

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA71540

Project Name	Indonesia National Slum Upgrading Project (P154782)
Region	EAST ASIA AND PACIFIC
Country	Indonesia
Sector(s)	Other social services (20%), Urban Transport (20%), General water, sanitation and flood protection sector (60%)
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)	Ministry of Finance
Implementing Agency	Ministry of Public Works and Housing
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	03-Jun-2016
Date PID Approved/Disclosed	01-Mar-2016
Estimated Date of Appraisal Completion	04-Mar-2016
Estimated Date of Board Approval	06-Jul-2016
Appraisal Review Decision (from Decision Note)	
Other Decision	This project will be financed jointly with AIIB in the amount of \$US 216.50 million respectively.

I. Project Context

Country Context

1. Rapid urbanization has placed cities at the center stage of Indonesia's development trajectory. Indonesia was ranked among the top ten fastest urbanizing countries in the world during 1990-2014 and has the second-largest urban population in East Asia after China. The country has approximately 137 million urban dwellers which make up 53.7% of the total population. The urban population of Indonesia increased at an average rate of 4.1% per year between 2000 and 2010, a rate faster than any other country in Asia. The country's urban population density increased sharply between 2000 and 2010 - from 7,400 people per square kilometer to 9,400 - marking the largest increase in urban population density of any country in East Asia. By 2025, an estimated 68% of Indonesians will live in cities. Indonesia has not fully benefited from the potential positive returns of urbanization however, compared to other countries in the region. From 1970 to 2006, every 1% increase in share of urban population correlated with an average of 6-10% increase in several

middle-income Asian countries such as China, Thailand, Vietnam and India. In Indonesia similar rates of increase in urbanization related to less than 2% increase of per capita GDP.

2. Urban poverty is increasingly acknowledged as a major problem. Despite significant economic gains since the 1997-98 East Asian Financial Crisis, more than 28 million Indonesians currently live below the poverty line, and approximately 40 percent of all people remain clustered around the national poverty line set at IDR330,776 per person per month (USD 22.6), making them vulnerable to economic shocks. According to the National Statistical Agency (BPS), the urban poverty rate was 8.16% in 2014, compared to the national poverty rate of 10.9%. World Bank estimates indicate that 36% of the poor in Indonesia live in urban areas (over 10 million people), assuming current trends continue the number of urban poor is projected to be greater than that of rural poor by 2030. 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. Income inequality as measured by the GINI coefficient increased from 0.35 in 1995 to 0.42 in 2011 in urban areas. The urban poor are concentrated in the provinces of Java and Sumatra, with internal migrants and slum dwellers being among the most vulnerable.

3. Access to basic infrastructure services remains low, particularly for urban poor. According to World Bank estimates only 42% of urban households have access to a public water supply network and barely one-third have access to a house connection from the public utility company. The World Bank's latest assessments show that in urban Indonesia, access to piped water supply is much lower for the poorest quintile (9%) as compared to the highest income quintile (50%). The urban poor in Indonesia pay at least 10 to 30 times more to buy clean water from private providers as compared to the price paid by the wealthier households for water from water utilities. Public expenditure on road infrastructure has remained at 1.6% of GDP since the late 1990s, despite vehicle ownership tripling since 2001. Traffic congestion in urban areas and high road transport costs (compared to other EAP countries) threaten Indonesia's growth potential. There is significant inequality in access to improved sanitation by wealth quintiles in urban areas: almost 100% of the richest two quintiles have access to improved sanitation, compared to only 36% of the poorest quintile. 28% of urban Indonesians do not have access to improved sanitation facilities and 13% (18 million) still practice open defecation. Indonesia's urban population is estimated to generate approximately 85,000 tons of solid waste per day but only about 40% ends up in landfills, with many of these landfills being open dumps. A mere 1% of urban dwellers are served by sewerage systems, with only 12 cities having a substantial sewerage network. Nationally, over 70% of urban households discard wastewater into septic tanks or cubluks (open bottom pits). This has led to effluent waste being discharged largely untreated or partially treated into open drains, canals, rivers and ponds, resulting in widespread fecal contamination of urban ground water resources. With many people still reliant on wells for their drinking water, Indonesia continues to suffer a high incidence of water- and sanitation-related diseases, particularly typhoid.

4. Slums remain a major challenge and are a visible marker of gaps in basic infrastructure and urban poverty. Although Indonesia halved the proportion of its urban population living in slums between 1990 and 2005, the pace of reduction has stalled in recent years, with only a 4.5% decline in the last decade. About 22% of Indonesia's urban population (approximately 29 million people) is estimated to be living in slums with low levels of access to basic services. More than 50% of the poor live in slums. In 2014, the Government of Indonesia (GOI) identified approximately 38,000 hectares of slum areas (defined as dense neighborhoods lacking in access to infrastructure with irregular buildings) spread across more than 3,500 urban wards (see PAD Annex 2, para 13 for the criteria

used to define slums). These areas are generally characterized by substandard housing, inadequate access to basic urban infrastructure and services (water, sanitation, roads etc.), poor health, vulnerability to disaster risks and, in larger cities, overcrowding. In 2014, an estimated 30% of slum dwellers (approximately 9 million people) resided in units that lacked safe water and 37% of slum dwellers (approximately 11 million) with inadequate sanitation. In addition, about 30% of the roads and 50% of the drainage networks are considered to be in poor quality.

5. A large proportion of households in Indonesian slums have secure tenure (considered 'legal' slums); however, some slums are categorized as informal settlements ('illegal slums'). Legal slums include those where land belongs to or is rented by the residents, and the residents' right to occupy the land is recognized by the local government. Informal settlements include settlements that are located on land that is not allocated for housing (based on official spatial plans), privately-owned land without the owners' consent, and environmentally risky land (e.g., along riverbanks). Current national urban policy and planning does not directly address this issue. But experience under National Community Empowerment Program in Urban Areas (NCEP Urban or known as PNPM Urban) shows that many tenure issues can be resolved at the city level given that however, local governments have a wide latitude to take action within existing the legal frameworks on land tenure, environmental management and spatial development.

Sectoral and institutional Context

6. Alignment with Indonesia's National Medium-Term Development Plan (RPJMN) 2015-2019. Under RPJMN 2015-2019, GOI has committed to an ambitious target of eliminating slums and providing universal access to safe water and sanitation by 2019 (popularly known as the target 100-0-100). In order to meet these targets, GOI has launched sectoral platforms of service delivery in urban and rural water, sanitation and slum upgrading. For achieving the target of zero percent slums, the GOI has established a National Slum Upgrading Program (in Indonesian known as KOTAKU) as a national platform financed by multiple sources, including central and local governments, the private sector, communities, as well as multi-lateral donors. The World Bank, the Asian Infrastructure Investment Bank (AIIB), the Asian Development Bank (ADB) and the Islamic Development Bank (IDB) will each work on a subset of National Slum Upgrading Program cities. National Slum Upgrading Program aims to establish an integrated system for slum upgrading interventions (including improvement of primary and secondary infrastructure and construction of tertiary infrastructure and services), with local governments enabled to lead design and implementation. A collaboration platform is being established to leverage all resources (organizational and financial) available from national, provincial and local government programs, alongside donor financing.

7. The World Bank has prepared a National Slum Upgrading Project (NSUP) a coordinated response to support GoI's objective of 100-0-100 as stated in RPJMN 2015-2019. Along with the National Urban Water Supply Program (NUWSP), the Community-based Rural Water Supply and Sanitation Program (PAMSIMAS) and the National Affordable Housing Project (NAHP), this project forms part of a well-aligned World Bank support to GOI efforts to eliminate slums and provide universal access to safe water and sanitation. In addition, the rich ASA portfolio of the World Bank in Indonesia further strengthens the institutional capacity building components of this project, specifically on Land, Housing and Urban Settlements as well as on Sustainable Urbanization. This project supports a nation-wide, scalable upgrading approach, by designing infrastructure investments (primary, secondary and tertiary) to address the context-specific needs of

cities. It will also provide advisory support to GOI to examine options for policy reforms required for the sustainability of slum alleviation efforts. Slum prevention will focus on building the capacity of local governments and communities to maintain infrastructure in upgraded slums, as well as in areas identified as emerging slums to prevent these areas from degenerating into fully-fledged slums. Slum prevention activities will include: (a) control and monitoring at kelurahan level, including regular maintenance and checks on building permits and technical standards; (b) community empowerment on livelihoods and opening access to information; and (c) community-level investment for basic infrastructure where gaps are identified.

8. Collaboration among sectors is expected to be effective as most national programs supporting the target of RPJMN are under the purview of the Ministry of Public Works and Housing (MPWH). Except for housing, all programs are managed under the Directorate General of Human Settlements (DGHS), which is also the executing agency for the proposed project. Such institutional arrangements will ensure effective coordination between various national sectoral initiatives as well as the donors. Given that the aim of the National Slum Upgrading Program is to address slums nationally, MPWH is making a concerted effort to ensure that a single platform is utilized for implementation by all donor agencies providing support for various cities. To this end, MPWH has decided that all projects under the National Slum Upgrading Program umbrella will utilize a single program manual and single M&E framework as developed under this project, and is further exploring a unified approach to a safeguards framework across the entire program.

9. National Slum Upgrading Program internalizes the guiding principles of the Slum Alleviation Policy and Action Plan (SAPOLA), which a GOI initiative to support the design and development of a national slum upgrading policy and action plan. Key guiding principles outlined in the SAPOLA final report are: (a) create an enabling policy framework at the national level for long term slum alleviation and prevention, while providing financial resources to local governments to lead the design and implementation of slum upgrading initiatives; (b) enable urban local governments to improve living conditions in slums by transforming them into viable communities by building local governments' capacity to map slums, develop spatial plans and prevent new slums from emerging through a comprehensive set of strategies; (c) facilitate investments to upgrade and link slums to primary, secondary and tertiary urban infrastructure networks in a manner that integrates slums into the urban mainstream; and (d) ensure that community participation is incorporated in program design, implementation and supervision. An additional set of recommendations from SAPOLA pertain to the provision of low income housing and improvement of land and housing markets are addressed in part by the Bank's Affordable Housing Project (see PAD Annex 5). Within which, there will be technical assistance to improve the capacity of PERUMNAS in managing land banking. Furthermore, policy development in regards to land issues will be managed by the National Planning Agency (BAPPENAS) through Component 1 of the project.

10. Capacity building of urban local governments. Within Indonesia's highly decentralized government structure, service delivery is the primary responsibility of sub-national governments. However, the majority of urban local governments have failed to improve public service provision as anticipated, resulting in continued low quality of services and failure to plan for the needs of growing urban populations, resulting in slum areas. In part, such failures result from poor spending patterns with meager spending on capital investments and most of the budgets spent on personnel costs. In 2012, district governments spent 52% of their budget on personnel and only 23% on capital expenditure. Other key reasons include a lack of capacity to carry out proper urban planning,

low levels of coordination between line departments and an inability to enforce existing plans. Interventions to tackle the challenge of slums will need to pay considerable attention to improving the capacity of local governments.

11. World Bank-GOI partnership on urban poverty alleviation. Bank projects in Indonesia have supported significant improvements to the wellbeing of low-income and extremely poor urban populations. Predominantly community-based approaches have been utilized for urban infrastructure, although the role of local governments and attention to spatial planning have increased over time. Bank support for the GOI Kampung Improvement Program (which started in 1969) focused on small-scale tertiary infrastructure and home improvements. After the Asian Financial Crisis, there was a greater emphasis on community-driven development (CDD) approach to tackling urban poverty. The Urban Poverty Program (UPP) and the NCEP Urban provided small-scale block grants directly to communities for tertiary infrastructure development, as well as micro-loans from revolving funds to support income-generating activities. Since 2006, MPWH also significantly developed its capacity in managing NCEP Urban, which covers all urban wards in Indonesia. In 2007, a spatially-focused slum upgrading model, Neighborhood Development (ND), was introduced as part of NCEP Urban to design integrated spatial plans with community participation to facilitate investment in infrastructure. Local governments were encouraged to lead the process of selecting priority areas and implementing the ND model in partnership with communities. The long-running NCEP Urban program has been successful in delivering much-needed CDD projects at scale and setting up community-level governance structures that are empowered to engage with local governments.

12. This project not only builds upon the lessons learned from NCEP Urban but also moves towards a more ambitious city-level urban upgrading agenda that differs from NCEP Urban in the following respects:

- a. focusing on city-wide planning for slum upgrading;
- b. financing construction of connecting infrastructure and, where needed, the improvement and rehabilitation of primary and secondary infrastructure in the vicinity of slums;
- c. providing a central role for local governments in infrastructure delivery and providing them substantial capacity building support to plan and implement city-wide slum upgrading;
- d. providing technical assistance to both central and local governments to assess the options available for addressing land issues related to slum upgrading;
- e. strengthening the monitoring system, with specific attention paid to O&M aspects; and
- f. leveraging multiple sources of funds at all levels.

13. Rationale for World Bank's involvement. The Bank's involvement with NSUP will enable GOI to benefit from: (a) technical expertise and global knowledge on slum upgrading, urban infrastructure service provision, CDD, and disaster risk management (DRM); (b) effective, proved mechanisms to facilitate high quality management and oversight of the program, including project supervision and results monitoring and evaluation through continued working relationship with the MPWH; (c) innovative approaches targeted to the specific needs of slum dwellers across cities; (d) strong governance controls and fiduciary oversight mechanisms in the Indonesian context; and (e) capacity building for national and local governments and communities to plan for and implement a citywide slum upgrading approach.

II. Proposed Development Objectives

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

III. Project Description

Component Name

Institutional and Policy Development

Comments (optional)

This component will support institutional strengthening and capacity building of central government agencies (e.g., BAPPENAS, MPWH) responsible for the management of the National Slum Upgrading Program and will include: institutional analysis at the national level as well as for a sample of municipal governments to identify the nature of support needed to facilitate inter-agency coordination during program/project preparation, implementation and supervision stages; and strategic studies to facilitate the development of policy frameworks to support the sustainability of slum upgrading and prevention efforts.

Component Name

Integrated Planning Support and Capacity Building for Local Government and Communities

Comments (optional)

This component will finance the costs of experts and community facilitators throughout the project cycle to support capacity building (including training, workshops, and knowledge exchange events between cities as well as urban sub-districts) of local governments and communities in 154 cities to design and implement slum improvements, including the development of Slum Improvement Action Plans (SIAPs) at the city level and Community Settlement Plans (CSPs) at the community level. The activities under this component will build the capacity of participating local governments to design and implement slum improvements. Such capacity building is a necessary precursor for the implementation of Component 3.

Component Name

Urban Infrastructure and Services Investment Support

Comments (optional)

This component will finance: 1. Improvement of Primary & Secondary Infrastructure & Site Development as well as Construction of Connecting Infrastructure in 50 selected cities as identified in SIAPs, including improvements in area-level small-scale roads, sanitation, water & drainage systems, together with strengthening connectivity of tertiary & household-level systems with primary & secondary infrastructure through the connecting infrastructure; 2. Support for Tertiary Infrastructure Upgrading in 154 cities based on a CDD approach, including, inter alia, water supply, drainage, sanitation, footpaths, fire safety, site improvements & modest support for strengthening community-based livelihoods through the construction of livelihood enabling facilities & services as identified in CSPs.

Component Name

Implementation Support and Technical Assistance

Comments (optional)

This component will provide technical support, advisory services and training for Project Management Units (PMUs) at national level, and for Project Implementation Units (PIUs) at provincial and city levels. Strengthening implementation and project management capacity will involve support for monitoring and evaluation system of NSUP and the project, enhancing stakeholders' collaboration at all levels, and training to make substantial use of participatory techniques at the tertiary level. Costs of National Management Consultants (NMCs), Technical

Management Consultants (TMCs) and Oversight Service Providers (OSPs) will be financed under this component.

Component Name

Contingency for Disaster Response

Comments (optional)

Due to a high risk of catastrophic natural disasters in Indonesia, this provisional component made available to finance preparedness and rapid response measures to address disaster, emergency and/or catastrophic events, as needed, through sub-projects and/or using the project implementation arrangements.

IV. Financing (in USD Million)

Total Project Cost:	1743.00	Total Bank Financing:	216.50
Financing Gap:	216.50		
For Loans/Credits/Others			Amount
Borrower			1310.00
International Bank for Reconstruction and Development			216.50
Total			1526.50

V. Implementation

14. MPWH will be the executing agency for this project and will be responsible for the procurement and management of all contracts, financial management of loan proceeds, and implementation of environmental and social safeguards in accordance with Bank policies and guidelines. A Project Management Unit (PMU) will be established under the Directorate General (DG) of Human Settlements (DGHS) in MPWH and will be headed by the National Project Manager (Satker). The PMU will be supported by a combination of National Management Consultants (NMCs), Oversight Consultants (OSPs), City Coordinators and field-based facilitators. Task forces of Housing and Settlement (Pokja-PKP) will be set up at national and local levels to ensure effective collaboration and functioning between various levels of government, across multiple sectoral agencies as well as with communities (including the City Coordinator and facilitator teams at city level). BAPPENAS will also be the implementing agency for Component 1 of the project.

15. Local and provincial governments will also be implementing agencies for Components 2 and 3. Local governments are involved in various aspects of the project implementation, including leading the preparation of Slum Improvement Action Plans (SIAPs) and execution of several activities defined under the SIAP. In addition, where local government has capacity, a local government staff will be assigned as the project manager for managing the central government funds, including procurement. Further, local governments will authorize the release the funds to the community and managing the everyday tasks of the facilitators using the same mechanisms at NCEP Urban. (Figure A3.1 in PAD Annex 3 provides the diagram of institutional and implementation arrangements).

16. The project has a high level of readiness for implementation. While the time frame of the project seems ambitious, this is offset by a strong institutional foundation provided by well-established NCEP Urban structures and relatively advanced stages of preparation to enable smooth and expedited implementation. MPWH has made significant progress on drafting SIAPs in about 100 cities through its own funding, which will be further refined in Year 1 of implementation to align

with the guidelines developed under this project. In addition, GOI has made a budget allocation for 2016 for tertiary infrastructure development in 200 ND sites where Community Settlement Plans (CSPs) have already been prepared under NCEP Urban. Facilitators for Year 1 have been mobilized through the extension of the existing contracts under NCEP Urban in all urban areas. GOI has initiated the process of contracting some of the consultants required for implementation in 2016 and 2017. While the total area under slums for this project is relatively large most of it is under medium and light slums that require less complicated solutions. The percentage of area classified as ➤(heavy➤((i.e. requiring more complex interventions) is very low.

17. This project will be financed jointly by the Bank and AIIB. The Government of Indonesia will enter into separate legal agreements with each lender. The Bank and AIIB will joint co-finance all components under the project. The estimated total cost of the project is US\$1,743 million equivalent, to be funded by an IBRD loan of US\$216.5 million, AIIB loan of \$216.5 million and counterpart funds of US\$1,309 million equivalent. Details on how the funds would be disbursed are specified in the disbursement section of Annex 3 in the PAD, and also in the project operational manual.

18. Implementation Arrangement between the World Bank and AIIB. As reflected in the WB/AIIB Co-financing Framework Agreement dated April 13th, 2016, The World Bank would be the lead co-financier and will undertake all the usual services associated with project implementation which includes among others Environmental and Social safeguards, Procurement, Investigative, Financial Management and Disbursement.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
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

Comments (optional)

VII. Contact point

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