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PROJECT PERFORMANCE ASSESSMENT REPORT

REPUBLIC OF INDONESIA

**SECOND EAST JAVA URBAN DEVELOPMENT PROJECT
(LOAN NO.4017-IND)**

**BALI URBAN INFRASTRUCTURE PROJECT
(LOAN NO.4155-IND)**

**MUNICIPAL INNOVATIONS PROJECT
(LOAN NO.4440-IND)**

March 27, 2006

*Sector, Global and Thematic Evaluation Division
Independent Evaluation Group*

Currency Equivalents (annual averages)

Currency Unit = Rupiah (Rp)

1996	US\$1.00	Rp.2,342.30
2000	US\$1.00	Rp.8,421.80
2004	US\$1.00	Rp.8,938.90

Abbreviations and Acronyms

Bappeda	Development Planning Board	PAD	Project Appraisal Document
Bappenas	National Development Planning Board	PDAM	<i>Perusahaan Daerah Air Minum</i> (Local Water Utility Company)
Bappeprop	Provincial Development Planning Board	PIU	Project Implementing Unit
<i>Bupati</i>	Head of Regency Government	PJM	<i>Program Jangka Menengah</i> (Medium Term Investment Program)
BUIP	Bali Urban Infrastructure Project	PMU	Project Management Unit
CAS	Country Assistance Strategy	PPAR	Project Performance Assessment Report
CDD	Community Driven Development	PPCU	Provincial Project Coordinating Unit
<i>Dinas</i>	Department	PPMO	Provincial Project Management Office
ERR	Economic Rate of Return	PROPENAS	<i>Program Pembangunan Nasional</i> (National Development Program)
FRAP	Financial Recovery Action Plan	PSP	Private Sector Participation
GOI	Government of Indonesia	REPELITA	<i>Rencana Pembangunan Lima Tahun</i> (National Five Year Development Plan)
ICR	Implementation Completion Report	RIAP	Revenue Increasing Action Plan
IEG	Independent Evaluations Group	SAR	Staff Appraisal Report
IUIDP	Integrated Urban Infrastructure Development Program	SEJUDP	Second East Java Urban Development Project
<i>Kabupaten</i>	Regency (local government)	SIDRP	Strategic Infrastructure Development and Reform Program
<i>Kecamatan</i>	Subdivision of Kabupaten or Kota	SLA	Subsidiary Loan Agreement
KIP	<i>Kampung</i> (poor neighborhood) Improvement Program	<i>Walikota</i>	Mayor/Head of Municipal Government
<i>Kota</i>	Municipality (local government)		
LIL	Learning and Innovation Loan		
M&E	Monitoring and Evaluation		
MoHA	Ministry of Home Affairs		
MIIP	Market Infrastructure Improvement Program		
MIP	Municipal Innovations Project		
NTB	Nusa Tenggara Barat province		
O&M	Operation and Maintenance		
OED	Operation Evaluations Department (now known as IEG)		

Fiscal Year

Government: January 1 – December 31

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IEG Mission: Enhancing development effectiveness through excellence and independence in evaluation.

About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses about 25 percent of the Bank's lending operations. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons. The projects, topics, and analytical approaches selected for assessment support larger evaluation studies.

A Project Performance Assessment Report (PPAR) is based on a review of the Implementation Completion Report (a self-evaluation by the responsible Bank department) and fieldwork conducted by IEG. To prepare PPARs, IEG staff examine project files and other documents, interview operational staff, and in most cases visit the borrowing country for onsite discussions with project staff and beneficiaries. The PPAR thereby seeks to validate and augment the information provided in the ICR, as well as examine issues of special interest to broader IEG studies.

Each PPAR is subject to a peer review process and IEG management approval. Once cleared internally, the PPAR is reviewed by the responsible Bank department and amended as necessary. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the IEG Rating System

The time-tested evaluation methods used by IEG are suited to the broad range of the World Bank's work. The methods offer both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (more information is available on the IEG website: <http://www.worldbank.org/ieg/>).

Relevance of Objectives: The extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). *Possible ratings:* High, Substantial, Modest, Negligible.

Efficacy: The extent to which the project's objectives were achieved, or expected to be achieved, taking into account their relative importance. *Possible ratings:* High, Substantial, Modest, Negligible.

Efficiency: The extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. *Possible ratings:* High, Substantial, Modest, Negligible. This rating is not generally applied to adjustment operations.

Sustainability: The resilience to risk of net benefits flows over time. *Possible ratings:* Highly Likely, Likely, Unlikely, Highly Unlikely, Not Evaluable.

Institutional Development Impact: The extent to which a project improves the ability of a country or region to make more efficient, equitable and sustainable use of its human, financial, and natural resources through: (a) better definition, stability, transparency, enforceability, and predictability of institutional arrangements and/or (b) better alignment of the mission and capacity of an organization with its mandate, which derives from these institutional arrangements. Institutional Development Impact includes both intended and unintended effects of a project. *Possible ratings:* High, Substantial, Modest, Negligible.

Outcome: The extent to which the project's major relevant objectives were achieved, or are expected to be achieved, efficiently. *Possible ratings:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry and supported implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of the project). *Possible ratings:* Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower assumed ownership and responsibility to ensure quality of preparation and implementation, and complied with covenants and agreements, towards the achievement of development objectives and sustainability. *Possible ratings:* Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

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Principal Ratings

Second East Java Urban Development Project (Ln 4017-IND)

	ICR*	ICR Review*	PPAR
Outcome	Satisfactory	Moderately Satisfactory	Moderately Unsatisfactory
Sustainability	Likely	Unlikely	Unlikely
Institutional Development Impact	Modest	Modest	Modest
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

Bali Urban Infrastructure Project (Ln 4155-IND)

	ICR*	ICR Review*	PPAR
Outcome	Satisfactory	Moderately Satisfactory	Moderately Satisfactory
Sustainability	Likely	Likely	Unlikely
Institutional Development Impact	Substantial	Modest	Substantial
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

Municipal Innovation Project (Ln 4440-IND)

	ICR*	ICR Review*	PPAR
Outcome	Satisfactory	Satisfactory	Satisfactory
Sustainability	Likely	Likely	Unlikely
Institutional Development Impact	Modest	Modest	Modest
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

The Implementation Completion Report (ICR) is a self-evaluation by the responsible operational division of the Bank. The ICR Review is an intermediate Independent Evaluation Group (IEG) product that seeks to independently verify the findings of the ICR.

Key Staff Responsible

Second East Java Urban Development Project (Ln 4017-IND)

Project	Task Manager/Leader	Division Chief/Sector Director	Country Director
Appraisal	Stephen Dice	Anupam Khanna	Marianne Haug
Completion	Stephen Dice	Keshav Varma	Andrew D. Steer

Bali Urban Infrastructure Project (Ln 4155-IND)

Project	Task Manager/Leader	Division Chief/Sector Director	Country Director
Appraisal	Raja Iyer	Anupam Khanna	Marianne Haug
Completion	George Soraya	Keshav Varma	Andrew D. Steer

Municipal Innovation Project (Ln 4440-IND)

Project	Task Manager/Leader	Division Chief/Sector Director	Country Director
Appraisal	Frida Johansen	Keshav Varma	Dennis de Tray
Completion	Indira Dharmapatni	Keshav Varma	Andrew D. Steer

Preface

This is the Project Performance Assessment Report (PPAR) for a cluster of projects relating to municipal service provision that illustrated approaches to urban development that have been long supported by the Bank in Indonesia. Assessing these projects together can help provide insights into contributions of local government to urban development in Indonesia – an important focus of this report - from different project perspectives. The three projects reviewed here were:

- **Second East Java Urban Development Project** (Ln 4017-IND), for which the World Bank approved a loan of US\$142.7 million on May 16, 1996. The loan was closed on December 31, 2001, twenty one months later than planned, and US\$67.3 million was cancelled.
- **Bali Urban Infrastructure Project** (Ln 4155-IND), for which the Bank approved a loan of US\$110 million on May 06, 1997. The loan was closed on September 30, 2004, which was also twenty one months later than planned, and US\$37.9 million was cancelled.
- **Municipal Innovations Project** (Ln 4440-IND), for which the Bank approved a loan of US\$5 million on February 09, 1999. The loan was closed on June 30, 2003, eighteen months later than planned, and US\$0.3 million was cancelled.

The report is based on a review of project documents, including Implementation Completion Reports, Staff Appraisal Reports, Memoranda to the President, legal documents and project files, and on discussions with Bank staff involved in the projects. An IEG mission visited Indonesia in September-October 2005 to review project results and met with over 80 persons including officials of the central, provincial and local governments, and representative of agencies involved in project implementation, non-government organizations and other donors. The IEG mission carried out field visits to project sites in 14 municipalities located in 5 provinces where the mission met with project beneficiaries. We gratefully acknowledge the courtesies and attention given by all these interlocutors, as well as the excellent logistical support provided by the Bank's country office in Jakarta.

Following standard IEG procedures, copies of the draft PPAR was sent to government officials and agencies for their review and comments. Comments have been received and are attached as Annex B.

Summary

This Project Performance Assessment Report (PPAR) covers three urban projects in Indonesia, namely the Second East Java Urban Development Project (Ln 4017-IND), the Bali Urban Infrastructure Project (Ln 4155-IND) and the Municipal Innovations Project (Ln 4440-IND). These three projects were designed and implemented during a period of political and economic turmoil in Indonesia that included the East Asian Economic Crisis of 1997/1998 which had an adverse impact on project performance. In spite of this, important decentralization took place and local governments, as beneficiaries of this reform and key players in these projects, are a key focus of this evaluation.

Second East Java Urban Development Project: Project objectives, mainly to improve urban infrastructure and capacity of local authorities to deliver municipal services, were substantially relevant to the priorities identified by the GOI and the Bank in such documents as the current National Development Program (PROPENAS) and the Country Assistance Strategy (CAS). However, the project has only made a small contribution to improving urban infrastructure in East Java and large investments under the project, such as the by-pass road around the town of Njanjuk and increased supply capacity of the water company in Tulungagung, have only yielded a fraction of their expected benefits. The *overall outcome* is therefore rated moderately unsatisfactory. *Sustainability* is unlikely, mainly because local governments have not allocated sufficient funds for O&M activities and maintenance activities are already behind schedule. The project's *institutional development impact* was modest mainly because the financial capacities of local governments and local water companies responsible for urban infrastructure remain weak. *Bank performance* is rated satisfactory: intensive supervision helped keep the project moving despite the onset of the economic crisis soon after effectiveness and *Borrower performance* is also rated satisfactory especially in view of the efficient work done by the project unit in liaising with the very large number of participating local authorities.

Bali Urban Development Project: The objectives of the project, mainly to develop urban infrastructure, strengthen local capacities to manage infrastructure services and promote private sector participation (PSP) in urban infrastructure, were substantially relevant to the priorities identified by the Borrower as well as the Bank. In spite of the project's limited engagement in the water sector (originally allocated more than one third of project costs) and the project's limited contribution to promoting private sector participation in urban infrastructure, non water sector project activities, notably roads and drainage, generated high returns so that *overall outcome* is rated moderately satisfactory. *Sustainability* however is rated unlikely for the same reasons as the previous project, namely local governments have not allocated sufficient funds for O&M activities and some investments have already fallen into disuse. *Institutional development impact* is rated substantial mainly because the project piloted significant procurement reforms, notably the use of post-qualification, now incorporated into national guidelines. *Bank performance* is rated satisfactory mainly because of intensive supervision which provided good support to local officials to complete project activities as well as pilot different procedures, particularly in procurement and land acquisition for urban development.

Borrower performance was also satisfactory, especially in view of the commitment and competence of the provincial and local officials in implementing the project.

Municipal Innovation Project: The objectives of the project, to encourage efficient municipal innovation projects and promote the dissemination of successful innovation projects, were substantially relevant in the context of Indonesia's ongoing decentralization reforms which came into effect during project implementation. The project demonstrated local government capacities to formulate and implement improvements in the management and delivery of urban services and its *overall outcome* is rated as satisfactory. *Sustainability* however is rated as unlikely, because innovations were largely driven by champions—mostly individuals who remain in place for limited periods of time. *Institutional development impact* is rated modest because many local governments did not internalize into their regular operations the learning from the innovations introduced. *Bank performance* is rated satisfactory, on account of good project design with appropriate risks for a learning and innovation loan (LIL) and good supervision to ensure that needed implementation support was provided to local governments. *Borrower performance* is also rated as satisfactory because of sound policies by the Indonesian Government to support decentralization and municipal services and good implementation of a difficult project by the Project Management Unit (PMU).

Experience with the three projects suggests the following lessons:

- Local governments in Indonesia should continue to build upon their demonstrated capacity to successfully implement improvements in infrastructure delivery, but need to be more responsive still to urban development needs expressed through local community participation.
- A cross-sectoral framework, such as Integrated Urban Infrastructure Development Program (IUIDP), can work well for local governments, provided the investment resources within it are sufficiently concentrated to adequately address needs in all included sectors.
- All stakeholders, including local governments themselves, need to agree and understand clearly the *purpose* behind local innovations – be it to increase efficiency, to increase client-responsiveness – rather than treat innovation as a benefit per se.
- The Bank has experience and a rich knowledge base from many years of investing in local services through government (and more recently local government) driven projects. Ensuring that local governments are always included as partners, with continuous emphasis upon improving their performance, should be a mainstay of all Bank assistance to local service provision. .
- Monitoring and Evaluation (M&E) systems need to be designed and implemented to track outcomes related to project objectives, as well as the inputs and outputs of project activities that will help achieve these outcomes.

Vinod Thomas
Director-General
Evaluation

1. Introduction

1.1 Rapid urbanization since the early 1970s is placing enormous pressures on the delivery of urban services in Indonesia. An archipelago of more than 17,500 islands with great diversity in regional cultures and traditions, Indonesia is home to about 215 million people, giving it the world's fourth largest population, 47 percent of which lives in rapidly growing urban areas. In the 1990s, during the start up of the projects reviewed here, Indonesia's 4.4 percent per annum urban population growth rate was three times as fast as the 1.7 percent growth rate of the country's population as a whole. By 2004, eight major cities in Indonesia each had more than one million inhabitants. Providing infrastructure and other municipal services such as clean water, sanitation and adequate transport especially to the poor in these highly populated areas is already an enormous challenge and pressures on these services will only increase. The urban population in Indonesia is expected to increase by a further 60 million people by year 2020 (World Bank, 2003a) but compared to its neighbors, such as Malaysia, Thailand and the Philippines, it is already behind in basic service provision (see Box 1).

Box 1: Infrastructure Coverage – Indonesia compared to its neighbors

	Indonesia	Malaysia	Philippines	Thailand
Access to improved sanitation (%)	52	100	73	99
Access to improved water source (%)	78	95	85	85
Paved roads (%)	57	75	20	98
Road network (km per 1,000 pop)	1.77	2.97	2.73	1.08

Source: World Development Indicators, 2002

1.2 Between 1985-1995 Indonesia enjoyed an annual average GDP growth rate of 7.1 percent and was able to reduce income poverty, from about 60 percent in the 1960s, to about 11 percent. Urban poverty was also low – at 7.2 percent of the population (World Bank, 2003a). However, a substantial proportion of the urban population live just above the poverty line and are highly vulnerable to shocks such as natural disasters and political, economic, social or environmental catastrophes. During the East Asian economic crisis of 1997/98 for example, one third of the population is reported to have fallen below the poverty line (World Bank, 2003a). The period from 1995-2004 during which the projects reviewed here were prepared and implemented was a volatile one for Indonesia (Figure 1) as the country faced several exogenous shocks which also precipitated far-reaching changes in its political and economic landscape.

1.3 In spite of this volatility, important decentralization reforms went into effect on January 1, 2001. Through these laws, much responsibility for public service delivery shifted from the center to lower levels of government. But almost four years into the decentralization process, a certain amount of confusion still remains about the respective powers, responsibilities and functions of the central, provincial and local levels of government. It was in this context that the projects reviewed here had to perform.

Figure 1: Project Timelines in Relation to Country Events (1994 – 2005)

(light shading indicates preparation time until approval; dark shading indicates implementation time until closing; vertical line indicates original closing date)

Second East Java Urban Development																							
Bali Urban Infrastructure																							
Municipal Innovation																							
1994		1995		1996		1997		1998		1999		2000		2001		2002		2003		2004		2005	
1.	2.	1.	2.	1.	2.	1.	2.	1.	2.	1.	2.	1.	2.	1.	2.	1.	2.	1.	2.	1.	2.		
						East Asian economic crisis begins.	Exchange rate begins to fluctuate wildly and the Rupiah plummets in value.	Collapse of the Rupiah reaches its peak. Riots in Jakarta. President Suharto steps down, replaced by President Habibie.	Riots and student demonstrations continue	Formulation of far-reaching decentralization laws. First free election in 44 years. President Abdurrahman Wahid elected			"Big Bang" decentralization laws become effective	Parliament dismisses President over allegations of corruption. Vice President Megawati Sukarnoputri sworn in as president	Bomb attack in Kuta, Bali killing 202 people, mostly tourists			Parliamentary and local elections	First ever direct presidential election. President Susilo Bambang Yudhoyono elected	Direct elections for local heads of government begins.			
US\$1 = Rp ¹ .		2,250.0		2,342.3		2,909.4		10,013.6		7,855.2		8,421.8		10,260.9		9,311.2		8,577.1		8,938.9		N/A	
GDP growth ²		8.4		7.6		4.7		-13.1		0.8		4.9		3.9		4.4		4.9		5.1		N/A	

1. Period average. Source: International Financial Statistics, IMF

2. Annual percentage growth rate of GDP at market prices based on constant local currency. Source: World Bank national accounts data and OECD National Accounts data files.

1.4 The Bank has provided significant support to infrastructure in Indonesia during the past decade and has committed close to US\$ 2 billion for transport, water, sanitation and other urban developments. In the mid 1980s, the Government of Indonesia (GOI) introduced, with Bank support, the Integrated Urban Infrastructure Development Program (UIDP). This was a multi-sectoral approach to urban infrastructure development - that embraced water, roads, drains, solid waste management, sewerage and sanitation as well as terminals, market improvements and slums upgrading - which was used as a framework for all donor-supported infrastructure delivery improvements in Indonesia during the following decade. By the end of 1993, the UIDP framework was applied in all parts of the country and covered 56 percent of the urban population. The Bank itself funded 9 operations under this program, including the two projects assessed in this report, the Second East Java Urban Development Project (called SEJUDP hereafter) and the Bali Urban Infrastructure Project (called BUIP hereafter). These are follow-on operations to the first Bank-funded project under the UIDP - the East Java-Bali Urban Development Project (Ln 3304) assessed by IEG in 2000 and rated moderately satisfactory. The Municipal Innovations Project (called MIP hereafter) was not part of the UIDP framework; it was a stand-alone project but complemented the “standard” Bank projects supporting investments in urban services (such as the UIDP) and emphasized capacity and systems improvement - complementing UIDP projects that placed more emphasis on infrastructure delivery.

1.5 The three projects assessed in this PPAR were all implemented through local governments – themselves an important focus of this assessment. Unlike first-generation UIDP projects, both SEJUDP and BUIP were implemented through substantially decentralized management and implementation responsibilities to local government levels. This was also the case of the MIP which was designed to be driven by local government demand. These three projects therefore bring together complementary approaches to improving local service delivery. Assessing them together can help provide insights into contributions of local government to urban development in Indonesia from the different project perspectives.

2. Project Design and Implementation

Relevance of Project Objectives

2.1 SEJUDP and BUIP objectives (Box 2) to improve urban infrastructure delivery are as relevant today to country conditions and the priorities the Government of Indonesia (GOI) and Bank as they were at the time of project design. By the mid 1990s when these projects were prepared, Indonesia was already facing difficulties in keeping pace with demand for urban infrastructure services and REPELITA VI (GOI’s Five Year Development Plan for 1995-1999) gave high priority to water, sanitation and urban transport (World Bank, 1994). The economic crisis of 1997/98 deepened the problem as many planned investments were postponed or even cancelled. Both GOI and the Bank have prioritized improving infrastructure in their current agenda; the National Development Program (PROPENAS³) for 2000-2004 period, prioritizes creating institutional structures that can meet the demand of cities, increasing private sector

3. PROPENAS (2000-2004) follows on from the six REPELITA (1969-1999).

Box 2: Project Objectives and Components

<i>Objectives</i>	<i>Components</i>
SECOND EAST JAVA URBAN DEVELOPMENT PROJECT (LN.4017)	
<p>(i) improve the delivery of urban infrastructure services.</p> <p>(ii) develop the financial and institutional capacity of participating local governments and local water companies (PDAMs) in the Province of East Java.</p> <p>⁴(iii) support national and provincial government efforts to operationally define the urban and regional development strategy of the current national development plan (REPELITA VII), by supporting the preparation of the East Java Strategic Regional Development Program.</p> <p>⁵(iv) mitigate the impact of Indonesia's economic crisis and promote good governance.</p>	<p>(a) Infrastructure Works (<i>appraisal US\$193.1m; actual US\$79.4m</i>)</p> <p>(i) Water Supply (<i>appraisal US\$60.4m; actual US\$8.0m.</i>);</p> <p>(ii) Urban Roads (<i>appraisal US\$58.0m; actual US\$36.2m.</i>);</p> <p>(iii) Drainage (<i>appraisal US\$38.2m; actual US\$19.5m.</i>);</p> <p>(iv) Solid Waste Management (<i>appraisal US\$12.4m; actual US\$4.7m.</i>);</p> <p>(v) Sanitation and Sewerage (<i>appraisal US\$12.0m; actual US\$1.8m.</i>);</p> <p>(vi) <i>Kampung</i> Improvement Program-KIP and Market Infrastructure Improvement Program-MIIP (<i>appraisal US\$9.9m; actual US\$9.1m.</i>);</p> <p>(vii) Urban Renewal (<i>appraisal US\$2.2m; actual 0</i>);</p> <p>(b) Institutional Capacity Development :</p> <p>(i) Improving service delivery capabilities;</p> <p>(ii) Improving sub-project preparation and implementation.</p> <p>(c) Strategic Development Program: Design and preparation of a regional program for future infrastructure investments.</p> <p>Additional Components:</p> <p>(a) Labor intensive projects (<i>US\$6.3m</i>)</p> <p>(b) PDAM rescue program (<i>0</i>)</p> <p>(c) Incentive program for local governments (<i>US\$2.0m</i>)</p> <p>(d) Support to improved administrative service delivery by local governments (<i>US\$2.0m</i>)</p>
BALI URBAN INFRASTRUCTURE PROJECT (LN.4515)	
<p>(i) improve the provision of urban infrastructure services in the Provinces of Bali and Nusa Tenggara Barat (NTB)⁶;</p> <p>(ii) promote private sector participation in the provision of urban infrastructure services in the Province of Bali;</p> <p>(iii) strengthen the urban and environmental management capabilities of the Participating Local Governments and Participating PDAMs; and</p> <p>(iv) improve the conservation and management of the cultural heritage of the Province of Bali.</p>	<p>(a) Urban Infrastructure Investments (<i>appraisal US\$250.5m; actual US\$71.6 m</i>)</p> <p>(i) Urban roads and traffic management (<i>appraisal US\$65.8m; actual US\$34.5m</i>)</p> <p>(ii) Water supply (<i>appraisal US\$83.6m; actual US\$3.0 m</i>)</p> <p>(iii) Drainage and flood control (<i>appraisal US\$25.4m; actual US\$16.2m</i>)</p> <p>(iv) Solid waste management (<i>appraisal US\$16.8m; actual US\$4.1m</i>)</p> <p>(v) Sanitation (<i>appraisal US\$1.8m; actual US\$0.3m</i>)</p> <p>(vi) KIP and MIIP (<i>appraisal US\$2.3m; actual US\$0.4m</i>)</p> <p>(vii) Markets (<i>appraisal US\$3.6m; actual 0</i>)</p> <p>(viii) Terminals and Parking Areas (<i>appraisal US\$14m; actual US\$1.2m</i>)</p> <p>(ix) Incremental operations and maintenance supporting O&M (<i>appraisal US\$27.3m; actual US\$10.3m</i>)</p> <p>(x) Local management and administration (<i>appraisal US\$9.9m; actual US\$1.6m</i>)</p> <p>(b) Private Sector Participation (<i>appraisal US\$2.0m; actual US\$1.5 m</i>)</p> <p>(c) Cultural Heritage Conservation (<i>appraisal US\$10.4m; actual US\$1.9 m</i>)</p> <p>(d) Technical Assistance and Training (<i>appraisal US\$15.1m; actual US\$15.4 m</i>)</p> <p>Additional Components⁷:</p> <p>(a) Labor-intensive work (<i>US\$ 5.2 m</i>)</p> <p>(b) Support to good governance by streamlining bureaucratic procedures (<i>0</i>)</p> <p>(c) Efficiency enhancing innovative service delivery (<i>US\$0.9 m</i>)</p> <p>(d) Community based poverty alleviation program (<i>US\$3.9 m</i>)</p> <p>(e) Land acquisition (<i>US\$ 5.4 m</i>).</p>

4. Additional objective stated in the SAR (no formal revision to Loan Agreement).

5. Objective added following the East Asian economic crisis in 1997 (no formal revision to Loan Agreement).

6. Loan Agreement was amended in December, 2002 and objective (i) was revised to include NTB.

7. These components were added after the East Asian economic crisis in 1998 and in 2001 following the MTR.

Box 2: Project Objectives and Components (Contd.)

<i>Objectives</i>	<i>Components</i>
MUNICIPAL INNOVATIONS PROJECT (LN.4440)	
(i) encourage efficient municipal innovation projects; (ii) promote the dissemination of successful innovation projects; (iii) improve central government practices affecting municipalities	(a) Municipal Innovations subprojects (<i>appraisal and actual US\$6.4m</i>) including efficiency enhancing infrastructure services and pilot projects to improve municipal administration; (b) Institutional Development (<i>appraisal US\$0.7m; actual US\$1.2m</i>) through capacity building of the project management unit (PMU) in project administration, supervision, and monitoring; workshops and dissemination activities; training of selected local government staff; and to implement a program of awards of excellence for municipal innovation projects.

investment in urban infrastructure (an objective of BUIP) and improving infrastructure networks and services (World Bank 2003a). The 2003 Country Assistance Strategy (CAS) identifies, among others, transportation, water and sanitation infrastructure as priorities, as well as the need to support building sub-national infrastructure within a decentralized framework – in all of which local governments are key players.

2.2 In the context of rapid decentralization, the institutional development objectives of SEJUDP and BUIP - to strengthen the capacity of local governments and local water companies (called PDAMs in Indonesia) to plan and manage their investments – have become increasingly relevant. The long history of highly centralized power structures did promote implementing capacity at the local level, but very little planning and management capacity there. The decentralization laws of 2001 transferred substantial powers and authority over public expenditures and public service delivery to the local governments but there is considerable unease within central government as well as the donor community about the capacity of local governments to take on these functions and responsibilities effectively. The enhanced responsibilities of the local governments on the one hand, and their capacity constraints to plan and finance service delivery on the other, prompted the 2003 CAS to note that “...the main development challenges defined in this CAS have become, to a large extent, challenges at the district level” (World Bank, 2003b, p.30). Once again, local governments are seen as key participants.

2.3 In addition to the mostly physical objectives discussed so far, both SEJUDP and BUIP have other objectives which attempt to respond to priorities of particular provinces (the state level of administration in Indonesia). For example, the fourth objective of BUIP - of improving the conservation and management of the cultural heritage of the Province of Bali - is not one of the main priorities for either GOI or the Bank⁸ as discussed in documents such as PROPENAS and CAS, but is for the Bali Provincial Authorities. Similarly, the third objective of SEJUDP, of supporting the preparation of the East Java Strategic Regional Development Program, is not a national priority as such, but reflects needs in that region of the country. These objectives reflect a worthwhile attempt to customize the IUIDP framework to differences in the regions in which projects are implemented and to respond to particular local needs.

8. While not a formal policy priority for the Bank, in an initiative begun in 1998 Bank management has offered to provide loans, grants and other forms of support for assisting client countries in utilizing their cultural assets for economic and social gain.

2.4 The objectives of MIP showed particular foresight as the project was designed before the scope and extent of the Indonesia's decentralization reforms were fully known⁹. When MIP was being conceptualized - between March 1998 and January 1999 - Indonesia was still governed from the center and local governments had very little opportunity much less funds with which they could experiment or be innovative. When Law 22/1999 came into effect on January 1, 2001, responsibility for public service delivery was transferred to local governments who also received a substantial increase in spending authority – giving local governments both the funds and the opportunity to be innovative. In the context of these decentralization reforms, both the GOI and the Bank recognize the need to increase the efficiency and efficacy of local service delivery under the wider issue of improving governance (World Bank, 2003b).

2.5 In relation to the current priorities of GOI and the Bank, however, the relevance of all three projects is undermined by one very important aspect – lack of explicit attention to poverty reduction. The projects instead aim to improve urban services in general, as opposed to focusing explicitly on urban services for poor and underserved areas, and increasing municipal responsiveness to the needs of the poor. This reflects the policies and priorities at the time these projects were designed when both GOI and the Bank were more focused on maintaining growth and enhancing competitiveness, believing that broad-based growth is the best way of raising the living standards of the poor (World Bank, 1995). However, the issue of poverty and vulnerability was brought to the forefront with the economic crisis in 1997/98 and with it, the realization that increasing overall access to basic services often fails to reach the most vulnerable people (World Bank, 2003b). While appraisal documents of both the SEJUDP and the BUIP mention that poor and under-served neighborhoods should be given priority for project investments, there is uncertainty among both Bank and Borrower staff interviewed by IEG about whether poverty reduction was in fact part of the objectives of either project. In the end, only the *kampung* (slum) improvement subcomponent—less than 5 percent of planned project costs—clearly prioritized poor and underserved settlements.

Project Design

2.6 The SEJUDP and BUIP were wisely designed to focus primarily upon urban infrastructure improvements—an area in which the Bank has considerable and long experience, especially in Indonesia itself. BUIP was coordinated by the provincial (rather than the central) government – an improvement over previous IUIDP operations as it was able to monitor implementation more closely. The project also expected to mobilize substantial resources (US\$174 per beneficiary compared to just US\$16 under SEJUDP) to cover smaller geographical area – which limits the possibility of replicating this experience elsewhere. During implementation both projects incorporated new activities to respond to the changing country contexts but project objectives were not formally revised to reflect these new priorities. In the case of BUIP some new and diverse activities were added to the project, but exactly what they were intended to achieve was not always clear from project documents.

9. Fresh attempts to decentralize were driven by the extraordinary events of 1998 including the fall of Suharto but drafting of the laws remained largely a bureaucratic process, with little input from the regions or the public until the first drafts were released towards the end of 1999.

2.7 MIP, on the other hand, was a new type of Bank intervention in Indonesia which was designed to promote experimentation, innovation and learning within local governments. However for a learning and innovations (LIL) instrument, MIP was overly focused on implementing subprojects, with close to 90 percent of project funds allocated for this activity, which left few resources to support reflection, dialogue and sharing of experiences. As an experimental operation however, the risks – such as from locating the implementing unit in the previously untried Ministry of Home Affairs (MoHA) and allowing local government demand to drive the project - were acceptable and proved to be manageable.

Community Participation

2.8 At design, all three projects assessed in this report recognized the need for urban infrastructure and services to be responsive to the needs of communities, as earlier urban development projects in Indonesia traditionally had been. In SEJUDP and BUIP, community infrastructure priorities were expected to become part of the PJM (*Program Jangka Menengah*), the Medium Term Investment Program prepared by local governments, which formed the basis for selecting investments under these operations. The PJM was expected to be drawn up with community consultations in every town, but despite not so promising experiences under previous IUIDP operations, neither project had special incentives or design features to further ensure effective community participation. The Project Appraisal Document (PAD) for MIP notes that local government proposals should be “client-responsive” but what this meant in practice was not spelled out in the PAD nor was this idea translated into a process or requirement that successful proposals had to follow or meet.

2.9 Despite these expectations at appraisal, the level of community involvement in planning urban development and management under all these projects has been modest in practice. The process of formulating PJMs was limited to identified stakeholders and often local government officials treated the community consultation process as a mere formality. Several local officials interviewed by the IEG mission stated that infrastructure selection under SEJUDP and BUIP was mostly driven by technical considerations, such as bottlenecks in the roads and drains networks, which project technical staff - rather than the community itself - had identified. In this way MIP was responsive to the demands of local government, because subprojects were designed and proposed by local governments, but few proposals were in turn driven by demands made by the so-called clients of the local governments – i.e. the local community. Most subprojects were designed by local government officials, some in consultation with the MoHA and MIP project staff, but with little or no formal consultation with local communities. The experience of all three projects suggests that to be responsive to community priorities local governments need to do more than just give passing encouragement to community participation in urban development planning – or imagine without evidence that they know what the community wants. They need to engage more effectively in community consultation - which goes beyond mere lip service to the idea of community participation.

M&E Design and Use

2.10 The Monitoring and Evaluation (M&E) systems in all three projects assessed in this report are more focused on tracking implementation – that is, contract award (inputs) and contract completion (outputs) – but stopped short of monitoring the outcome. For example, under SEJUDP several public toilets were constructed in Bangkalan town. The project tracked the output, 25 units of toilets completed, but not the outcome, such as the number of people using the facilities. When the IEG mission visited one of the sites, three completed toilets were built in a compound which already contained six public toilets and was used by about 11 families (resulting in almost one toilet per family!). Most road investments were monitored by output, such as number of kilometers of road completed, but few municipalities carry out traffic counts to assess whether the outcome, measured by increased use of the roads or increased vehicle speed for example, had been achieved. As with most Bank funded operations, the projects assessed here were also highly focused on implementation and meeting tight deadlines for design and implementation, rather than assessing the impact on intended beneficiaries, notably the poor among them.

2.11 M&E is time consuming and difficult where subprojects are widely scattered geographically and across sectors. Compared to previous such projects, BUIP made a noteworthy improvement in its M&E system and attempted to monitor outcome by tracking a few selected indicators. However, for such M&E information to be useful to steer and monitor a project's development effectiveness, it should be interpreted in a meaningful manner – which was not always the case as noted by the IEG mission during interviews with Bank staff. For example, the number of new house connections was identified as an indicator to assess project performance but focusing only on this indicator to assess performance can be misleading. Considering that none of the planned investments were in fact made in water supply, additional connections in the Gianyar, Karangasem and Tabanan districts was at the expense of deteriorated quality of service, either not detected or ignored by the limited M&E information collected under BUIP.

Safeguards and Unintended Impacts

2.12 The IEG mission did not find evidence of significant lack of compliance with Bank safeguard requirements for involuntary resettlement and environmental assessment which touched SEJUDP and BUIP particularly. Some resettlement issues arose but were later resolved with respect to the urban renewal subcomponent under SEJUDP. Under this component, about 50 families living on the Brantas riverbank in Kotubedah, an inner-city, low-income neighborhood in the city of Malang, were moved away from the river, most of them not receiving prior compensation—as recommended by Bank supervision missions. These families had, therefore, to use their own funds to build shelter in the new location. The families themselves informed the IEG mission that they had later received compensation that covered the relocation costs. Since the new location has better access, electricity and public water stands, they expressed their satisfaction with their new location to IEG.

Borrower Performance

2.13 The Borrower came under considerable pressure following the East Asian Crisis of 1997/98, as well as the Bali bombing of 2002 which further disrupted economic recovery. Not surprisingly, Borrower performance under these projects suffered, but maintained a satisfactory stance most of the time. Counterpart funding by GOI fell substantially short of (US dollar denominated) targets on all projects, largely because the sharp devaluation of Indonesia's currency, the Rupiah, had significantly reduced the US dollar value of GOI contributions. Compliance with loan covenants was adversely affected as the economic outlook suddenly worsened. Local authorities – especially PDAMs which were already in a precarious financial situation – were discouraged by the central government from taking on more debt, including by entering into Subsidiary Loan Agreements (SLA) to access Bank loan funds for infrastructure investments. Under BUIP, none of the planned SLA for PDAMs came into effect and GOI generously passed on Bank loan funds as grant, rather than the planned SLA, to participating local governments. Apart from this instance, however, GOI has for the most part continued to implement difficult reforms, notably in giving effect to far-reaching decentralization laws, which supported the implementation and achievements of these projects.

2.14 The projects were implemented through units located in provincial governments (SEJUDP and BUIP) or in the case of MIP in the Ministry of Home Affairs (MoHA). Overall, the project implementation units functioned well to complete these projects. Disbursement lags and implementation delays during the economic crisis and immediate aftermath period from 1998-2000 dogged SEJUDP and MIP in particular, and both projects' closing eventually had to be extended (by 21 and 18 months respectively) in order to complete the original scope of work. The MoHA, where the MIP Project Management Unit (PMU) was located, was initially slow to implement the project but subsequently gathered speed (even indicating to the IEG mission its interest in continuing some of the activities begun under MIP). Overall, the planned scope of works under BUIP progressed within targets but the project had to be extended by 21 months to enable the completion of mainly the Western Ring Road in Denpasar.

2.15 The Bali Provincial government, where the Provincial Project Coordinating Unit (PPCU) was located, clearly had ownership of the BUIP - one of the first Bank projects it had implemented directly itself. Under SEJUDP, the Provincial Project Management Office (PPMO) had to liaise with the large number of participating local authorities, some of whom were a day's journey away. As well as complicating project oversight, this may have contributed to reduced quality of monitoring information collected from the local governments. In all 95 local governments participated in these three projects, which by their performance have demonstrated their capacity as well as the importance of local governments in urban development – an important theme of this report.

Bank Performance

2.16 Bank performance in terms of quality at entry in all three projects is generally satisfactory but there are a few shortcomings in project design which are worthy of note. For example in BUIP (the most expensive project to design using 160 staff weeks on identification/preparation, compared to 37 for SEJUDP and 11 for MIP), several

ambitious objectives - to promote PSP and improve the conservation of Bali's cultural heritage - were not adequately supported by project components or activities, which has impacted their achievement. Project financing (identified at appraisal) included US\$4.7 million by the Asian Development Bank, the Japanese and other Bilateral Donors) and US\$55.6 million by private investors failed to materialize in the absence of any formal commitments.

2.17 The Bank recognized and supported the need for intensive supervision, particularly of BUIP and SEJUDP, which helped to address issues in a timely manner, particularly during the East Asian crisis and in the aftermath of the Bali bombing in 2002. While there is no record of a mid-term review for SEJUDP, the Bank fielded two to three supervision missions per year to East Java. MIP on the other hand would have benefited from more resources for supervision – especially important for a learning and innovations loan - the lack of which may have compromised the learning objective of this project. Over of the implementation period of both SEJUDP and BUIP, the Bank revised their loan agreements on several occasions, canceling in total US\$67.3 million and US\$37.9 respectively from the two loans - both due to exogenous reasons. Loan cancellation under SEJUDP was mainly due to high inflation which made a number of subprojects too costly to be funded under the project. As noted in the mid-term review cancellations under BUIP (which was made effective after the economic crisis had begun) these reflect large savings in the US Dollar denominated loan due to the depreciation of the Rupiah which allowed much greater freedom to include new activities with less (US Dollar denominated) loan funds under the project. Bank supervision under these operations was generally flexible and supportive of the Borrower allowing for new activities and other changes to respond to volatile country conditions during implementation.

2.18 Bank supervision also helped local governments strengthen capacities in areas not envisaged at appraisal. For example, under MIP supervision missions recognized the need to support local governments in the preparation of subproject proposals (an area in which many local governments had had little prior experience). Together with the PMU, the Bank provided in-depth advice and guidance to local governments which improved their capacity to prepare proposals as well as formulate innovative service ideas. During supervision of BUIP, the Bank suggested improvements to local government procurement and land acquisition procedures – which were not part of the original project design. Local government officials who met with the IEG mission expressed appreciation of Bank support to pilot these changes which local officials initially found difficult to implement. Overall, through these operations the Bank has contributed to demonstrating local government capacity in urban development in Indonesia.

3. Results Achieved by the Projects

Second East Java Urban Development project (Ln 4017)

3.1 The project has helped – albeit in a small way relative to the total need - to improve infrastructure service delivery in East Java. Through project funding, 35 out of

the Province's 37¹⁰ local governments serving 102 towns with a population of about 15 million, invested in rehabilitating and improving urban infrastructure - mainly roads and drains. The IEG mission noted that urban roads improved by the project, particularly near town centers, are generally in good condition. For instance, the 6 km dual carriageway by-pass road around the congested town of Krian just south of Surabaya, which was widened and rehabilitated under the project, carries an estimated 5,000 vehicles per day, many of which are heavy vehicles, easing traffic congestion south of the provincial capital. By addressing the critical bottlenecks in the storm drainage infrastructure, flash flooding has been reduced in several towns.¹¹ Only about 10 percent of the investments in water supply envisaged at appraisal in fact materialized (about Rp.100 billion was cancelled from this component) but the investments completed, such as the water treatment plant in Bangkalan town and expansion of water supply capacity in Tulungagung, have helped to increase water availability and the number of house connections in these districts. However, as project funds were dispersed across so many towns - many of which only undertook minor works, the project's contribution to improving urban infrastructure in the Province has been through minor increments, rather than through a substantial leap forward.

3.2 Several large investments under the project have not performed as well as expected. The Njanjuk by-pass, a 7 km long dual carriageway, cost an estimated Rp.20 billion and is the single largest investment planned under the project. However, when it was inspected by the IEG mission almost four years after SEJUDP closed, only two out of the planned four lanes had been completed and opened to traffic. The Gadang-Bumiayu road cum bridge in the city of Malang, an investment of Rp.5 billion under the project, was expected to ease traffic moving between the east and west sides of the city, the second largest city in East Java with a population of 800,000, but carries little traffic due to its poor location. Access to this bridge is made difficult by the need for vehicles to navigate through an extremely congested market at the western end along a badly maintained street. The planned full-scale approach road on the eastern side was not built owing to delays in acquiring the necessary land. Under the SEJUDP, Rp.13 billion was invested in accessing a gravity-based water source and pipe system to increase the production capacity of the PDAM (water utility) for the district of Tulungagung (urban population 370,000). But only 60 percent of the planned increase in water production capacity in fact materialized because of greater than anticipated silting in the area.

3.3 Project financed investments in the solid waste, sanitation and sewerage sectors also have several shortcomings that prevented the delivery of improved services in some cases. The city government in Kediri (population 250,000) for instance, made several investments in waste management infrastructure with unsatisfactory results. The sanitation treatment plant constructed under SEJUDP without a power source is still not operational, almost 8 years after the main physical works were completed. Another treatment plant constructed under the project at the Kediri slaughterhouse was intended to promote the sanitary disposal of offal and other waste originating from the slaughterhouse. But when the IEG mission visited the site, the building showed structural

10. Only Surabaya (which had its own separate IUIDP project), Sidoarjo (which was disqualified), and Batu Town (which was created after SEJUDP effectiveness, were excluded).

11. A nine-city evaluation commissioned by the project estimates that the height of inundations has declined by 72 percent and the duration has declined by 68 percent over the project period (Pt.Bina Asih Consultants, p.12).

fissures in several places, and the plant was abandoned and overgrown and no longer in use. Without this service, the uncontrolled disposal of hazardous animal waste poses a public health risk to the town's population. Finally a poorly designed retaining wall, built under the project as a purported environmental improvement to the solid waste disposal site, has already collapsed in several places. As a result, garbage has started to spill outside the controlled area, which can lead to a serious health problems in future. Similarly in Malang, the city sludge treatment plant is no longer functioning, while the environmental integrity of the solid waste disposal site for the Tulungagung district is at risk following the breakdown of the bulldozing equipment purchased under the project to properly manage the facility.

3.4 In contrast, several smaller project investments contributed to improved urban service delivery. For example the modular sewerage system - a low cost, low technology method using a series of small tanks to purify human waste - was piloted in Malang city and is serving about 1,600 families now. Fees collected from connection and user charges have not resulted in the planned revolving fund to finance more such systems in other areas of the city, but are financing the O&M of the system. However the facilities are not being utilized to full capacity and several community residents who met with the IEG mission remain unconvinced about the advantages of their connecting to the system, preferring instead the open drains or river for which they do not have to pay anything.

3.5 While most project investments, with some exceptions noted above, are still operational four years after project closing, the continued usage of these investments into their full intended lifespan is unlikely – mainly due to funding constraints for the O&M. The majority of investments under the project are in the roads sector, which are no more than 5 years old and still only require routine maintenance. The IEG mission saw evidence of patching in these roads indicating that routine maintenance is being carried out. However, it is unlikely local governments will have sufficient funds to carry out periodic heavier maintenance which will become due shortly. The periodic maintenance of the Krian By-pass, due in 2004/2005, is several months behind schedule and only a small part of the road had been overlaid when it was inspected by the IEG mission in the last quarter of 2005. In addition, several pieces of equipment purchased under the project, such as bulldozers and skip bins for waste collection, have already fallen into disuse due to lack of spares or other maintenance.

3.6 SEJUDP's main contribution to capacity building is through enabling local governments and PDAMs to "learn-by-doing". Many local governments are now able to prepare their medium term investment plans or PJM, a precondition for sub-loan effectiveness under SEJUDP, and which continue to be used for infrastructure investments in these jurisdictions. The experience gained through implementing SEJUDP has helped several local PIU officials as well as PPMO staff at the provincial level to move on to more influential positions. In Tulungagung district for example, two former project staff members now hold the positions of *Bhupati* (mayor) and the head of *Bappeda* (local planning agency).

3.7 The project has had less success in strengthening the financial capacity of participating local governments and water utilities. Local governments created Revenue Increasing Action Plans (RIAP), while the PDAMs formulated a Financial Recovery

Action Plans (FRAP) and both instruments were expected to assist local authorities improve their financial situations. In some municipalities, such as Kediri, the targets for locally generated revenue were met in four out of the past five years and are still being closely tracked today. Similarly, some PDAMs are using the FRAP as a planning instrument, notably in Tulungagung which has gone so far as to update its FRAP as of 2004. However, the financial situation of most participating local governments and PDAMs has not improved substantially (in some cases it has even worsened). Most local governments invested in local roads and drains which have low financial returns, and are facing difficulties in repaying the subsidiary loans. Similarly, as PDAMs have not been able to increase tariffs nor, in several instances their customer base, the returns have been less than expected. In Tulungagung, for example, despite only 33 percent of the urban area being served by piped water¹², the PDAM still has excess capacity. Several local governments and PDAMs complained of their debt burden to the IEG mission and Bangkalan PDAM is no longer servicing their SLA borrowings under the project. The precarious financial position of PDAMs in particular is threatening the continued effective functioning of these institutions as well as the operation and maintenance of infrastructure funded under the project.

3.8 While the SAR notes that another objective of the project was to formulate an urban and regional development strategy for East Java, the provincial authorities themselves have not made this a priority thus far. A follow-on Bank project to SEJUDP, proposed since 1995 and now called the Strategic Infrastructure Development and Reform Project, is still in preparation stage and appears to enjoy only lukewarm support from the provincial authorities. Reluctance to take on the foreign exchange risks of such borrowing, especially given recent experiences of exchange rate turmoil in Indonesia, was mentioned by several local officials interviewed by the IEG mission, as a key reason for this lack of interest.

3.9 The IEG mission could find little evidence that the project made a substantial contribution to mitigating the impact of Indonesia's economic crisis, the project objective added after the East Asian crisis. With better hindsight today of the enormous scale of the crisis itself and the relatively small scale of the project, SEJUDP could not have been expected to make much difference to the impact of exogenous factors beyond the control of any one operation.

Bali Urban Infrastructure project (Ln 4155)

3.10 Bali Urban Infrastructure Project (BUIP) contributed to substantially improving urban infrastructure in the Province of Bali. All nine local governments in Bali covering an urban population of less than 2 million participated in the project and used project funds to improve urban infrastructure. Road infrastructure improvements account for 33 percent of final project costs and the ICR reports that 912km of urban roads in the Province were rehabilitated under the project. The IEG mission inspected several of these rehabilitated urban roads in Denspasar, Karangasem and Gianyar, nearly all of which are in good condition. Two new roads built under the project, the Western Ring Road

12. Lack of demand for PDAM services is mainly due to availability of other sources of water, such as wells, rivers etc.

(5.3km) in Denpasar, the provincial capital of Bali, and the Tohpati-Kusambha (20km), an inter-district road connecting the south and eastern parts of Bali, have eased congestion and reduced travel time. The Tohpati-Kusamba in particular has resulted in reduction of travel time between Karangasem district and Denpasar, a distance of about 50km, from 1½ hours to just half an hour. These roads do not yet link the originally planned urban centers (about 0.7 km of the Western Ring Road up to the tourist area of Kuta and about 4km of the Tohpati-Kusamba road up are yet to be completed). However as both roads link to sizeable access roads this shortcoming has not substantially undermined the benefits from these investments, as evidenced by the high traffic volumes on both roads¹³.

3.11 In Nusa Tenggara Barat (NTB) province, BUIP has contributed to improving urban roads and drains and in all, 104 km of roads and 47km of drains were rehabilitated or reconstructed under the project. Of the investments in NTB of particular note is the new *Dasan Agung* bridge in Mataram, the provincial capital, which replaced an old, unsteady and congested suspension bridge. The widening of the ring road around Mataram was also begun with BUIP funds and 6.3 km (out of a total length of 27km) have been widened from two to four-lanes. As a result of the widening, traffic volumes on the northern part have increased by 40 percent but the IEG mission noted heavy congestion at several bottlenecks where the new four-lane sections of the road merge into the old two-lane road.

3.12 Other substantial investments under BUIP are in drains, terminals and solid waste management in Bali. The IEG mission inspected several rehabilitated drain systems, including in Kuta where the new system complete with pedestrian walkways and disabled access replaced an older system which could not keep pace with rapid development of the area. In Karangasem the solid waste disposal site upgraded with project funds is functioning well with an earth covering laid every 2 days, a functioning treatment plant containing the leachate emission, and a small-scale but functioning composting facility which provides fertilizer for gardens managed by the local government. However, the sanitation treatment plant in Karangasem has cracked retaining walls and is no longer in use, and project officials informed the IEG mission that none of the four treatment plants constructed under BUIP are functioning as planned. Similarly, three bus terminals were built under the project but when the IEG mission visited the terminals in Karangasem and Gianyar, neither were being used at even 10 percent their capacity. Poor location choice by local government and lack of incentives for bus operators as well as commuters to use the new facilities, which do not have good access to the commercial areas of the town, have forced both local governments to consider using the space for alternate activities such as exhibition halls.

3.13 While the project has contributed to improving urban infrastructure, notably in roads, drains and waste management, it has had little success in improving water supply infrastructure in Bali. BUIP envisaged an unrealistic and perhaps incompatible mix of project lending, limited grant funding by others and private sector finance to pay for investments in water supply. Neither the planned subsidiary loan agreements (SLA) nor

13. The ICR estimates an ERR in excess of 20 percent for major urban road investments under BUIP, including Tohpati Kusamba and the Western Ring Road.

private sector financing were mobilized and the seven PDAMs which were to participate in BUIP went for grant money more readily available from GOI. PDAM officials who met with the IEG mission indicated that while their investments were on a much smaller scale than planned under BUIP, they continued to provide house connections as planned – sometimes because of political pressure. Despite the greater coverage, therefore, several officials indicated that this was often achieved at the expense of service quality. The IEG mission also noted that in some parts of Gianyar and Karangasem districts, residents often collect and use the water rather than access directly from the tap because of low water pressure.

3.14 Most of the infrastructure improvements under the project were completed recently and are still in good condition. However, local governments do not have adequate O&M budgets to carry out substantial maintenance and repair activities, which will become an issue over time as these infrastructure investments age. In Gianyar, local officials informed the IEG mission that the O&M budget for roads covers only routine maintenance and even that, only on 10 percent of the road network. When sudden repairs or substantial maintenance is needed (such as was the case with a road visited by the IEG mission in Gianyar which was severely damaged by heavy vehicles exceeding the design weight of the pavement), local officials claim they do not have funds to repair the infrastructure. Similarly, sanitation treatment plants constructed under BUIP are barely functioning as local governments have not repaired the cracks in the collection tanks. The IEG mission also noted inadequate maintenance of NTB's newly reconstructed drains which are clogged with garbage. These shortcomings, apparent within one year of project closing, suggest that the infrastructure investments under BUIP are unlikely to be usable to their full lifespan.

3.15 The project contribution to strengthening local government capacity was mainly through piloting procurement reforms and new procedures to manage land acquisition for development purposes – neither of which were part of the original project design. Corruption and collusion is a major barrier to development in Indonesia as it contributes to the cost of development projects and one of the recommendations of the Country Procurement Assessment (World Bank, 2001) was to use post-qualification¹⁴ for the procurement of simple goods and works. BUIP was one of the first projects to implement this recommendation and as a result, was able to reduce project costs by as much as 30 percent of owner estimates. Participating local governments are generally satisfied with the quality of works, which they feel has not been compromised despite the substantial reduction in contract value. With the presidential decree No.80/2003 post-qualification has been incorporated into national guidelines; because of their experiences under BUIP, local governments in both Bali and NTB provinces had already converted to the post-qualification method and are ahead of other provinces in giving effect to these guidelines. Since local urban infrastructure improvements are mainly small-scale and suited for post qualification procurement, these reforms have strengthened the capacity of local governments to ensure competitive bidding for urban development projects in their jurisdictions.

14. Post qualification allows any party, not only those who have been prequalified as technically competent, to bid for contracts. As the bidders are no longer known beforehand, the incidence of collusion can be reduced

3.16 The capacity building from learning new procedures to manage land acquisition under BUIP is mostly confined to Denpasar municipality which acquired land for the Western Ring Road. Land consolidation with little input from the affected landowners is the conventional method of acquiring land for development purposes in Indonesia but in the case of the Western Ring Road, the landowners were offered three choices: land consolidation, land swaps and compensation. Land consolidation continued to be the preferred method for land acquisition, both by the community as well as the local government but under BUIP the consolidation process was done transparently in partnership with the community. Community leaders who met with the IEG mission expressed satisfaction with the land acquisition process followed under BUIP as did local government officials, who plan to continue with the same consultative process when acquiring other lands for development purposes.

3.17 Under BUIP too, local governments prepared Revenue Increasing Action Plans (RIAP) while PDAMs prepared Financial Recovery Action Plans (FRAP) but their use as planning and management tools, particularly in setting taxes and tariffs, has been limited so far. Knowledge of the details of the RIAPs are often limited to officials in the revenue unit, but other local officials who met with the IEG mission felt that revenue realization is behind RIAP targets. In the case of FRAPs, targets were water tariffs have not been achieved or are many months/years behind schedule (Box 3). However, there have been some improvements in recent months; Gianyar PDAM has effected substantial tariff revisions in September 2005 and Tabanan PDAM officials informed the IEG mission that they have secured in-principle approval from the local legislature to implement tariff increases in line with the FRAP.

Box 3: Water Tariffs - actual vs.FRAP targets

District	Bangli	Klungkung	Gianyar	Tabanan	Karangasem
Current Tariff (average)	850	750	1100	585	1000
Break-even Tariff (average) ¹⁵	2200	1600	1600	1676	1800

Source: IEG mission interviews with PDAM staff

3.18 The objective of promoting private sector participation (PSP) has not yet been achieved as there is no new PSP in infrastructure services in Bali¹⁶. BUIP funded study conducted into exploring the possibilities for PSP in the water sector has led to little practical result but a similar study, also financed under BUIP, has made a contribution towards the possibility of PSP in solid waste management. A company, jointly owned by four local governments in southern Bali, has been set up to operate with PSP an integrated waste management facility which will also produce electricity for the national grid using biogas. While a private investor has been identified to construct the facility, negotiations (mainly regarding the power purchasing agreement between the investor and PLN, the national electricity company), are proceeding slowly and some critical issues, such as the power purchase price, are yet to be agreed before construction can begin..

3.19 The project's contribution to improving the conservation and management of the cultural heritage of the Province of Bali was mainly through its support to establish the

15. Does not reflect the more than 100% increase in oil prices effected in October 2005.

16.The only exception being the water utility serving the tourist hotels in the Kuta area since the early 1990s.

Bali Heritage Trust (BHT), a semi-government body, part financed by the Provincial Government and the private sector and established by decree to provide systematic management and conservation of Bali's cultural assets. Since its inception in 2003 the BHT's most notable achievement has been the standardization of holy coins - which are an essential part of Balinese religious festivals and the establishment of a factory to produce them in Bali itself. Several other activities were planned under BUIP but made only a limited contribution to achieving this objective; the *Taman Ujung* (water palace) in Karangasem, the rehabilitation of which cost Rp.10 billion under BUIP, is attracting only a handful of visitors and little progress has been made on three other activities planned at project appraisal, namely improvements to the Besakih Temple Complex, the compilation of an inventory of historic places and signage in Indonesian and other languages at heritage sites. The limited results of what was an add-on minor objective, do not detract, however, from the other more important achievements of the project.

Municipal Innovations Project (Ln 4440)

3.20 MIP has successfully demonstrated that municipalities in Indonesia are capable of innovations in service delivery. For example, in Bandar Lampung (Lampung Province), space has been created and formalized for greater community participation in the municipal budgeting process. In Bogor (West Java Province) the municipality has expended on the public information booths piloted under MIP to create an intensively used internet-based public information system. In Denpasar (Bali Province), the building permit system has been made more transparent and accessible to the public. Many of the changes have been small adjustments to existing systems, such as providing space for public feedback regarding municipal activities. Only 58 local governments participated in the project but where subprojects have been successful and the innovations have been expanded or improved, there is substantial institutional development within the local government.

3.21 Thus MIP supported sub-projects focused on changing and improving the existing ways of doing things in municipalities. The improvements tested by these subprojects were considered "innovative" if they had not been tried by a particular local government. For example, a number of local authorities submitted proposals to improve their solid waste management by introducing composting methods new to them – but which were nothing new or innovative from a broader perspective. In Surabaya (East Java Province) for example, public complaints regarding municipal services were previously directed to an anonymous Post Office Box number—ironically located in Jakarta many hundreds of kilometers away. MIP instead supported the establishment of an integrated complaints system within the municipality itself, allowing the public to make complaints in person, in writing and by phone, fax, text message or email. The most common understanding of "innovation" the IEG mission found in interviews with local officials, was captured by this idea of new and positive change for them.

3.22 While local governments expected to see improvements, whether these changes actually increased the efficiency of local governments has not been systematically assessed, either by the local authorities themselves or under the project. For some innovations, administrative costs may exceed the benefits. In Surabaya, for instance, the IEG mission encountered a roomful of staff manning the integrated public complaints

system, even though it typically received only one or two complaints a day. The mission found that when they had problems with urban services, most citizens headed directly for the public complaints offices of the utilities themselves. In very few instances did the IEG mission find attempts to clearly identify or articulate the expected costs and benefits, and as a result whether the innovation is efficient or otherwise remains unknown.

3.23 While innovation was encouraged at the level of each local government, there is little evidence that successful innovations have been replicated elsewhere. Several municipalities are experimenting with similar innovations such as public information systems, composting for solid waste management, and increasing the transparency and accessibility of permit issue. However, there does not seem to be any cross-learning or established channels and space for municipalities to learn from each other. Local government officials in Bogor (West Java Province) were unaware of any other local governments attempting vermicomposting¹⁷ for solid waste management but two other municipalities were provided with funds under the MIP itself to test this same technology. While few local governments expressed knowledge or interest in innovations attempted by other local governments, they were more responsive to information flowing along the old, centralized channels from, for example, MoHA.

3.24 The project has not been as successful in systematically capturing and disseminating the learning from the sub-projects. Firstly, there are shortcomings in the quality of information about municipal innovations available for dissemination. None of the participating local authorities have undertaken a systematic review of their innovation experiences, nor have they been encouraged to systematically reflect upon what worked and what did not about the innovation. MoHA has recently attempted to briefly document some of the successful innovations - which may lead to a more in-depth analysis. Also, dissemination activities under MIP have focused exclusively on the successes, ignoring the potentially rich learning from the less successful experiences. In Surabaya (East Java) where computer-based public information booths supported under MIP was a failure, local officials held strong views and had advice to give to other local governments contemplating similar innovations. But other than verbally communicating some of these thoughts to MoHA, they had neither documented nor otherwise shared these experiences with other local governments. Secondly, there are also deficiencies in the platforms selected to disseminate the learning from this project. Few local government officials the IEG mission met were even aware of the webpage dedicated to municipal innovations maintained by MoHA. The workshops organized by the project to enable local authorities to meet face-to-face have been more successful in disseminating the experiences of the subproject but as the ICR notes, insufficient funds were allocated under the project to carry out dissemination as needed under such a learning project.

3.25 The project's final objective, improving central government practices affecting municipalities, has not yielded tangible results, which can reliably be linked to the project itself. However, during the design and implementation of MIP, the relationship between the center, mainly the MoHA, and the local authorities underwent a fundamental change

17. Vermicomposting involves introducing a species of worm into the collected waste to speed up the composting process. An added attraction is that the worm also has a commercial value (it is used in cosmetics).

and the power and prominence of MoHA in local government activity has reduced substantially.

3.26 The sustainability of project benefits has to be assessed on two levels, namely the sustainability of subprojects themselves on the one hand and the “spirit” of innovation in local government on the other. While those subprojects which continue to function and improve are likely to be sustainable, about 50 percent of the initiatives begun under MIP are no longer operational. Often, the continuation of innovative initiatives depends on the existence of a local champion, often the mayor or regency chief. For example, the “*masjid-on-line*” initiative in Kota Bogor - an expansion of the MIP, is strongly supported by the mayor (who was also the vice mayor during MIP). Despite MoHA’s plans to resurrect the award system introduced under MIP to recognize local government innovations, it is unlikely to be sufficient to sustain the “spirit of innovation” among local governments or to encourage them to undertake risky experiments with their own funds – on which there are many and increasing demands for service delivery.

4. Ratings

Second East Java Urban Development Project (Ln 4017 –IND): Project objectives are **substantially relevant** to the priorities identified by the GOI and the Bank in such documents as the current National Development Program (PROPENAS) and the Country Assistance Strategy (CAS). **Efficacy**, however, in achieving these objectives is **modest**, as the project has only made a small contribution to improving urban infrastructure in East Java - not all the planned investments were carried out and a number of project investments are either incomplete or no longer in use. **Efficiency** is also **modest** because large investments under the project, such as the by-pass road around the town of Njanjuk and increased supply capacity of the water company in Tulungagung, have only yielded a fraction of their expected benefits. The **overall outcome** is therefore rated **moderately unsatisfactory** since there are major shortcomings in achieving project objectives. **Sustainability** is **unlikely**, mainly because local governments have not allocated sufficient funds for O&M activities and maintenance activities are already behind schedule. **Institutional development impact** is **modest** mainly because the financial capacities of local governments and local water companies responsible for urban infrastructure remain weak. **Bank performance** is rated **satisfactory**: intensive supervision helped keep the project moving despite the onset of the economic crisis soon after effectiveness and **Borrower performance** is also **satisfactory** especially in view of the efficient work done by the project unit in liaising with the very large number of participating local authorities.

Bali Urban Development Project (Ln 4155- IND): The objectives of the project are **substantially relevant** to the priorities identified by the Borrower as well as the Bank. However, mainly because of the project’s limited engagement in the water sector - originally allocated more than one third of project costs, **efficacy** in improving urban infrastructure in Bali is rated **modest**. However, project activities that *were* carried out in support of this objective, mainly in improving urban roads, have high returns and **efficiency** is therefore rated **substantial**. **Overall outcome** is rated **moderately satisfactory** because while the project contributed to improving urban infrastructure – particularly in urban roads and drains, there are significant shortcomings; water supply infrastructure remains inadequate, the capabilities of local water companies remain weak and only a small contribution has been made in promoting private sector participation in urban infrastructure. **Sustainability** is

unlikely for the same reasons as the previous project, namely local governments have not allocated sufficient funds for O&M activities and some investments have already fallen into disuse. **Institutional development impact** is **substantial** mainly because the project piloted significant procurement reforms, notably the use of post-qualification, now incorporated into national guidelines. **Bank performance** is rated **satisfactory** mainly because of intensive supervision which provided good support to local officials to complete project activities as well as pilot different procedures, particularly in procurement and land acquisition for urban development. **Borrower performance** is also **satisfactory**, especially in view of the commitment and competence of the provincial and local officials in implementing the project.

Municipal Innovation Project (Ln 4440-IND): The objectives of the project are **substantially relevant** in the context of Indonesia's ongoing decentralization reforms which came into effect during project implementation. **Efficacy** in achieving objectives is also **substantial**, as the project demonstrated local government capacities to formulate and implement improvements in the management and delivery of urban services. **Efficiency** is substantial as the project's demonstration effect is substantial. The **overall outcome** is nevertheless rated as **satisfactory** because the project achieved its major relevant objectives that allowed municipalities to be innovative in urban management. **Sustainability** however is rated as **unlikely**, because particular innovations are driven by champions—mostly individuals who remain in place for limited periods of time. **Institutional development impact** is **modest** because many local governments have to do more to internalize into their regular operations, the learning from the innovations introduced. **Bank performance** is rated **satisfactory**, because of good project design with appropriate risks for a learning and innovation loan (LIL) and good supervision to ensure that needed implementation support was provided to local governments. **Borrower performance** is also rated as **satisfactory** because of sound policies by the Indonesian Government to support decentralization and municipal services and good implementation of a difficult project by the Project Management Unit (PMU).

5. Lessons Learned

- **Local governments in Indonesia should continue to build upon their demonstrated capacity to successfully implement improvements in infrastructure delivery, which has also been supported by a long line of Bank projects. However, local governments could be more responsive still to urban development needs expressed through local community participation.** Community participation in urban investment planning is often viewed only a formality and investments plans are often only an expression of technical priorities which are identified by local officials themselves. Local governments need to engage more effectively in community consultation to ensure that urban investment plans also reflect expressed community priorities.
- **A cross-sectoral framework, such as Integrated Urban Infrastructure Development Program (IUIDP), can work well for local governments provided the investment resources within it are sufficiently concentrated to adequately address needs in all included sectors.** When resources are spread too thinly over a large area in terms of need, it can undermine the expected benefits of integrated planning –

resulting in incremental, rather than substantial, improvements in urban infrastructure.

- ***All stakeholders, including local governments themselves, need to agree and understand clearly the purpose behind local innovations – be it to increase efficiency, to increase client-responsiveness – rather than treat innovation as a benefit per se.*** Local governments in Indonesia are both interested and capable of introducing innovative service delivery improvements, but while new approaches to municipal service delivery should be encouraged, new may not necessarily mean better. Local government should always articulate and monitor the expected benefits from the innovation.
- As recognized in the 2003 CAS, ***the Bank has experience and a rich knowledge base from many years of investing in local services through government (and more recently local government) driven projects.*** Ensuring that local governments are always included as partners, with continuous emphasis upon improving their performance, should be a mainstay of all Bank assistance to local service provision.
- ***Monitoring and Evaluation (M&E) systems need to be designed and implemented to track outcomes related to project objectives, as well as the inputs and outputs of project activities that will help achieve these outcomes.*** All three projects assessed in this report focused mainly on successful implementation and insufficient efforts were made to monitor the achievement of expected benefits – and poor outcomes were not always identified in time. M&E is particularly important in geographically spread-out projects and tracking meaningful indicators (which have a plausible link to project objectives and activities) can make up for the lack of frequent supervision missions to participating towns.

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Annex A. Basic Data Sheet

SECOND EAST JAVA URBAN DEVELOPMENT PROJECT (LOAN 4017-IND)

Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>
Total project cost	244.2	107.7
Loan amount	142.7	76.3
Date Physical components completed	03/31/2000	12/31/2001

Project Dates

	<i>Original</i>	<i>Actual</i>
Appraisal		05/15/1995
Board approval		05/16/1996
Signing		09/23/1996
Effectiveness	12/13/1996	12/13/1996
Closing date	03/31/2000	12/31/2001

Staff Inputs (staff weeks)

	<i>Actual/Latest Estimate</i>	
	<i>N° Staff weeks</i>	<i>US\$('000)</i>
Identification/Preparation	37.0	89.1
Appraisal/Negotiation	50.5	150.8
Supervision	253.6	597.2
ICR	14.4	49.0
Total	355.5	886.1

Dollar costs incurred before FY2000 are adjusted upward by 15% to reflect direct cost values.

Mission Data

	<i>Date (month/year)</i>	<i>No. of persons</i>	<i>Specializations represented</i>	<i>Performance rating</i>	
				<i>Impe.Prog</i>	<i>Dev. Objtvs.</i>
Identification/ Preparation	March/April 1995	7	1 Urban planner, 1 Institutional Specialist, 1 Financial Analyst, 1 Environmental Specialist, 1 Municipal Engineer, 1 Operations Officer (Engineer), 1 Social Scientist.		
Appraisal/Negotiation	July/ August 1995	9	1 Urban Planner, 1 Management Specialist, 1 Urban Specialist, 2 Operations Officers (1 Municipal Engineering Background, 1 Transport), 1 Social Impact Specialist, 1 Environmental Specialist, 1 Financial Specialist		
Supervision	May 1996	12	1 Urban Planner, 1 Lawyer, 2 Procurement Specialists, 2 Disbursement Analysts, 2 Municipal Engineers, 2 Environmental Specialists, 2 Financial Analysts	S	S
	December 1996	3	1 Urban Planner, 1 Municipal Engineer, 1 Procurement Specialist	S	S
	March 1997	10	2 Operations Officers, 1 Urban Environment Specialist, 1 Municipal Engineer, 1 Resettlement Specialist, 1 Urban Planner, 2 Financial Analysts, 1 Environmental Specialist, 1 Human Resources Development Specialist	S	S
	July 1997	6	1 Urban Environment Specialist, 1 Municipal Engineer, 1 Resettlement Specialist, 1 Urban Planner, 1 Operations Officer, 1 Financial Analyst	S	S
	November 1997	10	1 Municipal Engineer, 1 Resettlement Specialist, 1 Urban Planner, 1 Operations Officer, 1 Financial Analyst, 2 Environmental Specialists.	S	S
	February 1998	7	1 Urban Planner, 1 Operations Officer (Municipal Engineer), 1 Financial Analyst, 1 Urban Environment Specialist, 1 Social Scientist, 1 Urban Development Specialist, 1 Water □ Sanitation Specialist	S	S
	July 1998	8	1 Urban Planner, 1 Operations Officer (Municipal Engineer), Financial Analyst, 1 Resettlement Specialist, 2 Water □ Sanitation Specialists, 1 Urban Transport Specialist, 1 Environmental Specialist	U	S
	November 1998	7	1 Urban Planner, 1 Operations Officer (Municipal Engineer), 1 Financial Analyst, 1 Resettlement Specialist, 1 Water □ Sanitation Specialist, 1 Environmental Specialist, 1	S	S

<i>Date (month/year)</i>	<i>No. of persons</i>	<i>Specializations represented</i>	<i>Performance rating</i>	
			<i>Impe.Prog</i>	<i>Dev. Objtvs.</i>
		Social Specialist		
March 1999	8	2 Urban Planners, 1 Operations Officer (Municipal) Engineer, 1 Financial Analyst, 1 Resettlement Specialist, 1 Environmental Specialist, 1 Water □ Sanitation Specialist, 1 Social Specialist	S	S
July 1999	7	1 Urban Planner, 1 Operations Officer (Municipal Engineer), 1 Financial Analyst, 1 Resettlement Specialist, 1 Environmental Specialist, 1 Water □ Sanitation Specialist, 1 Social Specialist	S	S
November 1999	8	1 Urban Planner, 2 Operations Officers (Municipal Engineers). 1 Financial Analyst, 1 Resettlement Specialist, 1 Environmental Specialist, 1 Water □ Sanitation Specialist, 1 Social Specialist	S	S
December 2000	6	2 Operations Officers (Municipal Engineers), ! Financial Analyst, 1 Environmental Specialist, 1 Social Specialist, 1 Water □ Sanitation Specialist.	S	S

BALI URBAN INFRASTRUCTURE PROJECT (LOAN 4155-IND)

Key Project Data *(amounts in US\$ million)*

	Appraisal Estimate	Actual or current estimate
Total project cost	278.0	104.7
Loan amount	110.0	72.1
Date physical components completed	12/31/2002	09/30/2004

Project Dates

	Original	Actual
Appraisal Mission		01/17/1995
Board approval		05/06/1997
Signing		06/09/1997
Effectiveness	09/04/1997	09/04/1997
Closing date	12/31/2002	09/30/2004

Staff Inputs *(staff weeks)*

	Actual/Latest Estimate	
	N° Staff weeks	US\$('000)
Identification/Preparation	160.20	659.2
Appraisal/Negotiation	19.20	89.6
Supervision	226.69	654.38
ICR	14.34	36.0
Total	420.43	1,439.18

Regional direct to full costs mark-up is 25% for fiscal years prior to FY00.

Mission Data

	<i>Date (month/year)</i>	<i>No. of persons</i>	<i>Specializations represented</i>	<i>Performance rating</i>	
				<i>Impe.Prog</i>	<i>Dev. Objtvs.</i>
Identification/Preparation					
	June 1995	3	Institutional Specialist (1); Environmental Engineer (1); Solid Waste Expert (1)		
	September 1995	2	Institutional Specialist (1); Economist (1)		
	January 1996	3	Institutional Specialist (1); Water Supply and Sanitation Engineer (1); Economist (1)		
	April 1996	1	Institutional Specialist		
	July 1996	3	Institutional Specialist (1) Environmental Engineer (1); Solid Waste Expert (1)		
	Pre-appraisal, October/November 1996	13	Institutional Specialist (1); Municipal Engineer (1); Water Supply Engineers (2); Financial Analyst (1); Economist (1) Regional □ Urban Planning (1); Urban Planning (1); Urban Transport (1); Cultural Heritage (1); Environmental Engineer (1); Social Development (1); Counsel (1)		
Appraisal/Negotiation					
	January 1997	8	Institutional Specialist (1); Economist (1); Municipal Engineer (1); Water Supply Engineer (1); Financial Analysts (2); Environmental Engineer (1); Social Dev/ Cultural Heritage Specialist (1)		
	March 1997	4	Institutional Specialist (1); Economist (1); Municipal Engineer (1); Counsel (1)		
Supervision					
	03/27/1998	5	TTL/Economist (1); Institutional Specialist (1); Municipal Engineer (1); Financial Management (1); Social Development (1)	S	S
	07/17/1998	7	TTL/Economist (1); Institutional Development (1); Municipal Engineer (1); Financial Analyst (1); Social Development Specialists (2); Water Supply Engineer (1)	S	S
	03/08/1999	5	TTL/Municipal Eng. (1); Institutional Develop (1); Financial Analyst (1); Cultural Heritage Expert (1); Social Development (1)	S	S
	10/11/1999	11	TTL/Municipal Engineer (1); Institutional Spec. (1); Financial Analyst (1) Community Development	S	S

	<i>Date</i>	<i>No. of</i>	<i>Specializations</i>	<i>Performance rating</i>	
	<i>(month/year)</i>	<i>persons</i>	<i>represented</i>	<i>Impe.Prog</i>	<i>Dev. Objtvs.</i>
			Specialist (1); Procurement (1) Procurement Specialist (1); Social Development (1); Community Development Specialist (1); Urban Transport Specialist (2)		
	08/04/2000 (MTR)	6	TTL/Municipal Engineer (1); Institutional Specialist (1); Financial Analyst (1); Water Supply Specialist (1); Community Development/Cultural Heritage Specialist (1); Resettlement Specialist (1)	S	S
	05/03/2001	6	TTL/Municipal Engineer (1); Sanitary Engineer (1); Community Development (1); Resettlement (1); Environment Specialist (1); Financial Analyst (1); Environment Specialist	S	S
	12/14/2001	7	Environmental Specialist (1); Resettlement Specialist (1); Financial Specialist (1); Cultural Heritage Specialist (1); Educational Specialist (1); TTL/Municipal Engineer (1)	S	S
	03/25/2002	7	Environmental Specialist (1); Cultural Heritage Specialist (1) Resettlement/Community- Based Development Specialist (1); Sanitation Specialist(1); Urban Planner (1)	S	S
	11/20/2003	5	TTL, Municipal Engineer (1); Resettlement Specialist (1); Cultural Heritage Specialist (1); Urban Planner (1);	S	S
		4	Municipal Engineer (1); Social/Resettlement (1); Community Development Specialist (1); Cultural Heritage Specialist (1)	S	S
ICR	09/28 □ 10/1/2004	5	Municipal Engineer/TTL(1); Social Resettlement (1) Community Development Specialist (1); Manager Operations Services (1); Procurement Specialist (1)	S	S

MUNICIPAL INNOVATIONS PROJECT (LOAN 4440-IND)

Key Project Data *(amounts in US\$ million)*

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>
Total project cost	7.2	7.7
Loan amount	5.0	4.7
Date physical components completed	12/31/2001	06/30/2003

Project Dates

	<i>Original</i>	<i>Actual</i>
Appraisal Mission		07/16/1998
Board approval		02/09/1999
Signing		04/16/1999
Effectiveness	03/30/1999	05/31/1999
Closing date	12/31/2001	06/30/2003

Staff Inputs *(staff weeks)*

	<i>Actual/Latest Estimate</i>	
	<i>N° Staff weeks</i>	<i>US\$('000)</i>
Identification/Preparation	11.4	42.4
Appraisal/Negotiation	8.8	33.9
Supervision	77.9	179.6
ICR	9.0	24.0
Total	107.1	279.9

Mission Data

	<i>Date (month/year)</i>	<i>No. of persons</i>	<i>Specializations represented</i>	<i>Performance rating</i>	
				<i>Impe.Prog</i>	<i>Dev. Objtvs.</i>
Identification/ Preparation	12/01/1997	3	Anthropologist (1); Principal Environment (1); Institutional Development (1)		
Appraisal/Negotiation	07/16/1998	4	Principal Economist (1); Institutional Development (1); Disbursement Specialist (1); Principal Environment (1)		
	10/31/1998	4	Principal Economist (1); Legal Specialist (1); Disbursement Specialist (1); Institutional Development (1)		
Supervision	02/15/1999	2	Principal Economist (1); Social Matters (1)	S	S
	06/22/1999	2	Team Leader (1); Operation Officer (1)	S	S
	09/30/1999	2	Team Leader (1); Operation Officer (1)	U	S
	05/11/2000	3	Community Development, (1); Urban Management (1);	S	S
	12/19/2000	3	Operations Officer, TM (1) ; Urban Management (1); Community Development (1)	S	S
	06/21/2001	6	Task Team Leader (1); Environment Spec (1); Community Dev. Spec. (1); Institutional Dev. Spec (1); Cultural Heritage, Com (1); Procurement Spec (1)	S	S
	12/27/2001	5	Sr. Operations Officer (1); Environmental Spec. (1); Community Dev. Spec. (1); Institutional Develop (1); Cultural Heritage, Com (1)	S	S
	06/13/2002	6	Task Team Leader (1); Procurement (1); Cultural Heritage, Com (1); Institutional Devt. (1); Community-Based (1); Environment (1)	S	S
	11/15/2002	5	TTL, Ops Officer (1); Procurement (1); Cultural Heritage, Com (1); Community-Based Dev (1); Institutional Develop (1)	S	S
	04/07/2003	5	TTL, Ops Officer (1); Community-Based Dev (1); Cultural Heritage (1); Institutional Devt. (1); Financial Management (1)		
ICR	10/13/2003	3	TTL, Ops Officer (1);	S	S

<i>Date (month/year)</i>	<i>No. of persons</i>	<i>Specializations represented</i>	<i>Performance rating</i>	
			<i>Impe.Prog</i>	<i>Dev. Objtvs.</i>
		Institutional Devt. (1); Urban Devt.		

Annex B. Borrower Comments



"yusuf sadana"
<sadana@indo.net.id>
03/26/2006 12:23 AM

To <ndesilva@worldbank.org>
cc <Abarbu@worldbank.org>
Subject Indonesia MIP (Ln 4440-IND) Draft Project Performance
Assessment Report

Dear Ms. Nilakshi De Silva,

**RE: INDONESIA: Municipal Innovations Project (Ln.4440-IND)
Second East Java Urban Development Project (Ln.4017-IND)
Bali Urban Infrastructure Project (Ln.4155-IND)
Draft Project Performance Assessment Report**

Referring to your letter dated February 28, 2006, we would like to thank for the IEG's of evaluation the Municipal Innovations Project (Ln. 4440-IND) which was executed by the Ministry of Home Affairs (MOHA). We appreciate as the assessment is worthwhile for us in planning the coming MOHA's programs related to innovation. In responding to your assessment for the said project, we would like to comment as follows:

The innovation, which has been developed by certain local government, is aimed at to fulfilling the need for innovative program. But since the condition and needs of other local governments usually differ from local government who has develop successfully the inovative program. So it is dificult to generalise the same kind of innovative program for all local governments. The other factor that hinders the development of such an innovative programme is that public bureaucraties usually obedient in doing their obligation based on government regulations, and they feel inconvenience if they step out of the stipulated regulation.

It will be fair to give reward to local governments who have succesfully developed such kind of inovative programs.

We would like also to inform you that in practice local governments use to follow guidance to the central government and also tend to waiting for the instruction from central government. Based on the mentioned explanation, we have seriously tried to motivate local governments to develop innovative programs and the result in progerss.

Finally, we would like to thank the World Bank for the assistance through MIP. We are looking forward to having close and more productive cooperation.

Jakarta, March 25th, 2006
Yours sincerely,

Anastutik Wiryaningsih,

Directorate General for Public Administration
Ministry of Home Affairs The Republic of Indonesia