PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA284

<table>
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<tr>
<th>Project Name</th>
<th>National Community Empowerment Program In Urban Areas For 2012-2014 (P125405)</th>
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<tbody>
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<td>Region</td>
<td>EAST ASIA AND PACIFIC</td>
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<tr>
<td>Country</td>
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<td>Government of Indonesia</td>
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<td>Implementing Agency</td>
<td>Ministry of Public Works (DG Human Settlement)</td>
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I. Project Context

Country Context

1. Indonesia is the fourth most populous country in the world and is rapidly urbanizing. In 1970, the country had a total population of approximately 117 million persons. Of this amount, nearly 20 million people (17.1 percent of the total population) were classified as living in urban areas. The country’s total population in 2010 was estimated to be 233 million (United Nations World Urbanization Prospects: The 2009 Revision, 2009), of which 103 million reside in urban areas—44 percent of the overall population. BPS estimates the urban population at closer to 50 percent. Urbanization in Indonesia will continue to be rapid. In absolute terms, over the next four decades, the country is expected to add 56 million persons to its urban areas; urban poverty is projected to surpass rural poverty by 2020. There is also a sizeable population that remains part of the rural agricultural sector but travels frequently to urban areas, often for extended stays, and lives in substandard conditions in peri-urban areas. This magnitude of demographic growth will pose significant challenges for central and local governments, especially in terms of the ability to provide adequate basic services under constrained budgets and capacities.

2. Urban poverty remains a major problem. At present, over 30 million Indonesians live below the national poverty line of $21 per month, despite substantial economic growth since the 1997/98 Asian financial crisis and the global economic slowdown that began in 2008 (the growth forecast for 2012 is 6.3 percent), significant progress towards achieving MDGs, and sustained reductions in poverty levels (from 17.4 percent in 2004 to 13.3 percent in 2010). There is also a very large segment of near-poor. Approximately 110 million Indonesians—or half of all households—live just above the national poverty line, and therefore remain highly vulnerable to falling back into poverty. In addition, income inequality has increased during the last decade (as evidenced by an increase in the Gini coefficient from 31.7 in 1999 to 35.0 in 2009), and is higher in urban than in rural areas.

3. Access to basic infrastructure services remains low. Apart from low incomes, many Indonesians also suffer from limited (and sometimes deteriorating) access to basic infrastructure services. The proportion of the population with sustainable access to piped water has decreased from 36% in 2000 to 23% in 2009. As for sanitation, fewer than 3% of urban households have access to a piped sewerage connection, 18% still practice open defecation, while the majority relies on individual or shared toilets (with septic tanks/soak pits that are not treated and often seep into the water table). Only 20% of solid waste is collected and transported to final disposal sites, which are often not sanitary/open dumping (Roadmap for Water Investments in Indonesia 2010-2015 (forthcoming)). In addition, although 84% of households have secure tenure by owning or renting, the number of slum areas with few (or no) public services and limited security is increasing (UNDP, http://www.undp.or.id/pubs/docs/let%20speak%20out%20for%20MDGs%20-%20EN.pdf).

II. Sectoral and Institutional Context

4. PNPM: A nationwide CDD program. In August 2006, the Government of Indonesia (GOI) launched the National Program for Community Empowerment (PNPM Mandiri). PNPM is the umbrella program that seeks to bring together all community driven poverty related initiatives in Indonesia so that the poor can benefit from improved socioeconomic and governance conditions through the use of a common approach for all communities nationwide. PNPM provides grants and technical support to poor communities to improve basic infrastructure and social services. It seeks to empower communities by actively involving them in decision making about their investment needs and priorities. The design of PNPM is based on the premise that community-level infrastructure will better meet community needs and do so at lower investment cost when it is planned and constructed by communities themselves, while recognizing that many urban issues require high-level infrastructure solutions (such as public transport, piped water, and storm drainage). At present, PNPM is the largest community-driven development (CDD) program in the world, covering all urban wards (PNPM-Urban) and rural villages (PNPM-Rural) in Indonesia. However, PNPM is only one program under ‘cluster 2’ of Indonesia’s 3-cluster strategy to address poverty - only taken together can these programs reduce poverty (Cluster 1 focuses on stabilizing incomes through targeted poverty and social protection programs at the household level – e.g. the CCT program; cluster 2 promotes community level development and empowerment (PNPM-Urban, PNPM-Rural, RISE, PPIP, SPADA); and cluster 3 focuses on micro-level growth through programs that target micro-finance and support to SMEs. A fourth cluster is under discussion to focus on slum upgrading and water supply). The Government is increasingly looking to leverage pilot efforts from PNPM-Urban on larger scale upgrading in poor areas.
into a long term, sustainable program under its planned fourth Cluster for urban upgrading.

5. Relation to Indonesia’s National Strategy for Urban Development. The GOI is in the process of preparing a National Urban Policy and Strategy (Kebijakan dan Strategi Perkotaan Nasional or KSPN) with the objective of strengthening the role of urban development as part of the National Long Term Development Plan (RPJPN) and National Spatial Plan. The KSPN is a 15-year strategy that outlines the policies and strategies required for cities in Indonesia to develop as "socio-spatial entities", meaning that the city is viewed as a center of growth linked to other cities and surrounding regions, as well as enabling cities to become more competitive globally. The PNPM-Urban Program is aligned with the KSPN, especially its goals of: (a) increasing the role of cities as drivers of economic growth in local, regional and national contexts as well as improving people’s welfare and living conditions, and (b) improving the quality of urban governance to be more transparent, accountable, and participatory. GOI is planning to enact the KSPN as a Presidential Regulation and once the revised decentralization law is issued; it is expected the KSPN will be enacted as a national law. The process of proposing and drafting the Presidential Regulation is being carried out by the Team Koordinasi Pembangunan Perkotaan (TKPP—Coordinating Team for Urban Development), led by Bappenas (Ministry of Planning).

6. The PNPM-Urban program enhances the participatory planning elements of local urban development, which is noted as a priority in the KSPN, through the provision of basic services and socio-economic development programs targeting the urban poor using a community-driven approach. A collaborative initiative between the community group and the local government, through the special intervention for the poorest at neighborhood level - to be implemented under the proposed project – fills the gap between the currently exclusive top-down and bottom-up planning in targeting the urban poor and delivering last-mile infrastructure. It also supports climate and natural disaster resilience efforts at the local level by sensitizing facilitators and communities to these issues; block grant allocations may also be used to support local resilience efforts.

7. A long-term partnership with GOI. Alongside other precursor programs to the PNPM, such as the Kecamatan Development Program (KDP) in rural areas, the Urban Poverty Program (UPP) began in 1999 as a response to the central government to the economic collapse and as a means of quickly transferring resources directly to the poor in urban communities. The driving force for GOI’s policy transition from UPP/KDP to PNPM was the desire to institutionalize the proven track record in bottom-up, participatory planning into a single CDD-based poverty reduction program (The Presidential Decree stipulates that PNPM should be the umbrella program for all CDD based poverty reduction schemes operated by various ministries) and to expand it to national scale. The Bank has supported the Government since the inception of the UPP program to the scale up of the PNPM to nationwide coverage. In urban areas, coverage extends to all 11,000 urban wards and 22.3 million beneficiaries (MIS). Since 1999, the Bank has committed over $900 million in financing for urban CDD programs in Indonesia. Including the proposed loan, this amount would increase to almost $1.2 billion. Since UPP1, the program has financed over 31,100 km of small roads, 8,800 km of drains, rehabilitation of 126,800 houses of the poorest, 164,800 units of solid waste and sanitation facilities, and 9,450 health facilities (Based on the MIS as of August 31, 2011).
12. To better understand these and other pertinent questions, a two-part study, A Strategic Review of Urban Poverty and Programs in Indonesia, was launched in 2011 which includes (i) an analysis of urban poverty and a review of major urban poverty programs; and (ii) a process evaluation of the PNPM-Urban Program. The study is being carried out by the RAND Corporation in partnership with Survey Meter. The process evaluation, recently completed, reviewed: (a) community participation under CDD; (b) quality of infrastructure; (c) capacity building and effectiveness of the facilitators; (d) control mechanisms/governance, including audit functions and use of MIS data; (e) links with local government and sectoral programs; and (f) adequacy of the block grants. It also assessed the Neighborhood Development program and MIS data quality.

13. The process evaluation found that overall, the program is doing well in terms of achieving its objectives of elected community participation, capacity building and governance improvements (such as the occurrence of regular, well-attended community meetings, physical audits, and external monitoring). The evaluation also noted the good quality of small-scale infrastructure on which approximately 80% of the block grant is spent. Assessment of the quality of infrastructure carried out by engineers was mostly high, and most respondents responded favorably to the PNPM-Urban financed infrastructure. Other evaluations assessing the cost-effectiveness of projects by MPW have found that community self-help construction under the UPP program is estimated to be 30-66% cheaper than traditional contracting methods, depending on the type of construction.

14. In addition to areas of strength, the findings also indicate that several aspects of the program could be improved. For example, participation could be more comprehensive, women’s participation can be improved, training and management of facilitators could be enhanced to fix data outliers and anomalies and to leverage ICT to broaden its scope; the PNPM-Urban planning processes could be aligned more systematically with local government budgeting processes (Musrenbang); and the pilot Neighborhood Development program could be better focused on the poor. Interviews also highlighted priorities of social and economic needs by the communities, suggesting additional focus in these areas in the identification process through facilitators. These findings are being carefully addressed through changes in project management, and in several cases with design changes being introduced.

15. The analysis being carried out through the first part of the study, A Strategic Review of Urban Poverty and Programs in Indonesia, will also put the role of PNPM-Urban and the evaluation findings in the context of the GOI’s overall poverty reduction strategy. This part of the study is covering overall trends in urban poverty and a strategic review of GOI programs aimed at the urban poor including programs that fall under three clusters – 1) social protection, 2) community empowerment, and 3) programs for increasing incomes in the longer term. The PNPM falls under cluster 2, with a focus on community empowerment rather than on individual or household welfare. A policy note on key findings is under preparation for discussion with the GOI in the context of their medium and long term planning.

16. Principles for improved design. The design of the project is based on the design of its predecessor project PNPM-Urban III, but with several important modifications based on the ongoing learning described above. These modifications reflect discussions with GOI, recent experiences with the implementation of PNPM-Urban II and III, the results of the RAND process evaluation, and the Implementation Completion and Results (ICR) report for two predecessor projects (UPP2 and UPP3). They are summarized as follows:

- Address issues related to overall project investments and implementation. These include rebalancing the social and infrastructure portions of the block grants, enhancing women’s participation in the program, reviewing the maintenance arrangements to ensure the sustainability of small-scale investments, and improvements to facilitator management, hiring, and retention, as well as overall program management.

- Implement programs targeted to meet the needs of the poorest and women (which the evaluation found were not benefiting fully under the current design). A specialized neighborhood level intervention in very poor communities will be undertaken in order to take a more holistic view to improving the living conditions for the urban poor on a larger scale. Its goals would be to: (a) stimulate better coordination in community and local government planning; (b) promote more integrated block improvement based on a medium-term vision and spatial planning, rather than isolated investments; and (c) design a more sustainable social program as part of the block grant. In addition, a separate funding window may be allocated on a pilot basis to be managed by women’s groups to increase their participation and ownership of the program.

- Improve the MIS to ensure it is able to track results and provide feedback to the program in a timely manner. The project will address issues raised by the process evaluation in terms of the quality of data collected, training for community members and facilitators on data entry and reporting, and improving the usability of the MIS website (http://www.p2kp.org). It will also enhance the government’s capacity to carry out evaluations of the program, as past qualitative and quantitative evaluations of UPP2 and UPP3 are still ongoing.

III. Project Development Objectives
The project development objective is to help ensure the urban poor in participating kelurahan benefit from improved local governance and living conditions.

To achieve this objective, the project will: (a) strengthen and institutionalize elected representative organizations held accountable to communities, (b) provide grants to communities directly and transparently to finance an open menu of activities aimed at poverty alleviation, (c) enhance the capacity of central and local governments to partner with community organizations in public service provision and (d) increase awareness of disaster risk mitigation and mainstream measures of resilience.

IV. Project Description
Component Name
Component 1: Capacity Building for Communities and Local Governments
Component 2: Kelurahan Grants
Component 3: Implementation Support and Technical Assistance
Component 4: Contingency for Disaster Response

V. Financing (in USD Million)
VI. Implementation

23. Responsibility for project implementation will remain with the Ministry of Public Works (MPW). The PMU at the central government that oversees previous PNPM-Urban projects will remain responsible for monitoring and supervision of the new project. The PMU reports to the Director General of Human Settlements at MPW, and routine works are decentralized to the provincial level. The PMU will continue to be supported through a combination of Management Consultants, Oversight Service Providers, Regional Level Consultants and field-based facilitators. Once the investments are identified by the BKM, these are implemented using a combination of in-kind labor contributions and hiring of contractors by the community. For the poorest sites requiring specialized programs, local governments could channel of resources from various partners.

VII. Safeguard Policies (including public consultation)

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