices; (ii) simple and transparent funds flow arrangements with direct transfers to community accounts; (iii) comprehensive facilitation support, including social facilitators to ensure full community participation, and engineering facilitators to oversee technical quality of civil works; (iv) strong accountability procedures, such as public disclosure of budgets and contracts; (v) village management of funds and, procurement matters; and (vi) training for communities in establishing effective mechanisms to operate and maintain new infrastructure.

12. The ADB 2012 study “Sharing Knowledge on Community-Driven Development: The Neighborhood upgrading and Shelter Sector Project (NUSSP) in Indonesia” also recognized the importance of integrating upgrading-plans for individual slum areas into broader development plans, and acknowledges that infrastructure constructed under NUSSP were of good quality and had been beneficial.