

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC23674

Project Name	Indonesia National Urban Slum Upgrading Program (P154782)
Region	EAST ASIA AND PACIFIC
Country	Indonesia
Sector(s)	Other social services (50%), Housing construction (25%), Solid waste management (25%)
Theme(s)	Other social development (25%), Urban services and housing for the poor (25%), Urban planning and housing policy (25%), Other urban development (25%)
Lending Instrument	Investment Project Financing
Project ID	P154782
Borrower(s)	Government of Indonesia
Implementing Agency	Ministry of Public Works and Housing
Environmental Category	A-Full Assessment
Date PID Prepared/ Updated	19-Jun-2015
Date PID Approved/ Disclosed	10-Dec-2015
Estimated Date of Appraisal Completion	22-Jan-2016
Estimated Date of Board Approval	31-Mar-2016
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

1. Rapid urbanization and increased urban poverty. Indonesia is the fourth most populous country in the world and is rapidly urbanizing. The urban population in Indonesia increased at an average rate of 4.1% per year between 2000 and 2010, resulting in an average of 3.4 million people moving to cities each year. In 2012, the urban population constituted over 52% of the total population, and by 2025, an estimated 68% of Indonesians will live in urban areas. [Development Policy Review 2014, Indonesia: Avoiding the Trap. PREM Department, EAP Region, World Bank, 2014] Almost 4 million individuals are added to the urban population each year. Currently, around 36% of the poor in Indonesia or over 10 million people live in urban areas [Development Policy Review 2014, Indonesia: Avoiding the Trap. PREM Department, EAP Region, World Bank, 2014], and the number of urban poor is expected to be greater than that of rural poor by 2030, if current trends

continue. [Indonesia: Urban Poverty and Program Review, Policy Note January 2013, World Bank, 2013] While Indonesia registered a 25% decline in rural poverty between 2004 and 2012, (albeit from a higher threshold) there was a far lower decline of 6.5% in urban poverty in the same period.

2. Inadequate provision of basic services in urban areas. Rapid urbanization puts great pressure on the provision of basic services and infrastructure, especially in slum areas. In 2014, around 33% of the urban population did not have access to clean water supply facilities, while 40% did not have access to sanitation facilities [Directorate General of Human Settlements, Ministry of Public Works, 2014]. Of course these two phenomena are related: poor sewerage and solid waste management may have a major impact on the quality of water available. Another problem is that the high urban population growth, the shortage of urban land for housing, and sharply increasing housing and land prices limit the availability of affordable housing for urban low-income households. [Development Policy Review 2014, Indonesia: Avoiding the Trap. PREM Department, EAP Region, World Bank, 2014]

3. Slum areas spread across the country. An estimated 38,431 hectares of slum areas were identified by the Government of Indonesia in 2014. These slums are spread across more than 3,500 urban wards and are generally characterized by overcrowding, substandard housing, inadequate access to basic services, poor health and vulnerability to disaster risks. [Directorate General of Human Settlements, Ministry of Public Works, 2014] [Slums can be legal or illegal ('informal') in the Indonesian context. Legal slums include those in which the land belongs to or is rented by the residents, and the residents' right to occupy the land is recognized by the local government. Illegal settlements include those which are located on land that is not allocated for housing (based on official spatial plans) or on privately-owned land without the owners' consent, and those on environmentally risky land, for example, along riverbanks (SAPOLA, 2014).]

Sectoral and Institutional Context

4. Indonesian National Urban Development Policy. The Government of Indonesia's Long-Term National Urban Development Plan 2015-2045 sets targets of fulfilling urban service standards and increasing the capacity of city management. The Medium-Term Development Plan (RPJMN) 2015-2019 also highlights urban poverty as a serious problem in the country and emphasizes the need for infrastructure investment, the decentralized development of local economies and a consolidation of spatial and land-use plans. The RPJMN specifically sets a target of eliminating slums and providing universal access to water and sanitation (100-0-100 target) by 2019.

5. The Slum Alleviation Policy and Action Plan (SAPOLA). The National Development Planning Agency (Bappenas) in 2014 set out an action plan for upgrading and preventing slums. It points out that while urban poverty and slums are a major challenge in Indonesia, the Government of Indonesia, partnering with the Bank and other donors, has made significant gains over time by experimenting with an array of programs. SAPOLA argues that leveraging the lessons from this long-term learning process, the National Slum Upgrading Program must adopt a more comprehensive approach to slum alleviation. It should go beyond previous programs, integrating the provision of primary, secondary and tertiary infrastructure and also addressing security of tenure, access to social infrastructure and employment, and housing. [SAPOLA was funded by the World Bank and executed by Bappenas, the National Development Agency. For implementation, Bappenas, formed a national level Working Group on Housing and Settlement Areas, (Pokja PKP) consisting of the following ministries/institutions: Bappenas, Ministry of Public Housing (MoPH), Ministry of Public Works, Coordinating Ministry of Social Welfare, Ministry of Home Affairs,

Ministry of Social Affairs, Ministry of Health, National Land Agency and the National Statistics Agency.]

6. Slum alleviation efforts dated back to the late 1960s, with the initial program, the Kampung Improvement Program (KIP), providing small-scale tertiary infrastructure and home improvement. In the 1980s, the focus of the Government shifted toward a broader city-wide approach to upgrading, which became the Integrated Urban Infrastructure Development Program (IUIDP), with less of a direct focus on the urban poor. After the Asian Financial Crisis in 1999, reflecting a broader transition towards decentralization, there was a shift towards a community-driven development (CDD) approach to tackling urban poverty. The Urban Poverty Program (UPP) and the National Program of Community Empowerment in Urban Areas (PNPM Urban) were implemented to provide small-scale block grants directly to communities for tertiary infrastructure development and revolving loans funds to support income-generating activities. Outside the World Bank, the Neighborhood Upgrading and Shelter Sector Project (NUSSP), funded by the Asian Development Bank, has operated since 2005, also providing community-driven slum upgrading. In 2007, a Neighborhood Development (ND) or spatially-focused slum upgrading model was introduced as part of PNPM Urban.

7. PNPM Urban and Neighborhood Development (ND). Since 2006, PNPM Urban has been expanded to the national scale and today it covers approximately 11,000 urban wards (practically all urban areas in Indonesia) and benefits around 26,7 million people. Overall, evaluation findings of PNPM Urban have been quite positive. The cost of building tertiary infrastructure through communities has been found to be 20% less expensive than that built by government contractors, and results show that this infrastructure has generally been of high quality. A few areas for improvement have been identified in evaluations. With respect to slums, it was found that there needed to be more comprehensive spatial planning and systematic program alignment with local government planning processes. ND was designed to address some of these limitations. The model centers on the development of integrated spatial plans designed with extensive participation from communities to facilitate investment in local infrastructure. Instead of interventions being spread over whole urban wards, they are focused on slum areas and local governments have taken on a larger role and are now leading the process of selecting priority areas and implementing the model, in partnership with community boards of trustees (BKMs) established under PNPM Urban.

8. Lessons learned. In moving forward, five lessons for a comprehensive slum upgrading program, from the Indonesian and international experience, can be identified:

- Local government should be in the driving seat. Housing and settlement issues have been delegated to local governments in Indonesia. However, the decentralization of these responsibilities has not been accompanied by a transfer of resources, commensurate institution-building and investment in human resources. Empowering local government, through capacity building and a widening of its political, legal and implementation roles, is key to the success of urban infrastructure and service delivery.
- Integrated slum planning works best. Improving entire road networks, drainage networks, or the provision of utilities across the country cannot be effectively planned and implemented at the community level without a broader urban planning vision and implementation shaped by government policies and actions. It is also important to go beyond physical infrastructure provision, to provide economic development and social programs. Countries that have managed to curb the

growth of slums, such as Brazil or Egypt, are those that have adopted a holistic, multi-pronged approach.

- Collaboration between central government, local governments and communities is essential. As has been learned from PNPM Urban implementation, effective collaboration between central government, local governments and communities is critical for ensuring smooth program execution and accountability. A national program of the sort proposed needs to establish a platform for collaboration at all levels.

- There needs to be a focus on informal settlements. To ensure that slum upgrading is sustainable and not just a partial solution, it is important to deal with land and tenure issues. International experience, for example, from Brazil and Thailand, shows that informal settlement regularization is a fundamental part of slum upgrading. In Indonesia, a significant numbers of slums are informal settlements, yet squatters have been neglected in city planning due to the illegal status of the land they occupy. Several laws pertaining to land have not been implemented. [For example, land registration under Law No. 5/1960 has been slow given human resource constraints, complex bureaucratic procedures and a low commitment to issuing title, Law No. 11/2010 to release unused land owned by absentee landlords was never enforced, and the divestment of state land occupied by squatters for twenty years has rarely been implemented.] Administrative regulations to operationalize such legislation are largely absent. The proposed National Slum Upgrading Program needs to push through land and settlement development policy.

- Strong monitoring and evaluation is key to success. The success of the scaling up of PNPM Urban as national program is to a large degree attributable to the advanced monitoring system that has been developed to managed the program, provide early feedback on the effectiveness of the program, and reduce fraud and fiduciary risks. The system includes a management information system (MIS), a complaint handling system (CHS) and independent audits. Developing a comprehensive monitoring and evaluation system is a key to successful national program. Evaluations on specific aspects of the program have also been carried out with recommendations leading to design improvements. Developing a comprehensive monitoring and evaluation system is a key to successful national program.

9. The envisaged approach has the full support of the relevant government counterparts including the National Development Planning Agency, Bappenas and the Ministry of Public Works and Housing (MPWH). Having witnessed the long term success of PNPM Urban, the Government of Indonesia appreciates the value of enhancing community participation as well as the effectiveness of giving local government a central role in local service delivery. While local government will be on the frontline of implementation, the central government has a critical role in structuring this national-level program, and in providing financial and implementation support.

10. Program preparation is already underway. The proposed program will utilize the national platform of delivery that has been effectively proven to deliver the national PNPM Urban program in 269 cities and 11,000 urban wards. Under the PNPM program, which officially continues until the end of December 2015, about 7,000 city coordinators and facilitators are in place. Currently they are carrying out a detailed mapping of slums across the country, which will be valuable for the future design of plans at the city and community level. Bappenas, the national planning agency, has hired consultants to draw up a roadmap for slum upgrading in Indonesia to meet the 100-0-100 target and to draft a presidential decree on slum upgrading, which is necessary to ensure inter-

ministerial coordination.

11. **Strong rationale for Bank's involvement.** The Program is targeted to the poor living in urban slums and thus is closely aligned with the twin goals of ending extreme poverty and boosting shared prosperity. There is international evidence on the benefits of improved living conditions on health, livelihood opportunities, and property values, which in turn contribute to reductions in poverty and inequality. The Bank has supported and partnered with the Government of Indonesia on slum upgrading since 1969. Apart from the financing support, the Bank's continued involvement allows the Government of Indonesia to benefit from: (a) technical expertise and global knowledge in slum and urban upgrading in other countries; (b) effective, proven mechanisms to facilitate high quality management and oversight of the program, including project supervision and results monitoring and evaluation; (c) new ideas to reach the targeted communities in urban slum areas; (d) strong governance controls and fiduciary oversight mechanisms; and (e) continued capacity building for both the Government of Indonesia and communities in undertaking urban slum upgrading.

Relationship to CAS

12. The proposed program is central to the 2013-2015 Country Partnership Strategy's (CPS) and the Government's strategic priorities. Some of the main goals of the latest CPS, which is itself very much aligned with the Indonesia Mid-Term Development Plan 2015-2019, are to improve governance and to accelerate poverty reduction in Indonesia. The CPS acknowledges that public service delivery and public sector capacity at the subnational level remain major challenges. Involving local government is essential, though its capacity still needs to be strengthened through improved coordination and greater transparency. The CPS also notes that urban development has recently become an important focus for the World Bank, as it recognizes both the huge challenges and opportunities associated with rapid urbanization in Indonesia, including urban poverty and slum growth. The CPS highlights the importance of institutional capacity and infrastructure investment in urban areas. The document also stresses the Bank's continued support for a CDD approach to poverty reduction through improving local governance and participation.

13. In addition, the Systematic Country Diagnostic (SCD) report (under review), which will serve as the basis for the upcoming 2016-2018 Country Partnership Framework (CFP), views infrastructural gaps (especially roads, water and sanitation in the urban context) as undermining Indonesia's productivity, growth, competitiveness and poverty reduction efforts. The SCD report emphasizes that eradicating poverty and increasing shared prosperity in Indonesia will depend on the country's ability to close its large infrastructure gaps through well-planned, supported urbanization to enhance the livability of Indonesian cities. The proposed project addresses this need.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The overall project development objective is to improve access to urban infrastructure and services in targeted slums in Indonesia.

Key Results (From PCN)

- Improved access to basic services for the urban poor in targeted slums [The project will cover access to the following basic services: water, sanitation, roads, drainage, house rehabilitation, and fire safety and disaster risk management.];
- Increase in user satisfaction with quality of basic urban infrastructure and services in targeted

areas.

- Number of direct project beneficiaries, disaggregated by gender.

III. Preliminary Description

Concept Description

16. Project scope. The new National Urban Slum Upgrading Program (2015-2019) will focus on meeting the Government of Indonesia's target of alleviating 38,431 hectares of slum areas across 393 cities and 3,600 urban wards by 2019, while also working towards preventing slums in another 8,700 urban wards. This program will be based on institutional and implementation arrangements established under the Bank-supported PNPM Urban program, with some modifications to support the integrated provision of urban services and infrastructure at all levels. Learning from previous experiences, there will be a substantial focus on empowering local governments to take a lead in the program, and on resolving land and tenure issues that may restrict the development of informal settlements.

17. The project would assist the Government in setting up and running institutional, monitoring and evaluation and training systems for the whole program. It would finance capacity building and program facilitation in approximately 200 cities and will directly fund the cost of infrastructure, housing improvement and livelihood initiatives in approximately 50 of these cities. [The selection of these 200 cities will be done in consultation with the MPWH as well as other donors including the Asian Development Bank (ADB) and the Islamic Development Bank (IDB). The selection of the subset of 50 cities will be done following the criteria mentioned in Component 3.]

18. Project Cost. The estimated project size is US\$ 1 billion, of which US\$ 200 million (20%) will be financed under the loan. The remaining costs will be financed by counterpart funds (national and local government budgets, as well as community contributions). The project will follow a five-year funding cycle.

19. Preliminary project components identified during the concept stage are as follows:

Component 1: Institutional Development and Policy Reform (Loan US\$5 million)

This component supports the National Government in (a) setting up an institutional framework at national and city level that will ensure effective support for and coordination of the program; (b) setting up general guidelines on comprehensive plans for slum upgrading, slum prevention and housing resettlement; (c) integrating and synchronizing slum data and definitions used by the MPWH and the National Statistics Agency; (d) reforming land and settlements development policy, mobilizing regulations to operationalize such legislation and pushing forward a land reform agenda at the local government level. This component would finance, inter alia, the recruitment of consultants as well as workshops and training sessions.

Component 2: Integrated Planning Support and Capacity Building for Local Government and Communities (Loan US\$50 million)

This component would support (a) local governments and communities through the provision of urban planners and community facilitators to assist with (i) the preparation of Slum Improvement Action Plans (SIAPs) at city level and Community Settlement Plans (CSPs) at community level (including slum mapping, capital investment design, programming and budgeting), as well as their effective integration, (ii) building an institutional set-up and coordinating stakeholders at the city

level, and (iii) developing slum prevention initiatives involving livelihoods support and community behavior change; (b) capacity building training and workshops, including the preparation of project guidelines and training materials on slum upgrading for the whole program; and (c) knowledge exchange and peer-to-peer learning activities to facilitate the transfer of experiences and expertise between cities.

Component 3: Urban Infrastructure and Services in Selected Cities (Loan US\$125 million)

This component would directly support infrastructure provision in slum areas in selected cities. The selection of cities would be agreed with the MPWH and will depend on (1) the commitment of a local government to slum upgrading in its jurisdiction, (2) the number of people living in slum areas within a city and (3) the potential for a city to serve as a model for the rest of the program. Where resettlement is required, funding can be used for the development of sites-and-services and the construction new housing. The two main sub-components include:

- Sub-component 3.1: Support for Tertiary Infrastructure Upgrading and Basic House Upgrading for the Poorest: The project would finance a multi-sector package of tertiary infrastructure and service improvements in identified slums. This would include, inter alia, water supply, drainage, sanitation, widening of alleys for emergency vehicles, paving of alleys and roads, electricity, etc. In addition, continuing the well-established activity under ND and PNPM Urban, housing rehabilitation for the poorest would be included if identified as a priority by communities in their CSPs.

- Sub-component 3.2: Support for Primary and Secondary Infrastructure and Resettlement: The effectiveness of the community level investment depends on whether or not the investment is properly linked to the rest of the city networks and the existing infrastructure is able to absorb additional new capacity. These investments would mainly consist of improvements in large-scale sanitation, water and drainage systems (together with strengthening their connection to the tertiary and household systems), as well as strategic connecting roads. Where slums exist in hazardous areas and there is no alternative, this component would fund costs associated with the resettlement of slum communities.

Component 4: Implementation Support and Technical Assistance (Loan US\$20 million)

This component would finance: (a) the hiring of National Management Consultants (NMCs) and Oversight Consultants (OCs) to strengthen the capacity of the Project Management Unit (PMU) to oversee the overall implementation of the program at national, provincial and city level; (b) monitoring and evaluation activities to strengthen project implementation and receive timely feedback on project progress.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04			x
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11	x		
Indigenous Peoples OP/BP 4.10	x		

Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	1742.00	Total Bank Financing:	433.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			1309.00
International Bank for Reconstruction and Development			433.00
Total			1742.00

VI. Contact point

World Bank

Contact: George Soraya
 Title: Lead Municipal Engineer
 Tel: 5781+3058 /
 Email: gsoraya@worldbank.org

Borrower/Client/Recipient

Name: Government of Indonesia
 Contact:
 Title:
 Tel:
 Email:

Implementing Agencies

Name: Ministry of Public Works and Housing
 Contact: Andreas Suhono
 Title: Director General of Human Settlements
 Tel: 0622172796155
 Email: dirjenck@pu.go.id

VII. For more information contact:

The InfoShop
 The World Bank
 1818 H Street, NW
 Washington, D.C. 20433
 Telephone: (202) 458-4500
 Fax: (202) 522-1500
 Web: <http://www.worldbank.org/infoshop>