

Document of
The World Bank

Report No: 23810-IND

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED LOAN
IN THE AMOUNT OF US\$ 29.5 MILLION AND
A PROPOSED CREDIT
IN THE AMOUNT OF SDR 55.7 MILLION (US\$ 70.5 MILLION EQUIVALENT)
TO THE
REPUBLIC OF INDONESIA
FOR THE
SECOND URBAN POVERTY PROJECT (UPP2)

May 15, 2002

**Urban Development Sector Unit
East Asia and Pacific Region**

CURRENCY EQUIVALENTS

(Exchange Rate Effective April 2002)

Currency Unit = Rupiah

Rp. 1 = US\$0.00010416

US\$1 = Rp. 9,600

FISCAL YEAR

January 1 -- December 31

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
ANDAL	Environmental Impact Statement
APBD	Annual district development budget
APL	Adaptable Program Loan
Bappenas	National Development Planning Agency
Bappeda	Provincial/district Planning Agency
Bapedalda	District level Environmental Agency
BI	Bank Indonesia
BKKBN	National Family Planning Board
BKM	Community Organization (Badan Keswayadan Masyarakat)
BPD	Elected body of representatives
BRI	Bank Rakyat Indonesia
Bupati/Walikota	District/city head
CAS	Country Assistance Strategy
CC	Community Cadre
CDP	Community Development Plan
DAK	Targeted grant mechanism for local government
Dinas	Local government technical agency
DLN	Directorate of External Fund, Ministry of Finance
GOI	Government of Indonesia
KDP	Kecamatan Development Project
Kecamatan/camat	Subdistrict/head of subdistrict
Kelurahan/lurah	Urban section comprising on average 10 RWs/ head of kelurahan
Kimprasiwil	Ministry of Settlements and Regional Infrastructure
Kota/kabupaten	District/municipality
KSM	Community group (Kelompok Swayadan Masyarakat)
LKMD	Village/kelurahan management group
KPKN	Local office of National Treasury
LIL	Learning and Innovation Loan
MoF	Ministry of Finance
MoHA	Ministry of Home Affairs
NGO	Non-governmental organization (same as LSM)
NMC	National Management Consultant
OC	Oversight Consultant
PAPG	Poverty Alleviation Partnership Grant
Pimpro/PjOK	Project Administrative Manager (pimpinan proyek)
PMU	Project Management Unit
RW	Neighborhood with some 500 Families (rukun warga)
SUSENAS	National Household Expenditure Survey
UKL/UPL	Environmental Management / Monitoring Procedures
UKM/SKM	Manager of revolving funds for BKM
UPK	Unit Pengelola Keuangan, manager of funds for BKM
UPP	Urban Poverty Project
VIP	Village Infrastructure Project

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**INDONESIA
SECOND URBAN POVERTY PROJECT (UPP2)**

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MAP(S)
IBRD 31828

INDONESIA
Second Urban Poverty Project (UPP2)
Project Appraisal Document

East Asia and Pacific Region EASUR

Date: May 15, 2002	Team Leader: Anirrudha Dasgupta			
Country Manager/Director: Mark Baird	Sector Manager/Director: Keshav Varma			
Project ID: P072852	Sector(s): UY - Other Urban Development			
Lending Instrument: Specific Investment Loan (SIL)	Theme(s): Poverty Reduction; Urban Poverty Targeted Intervention: Y			
Project Financing Data				
<input checked="" type="checkbox"/> Loan	<input checked="" type="checkbox"/> Credit	<input type="checkbox"/> Grant	<input type="checkbox"/> Guarantee	<input type="checkbox"/> Other:
For Loans/Credits/Others:				
Loan Currency: United States Dollar				
Amount (US\$m): \$100				
Borrower Rationale for Choice of Loan Terms Available on File: <input checked="" type="checkbox"/> Yes				
Proposed Terms (IBRD): Variable-Spread Currency Loan (VSL)				
Grace period (years): 5	Years to maturity: 20			
Commitment fee: 0.75%	Front end fee (FEF) on Bank loan: 1.00%			
	Payment for FEF: Capitalize from Loan Proceeds			
Proposed Terms (IDA): Standard Credit				
Grace period (years): 10	Years to maturity: 35			
Commitment fee: 0.5%	Service charge: 0.75%			
Financing Plan (US\$m):	Source	Local	Foreign	Total
BORROWER		19.20	7.70	26.90
IBRD		22.80	6.70	29.50
IDA		67.70	2.80	70.50
Total:		109.70	17.20	126.90
Borrower: REPUBLIC OF INDONESIA				
Responsible agency: MINISTRY OF SETTLEMENT AND REGIONAL INFRASTRUCTURE				
Address: KIMPRASWIL, Jl. Pattimura No. 20, Kebayoran Baru, Jakarta Selatan 12110				
Contact Person: Mr. Ir. Djoko Kirmanto, Director General of Housing and Settlements;				
Tel: 62-21-72796155 /58	Fax: 62-21-72796155	Email: kirmanto@kimpraswil.go.id		
Estimated Disbursements (Bank FY/US\$m):				
FY	2003	2004	2005	2006
Annual	6.45	21.47	32.92	22.16
Cumulative	6.45	27.92	60.84	83.00
2007	8.92	8.08		
2008				
Project implementation period:	FY03-FY08			
Expected effectiveness date:	10/15/2002			
Expected closing date:	06/30/2008			

A. Project Development Objective

1. Project development objective: (see Annex 1)

The objectives of this project are (i) to establish or support representative and accountable community organizations that are able to provide services to the urban poor and increase the voice of the poor in public decision making; (ii) to make local government more responsive to the needs of the poor through increased cooperation with community organizations; and (iii) to improve services for the urban poor (financial services, social services and infrastructure).

These objectives will be achieved through: (i) building community capacity for the formation and institutionalization of elected representative organizations that are accountable to communities; (ii) provision of grants to communities directly and transparently through these community based organizations to finance poverty alleviation activities; and (iii) enhancing the capacity of local governments to partner with community organizations in service provision through the establishment of a Poverty Alleviation Partnership Grant (PAPG).

This project is a follow-on from an existing project in Indonesia, the Urban Poverty Project (Cr. 3210-IND), approved by the Board in April 1999. Significant lessons have been learned from this first Urban Poverty Project (UPP1) which have been incorporated in the design of the second project.

2. Key performance indicators: (see Annex 1)

The following performance indicators will be used to measure the impact of the project. Detailed output indicators are provided in Annex 1 (Logframe) and Annex 13 (Monitoring and Evaluation).

Impact at household level

1. Number of households with improved access to physical infrastructure (e.g. roads, drainage, water supply, sanitation, etc.), by welfare level
2. Number of households with improved access to social services (e.g. health, informal education, etc.), by welfare level
3. Number of households whose incomes have increased as a result of improved access to credit, by welfare level

Institutional impact at community level

1. Percentage of households that live in a ward (kelurahan) with a community organization that: a) is democratically elected; b) practices participatory decision making; c) is transparent and accountable; d) effectively addresses their problems; e) is able to influence local decision making; and f) is trusted by the community
2. Number of community organizations that are represented by federations at the city level that are capable of increasing local government responsiveness

Institutional impact at local government level

1. Amount of local government's own funds allocated through similar processes during the course of PAPG investments and afterwards
2. Amount of local government funds channeled to kelurahan organizations in addition to project funds

B. Strategic Context

1. Sector-related Country Assistance Strategy (CAS) goal supported by the project: (see Annex 1)

Document number: 21580 **Date of latest CAS discussion:** January 22, 2001

The overarching goal of the Bank in Indonesia is to support efforts to reduce poverty and vulnerability in a more democratic and decentralized environment. The three priority areas for the CAS are: i) sustaining economic recovery and promoting broad-based growth; ii) building national institutions for accountable government; and iii) delivering better public services for the poor. This project directly supports the second and third priority areas by:

1. transferring resources directly to the poor to provide social, financial and physical services at the community level;
2. enabling communities to determine their own priorities by providing resources directly to them—thereby promoting greater *transparency* in resource allocation;
3. building community organizations that are able to aggregate and articulate the needs of the urban poor and participate in development—thereby building community capacity to hold local governments more *accountable*; and
4. creating partnerships with local governments (for development activities that communities cannot undertake on their own)—thereby making public service delivery more responsive to real needs on the ground and promoting better *governance*.

2. Main sector issues and Government strategy:

Urban poverty

A recent review of the urban sector in Indonesia carried out by the Asian Development Bank (2001) indicates that at least 15.7 million urban dwellers were poor in 1999 out of a total urban population of 81.4 million (using the new SUSENAS 1998 definition of the poverty line). The Social Monitoring and Early Response Unit, SMERU, estimates, however, that a much larger percentage of people—in fact, nearly half of the entire population—is vulnerable to poverty and struggles to avoid falling back into poverty. It is also clear that poverty will become an increasingly urban issue—the urban population has been growing at an annual rate of about 4.4% during 1990-99, and, according to the United Nations, the proportion of Indonesia's population expected to be living in urban settlements will increase from about 40% in 1999 to over 60% by 2025 (*Global Report on Human Settlements, 1996*). The experience of the 1997 crisis has shown that macroeconomic shocks have a worse impact on urban areas than on rural areas where traditional support networks tend to cushion economic blows more effectively. Studies show that in 1998, GDP in urban areas declined by 18% as compared to a national GDP decline of 14%, with an increase in poverty levels in 1998 that was significantly higher in urban areas than in rural areas (ADB report, 2001).

The World Development Report (WDR) 2000 supports the view that poverty is a multi-dimensional problem. Lack of income or consumption are not the only indicators of poverty. Inequalities at various levels are the cause as well as consequences of poverty. The nature of poverty in Indonesia is no different. The 2001 Bank report on poverty (Indonesia: Constructing a Strategy for Poverty Reduction) articulates two central points:

- First, the definition of poverty should include all dimensions of human well-being—adequate food, shelter and comfort; reduced vulnerability to external shocks; access to education, health and infrastructure; and the opportunity to participate in social and political life on an equal basis with the rest of the population.
- Second, a poverty reduction agenda necessarily means a governance improvement agenda. This would include: free flow of information to the poor regarding their entitlements and obligations; voice of the

poor in decisions regarding allocation of public resources, program design and implementation; and accountability of decision makers for every stage of public program and project planning, budgeting, implementation and monitoring.

The same report proposes two area of action for poverty reduction. First, it proposes actions directed towards raising the income of the poor. These would include, among others, economic empowerment of the poor and poverty focused public expenditure. Second, it proposes actions directed towards effective provision of core public services. These would include putting users first in all decisions regarding provision of public services; focusing on basic health, education and infrastructure services; and developing safety nets for the poorest to cope with shocks.

Decentralization and local governance

The new decentralization Laws 22 and 25/1999 came into effect in January 2001. The new laws envision a different definition of roles, capacities and accountabilities for local governments (kota/kabupaten) from the past, placing them squarely in charge of providing services to their citizens. [The administrative structure of local government is as follows: region (daerah), province (propinsi), district (kota for urban areas; kabupaten for rural areas); sub-district (kecamatan); ward or village (kelurahan for urban areas; desa for rural areas). References to "local government" is usually to the district (kota/kabupaten) level unless otherwise stated]. Stakeholder participation and community empowerment has also been made a mandatory feature in the decentralization legislation. The new laws are ambitious in their scope and spirit. However, until now, most of the discussion and analysis has focused on a shifting of power and responsibilities from the central government to local governments, and not on local governance—i.e. the accountability and responsiveness of local governments to communities. The primary goals of decentralization—to provide better public services to communities—cannot be achieved without improvements in local governance.

Though many people label the Indonesian decentralization strategy as the "big bang," the fluid nature of the policy and institutional environment, at both the central and local government levels, cannot be overstated. At the center, the future role of central government in poverty reduction is under scrutiny. Similarly, the intergovernmental financial framework is under development. This affects both grant-funded activities at the local level as well as local governments' ability to fund poverty programs through loans. At the local level, there is a general scarcity of development funds across local governments as routine expenditures and salaries of civil servants swallow the lion's share of their revenue. Furthermore, if past experience from the region is an indicator, newly "decentralized" local governments might not have poverty targeted investments as their top priority.

Building the capacities of local governments to deliver on these new agendas is an enormous challenge. A number of initiatives by a range of donors are under way to assist local governments in these tasks. As part of its overall urban strategy, the Bank is currently working with the government to prepare an Urban Local Governance Reform Program (ULGRP) which is being proposed as a longer term Adaptable Program Loan to address some key issues of local government capacity, including management capacity, quality of service delivery, and the development of a market-based instrument for municipal credit. At the same time, the Bank is undertaking a Regional Public Expenditure Review (RPER) to analyze budgeting and expenditure patterns at the local government level with a view to gearing expenditures towards sustainable growth and poverty alleviation. These projects are critical to ensure that local governments are able to deliver on their responsibilities and deliver them well. However, local governments do not have the resources to deliver all services at normal standards to their populations. Difficult tradeoffs will be required. The limited services that can be delivered by local governments at the community level will meet

the demands of the population only if officials understand community priorities and are accountable to them. This, in turn, will require communities to: i) be organized; ii) be able to aggregate and prioritize their needs and demands; and iii) be able to articulate these needs and priorities to government. Currently, the capacity for carrying out these tasks is weak, both at the local government level as well as at the community level, and these issues are not being addressed directly in the programs described.

Involving communities to improve service delivery

Sectoral studies by the Bank (the Local Level Institutions Study) and others have highlighted that in order to improve local level service delivery, there is a need to reform local governance practice so that local governments work with rather than against community institutions. The LLI study, carried out mostly in rural areas, documents the systematized mismatches between community priorities and development investment decisions, and identified a growing gap between government agencies and community organizations. One of the key conclusions of these various studies is the potentially positive role that community institutions can play in local development and in ensuring the demand orientation of urban service delivery.

The experience in urban areas has been somewhat different. The most extensive urban poverty program, the Kampung Improvement Program (KIP), was implemented at a national level. The initial KIP delivered a package of basic infrastructure to poor neighborhoods from a given menu. The impact on the living conditions of the poor was dramatic and is well documented (e.g. OED review of KIP, 1996). The project has won praise across the world and, even today, is among the few examples globally of a national slum improvement program. However, the criticism of the program grew with its popularity. The most common criticisms were top-down planning and implementation, leakage of funds, and lack of maintenance. To its credit, the program evolved. For example, the recently completed Bank-financed project (Jabotabek Urban Development Project III, Ln. 3246-IND), which supported KIP in Jakarta, was redesigned significantly during its eight years of implementation. The Implementation Completion Report of the project records that the project worked best in its last years when communities were: i) systematically brought in to participate in design and delivery; ii) given a chance to choose from a complete package of services (physical, social and economic); and iii) maintained the services created themselves. The project also had a successful community based micro-credit component which provided credit with a very high rate of repayment (95%).

The Urban Poverty Project (UPP1, Cr. 3210) took the same idea a little further. The project supported the development of community organizations at the kelurahan level and provided block grants to the community organizations for poverty alleviation activities. The community organization was free to choose from an open menu. The project targeted urban centers mostly in the northern part of Java, the area worst affected by the economic downturn. The first phase of the project is complete, and has met and significantly surpassed its original objectives. There is a very high sense of ownership of the project among community members; approximately 1,200 community organizations having been supported; more than 500,000 people have received small loans for small businesses through the project in the first phase; infrastructure developed through the project has attracted very high community contributions; services are maintained by the community; and relatively little leakage has been reported.

A large number of studies, looking into similar Community Driven Development projects, have examined the potential for community management of community level services. These studies have concluded that, in the developing world, some services indeed perform better when communities participate in their design and development. In some cases, particularly where service performance is less dependent on larger infrastructure networks, communities are even able to manage and maintain services better. The experience in Indonesia, for example, in projects like the Village Infrastructure Projects (VIPI and VIPII) and the

Kecamatan Development Project (KDPI) has been similar.

Community provision and management of urban services, especially in larger cities, should not, however, be a long term policy objective. The observation that most urban public services are inadequate or perform poorly in poor urban neighborhoods, and that there is a general scarcity of development funds at the local level, might lead policy makers to the conclusion that significant numbers of community level services should be provided and managed at the community level. They might be right in the medium term.

However, this is not a long term solution. Quite a few urban services have significant network factors and are best managed at a level higher than the community. As the capacity of local governments in the provision of services grows and communities are able to establish what services they are willing to manage, the overall assignment of responsibilities between local governments and communities would need to be reexamined.

Government strategy

The focus of GOI's national development priorities as outlined in the government's National Development Program (PROPENAS 2000-2004) focuses on key themes of democratization, good governance, and economic recovery. In the government's efforts to promote democratization and good governance, the primary thrust of its strategies are to have greater participation of the people in decision making (through more democratic elections and participation in decisions regarding resource allocation) and through building a government that is more accountable to its people. Two of the four major themes on which the economic recovery program hinges are poverty alleviation and developing a community-based economic system—with the first priority program being overcoming poverty and meeting basic needs. To coordinate these poverty alleviation efforts, the government has recently set up a Poverty Reduction Committee consisting of representatives from key central government ministries to set policies regarding poverty alleviation and ensure continued focus on this critical issue. While national development policy and strategy focus on issues of democratization, participation and poverty alleviation, the urban development program outlined in PROPENAS 2000-2004 emphasizes the need, among others, for the following: i) increasing partnership between the government, society and private sector in urban development; and ii) increasing efforts to overcome poverty and social instabilities.

Both national priorities as well as urban development priorities are therefore fully focused on poverty alleviation, democratization and the greater involvement of communities in decision making. The Urban Poverty Projects are part of this vision. UPP1 was developed before the current PROPENAS as a response to the rapid rise in urban poverty due to the financial crisis. The initial success of the project and the gradual shift away from a crisis environment has resulted in a review of the goals of the project. With the objective of transforming the project to mainstream urban poverty reduction program, GOI, with the Bank's support, significantly restructured the project during the mid-term review. The project duration was extended from three to five years acknowledging the time needed to develop robust community organizations, and strategies were developed to provide continued project support in the medium term to enhance sustainability of the institutions created. Soon afterwards, GOI started developing UPP2 with the goal of extending the program to Sulawesi, Kalimantan and NTB. It also sought ADB support to develop a similar program for Sumatra. The goal, mechanism and implementation structure of the new projects will be similar, with additions and improvement as required in response to the changing institutional context and demand.

3. Sector issues to be addressed by the project and strategic choices:

Sector issues to be addressed

This project does not take a traditional sector approach. Urban development practitioners recognize that urban development is a confluence of many sectors that requires a multi-faceted approach. In aiming to lay the foundation for poverty reduction in urban areas, this project incorporates three basic assumptions: i) to address poverty requires that specific measures be taken at the central level, even under a decentralized regime; ii) to improve resource allocation, communities are sometimes well placed to decide on certain service priorities and should be involved in decision making; and iii) for improved governance and for decentralization to be effective, communities and local governments need to work in partnership.

In a time of transition and scarce budgetary resources, local governments are facing hard decisions as they try to balance their new responsibilities with uncertain budgets. Given the broad range of issues they now have to tackle, local governments' initial priorities may not be targeted to the poor. The central government has identified poverty alleviation as a national priority, and is therefore prepared to provide special grants to local governments for poverty-targeted interventions. In the absence of a functioning targeted grant mechanism for local governments (DAK as envisaged in the new decentralized legislation), the central government has decided to continue to fund selected programs directly. This does not, however, mean that poverty alleviation is primarily a central government responsibility. It is with that in mind that this project has been designed with two distinct components.

The point of entry for the project is the community. The project approach is based on the belief that some local level decisions regarding poverty reduction should be taken at the community level, and that community-based organizations are able to address various dimensions of poverty. However, community organizations can only do this well if: i) they are well organized; ii) they have resources; iii) they have the capacity to manage and utilize the resources; and iv) they have the knowledge and confidence to work with and influence local governments to respond to their needs and demands. The project focuses at the ward (kelurahan) level because it is felt that this is the right size of population within urban areas to work with, and that kelurahan level organizations are sometimes the best placed to tackle issues of poverty at the community level (the experience of UPP1 supports this). Hereafter, the word "community" in this document will refer to residents living within a kelurahan.

At the same time, however, it is evident that all issues of poverty cannot and should not be solved by communities themselves. Local governments have a responsibility for providing infrastructure and services that cannot be managed independently by communities. These include networked infrastructure, investments that require operations and maintenance by local government, large investments that are too expensive to be financed by communities themselves, and investments that benefit more than one community. To encourage local governments to take on these responsibilities, and to ensure that services are delivered based on community demand, the project has designed a second component, the Poverty Alleviation Partnership Grant (PAPG), that will test a new kind of partnership between community organizations and local governments.

Strategic Choices

1. Partnership between communities and local governments as an evolving process

This project sees the partnership between communities and local governments as an evolving process. In order for this relationship to be sustainable, communities need to be organized and be able to voice their

demands and be able to hold government accountable for service delivery. At the same time, local governments need to build capacity to work more closely with communities and function in more transparent and accountable ways. The first Urban Poverty Project (UPP1) sought to bypass all local government structures (provincial and local), as using the government had often led to slow and bureaucratic procedures for getting resources to communities. UPP1 therefore chose to strengthen the capacity of communities to organize themselves, receive resources (directly from central government) and decide on the allocation of these resources by themselves. This worked well and led to the creation of elected community organizations (Badan Keswadayan Masyarakat or BKMs) that people, by and large, trust and respect and that have delivered resources to the communities relatively quickly. Importantly, these BKMs are, by all accounts, considered to be relatively free of corruption and graft. UPP1 therefore succeeded in *developing community organizations* concerned with poverty issues, thus creating a basis for these organizations to articulate community demand.

This second project (UPP2) will take the process a step further by involving local governments actively in the project. A separate Poverty Alleviation Partnership Grant (PAPG) will be established at the local government level which can only be accessed when community organizations (BKMs) and local governments jointly prepare proposals. The component is designed to: i) ensure a better match between what communities need/demand and what local governments provide, thereby improving local government service delivery; ii) build local government capacity to work with and support community organizations; and iii) at the same time, ensure continued community ownership of the facilities or programs. Most importantly, it aims to instill *an accountability relationship between communities and local governments*, where communities have a say in the allocation of funds provided to local government through the project, and hold local government accountable for the use of those funds, as well as enable local government to hold the community organization accountable for the choices that they make.

The third step in this evolution would be the *creation of a fiscal relationship between local governments and kelurahan organizations*. The proposed project provides funds to BKMs and to local governments. Once the project is over, however, the longer term sustainability of this relationship will depend on whether local governments and BKMs choose to work together in the same manner using local governments' own resources. This would demonstrate both a fiscal and an accountability relationship between local governments and communities—both integral elements in achieving better governance. The proposed project does not aim to achieve this within the short space of five years—the Poverty Alleviation Partnership Grant would lay the basis for such a relationship by giving local governments and community organizations an opportunity to work together, and providing support to build trust between the two.

2. Role of Local Government in the Project

Though UPP2 started with the basic project rules of UPP1, to further develop the model, local governments in the selected provinces were consulted regarding the features of the program. The project will only operate in kota/kabupaten where the local government chooses to participate. All local governments (kota/kabupaten) that wish to participate need to meet the following conditions: (i) establish that poverty reduction is a priority for them (administration and legislature); (ii) agree to the rules of the project; (iii) establish project offices as required for project coordination and fund disbursement; (iv) provide required counterpart funds; and (vi) develop a list of target kelurahans according to targeting rules. Meeting the above conditions would allow implementation of the Kelurahan Grant component and Capacity Building component in that local government. These components essentially provide support for community development, local government capacity building and block grants for community sub-projects. If they choose, local governments can also participate in another project component, the Poverty Alleviation Partnership Grant (PAPG). This component allows local governments to access matching grants for city

level poverty reduction activities. This is a much more competitive allocation, as only about one third of the local governments can participate. To participate in this component they would have to meet a few more conditions: (i) agree to the rules of the PAPG; (ii) set up an independent PAPG Selection Committee consisting of BKM members and NGOs or other community representatives in addition to local government staff; (iii) provide operational costs; and (iv) promote the development of joint proposals by local government agencies and community organizations with provisions for matching funds.

The goal of the Poverty Alleviation Partnership Grant is to reward local governments that are actively engaging in poverty reduction initiatives and encourage others to do the same. The PAPG is also designed with a view towards making local government decisions more participatory and demand responsive. This project will not attempt to reform policies on paper. Rather, it focuses on setting up practices of partnership between local governments and community organizations which will aim, through a “learning by doing” process, to change attitudes and behaviors on both sides. By creating competition for these funds, the PAPG will attempt to change the way local governments obtain resources for poverty alleviation. By establishing a Selection Committee with community representatives for the selection of sub-project proposals, the PAPG will attempt to change the way local governments allocate resources for projects.

3. Relationship between BKMs and kelurahan level government institutions

In UPP1, the relationship between the elected community institution established through the project (the BKM) and existing and planned government structures in communities is still evolving. The key government structures affecting the project are the LKMDs (the planning and implementing body at the kelurahan and desa level) and the BPD (an elected legislative body introduced by the new decentralization laws that is supposed to replace the LKMD). LKMDs are still present in most kelurahans and, in most cases, are not democratically elected, have little community confidence, and are considered to be an extension of the government’s administrative apparatus. In UPP1, when given a choice, most communities have rejected the existing LKMDs as representative of the community in favor of a new, elected BKM. However, there are exceptions. In some kelurahans, widely respected members of the community were part of the LKMD, and these people have also been elected as part of the BKM. BPDs, when instituted under the new decentralization law, will be elected democratically and will be the equivalent of local level councils. However, the BPD structure has only been approved for the rural areas (desas) under the new laws, and currently do not exist yet in the majority of desas. An equivalent structure to the BPD for urban wards (kelurahans) have not yet been agreed upon. There are currently no clear government instructions on how the process of elections for BPD will take place or how to register BPDs. These guidelines will be critical in determining the representativeness of the BPD and their relationship with communities.

For UPP1 areas, the BKMs were a precursor of the new BPDs which have a similar structure and purpose. However, the presence of BPDs, when established, and BKMs in the same kelurahan could create confusion, as there would be two elected institutions both receiving public funds with a mandate to provide services. There are two broad options to resolve the situation: i) the BPDs are seen as a representative and legitimate organization by the community and the BKM is subsumed by the BPD, or BKM members become BPD members; or ii) the community perceives the BPD as non-representative and continues to operate the BKM as a non-government entity. During UPP2, a study will be carried out of a sample of UPP1 BKMs (all of which operate in Java) to examine how UPP1 BKMs have chosen to work with the new government structures. Based on the results of this study appropriate assistance will be provided to UPP2 kelurahans to support them (see also Section F1, Sustainability).

In most UPP2 areas, BPDs or their urban equivalent have not yet been formed. However, during the

course of implementation, it is quite possible that these institutions will be in place. UPP2 therefore would rely on the new BPDs when they have been created according to the new law. The effectiveness of this arrangement in UPP2 will be reviewed in conjunction with the review of BKM/BPDs in UPP1. Any adjustments in institutional arrangements that are needed will be made at that time.

4. A different approach to revolving funds for microcredit

As part of the community empowerment strategy, UPP1 provided an open menu of activities that communities could undertake, with revolving funds for microcredit as one of the options. Partly due to pressure to channel resources immediately to communities in a crisis situation, and partly due to a project manual that emphasized microcredit over other options, the vast majority of community funds under UPP1 (over 90%) have been used to provide microcredit. However, the project design did not have a well articulated system to support microcredit effectively on such a large scale. The result is that, although repayment rates are relatively high (particularly when compared to other government run microcredit programs such as JPS) and borrowers are generally running profitable micro-enterprises, the principles and methodologies for revolving fund management differ between BKMs, reporting is difficult to compare across BKMs, and the quality of technical assistance has not been consistent across the provinces.

There is no debate in Indonesia about the need to provide greater access to microcredit, particularly for the poor. A strategic choice was therefore made to continue to provide microcredit through UPP2 but with the following added design features: i) the awareness-raising and socialization process (which will be much longer than under UPP1) will stress that microcredit is only one of a range of poverty alleviation activities that communities can undertake; and ii) IF the BKM chooses to run a revolving fund, they will have to follow standardized criteria, rules and principles to ensure sustainable, prudential microcredit services, and there will be a defined program of training and technical assistance to support them (see Annex 12).

A second strategic choice with regard to providing revolving funds for microcredit relates to the kind of technical assistance that should be provided to microcredit borrowers. Under UPP1, specific Small Scale Enterprise Experts were hired as part of project implementation teams to provide business specific advice and skills to borrowers to raise the productivity of their enterprise and the marketability of their goods. This component of UPP1 has had limited success, primarily because of the diversity and types of enterprises of the borrowers. Of over 500,000 borrowers in UPP1, over 60% borrow for petty trading (primarily cooked-food hawkers, vegetable sellers, rice traders, basic commodity kiosk operators), while less than 15% borrow for service provision (auto/motorcycle repair, appliance repair, tire repair, petty-cab driver), and less than 10% for manufacturing (cottage industries, primarily in the garment, shoe and accessory sectors). A strategic choice was made in this project not to embark on a full scale effort at providing business-specific technical assistance for the following reasons: i) the difficulties of standardizing support strategies in large projects that have an open menu policy; ii) the explicit community development objectives of this project rather than the objective of developing microenterprises; and iii) the need to keep project design simple and focused. The project will thus focus on providing basic business analysis and management training to all borrowing groups (see Annex 12). The project will, however, pilot a microenterprise development strategy in two cities that will include an analysis of local markets and products and the comparative advantage of specific types of enterprises, and develop a program of tailored advice to increase the productivity of existing businesses and training in new business ideas.

C. Project Description Summary

- Project components (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown):

Project Location

The project will cover the islands of Kalimantan, Sulawesi, Nusa Tenggara Barat (Lombok), and southern parts of provinces of Java that have not been covered by UPP1 (West, Central and East Java and Banten). A total of thirteen provinces will be covered, and it is expected that approximately 2230 kelurahans will participate. The project will work in all districts (kota and kabupaten), with urban kecamatan selected using a simple exclusionary targeting method (see Section C3, Benefits and Target Population). All wards/villages within the selected kecamatan will participate. The coverage within the provinces is listed below.

Province	No. of Districts	No. of Urban Kecamatan	No. of Rural Kecamatan	Total No. of Kelurahan
West Java	6	14	154	859,996
Central Java	11	38	512	2,083,151
East Java	8	22	339	1,508,646
Banten	1	1	12	41,646
NTB (Lombok)	6	23	201	1,345,868
West Kalimantan	5	20	203	526,438
Central Kalimantan	3	4	46	157,983
South Kalimantan	5	9	86	508,141
North Sulawesi	4	8	72	255,437
Central Sulawesi	2	3	32	109,531
South Sulawesi	19	38	370	1,154,549
South East Sulawesi	6	18	123	256,168
Gorontalo	2	7	77	192,012
TOTAL	78	205	2227	8,999,566

Project Components

All local governments (kota/kabupaten) in the project area can participate in the project. However, if they choose to participate in the project they need to meet the following conditions: i) establish that poverty reduction is a priority for them (administration and legislature); ii) agree to project manuals and other procedures; iii) establish project offices as required for project coordination and fund disbursement; iv) provide required counterpart funds; and v) develop a list of target kelurahans according to targeting rules. Meeting the above conditions would allow implementation of the Capacity Building Component (Component One) and the Kelurahan Grant Component (Component Two) in that local government jurisdiction. These components essentially provide support for community development, local government capacity building and block grants for community sub-projects. If they choose, local governments can also participate in the third project component, the Poverty Alleviation Partnership Grant. However, the selection criteria for this component are more strict (see below).

Component	Sector	Indicative Costs (US\$M)	% of Total	Bank-financing (US\$M)	% of Bank-financing
1. Community Development and Local Government Capacity Building		17.08	13.4	16.26	16.3
2. Kelurahan Grants*		58.82	46.3	51.15	51.2
3. Poverty Alleviation Partnership Grant*		35.23	27.7	17.19	17.2
4. Implementation Support		9.73	7.7	9.27	9.3
5. Unallocated		5.83	4.6	5.83	5.8
Total Project Costs		126.69	99.8	99.70	99.7
Front-end fee		0.30	0.2	0.30	0.3
Total Financing Required		126.99	100.0	100.00	100.0

* Not Bank-financed portion may come from central government, local government, communities, and private contributions.

Component One: **Community Development and Local Government Capacity Building**

The project will provide support for community development activities and for the formalization of kelurahan level community organizations that are representative and accountable to communities. The project will also strengthen the capacities of local governments to work more effectively with community organizations for poverty alleviation. This component will finance the cost of the facilitators to carry out the social intermediation, the cost of training, workshops, meetings and focus group discussions, and the cost of all socialization materials and publications relating to the project. These services will not be procured separately, but will be included in the contracts of the National Management Consultants and Oversight Consultants (see below under Implementation Support). This component covers the following activities:

Formation/confirmation of an elected body of representatives. This component will include an extended awareness-raising or socialization process that will encourage communities to discuss the nature of poverty in their kelurahan, how it should be addressed, and what is required to deal adequately with poverty (in the form of individual commitment, organization, resources, skills, etc). This process is expected to lead to the formation or confirmation of an elected body of representatives which will act on behalf of the community for poverty alleviation. If communities choose to create a new organization, facilitators will guide the process of elections to a kelurahan organization (the BKM) in order to ensure that it is democratic, participatory and inclusive. If communities choose to work through existing organizations, project staff will assist communities to determine whether the board of that organization was elected democratically and in a participatory manner, or whether the structure of the organization may need to be modified or strengthened (hereafter, use of the acronym BKM will refer to either newly elected organizations or existing ones that have been confirmed by communities).

Formulation of Community Development Plans. With the help of project staff, the BKM will use a participatory process to formulate a poverty oriented Community Development Plan (CDP) for the kelurahan. The CDP can include a range of activities, depending on the needs and priorities of the community—from microcredit loans to small scale or tertiary level infrastructure to social services. The CDP will be a medium term (three year) plan, with notional budgets, which should include the allocation

from the project (see below under Kelurahan Grants) as well as contributions from the community, from local government budgets, and/or other private donors, as can be mobilized by the BKM. A detailed yearly investment plan will be identified which will be funded partially through the project allocation.

BKM Forums and Local Government Capacity Building. Facilitation and training will also be provided to assist BKMs to form associations (BKM Forums) and work collectively. As in UPP1, BKM Forums will not only be in a position to lobby local governments, but also be a network for exchanging experiences, taking collective action, combining resources to offer specialized help to communities if needed, etc. The component will also focus on building local government capacity to work with BKMs and the BKM Forum through socialization and training, particularly for the implementation of the Poverty Alleviation Partnership Grant. Local government capacity building will focus on the coordination teams at the provincial and kota/kabupaten levels (within the respective planning agencies or Bappeda-see Annex 2, Detailed Project Description).

Component Two:
Kelurahan Grants

Funding allocation to kelurahan. Each participating kelurahan will have access to a one-time allocation of grant funds according to the size of the population, with Rp. 150 million (US\$15,000) for kelurahan with less than 3000 people; Rp. 250 million (US\$25,000) for kelurahan with 3000-10,000 people; and Rp 450 million (US\$45,000) to kelurahan with greater than 10,000 people. To take into account the fact that there might be variations in the concentration of poor within kelurahan, and in order to benefit the poor more, these allocations may be adjusted according to the following: if there are 300-1,000 poor households in kelurahan with less than 3000 people, the allocation will be Rp. 250 million; and if there are more than 1,000 poor households in kelurahan with 3000-10,000 people, the allocation will be Rp. 450 million. The numbers of poor households in kelurahan will be determined based on available national statistics (e.g. PODES data). Once the kelurahan organization (BKM) has been formalized (notarized with the legal status of an association) and a CDP has been agreed upon, the BKM will sign a Grant Implementation Agreement (GIA) with the government (PjOK kecamatan, see Annex 2) which will lay out the respective roles and responsibilities of the two parties, the terms of disbursement, as well as the expectations regarding the use of funds beyond the project life (see Section F1, Sustainability).

Eligible activities. Sub-projects have to be in accordance with the CDP, and will cover a range of poverty alleviation activities with an open menu (with a short negative list). There will be different rules and regulations regarding the use of funds depending on the type of activity being financed. It is expected that CDPs will generally include the following types of activities:

1. pre-identified specific investments that are a community priority by consensus (these could be a bridge, a road, school repair, health facility repair or others);
2. activities that community groups can compete for (any range of physical infrastructure to services sub-projects—the CDP should indicate clearly what are the priority sectors or priority groups for that community that are likely to be financed);
3. microcredit loans for community groups which will form the basis of a revolving fund (with clear rules/principles for implementation); and
4. grant assistance to the poorest or most vulnerable individuals (this could include scholarships, home improvements, health care, etc. to specific individuals identified by communities as being most needy).

The CDP can identify activities from all four categories or just one category, depending on the communities' circumstances and needs and based on the results of the community poverty self surveys. The ceiling for any single subproject per group (KSM) or microcredit loan to a group (KSM) is Rp. 30

million (US\$3,000 equivalent). A detailed description of how these types of activities will be implemented and managed are provided in Annex 2, Detailed Project Description. If the BKM decides to run a revolving fund, specific guidelines have been developed to ensure that funds are used in accordance with best practices, and applies principles such that there is no distortion of the microfinance market. Details for revolving fund management are provided in Annex 12.

Disbursement. The allocation to the kelurahan will be disbursed in three tranches. The first tranche (20%) will be made following the signing of the Grant Implementation Agreement and satisfactory completion of the CDP; the second tranche (60%) following verification by project staff (Oversight Consultants) of performance and transparent and efficient fund management; and the third tranche (20%) upon verification of sustainability measures (see Annex 2). Facilitators and OCs will assist and verify all disbursement requests.

Component Three: Poverty Alleviation Partnership Grant

This component will encourage partnerships between local government and communities and attempt to institutionalize a consultative process between the two for future activities undertaken by local governments using their own funds. It allows local governments to access matching grants for city level poverty reduction activities and will finance poverty alleviation sub-projects that are too big to be financed by the kelurahan grants, or that require local government involvement (e.g. networked infrastructure or operations and maintenance) and that cover more than one kelurahan.

Principles. Basic principles guiding the Poverty Alleviation Partnership Grant (PAPG) are the following: i) local governments (kota/kabupaten) will be required to compete for funds; ii) funds will be provided for sub-projects on a matching fund principle to complement resources from local government agencies (dinases), from communities and possibly from private sponsors; iii) subprojects to be financed must be jointly prepared, proposed and implemented by BKMs in collaboration with dinases; iv) subprojects should be for public goods and services providing direct benefits to a large number of the poor community; and v) there should be transparent competitive selection of subprojects by an independent PAPG Selection Committee at the kota level consisting of representatives of BKMs/ BKM Forum, the respective local government, and civil society/NGOs.

Selection of cities. Thirty local governments will be selected to participate in the PAPG. These cities will be selected on a competitive basis by the central Project Secretariat (with support from the Project Management Unit and the National Management Consultants--see below under Implementation Arrangements) based on local government commitment to participate in the PAPG and the existence of a functioning and active BKM Forum. In the first year of the project, while the community development activities are going on and BKMs are still being formed, a pilot of the PAPG will be carried out in four UPP1 cities using these same criteria. Procedures for implementation will be refined through this pilot. Thirteen cities from UPP2 sites will be selected in the second year (from the included local governments in Phase I), and an additional thirteen in the subsequent year using the same process.

Eligible activities. There will be an open menu for activities eligible for financing under the PAPG (with the same negative list as for kelurahan grants), as long as they meet the following criteria: (i) the activity is proposed in partnerships between more than one kelurahan organizations and local government agencies, (ii) the kelurahan organizations, private sponsors and local government agencies contribute towards the subproject cost (minimum of 50%); and (iii) the activity benefits a large number of poor. Activities could include basic infrastructure works that go beyond one kelurahan (such as roads or drains, or refurbishment

of existing schools or clinics that serve more than one kelurahan); skills training that would benefit more than one kelurahan; non-formal education and health etc. Individual sub-project proposals will range from a minimum of Rp. 30 million (US\$3,000) to a maximum of Rp. 200 million (US\$ 20,000) per sub-project.

PAPG Selection Committee. Each participating city will set up an independent Selection Committee consisting of 11 members (4 from the BKM Forum; 4 from the local government; and 3 from NGOs or other prominent citizens who are concerned about poverty). This Committee will have roles in (i) dissemination of PAPG; (ii) confirming criteria and mechanism for selection of proposals; (iii) selection of proposals; and (iv) evaluation for best subprojects. Subprojects will be selected on competitive basis.

Funding allocations. The PAPG will be a three year program for each participating city with gradual increases in the annual allocations. Total allocations for the three year program depends on the number of BKMs in the cities, with Rp. 4.5 billion (US\$450,000) for cities with less than 15 BKMs, Rp.6 billion (US\$600,000) for cities having 15-25 BKMs, and Rp.7.5 billion (US\$750,000) for cities with more than 25 BKMs. Cities' participation in subsequent years will be determined based on satisfactory performance in the past years. Most local governments will be eligible to receive PAPG funds as grants. However, some may receive it as a loan depending on their financial capacities. Which local governments are eligible for grant financing versus which for on-lending will be determined through a central government policy that is currently under discussion. Since this national policy has not yet been decided, it was agreed with the Government that there will be no sub-lending under this component until the terms and conditions for sub-lending have been agreed upon with the Bank. Since the PAPG is designed to start in year two of the project, this should not hinder progress.

Disbursements. The PAPG allocation to the local government would be made through the regular government budgeting process to the Bappeda of the participating kota. Bappeda will appoint a PjOK (administrative manager) to administer the allocations. Once a sub-project has been approved by the Selection Committee, an Implementation Agreement will be signed between the PjOK and the representatives of the proposing dinas and BKMs. They would then be required to establish a joint team to implement the subproject. Disbursements of PAPG funds will be made at the request of the the joint team as approved by the PjOK, in two equal tranches.

Component Four: Implementation Support

Project Implementation. The project will be managed by a Project Management Unit (PMU) established at Kimpraswil. The PMU will hire consultants and facilitators to assist in project implementation, particularly since this type of a community driven project will require extensive presence in the field at the kelurahan and kota/kabupaten levels. Technical assistance will be provided through National Management Consultants (NMC) at the central level, and Oversight Consultant Teams (OCs) at the provincial level, with district offices in the participating kotas/kabupatens. OC teams will include facilitators at the kelurahan level, with approximately four facilitators (working as a team) for every 10 kelurahan. OCs/facilitators will support BKMs for four years, gradually decreasing the level of support during the third year and fourth years. Coordinating Teams will be assigned by government at different levels to administer the project, with an administrative manager at the kecamatan level (PjOK kecamatan) and at the kota/kabupaten level (a PjOK kota/kabupaten) who will respectively sign off on the kelurahan grants and the PAPG sub-projects.

Phasing. The project will be implemented in two phases. It will be launched in all provinces outside of

Java (approximately half of the total number of kelurahan covered) in the first year. Southern Java will be added in the second year. For the PAPG, as described above, there will be a pilot phase for four UPP1 cities in the first year, and competitive selection of half of the target cities (13) in year two, followed by another 13 cities in year three.

Monitoring and Evaluation. Experience with UPP1 has led to a redesign of the monitoring and evaluation procedures. Monitoring and evaluation roles will be separated in UPP2 so that evaluation is done separately by Evaluation Consultants that are independent from the NMC (as in UPP1), but monitoring is retained as an essential role of the NMC and OCs (unlike in UPP1). The Evaluation Consultants will be hired on a periodic basis, first to carry out a baseline survey, and subsequently to carry out follow up surveys and evaluation studies at least three times over the project period. There will also be an allocation of funds to hire local NGOs, universities or qualified individuals to carry out ad-hoc evaluations or surveys on an as-needed basis. Details on project monitoring and performance evaluation are provided in Annex 13.

2. Key policy and institutional reforms supported by the project:

The project has the following key institutional objectives: i) establishing elected community organizations that are representative and accountable; and ii) making public service delivery more demand responsive. The major reforms to do both these are already present under the new decentralization Laws 22 and 25 which promote more participatory development and give the responsibility for service delivery to local governments. Therefore, no policy reforms are required under the project.

3. Benefits and target population:

Project benefits include:

- Improved living conditions for the poor (roads, drainage, sanitation, water supply, home improvements, etc.)
- Improved social services for the poor (health, education, other innovative social services as proposed by communities)
- Improved incomes through access to credit and microenterprise development
- Establishment of a large number of new borrowers with a documented credit history who may be eligible to access formal credit services (approximately 250,000 borrowers assuming that 50% of the kelurahan grants are used for microcredit, and average loan sizes are about Rp.1.2 million).
- Growing capital (in communities that choose revolving funds) for future flow of credit services to the community
- Capacity for collective action at the community level to solve community problems and address poverty, and over 6,500 trained community volunteers (cadres) skilled in community organizing (see Community Cadres under Implementation Support in Annex 2)
- More active participation of women in decision making regarding community priorities
- Approximately 900 social intermediaries skilled in community development activities (see Facilitators under Implementation Support in Annex 2)
- Approximately 80 federations of community organizations at the kota/kabupaten level capable of articulating community demand to local governments and supporting community organizations
- Teams at the planning agencies of 30 local governments trained in participatory planning techniques to include the poor and experienced in working with communities.

Target Population

The initial target group are poor people in approximately 2230 kelurahans in all provinces in Sulawesi,

Kalimantan (except East Kalimantan), NTB, and southern parts of provinces in Java. Targeting will be carried out using different means:

1st order targeting. Experiences with various poverty targeted programs across Indonesia show that the particular design of a program has limited impact on the effectiveness of targeting. The effectiveness of targeting was more dependent on the nature of the service/goods being delivered than the project rules. Hence, second order targeting is considered (see below). Based on simulation exercises carried out for UPP2 provinces and in the spirit of decentralization, this project chose to operate in all urban centers (kota and capitals of kabupaten) in the chosen provinces, and used a simple exclusionary strategy. Within each district, all urban kecamatan (those where there are more than 50% kelurahan) were selected. All kecamatan already participating in KDP were excluded. From the remaining, for kota with more than four kecamatan, 30% of the richest kecamatans were excluded, while for kota with four or fewer kecamatan, those with less than a 20% poverty rate (as calculated by national PODES data) were excluded. The lists were verified with each local government, and some adjustments made depending on local government knowledge of existing poverty status. All kelurahans within a selected kecamatan are eligible to participate. Allocations for the Kelurahan Grants to the final list of kelurahan depend on the size of the population. However, kelurahan with greater concentrations of poor will receive larger allocations (see Section C1, Component Two).

2nd order targeting. Second order targeting to reach the poor within the kelurahan will be done by the BKM rather than by project staff or *a priori* selection. The following measures will be taken to ensure that the BKM targets project benefits towards the poor in communities.

- *Community Development Plans.* Awareness raising and socialization at the community level will be geared towards identifying poor groups within the kelurahan and planning programs to support them. The CDPs, which will be developed following a Community Self Survey process using participatory planning methods, will be pro-poor and will be evaluated by project staff to ensure that the process used in their formulation included the voices of the poor. The CDPs will set the framework for the kinds of proposals that will be eligible for grants and for revolving funds.
- *Revolving Funds.* Revolving funds will not be targeted directly to the poor. They will rather target community groups (KSMs) with profitable business opportunities and adequate repayment capacities, who have no other access to credit. This is based on the fact that credit may increase rather than decrease the indebtedness of very poor households who do not have profitable business opportunities. Indirect means will be used to ensure that the poor benefit more from loans by i) requiring potential borrowers to form groups for loans, and providing loans on group eligibility rather than only individual eligibility; and ii) loan terms and conditions to discourage borrowers who may have other access to credit (e.g. restricting loan size to small amounts of Rp 500,000 or US\$50 for first time borrowers; loan duration in line with loan use with a maximum of one year; usually monthly installments; and interest rates that reflect credit interest rates of local banks as well as the cost of operating and maintaining revolving funds).
- *Grant assistance for poorest and most vulnerable groups.* The CDP may identify extremely poor or vulnerable groups (e.g. disabled, widows, elderly) whose needs may not be met through improving infrastructure or microcredit services. If the CDP identifies specific *individuals* for special grant assistance (such as medicines/health care, scholarships, food supplements, etc), up to 10% of the BKM allocation may be used for these targeted people.
- *Poverty Alleviation Partnership Grant.* Because the exact types of activities to be funded under the Poverty Alleviation Partnership Grant are not being pre-determined, it is difficult to set precise targets on who these activities should reach and how. However, the socialization process will emphasize the poverty-oriented nature of the activities financed. Since proposals are being jointly prepared with BKMs, who have already identified priority actions for alleviating poverty in their CDPs, it is expected

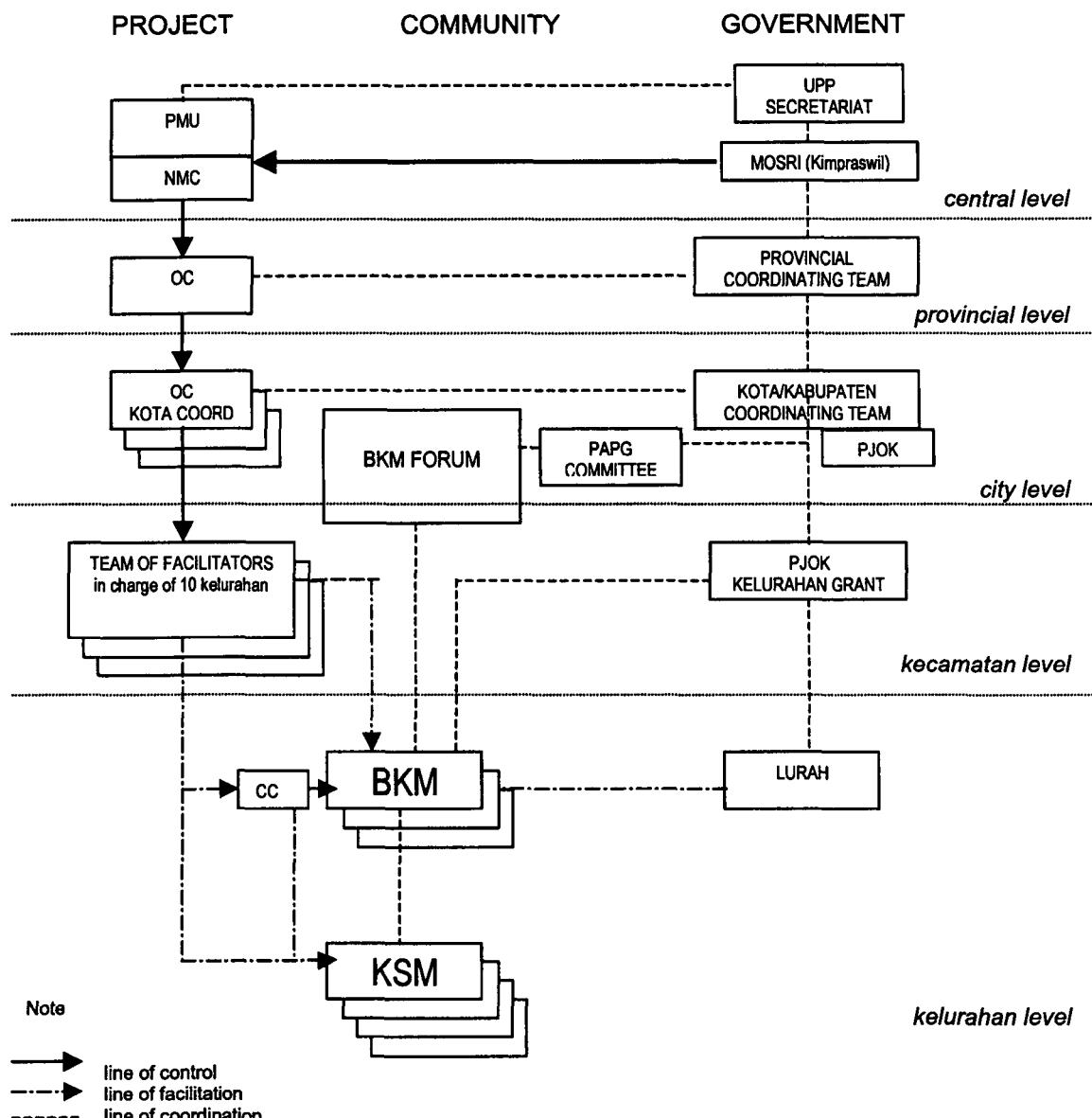
that proposals for the PAPG will also be of a pro-poor nature. A key criterion for evaluating proposals for the Poverty Alleviation Partnership Grant will be the numbers of poor benefiting from each sub-project.

The project also targets local government agencies that are willing to work in partnership with community organizations.

4. Institutional and implementation arrangements:

Responsibility for coordination, management and monitoring lies with the Directorate General of Human Settlements in the Ministry of Settlement and Regional Infrastructure (Kimpraswil). The planning ministry, Bappenas, will chair the Project Secretariat (interministerial coordination committee), which will consist of representatives from Kimpraswil, the Ministry of Finance, Ministry of Home Affairs and Bappenas. UPP1 already has an identical project secretariat and the current project will use the same. Kimpraswil will set up a Project Management Unit (PMU) at the central level to manage the project, the Special Account, and be in charge of project monitoring and reporting. Following government regulations, there will be an administrative unit, PIMPRO, assigned to the PMU, and based on experience with UPP1, there will only be one Project Manager in charge of both the PMU and PIMPRO (hereafter referred to as one composite PMU). The project will hire National Management Consultants (NMC), Oversight Consultants (OCs), and facilitators to manage and implement the program. They will be supported by community cadres at the kelurahan level (see diagram below and Annex 2 for details). Coordinating Teams will be assigned by government at different levels to administer the project, with an administrative manager at the kecamatan level (PjOK kecamatan) and at the kota/kabupaten level (a PjOK kota/kabupaten) who will respectively sign off on the kelurahan grants and the PAPG sub-projects. The PMU will also hire Evaluation Consultants to carry out performance and impact evaluation studies.

ORGANIZATIONAL STRUCTURE OF UPP 2



UPP Secretariat	Consisting of reps of Bappenas (National Planning Board), Ministry of Home Affairs Finance and MOSRI
MOSRI	Min. of Settlements and Regional Infrastructure (Kimprawil) as Executing Agency
PAPG	Poverty Alleviation Partnership Grant allocated to kota/kabupaten
PJOK PAPG	Administrative Unit for PAPG at Kota/Kabupaten (District)
PJOK Kelurahan Grant	Administrative Unit for Kelurahan Grant stationed at Sub-District
PMU	Project Management Unit
NMC	National Management Consultants
OC	Oversight Consultants
BKM	Community Institution
KSM	Community group
CC	Community Cadre

D. Project Rationale

1. Project alternatives considered and reasons for rejection:

1. A local government development project

The success of UPP1 has determined the design for this second follow-on project. In UPP1, a strategic choice was made to bypass the local government structure and provide a block grant directly to communities via the BKM. A key lesson learned from UPP1 is that bypassing the lower levels of the administrative structure of government does little to foster a productive or sustainable relationship between local governments and community institutions like BKMs. In designing this project, alternatives for involving local governments more were considered, without losing the important advantages gained in UPP1 in the form of community ownership of resources, and transparency and accountability of the BKMs. One alternative could have been to provide funds directly to local governments instead of channeling them through the BKM. However, this project views the development of a partnership between communities and local governments as an evolving process (see Section B3, Strategic Choices). A choice was therefore made to take local government involvement one step at a time, by introducing the Poverty Alleviation Partnership Grant that can be accessed by local governments. Since the PAPG is a new component and has not been tested yet, it was decided that local governments should only be able to access this when proposals are made in collaboration with BKMs. By doing so, the project is attempting to create an accountability relationship between local governments and communities. It is envisioned that in the future, when both local governments and BKMs have built up the capacity and trust to work closely together for their development, they will continue to work together in the same manner using local governments' own resources.

Because the effectiveness of the PAPG and working with the local government structure has not been tested yet, this fund will be kept separate and distinct from the BKM grants. Keeping them separate will avoid jeopardizing the community capacity building and kelurahan grant component of the project, which has proved to be successful under UPP1. The Bank is currently in the process of preparing another project, the Urban Local Governance Reform Project, which has as its main objective developing the capacities of local governments to deliver on their new mandates under decentralization.

2. A microfinance project

Since the majority of UPP1-Phase I funds (over 90%) have so far been used to provide microcredit loans to community groups, this follow-on project could have been designed specifically as a microfinance project, rather than as a community development project that provides microcredit as one of many options. This alternative was rejected for two main reasons: i) the UPP1 experience also demonstrated that one of the most significant benefits of UPP1, in addition to bringing resources transparently and directly to the community, was the process of organizing the community and electing a community organization that people trust; and ii) the project aims to scale up to several thousand kelurahan, but does not see the value in creating thousands of individual fledgling microfinance institutions across the country. Because many kelurahan organizations may wish to run a small revolving fund without wanting to expand their services, while others may want to evolve into microfinance institutions in the future, the project will provide support for strengthening these institutions commensurate with their needs and demands. For those kelurahan organizations that have aspirations of evolving into full fledged microfinance institutions, the project will support them by i) helping them to create a track record for providing prudential microcredit services and managing funds efficiently; and ii) linking them with formal non-Bank financial institutions. This is explained in greater detail in Annex 12.

3. Using the APL instrument

The possibility of packaging the project as an Adaptable Program Loan (APL) was also considered. The option was rejected because no major policy reforms are envisaged in the implementation of the project. The project is following on an existing project in covering provinces that have not been covered under the first project, with some design changes. It was felt that the project objectives could be achieved through phasing it as coverage expands, rather than using an APL instrument.

2. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned).

Sector Issue	Project	Latest Supervision (PSR) Ratings (Bank-financed projects only)	
		Implementation Progress (IP)	Development Objective (DO)
Bank-financed			
1. Formulation of more representative and participatory community organizations; direct transfer of funds to communities; community credit management	Urban Poverty Project	S	S
2. Participatory methodologies; competitive allocations; NGO/civil society monitoring	Kecamatan Development Project	S	HS
3. Fast financial flows outside of normal fiscal transfer system	UPP and Village Infrastructure Projects	HS	HS
4. Feasibility of programmatic rather than pre-defined allocations	VIP II and KDP	HS	HS
5. Local government capacity building & market based instrument for municipal credit	Urban Local Governance Reform Project (ULGRP)		
Other development agencies			
1. Poverty alleviation, local government capacity building	Community Local Government Support Sector Development Program, Asian Development Bank		

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

3. Lessons learned and reflected in the project design:

General lessons learned from decentralized projects in Indonesia:

Experience from a number of recent projects in Indonesia that have tried and tested decentralized projects that are more demand-responsive and participatory have demonstrated the following:

- Project design must be kept simple and flexible
- High levels of community participation lower project costs, improve quality, and can reduce corruption
- Lack of community access to relevant information about development programs lies at the root of many quality and corruption problems
- Community projects require skilled facilitation in both their social and technical dimensions. Since these skills are scarce, there needs to be a large—and focused—investment in proper capacity building,

- with planning periods that are long enough to allow real discussion and participation and awareness raising
- There are high returns to increasing women's participation because of the improved effectiveness and sustainability of project benefits
- Communities have shown that they are capable of meeting World Bank requirements of financial management, procurement, and implementation provided that project formats and procedures are designed accurately.

Lessons from VIP and KDP that are particularly relevant to this project include the following:

- Linkages to local governments, though important, also carry with them many risks and the process of strengthening them must be staged carefully. Initially, communities need more distance from government line agencies than most projects allow them. Later, once the rules are established and familiar, bridges can be built and more equal partnerships developed. Otherwise, government takes over and "guides" the process.
- Getting officials from all levels into the field is the key to changing their hearts and minds—making CDD projects not only sustainable but also interesting to local governments requires a large number of "events" and opportunities to visit sites themselves.
- Fully targeted selection breaks down in sub-national projects. It is nearly always better to use formal methods to get into the right playing field, but then use self-targeting at several levels to agree on which individuals participate
- Monitoring should focus on flexible approaches that combine quantitative data with qualitative studies and participatory monitoring including site visits.
- Technical designs must be kept simple and recurrent costs low
- Special audit socialization procedures are needed—local audit agencies need uniform TOR and special training to grasp revisions to national audit procedures.
- These types of projects rely on the quality of its consultants and facilitators

Lessons from UPP1:

Many specific lessons that were learned from implementing UPP1 have been incorporated into UPP2. These have been referred to in the relevant sections throughout this document. The table in Annex 18 summarizes the main design differences. Key design changes between UPP1 and UPP2 include the following:

- The provision of services to communities is a joint responsibility of communities and local governments. Bypassing local governments therefore does little to foster a productive or sustainable relationship between the two. Local government is therefore one of the key players in UPP2.
- It takes time to build a dialogue with communities regarding community issues and to reach consensus on ways to approach poverty. UPP2 will have a four to six month long guided process for awareness raising and socialization with a defined set of community development activities; centrally prepared training for OCs and facilitators to ensure consistency of messages; and centrally-prepared publicity materials
- Revolving funds can be run well by BKMs, but they need to follow standardized principles and best practices and need to be accompanied by a support strategy and training. In UPP2, IF BKMs choose to run revolving funds, a standardized program has been designed to: i) apply best practices and principles; ii) provide more training for improved management of revolving funds; iii) distinguish between levels of investment in revolving funds and more support and skills training to those BKMs that wish to (and prove to be eligible to) operate a larger more professionalized microcredit program.

4. Indications of borrower commitment and ownership:

GOI support for the project

- Based on the positive experience of UPP1, the government has requested this second project to cover islands other than Java. Kimpraswil put together a Project Preparation Team and used some UPP1 funds to prepare the second project, and preparation has been carried out in a remarkably short period of time.
- GOI has expressed its intention to use the UPP approach in its general poverty alleviation programs (as announced by the Minister of Kimpraswil during the opening workshop of the Mid-Term Review of UPP1)

Local government support for the project approach

- Most local governments in the targeted provinces have indicated an interest in the project and have already communicated with the Project Preparation Team on the selection of kelurahans for inclusion in the project.
- In February and March 2002, a series of workshops were held in each province to gauge the level of effort and funding participating local governments would be willing to provide for the project, and to receive feedback on project design. Over 95% of local governments have agreed to provide counterpart funds for the BKM grants (as opposed to the central government providing the counterpart funds).
- One of the largest local governments, DKI Jakarta, has expressed its intention to launch a UPP-type program for poverty alleviation to cover kelurahans in Jakarta that are not part of the project, using its own funds

Community support for the project approach

Not only have the evaluations of UPP1 indicated community appreciation of the UPP approach, communities have also contributed financially. For the infrastructure grants provided under UPP1, the majority of communities used the grant to leverage additional resources to do more with the funds, with the result that actual investment in infrastructure is far higher than the project spending on infrastructure.

5. Value added of Bank support in this project:

The Bank has gained considerable experience in supporting the government's goals of more participation in development, better poverty alleviation programs and more effective governance. The Kecamatan Development Project (I and II), as well as UPP1 introduced new ways of working with local institutions and demonstrated that participatory principles can work in Indonesia on a large scale and that community owned and implemented projects can meet Bank standards for quality and accountability.

Bank involvement in these projects contributed the following elements that would not have been possible otherwise: i) comparative experience with community programs (both with different projects in Indonesia and outside); ii) a degree of discipline for accountability of project funds (especially for repayment of revolving funds); iii) direct payment mechanisms for independent NGOs to monitor project performance; iv) intense field supervision. Continued Bank support for this project will consolidate these gains and important lessons learned from the previous experiences have been incorporated to improve this project.

E. Summary Project Analysis (Detailed assessments are in the project file, see Annex 8)

1. Economic (see Annex 4):

- Cost benefit NPV=US\$ million; ERR = % (see Annex 4)
- Cost effectiveness
- Other (specify)

This project takes a programmatic approach with no pre-defined activities being supported. The menu of activities is open, and even the distribution of funds between hardware (infrastructure) and software (economic activities, revolving funds) will be demand driven. It is difficult, therefore, to carry out a precise cost-benefit analysis of project investments. The most important benefit of the project is an institutional benefit—the empowerment of communities and establishment of a partnership between communities and local governments that lays the basis for more participatory development planning, the delivery of local level services that are more responsive to community needs, more accountability between communities and local governments, in other words, better governance.

Kelurahan grants

If kelurahan grants are used to finance economic activities through revolving funds, the mandatory use of at least the prevailing commercial interest rates (for one year loans) should provide nominal returns at least that high per year and an expected positive economic return in real terms. The project returns will be higher the faster the funds are revolved. Some small businesses may fail, but even so repayment is expected (micro businesses have better repayment performances than larger businesses). If funds are used for training, these should have good returns as it should enable unemployed persons to access jobs requiring more skills. If kelurahan grants are used to finance small infrastructure works or environmental improvements, these normally have good economic returns and the project's community approach is expected to yield lower costs and better quality than the conventional contractor approach (as proven by UPP1 and KDP works). Grant funding is justified for public goods because of the externalities involved and because of the expected higher number of beneficiaries than for private economic activities. Grants that will have poor benefits or few beneficiaries would probably not be undertaken, since the opportunity cost to the kelurahan is the return from economic activities and the potential for accessing revolving funds.

Poverty Alleviation Partnership Grant

The menu of activities under the PAPG is also open, making it difficult to carry out a precise cost-benefit analysis of project investments. Results from the Village Infrastructure Projects (VIP) and Kecamatan Development Projects (KDP) have assessed internal rates of return (IRR) for basic infrastructure (such as small roads, bridges, etc.) which could be funded under PAPG, to be 35-40%. Since the VIP and KDP projects operate in rural areas, the IRRs under this project are, in fact, expected to be higher as urban areas are more dense and generally have higher economic potential. Although IRRs were not calculated for social infrastructure such as education, health, and sanitation under VIP and KDP, there are significant non-monetized environmental, health and education benefits to this type of infrastructure

2. Financial (see Annex 4 and Annex 5):

NPV=US\$ million; FRR = % (see Annex 4)

Fiscal Impact:

The kelurahan grants are provided to BKMs as a grant from the central government. When the kelurahan grants are used to finance infrastructure or other services that are not microcredit loans, they will be passed on from the BKM to the community as grants. These kinds of activities have, under UPP1, included tertiary roads, bridges, drains, water supply, sanitation, and waste disposal. Since the infrastructure and

services provided are going to be small in scale and will be proposed and implemented by community groups themselves, most of the operations and maintenance (O&M) will be carried out by communities at their own expense. In past projects such as UPP1, KDP and VIP, communities have consistently demonstrated their willingness and ability to share the cost of development and maintenance of improved infrastructure and services. Revolving funds are, of course, expected to provide full cost recovery (plus interest) from borrowers. The fiscal impact on local government budgets for the kelurahan grants is therefore expected to be minimal. The only direct expense to local government is the operating expenditures (BOP) that will be required for the local coordinating team and PjOK, which, at approximately Rp. 80 million (US\$8,000) per year per local government (5% of the total allocation for all the participating kelurahan within a kota over four years), will not have a significant impact on local government finances.

The PAPG will only be carried out in 30 local governments selected through a competitive process. Most local governments will be eligible to receive PAPG funds as grants. However, some may receive it as a loan depending on their financial capacities. Which local governments are eligible for grant financing versus which for on-lending will be determined through a central government policy that is currently under discussion. The fiscal impact of the investment itself on local government finances will depend on this policy. When provided as a grant, the fiscal impact on the recurrent budget of the local government will be operations and maintenance costs of any infrastructure and services provided through the PAPG. Since most of these investments will also be tertiary in nature and will be carried out with the active participation of the communities, communities will be expected to provide some of the O&M costs. Assuming that 50% of PAPG funds (US\$17.2 million) will be used for activities that require O&M, and that communities will provide up to 50% of the O&M costs, the fiscal impact would be about Rp. 86 million (US\$8,600) per local government (assuming that O&M costs are about 3% of investment costs per year). This also will have a minimal impact on local government finances. The concurrent ULGRP project, the Regional Public Expenditure Reviews, and other donor financed projects focusing on local government capacity building are separately examining local government fiscal frameworks and revenue generation.

3. Technical:

Both the kelurahan grants and the PAPG will finance a range of activities. Technical quality of infrastructure has not been a problem in UPP1 as technical assistance from the OCs and facilitators has proved to be adequate, particularly since the types of infrastructure funded have been fairly simple and small. Thus, the same system will be used for UPP2. However, it should be remembered that only a small percentage of the kelurahan grants in UPP1-phase I (about 10%) were used for infrastructure. In UPP2, the revised implementation structure bringing the OCs closer to the kelurahan will provide for added technical assistance when needed. With regard to operations and maintenance (O&M), communities in UPP1 have always claimed responsibility. The majority of the infrastructure sub-projects financed consist of roads and bridges (66%), which are unlikely to have required intensive O&M thus far. For the PAPG, which has not been tested under UPP1, the following measures have been taken to ensure technical quality : i) partnership with local government technical agencies; ii) use of simple technical manuals developed and tested through KDP for the types of infrastructure typically chosen by communities in Indonesia; and iii) bringing OC teams closer to the kelurahan through kota/kabupaten level presence and providing additional engineering assistance if needed (OC teams include engineers and they will have budgets to hire other specific expertise if needed). For revolving funds, the structure for running revolving funds and technical support for their efficient and prudent management has been redesigned with the help of a microcredit expert as part of the Bank's preparation team (see Annex 12).

4. Institutional:

4.1 Executing agencies:

The CAS has raised issues about fiduciary controls in Bank-financed projects in Indonesia in general, and proposes specific measures to address them. Specific concerns have been raised in projects managed by Kimpraswil (the Ministry of Settlements and Regional Infrastructure) in recent reviews. This project mitigates these concerns at two levels: a) the community driven design of the project will contribute significantly to greater transparency in resource allocation and in fund use as the community organization itself will be responsible for funds; and b) monitoring and evaluation mechanisms will involve NGOs, journalists and academics, and the management information system (MIS) has been designed as a web-based system which will allow stakeholders and the public to see and monitor use of funds.

4.2 Project management:

The management structure has been modified to take into account lessons learned from UPP1. The key differences are the following:

- i) the merging of the PMU and PIMPRO (the administrative unit assigned by government decree) under one Project Manager;
- ii) NMC appointment prior to appointment of OCs so that accountability of OCs directly to NMC is clear from the beginning;
- iii) a stronger role for the OCs in the provinces and kota rather than regional or provincial offices of the NMC;
- iv) a far more structured and integrated training program for both the project implementers and beneficiaries
- v) the separation of monitoring and evaluation functions, such that the NMC takes more responsibility for monitoring while evaluation remains an independent function. Evaluation tasks are better defined, include a baseline survey, and include allocation for carrying out ad-hoc studies by local NGOs or universities on an as-needed basis.

4.3 Procurement issues:

There are only a few large contracts to be procured—essentially the hiring of the NMC and OCs, which will follow Bank procurement guidelines for consultant services. The majority of funds will be provided for sub-projects at the kelurahan level. The use of these funds will involve numerous purchases of small amounts under community participation. General guidelines for procurement using community participation have been developed and are included in Annex 6 and in the project manuals. A procurement assessment (PCAR) has been produced for the project and is summarized in Annex 6. UPP2 has been assigned as an “average” procurement risk.

4.4 Financial management issues:

The Bank is financing several projects in Indonesia which directly transfer funds to communities. One of the key issues to reduce fiduciary risks in these types of projects is the need to develop measures to ensure accountability and transparency and to build social controls.

Financial control for the project will rest with the Project Management Unit (PMU) in Kimpraswil. A financial assessment has been produced for the project (available in Project Files) and is summarized in Annex 6B. The PMU for UPP1 has satisfied the Bank’s minimum financial management requirement as stipulated in OP/BP 10.02. The PMU for UPP1 has been improving its financial management system and management information system (MIS) which will include standards and formats for project financial statements. This system was appraised and found to be adequate for providing timely information on the

status of the project as required by the Bank/IDA for disbursements based on Financial Management Reports (FMR-based disbursements). The revised MIS will be field tested in UPP1 sites in the next months, and the project financial management specialist will continue to work with the Project Preparation Team to refine the system for use in UPP2 prior to project effectiveness.

Audits. There is no outstanding Audit Report under UPP1.

Financial control mechanisms for the BKM at the community level. Learning from UPP1, each BKM will hire a qualified person to handle financial management and accounting (on average, each BKM is expected to handle about Rp. 250 million or US\$25,000). A systematic training program has been designed for the manager of the funds. Also, for those kelurahan organizations that choose to use a large proportion of their funds for microcredit activities, stricter financial management procedures will be applied supported by additional training (see Annex 12). Reporting will be standardized and all kelurahan organizations will be required to carry out independent audits to check the adequacy of fund use. In addition, greater awareness in the community for accountability of the BKM to them and increased transparency of accounts will promote stronger social control. These will be applied through the more intensive awareness raising and socialization activities in the beginning and throughout project implementation, more structured guidelines for transparency of accounts, qualified staff to manage funds, as well as through ad-hoc evaluation studies. Annex 14 provides the project's Anti-Corruption Strategy, including examples of social control applied when BKM funds were mismanaged in UPP1.

5. Environmental:

Environmental Category: B (Partial Assessment)

5.1 Summarize the steps undertaken for environmental assessment and EMP preparation (including consultation and disclosure) and the significant issues and their treatment emerging from this analysis.

A project based Environmental Management Plan (EMP) or Environmental Assessment is not required, though site-specific EMPS may be required depending on the environmental impact of each sub-project. Impacts from any one subproject are expected to be small and can be mitigated through the project's negative list or through standard operating/civil engineering procedures. Adverse environmental impacts are expected to be limited, highly localized (e.g. environmental pollution from small scale enterprises financed through microcredit) and widely dispersed. During orientation training, project staff (OCs and facilitators) will be trained on safeguards policies applicable to the project (including environmental safeguards), and the frameworks and guidelines to be used. Under kelurahan grants, project staff will assist community groups to develop sub-project proposals that follow environmental guidelines, and BKMs will evaluate proposals based on environmental screening criteria. For the Poverty Alleviation Partnership Grant (PAPG), the PAPG Selection Committee (which will include local NGO representatives) will evaluate sub-project proposals with clear environmental screening criteria as well. Through representation on the Selection Committee, NGOs will have the opportunity to monitor the environmental impacts/management plan. Both BKMs and PAPG Selection Committee will be trained during their orientation on the guidelines. This approach of using environmental guidelines and screening criteria for evaluation has been used for the Village Infrastructure Projects and the Kecamatan Development Projects, in addition to UPP1.

5.2 What are the main features of the EMP and are they adequate?

Not applicable

5.3 For Category A and B projects, timeline and status of EA:

Date of receipt of final draft:

Not applicable

5.4 How have stakeholders been consulted at the stage of (a) environmental screening and (b) draft EA report on the environmental impacts and proposed environment management plan? Describe mechanisms of consultation that were used and which groups were consulted?

A Draft EA and an a priori EMP will not be applicable. Kelurahan facilitators will assist in establishing a mechanism for regular consultation with civil society and NGOs. The project environmental guidelines and screening criteria have been made available to the public through the Project Information Centers (PICs) in Bank Headquarters and the World Bank Office in Jakarta.

5.5 What mechanisms have been established to monitor and evaluate the impact of the project on the environment? Do the indicators reflect the objectives and results of the EMP?

Guidelines for environmental screening of sub-project proposals have been developed (Annex 16). Kelurahan facilitators, with the help of Oversight Consultants, will be in charge of ensuring adequate environmental screening of projects. The project manuals will include these guidelines and proposals for mitigation measures. Similar guidelines were used in UPP1, and have been effective as there have been no environmental issues raised thus far in the project. In addition, an experienced environmental consultant will be required to summarize progress, monitor and measure the impact of the project on the environment. She/he will review and produce an environmental checklist to be used for project training and monitoring.

6. Social:

6.1 Summarize key social issues relevant to the project objectives, and specify the project's social development outcomes.

Community development and empowerment

The project aims to bring about social change by assisting in creating community organizations and empowering them to address poverty issues in their neighborhoods directly. The approach has been tried and tested under UPP1 and has had a significant positive impact, with communities at large deriving positive benefits and expressing an appreciation for project outcomes. A longer and more intensive community development process (4-6 months) will try to ensure greater awareness of poverty issues within the community, and the inclusion of previously marginalized groups into the election process such that their needs and interests can also be represented in the BKM.

Gender equality

Women's participation in the community development process is a key factor in establishing organizations that truly represent all people in the community. It is also important for providing services that respond not only to the community at large, but also to specific needs that women may have. UPP1 attempted to provide an equal playing field for women to participate in the project by i) encouraging women to be active members of the kelurahan organizations; ii) giving equal access to women through the loans and grants facility; and iii) hiring women as project staff and facilitators. Even though a specific gender strategy was not applied, women have participated actively in the project overall: about 40% of borrowers (216,534 out of 561,310) are women; 10% of BKM members (1,412 out of 13,789) are women; and 30% of facilitators (549 out of 1839) are women. While this is not a poor outcome, it can definitely be improved. Thus, a gender strategy has been developed for UPP2 to more systematically address gender equality (see Annex 19). This strategy is consistent with the gender strategy being applied in KDP.

Conflict Areas

UPP2 will include areas that have been recently subject to conflict, particularly in Central Kalimantan and South Sulawesi. Peace in many places is still fragile and it is not unlikely that over the course of the project conflict may arise in areas where UPP2 operates. Sensitivity to the issues that have led to the conflicts will be critical in the facilitation and socialization process. The training program, particularly for the kelurahan facilitators, will focus on promoting reconciliation and reconstruction within communities. The training components will also address how to operate in possible conflict situations. The training components will benefit from the experience of KDP in this area.

6.2 Participatory Approach: How are key stakeholders participating in the project?

A key goal of the project is to achieve greater community participation in decision making and to empower communities by providing funds directly to them. Choices about the allocation of kelurahan grants are entirely up to the communities through BKMs and community groups (with very few limitations), as are the funds under the PAPG. Communities will be in charge of deciding all implementation and procurement arrangements. Socialization efforts will focus particularly on getting the active participation of the poor, the more vulnerable groups within the kelurahan, women and indigenous people.

Local government participation is being sought through various workshops and meetings both in Jakarta and in the regions, with the aim of seeking the following: i) local government *commitment* to the project as a priority activity; ii) their *participation* in the project design and in selection of final list of kelurahan; and iii) a *financial contribution* through the provision of operating costs (BOP) and counterpart funds, particularly for the PAPG. Local governments are required to sign off on kelurahan grants, and, for the PAPG, be joint implementers of individual sub-projects.

6.3 How does the project involve consultations or collaboration with NGOs or other civil society organizations?

The project aims to strengthen and build civil society organizations. Existing NGOs and other civil society organizations will be involved in a variety of ways: i) through participation in the regional workshops along with local governments; ii) as key resource persons for the development of Community Development Plans in the areas where they are working; iii) as members of the PAPG Selection Committee; iv) as evaluators on an ad-hoc basis; and v) as training providers in particular skill areas.

6.4 What institutional arrangements have been provided to ensure the project achieves its social development outcomes?

Community development is an explicit project objective. The design of the project and the financing mechanisms ensure that community based organizations are the primary stakeholders and beneficiaries. There is a 4-6 month long community development process which will focus exclusively on raising awareness in communities about poverty and organizing and strengthening community organizations. This will be followed by the mandatory formulation of a Community Development Plan using participatory methods. Other institutional arrangements include a gender strategy to ensure greater gender equality; community monitoring, and evaluation by independent NGOs of project outcomes.

6.5 How will the project monitor performance in terms of social development outcomes?

Monitoring indicators have been designed to measure social development outcomes. A separate team of Evaluation Consultants will be hired whose sole responsibility is to ensure that the project is on the right track regarding achievement of these objectives and to provide constructive feedback to the agencies in charge of implementation. NGOs, universities, and other non-government institutions such as independent thinktanks, will be hired on an intermittent basis to carry out independent evaluations of the social impact

of the project.

7. Safeguard Policies:

7.1 Do any of the following safeguard policies apply to the project?

Policy	Applicability
Environmental Assessment (OP 4.01, BP 4.01, GP 4.01)	<input checked="" type="radio"/> Yes <input type="radio"/> No
Natural Habitats (OP 4.04, BP 4.04, GP 4.04)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Forestry (OP 4.36, GP 4.36)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Pest Management (OP 4.09)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Cultural Property (OPN 11.03)	<input checked="" type="radio"/> Yes <input type="radio"/> No
Indigenous Peoples (OD 4.20)	<input checked="" type="radio"/> Yes <input type="radio"/> No
Involuntary Resettlement (OP/BP 4.12)	<input checked="" type="radio"/> Yes <input type="radio"/> No
Safety of Dams (OP 4.37, BP 4.37)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Projects in International Waters (OP 7.50, BP 7.50, GP 7.50)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Projects in Disputed Areas (OP 7.60, BP 7.60, GP 7.60)*	<input type="radio"/> Yes <input checked="" type="radio"/> No

7.2 Describe provisions made by the project to ensure compliance with applicable safeguard policies.

Choices about the allocation of kelurahan grants are up to the communities and BKMs. Communities will participate in the formation of the Community Development Plan, and BKMs will evaluate proposals for sub-project from community groups based on the CDP. Allocation of funds under the PAPG will be determined by a committee consisting of NGOs, government officials and community organizations. Both the BKM and the PAPG Selection Committee will be required to follow the guidelines for safeguards included in the project manuals prior to allocating funds. In addition, the following annexes -- (i) Annex 16: Environmental Guidelines; (ii) Annex 17: Land Acquisition and Resettlement Policy Framework; and (iii) Annex 18: Framework for Treatment of Indigenous or Isolated Vulnerable Peoples-- were publicly disclosed, in country, along with the PID on April 15, 2002.

Environment. Sub-projects that are a priori known to have an adverse impact on the environment will not be financed and have been included in the negative list (e.g. protected areas, logging--see Annex 11, Sample Sub-project Proposal Form). Environmental guidelines and screening criteria have been developed in accordance with OP4.01 (Annex 16) which will be applied in the evaluation of sub-project proposals prior to financing.

Involuntary resettlement. Subprojects are not expected to require involuntary resettlement or acquisition of significant amounts of land. In the event they do, however, a framework has been developed in accordance with OP4.12 to ensure application of the appropriate safeguard policies, including appropriate compensation in the event of involuntary resettlement or acquisition of land or assets (Annex 17).

Indigenous People. The design of this project is structured to ensure the participation and inclusion of various groups within communities in local level decision making over resource allocation. However, the project recognizes that Indigenous People form a particular group that merit a different approach and specific support. Therefore, in accordance with OD4.20, a framework has been developed for the treatment of indigenous people (or isolated vulnerable people as they are known in Indonesia) and provided in Annex 18. The objectives of this framework are to: i) ensure that indigenous people benefit from the project; and ii) avoid or minimize potentially adverse effects of the project on indigenous people.

Cultural Property. The highly participatory nature of the project will ensure that communities would be able to identify if any proposed sub-project will have an impact on cultural property and to ensure that these activities do not adversely affect cultural property. Sub-project proposals will require the identification of any such activities and require the group proposing the sub-project to specify adequate mitigation measures (see Annex 11, Sample Sub-Project Proposal Form).

The above guidelines and frameworks will be made available to the public through the Bank's Project Information Centers in Jakarta and Washington, will be published in the project manuals and be made available to the community organizations/dinases preparing proposals. Kelurahan facilitators and other project staff (OCs) will be trained in the understanding and application of the guidelines and assist in the preparation of sub-project proposals. BKMs and the PAPG Selection Committee will be trained in how to apply the safeguards in their selection process. Communities will be in charge of deciding all implementation and procurement arrangements, and follow-up on guidelines and approved proposals will be monitored by kelurahan facilitators and other project staff. On the environment, an experienced environmental consultant will be required to summarize progress, monitor and measure the impact of the project on the environment.

F. Sustainability and Risks

1. Sustainability:

Institutional sustainability

The project will support around 2230 BKMs. It is expected that, if they are truly community-driven, these BKMs will evolve differently. The project has been designed to support the BKMs as they evolve and to assist them to develop according to their choices. Beyond the project life, the following scenarios are envisaged for the BKM: i) that they will choose to continue to run revolving funds; or ii) they will choose to carry out non-microcredit tasks.

Continuing revolving funds. If the BKM chooses to run revolving funds, an exit strategy has been designed to ensure financial sustainability of the revolving fund function (see Annex 12). In terms of sustainability, there are two possibilities for BKMs that run revolving funds—i) they continue to manage their funds well; or ii) the revolving fund folds. A review of the BKMs will be carried out in year 3 using clear criteria to determine which ones are eligible to “graduate” and link up with the more formal microcredit market, and which ones should be liquidated. As part of the exit strategy, continued support will be provided to the BKMs based on these findings and according to their needs and their choices. For the ones that will be liquidated, there will be clear guidelines on the terms under which this will happen (which will be spelled out in the Grant Implementation Agreement with the BKM that is signed with the government at the start of the project—see Section C1 and Annex 2). This will include ensuring that all outstanding loans are returned (no loan forgiveness) and all repaid loan funds are used to finance—in the form of grants—poverty alleviation activities identified in the CDP that have not yet been financed, or others as determined through community meetings. Those BKMs that run revolving funds adequately will be able to generate enough income to cover the costs of operating and maintaining revolving funds without needing additional project funds.

BKM as a non-microcredit organization. Some BKMs may choose to not deal with revolving funds at all. The question of sustainability for those BKMs revolves around two possibilities also: i) they become successful in delivering services to communities and are able to lobby the local government directly to get additional resources to continue to deliver the kinds of services undertaken using project funds; ii) they choose to not deliver services to the community, but rather become an advocacy organization for the community to work in parallel with other government bodies; or iii) they choose to become integrated, in some way, with the future BPD. Under UPP1, BKMs have demonstrated that they are indeed capable of lobbying local governments and getting funds, indicating that this first option is a viable one. Under the second scenario, the project would assist the BKM to move into other fields such as advocacy through: i)

support to BKM Forums so that BKMs can act collectively and support each other; and ii) technical assistance following needs analyses or evaluations during the course of project implementation. The only impediment to sustainability under this scenario would be who finances the operating costs of such an organization. Operating costs for a voluntary community association to do lobbying and advocacy work are expected to be minimal, and can readily be financed by communities themselves (communities have contributed substantially to BKM activities under UPP1). If the BKM chooses the third option, integrating itself with the future BPD (see Section C2), the question of sustainability does not apply.

BKM rating. The review of the BKM to determine the exit strategy will also include a simple rating of all BKMs under the project into a database that will be made available to the public and to local governments. The rating will provide information on the overall quality of the BKM with regard to accountability to the community and management of funds. A public database will enable local governments, and any other interested party, to have an overview of the quality of BKMs in their different jurisdictions and to make an overall assessment of whether they may wish to consider the BKM for some other activities in the future.

Accountability of the BKM after project life. The sustained awareness raising and socialization process for the communities is expected to result in a system of transparent reporting and accountability to communities that will be monitored throughout the life of the project. Through the BKM Forum and through training of the project focal points at the local government level (Coordinating Team of the Bappeda), a functioning accountability mechanism will have been set up by the time the project exits from communities. The project exit strategy has been designed such that those BKMs that fail to set up an adequate system will have been forced to liquidate the project funds by the fourth year of operation.

Technical sustainability of sub-projects financed

Proposals for both the kelurahan grants and the PAPG will go through a screening process by project staff and other experts, if required, to ensure their technical feasibility. For microcredit activities, BKM/UPKs will receive training on analyzing viability of proposals for use of loan funds, and will be supported by microcredit specialists at both the regional level and the central level. For infrastructure activities, KDP has developed simple technical manuals for design and supervision of small works which will be used to guide UPP2 activities. Since sub-projects will be community driven, rather than pushed from the top, there will be a high level of ownership of the sub-projects, and communities will therefore have an incentive to maintain and sustain whatever activity they have chosen to finance. Under the PAPG, if any public goods such as infrastructure are financed that require operations and maintenance by either government or communities, both would have full ownership of all such projects as they will have proposed the sub-projects themselves. All sub-project proposals will be required to set out an operations and maintenance plan (implementation as well as financial arrangements) which will be one of the criteria for selection of proposals.

2. Critical Risks (reflecting the failure of critical assumptions found in the fourth column of Annex 1):

Risk	Risk Rating	Risk Mitigation Measure
From Outputs to Objective		
1. Government intervenes in establishment of kelurahan organizations and their operations	M	Large investment in long, guided socialization process in communities
2. Kelurahan organizations are coopted by local elite or politicians	M	Large investment in long, guided socialization process in communities
3. Community Dev Plans are too	N	Capacity building and implementation support

ambitious		
4. Kelurahan organizations are unable to manage funds adequately	N	at kelurahan level Capacity building and implementation support at kelurahan level
5. Proposed counterpart funds from other sources are not made available when needed	M	Require any proposed counterpart funds to be used first
6. Kelurahan organizations do not adequately monitor use of their grant funds	N	Capacity building and implementation support at kelurahan level; cancel subsequent tranches to kelurahan
7. Kelurahan organizations and local governments do not adequately monitor use of funds under PAPG	M	Capacity building and implementation support at kelurahan level; cancel future allocations under PAPG to kota
8. Even proper use of funds do not lead to improved welfare of urban poor due to external factors	M	Restructure project
9. Infrastructure or other activities financed are not used and maintained adequately by local government and communities	N	Ensuring that proposals are completely demand driven and communities/LGs contribute to costs; screening process that ensures O&M plans.
From Components to Outputs		
1. There are not enough kelurahan facilitators qualified in community development	M	Training programs
2. Capacity to provide adequate training does not exists	N	Funds available to bring in international training specialists if required
3. Communities are unwilling to participate in the formation of elected kelurahan organizations	M	Large investment in long, guided socialization process
4. Kelurahan organizations are unable to come to consensus with communities on Community Development Plans	M	Capacity building and implementation support at kelurahan level
5. Community groups are unable to formulate proposals to access funds	N	Capacity building and implementation support at kelurahan level
6. Local governments and kelurahan organizations are unwilling to work together	S	Capacity building at community and local government level; large investment in long, guided socialization process; cancel PAPG component
7. Availability of capable local consultants	M	Funds available to bring in international training specialists if required
Overall Risk Rating	M	

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N(Negligible or Low Risk)

3. Possible Controversial Aspects:

None

G. Main Loan and Credit Conditions

1. Effectiveness Condition

- Establishment of PMU and appointment of Project Manager and experienced personnel in adequate numbers
- Project manual has been issued
- Training materials, acceptable to the association, have been prepared
- Socialization and Poverty Awareness materials, acceptable to the association, have been prepared

2. Other [classify according to covenant types used in the Legal Agreements.]

- Adopt and apply the project manual prepared for this project to implement the project
- Prepare and make available training material for the project
- Establish and maintain a PMU with experienced and adequate personnel
- Make all information regarding the project, including the project manual freely available at the camat and lurah's offices
- Ensure all kota, kabupaten and kelurahans are selected according to the procedures described in the project manual, especially the ones that are added or removed from the list agreed during negotiations
- Ensure funds are disbursed to BKMs in three tranches according to conditions of each tranche as listed in the project manual
- Select 4 kota/kabupaten for component 2 (PAPG) by November 30, 2002 and 13 kota/kabupaten by September 30, 2003 for Phase I according to the procedures described in the project manual, and select an additional 13 for Phase II by September 30, 2004
- Ensure PAPG Committees are established in each participating kota/kabupaten according to the procedures described in the project manual, by the Walikota/Bupati
- Submit a yearly evaluation of kota/kabupaten's performance of PAPG implementation by December of each year before proceeding with funding for the subsequent year
- Maintain a financial management system, including records and accounts, and prepare financial statements to reflect the operations, resources and expenditures related to the Project
- Provide records, accounts and financial statements for each fiscal year audited by auditors acceptable to the World Bank
- For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of FMRs, maintain records and separate accounts reflecting such expenditures
- Prepare a financial monitoring report that sets forth sources and uses of funds for the Project; describes physical progress in Project implementation; and sets forth the status of procurement under the Project
- Take measures to avoid or minimize the acquisition of land or assets of residents of kelurahans and to avoid the displacement of residents. Where the acquisition of land or assets or the displacement of residents is unavoidable under a proposed sub-project (in Components 2 and 3), ensure that the respective BKM/dinas provides compensation in accordance with the Land Acquisition and Resettlement Policy Framework to the affected residents before carrying out the works.
- In the event that two hundred or more residents are adversely affected by a sub-project, prepare a resettlement plan in accordance with the Land Acquisition and Resettlement Policy Framework and, prior to the carrying out the sub-project, ensure that all affected persons have been compensated in accordance with the provisions of this plan.
- Avoid, and, if not possible, minimize cultural, social and economic adverse effects on Isolated Vulnerable People and, through a process of informed participation, involve concerned vulnerable people in the design and implementation of sub-projects so as to ensure that the benefits received are in harmony with their economic, social and cultural preferences and protect their customary user rights as

- per the Framework for Treatment of Indigenous or Isolated Vulnerable Peoples.
- Maintain policies and procedures adequate to enable monitoring and evaluation on an ongoing basis, in accordance with the indicators in the project manual, and prepare reports integrating the results including measures recommended to ensure the efficient implementation.

H. Readiness for Implementation

- 1. a) The engineering design documents for the first year's activities are complete and ready for the start of project implementation.
- 1. b) Not applicable.
- 2. The procurement documents for the first year's activities are complete and ready for the start of project implementation.
- 3. The Project Implementation Plan has been appraised and found to be realistic and of satisfactory quality.
- 4. The following items are lacking and are discussed under loan conditions (Section G):

The finalization of the following documents are conditions of effectiveness:

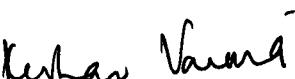
- Final project manuals (general and technical guidelines)
- Training materials for the first year
- Socialization materials for the first year
- Functioning MIS system in place
- RFPs, including shortlists, for NMC, OC and Evaluation Consultants ready to be issued
- Final TOR for audits

I. Compliance with Bank Policies

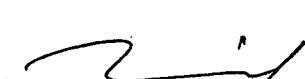
- 1. This project complies with all applicable Bank policies.
- 2. The following exceptions to Bank policies are recommended for approval. The project complies with all other applicable Bank policies.



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Team Leader



Keshav Varma
Sector Manager/Director



Mark Baird
Country Manager/Director

Annex 1: Project Design Summary

INDONESIA: Second Urban Poverty Project (UPP2)

Hierarchy of Objectives	Key Performance Indicators	Data Collection Strategy	Critical Assumptions
Sector-related CAS Goal: Reduce poverty and support democratic and decentralized government through: a) building national institutions for accountable government; and; b) delivering better public services for the poor	Sector Indicators: 1. Reduction in poverty 2. Rise in numbers of elected local governments	Sector/ country reports: CAS/CEM	(from Goal to Bank Mission) No gaps between macro and project objectives
Project Development Objective: 1. To establish or support functioning representative and accountable community organizations that are able to provide services to the urban poor and increase the voice of the poor in public decision making 2. To improve services for the urban poor (financial, social, infrastructure and other services)	Outcome / Impact Indicators: Established mechanism for the poor to express their needs and aspirations in local decision making, measured through a) % households able to articulate problems & discuss nature of poverty in their neighbourhoods; b) % households living in ward (kelurahan) with a community organization that is effective; representative; participatory; accountable; and trusted by communities, and which is able to influence local decision making c) Improved efficiency of kelurahan investments through increased accountability and increased community participation Established mechanism for the poor to access services, measured through: a) % households that obtained credit in the past year at market interest rates or below b) % households that received skills training or advice which increased their earning ability c) % households that directly benefited from infrastructure improvements	Project reports: Impact Evaluation reports and studies (baseline, mid-term, end of project sample surveys and other studies and reports)	(from Objective to Goal) - Climate of openness and democratization continues - There is no civil violence in project areas that would cause project activities to be halted - There is local support for greater transparency and anti-corruption actions in project activities

	d) % households that experienced improvement in access to basic services All measured according to welfare levels		
3. To make local government more responsive to the needs of the poor through increased partnerships with community organizations	Continued involvement of community organizations in local government decision making measured through a) amount of local government's own funds allocated through similar processes during the course of project and after b) % households aware of PAPG allocation decisions c) % households that directly benefited from infrastructure improvements d) % households that experienced improvement in access to basic services Measured according to welfare levels	Impact Evaluation reports and studies (baseline, mid-term, end of project sample surveys and other studies and reports)	- Decentralization laws are not rescinded and implementation directives are issued - Local governments have incentives to be responsive to community demand
Output from each Component: 1a) The population in the kelurahan is more aware of poverty problems and how to address them 1b) Establishment of an elected, representative kelurahan organization (BKM) which makes decisions using participatory principles 1c) Poverty-oriented kelurahan Community Development Plans created through participatory processes with broad support from stakeholders, including 1 year investment plan 1d) An active BKM Forum with broad participation of BKMs on a voluntary basis 2a) Efficient mechanism established to channel funds	Output Indicators: a) Number of people voting in BKM elections b) Fair election of BKM according to project rules; fraction of women in BKM; number of community meetings organized by BKM per year and attendance c) CDP approved and supported by the community d) Number of BKM Forum meetings and attendance per year a) Time period between approval of CDP and	Project reports: Management Information System Project Management Reports Evaluations Management Information System	(from Outputs to Objective) - Local governments ensure independent development of kelurahan organizations - Kelurahan organizations remain transparent and accountable to communities and maintain poverty alleviation goals - Community Dev Plans are realistic and implementable

<p>to BKMs</p> <p>2b) Adequate fund management by BKMs according to project rules</p> <p>2c) Activities/services funded in line with CDPs (financial, infrastructure and others as determined by the community)</p> <p>3a) Transparent mechanism established for making decisions on resource allocation that includes communities and other non-government institutions</p> <p>3b) Improved infrastructure and services based on proposals selected in accordance with project rules by PAPG Selection Committee</p>	<p>a) availability of funds to BKM</p> <p>b) Accounting rules and disclosure mechanisms are applied in fund management</p> <p>c) #of proposals submitted, approved and funded; value of proposals financed; repayment rate for microcredit loans; %of poor (according to BKKBN criteria) and %of women benefitting from sub-projects and micro-credit loans; welfare level of beneficiaries</p> <p>a) PAPG decisions are published and widely available; percentage of BKM members and non-government representatives on PAPG Selection Committee; percentage of women on PAPG Selection Committee</p> <p>b) #of proposals submitted, approved and funded; value of proposals financed; #of proposals completed according to plan; value of counterpart funding provided by communities and local governments; %of poor (according to BKKBN criteria) and %of women benefitting from sub-projects; welfare level of beneficiaries</p>	<p>Project Management Reports Evaluations</p> <p>Management Information System</p> <p>Project Management Reports Evaluations</p>	<ul style="list-style-type: none"> - Kelurahan organizations are able to manage funds adequately - Kelurahan organizations monitor and ensure that proposals are implemented satisfactorily by community groups - Utilization of kelurahan grants leads to improved incomes and/or improved welfare of urban poor <ul style="list-style-type: none"> - Required counterpart funds are made readily available and do not hinder implementation - Kelurahan organizations and local governments monitor and ensure that proposals are implemented satisfactorily - Adequate utilization of Poverty Alleviation Partnership Grant leads to improved incomes and/or improved welfare of urban poor - Infrastructure or other activities financed are used and maintained adequately by local government and communities
<p>Project Components / Sub-components:</p> <p>Community development and local government capacity building</p>	<p>Inputs: (budget for each component)</p> <p>US\$ 17.1 million</p>	<p>Project reports:</p> <p>Project Management Reports Disbursement Reports Supervision Reports Audits</p>	<p>(from Components to Outputs)</p> <ul style="list-style-type: none"> - Availability of large numbers of kelurahan facilitators qualified in doing community development work - Capacity to provide adequate training exists - Communities are willing to work collectively and elect

			<p>representatives to a kelurahan organization</p> <ul style="list-style-type: none"> - Kelurahan organizations are able to prepare and come to a consensus with communities on Community Development Plans
Community grants	US\$ 58.8 million	<p>Project Management Reports Disbursement Reports Supervision Reports Audits</p>	<ul style="list-style-type: none"> - Community groups are able to formulate proposals to access funds
Poverty Alleviation Partnership Grant	US\$ 35.2 million	<p>Project Management Reports Disbursement Reports Supervision Reports Audits</p>	<ul style="list-style-type: none"> - Local governments and kelurahan organizations are willing to form joint proposals and treat each other as equal partners
Implementation support, coordination and monitoring	US\$ 9.7 million	<p>Project Management Reports Disbursement Reports Supervision Reports Audits</p>	<ul style="list-style-type: none"> - Availability of capable consultants for NMC, OC and evaluation tasks

Annex 2: Detailed Project Description

INDONESIA: Second Urban Poverty Project (UPP2)

All local governments (kota/kabupaten) in the project area can participate in the project. However, if they choose to participate in the project they need to meet the following conditions: i) establish that poverty reduction is a priority for them (administration and legislature); ii) agree to the rules of the project; iii) establish project offices as required for project coordination and fund disbursement; iv) provide required counterpart funds; and v) develop a list of target kelurahans according to targeting rules. Meeting the above conditions would allow implementation of the Capacity Building Component (Component One) and the Kelurahan Grant Component (Component Two) in that local government jurisdiction. These components essentially provide support for community development, local government capacity building and block grants for community sub-projects.

If they choose, local governments can also participate in another project component, the Poverty Alleviation Partnership Grant (Component Three). This component allows local governments to access matching grants for city level poverty reduction activities. This is a much more competitive allocation, as only 30 local governments can participate. To participate in this component they would have to meet a few more conditions: i) agree to the rules of the PAPG; ii) set up an independent PAPG Selection Committee; iii) provide operational costs; and iv) promote the development of joint proposals by local government agencies and community organizations with provisions for matching funds.

By Component:

Project Component 1 - US\$17.10 million

Community Development and Local Government Capacity Building

During implementation, the project will aim for: i) an awareness in the wider community about the project and its rules (target awareness 70% of the adult population of the kelurahan); ii) well functioning kelurahan organizations that are democratically elected and accountable to people; iii) well functioning community groups that participate in planning for development and use the kelurahan funds for productive purposes; and iv) local governments that are able to work with BKMs to implement poverty alleviation programs.

The community development and capacity building component will include the following activities:

1. an extended awareness raising or socialization process that will encourage communities to discuss the nature of poverty in their kelurahan, how it should be addressed, and what is required to deal adequately with poverty (in the form of individual commitment, organization, resources, skills, etc).
2. the formation/confirmation of an elected body of representatives (Badan Keswadayan Masyarakat or BKM) that is accountable to the community at large and which will act on behalf of the community for poverty reduction
3. the formulation of a poverty oriented Community Development Plan (CDP) for the kelurahan using a participatory process and based on the results of a Community Self Survey
4. organizing and assisting community groups (Kelompok Swadaya Masyarakat or KSM) who will submit proposals to the BKM to utilize project resources and implement the programs identified in the CDP
5. assistance to BKMs to form associations (BKM Forums) and work collectively
6. building local government capacity to work with BKMs and the BKM Forum

A. Socialization, social intermediation and formalization of the BKM

Socialization, or awareness raising, will be in two forms—socialization to the community about poverty and the need for a community organization to address poverty issues; and socialization to all stakeholders (community, central & local government) about the project concept, goals, values, and the rules of the game. Easy and dependable access to information regarding the goals and rules of the project is critical to any community based development initiative. There will be a separate budget for socialization and dedicated staff in the NMC and OC who will be in charge of socialization. Socialization will take place through a variety of means—the media (radio shows, TV shows, newspapers/magazines, press conferences), through publications (posters, pamphlets and

brochures), and through presentations about the project at workshops, meetings, and focus group discussions at all levels of the community and government.

Facilitators will be the key to socialization and raising awareness in the communities about poverty and the project. With over 2,000 kelurahans targeted, there will be about 900 facilitators hired by the project. Most will be required to have some experience or background in community development, and will also be trained extensively through the project. A key goal of the socialization process will be to create greater accountability. Through socialization activities, facilitators will assist communities, BKMs, and local governments to clearly lay out their respective roles and responsibilities. An important factor in these discussions will be ensuring that each knows the role it plays in ensuring accountability of the BKM to communities

The social intermediation process leading up to the election of members to the BKM is expected to take four to six months. In general, this will include: (i) a national level public campaign on the project, including use of the TV, radio, pamphlets, posters, etc; (ii) orientation workshops at the provincial level; (iii) workshops at the city level; (iv) a series of workshops and focus group discussions at the kelurahan level; and (v) identification and training of voluntary community cadres who are willing to work with project staff on implementing this project. There will be at least one kelurahan facilitator (faskel) in each kelurahan (larger kelurahans may have more than one) who will be involved with other project staff and government officials at various levels in organizing and facilitating these events.

A guided process of discussions within the community on poverty will lead to a decision regarding whether communities want to elect representatives for a new community organization, or whether they want to work with existing community organizations. If communities choose to create a new organization, facilitators will guide the process of elections to a kelurahan organization (the BKM) in order to ensure that the process is democratic, participatory and inclusive. This will be followed by the notarization of the BKM as a formal entity. If they choose to work through existing organizations, project staff will assist communities to determine whether that organization was elected democratically and in a participatory manner, and determine if some positions may need to be re-elected or the structure of the organization modified or strengthened (*hereafter, use of the word BKM will refer to either newly elected organizations or existing ones that have been confirmed by communities*).

During the facilitation process, the importance of ensuring that qualified women are considered for leadership in the BKM will be emphasized. Facilitators will also pay particular attention to assisting BKMs in developing their bylaws to ensure participatory decision making and including in the bylaws mechanisms for developing accountability to communities. This would include activities such as publicizing of audits, inter-kelurahan monitoring (where one kelurahan organization visits and reports on others), mechanisms for recall and re-election of non-performing members, and other forms of reporting and accounting to communities. Each notarized BKM will open a bank account in its name, to which funds will be deposited to finance poverty reduction activities according to a Community Development Plan (see below).

B. Preparation of a Community Development Plan

The first task of the BKM will be to formulate a poverty oriented Community Development Plan (CDP) for the kelurahan. The CDP will be a medium term (three year) plan, and will include a range of poverty alleviation activities, depending on the needs and priorities of the community—from revolving funds for microcredit loans to small scale or tertiary level infrastructure to social services or other innovative ideas that the community may have.

Facilitators will work with the BKMs and other stakeholders to carry out a Community Self-Survey to locate poor families and determine the nature of poverty in the kelurahan. Based on this, they will embark on a participatory planning process to develop the CDP for the kelurahan. The CDP will take into account other non-government, government and donor funded programs that are on-going and planned at the kelurahan level, and identify activities that could be financed with the resources allocated to the kelurahan under the project (in cases where kelurahans already have development plans, the BKM and community members would either revalidate or amend these and present these for funding such that new plans would not have to be developed from scratch in every kelurahan).

The CDP is expected to be a general document, outlining the basic goals and general direction that communities want to take in addressing poverty. For example, the participatory planning process and community self-survey may identify different types of poor within the community, which would then require a range of solutions. The menu of activities that may be proposed under the CDP would be open, and creative ideas would be encouraged (see under Component Two, Kelurahan Grants, for details on activities eligible for financing under the project).

When complete, the CDP will be reviewed by senior project staff at the kota level (Oversight Consultants). The CDP will be reviewed not for the content, but for the process used in its formulation and its focus on poverty. This will be done to ensure that the project staff do not influence the actual decisions made by the community, but ensure that these decisions were made in an inclusive and participatory manner. This will be judged through the types and frequency of meetings held and an assessment of the effort placed in including all stakeholders, particularly the poor and vulnerable groups, in the community meetings and focus group discussions.

C. Capacity Building for Communities and Local Government

1. Training

The project is widely dispersed geographically and relies on many implementers. Thus, training will be key to effective implementation. The experience of UPP1 showed that it is important to: i) design training in support of particular components or project objectives; ii) provide continuous or refresher training throughout the course of the project; iii) to have flexibility to cater training to needs arising in the course of implementation, rather than to have all training supply-driven; and iv) to budget for training adequately. Based on these lessons, a training strategy and program has been designed for UPP2 in support of each of the project components.

Five types of training will be carried out as laid out in the table below. Some of these will be offered as a one time training course and some will be repeated, or advanced refresher courses provided. A detailed training matrix, indicating specific training activities, frequency, and target audience is provided in Annex 15.

Type of Training	Training Provider	Target Audience
1. Training of Trainers	Project Preparation Team	NMC and OC (for training stakeholders about the project) and special training group (for training communities about leadership)
2. Awareness raising (about poverty issues & about the project)	NMC, OC, facilitators	Community at large and all stakeholders (government, consultants, etc.)
3. Training in leadership	Special Training Group/ outsourcing to experts	BKM and community cadres
4. Project cycle training	NMC, OC and facilitators	BKM, KSM, UPK, PjOK, Community Cadres
5. Specific skills training	Outsourcing to experts	BKM, KSM, UPK, PjOK, Community Cadres, facilitators

The Project Preparation Team is in the process of preparing the majority of the training modules. They will then carry out a Training of Trainers exercise for the NMC about the project and its implementation. They will also train a Special Training Group (individuals from NGOs, academic institutions and civil society) to train communities about leadership. The NMC will, in turn, train the OCs about the project and OCs will train their own facilitators based on standardized training modules prepared by the Preparation Team. Thus, the NMC and OC will directly carry out training regarding project implementation and the project cycle; the Special Training Group will carry out the training on leadership; and the NMC and OC will hire experts from NGOs, academic institutions, and the private sector to implement specific skills training.

Of particular importance will be training in support of the revolving funds that BKMs may choose to run. As explained in Annex 12, training will be offered to: i) BKM members in revolving fund management principles; ii) the unit in charge of running the fund; iii) KSM or community groups who will borrow the funds in group organization and dynamics; and iv) KSM groups in basic business management skills. A pilot program for supporting specific microenterprise development through training and technical assistance in two select cities will

also be carried out.

2. BKM Forums

The project will encourage and support BKMs to form networks or forums at the kecamatan and kota levels to share ideas, exchange experiences, and where they desire, to take collective action regarding poverty alleviation in their communities. They can also choose to act collectively to influence local government planning and investment decisions. Under UPP1, various levels of BKM Forums have been formed (at the kecamatan level, at the kota level as well as inter-city gatherings of BKM forums). These forums have proved to be extremely valuable for strengthening BKMs, improving accountability and giving communities a voice in development issues. The project will support the formation of BKM Forums and provide training and technical assistance to them to work collectively. This will include training in leadership, management and networking. Technical assistance through the OCs and NMC will continue to be provided to the BKM Forum until the end of the project.

3. Local governments

Local governments will be involved in the project from the beginning through a series of workshops and focus group discussions at the national, provincial and district levels. According to government policy, Coordinating Teams will be established for the project at different local government levels within the respective planning agencies, Bappeda. Local government capacity building will focus on these coordination teams including the PjOKs.

Capacity building activities will focus on i) raising the awareness of the Bappeda teams in poverty alleviation, ii) providing them with training in participatory planning and budgeting; and iii) enabling local governments to work with BKMs and BKM Forums, particularly in the implementation of the Poverty Alleviation Partnership Grant. It is expected that through the participatory implementation of the PAPG in particular, local government agencies will see the value in working with community organizations and build up their capacity to engage in a more efficient working relationship. Capacity building of the coordinating teams will be a critical part of this activity. The project will seek to create a "node" of government staff within Bappeda who will be focus of all local government involvement in the project and who will continue to support BKMs and BKM forums and work on other poverty issues with communities beyond the project life.

Project Component 2 - US\$58.80 million

Kelurahan Grants

A. Funding Allocations

Each participating kelurahan will be allocated a one time grant, the value of which depends on the size of the population (see table). This will be used to finance poverty alleviation activities as defined in the Community Development Plans.

Population	Size of allocation
<3000 people	Rp. 150 million (US\$15,000)
3000 - 10,000 people	Rp. 250 million (US\$25,000)
>10,000 people	Rp. 450 million (US\$45,000)

To take into account the fact that there might be variations in the concentration of poor within kelurahan, and in order to benefit the poor more, these allocations may be adjusted according to the following: if there are 300-1,000 poor households in kelurahan with less than 3000 people, the allocation will be Rp. 250 million; and if there are more than 1,000 poor households in kelurahan with 3000-10,000 people, the allocation will be Rp. 450 million. The ceiling amount of Rp 450 million (US\$45,000) is lower than in UPP1 due to lessons learned about the absorptive capacity of even large kelurahans. Once the BKM has been formalized (notarized with the legal status

of an association), and the Community Development Plan has been approved, the BKM will sign a Grant Implementation Agreement (GIA) with the government (PjOK kecamatan) which will lay out the respective roles and responsibilities of the two parties, the terms of disbursement, as well as the expectations regarding the use of funds beyond the project life.

B. Community Development Plan and Eligible Activities

For each participating kelurahan, this component will finance specific sub-projects. Funds can be used according to the Community Development Plan (CDP), and will cover a range of poverty alleviation activities with an open menu. There would be a simple negative list, including the following. The items that would not be funded:

(a) include expenditures intended for a military or paramilitary purpose; (b) include civil works for government administration or religious purposes, (c) relate to the manufacture or use of environmentally harmful products (including pesticides, ozone-depleting substances, tobacco or tobacco products, materials containing asbestos, arms and drugs), (d) relate to activities producing liquid or gaseous effluents or emissions at harmful levels, (e) relate to activities using, producing, storing or transporting hazardous materials and wastes; (f) relate to logging; (g) relate to activities in protected areas; (h) relate to fisheries activities that are not in accordance with standards set by the Borrower's Fishery Service Agency; or (i) include the financing of government salaries.

The cost of activities to be financed under the CDP does not have to be limited to the project allocation for the kelurahan. If communities wish to carry out more activities, they will be encouraged to contribute their own funds to supplement the allocation or leverage additional funds from other community sources or local governments.

As part of the three-year CDP, the BKM will identify an investment plan for the first year that would be funded partially (or completely) through the BKM allocation from the project. Communities would have full freedom to choose whether they want to use their allocation to finance grant activities for the poor or use part of the allocation to provide microcredit loans. It is expected that CDPs will generally include the following types of activities:

- i) pre-identified specific investments that are a community priority by consensus (these could be a bridge, a road, school repair, health facility repair or others);
- ii) activities that community groups can compete for (any range of physical infrastructure to services sub-projects—the CDP should indicate clearly what are the priority sectors or priority groups for that community that are likely to be financed);
- iii) microcredit loans for community groups which will form the basis of a revolving fund (with clear rules/principles for implementation); and
- iv) grant assistance to the poorest or most vulnerable individuals (this could include scholarships, home improvements, health care, etc. to specific individuals identified by communities as being most needy).

The CDP can identify activities from all four categories or just one category, depending on the communities' circumstances and needs. Category (iv) (assistance to individuals), will be limited to 10% of the allocation in order to minimize leakage. Activities under categories (i), (ii), and (iv) are expected to be provided as grants, while activities under (iii) would consist of microcredit loans through a revolving fund mechanism. The ceiling for any single subproject per group (KSM) or microcredit loan to a group (KSM) is Rp. 30 million (US\$3,000 equivalent).

C. Implementation

1. Specific investments

If specific sub-projects are identified by communities as a priority for the overall community and included in the CDP, the BKM will appoint a team from the community to implement this activity. The following implementation process will be followed:

- Team fills out a standard form, with the assistance of facilitators, outlining a description of the sub-project, costs, beneficiaries, operations and maintenance arrangements (where applicable), compliance with any

- applicable safeguards, implementation arrangements, the amount of self financing, etc. (see Annex 11 for sample form)
- Review by OC for feasibility, technical soundness, and compliance with safeguards (specifically environmental impacts, land acquisition/resettlement, impact on indigenous people and on cultural property)
 - Signing of Implementation Agreement between implementing team and BKM
 - Disbursement to team for implementation costs
 - Sub-project implementation according to procurement guidelines with supervision by BKM and OC/facilitator
 - Completion certificate by OC/facilitator

2. Grants based on community proposals

The CDP may provide an allocation of funds to finance proposals by community groups. In this case, the CDP will lay out clearly what the priority areas/sectors/groups are for this allocation. Examples of different types of activities that groups could propose for funding include basic infrastructure services; programs for children and youth; family planning education, etc. Community groups will identify sub-projects they want financed, and fill out proposal forms (same as the ones above) with the help of facilitators where necessary. These will be reviewed by OCs for feasibility, technical soundness and compliance. OCs will specifically screen proposals for environmental impacts, land acquisition/resettlement, impact on indigenous people and on cultural property, and ensure that adequate mitigation measures are taken (see Section E). The BKM will meet to review the proposals first when at least 5 proposals have been submitted, and at least monthly thereafter. The selection of proposals by the BKM will be made in a meeting publicized in advance and open to the public. Selection will be based on priorities by clearly ranking proposals and having an open vote. Implementation will follow the same arrangement as above.

3. Revolving funds

If the BKM decides to run a revolving fund, specific guidelines have been developed to ensure that funds are used in accordance with best practices, and applies principles such that there is no distortion of the microfinance market. Details for revolving fund management, group formation, proposal selection, and terms and conditions for loans are provided in Annex 12.

4. Grant assistance to the poorest or most vulnerable individuals

Direct assistance may be provided to individuals if identified during the participatory process and included in the CDP's yearly investment plan. These will be accounted for clearly in the BKM accounts, and disbursements made in a transparent manner. A maximum of 10% of the allocation to the BKM can be used to finance activities that fall under this category. Facilitators and OCs will verify use of these funds.

D. Disbursements

Funds will be released to kelurahan organizations in three tranches to ensure proper fund use and management, and encourage better BKM performance. The first tranche (20%) will be paid upon review of the CDP by project staff. The next tranche (60%) will be based on proof of adequate utilization of funds for implementation of sub-projects according to the CDP, and proper funds management, and will be released at least four months after the disbursement of the first tranche. This is to provide enough time to see implementation on the ground prior to disbursement of additional funds (particularly if funds will be used for microcredit loans). The third and final tranche (20%) will be provided also at least four months after the disbursement of the second tranche, and following a review to assess the future of the BKM beyond project life (see Chart 1 below).

Project Component 3 - US\$ 35.20 million Poverty Alleviation Partnership Grant

This fund will encourage partnerships between local government and communities and attempt to institutionalize a

consultative process between the two for future activities undertaken by local governments using their own funds. It will finance poverty alleviation activities that are too big to be financed by the kelurahan grants, or that require local government involvement (e.g. networked infrastructure or operations and maintenance); and that cover more than one kelurahan.

Basic principles guiding the Poverty Alleviation Partnership Grant (PAPG) are the following: i) local governments (kota/kabupaten) will be required to compete for funds; ii) funds will be provided for sub-projects on a matching fund principle to complement resources from local government agencies (dinases), from communities and possibly from private sponsors; iii) subprojects to be financed must be jointly prepared, proposed and implemented by BKMs in collaboration with dinases; iv) subprojects should be for public goods and services providing direct benefits to a large number of the poor community; and v) there should be transparent competitive selection of subprojects by an independent PAPG Selection Committee

A. Selection of Participating Kota/kabupaten

Thirty local governments will be selected to participate in the PAPG. These cities will be selected on a competitive basis by the central Project Secretariat (with support from the Project Management Unit and the National Management Consultants) based on local government commitment to participate in the PAPG as demonstrated through: i) agreement to follow the rules of the PAPG; ii) setting up an independent PAPG Committee; iii) providing operational costs; and iv) promoting the development of joint proposals by local government agencies and community organizations with provisions for matching funds; and (b) the existence of a functioning and active BKM Forum. In the first year of the project, while the community development activities are going on and BKMs are still being formed, a pilot of the PAPG will be carried out in four UPP1 cities, selected based on the same criteria. Procedures for implementation will be refined through this pilot. Thirteen cities will be selected in the second year (from the included local governments in Phase I), and an additional thirteen in the subsequent year using the same process.

B. Funding Allocations

The PAPG will be a three year program for each participating cities with gradual increases in the annual allocations as presented in the table below:

Allocation of PAPG per city (In Rp billion)

	Year 1	Year 2	Year 3	TOTAL
Small cities (<15 BKMs)	Rp 1 billion	Rp 1.5 billion	Rp 2 billion	Rp 4.5 billion (US\$450,000)
Medium cities (15-25 BKMs)	Rp 1.5 billion	Rp 2 billion	Rp 2.5 billion	Rp 6 billion (US\$600,000)
Large cities (>25 BKMs)	Rp 2 billion	Rp 2.5 billion	Rp 3 billion	Rp 7.5 billion (US\$750,000)

Cities' participation in the subsequent years would be determined based on satisfactory performance in the past years. The criteria for evaluating performance includes (i) adherence to PAPG procedures; and (ii) degree of partnership between dinases and BKMs. Most local governments will be eligible to receive PAPG funds as grants. However, some may receive it as a loan depending on their financial capacities. Which local governments are eligible for grant financing versus which for on-lending will be determined through a central government policy that is currently under discussion. Since this national policy has not yet been decided, it was agreed with the Government that there will be no sub-lending under this component until the terms and conditions for sub-lending have been agreed upon with the Bank.

C. Eligible Activities

There will be an open menu for activities eligible for financing under the PAPG, with a short negative list (the same as the negative list for kelurahan grants). The following criteria have to be met: i) they are proposed by a sponsoring dinas in collaboration with BKMs; ii) the impact of the activity affects more than just the one kelurahan; and iii) it benefits a large number of poor. Activities could include basic infrastructure works that go

beyond one kelurahan (such as roads or drains, or refurbishment of existing schools or clinics that serve more than one kelurahan); skills training that would benefit more than one kelurahan; non-formal education and health etc. This list is not restrictive and creative ideas from communities and dinases will be encouraged. Many of the dinases may already be carrying out these programs currently and, by collaborating with communities, they will be able to access PAPG funds to expand the programs. Counterpart funding from private sponsors may also be sought whenever possible.

D. Subproject Proposals

Selection of subprojects will be made on a competitive basis by an independent PAPG Selection Committee, with the basic selection criteria that include: (i) the level of partnerships as measured by the number of kelurahan organizations and local government agencies forming a partnership to propose the subproject, (ii) the level of contributions by the kelurahan organizations, private sponsors and local government agencies (minimum of 50%) towards the subproject cost; and (iii) expected achievements of the subproject toward poverty alleviation. A subproject proposal can only cover one specific activity. BKMs may submit different proposals in collaboration with different dinases. The proposal can be at any cost, with a financing plan of no more than 50% from PAPG funds, and another 50% from the dinas' development budget, BKMs and private sponsors. Proposals with high levels of contributions from these other sources will be considered more favorably as this would be an indication of how important the activity is for both the local government and the community. Support from PAPG for individual proposals will range from a minimum of Rp. 30 million (US\$3,000) to a maximum of Rp. 200 million (US\$20,000) per sub-project.

Because proposals will be made jointly with technical agencies of local government, the designs and technical specifications will be in accordance with government standards. Where necessary, simplified technical manuals for small scale infrastructure that have been developed and tested under the Kecamatan Development Project may also be used.

E. PAPG Selection Committee

Each city will establish an independent PAPG Selection Committee, who will have roles in (i) dissemination of PAPG; (ii) confirming the criteria and mechanism for selection of proposals; (iii) selection of proposals; and (iv) evaluation for best subprojects. The Committee is not expected to be involved in verifications of proposals, disbursements and implementation. The Committee is expected to be adhoc in nature, legally established by a decree of the Walikota/Bupati after selection of its members through a series of city level meetings. It should not have a formal organizational structure except for the need to have a chairman for administrative purposes (such as sending out invitations for meetings). The Committee will operate as a collective body and no member will have special privileges. The Committee will consist of 11members (4 from the BKM Forum; 4 from the local government; and 3 from NGOs or other prominent citizens who are concerned about poverty). The committee should work on a voluntary basis, but its operational costs will be supported by the local government's contributions to the project. A secretariat for facilitating the work of the PAPG Committee will be formed at the Bappeda's Coordinating Team for UPP2.

OCs will support the overall process of selection of the Committee and its functioning. In order to help the Committee to review proposals, the Oversight Consultants will carry out field verifications. The OCs, however, will not be allowed to change proposals or decide on winning proposals. Final decisions on funded proposals will be publicized. After completion of the subprojects, the Committee will carry out an evaluation to select the best subprojects for awards of excellence.

F. Implementation and Disbursement Arrangements

The PAPG allocation to the local government will be made through the regular government budgeting process to the Bappeda of the participating kota. Bappeda will appoint a PjOK (administrative manager) to administer the allocations. Once approved by the Committee, an implementation agreement will be signed between the PjOK and the representatives of the proposing dinas and BKMs. They would then be required to establish a joint team to

implement the subproject.(see Chart 2 below).

Disbursements of PAPG funds from the project Special Account will be made at the request of the joint team as approved by the PjOK, and will be provided in two equal tranches. Funds from other sources, either from dinases, BKMs, community members or private sponsors, may be handled separately. In order to ensure that counterpart contributions materialize as proposed, the conditions for the second payment will include evidence that at least an amount equal to the project funds have been spent on implementing the sub-project and this has been verified by the OCs.

Procurement and use of PAPG funds will have to follow the procedures set in the manual. All procurement decisions will be taken by the team which will be held accountable to both the local government and communities through the dinas, BKMs and other contributors. After completion, the joint implementation team will prepare a completion report which represents its accountability for implementation. This report will be presented to the PAPG Committee, PjOK and OCs and will also be made available for public scrutiny.

Except for the pilot locations, PAPG will begin in the second year of the project after BKMs have been formed and when the dinases have been made aware of the program during the first year. Socialization of the PAPG will be key to its success. Publicizing of the PAPG will involve a series of workshops with dinases, BKMs, NGOs, the press and other stakeholders, as well as a mass media and radio campaign. Project staff (OCs and facilitators) will play a role in matching BKMs with potential sponsoring dinases. The dinas will arrange meetings with BKMs to formulate a sub-project proposal for competition at the kota level to get the PAPG grants. BKMs and dinases will also be encouraged to seek additional sources of financing from wealthier members of the community, factory owners, etc. that are concerned with poverty alleviation.

Project Component 4 - US\$9.70 million Implementation Support

The project will be managed by the Project Management Unit (PMU) assisted by an administrative unit (PIMPRO). Both will be headed by the same Project Manager. The PMU will hire consultants and facilitators to assist in project implementation, particularly since this type of a community driven project will require extensive presence in the field at the kelurahan and kota/kabupaten levels. Technical assistance will be provided through National Management Consultants at the central level, Oversight Consultant Teams at the provincial level, with district offices in the participating kotas/kabupatens; and facilitators and community cadres at the kelurahan level. This component will finance the cost of the consultants; the cost of government operating expenses will be covered through counterpart funds.

National Management Consultants (NMC). The PMU will hire National Management Consultants (NMC) at the central level to assist with project management, monitoring and reporting. There will be thematic teams in the NMC in charge of microcredit activities, grant activites, training/socialization/ capacity building, PAPG activities, project monitoring and reporting, and complaint handling. The NMC will supervise the work of the Oversight Consultants at the provincial and district (kota/kabupaten) levels.

Oversight Consultant Teams (OC). There will be one Oversight Consultant team designated for every province, with technical teams for every participating kota and kabupaten. At the *provincial level*, there will be a provincial coordinator and staff in charge of microcredit activities, community development (including socialization and training), project monitoring (including MIS), and PR/complaint handling. Other expertise will be recruited/contracted out on an as-needed basis. The provincial OC team will work with a provincial Coordination Team assigned by the government (with the planning agency, Bappeda Province) to coordinate project activities at the provincial level.

At the *kota/kabupaten level*, there will be one Kota/Kabupaten Coordinator and a small group of technical staff. For kota that are selected for the PAPG, there will be at least one staff in the team to manage the PAPG. The OC

teams will be in charge of: i) coordination, support and supervision of kelurahan facilitators; ii) technical assistance to the BKMs and community groups (KSMs); iii) consolidation of reports from facilitators into kota reporting; iv) promoting the PAPG and facilitating the partnerships between BKMs and dinases; v) facilitating the establishment of the PAPG Selection Committee; and vi) sub-project verification and oversight. The kota level OC team will work with a Coordination Team assigned by the local government (with the local level planning agency, Bappeda) to coordinate project activities. The Coordination Team will include an assigned PjOK who will sign off on sub-project proposals under the PAPG. OC teams will be procured by the PMU, with the participation of provincial government in the selection process, and will report directly to the NMC.

Kelurahan facilitators. Facilitators will be key to the implementation of the project since they will be the primary interface between the project and communities. Facilitators will be in charge of promoting the project within the kelurahan, carrying out the community development activities, assisting in the process of election of the kelurahan organization, organizing the community into groups and assisting with proposal preparation, etc. Learning from the experience of UPP1, instead of having one facilitator for every kelurahan, there will be facilitator teams, with 4 kelurahan facilitators for every 10 kelurahan. Working in teams will enable facilitators to support each other in a more integrated manner, to share experiences between kelurahan, and bring in greater quality control. One facilitator will have higher qualifications and be designated the Senior Facilitator to lead the team. The teams may be larger according to the size of the kelurahans and their remoteness. At least 1/3 will be women, and they will be required to reside in the kotas where they work. At the kelurahan/desa level, facilitators will coordinate with the Lurah or the Kepala Desa. Facilitators will be hired by Oversight Consultant teams and report directly to them (the cost of hiring facilitators is included under Component One, Community Development and Capacity Building, as the cost of social intermediation).

Community cadres. Learning from UPP1 experiences, much more emphasis will be paid to engaging community cadres, or volunteers from the kelurahan, to work closely with the kelurahan facilitator during the course of the project. Two to five community cadres will be identified to work with project staff on a voluntary basis (at least 1/3 will be women). The community cadres will be trained along with the facilitators and support the facilitator's work. At the end of the project, it is expected that these community cadres will continue to facilitate and promote the interests of the poor with the BKM.

B. Project Phasing

The project will be implemented in two phases. It will be launched in provinces outside of Java in the first year. The remainder of the kelurahan (in Southern Java) will be brought on board in the second year. OCs will support BKMs for four years, gradually decreasing the level of support during the third year and fourth years. For the PAPG, as described above, there will be a pilot phase for four UPP1 cities in the first year, and competitive selection of half of the target cities (13) in year two, followed by another 13 cities in year three. Phasing will allow the implementers to gain experience in implementing this community driven development project and use the experience to improve and enhance their implementation method and approach.

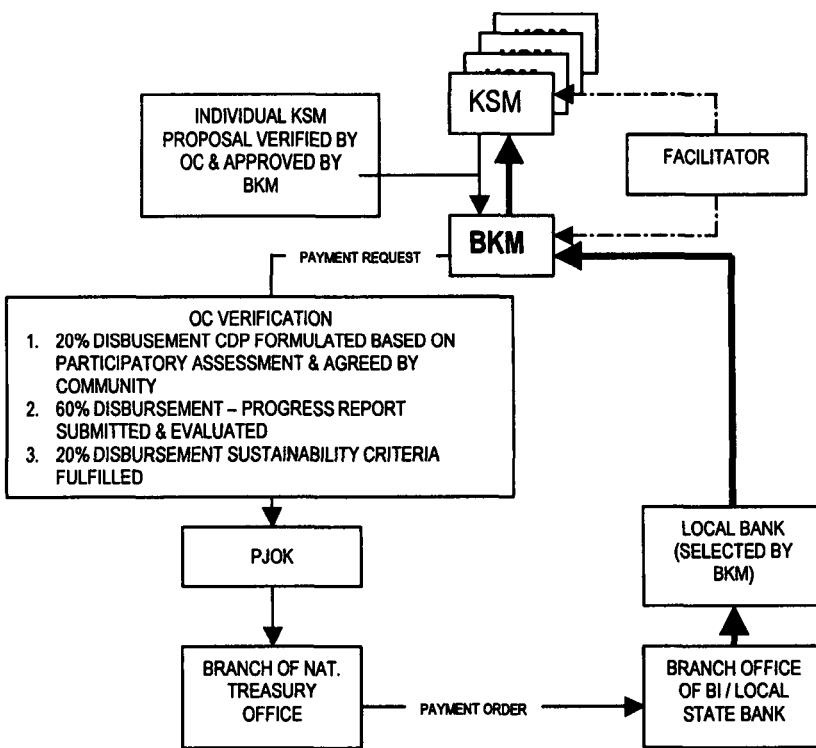
C. Monitoring and Evaluation

A key issue with project management in UPP1 has been performance monitoring and evaluation. In UPP1, the role of project monitoring was in the TOR for both the NMC and the Monitoring and Evaluation consultants, creating some confusion in terms of who is in charge of monitoring (the M&E consultants were hired on a fulltime basis, like the NMC). The result was that the NMC relied on M&E consultants to monitor performance, and since there was little ownership by NMC of the results, monitoring reports were hardly ever used by the NMC to make management decisions. In UPP2, the monitoring and evaluation roles will be separated so that evaluation is done separately by Evaluation Consultants that are independent from the NMC (as in UPP1), but monitoring is retained as an essential role of the NMC and OCs (unlike in UPP1).

The Evaluation Consultants will be hired on a periodic basis, first to carry out a baseline survey, and subsequently to carry out follow up surveys and evaluation studies at least three times over the project period. There will also be an allocation of funds to hire local NGOs, universities or qualified individuals to carry out ad-hoc evaluations or

surveys on an as-needed basis. Details on project monitoring and performance evaluation are provided in Annex 13.

Chart 1
FINANCIAL MECHANISM FOR KELURAHAN GRANT

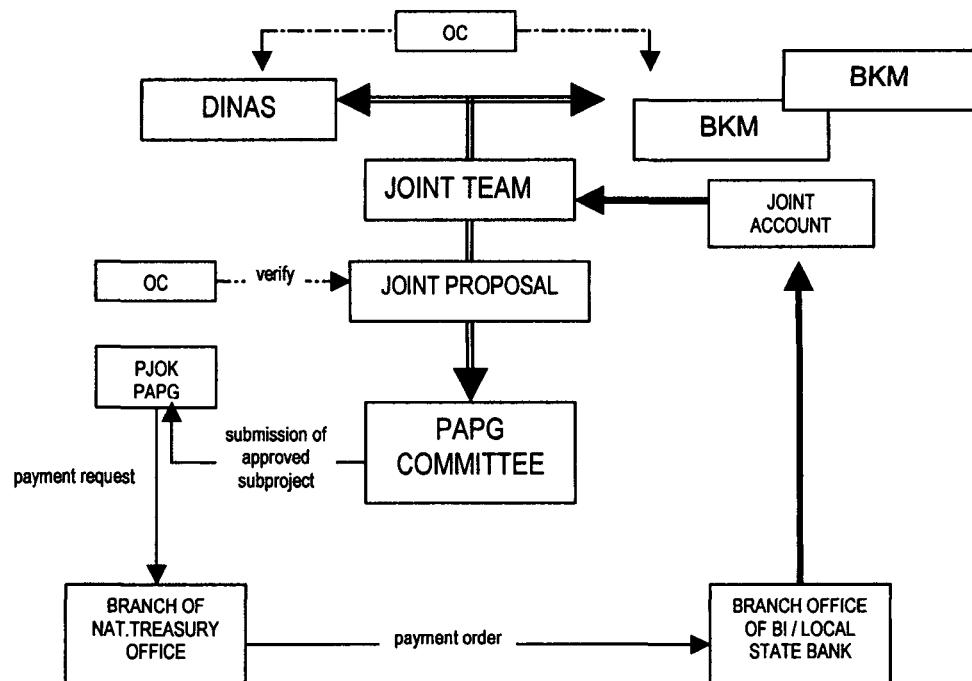


Note



- flow of fund
 - flow of payment request/order
 - line of coordination
 - line of facilitation
- | | |
|------|---|
| DLN | Directorate of External Fund, MOF |
| PMU | Project Management Unit of UPP project |
| PJOK | Administrative Unit |
| BKM | Community Institution |
| CDP | Community Development Plan (medium term plan / 3 years) |
| BI | Bank of Indonesia (Central Bank) |

Chart 2
**FINANCIAL MECHANISM FOR
POVERTY ALLEVIATION PARTNERSHIP GRANT (PAPG)**



Note:

- flow of funds
- flow of payment request/order
- - - line of coordination
- - - → line of facilitation

- DLN Directorate of External Fund, MOF
 PMU Project Management Unit
 OC Oversight Consultant at city level (OC kota)
 PJOK Administrative Unit
 BKM Community Institution
 CDP Community Development Plan (medium term plan / 3 years)
 BI Bank of Indonesia (Central Bank) or other commercial Bank

Annex 3: Estimated Project Costs
INDONESIA: Second Urban Poverty Project (UPP2)

	Project Component	Total Costs		Bank		Government		Community	
		\$million	%	\$million	%	\$million	%	\$million	%
A.	Community Development & Cap Bldg	17.08	13.5%	16.26	12.8%	0.81	0.6%		
	Social intermediation (facilitators)	7.13	5.6%	7.13	5.6%	-	0.0%		
	Training	5.80	4.6%	5.80	4.6%	-	0.0%		
	Socialization	3.33	2.6%	3.33	2.6%	-	0.0%		
	Overhead (BOP)	0.81	0.6%	-		0.81	0.6%		
B.	Kelurahan Grants	58.82	46.4%	51.15	40.4%	2.56	2.0%	5.12	4.0%
	Allocation for subprojects under CDP	56.27	44.4%	51.15	40.4%	-	0.0%	5.12	4.0%
	Overhead (BOP)	2.56	2.0%	-	0.0%	2.56	2.0%	-	0.0%
C.	Poverty Alleviation Partnership Grant	35.23	27.8%	17.19	13.6%	9.45	7.5%	8.59	6.8%
	Allocation for joint sub-projects (BKMs/dinas)	34.38	27.1%	17.19	13.6%	8.59	6.8%	8.59	6.8%
	Overhead (BOP)	0.86	0.7%	-	0.0%	0.86	0.7%		
D.	Implementation Support	9.73	7.7%	9.27	7.3%	0.46	0.4%		
	Technical Assistance	9.27	7.3%	9.27	7.3%	-	0.0%		
	Overhead (BOP)	0.46	0.4%	-	0.0%	0.46	0.4%		
E.	Unallocated	5.83	4.6%	5.83	4.6%	-	0.0%		
	Total Project Component Cost	126.70	100%	99.70	79%	13.29	10%	13.71	11%
	Front end fee	0.29	0.2%	0.29	0.0%				
	TOTAL PROJECT COST	126.99	100.2%	100.00	78.7%	13.29	10.5%	13.71	11%

Component	Total Cost	Bank Funding US\$ million			Content	
		Bank	IDA	IBRD	Local	Foreign
A. Community & LG Capacity Building	17.08	16.26	16.26	0.00	15.37	1.71
B. Kelurahan Grants	58.82	51.15	51.15	0.00	50.38	8.44
C. Poverty Alleviation Partnership Grant	35.23	17.19	0.00	17.19	29.95	5.29
D. Implementation Support	9.73	9.27	3.06	6.21	8.80	0.93
E. Unallocated	5.83	5.83	0.00	5.83	5.25	0.58
Front end fee	0.29	0.29		0.29		0.29
Total Project Financing	126.99	100.00	70.47	29.52	109.76	17.24
Financing Percentage	100%	79%	71%	29%	86%	14%

* Note: Total IDA credit has been rounded off to \$70.5 million, and total IBRD loan to \$29.5 million

Annex 4: Economic Analysis

INDONESIA: Second Urban Poverty Project (UPP2)

The objectives of the project will be achieved through three components. First, the project will support the development of community organizations in each kelurahan (Community Development and Local Government Capacity Building). Second, these community organizations will receive block grants that they will use to provide services to the members of the community according to the community's preferences (Kelurahan Grants). These preferences will be revealed through the process of preparation of the Community Development Plan. Third, these community organizations will partner with local governments to develop and deliver secondary level public services (Poverty Alleviation Partnership Grant). All three steps will be supported by project investments. Traditional, ex ante economic analysis for all three investments is either not possible or their credibility is no more than the assumptions made. However, an analysis of the possible outcomes does provide an opportunity to carry out an indicative analysis regarding the economic benefits of the investments.

Community Development and Local Government Capacity Building

The first component of the project helps build capable and resilient community organizations. The essential goal is to build capacity for collective action in communities that leads them towards collective action and allows them to aggregate and prioritize their demands. Higher community capacity for collective action is a positive outcome in and of itself. The stream of benefits that flow from collective action goes much beyond project investments. For example, an organized community is able to pressure local government to respond to their needs or be accountable to them or help in conflict resolution. The overall benefits of increasing community capacity for collective action are not possible to capture through a cost-benefit analysis.

However, community involvement in design and delivery of public services has two other direct economic benefits. First, public investments that systematically respond to aggregated community demand are more effective. Top-down, supply-driven service provision often over-supplies services that people do not want, and under-supplies services that people really want, causing a waste of public resources. Furthermore, when communities are able to aggregate and articulate their collective priorities, it becomes possible for local governments to develop more efficient and focused plans to address the concerns at a city level. Second, public investment in urban services that involve community involvement in design and delivery are more efficient. Services delivered in this fashion are not only able to stretch every dollar invested by substantial community contribution, but are also more sustainable. This process of service provision and community contribution increases ownership of the services delivered. This in turn creates incentives for communities to manage and maintain infrastructure created for the services appropriately. Such local management of infrastructure allows the services to be available during the true design life of the investment. In the Indonesian context, where operations and maintenance of even primary infrastructure is minimal at best, premature failure of infrastructure is widespread. Sustainable infrastructure, in relative terms, are highly effective public investments. Thus, economic benefits accrued through investments using the above process generally have higher economic benefit compared to traditional practices of service provision. The specific investments and their respective economic benefits are discussed below.

Kelurahan Grants

The second component of the project provides block grants to communities to finance sub-projects for service provision at the community level. The project follows an open-menu policy for decisions regarding use of these grants, meaning that communities will choose how they want to use the funds. Hence, actual investment choices are impossible to predict accurately at this time. However, experiences from UPP1 and KDP1 suggest that most communities choose a package of services that includes small infrastructure improvements (roads, drains, water, sanitation, etc.) and revolving funds for providing micro-credit services to community members.

There is extensive experience in Indonesia regarding investments in small community level infrastructure improvements. The World Bank supported these investments under the Kampung Improvement Programs (KIP). KIP delivered a package of basic infrastructure to neighborhoods as required. A simplified approach of measuring

land values was used to quantify the economic benefits. Land values in kampungs which were improved, and those of similar kampungs which were not improved, were compared. Appraisal and completion reports of these projects indicated 20% to 70% economic internal rate of return (Implementation Completion Report, Ln.3246-IND). OED's KIP Impact Evaluation Report (June 1995) confirmed this by re-evaluating the impact of KIP in various Bank projects. OED found that the EIRRs under these projects ranged from 26% to 31% over a useful life of 15 years.

If communities choose to invest in a revolving fund, it is expected that these would provide loans for productive economic activities to community members. The assumption is that access to credit with lower transaction costs and no collateral requirement will allow petty traders and small manufacturers to be more productive or encourage the unemployed or underemployed to start profitable small enterprise. The requirement of repayment of credit with prevailing commercial interest rate for one year loans (currently between 24-33%), should provide nominal returns at least that high per year and an expected positive economic returns in real terms. The project returns will be higher the faster the revolving proceeds. The project assumes a one year loan period, often for small loans, and shorter cycles are common. The assumptions have proven mostly true in UPP1. The project so far has about 550,000 loans out of which 60% are for small trade, 15% for services and about 10% for manufacturing. A survey of sample businesses show that most borrowers (72%) experienced an increase in income and repaid their loans from income from their enterprise (92%). The repayment rate for UPP1, though relatively good, can be substantially improved. This project will ensure better repayment rate by ensuring: (i) better support to communities to prepare sensible and profitable business proposals; (ii) train UPKs in appraisal of loan applications so that they make loans to people that they think would be able to pay back; and (iii) make loan information more transparent to community members to enhance social pressure for repayment.

Poverty Alleviation Partnership Grant

The third component of the project will allocate funds competitively to finance sub-projects jointly proposed by local government agencies and community groups. The project will follow an open menu for this component as well. The project assumes that most of these investments would be physical infrastructure (e.g. roads, bridges, drains, and water, outside or between kelurahans) or social infrastructure (e.g. school repairs). Experience from VIP I and II and KDP I, which have similar investments, show relatively high EIRRs. Extensive economic analysis was carried out prior to the appraisal of both VIP I and VIP II. The main investments in these projects displayed an EIRR ranging from 22%-90% with the mean of 35%-40%. In KDP I individual villages and project proponents chose their own subprojects from an open menu, similar to UPP2. Nevertheless, about 50% villages chose all-weather roads and bridges, and in these cases the technologies and methods were the same as those in VIP projects. These investments had EIRRs ranging from 20%-40%. Similarly, KDP 2, which also follows an open menu at the kecamatan level, assumes an average EIRR of 25%. The overall objective of this component is to ensure that local governments partner with communities in the provision of urban services. The objective is also to encourage local governments to continue this relationship in other investments beyond the project investments. As a result, a growing number of city level investments will be more responsive to the needs of the community.

Annex 5: Financial Summary
INDONESIA: Second Urban Poverty Project (UPP2)

Total Financing Required

Year Implementation (Bank FY)	2003	2004	2005	2006	2007	2008	Total
A. Community & Local Govt Capacity Building	2.56	4.27	5.12	3.42	1.28	0.43	17.08
B. Kelurahan Grant	2.94	16.18	25.00	13.24	1.47	0.00	58.82
C. Poverty Alleviation Partnership Grant)	0.00	3.68	6.41	10.89	9.29	4.96	35.23
D. Implementation Support	1.22	1.95	2.68	2.19	1.22	0.49	9.73
E. Unallocated	0.73	1.17	1.60	1.31	0.73	0.29	5.83
Total Project Component Cost	6.72	26.08	39.20	29.73	13.99	10.98	126.70
Front End Fee	0.29						0.29
Total Project	7.01	26.08	39.20	29.73	13.99	10.98	126.99
Percentage %	5.5%	20.5%	30.9%	23.4%	11.0%	8.6%	100.0%
Bank Financing							
A. Community & Local Govt Capacity Building	2.44	4.07	4.88	3.25	1.22	0.41	16.26
B. Kelurahan Grant	2.56	14.07	21.74	11.51	1.28	0.00	51.15
C. Poverty Alleviation Partnership Grant	0.00	1.48	3.75	5.31	4.53	2.11	17.19
D. Implementation Support	1.16	1.85	2.55	2.08	1.16	0.46	9.27
E. Unallocated	0.73	1.17	1.60	1.31	0.73	0.29	5.83
Total Project Component Cost	6.16	21.47	32.92	22.16	8.92	8.08	99.70
Front End Fee	0.29						0.29
Total Project	6.45	21.47	32.92	22.16	8.92	8.08	100.00
Percentage %	5.1%	16.9%	25.9%	23.4%	11.0%	8.6%	100.0%

Financing Arrangements

Implementation	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
IBRD/IDA	6.45	21.47	32.92	22.16	8.92	8.08	100.00
GOI	0.56	4.61	6.29	7.57	5.07	2.90	27.00
Total Project	7.01	26.08	39.20	29.73	13.99	10.98	126.99
Percentage	5.5%	20.5%	30.9%	23.4%	11.0%	8.6%	100.0%

Annex 6(A): Procurement Arrangements
INDONESIA: Second Urban Poverty Project (UPP2)

Procurement

Procurement Capacity Assessment

The last Country Procurement Assessment Report for Indonesia was carried out in February 2000, with the final report being issued in February 2001. With respect to this project, a separate Procurement Capacity Assessment Report (PCAR) resulted in the following findings and recommendations:

- There are a few large consultant contracts at the central level, and the rest of the expenditure will be at the kelurahan level, carried out by the community. This PCAR was prepared based on an assessment at the central level only since specific communities have not yet been selected at the time of the assessment. Based on experience in the previous project (UPP I, Cr.3210-IND), it is likely that the community will lack the experience of carrying out procurement or managing expenditures. GOI will ensure that, during implementation, these community groups will have adequate capacity to carry out procurement according to procedures contained in the project manuals (General Guidelines and Technical Guidelines).
- The proposed implementing agency at the Central Level has adequate capacity to carry out procurement. It was agreed that the agency will hire at least one qualified person familiar with the Bank's procurement procedures to support procurement management and to provide guidance for procurement training at the community level.
- The organizational structure of the Project Management Unit (PMU) for UPP2 and TORs for staffing will be agreed upon prior to negotiations. The PMU will be fully staffed prior to loan effectiveness.
- It was also agreed that the existing UPP1 team will be employed for UPP2 to carry out necessary project preparation work prior to the formal establishment of the PMU/PIMPRO for UPP2. This includes all selection process of the National Management Consultants and the Oversight Consultants (including preparing the shortlist and issuing the RFP). It is expected that these consultants will be hired prior to loan effectiveness.
- As NCB will not be applied for this Project, there is no major conflict of national procedures, including ones involving community. It is agreed that selection of consultants will completely follow the Bank Consultant Guidelines. In addition, clarifications on shopping procedures have been made to simplify those as described in the Keppres 18/2000 as "Pemilihan Langsung". Clarifications on procedures to be followed for National Shopping will be included in the project manuals.
- General Guidelines and Technical Guidelines have been developed during project preparation. The General Guidelines will be finalized before negotiations, and the Technical Guidelines will be finalized prior to effectiveness. These guidelines should include, but not be limited to, all applicable procurement, procedures, and monitoring and reporting requirements .
- A training program on the project manuals, including on procurement, has been developed and approved by the Bank, and provided to all the project stakeholders. A special training program on selection of consultants will be provided to key project staff at PMU.

The Assessment found that the overall procurement risk is **average**. The prior review thresholds, as indicated in this Annex, are based on this capacity assessment.

Procurement methods (Table A)

A. Guidelines

Procurement of consultants shall be based on the *Guidelines for Selection and Employment of Consultants by World Bank Borrowers* of January 1997, revised in September 1997 and January 1999 (**the Consultant Guidelines**). Procurement of works, goods, and related services funded wholly or partly by the World Bank in this Project shall follow the *Guidelines for Procurement under IBRD Loans and IDA Credits* dated January 1995 and revised in January and August 1996, September 1997 and January 1999 (**the Procurement Guidelines**).

B. Procurement Plan, Strategy, and Standard Documents

The agreed project Procurement Plan providing a timeline for each step of the procurement process is found in the PIP. The procurement plan at the community level will be included in the proposal from the community groups if the proposed subproject includes a procurement activity (each proposal will include a section on procurement). This will be reviewed by the OCs during the verification of proposals and discussed and agreed upon before a subproject implementation agreement is signed. The agreed procurement plan for the entire project will be updated annually (including more detailed approved procurement plan carried out by community), and will require the Bank's prior no objection by October each year.

The standard Request for Quotations (for works and goods), and the Bank's standard Request for Proposals and contracts for selection of consultants (July 1997, Revised April 1998 and July 1999) will be attached to the project manual and agreed with the Bank prior to negotiation . The RFPs required during the first year of implementation has been agreed during appraisal.

C. Procurement of Subprojects under Kelurahan Grants (US\$ 58.8 million equivalent, including contingencies and overhead) and the Poverty Alleviation Partnership Grants (US\$ 35.2 million equivalent, including contingencies and overhead).

Procurement arrangements for this project are similar to those in the on-going Urban Poverty Project (Cr. 3210-IND). About 70% of Bank financing will finance subproject proposals made by communities either independently (for the kelurahan grants) or jointly with local governments (for the Poverty Alleviation Partnership grants). Procurement will be managed by communities using forms and procedures that have been tested and reviewed as adequate by the Bank under UPP1. These will be contained in the project manuals.

Under the kelurahan grants, each community group (BKM) may receive up to a total of Rp. 450 million (US\$ 45,000 equivalent) per kelurahan/desa to finance subprojects and microcredit subloans. The ceiling for any single subproject (to KSM groups) or microcredit subloans (to KSM groups) is Rp. 30 million (US\$ 3,000 equivalent). Individual procurements will be small and widely dispersed. Procurement procedures will therefore consist of special procedures using Community Participation, and the assignment of Individual Consultants. These procedures are defined below and will be detailed in the project manual.

The PAP Grants will finance subprojects that are prepared jointly by BKMs and local government (through their dinas offices). The amount of PAP Grants for individual subproject will range from Rp. 30 million (US\$ 3,000 equivalent) up to Rp 200 million (US\$ 20,000 equivalent). These funds will constitute up to 50% of the total cost of the subproject, as communities, dinas or other private sponsors will be required to provide the other 50% as matching funds. The subprojects must be in the form of development of public facilities/infrastructure/services that will directly benefit the community and that can be completed within 6 months. Individual procurements will be small and widely dispersed. Procurement and selection procedures will therefore consist of special procedures using Community Participation. These procedures are defined below and will be detailed in the Project Manual.

a) Community Participation for Works under the sub projects

For the development of infrastructure and other small works (less than US\$ 50,000 equivalent), works may be conducted through contributions from communities, which may be in the form of labor and materials, but may also include land. For contribution of labor, communities may choose to include full or partial labor cost in the proposals and/or pay salaries for work done on the project. Whenever construction materials are procured from suppliers, these shall follow the procedures of procurement of goods outlined below. Construction using a labor-intensive arrangement with community members is subject to the following provisions:

- (a) The architectural plans and engineering designs for the above very small civil works shall be based on Government-approved plans and designs
- (b) The implementation/subproject agreement covering these works shall include the following: (i) specified

- lump-sum, fixed price amount based on a written estimate of work to be rendered by identified laborers from the community; (ii) description in reasonable detail, including basic specifications, required completion date, and relevant drawings where applicable.
- (c) The wage rate for community labor shall follow Government standards for the location and type of labor as established by the Ministry of Settlement and Regional Infrastructure (Kimpraswil)

In areas where the community does not have the capacity to construct works themselves, the community may (with GOI prior agreement as established in the subproject implementation agreement) procure small civil work contracts (for individual contracts less than US\$ 50,000 equivalent) following procurement of small works procedures. These contracts will be contracted under lump-sum, fixed price contracts awarded on the basis of quotations obtained from three qualified contractors in response to a written invitation. The invitation includes basic specifications, required start and completion dates, an agreement format acceptable to the Bank, and relevant drawings. The quotations will be opened in public meetings and read aloud. The award will be made to the contractor who offers the lowest price quotation for the works. No restrictions on participation in the bidding is allowed.

b) Community Participation for Goods under the sub projects

Goods procured under the Kelurahan/PAP Grants includes purchase of construction materials for construction works under Community Participation, and other purchase of goods/equipment as agreed in the subproject implementation agreement.

Goods shall be procured using simplified national shopping procedures, i.e., written quotations obtained from at least three reputable local suppliers. The request for quotation includes a basic description and quantity of the goods, required date and place of delivery, and an agreement format acceptable to the Bank. The quotations will be opened in public meetings and read aloud. The award will be made to the supplier who offers the lowest price quotation. No restrictions on participation in the bidding is allowed. For subprojects located in remote areas where it is not economical to obtain prices from suppliers located far from project sites, less than three quotations is acceptable, as is direct contracting. The group proposing the subproject, however, needs to justify these methods, and verifications by project staff must be placed on record for Bank supervision.

Goods and materials for construction valued at less than Rp 15 million each (US\$ 1,500 equivalent) may be purchased from local suppliers/stores after conducting a price comparison ‘survey’ by visiting at least three local suppliers. Price comparison of less than three is acceptable whenever there is a lack of alternative suppliers. The price survey shall be conducted by two members of the community who are trusted by the community as having the required independence and integrity.

Subprojects may also include the purchase of goods provided/installed by the community or other community groups (acting as “suppliers”). These shall have reasonable rates as compared to prices of similar goods obtained from other stores nearby. The KSM shall provide acceptable technical specifications to the “suppliers” and allow adequate time for delivery and installation.

c) Community Participation for Selection of Consultants under the sub projects

Procurement of consultants under Kelurahan/PAP Grants may involve hiring of individual experts/engineers or firms through service delivery contracts. These will be very small contracts (up to US\$ 20,000 equivalent per contract), therefore competition has no added value. Individuals will be hired following the Selection of Individual Consultants, and Single Source Selection procedures for firms.

D. Consulting Services for Implementation Support and Capacity Building (US\$ 26.81 million equivalent, including contingencies), of which Overhead for PMU (US\$ 1.3 million) is NOT BANK FINANCED

The remainder of procurement actions will be for consulting services, which will be managed centrally by the Government (the Project Management Unit). The main consulting contracts are the National Management Consultants (NMC), Oversight Consultants (OCs), and Evaluation Consultants (EC). The Procurement plan for

these services is found in Table 1 below. Overall, there will be 21 main consultant service packages selected at the central level (1 NMC, 16 OCs, and 4 Evaluation Consultant packages) as well as some ad-hoc evaluation studies to be procured on an as-required basis during the implementation period.

National Management Consultants (US\$ 5.3 million including contingencies). The PMU in Jakarta will assign a National Management Consultants (NMC) to provide assistance for overall project management, monitoring and reporting. The NMC will be procured following the Quality and Cost Based Selection (QCBS) procedures. The NMC contract will initially be for a 3 year period, with a provision of a possible extension until project completion subject to good performance and with prior approval from the Bank. The possibility of such an extension shall be clearly outlined in the TOR and RFP (including in the Special Conditions of Contracts), and shall be factored during evaluation. The NMC contract will include socialization activities (about US\$ 1.9 million in value) and training for the OCs, and other skilled training estimated at a total of US\$ 1.3 million. To enhance their capacity in carrying out the above assignment, the consultants may associate with other consultants/providers in the form of joint ventures in accordance with para 1.12 of the Bank Consultant Guidelines. In such cases, the expression of interest shall be submitted by this association.

Oversight Consultants (US\$ 16.8 million). There will be 16 Oversight Consultant (OC – see Table 1 below for detailed breakdown of the location of OC) contracts procured using the QCBS method. The estimated cost for each single contract package range from US\$ 0.4 million to US\$ 1.5 million. Phase I consists of 10 contracts in provinces outside Java for a total contract amount of US\$ 10 million, and Phase II (will be implemented one year after Phase I) consists of 6 contracts in three provinces in Java for a total contract amount of US\$ 6.8 million. OCs will be hired for a 2 year period with a provision of a possible extension until project completion subject to good performance and with prior approval from the Bank. The possibility of such an extension shall be clearly outlined in the TOR and RFP (including in the Special Conditions of Contracts), and shall be factored during evaluation. The contracts for the OCs will include the selection and hiring of the kelurahan facilitators and other training and socialization activities that are not included in the NMC contract. Facilitators will be hired by OCs based on the required qualifications as described in the TOR and agreed contract terms and conditions. The facilitators are key to the supervision of the Project at the community level. They consist of a group of local people who are familiar with the physical and social conditions of the respective Kelurahan/Community where the Project is being implemented. Their role is mainly to assist the community in preparing and implementing the project, in addition to assessing the quality and readiness of particular community in carrying out the project. Based on previous experience under the Indonesian environment for projects involving communities, the facilitators are normally recruited from a certain pool/group of people within the local/Kelurahan areas. Those facilitators normally maintain their own network such that any OC consultants will basically compete on getting facilitators from the same pool. In addition, any difference on facilitator salaries (with the same qualification) may create further social problems within the facilitators network. Therefore, facilitator salaries will be pre-determined as established by a market survey in local areas by the Government carried out by the Project Preparation Team and acceptable to the Bank. The OC will be allowed to charge a management fee for handling the facilitators. The cost component for the OCs will therefore include the facilitators' salaries (estimated at US\$ 4.5 million), the cost of training conducted by OCs (estimated at US\$ 3.2 million), and socialization costs (estimtated at US\$ 1 million). To enhance their capacity in carrying out the above assignment, the consultants may associate with other consultants/providers in the form of joint ventures in accordance with para 1.12 of the Bank Consultant Guidelines, in which the expression of interest shall be submitted by this association.

List of Oversight Consultant Packages

No.	Province	# of Contract Packages	Total Estimated Amount (million US\$)	Phase	# of Kelurahan
1.	West Java + Banten	2	3.02	2	166
2.	Central Java	2	3.02	2	512
3.	East Java	2	0.75	2	339
4.	West Nusa Tenggara	1	1.10	1	201
5.	West Kalimantan	2	2.84	1	203

6.	Central Kalimantan	1	0.45	1	46
7.	South Kalimantan	1	0.78	1	86
8.	North Sulawesi + Gorontalo	1	1.28	1	149
9.	Central Sulawesi	1	0.45	1	32
10.	South Sulawesi	2	2.70	1	370
11.	South East Sulawesi	1	0.42	1	123
	TOTAL	16	16.81		2227

Evaluation Consultants (US\$ 1.6 million). There will be four main packages for Evaluation Consultants for a total estimated contract amount of US\$ 1.3 million. The first package will be to carry out a base line survey shortly after loan effectiveness, and the three consecutive contracts will be for evaluation at three different stages during project implementation. The consultants for each contract package will be procured by the PMU, following QCBS procedures. The consultant who has been hired under the previous contract package may be allowed to participate to compete for the following and subsequent packages subject to meeting the eligibility requirement. In addition, there may be evaluation studies required (a total aggregate amount of US\$ 0.3 million) which may be assigned to a firm or NGO, or to Individual Consultants. Each contract for a firm/NGO is expected to be small (less than US\$ 100,000 up to an estimated aggregate amount of US\$ 200,000), and therefore will be selected following Selection Based on Consultants Qualification (CQ) procedures. Each individual consultant contract is estimated to be small (less than US\$ 25,000 up to an estimated aggregate amount of US\$ 100,000) and the selection will follow the Selection of Individual Consultants.

Table A: Project Costs by Procurement Arrangements
(US\$ million equivalent)

Expenditure Category	Procurement Method ¹				Total Cost
	ICB	NCB	Other ²	N.B.F.	
1. Works	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
2. Goods	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
3. Services	0.00	0.00	25.53	1.28	26.81
Implementation Support and Capacity Building	(0.00)	(0.00)	(25.53)	(0.00)	(25.53)
4. Kelurahan Grants and Subloans for Subprojects	0.00 (0.00)	0.00 (0.00)	56.27 (51.15)	2.56 (0.00)	58.83 (51.15)
5. Front-end fee	0.00 (0.00)	0.00 (0.00)	0.29 (0.29)	0.00 (0.00)	0.29 (0.29)
6. Poverty Alleviation Partnership Grant Subprojects	0.00 (0.00)	0.00 (0.00)	34.38 (17.20)	0.86 (0.00)	35.24 (17.20)
7. Unallocated	0.00 (0.00)	0.00 (0.00)	5.83 (5.83)	0.00 (0.00)	5.83 (5.83)
Total	0.00 (0.00)	0.00 (0.00)	122.30 (100.00)	4.70 (0.00)	127.00 (100.00)

¹ Figures in parenthesis are the amounts to be financed by the Bank Loan/Credit. All costs include contingencies.

² Includes civil works and goods to be procured through procurement of small works, community participation, national shopping, consulting services, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs related to (i) managing the project, and (ii) re-lending project funds to local government units.

Table A1: Consultant Selection Arrangements (optional)
 (US\$ million equivalent)

Consultant Services Expenditure Category	Selection Method							Total Cost
	QCBS	QBS	SFB	LCS	CQ	Other	N.B.F.	
A. Firms	25.22 (25.22)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.21 (0.21)	0.00 (0.00)	0.00 (0.00)	25.43 (25.43)
B. Individuals	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.10 (0.10)	0.00 (0.00)	0.10 (0.10)
Total	25.22 (25.22)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.21 (0.21)	0.10 (0.10)	0.00 (0.00)	25.53 (25.53)

1\ Including contingencies

Note: QCBS = Quality- and Cost-Based Selection

QBS = Quality-based Selection

SFB = Selection under a Fixed Budget

LCS = Least-Cost Selection

CQ = Selection Based on Consultants' Qualifications

Other = Selection of individual consultants (per Section V of Consultants Guidelines) and SSS under Community Procurement (CP) as defined in this Annex.

N.B.F. = Not Bank-financed

Figures in parenthesis are the amounts to be financed by the Bank Loan/Credit.

Prior review thresholds (Table B)

It is expected that about 25% of total expenditures would be subject to prior review. The Ministry of Finance has issued a decree to state that the exchange rate to be used for determining the threshold for prior review is at IDR 10,000/US\$. This understanding will be updated from time to time with Bank's prior agreement. The following prior review thresholds have been established:

- Works: US\$ 50,000
- Goods: US\$ 20,000
- Consultant Services: US\$ 100,000 (firms) and US\$ 50,000 (individuals), and TORs for all contracts.

The contracts which are subject to prior review shall be determined from procurement plans acceptable to the Bank that are updated by October each year for implementation for the following GOI fiscal year.

All contracts below the above thresholds are subject to random post review conducted annually by the Bank to cover at least 3% of contracts implemented in that period (including ones carried out by the communities). The sampling should be selected such that priority be given to those implementing agencies (including subprojects) with more procurement problems and in need of more assistance. By the closing date of the Project, the ex-post review should be able to cover at least 10% of subprojects. In addition, the OC consultants are required to randomly review, prior to countersigning, contracts implemented by community which are NOT subject to the Bank's prior review.

The following issues should be addressed regularly during supervision:

- The capacity and capability of established project staff in implementing procurement
- The level of enforcement of the agreed procedures and documents
- The effectiveness of provinces/districts in solving procurement problems, including complaint resolutions
- An assessment of the effectiveness of the Borrower's monitoring and supervision implementation with respect to procurement.

Table B: Thresholds for Procurement Methods and Prior Review¹

Expenditure Category	Contract Value Threshold (US\$ thousands)	Procurement Method	Contracts Subject to Prior Review (US\$ millions)
1. Works	50,000	N/A	N/A
2. Goods	20,000	N/A	N/A
3. Services	100,000 (firm) 50,000 (individual)	QCBS/CQ IC	25.2
4. Kelurahan Grants (subprojects and subloans)	Small works (<50,000) Goods (<20,000)	CP, PSW CP/NS	0.00
5. Poverty Alleviation Partnership Grant Subprojects	Small works (<50,000) Goods (<20,000)	CP, PSW CP/NS	0.00

Total value of contracts subject to prior review:

25.2

Post review intensity =
3% of total contracts
covering 10% of sub
projects

Overall Procurement Risk Assessment

Average

Frequency of procurement supervision missions proposed: One every 12 months (includes special procurement supervision for post-review/audits)

¹Thresholds generally differ by country and project. Consult OD 11.04 "Review of Procurement Documentation" and contact the Regional Procurement Adviser for guidance.

Annex 6(B) Financial Management and Disbursement Arrangements INDONESIA: Second Urban Poverty Project (UPP2)

Financial Management

1. Summary of the Financial Management Assessment

This project will use a similar financial management system as the one used in the existing Urban Poverty Project (Cr.3210-IND). The existing project has satisfied the Bank's minimum financial management requirement as stipulated in OP/BP 10.02. The Management Information System (MIS) under UPP1 is being improved and will include financial reporting aspects and related standards and formats for the project financial statements. This MIS will also be used under UPP2. A review of progress made during appraisal confirms that the system will enable the PMU to apply FMR-based disbursement under UPP2.

Given the current decentralized environment, studies such as the CFAA and Fiduciary Review indicate that the country is a high risk regarding public financial management. The project will mitigate this risk in two ways: (i) greater accountability by and to communities by having participatory planning of subprojects at the community level and implementation by locally elected community representatives (BKM); and (ii) provision of technical assistance, support and oversight to each BKM. In order to ensure that communities and the public will have control over project implementation, the project will set mechanisms for accountability and transparency, which are included in the manual, and ensure that project rules are adequately enforced. The overall control risk is therefore assessed as moderate.

2. Audit Arrangements

The PMU will prepare and produce consolidated project accounts. The audit for the project accounts, including the Special Accounts, will be carried out by independent auditors acceptable to the Bank. The annual audit reports will be furnished to the Bank no later than six months after the end of the government fiscal year. Kimpraswill will appoint the auditor to audit the project in accordance with the Terms of Reference for the audit of special purpose financial statements agreed upon during appraisal. The auditor will also audit the attainment of objectives according to the agreed performance indicators. There is no outstanding Audit Report under UPP1.

Each BKM will be required to prepare a financial statement and appoint public accountants or eligible institutions (such as the accounting department of a university for kotas or kabupatens that do not have adequate qualified public accounting firms) to audit the BKM's books. The terms of reference for BKM's audit that have been agreed upon and used in UPP1, will be used in UPP2. During implementation, OC will assist BKMs to select the firm. The audit fee will be financed by BKM.

3. Disbursement Arrangements

Flow of Funds

The PMU will be responsible for the administration process of consultants (NMC, OCs and Evaluation Consultants) that are hired centrally. PjOKs at the sub-district (kecamatan) level will be responsible for the administration process on the kelurahan grants, while PjOKs at the district (kota/kabupaten) will be responsible for the PAP Grant. PMU/PjOKs will submit payment requests (SPP) to the relevant MOF Treasury Office (KPKN) at the district level. KPKN will issue payment remittance orders (SPM) to their respective bank who will transfer the money to the intended beneficiaries and make the arrangement to debit the project special account (see figure below).

Kelurahan Grants. The first withdrawal on the kelurahan grants (20%) will be supported by a Grant Implementation Agreement (signed by the PjOK and the BKM) and an approved Community Development Plan as verified by OC. For the second tranche (60%), withdrawal will be supported by evidence of adequate financial management by the BKM and implementation progress in accordance with the CDP (as verified by the OC). Withdrawal for the third tranche (20%) will be based on a review of the BKM's sustainability and implementation progress.

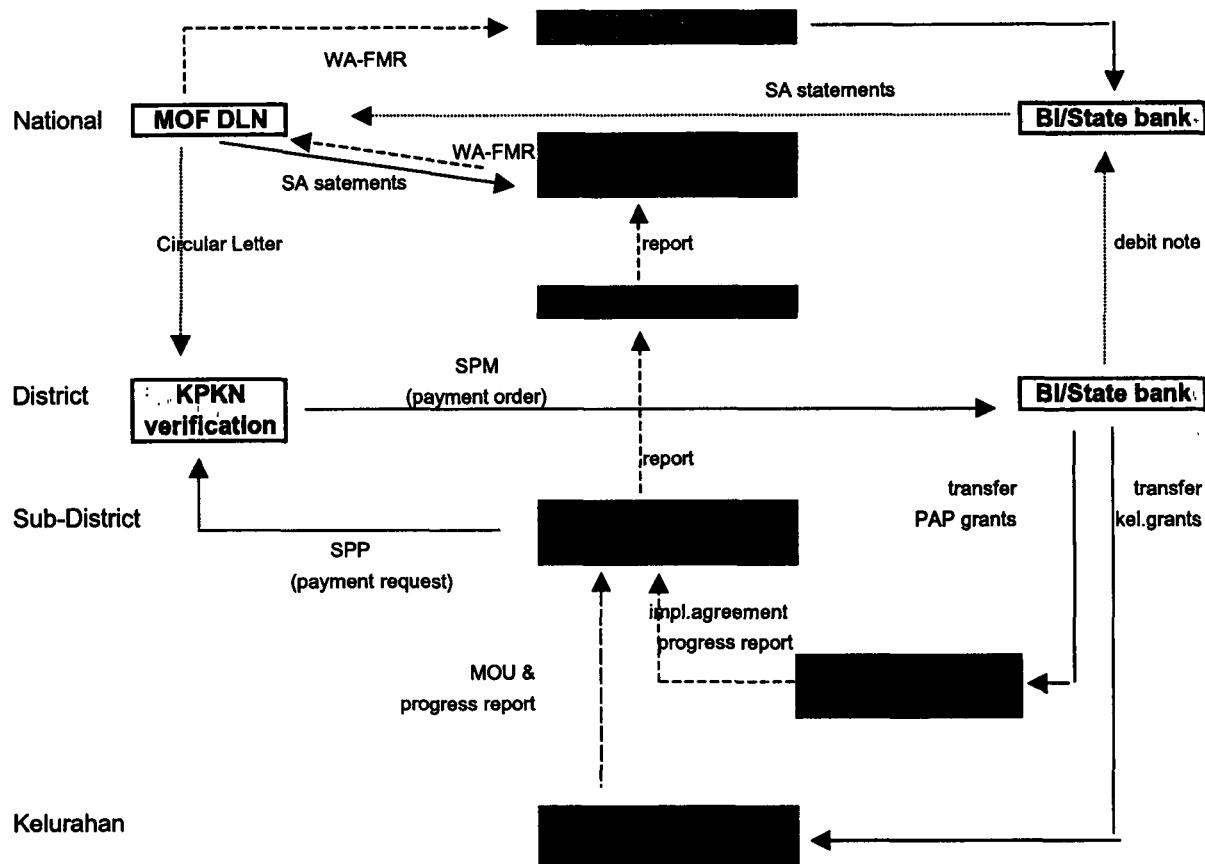
Poverty Alleviation Partnership Grants. The first withdrawal (50%) will be made upon signing of the Implementation Agreement between the PjOK and the BKMs and the Dinas. The second tranche (50%) will be based on a satisfactory progress report and evidence of the use of counterpart funds of at least an equal amount as the project disbursement.

Accounting and reporting

The accounting system and procedures at the central level (PMU) will follow the government accounting system. At the BKM level, expenditures made by the BKM will be accounted for in a simple report. The specific accounting procedures will be included in the project manual. The PMU, PjOK, BKMs and joint BKM/Dinas teams will maintain separate accounting records on a cash basis.

At the kelurahan level, the BKM (with the help of the facilitator) will prepare and submit a financial report and progress report to the OC (kota/district level) on a monthly basis. These reports will be summarized by the OCs who will submit it electronically to the PMU through the MIS in a timely manner. Based on these MIS reports, the PMU will consolidate all the information from all project units at the district and kelurahan levels into a Financial Monitoring Report (FMR) consisting of a financial report, progress report, and procurement report. The FMR will be submitted to the Bank within 30 days after the end of each quarter, along with withdrawal application to replenish the project special account through DG Budget of MOF.

Second Urban Poverty Project
Flow of Fund and Reporting Mechanism



Note:

- > fund transfer
- - -> reporting
- > memorandum

DLN	Directorate External Fund, MOF	PJOK	Administration Unit at District and sub-District
KPKN	Treasury Office, MOF	BKM	Community Organization
PMU	Project Mgmt Unit, Kimprawil	Dinas	Functional Local Government Unit
NMC	National Management Consultant	BI	Central Bank
OC	Oversight Consultant		
WA-FMR	Withdrawal Application based on Financial Monitoring Report (FMR)		

Allocation of loan/credit proceeds (Table C)

Expenditure Category	IDA (SDR Million)	IBRD (US\$ Million)	Financing Percentage
Kelurahan Grants and Sub-loans	40.461	--	100% of grant or sub-loan disbursed
Poverty Alleviation Partnership Grants	--	17.200	100% of grant amount disbursed
Consultants' services under Parts A and D of the Project*	15.252	6.200	100%
Unallocated	--	5.805	
Fee	--	0.295	Amount due under Section 2.02 of Loan Agreement
Total	55.713	29.500	

* The percentage of financing for consultants has taken into account the Standard Disbursement Percentage (SDP) as per the Country Director's memo dated 01/29/02.

Use of statements of expenditures (SOEs):

The GoI confirms the application of FMR-based disbursement system. The documentation supporting expenditures for consultants will be retained at the PMU, whereas the documentation supporting subproject and subloan expenditures will be retained at the respective district PjOKs, subdistrict PjOKs, and BKMs at the kelurahan level. This documentation will be made available to the Bank and auditors upon request.

Special account:

To facilitate disbursement under the project, a Special Account (SA) denominated in US dollars, will be established with an authorized ceiling based on a 6 month cash projection at US\$16.4 million either at Bank Indonesia or a commercial bank. DG Budget, the custodian of the Special Account, is considering maintaining the SA in a commercial (state owned) bank instead of Bank Indonesia in order to expedite payment processes given that commercial banks have wider networks. A depository bank for the SA acceptable to the Bank will be confirmed prior to project implementation. DG Budget will also issue a Circular Letter to its KPKN offices providing the detailed instructions on payment procedures under the project. A draft DGB Circular Letter would be made available before negotiations.

To enable the PMU to manage the cash flow of the SA properly, DGB shall provide copies of the weekly bank statements of the Special Account to the PMU.

Attachment 6B-1
Second Urban Poverty Project
Action Plan on Financial Management

Issues/ Problems	Remedial Action	Responsible Unit	Due Date
1. Organization structure	· Project organization structure agreed and established	Kimpraswil	Done
2. Project staffing	· Appointment of PMU manager and their team	Kimpraswil	Before effectiveness
3. Capacity of project management	· Training plan for project stakeholders including BKM training is agreed	Kimpraswil	Done
4. Project Manual	· General Guidelines completed · Technical Guidelines completed	Kimpraswil Kimpraswil	Done Before effectiveness
5. Budget & funding for first year implementation	· Budget requirement exercised and agreed · Budget document issued	Kimpraswil/ DG Budget Kimpraswil/ DG Budget	Done Soon after effectiveness
6. Payment procedures	· DG Budget's Circular Letter discussed and drafted · DG Budget Circular Letter is issued	Kimpraswil/ DG Budget DGBudget	Done Soon after effectiveness
7. Audit arrangement	· Follow up action of audit qualification under UPP1 (FY2000) · Draft TOR for UPP2 audit agreed · Appointment of auditors	Kimpraswil Kimpraswil Kimpraswil	Done Done Done

Annex 7: Project Processing Schedule
INDONESIA: Second Urban Poverty Project (UPP2)

Project Schedule	Planned	Actual
Time taken to prepare the project (months)	8	9
First Bank mission (identification)		
Appraisal mission departure	03/25/2002	04/08/2002
Negotiations	04/08/2002	05/07/2002
Planned Date of Effectiveness	10/15/2002	

Prepared by:

Department of Housing and Human Settlements, Ministry of Settlement and Regional Infrastructure
(Kimpraswil)

Preparation assistance:

Funds from UPP1 for project preparation

Bank staff who worked on the project included:

Name	Speciality
Aniruddha Dasgupta	Team Leader
Rumana Huque	Urban Planner
George Soraya	Municipal Engineer
Parwoto Sugianto	Community Development
Yogana Prasta	Disbursement and Financial Management
Unggul Suprayitno	Financial Management
Rizal Rivai	Procurement
Firman Dharmawan	Procurement
Menno Pradhan	Economist/poverty
Vivi Alatas	Economist/poverty
Tom Walton	Environment
Farida Zaituni	Environment
Chitra Buchori	Gender
Sri Kuntari	Gender
Soni Sadoko	Social
Lis Nainggolan	Social
Karin Nordlander	Lawyer
Anthony Toft	Lawyer
Christine Kessides	Peer reviewer
Vijayendra Rao	Peer reviewer
Lant Pritchett	Peer reviewer

Annex 8: Documents in the Project File*
INDONESIA: Second Urban Poverty Project (UPP2)

A. Project Implementation Plan

Final Draft, April 2002

B. Bank Staff Assessments

Procurement Capacity Assessment Report, April 2002

Financial Assessment Report, March 2002

Mid-Term Review of UPP1, April 2001

C. Other

Draft Project Manual (General Guidelines and Technical Guidelines)

Draft Handbooks for Project Implementers

Terms of References for NMC, OC, kelurahan facilitators, and community cadres

Evaluation Reports for UPP1 (carried out by Monitoring and Evaluation Consultants)

*Including electronic files

Annex 9: Statement of Loans and Credits
INDONESIA: Second Urban Poverty Project (UPP2)
02-May-2002

Project ID	FY	Purpose	Original Amount in US\$ Millions					Difference between expected and actual disbursements*		
			IBRD	IDA	GEF	Cancel.	Undisb.	Orig	Frm	Rev'd
P040578	2002	Eastern Indonesia Region Transport	200.00	0.00	0.00	0.00	184.50	-15.50	0.00	
P040528	2001	ID-Western Java Environment Management	11.70	5.75	0.00	0.00	17.37	1.90	0.00	
P049539	2001	ID-PROVINCIAL HEALTH II	63.20	40.00	0.00	0.00	102.19	14.03	0.00	
P068949	2001	LIBRARY DEVELOPMENT PROJECT - LIL	0.00	4.15	0.00	0.00	4.09	1.04	0.00	
P073025	2001	ID-SECOND KECAMATAN DEVELOPMENT	208.90	111.30	0.00	0.00	317.07	-2.00	0.00	
P059477	2000	PROJECT	0.00	77.40	0.00	0.00	67.13	-5.22	0.00	
P059930	2000	ID-WSSLIC II	13.00	5.00	0.00	0.00	15.23	8.06	0.00	
P049545	2000	DECNT. AGRICULTURAL/FORESTRY EXTENSION	0.00	38.00	0.00	0.00	33.75	9.74	0.00	
P056074	1999	ID-PROVINCIAL HEALTH I	5.00	0.00	0.00	0.00	1.81	1.81	0.38	
P055821	1999	ID-MUNICIPAL INNOVATIONS PROJECT	0.00	100.00	0.00	0.00	25.07	19.58	0.00	
P036049	1999	ID-URBAN POVERTY PROJECT	21.50	0.00	0.00	10.65	7.09	16.61	16.60	
P003967	1999	ID-EARLY CHILD DEVELOPMENT	44.70	0.00	0.00	5.00	24.22	16.92	0.00	
P064118	1999	ID-FIFTH HEALTH PROJECT	300.00	0.00	0.00	0.00	150.00	150.00	0.00	
P063732	1999	WATSAL	31.50	0.00	0.00	21.50	5.29	26.79	1.33	
P040196	1999	ID-CORPORATE RESTRUCTRG	54.50	20.10	0.00	0.00	45.81	17.03	0.00	
P041895	1999	ID-SUMATRA BASIC EDUCUATION	47.90	15.93	0.00	0.00	45.61	28.21	0.00	
P045337	1998	ID-SULAWESI BASIC EDUC.	225.00	0.00	0.00	0.00	55.54	5.42	0.00	
P048715	1998	ID-KECAMATAN DEV FUND	34.50	0.00	0.00	8.50	13.21	21.05	12.88	
P036956	1998	Indonesia - IIDP	42.50	0.00	0.00	8.00	16.39	15.06	10.48	
P040062	1998	ID-SAFE MOTHERHOOD	0.00	0.00	4.10	0.00	1.32	1.35	1.35	
P003993	1998	CORAL REEF MGMT REHA	234.00	0.00	0.00	50.00	119.66	68.16	1.36	
P040061	1998	Sumatra Reg. Rds	20.50	0.00	0.00	5.00	12.86	10.23	3.22	
P039644	1998	BENGKULU REGIONAL DEVELOPMENT	103.50	0.00	0.00	3.76	33.19	-24.55	0.00	
P036048	1998	ID-W. JAVA BASIC EDUCATION	6.90	0.00	4.10	0.00	2.88	2.88	2.88	
P040195	1997	CORAL REEF MGM REHAB	71.20	0.00	0.00	9.89	20.38	18.57	8.44	
P049051	1997	ID-QUALITY OF UNDERGRADUATE EDUC (QUE)	16.40	0.00	0.00	0.90	9.42	10.06	9.24	
P003987	1997	BEPEKA AUDIT MODERNIZATION PROJECT	104.00	0.00	0.00	0.00	38.27	36.47	0.00	
P004026	1997	ID-CENTRAL INDONESIA SEC. EDU.	105.00	0.00	0.00	20.00	71.57	88.91	0.00	
P036047	1997	Railway Efficiency	110.00	0.00	0.00	30.06	32.89	38.79	10.33	
P036053	1997	IND-BALI URBAN INFRASTRUCTURE PROJECT	155.00	0.00	0.00	67.22	11.83	79.05	6.57	
P042540	1997	IND-SULAWESI UDP II	28.50	0.00	0.00	9.70	6.63	15.50	12.73	
P041894	1997	ID-IODINE DEF. CONTROL	98.00	0.00	0.00	0.23	24.69	13.26	0.00	
P003700	1997	ID-SUMATRA SECONDARY EDUCATION	0.00	0.00	24.30	10.25	7.76	20.25	1.59	
P004003	1996	SOLAR HOMES SYSTEMS	60.40	0.00	0.00	30.00	1.31	31.31	1.31	
P004004	1996	ID-SECONDARY SCHOOL TEACHER	65.00	0.00	0.00	6.86	4.90	5.75	-0.07	
P004008	1996	DEVELOPMENT	27.00	0.00	0.00	4.90	3.18	7.08	0.00	
P003699	1996	ID-HIGHER EDUC SUP.(DUE)	0.00	0.00	15.00	0.00	7.99	4.67	0.00	
P037097	1996	NUSA TENGGARA DEV.	99.00	0.00	0.00	3.63	28.17	28.93	0.00	
P004021	1996	KERINCI SEBLAT ICDP	373.00	0.00	0.00	163.71	14.64	178.35	68.35	
P004016	1996	ID-E.JAVA SEC.EDUC.	86.90	0.00	0.00	10.00	10.00	20.00	10.00	
P004011	1996	POW. TRANS & DIST II	26.80	0.00	0.00	3.70	2.81	4.11	-2.21	
P004014	1996	Strategic Urban Rds	19.10	0.00	15.00	9.80	3.23	11.96	0.00	
P003951	1995	SULAWESI AGRI AREA	136.00	0.00	0.00	18.04	11.49	29.53	9.53	
P003972	1995	KERINCI SEBLAT ICDP	63.00	0.00	0.00	22.89	4.95	27.84	4.95	
P004001	1995	IND-KALIMANTAN UDP	325.00	0.00	0.00	96.67	42.40	139.07	89.07	
P003954	1994	AG. RESEARCH II	165.70	0.00	0.00	41.17	11.21	52.39	11.21	
P004010	1994	ID - TELECOM SECTOR MODERNIZATION	55.00	0.00	0.00	19.80	2.00	21.80	2.00	
JAVA IRR IMP & W R M										
DAM SAFETY										
Total:			3858.80	417.63	62.50	691.83	1672.98	1272.22	293.53	

INDONESIA
STATEMENT OF IFC's
Held and Disbursed Portfolio
Jan - 2002
In Millions US Dollars

FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
2001	Dianlia	4.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00
1994	KDLC Bali	0.00	1.72	0.00	0.00	0.00	1.72	0.00	0.00
1991	LYON-MLF-Ibis	2.01	0.00	0.00	2.01	2.01	0.00	0.00	2.01
1988	Manulife	0.00	0.32	0.00	0.00	0.00	0.32	0.00	0.00
1995	POF	5.14	1.93	0.00	6.00	5.14	1.93	0.00	6.00
1997	PT AdeS Alfindo	0.00	6.98	0.00	0.00	0.00	6.98	0.00	0.00
1989	PT Agro Muko	0.00	2.20	0.00	0.00	0.00	2.20	0.00	0.00
1997	PT Alumindo	13.00	0.00	0.00	12.00	13.00	0.00	0.00	12.00
1989/91/94	PT Astra	0.00	5.82	0.00	0.00	0.00	5.82	0.00	0.00
1997	PT Astra Graphia	0.00	2.00	0.00	0.00	0.00	2.00	0.00	0.00
1993/96	PT BBL Dharmala	11.35	0.00	0.00	21.40	11.35	0.00	0.00	21.40
1995	PT Bakrie Pipe	34.07	0.00	0.00	0.00	34.07	0.00	0.00	0.00
1997/00	PT Bank NISP	5.00	0.00	5.00	0.00	5.00	0.00	4.97	0.00
1997	PT Berlian	7.66	20.00	0.00	20.33	7.66	16.65	0.00	20.33
	PT Grahawita	0.00	0.00	5.00	0.00	0.00	0.00	5.00	0.00
1995	PT Indaci	0.00	0.00	1.44	0.00	0.00	0.00	1.44	0.00
1991	PT Indo-Rama	0.00	3.09	0.00	0.00	0.00	3.09	0.00	0.00
	PT KIA Keramik	16.51	0.00	0.00	53.49	16.51	0.00	0.00	53.49
1990/91/93/95/99	PT KIA Serpih	15.00	0.00	0.00	49.50	15.00	0.00	0.00	49.50
1992/94/96	PT Kalimantan	20.00	15.00	0.00	6.00	15.56	15.00	0.00	4.67
1995	PT Makro	0.00	1.24	0.00	0.00	0.00	0.79	0.00	0.00
1997	PT Megoplast	7.88	2.50	0.00	0.00	7.88	2.50	0.00	0.00
1997/00	PT Nusantara	7.63	0.00	0.00	5.93	7.63	0.00	0.00	5.93
1998	PT PAMA	0.00	0.71	0.00	0.00	0.00	0.71	0.00	0.00
1993	PT Pramindo Ikat	25.00	8.18	25.00	45.21	25.00	3.91	25.00	45.21
1994	PT Samudera	0.00	5.00	0.00	0.00	0.00	5.00	0.00	0.00
1996	PT Sayap	8.34	0.00	0.00	8.00	8.34	0.00	0.00	8.00
1993	PT Sigma	0.00	3.00	0.00	0.00	0.00	3.00	0.00	0.00
1997	PT Viscose	21.88	0.00	0.00	26.25	21.88	0.00	0.00	26.25
2001	PT Wings	7.23	0.00	0.00	8.53	7.23	0.00	0.00	8.53
1992/95	PTAstra Otopart	0.00	1.07	0.00	0.00	0.00	1.07	0.00	0.00
1997	Prudential Asia	0.00	2.24	0.00	0.00	0.00	2.24	0.00	0.00
1997	SEAVI Indonesia	0.00	1.26	0.00	0.00	0.00	1.26	0.00	0.00
1994	Semen Andalas	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1991	Sunson	12.41	0.00	0.00	8.12	12.41	0.00	0.00	8.12
1980/87									
2001									
	Total Portfolio:	224.11	84.26	37.44	272.77	215.67	76.19	36.41	271.44

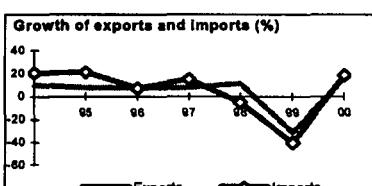
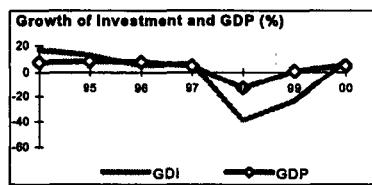
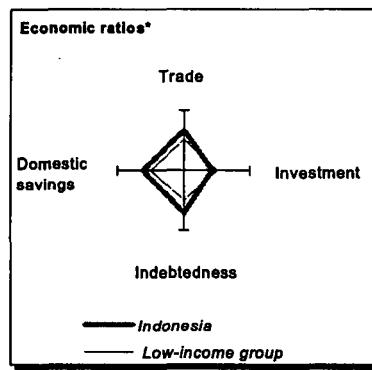
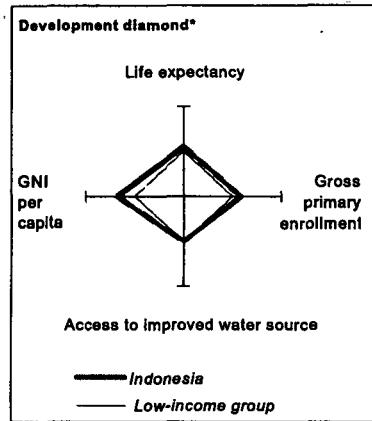
FY Approval	Company	Approvals Pending Commitment			
		Loan	Equity	Quasi	Partic
2002	ManulifePrincipl	0.00	0.00	0.04	0.00
2001	PT BLT II	12.00	0.00	0.00	0.00
	Total Pending Commitment:	12.00	0.00	0.04	0.00

Annex 10: Country at a Glance
INDONESIA: Second Urban Poverty Project (UPP2)

POVERTY and SOCIAL	Indonesia	East Asia & Pacific	Low-Income	
2000				
Population, mid-year (millions)	210.4	1,853	2,459	
GNI per capita (Atlas method, US\$)	570	1,080	420	
GNI (Atlas method, US\$ billions)	119.9	1,964	1,030	
Average annual growth, 1994-00				
Population (%)	1.5	1.1	1.9	
Labor force (%)	2.5	1.4	2.4	
Most recent estimate (latest year available, 1994-00)				
Poverty (% of population below national poverty line)	24	..	..
Urban population (% of total population)	41	35	32	
Life expectancy at birth (years)	66	69	59	
Infant mortality (per 1,000 live births)	46	35	77	
Child malnutrition (% of children under 5)	70	13	..	
Access to an improved water source (% of population)	76	75	76	
Illiteracy (% of population age 15+)	10	14	38	
Gross primary enrollment (% of school-age population)	113	119	98	
Male	115	121	102	
Female	110	121	86	
KEY ECONOMIC RATIOS and LONG-TERM TRENDS				
	1980	1990	1999	2000
GDP (US\$ billions)	76.4	114.4	141.3	153.3
Gross domestic investment/GDP	24.8	30.7	12.2	17.9
Exports of goods and services/GDP	34.9	25.3	35.2	38.5
Gross domestic savings/GDP	38.8	32.3	20.2	25.7
Gross national savings/GDP	..	28.1	13.1	19.2
Current account balance/GDP	..	-2.6	3.3	4.9
Interest payments/GDP	1.5	3.0	3.4	4.7
Total debt/GDP	27.4	61.1	106.7	92.5
Total debt service/exports	..	33.3	30.5	25.4
Present value of debt/GDP	..	..	106.0	..
Present value of debt/exports	..	..	254.9	..
	1980-90	1990-00	1999	2000-04
(average annual growth)				
GDP	6.1	4.2	0.8	4.8
GDP per capita	4.2	2.5	-0.8	3.1
Exports of goods and services	2.9	5.4	-31.6	16.1
STRUCTURE of the ECONOMY				
	1980	1990	1999	2000
(% of GDP)				
Agriculture	24.5	19.4	19.5	16.9
Industry	42.8	39.1	43.7	47.3
Manufacturing	13.3	20.7	25.9	28.0
Services	32.9	41.5	36.7	35.8
Private consumption	50.4	58.9	73.3	67.3
General government consumption	10.7	8.8	6.5	7.0
Imports of goods and services	20.6	23.7	27.2	30.7
	1980-90	1990-00	1999	2000
(average annual growth)				
Agriculture	3.6	2.1	2.7	1.7
Industry	6.9	5.8	1.9	5.5
Manufacturing	12.6	6.9	3.8	6.2
Services	6.9	3.5	-1.0	5.3
Private consumption	5.6	6.5	4.6	3.6
General government consumption	4.6	0.1	0.7	6.5
Gross domestic investment	6.7	-0.3	-23.3	8.9
Imports of goods and services	1.2	5.5	-40.7	18.2

Note: 2000 data are preliminary estimates.

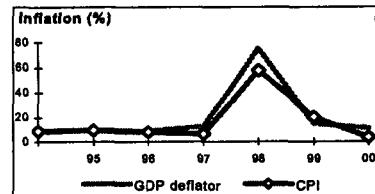
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.



Indonesia

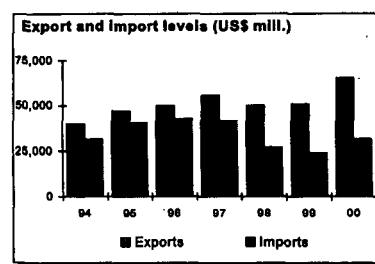
PRICES and GOVERNMENT FINANCE

	1980	1990	1999	2000
Domestic prices (% change)				
Consumer prices	17.7	7.8	20.5	3.7
Implicit GDP deflator	28.3	7.7	15.2	11.0
Government finance (% of GDP, includes current grants)				
Current revenue	..	19.3	18.0	20.1
Current budget balance	..	-2.0	2.8	3.6
Overall surplus/deficit	..	..	-2.4	-1.1



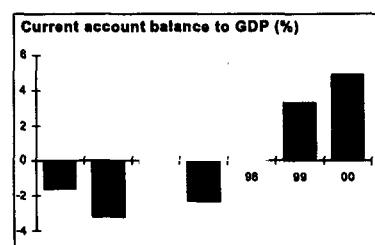
TRADE

	1980	1990	1999	2000
(US\$ millions)				
Total exports (fob)	..	26,807	51,242	65,408
Fuel	..	11,071	9,885	14,386
Estate crops	..	840	1,289	1,111
Manufactures	..	8,508	19,253	22,287
Total imports (cif)	10,834	21,837	24,003	31,962
Food	..	852	3,237	2,782
Fuel and energy	..	1,937	3,726	6,071
Capital goods	..	9,328	5,710	9,212
Export price index (1995=100)	..	63	131	129
Import price index (1995=100)	..	87	90	90
Terms of trade (1995=100)	..	72	146	143



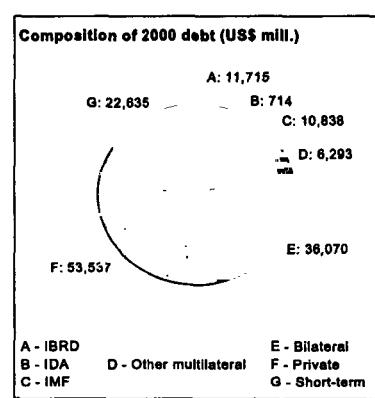
BALANCE of PAYMENTS

	1980	1990	1999	2000
(US\$ millions)				
Exports of goods and services	..	29,295	55,741	70,541
Imports of goods and services	..	27,511	42,071	55,293
Resource balance	..	1,784	13,670	15,248
Net income	..	-5,190	-8,997	-8,440
Net current transfers	..	418	0	672
Current account balance	..	-2,988	4,674	7,480
Financing items (net)	..	5,239	-2,702	-5,140
Changes in net reserves	..	-2,251	-1,972	-2,340
Memo:				
Reserves Including gold (US\$ millions)	..	..	27,054	29,394
Conversion rate (DEC, local/US\$)	627.0	1,842.8	7,855.1	8,421.8



EXTERNAL DEBT and RESOURCE FLOWS

	1980	1990	1999	2000
(US\$ millions)				
Total debt outstanding and disbursed	20,938	69,872	150,844	141,802
IBRD	1,040	9,542	11,424	11,715
IDA	566	842	682	714
Total debt service	3,084	9,946	17,900	18,810
IBRD	120	1,281	1,584	1,710
IDA	5	18	29	31
Composition of net resource flows				
Official grants	109	283	0	0
Official creditors	806	2,384	3,389	1,700
Private creditors	807	1,830	-7,021	-7,040
Foreign direct investment	180	1,093	-2,745	-4,550
Portfolio equity	0	312	-1,793	-1,911
World Bank program				
Commitments	734	1,565	1,693	164
Disbursements	373	987	1,506	1,110
Principal repayments	32	562	786	787
Net flows	341	425	720	324
Interest payments	93	737	827	955
Net transfers	248	-312	-107	-631



Additional Annex 11
SAMPLE SUB-PROJECT PROPOSAL FORMAT
INDONESIA: Second Urban Poverty Project (UPP2)

KSM Proposal – for Infrastructure Development		Format 7-c
Province	:	
City/Regency	:	
District	:	
Sub district (kelurahan/desa)	:	
Name of KSM	:	
Type of Activity/Sub-project	:	
Total # members :	Male :	Female :

A. LIST OF KSM MEMBERS

No	Name	M/F	Age	Household size	Address
1					
2					
3					
etc					

B. PROPOSED ACTIVITY/SUB-PROJECT

1) Description of the activity/sub-project:

Type: _____
 Volume: _____

Reason: _____

Location: _____

Construction Method : [] mutual help [] partial mutual help [] contracting out

Land status: _____

2) Costs

Budget component	Unit	Unit cost	Cost per component	Source of Funds	
				UPP2-KG	Own efforts
1. Labor cost					
2. Materials					
3. Equipment					
4. Technical Assistance					
5. Other costs					
Total					

3) Implementation schedule

Starting date: _____ Completion date: _____

4) Implementation arrangements

Team responsible for implementation :

Name: 1 _____
 2 _____
 3 _____
 etc. _____

5) Procurement Plan

No	Items to be procured (goods, works or skilled labor)	Procedure

(Note: See procurement section in the Technical Guidelines)

6) Operations and Maintenance Plan

No	Activities	Frequency	In Charge	Cost	Source of funds

C. SCREENING AGAINST NEGATIVE LIST

Does the proposed activity or sub-project involve, in one way or another, any activities listed below as prohibited to be financed by the UPP2 funds?

No	Items	Yes	No
1.	Construction of religious buildings		
2.	Construction of BKM offices		
3.	Construction of government offices/buildings		
4.	Government administration or salaries		
5.	Environmentally harmful products such as pesticides; ozone-depleting substances; tobacco or tobacco products; materials containing asbestos; activities producing liquid or gaseous effluents or emissions at harmful levels; activities using, producing, storing or transporting hazardous materials and wastes; logging, activities in protected areas; or fisheries sub-projects that are not in accordance with standards set by Dinas Perikanan		
6.	Illegal activities such as arms, harmful drugs or others		

D. SAFEGUARDS

1) Is it possible that the sub-project will have any adverse environmental impact ?

Yes

No

If Yes, please describe

Plan to mitigate adverse impact

(Note: See Environmental Guidelines described in Annex 2 of General Guidelines)

2) Is there any land acquisition involved ?

Yes

No

If yes, please describe the following :

- Whose land? _____
- Have the owners been consulted? _____
- What are the compensation arrangements? _____
- Who will finance the compensation cost? _____

Is there any **resettlement** or eviction involved?

Yes

No

If yes, please describe the following :

- How many people will be affected? _____
(please provide names and addresses as attachment)
- Have they been consulted? _____
- What are compensation arrangements? _____
- Who will finance the compensation cost? _____

(Note: See land acquisition and resettlement policy framework described in Annex 3 of General Guidelines)

3) Does the proposed activity/sub-project have any adverse impact on any cultural property?

Yes

No

If yes, please describe the impact :

What measures are proposed to mitigate the impact?

....., , 200...

No	Name	Position	Signature
1		Chair Person	
2		Member	
3		Member	
Etc.			

**Endorsement by
Facilitator Coordinator**

Community Cadre

Additional Annex 12

REVOLVING FUNDS FOR MICROCREDIT

INDONESIA: Second Urban Poverty Project (UPP2)

Increasing the outreach of prudential microcredit services for low-income groups through community organizations

1. How to Approach BKM Microcredit in UPP2

The entry point and focus of the UPP2 approach is the BKM. Aiming at contributing to improving the welfare of the urban poor, UPP2 focuses on enabling BKM and communities to deliver and utilize services that are responsive to the needs and demand of the poor. Based on the identification of beneficiaries and their needs, BKMs may choose to provide microcredit to low-income groups and a revolving fund for this purpose.

If this choice is made, UPP2 success would hinge on the capacity of BKM to manage credit and revolving funds, and on the capacity of credit groups and their members to plan and manage loan use. Whether or not the BKM can sustain its revolving fund will depend on credit quality and financial management capacity. UPP2 gives BKM and community groups the opportunity choose between various poverty reducing activities. IF BKM and community groups opt for microcredit, however, UPP2 will require them to observe project rules and prudential microcredit standards. The UPP2 microcredit approach will focus on ensuring the quality of both the lender and the borrower side. On both sides the approach has two entry points: (i) clearly defined eligibility criteria for BKM, the manager of any revolving fund operation (an UPK designated by the BKM), and community groups to start credit activities; and (ii) project support to strengthen BKM, UPK and community groups in their function to manage credit activities.

UPP2 rules and support services will reflect different organization and management needs depending on the size of revolving funds. The approach makes a pragmatic distinction between BKM with revolving funds smaller than IDR 100 million (=BKM A) and BKM with revolving funds larger than IDR 100 million (=BKM B).

2. Objectives and and Support Strategy

BKM should aim at decreasing the demand-supply gap of institutional microfinance. This requires that low income groups without access to institutional microfinance are well targeted and provided with services that reflect their real demand. Therefore, the **development objective** of the UPP2 microcredit support strategy will be: *BKM have increased outreach to low-income groups with prudential credit services and revolving fund management.*

The direct target group of the microcredit support strategy is the BKM/UPK. The indirect target group are low-income groups to which BKM/UPK provide credit services. The **target group definition** of the microcredit strategy is: *Low-income groups with profitable business opportunities and adequate repayment capacities who have no current access to institutional credit providers or other program credit.*

To ensure that the microcredit development objective will be achieved, project implementation will focus on producing five microcredit support outputs:

- Project support for BKM revolving fund management is prepared.
- BKM are eligible and prepared to use kelurahan grants for revolving fund activities.
- Credit groups and members are eligible and prepared to use credit effectively.
- BKM/UPK capacity to manage credit and revolving funds is strengthened.
- BKM/UPK information and supervision system is well functioning.

3. Approach for Targeting Low-income Groups in UPP2

While UPP2 targets poorer kelurahan, it provides room for flexible community “self-targeting” of project beneficiaries. This approach will be generally maintained, but credit targeting requires unmistakable information, guidelines and eligibility criteria to ensure increasing outreach to and preventing negative effects for low-income borrowers.

The definition of “low-income borrowers” must be pragmatic and easy enough to serve as a guideline for “self-screening” by community members, and it must be broad enough to include access poor with business opportunities who do not fall under the poverty line of the extremely poor. The definition proposed here is: *Borrowers from households with an annual per capita income plus savings lower than the value of 1,000 kg rice per capita calculated at local prices.*

The UPP2 credit targeting approach will consist of credit eligibility criteria and three indirect targeting steps:

- (i) **Identifying community members for new credit group formation:** information disseminated about credit functions, target group and eligibility criteria; potential credit group members identified through community self-screening process; eligible candidates select their peers to start with the credit group formation process.
- (ii) **Screening credit eligibility through credit group formation.** Credit group formation (both new and existing groups) will be about supplying evidence for credit eligibility. This includes a) becoming capable of analyzing and planning household economy, businesses and credit, and b) ensuring that groups and members are eligible for submitting loan proposals.
- (iii) **Indirect targeting through lending policies.** Discourage borrowers outside of the target group by lending policies: loan approval dependent on compliance with credit eligibility criteria; maximum loan ceiling for first time borrowers to IDR 500,000 and for subsequent loans to IDR 2 million; maximum loan term of 12 months but in line with loan use; at least monthly installment frequency and interest payments; interest rates that reflect current rates of local banks, operating and loan loss costs, and the need to sustain the net value of capital.

4. Principles of the UPP2 Microcredit Approach

4.1 Revolving Fund Governance and Management

- Clear ownership: revolving funds as institutional capital.
- Bylaws determine objectives and regulations of this institutional capital.
- Objective: increasing outreach to low-income groups without access to institutional credit through prudential microcredit services.
- Revolving fund management separated from other BKM activities; operational autonomy for UPK.
- Credit procedures in one hand and credit decisions subject to prudential microcredit standards, not participative deliberation and voting in public meetings.
- Direct lender-borrower relationships in all credit procedures.
- UPK managers are capable persons and graduated from training courses.
- UPK have standard accounting and financial reporting system.
- UPK are supervised, internally by supervisory body, externally by capable consultancy & supervision institution.

4.2 Credit Access, Services and Management

- Potential borrowers are aware of credit functions, procedures and eligibility criteria.
- Credit groups meet eligibility criteria and are capable of analyzing and planning of the businesses and household economy of their members.
- Credit access only for borrowers with profitable business opportunities and repayment capacity, but without access to institutional or program microcredit.
- Borrowers pledge guarantees, i.e., measurable efforts of joint responsibility and collateral savings, to get access to credit.
- Gradual access to credit based on track records. Low maximum loan ceiling for first time borrowers,

- higher maximum ceilings for well performing borrowers.
- Well performing borrowers have sustained access to credit.
 - Loan amount and terms reflect real credit demand and repayment capacity.
 - No loans for purposes other than business development.
 - Interest rates reflect local market rates; cover operating and loan loss costs, and sustain the net value of revolving fund capital.
 - Incentive for timely repayment as part of the interest rate composition.
 - Discourage UPK from mobilizing savings from the public. Encourage credit group members to develop regular savings habits.

4.3 Microcredit Support System and Exit Strategy

- Microcredit support strategy based on logical framework.
- Project M&E separated from UPK M&E and supervision.
- Standardized accounting system of UPK as basis of UPK M&E and supervision.
- Improved quality of UPK information system as part of supervision function.
- All project activities related to the microcredit support strategy management by central microcredit team and regional microcredit experts.
- Each project region cooperates with external consultancy & supervision providers.
- UPK and credit groups graduated from training before starting credit operations.
- Focus on improving the quality of credit and revolving fund management.
- Discourage BKM without adequate management capacity to establish large loan funds.
- Assist sound and potential UPK to prepare institutional development plans and sustain access to consultancy & supervision services.
- Ensure that profitable BKM/UPK with large and growing revolving funds gradually take over the costs for technical assistance and supervision.

5. Eligibility Criteria

5.1 BKM

- The decision to set up a revolving fund is democratically legitimated, based on real credit demand, and reflected in the Community Development Plan.
- Separated revolving fund management from other operations: section for BKM A (Seksi Kredit Micro or SKM); organizationally separated unit for BKM B (Unit Kredit Micro or UKM).
- Agreed upon bylaws for revolving fund operations: as part of BKM (A) bylaws; separate UKM bylaws for BKM (B).
- Bylaws define revolving fund allocations as institutional capital to be used for serving low-income borrowers with profitable business opportunities but without access to institutional credit providers.
- SKM/UKM has personnel with adequate experience and background, graduated from the basic and, for UKM, the advanced revolving fund training course.
- SKM/UKM has standard UPP2 accounting and financial reporting systems, separated from other BKM transactions.
- BKM (A) has assigned a member of its management board to supervise its SKM, or (B) has established a separate supervisory board for its UKM.
- Qualified external SKM/UKM supervisor is available and accepted by the BKM.

5.2 Credit Groups

Credit group members:

- trust each other and are able to work together;
- regularly deposit savings;
- participate in group meetings to analyze and plan household economy, business opportunities and credit demand.
- come from low-income households;
- have *profitable business opportunities*;
- have no access to institutional credit or to credit programs.

Credit groups:

- have a legitimate and active management committee;
- have agreed upon group objectives, activities and rules;
- carry out regular group meetings to plan and monitor activities;
- have a basic group and financial administration;
- have loan passbooks for each member;
- submitted joint responsibility agreement signed by all members;

6. UPP2 Microcredit Support Services

6.1 BKM

- (i) **Inception training course** for BKM leaders, including: (i) UPP2 microcredit approach; (ii) substance of eligibility criteria; (iii) identification of credit demand for preparing the community development plan; and (iv) revolving fund organization and management. The one-day course will be carried out by OC staff, especially the microcredit expert.
- (ii) **Technical assistance** will be provided by the OC and external consultancy service provider for setting up an adequate revolving fund organization and management.
- (iii) **Supervision/M&E** refers to inspecting whether the BKM has met all eligibility criteria for setting up a revolving fund. This inspection will be carried out by the OC and will be documented in the BKM revolving fund eligibility form.

6.2 SKM/UKM

- (i) **Basic training course** on: UPP2 microcredit approach; basic accounting system; credit groups functions; loan proposal planning; credit group supervision; credit analysis and procedures; financial reporting; consultancy and supervision services. The 5-days course will be carried out by the OC microcredit expert and outside training providers based on modules prepared at the central level. Both SKM and UKM staff have to graduate successfully (certificate) from this course prior to credit operations.
- (ii) **Advanced UKM training course** on: organization management; advanced accounting system; financial management; product development; UKM development planning. The 5-days course will be carried out by the OC microcredit expert and outside training providers based on modules prepared at the central level. The UKM manager and loan officers have to graduate successfully (certificate) from this course within 3 months after the volume of the revolving fund exceeded IDR 80 million.
- (iii) **Technical assistance** to SKM/UKM will be provided by external consultancy/supervision (CS) providers. It will comprise the initial setup and monthly routine visits to solve current problems. Results will be documented in monthly CS reports that focuses on problem analysis and follow-up recommendations. The report will be made available to BKM and OC.
- (iv) **Supervision** of SKM/UKM will be carried out by external CS providers on the basis of standard instruments through: a) monthly off-site supervision based on financial reports submitted by SKM/UKM. Supervision results and advise will be documented in monthly CS reports; b) quarterly on-site supervision, a comprehensive inspection of SKM/UKM management, accounting, and credit services. The supervision report will include a rating of the SKM/UPK soundness. The report will be made available to BKM and OC.
- (v) **Phasing-out support** will be provided during the last six months prior to project termination. Based on an evaluation of SKM/UKM soundness and development potentials, sound and potential UKM will be assisted to prepare basic conditions for becoming sustainable microcredit institutions. Sound and potential SKM will be assisted to sustain revolving fund operations. Sound and potential SKM/UKM will be assisted to build/strengthen secondary structures (association) for proving support services to their members and to gradually take over costs of consultancy and supervision services.

6.3 Credit Groups

- (i) **Inception training course** on: credit functions and eligibility criteria; business and household economy planning; loan proposal procedures; credit management functions of the group. The training course will take 2 days (effective) and is carried out by kelurahan facilitators, community cadres and outside resource persons.
- (ii) **Practical training in group meetings** as part of the group formation process or as part of preparing existing

groups: transforming inception training into practice. This will take at least three group meetings and will result in a business and household economy plan for each group member. The training will be carried out by community cadres and will be attended by SKM/UKM staff.

- (iii) Technical assistance will be provided, i.e. for loan proposals preparation by community cadres and SKM/UKM staff who will participate in all group meetings prior to loan disbursement. Community cadres and SKM/UKM staff may seek external resource persons, if needed for solving special problems.
- (iv) Supervision/M&E comprises two approaches: participation in group meetings and credit supervision. Community cadres and SKM/UKM staff will evaluate whether group members supply evidence for their credit eligibility. Results will be documented in one credit group eligibility form. Credit supervision by SKM/UKM includes on-site inspection of loan use and off-site monitoring of loan repayment.

7. Implementation Process of the UPP2 Microcredit Support Strategy

7.1 Preparation Phase

Central level

- UPP2 microcredit support strategy is agreed upon;
- UPP2 general and technical manual prepared in line with strategy;
- Central microcredit team active;
- Revolving fund management instruments prepared;
- Handbooks for SKM/UKM and credit groups prepared;
- Handbooks for BKM and project staff in line with microcredit strategy;
- Training system, modules and training implementation plan prepared;
- Consultancy/supervision system and implementation plan prepared;
- SKM/UKM monitoring and evaluation system computerized.

Regional level

- Regional stakeholders informed about microcredit strategy;
- OC microcredit expert active;
- Implementation of microcredit support system planned;
- External consultancy/supervision providers identified and assigned;
- Project staff trained;
- SKM/UKM monitoring and evaluation system computerized.

Kelurahan level

- Community informed about microcredit strategy and eligibility criteria;
- BKM inception training carried out;
- Credit demand identified for community development planning;
- BKM decided upon: revolving fund allocation, SKM/UKM organization and staff;
- SKM/UKM staff graduated from UPP2 training courses;
- SKM/UKM organization and administration set up;
- SKM/UKM prepared cashflow and activity plans;
- BKM eligibility evaluated.

Credit group level

- Members informed about microcredit strategy and eligibility criteria;
- Credit group training carried out;
- Members assisted to analyze and plan businesses and household economy;
- Groups assisted to meet credit eligibility criteria;
- Loan proposals prepared;
- Credit group eligibility evaluated.

7.2 SKM/UKM Operation and Support Phase

SKM/UKM

- Receive loan proposals, re-check credit eligibility, analyze proposal feasibility;
- Loan decision and agreement;
- Loan disbursement;

- Loan supervision and group monitoring;
- Financial administration, analysis and reporting;
- Monthly reports submitted to consultancy and supervision institution.

Consultancy and supervision provider

- Monthly consultancy visits to SKM/UKM;
- Monthly off-site supervision and data inspection;
- Quarterly on-site supervision and ranking of SKM/UKM soundness;
- Monthly consultancy and supervision reports to SKM/UKM;
- Monthly consultancy and supervision reports to OC microcredit expert.

OC: microcredit expert and database operators

- Analysis of consultancy and supervision reports;
- Monthly meetings with consultancy and supervision provider;
- Data inspection and entry;
- M&E of microcredit support based on logical framework & implementation plan;
- Recommendations for follow-up actions to regional project management;
- Monthly monitoring reports and data submitted to central microcredit team;
- Quarterly analytical report submitted to central microcredit team.

Central microcredit team and database operators

- Analysis of OC reports and evaluation of SKM/UKM soundness;
- Data inspection and entry;
- M&E of support activities based on logical framework & implementation plan;
- Quarterly meetings with OC microcredit experts;
- Recommendations for follow-up actions to central project management;
- Monthly monitoring reports submitted to central project management;
- Quarterly analytical report submitted to central project management.

Central and regional project management

- Policy decisions and enforcement of compliance with project rules.

7.3 Microcredit Support Termination Phase

Central project management / microcredit team

- Policy and implementation plan for phasing out project support prepared;
- Support services for revolving fund sustainability on request.

OC / microcredit team

- Evaluation of SKM/UKM soundness and development potentials;
- Classification of SKM/UKM according to soundness, development potentials;
- Identification of additional technical assistance needs of potential SKM/UKM;
- Implementation plan for phasing out project support prepared.

Consultancy and supervision provider

- Technical assistance for sound and potential UKM to prepare future as sustainable microcredit providers;
- Technical assistance for sound and potential SKM to sustain revolving fund operations;
- Technical assistance for less sound but potential UKM to improve performance;
- Final evaluation of soundness and development potential.

Sound and potential SKM/UKM

- SKM/UKM gradually take over costs of consultancy and supervision;
- SKM/UKM build secondary structures (association) to sustain support services for their members after project termination and to network with third parties.

Central and regional project management

- Liquidate SKM/UKM that are not sound and have no development potential.

8. Organization and Management of UPP2 Microcredit Support Strategy

8.1 Actors and Roles

Community cadres together with kelurahan facilitators are the key persons for ensuring quality on the borrower side. They will be involved in carrying out credit group training, assisting the groups in planning and monitoring activities, and monitoring credit eligibility.

Kelurahan facilitators manage UPP2 field implementation. For the microcredit support system, they have to manage credit group support and to assist the community cadres. They are responsible for ensuring and evaluating credit group eligibility.

OC and regional microcredit expert. The OC microcredit expert will be managing all inputs of the microcredit support system. He/she will cooperate with and supervise the SKM/UKM CS provider He/she will cooperate with the central microcredit team, especially in monitoring, evaluating and improving the UPP2 microcredit system. The OC microcredit expert will be assisted by two database operators.

External SKM/UKM consultancy and supervision provider will ensure that (i) services provided to SKM/UKM improve revolving fund management, and (i) UPP2 management gets reliable and complete credit and revolving fund information.

Central microcredit team. The team will consist of at least three microcredit experts and will be steering all activities (design, planning, training, technical assistance, monitoring and evaluation) of the microcredit support system. For this purpose, the team will closely cooperate with the OC microcredit expert and the regional SKM/UKM consultancy and supervision institutions. The team will be assisted by two database operators.

8.2 Monitoring & Evaluation of Microcredit Support Performance

Project monitoring and evaluation aims at measuring project performance based on planned objectives, outputs, activities and inputs. The monitoring and evaluation of microcredit support performance will be based on the logical framework presented below. It includes 29 performance indicators that will be used to assess whether or not the objective and five outputs of the support strategy are achieved. M&E of microcredit support performance will be carried out by the regional and the national consultants. The central and OC microcredit experts will provide major inputs.

8.3 Monitoring & Evaluation (Supervision) of SKM/UKM Performance

Revolving fund monitoring and evaluation aims at improving the quality of SKM/UKM services and management. The monitoring and evaluation of SKM/UKM performance will be based on a standardized accounting and financial reporting system. Information that can be derived from the system includes information about credit transactions and quality, loan portfolio quality, and SKM/UKM soundness with regard to management and financial aspects.

To ensure reliable and complete credit information as well as reliable assessments of SKM/UKM soundness, monitoring and evaluation of SKM/UKM performance will be made an element of SKM/UKM supervision. The project will hire capable external CS providers, who will work on the basis of standard terms of reference and instruments prepared by the project. The CS providers are responsible for delivering good quality data and carefully prepared reports on SKM/UKM performance to the project. This information will be processed by the OC microcredit expert and the central microcredit team for project management and reporting purposes.

A note on microenterprise development approaches and the heterogeneity of the microenterprise sector

Microenterprise support may comprise approaches such as capacity building for microentrepreneurs, production and marketing support, microcredit services, and institution building of both microcredit providers and microentrepreneur organizations. Microenterprise development projects differ with regard to the emphasis given to one of these approaches and, depending on the approach, with regard to outreach scope.

Direct microenterprise development approaches support the expansion of microenterprises and their graduation to the small enterprise sector. They may provide the whole range of assistance required and are able to facilitate sustainable enterprise growth, but they reach only a small number of microentrepreneurs because they must focus on the development of individual businesses.

Poverty-oriented approaches aim to integrate low-income people into the microenterprise sector and are more concerned with the formation of family-based micro businesses. Either outreach is limited by the complex and direct support needed for enterprise formation, or the aim of reaching as many of the poor as possible reduces the quality of direct support services.

Group-oriented approaches try to cope with this challenge by delivering services and strengthening microentrepreneurs indirectly through their groups and associations. While this approach allows for increasing outreach, it requires considerable investment in the institutional development of microentrepreneur organizations.

Minimalist microcredit approaches focus on providing credit and often use group lending to channel credit. They have the advantage of reaching a large number of low-income people by focusing on one service, but they must neglect the multi-faceted needs of microentrepreneurs.

Microfinance institution development approaches focus on the development of institutions that are able to sustain financial services to a growing number of low-income people. These approaches can meet demand with good quality services, but they also lack attention to the complex development needs of micro businesses.

All mentioned approaches have their advantages and disadvantages. The preference for one of the approaches or a combination of approaches depends on development objectives and expected outreach to the heterogeneous microenterprise universe. The microenterprise sector covers a great diversity of businesses, technology, organization of production, market linkages, entrepreneurial attitude, and local economic conditions. The heterogeneity of the microenterprise sector results in a high variance of needs, which require different types of assistance. This makes it impossible to standardize support strategies and difficult for large projects that are not specialized in microenterprise development to effectively support the development of many individual microentrepreneurs.

Options for UPP2

UPP2 is a large project in terms of area covered and beneficiaries targeted. Project implementors at the local level are burdened with many tasks other than microcredit and microenterprise development, and usually lack the skills required for supporting microenterprise development. This situation limits the choices for the UPP2 microenterprise development approach. It is not realistic to envisage a direct approach for assisting individual microentrepreneurs.

The UPP2 microcredit strategy takes an indirect approach and includes the minimalist microcredit and the group-oriented approaches mentioned above:

- if they opt for microcredit, BKM-UPK will be assisted to provide credit services that meet the real demand of low-income borrowers and their micro businesses;
- credit eligibility criteria try to ensure that borrowers with profitable businesses are reached;
- the credit group formation process will be directed at ensuring that loan proposals are prepared on the basis of the real business opportunities of borrowers, and will include capacity building for borrowers to analyze and plan their businesses.

Beyond this microcredit and group approach, UPP2 will apply the following approaches to support the development of microenterprises:

- Local consultants, kelurahan facilitators, and BKM will be trained to identify microenterprise development needs, and to assist microentrepreneur groups through facilitating access to governmental

and non-governmental service providers.

- In selected cities, UPP2 may start pilot programs by sub-contracting capable microenterprise development organizations that focus on providing services to the project's target groups. This requires that such organizations exist, and have intimate and local knowledge of the microenterprise sector.
- A major constraint for microentrepreneurs is the lack of information. A possible pilot would be to support BKM in developing information centers where the kelurahan community can exchange information and has access to product and marketing information. Also such a pilot would have to be out-sourced to capable microenterprise development organizations.
- UPP1 has had little knowledge on the microenterprise activities of its target group. An asset for UPP2 in developing adequate approaches such as the ones mentioned above would be to conduct a series of studies on the business constraints and opportunities of credit group members.

LOGICAL FRAMEWORK FOR THE UPP2 MICROCREDIT SUPPORT STRATEGY

NARRATIVE SUMMARY	PERFORMANCE INDICATORS	SOURCE OF INFORMATION	IMPORTANT ASSUMPTIONS
HIGHER-LEVEL GOAL <i>The economic situation of low-income groups is improved.</i>	1. Increase in business sales, income and capital for different income/borrower classes. 2. Increase in household income, expenditures and assets for different income/borrower classes.	Impact studies Impact studies	
MICRO-CREDIT SUPPORT STRATEGY: OBJECTIVE <i>BKM have increased outreach to low-income groups with prudential credit services and revolving fund management.</i>	1. All borrowers are not indebted to institutional credit providers or credit programs, and 80% of first-time borrowers had no access to institutional credit in last 3 years. 2. All first-time borrowers are from households with a annual per capita income plus savings lower than the value of 1,000 kg rice calculated at local prices. 3. Returns from loan use are higher than loan principal plus interest. 4. Average repayment rate after final due date higher than 90%. 5. Loan amount overdue > 1 installment is less than 10% of the total loan portfolio in 80% of the BKM/UPK.	Loan proposal Loan proposal Credit studies CS reports CS reports	Borrowers use loans in line with loan purpose, for improving their economy. Sustained access to credit. Favorable ec. conditions.
OUTPUT 1 <i>Project support for BKM revolving fund management is prepared.</i>	1. National microcredit team and OC microcredit expert active. 2. BKM/UPK training, consultancy and information systems ready. 3. All project staff informed about the microcredit strategy and trained in accordance with their functions. 4. MC implementation plans at national, provincial and district level available. 5. External BKM/UPK consultancy and supervision institutions mobilized	MIS reports MIS reports MIS reports MIS reports MIS reports	
OUTPUT 2 <i>BKM are eligible and prepared to use project grants for revolving fund activities.</i>	1. Community and BKM are informed about the microcredit strategy. 2. BKM meet all eligibility criteria for revolving fund management. 3. BKM agree to comply with project rules and accept supervision by external institution.	MIS reports MIS reports Eligibility form MIS reports Agreement	BKM start credit disbursement after all eligibility criteria are met.
OUTPUT 3 <i>Credit groups and their members are eligible and prepared to use credit effectively.</i>	1. Group members are informed about the microcredit strategy. 2. Groups and potential borrowers meet all eligibility criteria for getting access to credit. 3. Credit group training finalized before loan disbursement.	MIS reports MIS reports Eligibility form MIS reports	Continued group activities and coherence.
OUTPUT 4 <i>SKM/UKM capacity to manage credit and revolving funds is strengthened.</i>	1. Credit products designed to meet demand of and to deepen outreach to low-income groups. 2. Loan approval and conditions reflect loan use and repayment capacity. 3. Borrowers with good track records have sustained access to credit. 4. SKM/UKM staff has intimate knowledge of borrowers and loan use. 5. Loan portfolio quality is improved or good quality is maintained. 6. Interest income increasingly covers financial intermediation costs.	CS reports CS reports CS reports CS reports CS reports CS reports	SKM/UKM comply with project provisions and consultancy / supervision recommendations.
OUTPUT 5 <i>SKM/UKM information and supervision system is functioning.</i>	1. SKM/UKM advised how to improve performance through monthly consulting visits and reports. 2. SKM/UKM submit on time monthly financial reports to the external supervisor. 3. SKM/UKM soundness rated based on financial reports and quarterly on-site inspections. 4. SKM/UKM supervisors submit on time inspected credit data and supervision results to the OC. 5. Credit data and supervision results are analyzed by UPP2 microcredit experts, and are reported to project stakeholders in monthly briefs and quarterly reports.	MIS reports MIS reports MIS reports MIS reports MIS reports	

Additional Annex 13

MONITORING AND EVALUATION

INDONESIA: Second Urban Poverty Project (UPP2)

Monitoring and evaluation is a key feature of projects that are community driven and widely dispersed. A number of important lessons have been learned through the experience with monitoring and evaluation in UPP1. The two main issues were the following:

- § Independent monitoring and evaluation consultants (M&E consultants) were hired for the duration of the project. The National Management Consultant (NMC), which was in charge of project management, was also assigned monitoring tasks. This created some confusion on who was responsible for project monitoring. The NMC relied on the M&E consultants to monitor performance, and since there was little ownership by NMC of the results, monitoring reports were not consistently used by the NMC to make management decisions.
- § The NMC was in charge of setting up a computerized Management Information System (MIS). The Oversight Consultants (OCs), who came on board prior to the NMC, had already developed their own monitoring systems by the time the MIS was set up, with the result that some OCs had dual monitoring systems. This sometimes made it difficult to obtain consistent data for project monitoring.

These lessons have been incorporated into a revised M&E system for UPP2. In UPP2, the monitoring and evaluation tasks will be separated, with monitoring made the responsibility of NMC, while evaluation tasks will be contracted out to separate consultants on a task by task basis.

Project Monitoring

In UPP2, project monitoring will be the full responsibility of the NMC. The NMC will be hired prior to the OCs, and the OCs trained by the NMC, including training in the use of the MIS. Monitoring will be done with a view to analyzing and improving project management and the results used to make management decisions.

The MIS system has been redesigned during project preparation to streamline data collection and the method of collection. Monitoring information will be entered into the system using web-based data entry screens (a paper-based system will also exist as a backup and for areas that do not have easy access to computerized systems). Facilitators will enter kelurahan specific information into the system, for which they will receive training. Community cadres and BKMs will also be assisted in using the monitoring systems, which they will be able to continue to use once the project has concluded. The information will be transferred electronically to the OC and NMC. OCs will provide assistance to facilitators/BKMs to operate the system and, where technical resources are insufficient, enter the information provided by the facilitators/BKM into the system. OCs will also enter their process implementation monitoring data into the system. Monitoring data will be available at all levels, allowing for BKMs to benchmark their performance with those of their neighbors. The system will be set up so that it can generate reports for local governments at each level.

The monitoring system will take account of the open menu nature of the project while, at the same time, generating comparable information for investments which are frequently chosen by BKMs. For instance, if the BKM chooses to allocate part of their funds as a revolving fund for microcredit, they will be required to furnish monitoring information for this component using the centrally designed system. The thematic teams in the NMC in charge of the project components (community development, microcredit activities, the PAPG, and socialization and training) will utilize the information generated through this system.

Project Evaluation

Project evaluation will consist of a series of impact evaluation studies and a number of studies to be determined over the course of the project. Evaluation Consultants will be hired on a periodic basis, first to carry out a baseline

survey, and subsequently to carry out follow-up surveys and evaluation studies at least three times over the project period. The surveys will investigate the project-governance-poverty link in addition to the project-investment-poverty link. A control group of urban kecamatan which are not included in UPP2 will be included in the surveys. The objective of the studies is to determine the effectiveness of the intervention and the underlying causes. A combination of data from the Management Information System and the above- described surveys will be used to provide an analysis of the impact of the project. The studies are scheduled such that they can feed back into the project design.

The studies will aim at measuring the impact of the UPP intervention on local level governance and poverty. A control group of urban sub-districts will be included in the survey to obtain the counterfactual. The 1999 village census data will be used to find similar control sub-districts. Although the excluded sub-districts are excluded because they score the highest on a welfare indicator (also constructed from the village census) it is expected that it will be possible to find matches which are similar to the treatment group. The reason is that the exclusion of the richest sub-districts was done by district. So also in poor districts, some sub-districts have been excluded increasing the likelihood that we are able to find appropriate control group sub-districts for poor treatment sub-districts. Any remaining selection bias will be dealt with by applying differences in differences and possibly instrumental variables. The advantage of having a baseline survey is that one is able to apply difference in differences and, in addition, test for the validity of instrumental variables to be used in later impact studies.

The instruments and methodology to be applied will be developed in close cooperation with the PMU and the World Bank. The Evaluation consultant will need to obtain approval from these institutions before fielding the surveys.

There will be a separate allocation of funds to hire local NGOs, universities or qualified individuals to carry out ad-hoc evaluations or surveys on an as-needed basis. An example could be case studies to study the reasons for success of the best performing BKMs. The project will also seek to establish independent "watchdogs" for the project, for example, newspapers which could be contracted to write articles about how UPP2 operates on a regular basis. This has been done successfully in KDP. The project will provide full access to monitoring, financial and evaluation data to these "watchdogs".

Performance Indicators

The broad objectives of UPP2 are to increase the capacity for collective action at the kelurahan level, to increase access to various types of services, and to reduce poverty. Multiple instruments are needed to capture these two broad objectives. The indicators in the table below have been selected on the basis of their direct relevance to the objectives and the fact that they are easily quantifiable. The indicators will be collected primarily through the MIS system. Indicators that are difficult to measure through the MIS will be collected through the series of evaluation surveys (described below) which are implemented by the Evaluation Consultants. The results of the second round of these surveys should be available by the time of the mid term review.

The success of UPP2 will, however, eventually be measured by more than just these indicators. Various studies focusing on particular issues, such as gender or corruption, are planned and budgeted for. The evaluation surveys will also shed light on how well UPP has been able to reduce poverty and increase local level governance in general. These sorts of issues are not easily quantifiable and setting performance targets for them at the start of the project is not very useful.

Performance Indicators

		MID TERM REVIEW		End of Project	Source of Data
		Phase I sites	Phase II sites		
I. SOCIALIZATION					
Number of Kelurahans participating	1210	1017	2227	MIS	
Percent of Kelurahan population who participated in socialization meetings	10%	10%	10%	MIS	
Percent of poor Kelurahan population that attended at least one socialization meeting	25%	25%	25%	Surveys	
Number of socialization meetings per Kelurahan	24	24	24	MIS	
* Percent of Kelurahan population aware of Project and its objectives	30%	15%	70%	Surveys	
II. COMMUNITY ORGANIZATION					
Number of coordinating committees formed at city level	53	26	79	MIS	
Number of BKMs formed	1210	1017	2227	MIS	
Percent of women BKM members	20	20%	20%	MIS	
Percent of Kelurahan population that voted in final stage of BKM election	2%	2%	2%	MIS	
* Percent of participating Kelurahans with Community Development Plan completed and ratified	95%	95%	95%	MIS	
Percent of Kelurahan population who attended community meeting or focus group discussions as part of CDP preparation	5%	5%	5%	MIS	
Percent of Kelurahan population aware of CDP	50%	50%	50%	Surveys	
Number of community cadres per Kelurahan	3	3	3	MIS	
Number of BKM forums established	53	26	79	MIS	
Number of community members (BKM, KSM, UPK, community cadre) trained per Kelurahan	20	20	20	MIS	
* Percent of BKM/UPK with audit reports	80%	50%	80%	MIS	
Percent of BKM/UPK with unqualified audit reports	75%	75%	75%	MIS	
Percent of Kelurahan Grants disbursed	80%	20%	100%	MIS	
III. SERVICE PROVISION UNDER KELURAHAN GRANTS					
Number of credit proposals submitted per Kelurahan	20	10	40	MIS	
Outstanding loans as a percent of amount allocated to credit	80%	40%	90%	MIS	
Repayment rate	75%	75%	90%	MIS	
Percent increase in credit to households/micro enterprises at market interest rates	20%	10%	20%	Surveys	
* Percent of households whose income increased after having received a credit under the Urban Poverty Project	40%	30%	50%	Surveys	
Percent of poor (PS, S1)in credit groups/percent of poor in Kelurahan	1.3	1.3	1.3	MIS	
Number of other service proposals submitted per Kelurahan	5	5	10	MIS	
Percent of accepted proposals for other services completed	70%	50%	90%	MIS	
* Percent of poor among direct beneficiaries of other services provided / percent poor in Kelurahan population	1.6	1.6	1.6	Surveys	
Percent of women in KSMs	30%	30%	30%	MIS	
IV. SERVICES PROVIDED UNDER PAPG					
PAPG cities selected	17	13	30	MIS	
PAPG Selection Committees formed	17	13	30	MIS	
* Percent of local government co-financing in PAPG	25%	25%	25%	MIS	
Number of PAPG sub-projects completed per city	25	10	40	MIS	
Percent of Kelurahan population aware of PAPG in PAPG cities	20%	10%	30%	Surveys	
Percent of local government staff aware of PAPG in PAPG cities	20%	10%	30%	Surveys	
* Percent of poor among direct beneficiaries of services provided under PAPG/ percent poor in city population	1.6	1.6	1.6	Surveys	

* Key indicators to be monitored on a yearly basis

Draft Terms of References for Evaluation Consultants

National Evaluation Consultants (NEC) will be charged with carrying out a baseline survey at the beginning of the project, and 3 impact evaluations, before the mid-term review, after the mid-term review, and just before project completion. Evaluations will focus on measuring project impact on the ground. Consultants will be hired initially for the baseline survey with a provision for sole sourcing for the subsequent contracts depending on their performance.

The responsibilities of NEC are to:

1. Conduct a baseline survey and study (late 2002).
2. Conduct subsequent follow-up impact evaluation survey and studies (3 over a 5 year project cycle)

NEC will be independent and hire its own staff. It will not rely on project staff for implementation.

The objective of the UPP project is to increase the capacity for collective action in urban communities and to increase the level of urban services. The studies will investigate the success of the three components of the UPP project, that is, (1) community development, (2) the kelurahan grant program and (3) the PAPG program. The success is evaluated by (1) the targeting of the program (did the program reach the poor?), (2) the impact of the program (did the beneficiaries benefit from the program?) and (3) expected sustainability of the component. Sustainability will be measured by investigating whether the UPP interventions has a impact on local level governance and community empowerment (outside of the UPP project).

Besides measuring the impact, the studies will also

- describe the level of the performance indicators. A set if easily quantifiable performance indicators is listed at the end of this TOR. In addition, a second set is provided of indicators which are more subjective for which the consultant will need to develop an appropriate measure.
- collect and analyze other factors which may effect the impact of the UPP interventions
- collect and analyze data regarding the implementation of the UPP project (for pre-mid term review and project completion impact evaluation)
- analyze the causal factors of the impact results,
- provide recommendations for improvements in project design and implementation.

The studies will be based on data from the project management information system and surveys to be designed and fielded by NEC. NEC may use existing statistical data sources collected by the bureau of statistics.

The surveys will also collect information from a control group of urban kecamatan from the same provinces as where the UPP2 operated but which did not enter into the project. The control group kelurahans should be selected on the basis of similarity pre-intervention characteristics with the kecamatan which will participate in UPP.

NEC will make all reports, completed questionnaires, survey design, training documents, documented data files and programs used for the study available to the PMU upon completion of the assignment.

Baseline survey

The objective of the baseline study is to document the levels of poverty at the start of the project as measured by the performance indicators. The consultant is expected to develop questionnaires to measure the indicators in close cooperation with the PMU and the World Bank. Before each survey, the NEC will submit the instruments and a methodology document to the PMU and the World Bank. The NEC will need to obtain approval from these institutions before fielding the surveys.

It is expected that the survey will apply both structured questionnaires as well as participatory methods. In addition to the performance indicators, the survey will collect information on background characteristics which could also

influence the performance indicators, historic ability to obtain credit and grants from other programs and presence and participation in existing community programs. Households and key informants will be interviewed to assess the voice that the poor and community organizations have in local decision making.

The baseline survey will also sample from households in non-UPP2 (and non-KDP) urban kecamatan in the provinces where UPP2 operates. This sample will form the control group.

The baseline survey will collect information from 3,300 households living in 110 kelurahans. The sample will be drawn according to the following stratification rules. 22 strata are defined by the kotas and other urban areas in each of the provinces where UPP2 will be active. From each of the strata 2 kecamatan in which UPP is active will be selected. In each of the kecamatan 2 kelurahans will be randomly selected. In addition, from each of the strata 1 control group kelurahan will be selected. In each kelurahan 30 randomly selected respondents will be interviewed. The survey will also survey 2 key informants in each kelurahan. This will add about 220 people to the sample size.

Impact Evaluation Studies

Subsequent impact evaluation studies (approximately every 1.5 years) will collect the same information as the baseline survey. In addition, the survey will collect information on the implementation of UPP and the beneficiaries of the kelurahan grant activities. It will also collect information on the success of the PAF activities to that date. The consultant will work from the questionnaires which were developed for the baseline survey with additions for the new components. New components will be developed to interview grant and credit beneficiaries. The questionnaires will also be adjusted to measure the success of the implementation of the UPP components. The surveys will be developed in close cooperation with the PMU and World Bank and approval needs to be obtained from these institutions before fielding the survey.

The surveys will be fielded in the same kelurahans as the baseline survey. The survey will interview the key informants which were also included in the baseline. In addition, one UPP facilitators a BKM member will be included a key informant. As in the baseline, the survey will sample 30 households in each kelurahan. The sampling will be adjusted to the broadened scope by selecting household as follows:

- 10 households drawn at random from the kelurahan population,
- 10 households drawn at random from those who have obtained micro credit, and
- 10 households drawn at random from those who directly benefited from demand driven grant activities.

For the final survey, prior to project completion, households will be re-sampled (possibly also beneficiaries). The design of the questionnaire will be adjusted by the consultant to collect information on expected sustainability of the project.

Specialist Required

To successfully conduct the above tasks, the MEC requires the following :

- a. **Team Leader (4 mm x 4 studies)**
 - § Minimum S-1 with experience in leading a consultant team, and at least 5 years relevant work experience in socio-economic surveys and analyses
 - § Fluency in the English and Indonesian languages, both oral and written
 - § Must have the capability to lead experts team, and able to cooperate with other team, either with government, consultants, community in doing the obligation.
 - § Able to demonstrate intellectual leadership in analyzing local institutional development in relation to a governance issues and impact evaluation studies.
 - § Demonstrated ability to plan and to implement surveys that focus governance issues.
- b. **Evaluation experts (3 x 4mm x 4 studies)**
 - § Reputable social scientists with extensive experience in evaluating and researching either poverty alleviating or community development programs; evaluation experts will each focus on:

- i. baseline and impact evaluation,
 - ii. indicators and in-depth studies, and
 - iii. random sample surveying for verification
- § Minimum S-1 in relevant field and had at least 5 years in relevant work experience
- § Experienced in evaluating community development and poverty alleviation programs
- c. **Statistician and Data Management Specialist; (4mm x 4 studies)**
 - § Minimum S-1 from Information System, Statistics, Economy, or Technical Background.
 - § At least 5 years in relevant work experience
 - § Skilled in various computer applications such as SPSS, Access, SQL, generic database, and spreadsheet
 - § Possess expertise and experience in statistical analyses of survey/data
 - § Capable to develop an information system support, easy and friendly to access, and up-to-date
- d. **Several Assistants**
 - § Minimal S-1 with relevant background
 - § At least 2 years in relevant work experience, especially in research
- e. **Various outsourcing sub-contracts as needed with local universities, NGO's, and/or individuals for specific locations, studies, and/or surveys**

Schedule

NEC's initial contract for baseline survey should begin pre-project implementation in late 2002, and will continue for 6 months. First impact evaluation study will take place prior to the mid-term review, also for 4 months. The second impact evaluation study will take place 8-12 months after the completion of the mid-term review, also for 4 months. Finally, 4 months before the project completion date, a final impact evaluation study will be undertaken, also for 4 months.

Presentations, briefings

NEC will present finding and results of each study/survey to the PMU and other UPP2 stakeholders in a 1-day briefing, presenting findings, as well as possible solutions to any problems identified.

Reports

For each separate survey/study, the NEC is responsible to prepare and submit an inception report, mid-term study/survey progress report, and a final report regular reports of work completed to the client.

- a. **Survey/study Inception Reports (40 exp. At each survey round)**
This report explains the NEC survey instruments and study methodology and consultant team work planning. The report needs to be approved by the client and the World Bank before field activity proceeds.
- b. **Report on field test (40 exp., at each survey rounds)**
Report on the field testing of the survey, problems encountered and adjustments made.
- c. **Final Report (40 exp., at each survey rounds)**
This report contains a detailed summary of the execution of the NEC study/survey, including all tasks and final results. This report will be submitted to the client to longer than 60 days after the execution of the survey. The final report will also contain the levels of the performance indicators.
- d. **Executive Summary (50 exp. ,at each survey round)**
This report is a summary of the Final Report, submitted in two languages, Indonesian and English.

Performance to be measured and evaluated:

Easily quantifiable performance indicators:

1. Percentage of poor kelurahan population that attended at least one socialization meeting
2. Percentage of kelurahan population aware of UPP2 and its objectives
3. Percent of kelurahan population aware of Community Development Plan
4. Percentage increase in credit at market interest rates to households/micro enterprises
5. Percent of households whose income increased after having received UPP credit
6. Percentage poor among direct beneficiaries of other services provided under kelurahan grant mechanism/ percentage poor in kelurahan population
7. Percentage of kelurahan population aware of PAPG in PAG participating cities
8. Percentage of poor among direct beneficiaries of other services provided under PAPG/ percentage poor in city population

More subjective performance indicators:

1. Established mechanism for the poor to express their needs and aspirations in local decision making, measured through
 - a. % households able to articulate problems & discuss nature of poverty in their neighbourhoods;
 - b. % households living in ward (kelurahan) with a community organization that is effective; representative; participatory; accountable; and trusted by communities, and which is able to influence local decision making
 - c. Improved efficiency of kelurahan investments through increased accountability and increased community participation
 - d. Increase in the number of community organizations that are represented by federations at the city level that are capable of increasing local government responsiveness.
2. Established mechanism for the poor to access services, measured through:
 - a. % households that received skills training or advice which increased their earning ability
 - b. % households that directly benefited from infrastructure improvements
 - c. % households that experienced improvement in access to basic services All measured according to welfare levels
3. Continued involvement of community organizations in local government decision making measured through
 - a. amount of local government's own funds allocated through similar processes during the course of project and after
 - b. Amount of local government funds channeled to kelurahan organizations in addition to project funds
 - c. % households aware of PAPG allocation decisions
 - d. % households that directly benefited from infrastructure improvements
 - e. % households that experienced improvement in access to basic services Measured according to welfare levels

Additional Annex 14

STRATEGY TO REDUCE FRAUD AND CORRUPTION

INDONESIA: Second Urban Poverty Project (UPP2)

As in other community driven development projects, the strategy to limit corruption in the Second Urban Poverty Project follows the following themes: i) simplicity, ii) transparency, iii) accountability, iv) socialization, and iii) monitoring and follow up actions. The following explains the details of actions taken under the project in this respect.

Simplicity

UPP2 money goes directly to communities, i.e. to the BKM account in the case of Kelurahan Grants and to the Dinas/BKM joint account in the case of the Poverty Alleviation Partnership Grant. Once the beneficiaries fulfill the drawdown conditions, following a request from the PJOK (after verification by the Oversight Consultants), the funds are remitted from the Special Account within few days.

The BKM prepares and executes budgets on behalf of the community under the guidance of the OCs, and the community controls them. In order to ensure that the BKM can perform its expected functions effectively, the financial formats are simplified to ensure that the BKM can prepare them easily, and, more importantly, to ensure that the community which controls them, can easily understand them.

The procedures, size and criteria for defining grants, eligibility criteria for beneficiaries, and conditions for drawdown are simplified and defined upfront to ensure that stakeholders can understand them easily. For the Kelurahan Grants, the conditions for drawdown of funds to BKM are linked to performance rather than inputs, with the first drawdown of 20% based on satisfactory completion of the BKM's Community Development Plan; the second 60% based on indicators of satisfactory utilization of funds and financial management, and the third 20% based on indicators of BKM sustainability.

Transparency

All financial information is made public and displayed in the kelurahans. Minutes of meetings, BKMs' monthly financial status, bad debtors, and names and amounts of funded proposals are posted on signboards that are displayed around the kelurahans.

Discretion of actors is limited by setting rules that all financial transactions must require at least three signatures, two from the elected BKM members and one from the project's OC. For purchases above Rp.15 million each, the project requires the BKM to conduct a limited bid whereby quotations must be read out in public. For smaller purchases, local shopping must be carried out by two persons who will seek quotations from local suppliers.

Socialization

Socialization will be carried out through meetings, workshops and focus group discussions at the kelurahan, kecamatan, kota and provincial levels. It will also include a campaign through newspaper spots and radio programs. The full time presence of kelurahan facilitators in the field is a critical input in the socialization process. The socialization strategy is geared towards making communities aware of the project's goals, and its rules and regulations. These are aimed to ensure that stakeholders know what their respective roles and responsibilities are, and how to hold each other accountable for their actions. Accountability of the BKM to the community can only be effective if the community wants to know and holds the BKM accountable when something goes wrong. Accountability to the government will only work if both sides are aware of the rules of the game and are taking an active interest in each others' actions. An important part of the socialization process will be letting people where to go and what to do if they are not satisfied with the project's outcomes.

Accountability

Under UPP2, BKMs will meet regularly to make collective decisions on strategic issues, and to review the UPK's accounts regarding the use of funds. The BKM will also hold annual meetings with the general community to account for its activities during the year.

BKM finances will be audited each year by local accountants. Audit results will be reported to the community at the end-of-year BKM accountability meeting.

In order to enhance the quality of consultants' supervision under the project, facilitators are required to regularly check the BKM and UPK books. They will also need to sign and file a "representation statement" regularly, confirming that they have checked the books and found them satisfactory. The OCs at higher level would randomly check the facilitators' statements and will also be required to sign and file similar representation statements. A mechanism for checking and applying sanctions will be developed for those filing false statements (sanctions may include job separation).

Examples of how corruption was handled in UPP1

BKM Kota Baru, Bekasi, West Java: The BKM in this kelurahan was not formed in a democratic manner in this kelurahan, and the BKM chairman was "elected" by manipulation of the head of the kelurahan (the Lurah). The Chairman ran a business which needed cash, so fake KSMs were formed and the money channelled to the Chairman's business. This malpractise was discovered by a young community resident who informed the facilitator. The facilitator tried to set up a community meeting with the BKM but was vetoed by the BKM members. The Oversight Consultant intervened and a community meeting was held. The BKM chairman confessed and the money is being returned. New elections produced a new set of BKM leaders truly elected by the community.

BKM Penggilingan, Jakarta: The BKM Chairman was accused of embezzling Rp. 455 million (\$45,000). This was discovered by the facilitator and reported by the deputy chairman of the BKM. The Dewan Kelurahan, BKM members, KSM, and RT/RW members got together and established a special committee to investigate the case. The chairman then admitted the theft and promised to return the money. The committee demanded the confiscation of assets from the chairman, including land, buildings, and motorcycles owned by the chairman (although the BKM has not yet sold any assets that the chairman held). Separately, an official police investigation is proceeding.

Monitoring and Sanctions

The project will require extensive field monitoring. The NMC will develop a program for regular project monitoring and each BKM will be visited at least twice per year.

An address to mail complaints will be posted in the kelurahan's signboards. A special unit/person designated for handling of complaints will be made available in the NMC and OCs. The database of complaints and their follow up actions will be maintained by the OCs and NMC. The complaint handling unit/person will investigate and facilitate the resolution of complaints and problems. The database of complaints, follow-up actions being taken, and sanctions applied will be publicized to increase participants' involvement and to increase the likelihood of their lodging protests, thereby raising the social costs of misuse of funds.

Drawdown of funds from the project Special Account to BKMs could be suspended in case misuse of funds is suspected. At a larger scale, entire kota(s) may be excluded from participation in the subsequent phase if misuse of funds is suspected to occur widely in the respective kota(s).

Additional Annex 15

TRAINING, CAPACITY BUILDING AND SOCIALIZATION PROGRAM

INDONESIA: Second Urban Poverty Project (UPP2)

No	Timing	Training Activities	Participants	Frequency/Venue	Duration	Organizer
1.	Month 1	Central Orientation Workshop	40 (Secretariat, PMU & NMC staff)	1x at Center	1 day	PMU under PT contract
2.	Month 1	Project Launch Oct 17, 2002 News pitch prior to launch Press conference & web site	3 to 5 media companies 20 journalists	1x 1x	few hours few hours	PMU
3.	Month 2	Press release prior to national orientation workshop on UPP & need for facilitators in provinces	announcement through several media	1x	1 week	PMU
4.	Month 2	National Orientation Workshop	60 (DGHS staff, Governors, Prov Bappeda & Prov Parliament)	1x at Center	1 day	Secretariat under NMC contract
5.	Month 2 Month 3	Project cycle training Project cycle training	- 25 Project & NMC staff - 75 OC staff	1x at Center 1x at Center	3 days 3 days	PMU under PT contract NMC
6.	Month 3	Training of Trainers for selected project, NMC & OC staff to become special training team (STT)	30 Trainers (Special Training Team)	1x at Center	6 days	PMU
7.	Month 4	Pre-test research on stakeholder awareness in 13 kota/kab	Local stakeholders	1x at Kota/Kab		
8.	Month 4	Press release on community facilitator recruitment in participating provinces	Public			
9.	Month 5	Basic training Advanced training	Facilitators Facilitators	1x at Province 1X	3 weeks 2 weeks (timing TBD)	OC
10	Month 5 to 6	Pre recorded talk show on how facilitator work with communities. Calendar distribution (thru facilitators -30,000)				PMU
11	Month 5 to 8	Public Service Advertisement (PSA) radio start	National & local radio		4 months	NMC&OC
12	Month 6 to 8	PSA in television & newspapers	National & local TVs & media		3 months	NMC&OC
13	Month 5	Press release & distribution of comics to target kelurahan prior to facilitator mobilization	Public	1x national & local level		OC
14	Month 4	Press release prior to Provincial Orientation Workshop (POW)	Announcement by local media	1x at Province	1 week	OC
15	Month 4	Local radio news on POW	Public	1x at Province	1 weeks	OC
16	Month 4	Provincial Orientation Workshop (POW)	30 – 100 (Mayors, Bupati, Bappeda, 2 Parliament)	1x at capital of province	1 day	Prov Bappeda under OC contract
17	Month 5	Press release prior to Daerah Orientation Workshop (DOW)	Announcement by local media	1x at Kota/Kab	1 week	OC
18	Month 5	Radio talk show on role of local government in poverty alleviation	Public	1x local radio station		OC
19	Month 5	- Strategic group gathering prior to DOW	50 local stakeholders	1x at		OC

.		- Announcement by local radio (radio adlips)		Kota/Kab		
20	Month 5	Daerah Orientation Workshop (DOW-Kota/Kab)	50 (Dinas, Camat & PJOK for PAPG & BLM)	1x at Kota/ Kab	1 day	Kota/kab Bappeda under OC contract
21	Month 6	Kecamatan Orientation Workshop Dissemination of 3000 posters, 40,000 comic books, & banners at kecamatan & kelurahan levels	Lurah/Kades/ prominent people	1x at Kecamatan	1 day	Camat under OC contract
22	Month 12	Radio talk show with strategic stakeholders on roles of PAPG Committee	Selected resource persons	1x at Kota/Kab		
23	Month 7	Community gathering to discuss UPP2	200 people	1x at Kelurahan	1 day	OC/SF
24	Month 7	Selection of Community Cadres	40 people	5xRW	5 days	OC/SF
25	Month 7	Basic training Advanced training	Community Cadres	1x at Kecamatan	3 days 5 days (timing TBD)	OC/SF
26	Month 11	Post-test 1 : Stakeholder awareness at kelurahan level	Kelurahan stakeholders	1x at kelurahan		
27	Month 8	Practical training on FGD	Community Cadres	1x at Kelurahan	½ day	OC/SF
28	Month 8	Practical training on infocom	Community Cadres	1x at Kecamatan	1 day	OC/SF
29	Month 11	Practical training on participatory planning	Community Cadres	1x at Kecamatan	1 day	OC/SF
30	Month 11 & every 3 months	FGD on strategic issues including sharing experiences	Community Cadres	3 monthly at kecamatan	1 day	OC/SF
31	Month 8 to 9	Local radio adlips/ announcement prior to FGD on poverty	Public & kelurahan community	1x at Kota/Kab	1 week	OC
32	Month 9	FGD on poverty issues	40 people	1x at RW	1 day	OC/SF
33	Month 9	Local radio talk show with opinion leaders/community cadres on participatory assessment (PA)	Public & kelurahan community	1 at Kota/Kab		
34	Month 9	Community gathering to select members of Assessment Team.	200 people	1x at Kelurahan	1 day	SF under OC contract
35	Month 9	Practical training on methodology for participatory assessment	Community Assessment Team	1x at kelurahan	1 day	SF under OC contract
36	Month 9	PSA in local radio stations, TV & newspaper on working together to attack poverty	Public	1x at Kota/Kab	1 week	OC
37	Month 10	Community mapping (Participatory Assessment)	Community at large	1x	5 days	SF under OC contract
38	Month 10	FGD on institutional setting	40 people	1x at RW	1 day	SF under OC contract
39	Month 10	Community gathering to discuss result of community mapping & UPP	200 people	1x at Kelurahan	2 days	SF under OC contract
40	Month 10	Distribution of comic books & posters on why & how BKM should be founded & work	Participant of community gathering	1x at Kelurahan	1 day	SF
41	Month 11	Establishment of community organization & election of community leaders	200 people	1x at Kelurahan	1 day	SF under OC contract
42	Month 11	Radio talk show with community leaders role of community organization & self monitoring	Public	1x at Kota/Kab		OC
43	Month 12	<ul style="list-style-type: none"> • Basic Training • FGD on strategic issues including participatory planning 	3 per BKM BKM members, KSM members	1x at Kota/Kab 3 monthly at Kelurahan	2 days 3 days	OC SF under OC contract

		<ul style="list-style-type: none"> Advanced training Inception training for micro credit 	BKM members	1 x at Kota/Kab 1x at Kec	1 day	Tr Provider Tr Provider
44	Month 13	<ul style="list-style-type: none"> Basic Training on micro credit Advanced training on organizational management, advanced accounting system 	2 participants per UPK	1x at Kota/Kab 1x at Kota/Kab	5 days 5 days	Tr. Provider Tr Provider
45	Month 13	Distribution of comic books & posters on why & how UPK should be founded & work	Training participants	1x Kota/Kab		NMC
46	Month 14	<ul style="list-style-type: none"> Basic training Practical training in group 	KSM members	1x at Kec bi-monthly	2 days 1 day	OC SF under OC contract
47	Month 17	Training on participatory evaluation	Independent monitors & evaluators	1x at Kota/Kab	3 days	OC
48	Month 12	Comic on content of PJM Pronangkis	Distributed to KSM members	1x		OC
49	Month 12	Talk show on PJM Pronangkis in local radio stations	Public	2x at Kota/kab		OC
50	Month 13	Adlips on how communities develop kampungs	Public			OC
51	Month 13	Entrepreneurship training (for jobless)	Poor households & KSM members	1x at Kelurahan	2 days	SF
52	Month 13	Practical training (coaching) on how to prepare good proposals	KSM members	1x at Kelurahan	1 day	SF
53	Month 14	Pre-recorded Radio Talk Show on KSM proposals for UPP	KSMs	1x at Kelurahan		OC
54	Month 14	Adlips on how communities can monitor their progress	Kelurahan community	1 x at Kota/Kab	1 week	OC
55	Month 16	Site visit of journalists	Selected journalists	1x at Kelurahan & at Center	1 day	OC & NMC
56	Month 13	Workshop on role & function of city level forum/association of BKMs	Members of BKMs & Stakeholders	1x at Kota/Kab	2 day	OC
57	Month 15	Training on management of networking	Members of BKM Forum	1x at Kota/Kab	2 days	OC
58	Month 12	Workshop on PAPG for local govt & stakeholders	Local govt	1x at Kota/Kab	1 day	OC
59	Month 13	Publication through radio, tv & local media on PAPG awarded cities	Public & Local govt	1x		NMC
60	Month 15	FGD with local strategic groups on poverty issues & governance to support formation of PAPG Committee	Local NGOs, prominent people, interest group, etc	1x at Kota/Kab	1 day	OC
61	Month 16	Radio talk show with strategic stakeholder on the role of PAPG Committee	Selected resource persons	1x at Kota/Kab		OC
62	Month 17	Training on PAPG (concept & mechanism)	Core group of local govt staff & PAPG Committee	1x at Kota/Kab	1 day	OC
63	Month 16	Radio talk show on working together with community	Selected resource persons	1x at Kota/Kab	1 hour	OC
64	Month 18	Training on participatory planning	Core group of local govt staff & PAPG Committee	1x at Kota/Kab	3 days	OC
65	Month 18	Publication through local media on awarded proposal by PAPG Committee	Public	1x at Kota/Kab		PAPG Committee
66	Month 24	Preparation for project exit, inter-BKM tour				OC
67	Month 18	Local radio talk show on how government can facilitate community initiatives & PAPG	Selected resource persons			OC
68	Month 21	Discussion (review) at kota/kab level on progress of poverty alleviation related to UPP	Local stakeholders	1x at Kota/Kab	1 day	OC

69	Month 25	Site visit of journalists to PAPG projects	Selected journalists	1x at Kota/Kab	1 day	OC
70	Month 24	Collection & dissemination of best practices & lessons learned				NMC
71	Month 25	Post-test 2 : Stakeholder awareness at kelurahan level				NMC
72	Every strategic event	Press release on progress of UPP/BKM; local publication of progress	Public & kelurahan community			NMC & OC
73		Follow up training by request; 3 packages for each (excluding advanced training described above)	BKM, UPK, KSM, CC & Facilitator	1x per package at Kec/Kota/Kab	3 days per package	OC
74		Training on conflict management & resolution	Core group of local gov't, PAPG Com & BKM members	2x at Kota/Kab	1 days	OC
75		Training on conflict management & resolution	Facilitators & Community Cadres	1x per kota/kab	1 week	OC

Notes:

- POW : Provincial Orientation Workshop
- DOW : Daerah Orientation Workshop
- PMU : Project Management Unit
- NMC : Central Management Consultant
- OC : Oversight Consultant
- EC : Evaluation Consultant
- STT : Special Training Team
- PSA : Public Service Advertisement
- Adlips : Radio news/announcement
- FGD : Focus Group Discussion
- BKM : Badan Keswadayaan Masyarakat (Community Institution)
- UPK : Unit Pengelola Keuangan (Fund Managing Unit)
- KSM : Kelompok Keswadayaan Masyarakat (Community Group)
- CC : Community Cadres
- SF : Senior Facilitator
- TBD : To be determined

Additional Annex 16

ENVIRONMENTAL GUIDELINES

INDONESIA: Second Urban Poverty Project (UPP2)

Introduction

As a highly decentralized project, UPP2 will support a large number of small subproject investments in poor urban areas. Through the kelurahan grants, the project is expected to provide microloans for income generating activities, and finance small scale infrastructure and other services (the ceiling for individual sub-projects or microloans per group is Rp. 30 million or US\$3,000). Through the Poverty Alleviation Partnership Grant, the project is expected finance small scale infrastructure and services (the ceiling for individual activities is Rp. 200 million or US\$20,000). None of these types of activities is therefore expected to have any large scale, significant or irreversible impacts. Environmental impacts come mostly from poor site management during the project construction activity. The project has been classified as a Bank environmental category B.

The menu for the Poverty Alleviation Partnership Grant (PAPG) is open, and kelurahan organizations and local governments will choose the types of activities they want to finance. Even though the activities are not restricted, it is unlikely that OPs regarding natural habitats and cultural property would be applicable. This annex outlines the environmental screening procedures and guidelines to ensure that the relevant OPs are followed should any negative environmental impacts be expected.

Indonesia's environmental review procedure is generally consistent with the Bank's and will form the framework for UPP2's approach to environmental management. Because UPP2 subprojects will be small, no major adverse impacts are anticipated. However, the project will institute screening, review, and "red-flag" procedures to help ensure that problems are flagged and corrected.

Basic Principles

The basic environmental principles are:

1. proposals should avoid or minimize negative environmental impacts, and they should have explored viable alternative designs to minimize any negative environmental impact;
2. the proposal should fit into the General Spatial Plan (RUTR) and avoid protected areas so designated by the Ministry of the Environment (see below).
3. any proposal entailing a negative environmental impact shall be complemented by an environmental plan to mitigate the impact.

Environmental Screening Criteria

Subprojects will be checked against Government of Indonesia (GOI) screening criteria to ensure that no project would necessitate a full environmental assessment. In an initial screening, the project type, scale, location, sensitivity, and the nature and magnitude of potential impacts, will be identified to classify the proposal in one of 4 categories:

1. those that require ANDAL (full Environmental Assessments) for which the Ministry of Environment has set criteria (see below). *These will be eliminated from consideration for UPP2 financing.*
2. those that require environmental management and monitoring plans (UKL and UPL) based on limited but site specific studies. The Ministry of Public Works has set criteria to determine the need for UKL/UPL (see below). *It is expected that none of the proposals submitted under either the PAPG or kelurahan grants would fall under this criteria.*
3. those for which standard operating procedures (SOP) suffice, where generic good practice would protect the

environment adequately. The DG Human Settlements and Urban and Rural Development have SOP guidelines for some types of projects (including measures to control dust, noise and traffic at construction sites; specifications for backfilling and revegetating disturbed areas to prevent erosion; and procedures to control negative impacts at solid waste transfer stations; etc.). *It is expected that some sub-projects may fall under this category.*

4. those that require no environmental study, where no construction, disturbance of land or water or discharge of pollutants are involved. *It is expected that some sub-projects may fall under this category.*

Government Environmental Screening Criteria
(by Decree of the Minister of State for the Environment of the Republic of Indonesia)

Sectors and Projects	Units	ANDAL >=/	UKL/UPL <->/=
Water Supply			
Raw water intake	l/s	250	500 - 100
Transmission (large towns)	km	10	5 - 2
Distribution (large towns)	ha	500	1500 - 250
Urban roads			
New construction:			
a. Large towns	km; or ha	5	5 - 1; or 5 - 2
b. Medium towns	km	10	10 - 3
c. Small towns (villages)	km	30	25 - 5
Widening (large towns)	km; or ha	5	5-1; or 5-2 (if land acquisition)
Bridges in large towns	m	-	>/= 20
Bridges in small towns	m	-	>/= 60
Wastewater & sanitation			
IPLT	ha	2	10 - 5
Sewerage system	ha	500	500 - 100
IPAL	ha	3	10 - 5
Solid Waste Management			
Sanitary landfill (TPA)	m3/d	10000	1000 - 200
TPA (in tidal area)	m3/d	5000	700 - 150
Transfer station	m3/d	1000	2000 - 500
Drainage & flood control			
a. In large towns	km; or ha	5	5 - 1; or 5 - 2
b. In medium towns	km	10	10 - 3
c. In small towns (villages)	km	25	25 - 5
Kampung Improvement			
New development	ha	200	200 - 5
Upgrading	ha	5	5 - 2

Sources: KEP-17/MENLH/2001 for ANDAL (Concerning Types of Businesses Activities Required to Complete an Environmental Impact Assessment); and KEPMEN PU-481/KPTS/1996 for UKL/UPL (Concerning Decisions on Types of Activities in the Field of Public Works that are Required to Prepare UPL and UKL).

2. Special screening will be applied on the following cases:

- § **Fisheries:** Standards from the Fishery Service Agency (Dinas Perikanan) will be applied to all fishery subproject proposals.
- § **Pesticide, ozone-depleting substances, tobacco or tobacco products:** No subprojects using or producing these materials will be financed.
- § **Asbestos:** No asbestos-containing materials will be financed. Special mitigation measures to address any issues with existing asbestos in any proposed sub-project (e.g. renovation of school buildings that may

- have used asbestos) will be applied.
- § *Sub-projects that produce liquid or gaseous effluents or emissions.* No manufacturing or processing operations will be financed that would produce pollutant-bearing effluents or emissions unless: (a) the operations are small-scale; and (b) the cognizant Bapedalda reviews the design and certifies that it meets applicable water and air pollution control standards.
- § *Hazardous materials and wastes.* No sub-project will be financed that uses, produces, stores or transports hazardous materials (toxic, corrosive or explosive) or generates "B3" (hazardous) wastes.
- § *Logging.* Sub-projects involving logging operations or procurement of logging equipment will not be financed.
- § *Development on protected areas.* The Decree or the Minister of the State for the Environment of the Republic of Indonesia Number KEP-17/MENLH/2001, entitled *Concerning the Types of Businesses Activities Required to Complete an Environmental Impact Assessment*, prescribes that any business or activity that is located in a protected area or that may change the purpose and/or designation of a protected area shall be required to prepare an ANDAL (see above). This includes: forest protection area; river edges; marine/freshwater conservation areas; nature tourism park; peat areas; areas surrounding lakes and reservoirs; coastal mangrove areas; water catchment areas; national parks; coastal edges; forest parks; cultural reserves; areas surrounding springs; scientific research areas; nature conservation areas; and areas susceptible to natural hazards. *No new settlement or expansion of settlements will be supported in protected areas under the project.* Where settlements already exist, and if it is the policy of the local government to allow the settlement to remain, proposals for funding under UPP2 may be used by the existing residents using standard UPP2 procedures and in compliance with any local regulations on land management which are defined by the protected area management plan. *No road construction or rehabilitation of any kind will be allowed inside delimited or proposed protected areas.*

3. Design specifications including environment management consideration for water supply, MCK, urban roads, TPS, markets and bridges will be applied to UPP2 in the form of Standard Operating Procedures. Since these types of activities are most likely to be financed under the PAPG, the SOP used by the participating local government will be applied.

Environmental Screening Process

1. Kelurahan Grants

Community groups (KSMs) will prepare a subproject proposal on a standard format provided by the kelurahan facilitator, signed by the group members. The standard format will include all items identified above that are not eligible for financing as part of the negative list. The proposals will include a description of the activities proposed and compliance with any applicable guidelines on environmental impacts (as well as land/asset aquisition and impact on indigenous people). All proposals will be reviewed by project staff for their feasibility, technical soundness, and compliance with guidelines, before they are considered by the kelurahan organization (BKM). Project staff will specifically screen proposals for any environmental impacts based on the guidelines above which will be included in the project manuals. These will include special screening for all sub-projects involving land and water use changes (i.e. reclamation, irrigation); economic projects with environmental impacts to be sure that alignments, effluent, etc. meet best practice standards. BKMs with the assistance of facilitators will ensure that adequate mitigation measures are taken. The selection of proposals by the BKM for the kelurahan grant shall be made in a meeting publicized in advance and open to the public.

2. Poverty Alleviation Partnership Grant (PAPG)

Proposals for the Poverty Alleviation Partnership Grant will be evaluated by a PAPG Selection Committee established by the local government (with the assistance of project staff) consisting of a panel of representatives from the local government, the BKM Forum, and NGOs/universities/private individuals concerned about poverty issues. Sub-project proposals will be prepared on a standard format which will include the negative list. The Selection Committee can seek the help of technical experts from the Oversight Consultant (OC), from other government offices or hire outside experts to carry out technical reviews of proposals if necessary. All proposals

will be screened for any environmental impacts based on the guidelines above which will be included in the project manuals, and the OC will be in charge of ensuring that adequate mitigation measures are taken. The process of selection of proposals by the PAPG Selection Committee will be transparent, with clear criteria for selection.

Reporting

Facilitators and OC staff will aggregate and review environmental reports and flag them in their quarterly reports. The project manual will include a matrix of likely environmental impacts and steps with which to address them. An experienced environmental consultant will be hired to summarize progress, monitor and measure the impact of the project on the environment as part of the performance evaluation of the project.

Additional Annex 17

LAND ACQUISITION AND RESETTLEMENT POLICY FRAMEWORK

INDONESIA: Second Urban Poverty Project (UPP2)

I. Project Characteristics

1. As a highly decentralized project, UPP2 will support a large number of small sub-project investments, mainly in urban areas. Through the Kelurahan Grants component, the project is expected to provide microloans for income generating activities, and to finance small scale infrastructure and other services (the ceiling for individual sub-projects is US\$3,000 or Rp. 30 million). Through the Poverty Alleviation Partnership Grant (PAPG) component, the project is expected to finance small scale infrastructure and services (the ceiling for individual activities is US\$20,000 or Rp. 200 million). None of the sub-projects is expected have a significant impact due to land acquisition and/or resettlement.
2. UPP2 is also a community-based demand-driven project. Sub-projects will not be identified in advance. The identification of the number of people affected by a sub-project can thus only be defined once sub-project proposals are evaluated by the community organization (BKM) for the Kelurahan Grants, or by the PAPG Selection Committee for the Poverty Alleviation Partnership Grant.
3. Since participatory planning and decision making form the basis for the project, the entire project approach should guarantee that people affected by the project will be involved in the decision making process.
4. Should any sub-project involve any land acquisition or resettlement, this Policy Framework provides procedures and guidelines for agreeing on compensation for those persons who are affected by the sub-project in order to ensure that they are not unfairly treated by being given low compensation, or benefit unfairly by being given compensation that is significantly higher per square meter than other owners who sell similar nearby land on the free market.

II. Definitions

5. The definitions used in this Policy Framework are:
 - a) "Census" means the head count of those persons under a proposed Sub-project that qualify as Displaced Persons. The date of the Census is the latest cut-off point to record the persons in the Sub-project area that will receive compensation, resettlement and/or removal and rehabilitation assistance.
 - b) "Compensation" means the compensation at replacement cost as determined in Section V of this Framework given in exchange for the taking of land and building, in whole or in part, and all fixed assets on the land and buildings and crops and trees.
 - c) "Land acquisition" means an activity that requires obtaining land, buildings or other assets from Displaced Persons for purposes of the sub-project against provision of compensation and assistance.
 - d) "Displaced Persons" means persons who, on account of the involuntary taking of land and other assets as part of the execution of the Sub-project resulting in a direct economic and social adverse impact, whether or not said Displaced Persons must physically relocate, had or would have their: (i) standard of living adversely affected; (ii) right, title, interest in any house, land (including premises, agricultural and grazing land) or any other physical asset acquired or possessed, temporarily or permanently, adversely affected; (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected; and "Displaced Person" means any of the Displaced Persons;
 - e) "Physically Displaced Persons" means persons who are forced to move from their previous location because (i) all or a significant portion (50% or more) of their land or buildings are affected by the sub-project; or (ii) less than 50% of their land or buildings are affected by the sub-project if the remaining

- f) portion is not economically viable or habitable.
- f) "Rehabilitation Assistance" means the provision of cash or assets or other forms of support to enable Displaced Persons without legal rights to the assets taken by the Project to at least equal or improve their standard of living, income levels and production capacity to the level prior to the project.
- g) "Resettlement" means an effort /activity to relocate the Displaced Persons into a good new settlement as mentioned in section Vb so that they can develop a better life.
- h) "Involuntary Displacement" means any of the following actions, when they occur without the Displaced Person's informed consent or power of choice; (a) the taking of land resulting in: (i) relocation or loss of shelter; (ii) lost assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not the Displaced Person must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas resulting in adverse impacts on the livelihoods of the displaced.
- i) "Sub-project" means a specific infrastructure investment project carried out with funds from Kelurahan Grant or PAPG components of the project.

III. Basic Principles

6. Involuntary resettlement may cause severe long-term hardship, impoverishment, and environmental damage unless appropriate measures are carefully planned and carried out. For these reasons, the overall principles for this Framework are the following:

- a) Sub-project proposals should minimize land and asset acquisition and involuntary displacement. Groups proposing sub-projects should have explored viable alternative designs to minimize displacement.
- b) The group proposing the sub-project will use a transparent and participatory process to ensure that all Displaced Persons persons agree on any proposed sub-project that involves land acquisition or resettlement
- c) The group proposing the sub-project will have to agree to incorporate the costs for land acquisition and/or any involuntary resettlement in their sub-project proposals as part of sub-project costs. The compensation costs will be covered through the communities' own funds or government funds (World Bank Loan proceeds shall not be used to finance compensation).
- d) In accordance with traditional practice, community members may elect to voluntarily contribute land or assets and/or relocate temporarily or permanently from their land without compensation. Voluntary in this context will mean the donation or granting of land and other assets with the full knowledge of the purposes for which the asset is being made available and the economic, social and legal consequences that such an act would have on the person providing the asset and which act is exercised freely and voluntarily, without any type of cohesion.
- e) Displaced Persons should be assisted in their efforts to improve their livelihoods and standards of the living or at least to restore them, in real terms, to pre-displacement levels or to the levels prevailing prior to the beginning of the project implementation, whichever is higher.

IV. Framework

7. In the event that a sub-project proposal requires any land acquisition, buildings, crops, trees, and/or resettlement, the sub-project proposals have to indicate the need for land acquisition, the number and names of persons affected, and the estimated budget required for compensation.

8. Proposals that would affect 200 persons or more would normally entail long lead times, and are expected to be beyond the scope of the project. In the highly unlikely event that more than 200 persons will be affected and require compensation, the Oversight Consultant will ensure that the proposal is complemented with a full Land Acquisition and Resettlement Action Plan (LARAP). The LARAP will include i) a survey to identify the socio-economic characteristics of the Displaced Persons including a census; ii) a comprehensive plan for the acquisition of land and/or resettlement; and iii) a compensation package in accordance with the compensation guidelines set out in Section V and acceptable to the Displaced Persons and the groups proposing the sub-project

(under the PAPG component, this would be the BKMs and a district level local government agency). The sub-project proposal will also indicate the budget source for the required compensation (Bank funds cannot be used for compensation). The OC/NMC shall seek the Bank's approval of the LARAP and budget, and seek modifications in case the Bank finds they are needed. Further details on the LARAP are provided in the attachment to this annex.

9. For any sub-project that requires resettlement of less than 200 persons, the BKM, supported by the OC staff assisting with proposal preparation, will ensure that the following steps are followed:

- a) The group proposing the sub-project carries out a Census of the persons that would be affected by the proposed sub-project and that would qualify as Displaced Persons
- b) The Displaced Persons agree on the sub-project proposal, and have negotiated agreement on either voluntary or compensated contribution with the group proposing the sub-project
- c) The agreement is made through a participatory and transparent process
- d) Displaced Persons are made aware that they have the right to compensation and/or other assistance according to the compensation guidelines provided in Section V
- e) In cases where voluntary contributions of land or assets are indicated, these are clearly agreed with all Displaced Persons; the name(s) of the contributor(s) and details of the contribution(s) are included in the agreement; and these are verified by the Oversight Consultants.
- f) A simple format on the agreement is incorporated in the sub-project proposal. This agreement should clearly indicate individual land plots needed for land acquisition and/or resettlement, the number and names of the affected persons, scheme of compensation and/or resettlement, and estimated cost for land acquisition and/or resettlement compensation. In the case of voluntary contribution, the agreement should state the rationale for it and the fact that the person had the choice of not providing the asset, and in the case of involuntary contribution, the manner followed for valuation of the assets which must be in compliance with Section V below.
- g) The agreement should indicate that any compensation will come from the community's or government's contribution to the sub-project. It would be possible to use World Bank Loan proceeds to construct small works and initiate employment opportunities for the group members who are to be resettled. This has to be agreed by the group proposing the sub-project and put in the agreement (see assistance guidelines in Section V). However World Bank Loan proceeds can not be used to finance payment of cash compensation or land acquisition.
- h) The details of the agreement will be verified by the OC/facilitator in charge of the affected communities prior to consideration by the BKM or the PAPG Selection Committee for financing. In the event that no consensus has been reached on the form and amount of compensation, the sub-project will not be considered for financing.
- i) No Displaced Persons shall have their land or other assets taken before they have received the compensation and the resettlement site, if that is the case, as agreed upon and detailed in the sub-project proposal
- j) Payment of compensation, displacement of people, or preparation of a resettlement site as agreed upon should be completed before the construction of the respective sub-project is started.
- k) A monitoring and evaluation system for compensation will be introduced to ensure that Displaced Persons have received their compensation as agreed upon. The monitoring will be undertaken by the Oversight Consultant and will be a full survey or sample survey depending on the number of households affected. A report on the results and recommendations will be published by the OC and disseminated to the community and the NMC

V. Guidelines for Compensation, Resettlement and Other Assistance

10. Based on agreements reached during the negotiation, Displaced Persons can choose to receive cash compensation, resettlement, or other options. Other options include serviced sites, land [swap] of equal size or equal productive capacity, low cost housing, apartments, real-estate housing with credit facilities, or other schemes. Among those options, Displaced Persons will be provided the opportunity of having a resettlement site where they do not have to pay more than their present routine expenditure. In all cases, the amount of compensation,

resettlement or other options must be sufficient to achieve the objectives of improving or at least maintaining the pre-project level of standard of living, income generation and production capacity of the Displaced Person.

a. Compensation

11. Displaced Persons have the right to receive real replacement cost compensation. Real replacement cost means:

- a) for land in urban areas, the pre-displacement market value of land of equal size and use, with similar or improved public infrastructure facilities and services and located in the vicinity of the affected land, plus the cost of any registration and transfer taxes;
- b) for agricultural land, the pre-sub-project or pre-displacement, whichever is higher, market value of land of equal productive potential or use located in the vicinity of the affected land, plus the cost of land preparation to levels similar to those of affected land, plus the cost of any registration and transfer taxes; and
- c) for houses and other structures, the market cost of the materials to build a replacement structure, or to repair a partially affected structure, plus the cost of transporting building materials to the construction site, plus the cost of any labor and contractors' fees, plus the cost of any registration and transfer taxes. In determining the replacement cost, depreciation of the asset and the value of salvage materials are not taken into account, nor the value of benefits to be derived from the sub-project deducted from the valuation of an affected asset. Compensation for trees, crops and other assets will be based on the replacement value using existing market prices per tree prepared by relevant agencies.

12. The extent of the compensation will depend on the tenure situation of the Displaced Person as set out in Section VI.

13. Displaced Persons whose: (i) remaining land and building cannot be used for housing or workplace; or (ii) whose remaining land is less than 60 sq meters; or (iii) whose remaining agricultural land is less than 50% of its initial size or is not economically viable; or (iv) whose remaining building is less than 21 sq meters; have the option of being included as Physically Displaced Persons and compensated for the taking of the affected asset. Displaced Persons whose remaining land is less than 60 sq meters and remaining building is less than 21 sq meters, will have an option to move to a new lot of 60 sq meters and building of 21 sq meters. They will be provided with compensation for the difference in area between what they lost and what is being provided to them.

b. Resettlement Sites

14. The resettlement site provided for the Displaced Persons will include infrastructure and public facilities so that it is good for living and enables the development of a good social and economic life, including: (a) road or footpath as necessary; (b) drainage system; (c) water supply (if a piped water distribution network is not available, there should be shallow wells that comply with health standards); (d) electricity; (e) health facility, education facility, work places, religious services, and sport facilities, in accordance with the size of the new community; and (f) public transport facility to perform a good life.

15. The Displaced Persons will move to the new site after the infrastructure and facilities at the resettlement site are completed and feasible to live in as confirmed by the OC and the BKM. The Displaced Persons will be informed of the completion of the resettlement site at least one month before displacement, and they will be invited to survey the new site. The resettlement site would be available prior to the start-up of works under the relevant sub-project.

16. The location reserved for resettlement will be widely publicized so that the general public will be informed.

c. **Other Assistance**

17. Displaced Persons who lose their income sources or means of livelihood as a result of the sub-project will receive assistance to restore it. The types of assistance will be defined by the BKM and local government (in case of the PAPG) and confirmed by the OC. Training and assistance that can be provided include: motivation development; skill and vocational training; assistance to start and develop small businesses; small scale credit; marketing development; assistance during transition period; and strengthening of community based organization and services. In implementing the assistance, care should be taken to harmonize the newly resettled people and the host community in the resettlement area through assistance and integration efforts. The assistance can be linked to existing programs and resources.

VI. Eligibility Criteria of Displaced Persons

18. Displaced Persons can be grouped into the following categories: i) those who have legal land certificate, girik, or adat title; ii) those who, under domestic law, have a right to occupy land in a residential, commercial, or industrial zone in the Project area, or occupy land on infrastructure or public facility sites such as rivers, roads, parks or other public facilities in the Project area, but do not hold a certificate or legal title; iii) those who have no right to occupy land in a residential, commercial or industrial zone in the project area or publicly owned land and publicly owned facility sites but who were occupying such land at the time of the Census undertaken or at the time of the pre-feasibility study of the sub-project; iv) those who are renters; v) those whose jobs are lost because of the taking of land; and vi) those who have no right to occupy land in a residential, commercial or industrial zone in the project area, or publicly owned land and publicly owned facility sites and whose occupancy of such land begins after the Census. Compensation will differ according to these groupings.

- a) Persons with Land Certificate, Girik or Adat Title
 - § Displaced Persons who have land certificate, girik, or adat title will receive compensation for the land, building, and fixed assets.
 - § Displaced Persons who are displaced by the Project can choose to receive cash compensation or the other options as described in paragraph 10
 - § The lots at the resettlement site will have land title of the same level or higher than they previously had, and the certificate will be issued within 1 year after displacement of the Displaced Persons.
 - § Displaced Persons will receive transport allowance to move their belongings.
 - § Displaced Persons will also receive assistance and training as provided in paragraph 17
- b) Persons who under domestic law have recognized rights to occupy land in a residential, commercial or industrial zone in the Project area but who do not hold a Land Certificate or legal documents, as well as those who occupy publicly owned land and publicly owned facility sites under customary rights at the time of the Census:
 - § Displaced Persons will receive compensation for their land, building and fixed assets, as well as for crops and trees at market value
 - § Displaced Persons can choose to receive cash compensation or the other options as described in paragraph 10
 - § The lots at the new site will have Hak Pakai or a higher land title, and the certificate will be issued within 1 year after the displacement.
 - § Displaced Persons will receive transport allowance to move their belongings.
 - § Displaced Persons will also receive assistance and training as provided in paragraph 17
- c) Persons who have no right to occupy land in a residential, commercial or industrial zone in the project area or publicly owned land and publicly owned facility sites in the project area, but who were occupying such land at the time of the Census undertaken or at the time of the pre-feasibility study of the sub-project:
 - § Displaced Persons will receive rehabilitation assistance in any of the forms provided for in paragraph 10 instead of compensation for the land occupied in an amount sufficient to achieve the objectives of this Framework, and compensation at real replacement cost for the building, and fixed assets as well as

- for crops and trees at market value
 - § Displaced Persons can choose to receive cash compensation or the other options as described in paragraph 10
 - § The lots at the new site will have Hak Pakai or a higher land title, and the certificate will be issued within 1 year after the displacement.
 - § Displaced Persons will receive transport allowance to move their belongings.
 - § Displaced Persons will also receive assistance and training as provided in paragraph 17
- d) Persons who are renters
- § Displaced Persons who are renters will be assisted with an allowance of six months rent calculated on the basis of average rent levels for similar houses or agricultural land within the same area.
 - § Displaced Persons who are renters will also receive assistance and training and transport allowance to move their belongings
- e) Persons whose jobs are lost because of the taking of land where they work and gained their income will be assisted with the forms of assistance described in paragraph 17.
- f) Persons who have no right to occupy land in a residential, commercial or industrial zone in the project area or publicly owned land and publicly owned facility sites and whose occupancy of such land begins after the Census will receive no compensation or rehabilitation assistance for the land or for the structures built and crops planted therein.

VII. Consultation and Complaint Resolution

19. This general framework will be included in the Project manuals and guidelines, and OC staff and facilitators trained in its implementation. The overall project approach in enabling transparency and consultation should allow solutions to local problems locally, quickly, and effectively. If any Displaced Persons or other community members have a complaint regarding the framework or its application in practice, the project has an established system of complaint handling at the kelurahan and kota/kabupaten as well as provincial and national levels, with dedicated staff in charge of handling and following up on complaints. Complaints which cannot be solved locally through the BKM complaint system will be referred to the OC, and, if necessary to the NMC and the PMU. However, in the event that the deliberations have been repeatedly conducted over a long period of time, but not exceeding one year, to reach a consensus but no consensus has been reached on the form and amount of compensation, dispute resolution will follow Presidential Decree No. 55 of 1993. The Decree stipulates that after failure to reach agreement with sub-project group, the owner has the right to object to the Governor (see clause 20(1)), who may conduct further negotiations (see clause 20(2)). If the owner is still not satisfied, the governor must refer the case to the Minister of Home Affairs and Minister of Justice (see clause 21 (1) and (2)), for consideration and referral to the President of the Republic of Indonesia for a final decision (see clause 21 (3) and (4)).

20. The progress of implementation of any required land acquisition, resettlement, and assistance will be reported to the Bank regularly by the OC/NMC. If required, an independent reviewer may be retained to carry out external monitoring and evaluation of the implementation of specific LARAPs. Such an agency or agencies will have qualified and experienced staff and terms of reference acceptable to the Bank.

**Requirements for a Land Acquisition and Resettlement Action Plan (LARAP)
for sub-projects under the Poverty Alleviation Partnership Grant
affecting more than 200 persons**

1. If a sub-project proposal indicates that more than 200 persons will be affected by the sub-project, the groups proposing the sub-project (BKMs and district level local government agency), assisted by the Oversight Consultant, will be required to conduct a Census and socio-economic survey to: (i) determine the number of persons involved; (ii) to collect data about the social and economic condition of the people, and the physical condition of the Project area; and (iii) to determine the potential impact of the sub-project.
2. The date of this Survey/Census will be the latest cut-off point to record the persons in the sub-project area that will receive compensation, resettlement and/or removal and rehabilitation assistance.
3. The detailed census and socio-economic survey (hereafter referred to as the socio-economic survey) will cover among others:
 - i) the size, condition, legal status of land and buildings (listed in impact groups of 0-25%, 25-50%, 50-75%, 75-100% affected);
 - ii) the number of Displaced Persons and households;
 - iii) relevant social characteristics of the Displaced Persons (age, gender, education, etc)
 - iv) relevant economic characteristics of the Displaced Persons such as livelihoods (including, as relevant, production levels and income derived from both formal and informal economic activities); standards of living (including health status)
 - v) the magnitude of the expected loss – total or partial – of assets, and the extent of displacement, physical or economic; and
 - vi) information on vulnerable groups or persons for whom special provisions may have to be made
4. Based on the results of this socio-economic survey, the Oversight Consultant will assist the groups proposing the sub-project to prepare a comprehensive plan on the taking of assets for purposes of the sub-project, and the provision of compensation, resettlement, and rehabilitation assistance for the Displaced Persons in accordance with the principles of this Policy Framework. This will be described in a Land Acquisition and Resettlement Action Plan (LARAP) to be furnished to the Bank for approval.
5. The scope and level of detail of the LARAP will vary with the magnitude and complexity of the resettlement. The plan will be based on up-to-date and reliable information about: (a) the proposed resettlement and its impacts on the Displaced Persons and other adversely affected groups; and (b) the legal issues involved in resettlement. The following list defines the matters that should normally be included LARAP and it should be regarded as general guidance in the preparation of a LARAP. When any matter listed is not relevant to Project circumstances, it should be noted in the resettlement plan:
 - i) **Description of Sub-Project Impact and Analyses**
 - § Description of the sub-project and identification of the sub-project area.
 - § Identification of: (i) the sub-project component or activities that give rise to resettlement; (ii) the zone of impact of such component or activities; (iii) the alternatives considered to avoid or minimize resettlement; and (iv) the mechanisms established to minimize resettlement, to the extent possible, during implementation.
 - § The main objectives of the resettlement program
 - § The findings of the socioeconomic studies
 - § The findings of an analysis of the legal framework
 - § The findings of an analysis of the institutional framework
 - § The definition of Displaced Persons and criteria for determining their eligibility for compensation and other resettlement assistance, including relevant cut-off dates

- ii) Methodologies and Procedures
 - § The methodology to be used in valuing losses to determine their replacement cost; a description of the proposed types and levels of compensation under local law and such supplementary measures as are necessary to achieve the real replacement cost for lost assets
 - § A description of the strategy for consultation and participation of resettlers and hosts in the design and implementation of the resettlement activities including;
 - a summary of the views expressed and how these views were taken into account in preparing the resettlement plan;
 - a review of the resettlement alternatives presented and the choices made by Displaced Persons regarding options available to them, including choices related to forms of compensation and resettlement assistance, to relocating as individuals families or as parts of preexisting communities or kinship groups, to sustaining existing patterns of group organization, and to retaining access to cultural property;
 - institutionalized arrangements by which displaced people can communicate their concerns to Project authorities throughout planning and implementation, and
 - measures to ensure that groups such as isolated vulnerable people, the landless, and women are adequately represented.
- iii) Compensation Package
 - § Description of the packages of compensation and other resettlement measures that will assist each category of eligible Displaced Persons to achieve the objectives of the Policy Framework. Compensation will be calculated based on Section V of the Policy Framework.
- iv) Alternative Relocation
 - § Institutional and technical arrangements for identifying and preparing relocation sites, whether rural or urban, for which a combination of productive potential, locational advantages, and other factors is at least comparable to the advantages of the old sites;
 - § Estimated time needed to acquire and transfer land and ancillary resources;
 - § Any measures necessary to prevent land speculation or influx of ineligible persons at the selected sites;
 - § Procedures for physical relocation under the sub-project, including timetables for site preparation and transfer;
 - § Legal arrangements for regularizing tenure and transferring titles to resettlers;
 - § Plans to provide, or to finance resettlers' provision of housing, infrastructure and social services (which ensure comparable services to host populations); and any necessary site development, engineering, and architectural designs for these facilities
 - § A description of the boundaries of the relocation area; and assessment of the environmental impacts of the proposed resettlement and measures to mitigate and manage these impacts (coordinated as appropriate with the environmental assessment of the main investment requiring the resettlement).
 - § Measures to mitigate the impact of resettlement on any host communities.
- v) Implementation of resettlement
 - § The organizational framework for implementing resettlement, including identification of agencies responsible for delivery of resettlement measures and provision of services.
 - § An implementation schedule covering all resettlement activities from preparation through implementation, including target dates for the achievement of expected benefits to resettlers and hosts and terminating the various forms of assistance.
- vi) Costs
 - § Detailed cost of the full compensation package, resettlement costs and all associated implementation costs
 - § Identification of sources of financing (Bank funds cannot be used to finance cash compensation or land acquisition.)

vii) Monitoring and grievance procedures

- § Arrangements for monitoring of resettlement activities by the implementing agency, supplemented by independent monitors as considered appropriate by the Bank.
- § Description of grievance procedures

6. There will be regular consultations with all Displaced Persons, and all other stakeholders including non-governmental organizations throughout the design and implementation of the LARAP.

7. The LARAP described above will be prepared jointly by the BKM(s) and local government agenc(ies) proposing the sub-project, with the assistance of the Oversight Consultants and will thereafter be provided to the Bank through the OC/NMC for approval. Once Bank approval is obtained, it will be issued as a Decree of the head of the district level local government (the Bupati or Walikota). Once the Decree has been issued, it will be disseminated by the OC and relevant government offices to the Project Affect Persons.

8. Issuance of approval for contract signing for a sub-project that requires a LARAP will be considered by the Bank after receipt of a progress report from the OC/NMC that indicates substantial implementation of the LARAP, including acquisition of all land in critical locations.

9. The LARAP, including all its maps and annexes, will be publicly displayed at the NMC and relevant OC office, the office of the relevant kelurahan(s), and the office of the relevant BKM(s).

Additional Annex 18

FRAMEWORK FOR TREATMENT OF INDIGENOUS OR ISOLATED VULNERABLE PEOPLES

INDONESIA: Second Urban Poverty Project (UPP2)

Objectives

The design of this project is structured to ensure the participation and inclusion of various groups within communities in local level decision making over resource allocation. However, the project recognizes that Indigenous People form a particular group that merit a different approach and specific support. Therefore, in accordance with OD4.20, the following framework for addressing indigenous people will be adopted for the project.

The objectives of this framework are to:

- Ensure that indigenous people benefit from the project; and
- Avoid or minimize potentially adverse effects of the project on indigenous people.

Definition

"Isolated vulnerable peoples" is the term used officially by the Indonesian Government to describe groups that have the characteristics of "indigenous peoples" as used in OD 4.20. This document will hereafter use the term "isolated vulnerable peoples".

For the purposes of this project, isolated vulnerable peoples are defined as those that present varying degrees of the following characteristics:

1. a close attachment to ancestral territories and to the natural resources in these areas;
2. self-identification and identification by others as members of a distinct cultural group;
3. an indigenous language, different from the common regional language (e.g. Javanese);
4. the presence of customary social and political institutions; and
5. primarily subsistence-oriented production

Framework

Isolated vulnerable people are not prevalent in all the project sites—they are likely to be found in particular kota/kabupaten of particular provinces. The following steps will be taken to ensure that, where isolated vulnerable groups exist, the project caters to their specific needs.

1. During the facilitator training, facilitators will be trained in the identification of isolated vulnerable people. Through the Community Self Survey exercise and poverty reflections, facilitators will identify the presence and numbers of isolated vulnerable groups in the community and report this to the OCs.
2. For the areas where isolated vulnerable groups are identified, OCs will organize an orientation training for relevant facilitators in how to work with isolated vulnerable groups in a useful way to identify mechanisms for effective participation, and address specific challenges in working with such groups, for example, how to deal with groups that may be in conflict with the larger community, etc.
3. Since facilitators will be hired locally to the extent possible, they are expected to be familiar with such groups. They will also be rotated as necessary to ensure that those that have been trained in working with isolated vulnerable groups, or have specific skills that would be beneficial in working with such groups, are made available in the right places. Management of facilitators will be handled by the OCs.
4. Where isolated vulnerable groups are identified, efforts will be made to ensure that at least one Community Cadre is from the group and able to communicate easily with the group.
5. Where the isolated vulnerable group speaks a language different from Bahasa Indonesia, relevant brochures

and documents will be translated in the appropriate language. Provision has been made in the project budget to allow for additional translations of relevant project documents.

These steps will be aimed at ensuring that isolated vulnerable people participate fully in the project, are aware of their rights and responsibilities, and are able to voice their needs during the Community Self Survey exercise and in the formulation of the Community Development Plan. In addition, they will be encouraged to submit sub-project proposals that cater to their group's needs.

Monitoring and Grievance Procedures

The Terms of References for the OC and NMC include the responsibility for monitoring the treatment of isolated vulnerable people in the project. Where isolated vulnerable people are identified, the OCs will be required to report on their participation in the project. Provisions will be made in the MIS system to monitor the involvement of isolated vulnerable people. This will be followed by the NMC as well as monitored during supervision missions.

The project has a complaint system that allows community members to raise issues or complaints at various levels—at the kelurahan level, at the OC level (either at kota/kabupaten or province level), and at the national level. There are designated staff at the OC and NMC responsible for following up on complaints and ensuring that they are handled adequately. Where isolated vulnerable people are concerned, the facilitator/OC will ensure that grievance redress mechanisms are developed in culturally appropriate ways in close collaboration with the relevant group.

Project evaluation studies will include monitoring and evaluation of the impact of the project on isolated vulnerable people.

Additional Annex 19

STRATEGY TO ENSURE GENDER MAINSTREAMING AND EQUALITY

INDONESIA: Second Urban Poverty Project (UPP2)

Women's participation in the community development process is a key factor in establishing organizations that truly represent all people in the community. It is also important for providing services that respond not only to the community at large, but also to specific needs that women may have. The following gender strategy has been developed for UPP2 to more systematically address gender mainstreaming and equality.

	Activities	Measures to Ensure Gender Mainstreaming and Equality
1	Socialization and dissemination at each level (national, provincial to kelurahan)	<ul style="list-style-type: none"> Explain and discuss how important women's participation is for poverty reduction Explain gender goals of project within its poverty strategy
2	Consultants and facilitators	<ul style="list-style-type: none"> Advertisements for all new project staff should state that 'women are strongly encouraged to apply' If there are both male and female eligible candidates for positions, females should get priority In the selection of facilitators, 50% of candidates should be women A minimum of one third of consultants and facilitators per province should be women
3	Training of consultants and facilitators	<ul style="list-style-type: none"> Include gender-related issues (meeting techniques, timing, facilitation, specific culture local women identification, etc)
4	Simple gender manual	<ul style="list-style-type: none"> Identify local specific and acceptable ways to i) ensure women can participate in all aspects of the program; and ii) to disseminate information to women.
5	Meeting for selection of community cadre	<ul style="list-style-type: none"> At least 40% of participants should be women 50% of candidates proposed by the community for community cadre should be women At least 30% of selected community cadres should be women
6	Community cadre training	<ul style="list-style-type: none"> Include gender-related issues (meeting techniques, timing, facilitation, specific cultural issues, local women identification, etc)
7	Focus Group Discussion specially on poverty identification, and local institutions analysis	<ul style="list-style-type: none"> Hold special focus group discussions for women (separately from men) Ensure that gender sensitive approaches/methods are used that match local conditions (place, timing, facilitation techniques, etc)
8	Participants selection for community self survey (Survey Swadaya) and participatory planning training	<ul style="list-style-type: none"> Try and ensure during socialization that 50% of participants are women At least one third of the Survey Swadaya members should be women
9	Developing Lembaga Masyarakat (BKM) process from RT/RW/Dusun to kelurahan	<ul style="list-style-type: none"> Try and ensure that 40% of the meeting participants are women Ensure through socialization that communities are aware that at least one third of BKM members should be women
10	Selecting the UPK	<ul style="list-style-type: none"> If there are both male and female candidates eligible, females should get priority
11	Selection of BKM monitoring team	<ul style="list-style-type: none"> Ensure that 40% of meeting participants are women Ensure through socialization that 30% of team are women
12	KSM proposal writing	<ul style="list-style-type: none"> Ensure that women KSM proposals are written by themselves (with assistance from community cadre/facilitator if needed)
13	Defining proposals priority by 'rembuk masyarakat' meeting	<ul style="list-style-type: none"> Ensure women KSM who propose can come to meetings (i.e. be careful with place and timing of meetings to allow women to participate given their local conditions) Give priority to women's proposal if they meet the criteria according to the verification team
14	Monitoring and evaluation formats	<ul style="list-style-type: none"> Ensure formats for monitoring and evaluations collect information on women's participation in all aspects of the project, including meetings, women beneficiaries, etc. to improve performance if needed. Disaggregate regular MIS data by gender

Additional Annex 20

DESIGN DIFFERENCES BETWEEN UPP1 AND UPP2

INDONESIA: Second Urban Poverty Project (UPP2)

Many specific lessons that were learned from implementing UPP1 have been incorporated into UPP2. The following table summarizes the main design differences:

UPP1	Design Changes for UPP2
i) Formation of BKM—time taken for dialogue with communities too short; inconsistencies in messages between different OCs	Four to six month long guided process for awareness raising and socialization; defined set of community development activities; centrally prepared training for OCs and facilitators to ensure consistency of messages; centrally prepared publicity materials
ii) Strengthening of BKM and BKM Forum—unstructured. BKM forum grew on their own initiative.	Program of continuous training for BKM (particularly for accountant in charge of microcredit activities); program of support and training for BKM Forum.
iii) Accountability of BKM to communities—not enough emphasis given	Longer awareness raising process and structured involvement of communities from the beginning to ensure they know their rights and responsibilities as well as the BKMs'
iv) Local governments largely bypassed	Local government is key player in one project component (Poverty Alleviation Partnership Grant)
v) Disproportionate amount of funds used for revolving funds despite open menu policy	Mandatory formulation of a Community Development Plan encouraging communities to think about broad range of needs and possible options, and to take greater advantage of open menu policy
vi) Revolving funds do not consistently follow best practice or standardized principles	IF BKMs choose to do revolving funds, standardized program to: i) apply best practices and principles; ii) provide more training for improved management of revolving funds; iii) distinction between levels of investment in revolving funds and more support and skills training to those BKMs that wish to (and prove to be eligible to) operate a larger more professionalized microcredit program rather than a smaller revolving fund
vii) Training program scattered between National Management Consultants (NMC) and Oversight Consultants (OC) and left to their discretion	More intensive training program for all stakeholders. Flexibility built in to allow needs-based training and technical assistance depending on what BKMs and KSM groups need.
viii) Facilitators—one facilitator per kelurahan; one off training	Different structure for using facilitators- using facilitator teams- to ensure peer group learning and support structure; program of continuous training
ix) Monitoring and evaluation in same consultant contract, separated from project management	Monitoring function moved back to project management consultants; evaluation consultants remain independent. Improved structure for evaluation, including carrying out baseline survey and room for ad-hoc evaluation studies (by NGOs or academics or other interested parties) depending on needs.
x) Phasing requires procuring a new set of project staff (NMC, OCs and facilitators) for new areas	Phasing will be carried out using same OC and NMC teams with increased staff to cover new areas in order to consolidate the learning from Phase I. Learning by doing is the biggest asset of the implementers.
xi) Project management structure	Modifications made to achieve greater accountability for project management among the various implementing bodies and to improve monitoring and evaluation functions (see Section E4.2)

