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Report No: PAD2646

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED LOAN

IN THE AMOUNT OF US$ 49.6 MILLION

TO THE

REPUBLIC OF INDONESIA

FOR A

NATIONAL URBAN DEVELOPMENT PROJECT (NUDP)

May 20, 2019

Social, Urban, Rural And Resilience Global Practice
East Asia And Pacific Region

CURRENCY EQUIVALENTS

Exchange Rate Effective April 30, 2019

Currency Unit =	Indonesian Rupiah(IDR)
IDR 14,250.00 =	US$1

FISCAL YEAR
January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
ATR/BPN	*Kementerian Agraria dan Tata Ruang/Badan Pertanahan Nasional* (Ministry of Agrarian and Spatial Planning/National Land Office)
BAPPEDA	*Badan Perencanaan Pembangunan Daerah* (Regional Development Planning Agency)
BAPPENAS	*Badan Perencanaan Pembangunan Nasional* (National Development Planning Agency)
BCR	Building Coverage Ratio
BIG	*Badan Informasi Geospatial* (Central Bureau of Geospatial Information)
BPS	*Badan Pusat Statistik* (Central Bureau of Statistics)
CIP	Capital Investment Planning
CPF	Country Partnership Framework
CPL	City Planning Labs (Laboratorium)
CPMU	Central Project Management Unit
DA	Designated Accounts
DG	Directorate General
DIPA	*Daftar Isian Pelaksanaan Anggaran* (Budget Implementation List)
EIRR	Economic Internal Rate of Return
E&S	Environmental & Social
ESMF	Environmental and Social Management Framework
FAR	Floor Area Ratio
FMA	Financial Management Assessment
FMS	Financial Management Specialist
GDP	Gross Domestic Product
GEF	Global Environment Facility
GIS	Geographic Information System
GoI	Government of Indonesia
ICT	Information and Communications Technology
IDP	Integrated Data Platform
IDSUN	Indonesia Sustainable Urbanization Multi-Trust Fund
IFR	Interim Financial Reports
ILGRP	Initiatives for Local Governance Reform Project
ILUTP	Integrated Land Use and Transport Plan
IP	Indigenous Peoples
IPPF	Indigenous Peoples Planning Framework
LGDP	Local Government Decentralization Project
M&E	Monitoring & Evaluation
MOEF	Ministry of Environment and Forestry
MOF	Ministry of Finance
MOHA	Ministry of Home Affairs
MOT	Ministry of Transportation
MPWH	Ministry of Public Works and Housing

MSDI	Municipal Spatial Data Infrastructure
MTFF	Medium-term Fiscal Framework
MTR	Mid-term Review
Musrenbang	*Musyawarah Perencanaan Pembangunan* (Participatory Public Meetings on Development)
NSUP	National Slum Upgrading Program
NUDP	National Urban Development Project
OSP	Oversight Service Providers
PAMSIMAS	*Penyediaan Air Minum dan Sanitasi Berbasis Masyarakat* (National Rural Water Supply and Sanitation Project)
PDO	Project Development Objective
PEA	Public Expenditure Assessments
PEFA	Public Expenditure and Financial Accountability
Perda	*Peraturan Daerah* (Local Regulation)
Perwali	*Peraturan Walikota* (Mayoral Regulation)
PIU	Project Implementation Unit
PMS	Project Management Support
POM	Project Operation Manual
PP	*Peraturan Pemerintah* (Government Regulation)
PPP	Public Private Partnership
PPSD	Project Procurement Strategy for Development
RAN-API	Indonesia Climate Change Adaptation Action Plan (*Rencana Aksi Nasional Adaptasi Perubahan Iklim*)
RIDA	Regional Infrastructure Development Agency (*Badan Pengembangan Infrastruktur Wilayah*)
RIDF	Regional Infrastructure Development Fund
RDTR	*Rencana Detil Tata Ruang* (Detailed Spatial Plan)
RKPD	Annual Budget Plan
RPJMD	*Rencana Pembangunan Jangka Menengah Daerah* (Medium-Term Regional/ Local Development Plan)
RPJMN	*Rencana Pembangunan Jangka Menengah Nasional* (National Medium-Term Development Plan)
RTRW	*Rencana Tata Ruang Wilayah* (Spatial Plan)
SAF	Strategic Area Framework
SDF	Spatial Development Framework
SEA	Strategic Environmental Assessment/KLHS: *Kajian Lingkungan Hidup Strategis*
SESA	Strategic Environmental and Social Assessment
SOP	Standard Operating Procedures
TA	Technical Assistance
TKPPN	*Tim Koordinasi Pembangunan Perkotaan Nasional* (National Coordinating Team for Urban Development)
TMC	Technical Management Consultant
TOR	Terms of Reference

TABLE OF CONTENTS

DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Indonesia	National Urban Development Project (NUDP)	
Project ID	**Financing Instrument**	**Environmental Assessment Category**
P163896	Investment Project Financing	B-Partial Assessment

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[ ] Fragile State(s)
[ ] Disbursement-linked Indicators (DLIs)	[ ] Small State(s)
[ ] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
11-Jun-2019	31-Dec-2024

Bank/IFC Collaboration

No

Proposed Development Objective(s)

To increase the number of participating cities carrying out integrated planning and prioritizing their capital investments.

Components

Component Name	Cost (US$, millions)

Component 1: National Urban Institutional and Policy Development	5.00
Component 2: Integrated Planning for Urban Development	32.60
Component 3:City Financial Management Capacity Development	5.00
Component 4: Project Implementation Support	7.00

Organizations

Borrower:	Republic of Indonesia
Implementing Agency:	Ministry of Public Works and Housing (MPWH) Ministry of National Development Planning (BAPPENAS) Ministry of Home Affairs (MOHA)

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	49.60
Total Financing	49.60
of which IBRD/IDA	49.60
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	49.60

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2019	2020	2021	2022	2023	2024	2025
Annual	1.00	4.26	7.50	13.39	18.05	3.96	1.44
Cumulative	1.00	5.26	12.76	26.15	44.20	48.16	49.60

INSTITUTIONAL DATA

Practice Area (Lead)

Social, Urban, Rural and Resilience Global Practice

Contributing Practice Areas

Environment & Natural Resources, Governance, Macroeconomics, Trade and Investment, Water

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?	
a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF	Yes
b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment	Yes
c. Include Indicators in results framework to monitor outcomes from actions identified in (b)	Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Low
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	Low
9. Other	
10. Overall	Substantial

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	✓	
Performance Standards for Private Sector Activities OP/BP 4.03		✓
Natural Habitats OP/BP 4.04		✓
Forests OP/BP 4.36		✓
Pest Management OP 4.09		✓
Physical Cultural Resources OP/BP 4.11		✓
Indigenous Peoples OP/BP 4.10	✓	
Involuntary Resettlement OP/BP 4.12	✓	
Safety of Dams OP/BP 4.37		✓
Projects on International Waterways OP/BP 7.50		✓
Projects in Disputed Areas OP/BP 7.60		✓

Legal Covenants

Sections and Description

Schedule 2. Section IC, Paragraph 1.

The Borrower shall: (a) prepare and furnish to the Bank by September 30 in each year - beginning in the Fiscal Year 2020 - a proposed Project's consolidated annual work plan and budget for the following Fiscal Year; (b) taking into account the Bank's comments, finalize the plan and furnish it to Bank for its approval not later than November 30 in each year - beginning in the Fiscal Year 2020; and (c) adopt the plan as shall have been approved by the Bank (Annual Work Plan and Budget) and thereafter ensure that the Project is carried out in accordance with each of such Annual Work Plan and Budget, in a manner satisfactory to the Bank.

Sections and Description

Schedule 2. Section II, Paragraph 2.

No later than June 30, 2022, the Borrower shall, in conjunction with the Bank, carry out a mid-term review of the Project (the “Mid-term Review”), covering the progress achieved in the implementation of the Project.

Conditions

I. STRATEGIC CONTEXT

A. Country Context

1. **Rapid urbanization has placed cities at the center stage of Indonesia's development trajectory but returns from urbanization have not reached their full potential**. Indonesia ranked among the top ten fastest urbanizing countries in the world from 1990-2014 and has the second-largest urban population in East Asia after China. The country has approximately 137 million urban dwellers that make up 53.7 percent of the total population. The urban population of Indonesia increased at an average rate of 4.1 percent per year between 2000 and 2010, faster than in any other country in Asia. By 2025, an estimated 68 percent of Indonesians will live in cities. But Indonesia has not benefited fully from the positive returns to urbanization that other countries in the region have experienced. From 1970 to 2006, every one percent increase in share of urban population correlated with an average of 6-10 percent increase of per capita GDP in several other middle-income Asian countries such as China, Thailand, Vietnam and India. In Indonesia, similar rates of increase in urbanization resulted in less than 2 percent increase of per capita GDP.

2. **A persistent infrastructure gap remains a significant barrier to an enabling economic environment that will enhance prosperity for all urban populations**. The last decade has seen little increase in infrastructure investment with combined total investments by the central government, subnational governments, state-owned enterprises and private sector remaining consistently at only 3 to 4 percent of GDP. As a point of comparison, China and India invested 10 percent and 7.5 percent of GDP respectively. Firms consistently identify inadequate infrastructure as a constraint on their operations and investment in Indonesia[1]. If the infrastructure capital stock had grown by 5 percent annually over 2001-2011 instead of the actual rate of 3 percent, real GDP growth would have averaged at estimated 5.8 percent, a difference of 0.5 percentage points. If the infrastructure stock had grown by 10 per cent annually, annual real GDP growth would have reached 7 percent.[2]

3. **Under-investment in infrastructure is coupled with inadequate spatial prioritization and weak management of existing infrastructure**. Diagnostics carried out during preparation reveal a disconnect between spatial planning and capital investment planning and budgeting, resulting in outcomes far below expectations and contributing to rising inequality in urban areas. Between 1995 and 2011, income inequality as measured by the GINI coefficient increased from 0.35 to 0.42 in urban areas. Evidence from the World Bank's (hereafter "the Bank") work in Denpasar city in 2016 revealed that municipal services are concentrated in wealthier wards (kelurahans). Many urban poor wards lack accesses to multiple municipal infrastructure networks (including water supply, sanitation system and schools), becoming hotspots of depravation and highlighting intra-urban multidimensional inequality**.** Efficient implementation and maintenance of infrastructure are further impeded by bottlenecks ranging from inefficient procurement methods, insufficient multi-year contracting, low quality project management, cumbersome land acquisition procedures, and chronic issues of sub-standard regulation and lack of transparency.

4. **Fast growing secondary and large cities are worst hit by infrastructure financing gaps with little capacity to access alternative sources of financing.** Based on official population statistics from 2016 and census data[3] the Bank projects the addition of 14 sizable urban agglomerations (including large, metro and mega cities) between 2016 and 2060. Infrastructure gaps are largest in these fast-growing cities, which are the focus of this project. While

[1] World Bank, *Indonesia Economic Quarterly – Current challenges, future potential*, June 2011, pp.28.
[2] World Bank, *Development Policy Review 2014 – Indonesia: Avoiding the Trap*, 2014, pp 85.
[3] Mega cities: over 3.0 million, metropolitan areas: 1.0 to 3.0 million, large cities: 0.5 to 1.0 million.

disproportionate amounts of overall sub-national revenues come from intergovernmental transfers (approximately 78 percent), the transfer system, which assumes that cities governments have the same absolute expenditure needs, is inequitable for urban areas. Fast growing, secondary cities are particularly disadvantaged as their population continues to grow and the infrastructure financing gap worsens. National transfers are also on a downward trajectory, with urban local governments being expected to raise more revenue for their investment needs. However, city governments have limited ability to access alternative financing. Poor project preparation, low creditworthiness, lack of clean audits, and capacity to carry out competitive, multi-year procurement processes have been major factors in the low utilization of alternative financing mechanisms, public and private finance. The Bank-supported Regional Infrastructure Development Facility (RIDF, P154947) has highlighted these bottlenecks as a constraint to effective lending to cities.

5. **Climate change presents new risks to fast growing urban areas in Indonesia and calls for coordinated urban planning and infrastructure development to improve climate resilience.** As an archipelago, Indonesia is highly vulnerable to the adverse impacts of climate change, such as floods and droughts which make up 80 percent of disasters in the country.[4] With the third longest coastline in the world and high seismic risk, Indonesia also faces a high risk of coastal inundation, tsunami and sea level rise that may affect up to 42 million people currently living in low laying coastal zones, where most urban areas are located. The Government currently spends between US$300-500 million annually on post-disaster reconstruction. Spending during major disaster years can reach 0.3 percent of the GDP; as high as 45 percent at the provincial level.[5] The cost of replacing or restoring public infrastructure and private housing, most of which is uninsured, places a significant burden on public expenditures. There is an urgent need for improved links between urban planning and infrastructure to reduce the vulnerability of populations to climate-related hazards by directing development towards lower risk areas.

B. Sectoral and Institutional Context

6. **Indonesia has a well-developed, intricate planning system with a suite of statutory plans at the national and central levels mandated by law.** From an urban planning and local governance perspective, two laws are key. First is the development planning system, based on the Local Government Law (UU) 23/2014 which governs all local government mandates and functions, including the city level medium-term development plan (RPJMD) with a five-year horizon. RPJMD reflects the vision of the elected mayor along with socio-economic indicators and includes targets that set the agenda for governance, social services, infrastructure priorities, and other aspects of socioeconomic development. With the Spatial Planning Law 26/2007 the planning system acknowledged the critical role of spatial planning in rapid urbanization. This law governs the city level spatial plan (RTRW) as well as the detailed spatial plans for priority areas (RDTRs). Together, these spatial plans provide the policy direction and strategy for land use, zoning, public transport, pedestrian networks, settlement expansion and density, and the allocation of green open spaces, among others. Both spatial plans are valid for 20 years and can be revisited every 5 years, creating an opportunity to align with the RPJMD cycle, in principle.

7. **Despite a strong regulatory basis, spatial plans for most cities do not include clear guidance for establishing a long term, strategic development direction that prioritizes socio-economic outcomes and is also easily understood by citizens, investors and government departments.** Rigid prescriptions of information presented in publicly available plan documents obscure their underlying intention and vision. Specific requirements of spatial resolution of analytical inputs at every level of planning and a focus on administrative rather than functional areas for detailed spatial planning reduce the flexibility of the plans to be responsive to dynamic urban environments. The ability of spatial plans to direct

[4] Government of Indonesia (2016), Indonesia's First Nationally Determined Contributions
[5] GFDRR (2016) Country Profile: Indonesia. The Global Facility for Disaster Reduction and Recovery (GFDRR).

physical investments in a way that extracts the most efficiency is also limited due to the absence of a spatially informed capital investment planning and budgeting framework. As a result, while regulations stipulate that the RPJMD and the RTRW should cross-reference one another to ensure alignment of the spatial plan with the development vision, in practice the linkages remain weak.

8. **Under RPJMD, city governments have the mandate to develop a five-year capital investment plan under the coordination of the local planning agency (BAPPEDA). However, the list of investments in most RPJMD documents remain indicative without clearly defined spatial prioritization** (e.g. 500m of local roads without a specified location). The indicative investments in RPJMD are also not linked with proposed sources of finance in the medium term. With city budgets approved annually, these investment lists, without a strong rationale for prioritization, often do not materialize into actual investments with a medium-term development perspective. RPJMD targets for service provision and socio-economic development are mostly numeric and often aggregated at the city level, without a spatial distribution, further weakening the links between spatial plans and development outcomes. Moreover, the timing to update RPJMD and RTRWs are not always well aligned, although both should technically be on the same revision cycle every five years.

9. **Alignment of spatial planning between levels of governments as well as across sectoral plans within a city need to be boosted.** Statutory plans for spatial planning exist at national, provincial and city level, but lack coordination. Within a city, the integration of urban spatial and land use plans with individual sectoral plans remains ad hoc, often due to disparate time frames for revision. While mechanisms exist, in principle, to ensure referencing of plans across sectors, their utilization is limited. Coordination often relies on spontaneous effort, which is challenging and inefficient given sectoral silos. Recognizing the need for multi-sector coordination and vertical integration, the GOI has established a National Inter-Ministerial Steering Committee (TKPPN) under National Development Planning Agency (BAPPENAS) tasked with national coordination within the urban sector. The capacity, work program and clarity on roles and responsibilities within TKPPN needs to be further strengthened for more effective coordination at the national level. The Ministry of Agrarian Affairs and Spatial Planning/National Land Agency (ATR/BPN) was established in 2016 by merging the Directorate General of Spatial Planning of the Ministry of Public Works with the former National Land Agency, reflecting GOI's commitment to integrated land management and administration with spatial planning. However, on the spatial planning side, ATR/BPN's financial and human resources are overstretched and cannot support all urban and rural local governments. Currently, there is a significant backlog of detailed spatial plans (RDTR) and only 90 of about 1,400 detailed spatial plans for targeted areas have been developed due to lack of technical capacity and suitable planning data at both national and local levels.[6]

10. **Regulatory frameworks for all statutory plans mandate the inclusion of key inputs such as urban growth analytics, economic strategy, and integrated land use and transport planning. Nevertheless, the quality of inputs and development control mechanisms remain weak.** A review of RPJMDs and RTRWs during project preparation highlighted the need to improve the quality of analytical inputs, suggesting a weak basis for planning in cities. Mechanisms for development control exist through RDTRs (detailed spatial plans), but enforcement by planning departments in cities is weak especially given the large backlog of RDTRs that remain in draft form or nonexistent in over 80 percent of cities. This lack of robust development control has led to unauthorized developments, exacerbating inefficiencies in urban built environments with long lasting impacts that undermine growth productivity, competitiveness, poverty reduction efforts, and the health and well-being of the people.

[6] As of October 2018, out of the total needs 405 RDTRs that needed to be completed (including RDTR at city level, RDTR for each kecamatan, RDTR for each strategic area), 14 RDTRs were missing, 287 RDTRs were being drafted, 86 draft RDTRs were ready but waiting review from Governor and ATR before Perda (local parliament approval) process, and 18 RDTRs have been legalized through Perda.

11. **Finally, the capacity of the cities in financial and project management is a key bottleneck to effectively address their infrastructure gaps.** RIDF implementation and current project preparation have highlighted issues of weak project management and fiscal capacity of urban local governments. Further, Supreme Audit's (BPK) negative audit report findings relate to poor project preparation (technical and engineering studies, Terms of Reference (TOR)s for bidding documents) as well as lack of attention to project implementation and monitoring, leading to time and cost overruns and even incomplete projects. Findings of the Bank's Infrastructure De-Bottlenecking Study (2017) also point to the need for strengthening project management and procurement capacity of local governments. Project preparation, procurement, and contract award can take six months or more, often leaving little time for construction that must be completed that same year given the high proportion of annual contracts. For instance, in Kota Yogyakarta, bidding announcements for 60 percent of infrastructure contracts in 2017 were made only in the third quarter of the year or later. Improved capacity in fiscal and project management is needed for cities to access long-term infrastructure financing from alternative sources, such as the RIDF and private sector avenues.

Alignment with ongoing World Bank and GOI National Programs: NUDP Platform as an Integrator

12. **The project interventions lay the foundation for more efficient and effective financing of infrastructure, especially under the national sectoral infrastructure investment programs. By design, it supports the development of city governments' capacity for making informed, sectorally integrated and prioritized capital investment decisions and enhances their ability to access alternative sources of financing in the long term.** NUDP is envisioned as a collaboration platform for coordinating urban planning and infrastructure development across various national sectoral programs and several ongoing and pipeline Bank engagements including, the RIDF (P154947), National Slum Upgrading Program (NSUP, P154782)[7], National Urban Water Supply Program (NUWAS, 156125)[8], National Program for Improving Solid Waste Management (P157245)[9], National Affordable Housing Program (NAHP, P154948)[10] as well as proposed projects on urban transport, urban sanitation and RIDF-2. Existing procurement practices favor national government-led channeling of investments to cities based on assumptions of local need, which are then procured nationally and transferred to cities for operations and maintenance. Creating better coordination between national ministries (horizontal coordination) as well as between national governments and cities (vertical coordination) is critical in reducing fragmentation in city building. Most importantly, a clear city-led prioritization of investments that references spatial plans as the basis for prioritization will significantly increase the effectiveness of infrastructure finance.

13. **NUDP leverages insights and tools from existing Bank analytical and technical assistance activities within Indonesia**, such as the activities under the Indonesia Sustainable Urbanization Multi-Donor Trust Fund (IDSUN); specifically, City Planning Labs (CPL) and the Municipal Finance Technical Assistance (TA)s on increasing the credit worthiness of cities. NUDP project interventions build upon many of these tools, especially the scalable outputs of CPL in Semarang, Balikpapan and Denpasar, that have demonstrated implementation potential by tailoring international good practice to the Indonesian context. Another potential tool includes the medium-term fiscal framework (MTFF) that has been piloted in Jakarta and is being refined to ensure applicability and scalability within secondary cities (*see Annex 2*). The Bank has reviewed all available existing relevant local level capacity assessment tools (e-persada, PEFA,

[7] Geographical overlap with longlisted NUDP cities are: Surakarta, Pekalongan, Surabaya, Samarinda, Banjarmasin, Palu, Manado, Ternate, Jayapura and Mataram.
[8] Geographical overlap with longlisted NUDP cities are: Padang, Palembang, Jambi, Denpasar, Surakarta, Semarang, Depok, Bogor, Balikpapan, Samarinda, Pontianak.
[9] Geographical overlap with longlisted NUDP cities are: Medan, Pekanbaru, Padang, Palembang, Denpasar, Surakarta, Semarang, Surabaya, Depok, Jakarta, Bandung, Malang, Balikpapan, Banjarmasin, Makassar.
[10] Priority cities are being identified.

PEA, MTFF, De-Bottlenecking Study etc.) to identify relevant aspects from each of these tools for NUDP assessments. Reviews were also conducted on the Extended Financial Management Assessment (EFMA) and shadow rating (done by Pefindo or Fitch- both certified under Indonesia's financial authority (OJK)), which have been carried out under IDSUN TA on creditworthiness to assess the strength and weaknesses of LGs. Specific attention has also been paid to the bottlenecks to access infrastructure financing from RIDF identified during implementation. Initial assessments were also undertaken together with the economic and financial analysis to inform the diagnostics. Most importantly, NUDP will be the vehicle to drive the adoption of key findings and recommendations of the recently prepared Indonesia Urbanization Flagship Report 2019. The Flagship report has significantly benefited from NUDP diagnostics and existing IDSUN supported analytics.

14. **Spatially informed capital investment plans will identify investment priorities for sectoral projects, enabling strategic infrastructure investments across multiple sectors**. In the future, having an integrated spatially informed capital investment plan can be an entry criterion for both theBank and other donor projects and help avoid ad-hoc, uncoordinated interventions. Such a shift will also allow the national government to be more effective at delivering platform-based infrastructure programs and establishing national frameworks for eligibility for inclusion of cities in programs. Effective linkages can be made to projects such as the National Urban Water Supply Program (NUWAS) (under implementation) and the pipeline National Program for Improving Solid Waste Management where NUDP outputs (spatial plans and CIPs) become potential inputs for identifying investments in overlapping cities. Under the proposed National Urban Transport Project (pre-concept stage), Urban Mobility Studies are proposed as a a pre-condition for city selection. Such plans do not currently exist in most Indonesian cities but will be included as one of the outputs under Component 2 (as part of the Integrated Land Use and Transport Plans). Slum maps and slum investment action plans (SIAPs) from the National Slum Upgrading Program (NSUP) will also form an important input into the integrated spatial plans developed under NUDP.

15. **Project interventions (see Component 3) will directly support the operations of ongoing and future sectoral infrastructure programs and RIDF that have identified various gaps in capacity, such as procurement, financial and project management.** Participating cities will develop the required financial and project management capacity to ensure better implementation of the prioritized strategic capital investments. **The project interventions will also enhance the ability of cities to access financing from RIDF.** RIDF was established to provide affordable financing of subnational infrastructure and to address the gaps in accessing medium to long-term finance (5-20 years). Currently, RIDF faces some challenges in the quality of project proposals received, including unclear project prioritization rationale, land suitability analyses, and poor linkages with city plans that are pre-conditions for borrowing. Support for spatially enabled project prioritization under NUDP will help the identification of stronger projects for seeking RIDF finance. Through targeted support on capacity development to enhance procurement management of capital investments and addressing demand side constrains to access alternative financing, subnational governments will be able to prepare technically strong, evidence-backed proposals for project finance.

C. Relevance to Higher Level Objectives

16. **The project builds on a long-standing series of urban sector partnerships between the Government of Indonesia (GoI) and the Bank.** This three decades-long partnership signals that there is an existing, elaborate system of urban engagement that provides a strong foundation for this TA Loan and the reforms it proposes.

17. **The Indonesia Country Partnership Framework (CPF, FY16-FY20)** recommends that Bank-financed projects in Indonesia move away from ad-hoc or narrow sectoral interventions that work on a city-by-city basis. Instead, Bank-

financed projects should support the GoI in delivering programs that have the potential for significant national impact, as is the case in NUDP. Within the scope of the CPF, enhancing prosperity for the bottom 40 percent rests in large part on shifting the economy toward a more productivity-based growth path which can create more and better jobs. This requires a heavier emphasis on infrastructure and on an enabling environment for the private sector, which is captured in CPF engagement areas 1, 4 and 5.

18. **Engagement Area 1: Infrastructure Platforms at the National Level.** At the national level engagement, the Bank will seek to work in those sectors where we can have impact through 'platforms' in partnership with government and development partners to reach scale, and where relevant, the private sector. NUDP is the 'platform' that endeavors to bring together various GOI national sector programs financed (or supported) by the Bank on urban development in Indonesia to support sustainable urbanization. **Engagement Area 4: Delivery of Local Services and Infrastructure.** This engagement prioritizes i) strengthening the decentralization framework to improve local service delivery and ii) supporting the sustainable urbanization of cities, particularly through infrastructure development. The CPF also highlights improved spending at the subnational level to reflect government development priorities as one way to achieve the goals of this engagement. NUDP aims to improve subnational capacity to prioritize capital investment and help cities achieve more efficient infrastructure development. **Engagement Area 5: Sustainable Landscape Management:** The CPF highlights that poor site and land use planning result in economic losses from natural disasters that could be better mitigated using spatial tools with landscape carrying capacity as consideration. NUDP will help cities to conduct an analysis of land suitable for development and estimate the long-term carrying capacity of a city, which will become the basis for land use planning.

19. **National Climate Change Strategies.** To address the challenges from climate change, Indonesia's First Nationally Determined Contributions (NDC) outlined a medium-term strategy to reduce risks from climate change on all development sectors including infrastructure and urban system by 2030.[11] NUDP aims to support these national adaptation and mitigation objectives by promoting climate-resilient urban development through improved risk analysis, land use planning, infrastructure development and related capacity building. These actions are also consistent with Indonesia's National Medium-Term Development Plan (RPJMN 2015-2019) and the National Action Plan for Climate Change Adaptation (RAN-API 2013), which both highlight the need for improved spatial planning and land use as one of the highest priority actions to enhance urban climate resilience. NUDP will also contribute to the national climate change mitigation objective of reducing 29 percent of the country's greenhouse gas (GHG) emissions against the business-as-usual scenario by 2030, by supporting integrated land use and transport planning to reduce congestion and energy use in transport.

20. **NUDP interventions will enable the 'maximizing finance for development' (MFD) approach for participating cities.** While NUDP itself will not finance investment projects, the exercise of prioritizing spatially directed capital investment projects and identifying financing gaps under Component 2 lays the foundation for a municipal decision-making framework that leverages public finances to attract private capital investments. NUDP interventions allow a city to showcase a transparent pipeline of projects, spatially incentivized areas of investment as well as any financing gaps. The overarching aim is to help cities make judicious use of scarce public and concessional resources to deliver infrastructure. Moreover, concentrating public investments in priority areas will increase the area's attractiveness for investors, allowing cities to seek commercial financing rather than rely entirely on central government transfers.

[11] Government of Indonesia (2016), Indonesia's First Nationally Determined Contributions

II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

To increase the number of participating cities carrying out integrated planning and prioritizing their capital investments.

PDO Level Indicators

Achievement of the PDO will be measured by the following PDO-level indicators:
- National Urban Infrastructure Strategy Plan developed
- City's long-term spatial planning reflects spatial development framework approach
- City is utilizing spatially-informed capital investment planning and budgeting framework

B. Project Components

21. **Project Approach:** NUDP will take a phased approach, working with up to 3-5 cities in the first two years of implementation to establish and refine the most efficient sequencing of interventions; followed by phases two and three where progressively more cities will be added (*see Annex 1 for phasing details*). This phased approach builds in flexibility to address any issues in the early stages of the project. Preliminary cost estimates suggest that 10-15 is the maximum number of cities that can be accommodated in the current design of NUDP, depending upon the cohort of cities selected across all phases. The project has an elaborate M&E framework with a detailed work plan to keep track of and periodically reflect on progress.

22. **City Selection:** City selection is primarily restricted to cities with populations of more than 500,000 persons, with highest score given to cities with 500,000 to 3 million population (large and metro cities). In later stages, exceptions may be made for smaller cities if a clear rationale and need is articulated and agreed on by all Project Implementing Units (PIUs), such as the demonstration for a specific thematic planning intervention such as the disaster risk context in Palu. Key criteria for inclusion are (a) window for the revision of RTRW during the project lifecycle (b) strong city leadership, BAPPEDA capacity and commitment to the project interventions, (c) possibility for RPJMD revision, (d) presence of other urban sectoral infrastructure investment programs (including national platform projects supported by the Bank - see para 12), (e) geographical mix and regional/national importance of the city. *See Annex 2 for further details on demand from cities to participate in NUDP, city selection criteria and list of short listed cities*.

23. **NUDP includes four components,** namely, (1) National Urban Institutional and Policy Development; (2) Integrated Planning for Urban Development; (3) City Financial Management Capacity Development; and (4) Project Implementation Support. **Component 2 is at the core of the NUDP operation**, while **Components 1 and 3 are enabling components to ensure sustainability**. Component 2 interventions will address the quality of spatial plans in cities and introduce a shift towards a strategic spatial vision within the existing statutory plans. It will further leverage strategic spatial guidance as the basis for the prioritization of capital investments by implementing a spatially-informed, medium-term Capital Investment Planning and Budgeting process in selected local governments, including annual tracking mechanisms for implementation of budgeted investments. This approach to integrated spatial and capital

investment planning will together contribute to reducing the vulnerability of infrastructure investments and urban residents to climate-related hazards. Component 1 aims to create an enabling national environment by addressing inter-ministerial coordination and policy issues that prevent city governments from being the agents of sustainable urban development. Component 3 will focus on addressing the demand side constraints at the city level to accessing alternative sources of financing and effective implementation of capital investments, including capacity building for better project and procurement management, financial management, expenditure efficiency and creditworthiness.

24. **Component 1: National Urban Institutional and Policy Development: (US$5.0 million of IBRD Loan)** This component will support the strengthening of inter-ministerial coordination on cross-sectoral urban issues at the national level. It will also support the development of national policies, guidelines and strategies to promote efficient, sustainable and climate-resilient urban development. The capacities of local governments to plan strategically, prioritize capital investments and access alternative sources of finance will be significantly enhanced through an enabling national policy environment pertaining to strategic planning and urban management. Activities under this component will promote better vertical coordination and develop appropriate approaches to address constraints to integrated planning and efficient urban management at national and local levels. This component will also support the development of national policies, guidelines and strategies to promote efficient, sustainable and climate-resilient urban development.

25. ***Sub-component 1.1*: *Strengthening the capacity of an Inter-ministerial Coordination Team for Urban Development***. The Inter-Ministerial Steering Committee at the national level will provide the basis for coordination of several national sectoral programs, including NUDP. The GOI has expressed the need to re-structure, elevate and enhance the effectiveness of the existing TKPPN. NUDP will support the strengthening of the Standard Operating Procedures (SOPs) and work plans to operationalize the platform's inter-sectoral coordination function, for instance, through the establishment of a Technical Secretariat under BAPPENAS. The technical secretariat will provide capacity building activities including trainings to enhance cross-agency urban coordination, mapping of national urban programs to identify the need for geographical alignment, review of city level outputs, convening of a panel of advisors on urban interventions etc. This platform will have the mandate to draw lessons from project implementation and provide inputs for relevant policies, guidelines and regulations, including those to promote low carbon and resilient development planning. Knowledge sharing with provinces and cities will be financed through periodic national workshops and trainings.

26. ***Sub-component 1.2: Support for the formulation of the national urban policies for promoting integrated urban development.*** This component will finance analytical studies, position papers and assessments pertaining to national urban policy making, including support for RPJNM and policies aimed at enhancing the environmental sustainability and resilience to climate-related disasters of Indonesian cities. Support for operationalizing relevant findings of the Indonesia Urbanization Flagship Report will be included and policy dialogue will be facilitated through workshops to support the operationalization of the RPJMN. A key output will be the City Positioning and Economic Development Study. The Study will provide a strategic view of the competitive advantage of cities of regional and national importance based on their relative regional location, demographic characteristics, economic growth, climate vulnerability etc.

27. ***Sub-component 1.3: Formulation of National Urban Infrastructure Strategy Plan:*** A strategy paper with robust analysis to support the articulation of a National Urban Infrastructure Strategy Plan, including urban infrastructure strategies that promote climate resilience, low-carbon development, densification, transit-oriented development etc.

28. **Component 2: Integrated Planning for Urban Development: (US$32.6 million of IBRD Loan):** This component aims to strengthen the quality, strategic approach and implementation of integrated spatial planning within the participating cities, and links spatial planning with the prioritization of capital investments. In addition, a spatially informed, medium-term, annually rolling capital investment planning and budgeting framework will be developed and implemented under this component. Component 2 activities will jointly strengthen the capacity of cities to make spatial planning more effective, forward-looking and increase strategic prioritization of infrastructure and services to enhance sustainability and environmental and social resilience of cities.

29. A key principle under NUDP is to enhance the quality of existing statutory plans/mechanisms in Indonesia and focus on bridging the gap from plan to implementation. Mainstreaming the interventions within the existing planning and regulatory frameworks will ensure institutional sustainability of the proposed interventions. Discussions with relevant Ministries to reform the existing frameworks based on findings of first phase of interventions have been positive, with the aim to review regulations based on early implementation results. Activities also build upon several ongoing trust funded activities that have been tested and tailored to the Indonesian context, including activities being carried out under IDSUN, particularly the TA on City Planning Labs (CPL) and Municipal Finance, as well as the Indonesia Urbanization Flagship Report.

30. ***Sub-component 2.1: Support for strengthening quality of data and institutional capacity for data governance.*** This sub-component will finance data development and maintenance, capacity building for data analysis, integrated data platforms and drafting of municipal data governance policies (e.g. Municipal Spatial Data Infrastructure- MSDI-Mayoral Decree to ensure sustainability of data driven development). These activities will serve as the backbone of evidence-driven urban planning and focus on developing foundational geospatial capacity of local governments through trainings, knowledge exchange and skills development. Within data development for integrated planning, there will also be attention to datasets pertaining to adaptation to and mitigation of climate risks (e.g. datasets needed for land suitability and carrying capacity analyses that include climate change risks, forested areas, urban footprint etc.).

31. Examples of key activities under this subcomponent include (*see Annex 2 for more detail).*:

- **Enhancing Data Quality, Production, Management and Maintenance,** for example through the design of a hands-on, on-the-job training program, to boost the cities' capacity to produce and manage high-quality data and conduct analytics This component will include data production through various means based on city need, including remote sensing and drone-based data production.
- **Facilitating Data Sharing through establishment of a robust data governance framework**: This will include advisory support for development of regulatory frameworks to be mandated through a Mayoral Decrees (Perwali) or Decision Letters on data governance issues that will include protocols for data sharing, data custodianship, data publishing, etc.
- **Integrated Data Portal:** Support will be provided to the target cities to establish a single data platform, as needed, in line with Indonesian standards and utilizing cutting edge international methods. Forms of support will include software packages, data storage systems (including cloud-based options), automated urban planning tools and related advisory services.

32. ***Sub-component 2.2: Support for integrated spatial planning:*** This sub-component will finance a combination of key strategic/analytical studies required for integrated spatial and socio-economic planning, development of Spatial Development Framework (SDF) to strengthen RTRW (20-year city level spatial plan) and RPJP/RPJMD (city's long term and medium term socio-economic development plan), and Strategic Area Framework (SAF) to strengthen RDTRs (detailed spatial plans for priority areas, 20-year horizon). Activities under this component will build the capacity of

participating local governments to design and implement integrated spatial plans and boost the spatial planning linkages with socio-economic plans (RPJMD). This sub-component will also finance stakeholder consultations in the development of integrated planning inputs (including community consultation), peer-to-peer learning among local governments and capacity building activities to support institutional strengthening for integrated planning and implementation. As far as possible, interventions will be aligned to city planning cycles, to maximize the absorption of inputs. Activities will also include studies on improving effectiveness of existing development control mechanisms, pilots on new development control approaches (including restrictions or standards on hazard prone areas), training and related capacity building activities (*see Annex 2 for further detail)*

33. *Analytical inputs:* Examples of key studies financed under this sub-component include: Economic Strategy Study, Baseline Survey and Analytics Study, Environmental Zoning and Land Suitability Study, Integrated Transport and Land Use Planning Study (including urban mobility approach) (*see Annex 2 for detailed explanation of key studies*). All studies under this sub-component will be conducted for the participating city to boost the quality of the statutory and sectoral plans. Analytical outputs will be coupled with capacity building activities for local governments, along with the consolidation of TORs and detailed methodology manuals made available to cities as a long-term resource.

34. *Spatial Development Framework (SDF)* approach will address the gaps identified in the development of RTRWs in Indonesian cities in terms of quality of analytics, integrated strategic vision and organization of the document. This activity will create a consolidated, strategic spatial planning vision in the form of a synthesis document that is endorsed by multiple stakeholders at the city level to steer the city's development towards the achievement of key socio-economic targets. The SDF approach emphasizes the spatial prioritization of investments by identifying development corridors that link people with jobs and services, nodes/priority areas for development and focuses on hotspots of infrastructure gaps for spatial targeting. The process combines a robust synthesis of analytical inputs and consultative processes across line departments as well as with citizens. Consultative processes will aim to enhance the existing processes included within RTRW development and in doing so, SDF approach will build upon the existing foundations of the Indonesian planning system to enhance its effectiveness rather than creating a parallel system of planning. Outputs will include an SDF synthesis document, a manual (detailing methods and process) based on Phase 1 of implementation, which will internalize lessons learnt during implementation and become the basis of scale up in subsequent phases. Hands-on support of consultants to carry out the analytical studies, will be combined with embedded capacity building trainings and workshops for local governments along with support for institutionalization of the SDF approach into RTRW and RPJP/RPJMD (*see Annex 2 for further detail).*

35. *Institutionalization of the SDF approach* can take place using one of the following mechanisms: (1) full revision of the RTRW statutory document (including the re-organization of chapters), or (2) SDF as a consolidated input for the technical document (*Matek*) that informs the statutory RTRW, and/or (3) SDF linkage to RPJP/RPJMD (e.g. chapter or Annex). For option (1) to be fully realized, changes to the spatial planning regulations will be required, which the government is open to considering based on the results of phase one implementation. Under option (2), the SDF will influence the direction of long-term spatial planning through the technical, back-end document that forms the backbone of the statutory plan, and under Option (3), SDF with enhance the inclusion of spatial aspects and direction within the socio-economic development plans that currently lack such direction. In all cases, the SDF synthesis document will be made accessible to all stakeholders (including citizens) to ensure a common understanding of the city's spatial development strategy, potentially supported by a Mayoral Decree (Perwali) (*see Annex 2 for further detail*).

36. *Strategic Area Frameworks (SAF)* financed under this sub-component zoom into the strategic priority areas

identified by the SDF (development corridors, nodes/hubs and settlement areas) and undertake detailed spatial planning within these strategic areas to align community priorities with the overall direction of development of the city. SAF approach will be used to revise the statutory detailed spatial plan, RDTR, to address the gaps in the current RDTR approach and structure that constrains it from providing strategic spatial locations for optimal infrastructure investment. SAF approach will also aim to strengthen the operationalization the development control function of the RDTR. Given the extensive backlog of RDTRs (see para 9), the SAF document is expected to provide a direct input to participating cities' RDTR. Similar to SDF, this consolidated document utilizing the integrated planning approach at the sub-city level will also be available for all stakeholders as a standalone, interim spatial development strategy document for priority areas *(see Annex 2 for more details).*

37. *Review spatial planning regulations and guidelines to integrate SDF and SAF approaches.* The project will finance the review of relevant spatial planning policy and regulatory frameworks to propose revisions that can allow the absorption of implementation-based lessons from SDF and SAF approaches into RTRW and RDTR respectively, with an aim to institutionalize these approaches once they have been tested in a critical number of cities and tailored to the Indonesian context.

38. ***Sub-component 2.3: Support for Priority Area Development Planning.*** Priority Area Development Plans financed under this component are a more detailed, neighborhood level infrastructure and urban design plan that is sub-SAF/sub-RDTR) level. These plans map out and visualize where capital investments are needed within the boundaries of an identified functional high priority area. The first objective is to clearly define a development vision and objectives for the priority area. The second objective is to provide urban design guidelines that will catalyze the achievement of the desired urban form and function and the development vision. It is a "bridging document" between statutory spatial plans and investment projects, on which investment implementation plans are built on (i.e. feasibility studies and detailed engineering designs). The majority of identification of capital investments under local government mandate are identified at this level. This bridging document linking plans to investments does not currently exist in Indonesia.

39. ***Sub-component 2.4: Capital Investment Planning and Budgeting (CIP) established as an investment prioritization and tracking system.*** This sub-component will finance: (i) development of a CIP framework (methodology and process), associated tools and work-flow under BAPPEDA; (ii) hands-on support for implementation of the CIP framework throughout the annual planning and budgeting cycle across the project lifetime to ensure absorption by the local government; and (iii) training for local governments, universities and private vendors to support local governments; and (v) formulation of supplemental regulation on guidance of CIP for RPJMD under the Home Affairs Ministerial Regulation (Permendagri) 86/2017.

40. Under the CIP framework, the cities will move beyond piecemeal identification of investment priorities towards investments within strategic areas highlighted by spatial plans. The CIPs will be multi-year rolling plans for capital investments (including retrofitting and maintenance), prioritized by year, with anticipated beginning and completion dates, annual estimated costs, proposed financing mechanisms for the investment life cycle, and identification of the overall financing gap. Four key steps under the implementation of the CIP framework will be: project capture, prioritization, budget fit, and monitoring and reporting. Optional models on climate-resilient infrastructure investment projects can be implemented within this approach. *See Annex 2 for more information on the cyclical CIP approach and its relationship with local governments' planning and budgeting cycle.*

41. The proposed CIP framework ensures effective operationalization of spatial plans into investments through

spatial targeting of investments in high priority areas with a clear understanding of budgets and by tracking implementation progress annually. Prioritization from the long list of projects (all captured within a unified database in the system prior to filtering) is based on pre-agreed, city-specific objective criteria. In the context of this project, investment prioritization scoring will include higher score for infrastructure aligned with spatial priority areas/corridors highlighted by the suite of planning documents, linkage with articulated mayoral visions and targets, environmental and socio-economic considerations, climate-resilient aspects, among other city-specific priorities. Based on ongoing discussions with the Ministry of Home Affairs (MOHA), upon successful implementation, CIP will be subsumed within a city's RPJMD and RKPD (city's annual budget plan) to provide it a statutory basis, mandating its development and implementation by local governments to enhance sustainability. Development of CIP framework and system can start in parallel to the spatial planning activities under sub-component 2.2 integrating inputs as they become available in the subsequent years of implementation. The CIP framework and its implementation, together with the development of SDF/SAFs/PPs, form the core of the interventions within Component 2.

42. **Component 3: City Financial Management Capacity Development: (US$5.0 million of IBRD Loan):** Component 3 will finance capacity building activities and support necessary systems, equipment and tools for local governments to address constraints to effective implementation of prioritized capital investments, including demand side constraints to accessing alternative sources of finance beyond national government transfers. Activities under Component 3 will create an enabling environment for the implementation of the prioritized strategic capital investments identified within the CIP process in Component 2. Participating cities will develop additional financial, fiscal and project management capacity, including tools needed to sustain the capacity building. Overall, Component 3 will strengthen the capacity of participating cities to improve infrastructure asset management, M&E mechanisms and better management of fiscal and financial resources to enhance access to alternative financing.

43. ***Sub-component 3.1: City level assessment of financial and project management capacity.*** The assessment will support the cities in understanding their capacity constraints on infrastructure, financial and project management and identify a set of capacity building interventions from the available menu of options to address them. The assessment will encompass analysis of fiscal position, debt and revenue situation, readiness to manage capital investments on a medium-term basis, bottlenecks in project management, expenditure efficiency, M&E mechanisms, asset management, operation and maintenance etc. It will identify areas of weaknesses, inconsistency of budget decisions with city priorities and infrastructure implementation challenges specific to the city. The results of the assessment will be jointly shared at workshops with relevant city departments led by BAPPEDA to develop an action plan for addressing constraints. The action plan and the assessment will become the entry point for the design of training, the selection of capacity building activities from the menu of options and any supportive tools. In addition, under this sub-component, a mapping of relevant national level trainings will be undertaken to avoid duplications and ensure advanced trainings building upon the existing resources. Existing materials will be enhanced and updated as necessary in close collaboration with relevant ministries.

44. ***Sub-component 3.2: Enhancing capacity for accessing alternative sources of finance.*** The assessments and action plan under component 3.1, along with the results from CIP implementation from component 2, will be used to determine the specific capacity building activities jointly with the local governments to ensure a demand driven design. This activity will introduce cities to innovations in municipal finance, along with training and capacity building support on topics including creditworthiness, debt management, municipal bonds, land value capture approaches etc. A menu of options including selected products and tools that have been piloted in Indonesia will be available to the city, including trainings for Creditworthiness, Medium-term Fiscal Framework (MTFF) (methodology and tools), investment portfolio assessments for private financing potential, and use of new technological solutions such as asset management

technology and tools etc. The menu of options will not only offer new, advanced trainings but also promote and strengthen access to the existing national government trainings, to ensure sustainability and avoid duplication. Deriving from the city-level assessments, this sub-component will also finance equipment, software systems and tools aimed to support local government capacity strengthening.

45. **Component 4: Project Implementation Support: (US$7.0 million of IBRD):** For successful implementation of the complex project activities, a strong implementation support framework is needed (see Annex 1). To operationalize this implementation support, this component will finance the costs of Project Management Support (PMS) for the Central Project Management Unit (CPMU), Technical Management Consultants (TMCs) for all PIUs and Oversight Service Providers (OSPs) to strengthen the capacity of the CPMU and the PIUs to oversee implementation of the program at national, provincial and city levels. It will include contract supervision, financial and technical audit, oversight on the inclusion of environmental and social safeguards aspects (including citizen engagement), monitoring and evaluation etc.

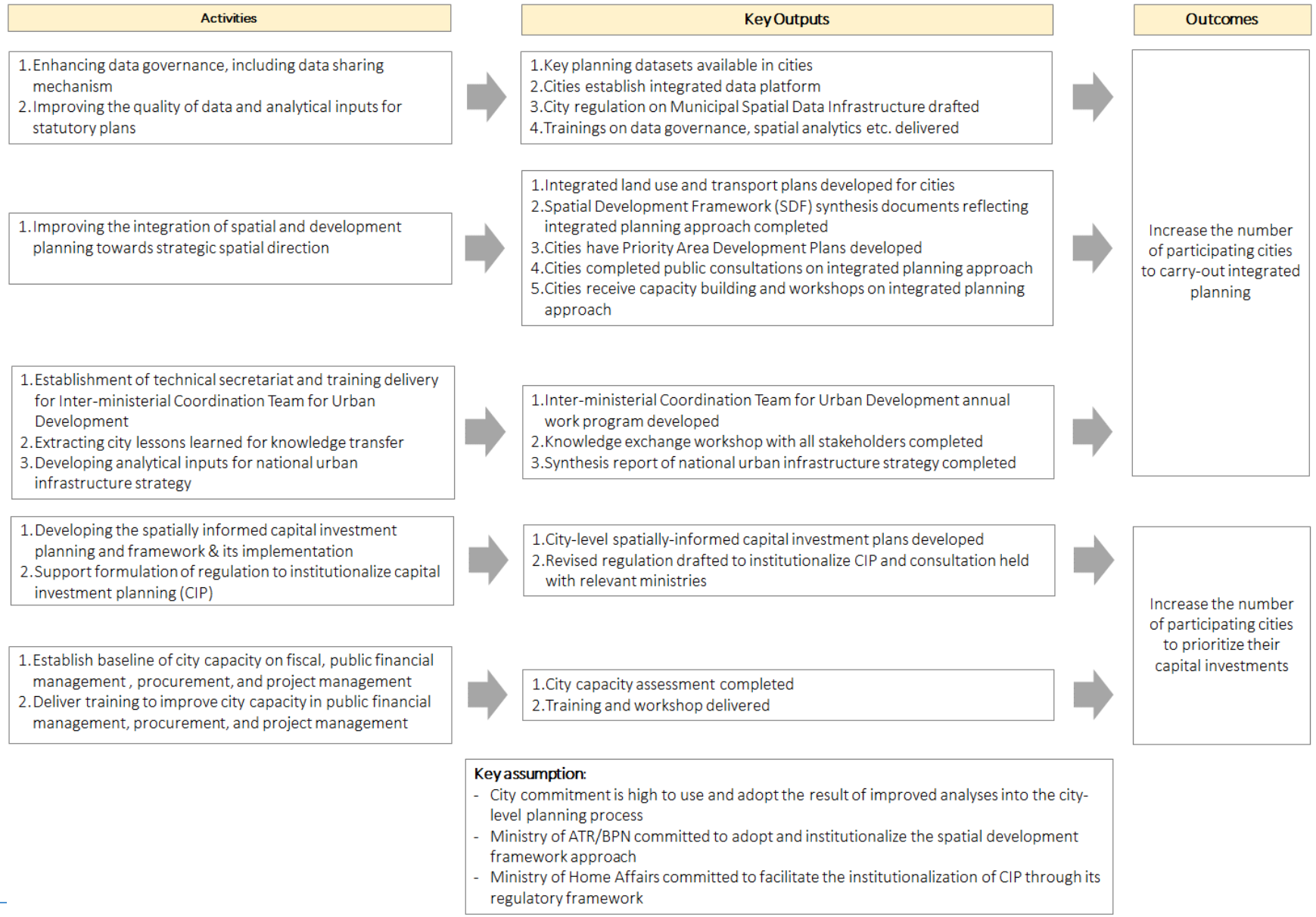
C. Project Beneficiaries

46. The primary beneficiaries are: (a) people living in participating cities of the project: in the 13 shortlisted cities, the total number of beneficiaries are 12,596,960 of which 6,144,858 are women, and those under the poverty line are 654,640 with poverty rates[12] ranges from 2 percent to 19 percent, (b) city governments in the participating cities, including their concerned agencies or departments; and (c) national government, particularly the Ministry of Public Works and Housing (MPWH), BAPPENAS and MOHA.

D. Results Chain

47. **Problem statement.** Indonesia's infrastructure financing gap poses a barrier to sustainable urbanization that enhances prosperity for all urban populations through enhanced access to services. But increased financing alone cannot address the inclusive and equitable service delivery challenge, which is a symptom of (i) a lack of city level integrated data driven spatial planning with high quality inputs that establishes functional areas for incentivizing urban development, (ii) absence of spatially informed prioritization of infrastructure investments through capital investment planning that references spatial plans at every level, and (iii) inadequate capacity of cities to manage and finance infrastructure investments.

[12] Resident with per capita expenditure per month below poverty line based on Indonesia BPS.


Activities
Key Outputs
Outcomes
1. Enhancing data governance, including data sharing mechanism
2. Improving the quality of data and analytical inputs for statutory plans
1. Key planning datasets available in cities
2. Cities establish integrated data platform
3. City regulation on Municipal Spatial Data Infrastructure drafted
4. Trainings on data governance, spatial analytics etc. delivered
1. Improving the integration of spatial and development planning towards strategic spatial direction
1. Integrated land use and transport plans developed for cities
2. Spatial Development Framework (SDF) synthesis documents reflecting integrated planning approach completed
3. Cities have Priority Area Development Plans developed
4. Cities completed public consultations on integrated planning approach
5. Cities receive capacity building and workshops on integrated planning approach
Increase the number of participating cities to carry-out integrated planning
1. Establishment of technical secretariat and training delivery for Inter-ministerial Coordination Team for Urban Development
2. Extracting city lessons learned for knowledge transfer
3. Developing analytical inputs for national urban infrastructure strategy
1. Inter-ministerial Coordination Team for Urban Development annual work program developed
2. Knowledge exchange workshop with all stakeholders completed
3. Synthesis report of national urban infrastructure strategy completed
1. Developing the spatially informed capital investment planning and framework & its implementation
2. Support formulation of regulation to institutionalize capital investment planning (CIP)
1. City-level spatially-informed capital investment plans developed
2. Revised regulation drafted to institutionalize CIP and consultation held with relevant ministries
Increase the number of participating cities to prioritize their capital investments
1. Establish baseline of city capacity on fiscal, public financial management , procurement, and project management
2. Deliver training to improve city capacity in public financial management, procurement, and project management
1. City capacity assessment completed
2. Training and workshop delivered
Key assumption:
- City commitment is high to use and adopt the result of improved analyses into the city-level planning process
- Ministry of ATR/BPN committed to adopt and institutionalize the spatial development framework approach
- Ministry of Home Affairs committed to facilitate the institutionalization of CIP through its regulatory framework

E. Rationale for Bank Involvement and Role of Partners

48. **Rationale for public sector provision/ financing**. The NUDP project requires public sector involvement and government leadership by design and nature of the PDO. The interventions will strengthen the capacity of local governments and support reform of existing procedures and mechanisms through project interventions, which will in the long run create an enabling environment within cities for directing private financing in a streamlined manner.

49. **Value added of Bank's support.** The Bank's involvement allows the Government of Indonesia to benefit not only from its technical expertise and global knowledge, but also from effective, proven mechanisms to facilitate high quality management and oversight of the program, including project supervision and results monitoring and evaluation, supported by strong governance controls and fiduciary oversight mechanisms. There are strong existing engagements and relationships with relevant GOI stakeholders across the full range of issues covered by NUDP, resulting in opportunity for synergies between NUDP and other projects (see para 12-15). Spatially informed capital investment plans will identify investment priorities for sectoral projects, and in turn, enable strategic infrastructure investments across multiple sectors. In the future, having an integrated spatially informed capital investment plan can be an entry criterion for projects supported by the Bank and other donor and help avoid ad-hoc, uncoordinated interventions. Moreover, NUDP leverages insights and tools from the Bank's existing analytical work within Indonesia and NUDP project interventions build upon many of these tools.

50. **Partnerships.** Based on discussions during preparation, several organizations have expressed interest in collaboration during implementation. Some of the areas of collaboration that have been discussed include Australia's Department of Foreign Affairs and Trade's Indonesia Australia Infrastructure Partnership (KIAT) to explore parallel financing to supplement the interventions within NUDP. Potential areas of support under discussion include funding for select feasibility studies for priority infrastructure investments identified through the spatially informed capital investment planning process, analytical studies and support linked with capital investment planning activity. Discussions have also taken place with the Global Partnership on Output-based Aid (GPOBA) to explore a scoping pilot to examine whether the establishment of CIP can be used as an incentive mechanism for a results-based grant during implementation, and with the Swiss State Secretariat for Economic Affairs (SECO) for support to the task team for project supervision. In addition, BAPPENAS has selected the Bank as the Implementing Agency for applying to Global Environment Facility (GEF) 7th round of call for Sustainable Cities proposals, for which the Government will utilize the inter-agency institutional structure established the NUDP platform to boost integration of planning with climate change mitigation and resilience aspects.

F. Lessons Learned and Reflected in the Project Design

51. A review of relevant Bank-financed projects has revealed several issue areas common to TA loan projects. The following lessons were extracted and applied in the project design:

52. **Strong buy-in of implementing agencies is required for sustainability.** The Indonesia TA project for Public and Private Provision of Infrastructure encountered setbacks due to the limited buy-in of the sector ministries directly responsible for implementation. Similar obstacles were met in Mauritania during a Transport Sector Institutional Development and Technical Assistance Project where decentralized structures came into play. In this case, however, early involvement and effective participation of staff from both central government and decentralized structures became essential to fostering a sense of ownership particularly among implementing agencies. The preparation of NUDP has been highly collaborative to create a high-level buy-in for the project design, and this process is co-led by

BAPPENAS substantively as well as institutionally. NUDP expects to leverage the Inter-ministerial Coordination Team for Urban Development which will oversee multi-sectoral cooperation across line ministries in support of Indonesia's urban development agenda.

53. **Analytical Work as Foundation.** The Colombia Development Policy Loan benefited from strong analytical underpinnings including the Urbanization Review and work under Productive and Sustainable Programmatic Knowledge Services, that supported the technical underpinnings of most of the policy reforms. The design benefited from abundant consultations with the Government, achieving a confluence of visions. Similarly, the project team in Mozambique relied heavily on findings from city-level studies on functions and human resources, revenues and revenue potential, public private partnerships, information and communications technology, and anti-corruption measures to guide project design. NUDP builds on various diagnostics and assessments undertaken during preparation for over a year. NUDP is leveraging past and ongoing analytic groundwork produced by the Bank in sector-specific projects across municipalities and ministries in Indonesia.

54. **Need for good M&E Framework supported by detailed Project Operation Manuals.** Lessons from several Indonesian projects with complex institutional arrangements highlight the importance of including clearly defined indicators for outputs, outcomes, and baseline data needed to reinforce the scope of the project and keep progress. NUDP has focused on developing a clear results framework to track implementation progress, especially given the Government's unfamiliarity with monitoring the implementation of TA projects, which will be supported by a detailed project operation manual.

55. **Importance of Project Phasing and Quality Control.** Experience from the GEF China Sustainable Cities Integrated Approach Pilot (P156507) highlighted that to deal with the complexity of working across multiple cities on capacity building, there is a need to phase out activities by groups of cities or by a step-by-step sequencing of interventions, supported by a robust monitoring and evaluation framework. The project also proved the significance of having quality control reference groups, sourced both domestically and internationally. NUDP has made city buy-in efforts through technical workshops with cities during project preparation to establish demand, and a city socialization workshop to seek Expressions of Interest and commitment from phase 1 cities. Periodic knowledge exchange workshops will be held to enhance learning from global experience as well as peer-learning among cities.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

56. **The project design requires inter-agency cooperation, necessitating a multi-PIU institutional arrangement**. To minimize potential coordination challenges during implementation and enhance the absorption of interventions at the city level, detailed implementation and coordination arrangements have been mapped out at the national and city level. Further refinement of implementation arrangements may be needed during project implementation following the implementation of phase one cities. *See Annex 1 for details and diagrams of institutional and implementation arrangements.*

57. **Executing Agency:** MPWH will be the Executing Agency for this project, with the CPMU established within the Regional Infrastructure Development Agency (RIDA). The roles and responsibilities of the executing agency are as follows: hold regular meetings with PIUs to ensure on-target progress; implementation of environmental and social safeguards in accordance with Bank policies as specified in the Environmental and Social Management Framework

(ESMF); management and reporting on the Monitoring and Evaluation Framework; and development, utilization and update of the Project Operations Manual (POM) in coordination with PIUs. CPMU will be supported by PMS to ensure overall work quality, accountability and timeliness through clear Key Performance Indicators (KPIs) linked to the project and outlined in the TORs. PMS will ensure that implementation at the central and city levels moves forward in accordance with the work plans and will also provide consultants to support local government coordination committee for smooth implementation. In addition to operational experts (Financial Management, Procurement, M&E etc.), PMS will also retain a pool of technical experts to draw upon for providing technical support for smooth implementation.

58. **Project Implementing Units (PIUs):** PIUs include relevant directorates of ministries in charge of sub-components. PIUs will be established within the MPWH, BAPPENAS and MOHA. Each of these lead agencies will coordinate with key agencies at the national level including, Ministry of Agrarian Affairs and Spatial Planning/National Land Agency (ATR/BPN), Central Bureau of Statistics (BPS: Badan Pusat Statistik), Central Bureau of Geospatial Information (BIG: Badan Informasi Geospatial), Ministry of Communication and Information Technology (MoCI), Ministry of Transport (MOT), Ministry of Environment and Forestry (MOEF) etc. ATR/BPN will play an important role as a coordinating ministry in working closely with the PIUs on review and institutionalization of the results of the project interventions. During implementation, based on joint review of project need and implementation status with GOI, ATR/BPN can be included as a PIU. No city-level PIUs will be established. PIUs will be responsible for achieving the project development objective and relevant indicators by coordinating all activities under their respective mandate, overseeing the implementation of sub-components under their responsibility, coordinating with relevant directorates or agencies in implementing their obligations, ensuring that the activities progress in line with the work plans outlined in the POM, and ensuring that financial, procurement and contract management, safeguards and overall project implementation conforms with the Bank policies. Each PIU will be supported in their implementation role by TMCs, who will be supervised by the PIU staff. TMCs will also be responsible for regularly coordinating with the PMS and CPMU on the status of specific packages under implementation.

59. **Inter-Ministerial Coordination at the national level:** At the national level, a multi-ministerial urban coordination structure will be enabled and strengthened. The TKPPN[13] under BAPPENAS will be leveraged for high level coordination during implementation, with the understanding that its function and structure would be further elevated and enhanced within the project life cycle. The CPMU and PIUs will report strategic issues and high-level progress and achievements of NUDP during periodic TKPPN meetings.

60. **Coordination at the city level:** At the local level, an NUDP Coordination Team will be established through a Mayoral Decree. The NUDP City Coordination Committee will function under the overall leadership of the City Secretary (Sekda), with BAPPEDA in the lead and key members drawn from relevant agencies. This team will coordinate, monitor and supervise all activities under NUDP and the coordination role will be supported by city-level consultants appointed through the PMS. PIU specific TMCs will further support the city coordination committee as needed. Technical working groups within the Coordination Team will be established to oversee specific NUDP activities and tap into existing institutional mechanisms at the city level to institutionalize capacity building. For instance, the Integrated Planning Working Group would leverage an existing mechanism available in certain cities, namely the City Spatial Planning

[13] Members with positions are BAPPENAS (Ministry of National Planning and Development/National Planning Agency), MPWH (Ministry of Public Works and Housing), CMEA (Coordinating Ministry of Economic Affair), MOHA (Ministry of Home Affairs), ATR/ BPN (Ministry of Agrarian and Spatial Planning / National Land Agency), MEMR (Ministry of Energy and Mineral Resources), MOCI (Ministry of Communication and Informatic), MOEF (Ministry of Environment and Forestry), MOT (Ministry of Transportation), MOF (Ministry of Finance), BNPB (National Risk Management Agency), BPS (National Statistical Bureau) and Cabinet Secretary. Other members include Ministry of Law and Human Rights, National Geospatial Information Agency and BNPP (National Border Management Agency).

Coordination Unit (TKPRD – Tim Koordinasi Perencanaan Ruang Daerah). These working groups will report regularly to the City Coordination Committee and periodically to the Sekda on project progress. Cities will be asked to commit to the establishment of the NUDP City Coordination Committee as part of the Expression of Interest (EOI) to join the project, which will be solidified via a Memorandum of Understanding (MOU) with the national government.

61. **Quality control reference groups:** Given the complexity of the project encompassing multiple sectors and stakeholders and the need to time and sequence the intervention points well, the CPMU will consider convening an independent panel of experts in the form of a "quality control reference group". This will consist of individuals in voluntary, advisory roles drawn from academia, think tanks and relevant civil society organizations (such as planners' associations) to periodically engage with the key outputs and offer independent perspectives to enhance the quality of project implementation. These experts will also be invited to stakeholder workshops and will become project champions in their own capacity by maintaining a vibrant dialogue on the issues of integrated planning and urbanization in Indonesia.

B. Results Monitoring and Evaluation Arrangements

62. **Monitoring**: The project has a detailed Results Monitoring and Evaluations (M&E) Framework. Continuous monitoring of indicators' achievement by participating entities will assist in making adaptations and improvements to activities and implementation arrangements during the phased implementation approach. Results M&E will be coordinated by designated technical staff across the PIUs and consolidated by the CPMU. Data collection will require coordination with local governments and potentially other national ministries. CPMU will be assisted by the PMSs in establishing a transparent and simple project Management Information System for reporting and M&E. The project M&E system will utilize existing country systems to the extent possible to optimize monitoring efforts. Monitoring activities under the project will be detailed in the M&E manual as part of the POM. Each respective indicator will have a specific PIU responsible for monitoring its achievement and carrying out actions needed to achieve the target and submitting the updates to the CPMU every semester for consolidation. Specific formats for reporting will be provided in the M&E manual.

63. **Knowledge Capture**: The project will conduct continuous knowledge capture and develop lessons learnt documentation by embedding designated experts in each of the key activity packages, an approach which has been developed with support from the Bank's Knowledge Management experts. PMSs will consolidate the information generated by knowledge capture experts from specific packages. The focus of this activity will be on identifying the mechanisms facilitating or constraining transformative change, institutional bottlenecks and behavioral aspects that promote an enabling environment for the success of interventions at both national and city levels in the context of project activities. The lessons learned will be shared with all stakeholders, thereby creating an exchange of experiences to strengthen implementation and close the feedback loop.

64. **Evaluation**: The baseline conditions established during preparation will be followed up with beneficiary surveys and other assessments at the midterm review (MTR) and at project closing to examine project performance. Evaluation will draw upon both qualitative and quantitative data on various aspects of the project activities, especially leveraging the knowledge capture activity for qualitative evaluation. Regular monitoring reports will be complemented by periodic surveys (e.g. with the local governments) as needed. During MTR, the targets values of all indicators will be reviewed, and any required project design adjustments discussed and amended, if necessary.

C. Sustainability

65. The overall sustainability of this project comes from a high level of interest by the national government for integrated urban development that operationalizes the links between spatial planning and investment prioritization. Project activities have been carefully designed through multiple interactive workshops with national and local governments, using a combination of international and local experts to identify demand. International good practice was closely examined to identify the elements of the innovative approaches which are most likely to work within the Indonesian institutional context. Several proposed activities have already been scoped, tested and refined through implementation in Indonesian cities under existing technical assistance support (*see para 13 and Annex 2*). Such a demand-driven project design has a high potential for sustainability as it ensures ownership from local governments.

66. For the more innovative and core interventions on integrated spatial planning and capital investment prioritization, ATR/BPN and MOHA have expressed openness to review the existing regulations (Regulation 15/2010 for RTRW/RDTR and Regulation No. 86/2017 for inclusion of CIP in RPJMD/RKPD) within the project design. The CPMU RIDA is highly committed to coordinating across PIUs as well as with cities. Their official mandate includes integration across public works sectors in MPWH, which further makes them well-suited to facilitate MPWH support for the pipeline of infrastructure investments prioritized by cities under their CIPs. At the national level, the strengthening of the Inter-ministerial Coordination Team for Urban Development will be critical in ensuring the adoption of good practice developed within the project, promoting peer-to-peer learning and future scale up. Finally, the city selection criteria also maximize the potential for adoption of integrated planning inputs into RTRW, RDTR and CIP into RPJMD and RKPD.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis

(i) Technical

67. **Project Design**. The project's technical design reflects good international practices of integrated planning, capital investment prioritization, and fiscal management improvement of cities. The project's systematic technical design enables the project components to work together to achieve the PDO, in a sequenced and mutually reinforcing manner. The project design also ensures that the interventions specifically improve the quality and operationalization of existing statutory plans, which will ensure the effectiveness and sustainability of the project interventions. The design is based on the following core principles of the project: output of NUDP should to be operationalized through statutory mechanisms, as far as possible NUDP should utilize plans with status of higher legal hierarchy, avoid burdening the already stretched capacity of cities by supporting their core functions (e.g. focus on interventions that support their ability to identify priority capital investments), ensure development strategy inputs have multiple functional uses (including for multiple statutory plans), and retain flexibility to adapt to dynamic changes in urban context (including openness to review the interventions' success candidly during implementation). The design is demand driven and responds to the constraints and bottlenecks identified through discussions with the national and local governments.

68. **Concrete outputs beyond capacity building and training.** The PDO is to increase the number of participating

cities carrying out integrated planning and prioritizing their capital investments. Capacity building is not limited to training but aims to strengthen institutions, impacts statutory and non-statutory plans as well as city's infrastructure prioritization strategy. Concrete outputs that NUDP will support at the national level will be the operationalization of the Inter-ministerial Coordination Team for Urban Development, drafting of the National Urban Infrastructure Strategy Plan and inputs for the RPJMN. At the city level, cities will be provided with data management systems and spatially representable data, high quality baseline data sets and studies which will then inform the city's spatial direction to target investments both at the city-wide level and area level (via SDF, SAFs and PPs). This will be jointly provided with a Capital Investment Planning tool embedded within budgetary cycles to manage spatially-directed investments. Finally, there are multiple mechanisms put in place to ensure the institutionalization of project interventions for sustainability, for instance, data governance Mayoral Decrees building on the successes under the City Planning Labs (see para 30).

(ii) Economic and Financial Analysis[14]

69. NUDP targets better planning and implementation of existing capital expenditure pipelines for the selected cities but does not undertake any capital investments directly. The intended benefits are thus a function of leverage against each city's investment activities and must be measured based on the degree to which improvements in investment choices, spatial planning, and implementation increase the city's return on investment versus the without-NUDP counterfactual scenario. The stream of expenditures that NUDP can potentially influence is hundreds of times larger than NUDP's own budget, making the potential returns enormous on the upside.

70. The effects of NUDP intervention will be interrelated and compounding and will take different forms in each participating city. This analysis examines a single-city case study in-depth, calculating the expected net economic rate of return on NUDP expenditures in that city as a proxy for the project's overall returns. The analysis uses detailed budget, planning, procurement, and demographic data to assess the value of marginal improvements in a few key drivers of value. These improvements are simulated in, firstly, two sector-wide assessments (water supply and housing development) representing a subset of benefits arising from more integrated spatial planning and investment under Component 2, and secondly, two procurement-related operational assessments representing a subset of benefits arising from Component 3. Each sub-assessment is evaluated in isolation with the understanding that spillover effects can be assumed to be net-positive. Economic Internal Rate of Return (EIRR) is forecasted and compared for both "With NUDP" and "Without NUDP" scenarios for the sample city in the selected sectors. The differences in resulting net benefits are then compared against the portion of the NUDP project budget that would be allocated to a city of comparable size—US$2.49 million —to arrive at the EIRR for the NUDP itself. In our base-case scenario, we estimate a single-city Economic Net Present Value (ENPV) of US$5.14 million at a discount rate of 6 percent, implying an EIRR of 41 percent as a program-wide estimate. The large positive gap between EIRR and discount rate means this project is not only economically feasible but has potential for enormous impact if implemented effectively.

71. Even under the conservative assumptions considered in each sub-assessment, the overall results are positive enough that any of the four sub-assessments could be reduced to zero benefits without harming the overall feasibility of the project. The greatest risk to feasibility is that NUDP intervention fails to produce a lasting impact on the status quo of operations, bringing the magnitude of benefits close to zero in most or all participating cities. To mitigate this risk, the Bank recommends concentrating limited NUDP resources, both human and financial, on a small number of

[14] Note on sources and assumptions: World Bank guidelines call for the use of a social discount rate approximately equal to the long-term GDP growth expectations for the project country. As of May 2018, the OECD expects Indonesia's growth rate to rise modestly in coming years from the current 5.3 percent projections for 2018. Accordingly, we employ a 6 percent social discount rate for this analysis. Procurement data for the sample city was taken from the LPSE e-procurement portal.

high-potential cities. *See Annex 3 for a detailed description of the analysis.*

B. Fiduciary

72. **Financial Management Assessment** (FMA) assessed the adequacy of the financial management system of the implementing agencies -- RIDA under the MPWH, BAPPENAS and MOHA -- to produce timely, relevant, and reliable financial information on program activities, and ensure the accounting systems for program expenditures and underlying internal controls are adequate to meet fiduciary objectives and allow the Bank to monitor compliance with agreed implementation procedures and progress toward its objectives. Based on the financial management risk (a subset of fiduciary risk) identified, the proposed action plan to strengthen financial management of the project is as follows: (i) CPMU will work closely with all PIUs using the POM as the basis for project implementation and coordination. All PIUs should follow the POM for project implementation. Among other areas, the POM covers the organizational structure, inclusion of program budget into DIPA (budget implementation list), payment verification mechanism, funds flow mechanism, the IFR preparation and disbursement mechanism, and internal and external audit arrangements; (ii) CPMU and all PIUs will appoint staff to support project financial management during implementation; and (iii) CPMU will conduct regular coordination with periodic meetings with all stakeholders of the project.

73. **Procurement:** Procurement under the project will be governed by the Bank's Procurement Regulations for IPF Borrowers, July 2016, revised November 2017 and August 2018; and by the provisions stipulated in the Loan Agreement. At this stage, the procurement requirements of the project for the initial 18 months have been identified, including the preliminary contract packaging and possibility to have advance procurement for some contracts. Further details of the procurement arrangements based on the information available so far are provided in Annex 1.

C. Safeguards

(i) Environmental and Social Safeguards

74. The project will generate positive impacts on planned urban development by helping cities produce and utilize higher quality inputs (data, studies, analytics strategies) for planning. Consequently, better inputs will improve the quality of statutory plans. The project interventions will aim to provide a strategic spatial vision often lacking within statutory plans and utilize this strategic guidance as the basis for the spatial prioritization of capital investments in the medium term. Strategic considerations include the reduction of vulnerability of investments to climate-related hazards and other risks, planning prioritized investments better by matching them with the levels and forecasts of revenue sources, and identification of financing gaps.

75. Component 2 will use approaches of SDF, SAF, to strengthen the current spatial plans for participating cities. These documents will establish or support the strengthening of land use plans (RTRW, RDTR) that may have potential environmental and social impacts. In addition, Priority Area Development Plans will highlight infrastructure gaps at neighborhood level. SDF, SAF, and Priority Area Development Plans together will provide input for the CIPs of participating cities. While prioritization of capital investments from the city's list of projects is within the scope of this project, along with providing technical assistance to improve the quality of planning as well as potential pilots on strengthening of development controls, there will be no physical construction activities funded by the NUDP.

76. Although the project will not fund any feasibility studies, detailed engineering designs, or infrastructure

developments, the plans it produces or assists with, particularly the CIP, will lead to investments. It should be possible for the spatial plans and in particular the CIP, relying on the KLHS/SESA and on professional judgment, to include a "high-level" risk assessment to guide preparation of safeguards instruments for the investments. For example, if a spatial plan identifies a transport/utilities corridor, the general Environmental & Social (E&S) implications of choosing that particular location can be identified under this project, whereas E&S assessments for the infrastructure that will be built in the corridor are certainly beyond the scope of the project.

77. Component 1 will not: (i) directly or indirectly support engineering design or technical studies leading to the preparation of physical investments; or (ii) establish or support the formulation of new land use plans. The activities therefore provide an important opportunity to integrate environmental and social objectives into urban development policy and regulations. Mainstreaming of safeguards considerations, including enhanced stakeholder consultations and dialogues during the process of review and revision of regulatory frameworks, will be achieved through the Terms of Reference (TOR), and through training and other capacity building measures. Component 3 outputs are enhanced capacity of city governments to do better planning, budgeting and project management. It will also help to strengthen city capacity in accessing financing from various sources including capital markets, such as the RIDF Project. This component therefore will not lead to environmental and social impacts; any future investments implemented will be subject to the safeguards processes and requirements of financiers, including the sub-national borrowing facility established under the RIDF Project. Component 4 involves strengthening the PMU and the PIUs and will cover contracts for supervision, financial and technical audit, oversight on the inclusion of environmental and social safeguards aspects, monitoring and evaluation, etc. There will be opportunities to mainstream social and environmental impact and risk considerations through a range of functions in diverse institutions.

78. The statutory plans, i.e. RPJMD, RTRW, and RDTR, are mandated by the GOI laws and regulations. Moreover, they are supplemented by GoI's own Strategic Environmental (and Social) Assessment (SESA/KLHS) as required document. The project offers opportunities to ensure that the recommendations from the SEA/KLHS and extended into SESA are taken into account into spatial planning and to strengthen engagement of communities and improve environmental and social inclusion in planning processes through the enhanced public consultation processes associated with key activities such as the formulation of the SDF and CIP. As TA activities involve a range of assessments and consultations, there will be increased awareness of and attention to local social issues, needs, and priorities by participating city governments. Key issues include land tenure and access to services and facilities, all of which are built in considerations in the assessments and consultations leading to SDF and CIP. Attention to environmental, social, economic, and cultural elements in the planning process is built into the design of activities through TORs and guidelines identified in the ESMF.

79. **Project Category**: The project is assessed as Category B for environmental and social safeguards.

80. **Indigenous peoples (OP4.10) (IP):** Since the short list of participating cities in the project has not yet been finalized, it is not possible to assess whether there will be IP present and potentially affected by the project activities in some cities under Component 2. The presence of IP within urban and peri-urban populations and the existence of indigenous lands within city boundaries is an issue that will require close attention. At this stage of project preparation, the focus of the project is on medium, large, and metro cities (500,000-3 million population) that are regional and national activity centers, where the presence of IP is not as usually pronounced as the smaller cities. The screening for IPs will involve verification and confirmation of the presence of IPs at city level and necessary safeguard instruments to be prepared. This is built into the ESMF and TORs for the spatial and land-use plans and for the CIPs. Where IP are confirmed to be present, cities will develop an Indigenous Peoples Planning Framework (IPPF) disclosed on the Bank

website on April 21, 2019 to guide the appropriate engagement and treatment of these groups in any project process (i.e. studies and consultation), as well as in future projects that may arise from the CIP implementation.

81. The activities across all components entail strengthening urban development planning and prioritization and optimization of resource management, with strong opportunities to increase attention to potential environmental and social impacts. A mainstreaming approach to environmental and social safeguard considerations will be embedded throughout the TA activities, including through strengthening strategic impact assessment capacity and processes for public consultations. Direct safeguards risks related to the TA activities are minimal, however some associated risks relate to the outcomes of TA support which may potentially have downstream environmental and social implications, such as from the subsequent physical construction activities or urban redevelopment projects with regards to environmental health and safety, physical cultural resources and involuntary resettlement. For this reason, determination of priority infrastructure locations will require environmental and social impact analysis and consultation. On-site redevelopment or expansion of existing infrastructure may not need to acquire land, but social issues arising from temporary relocation of traders, for instance, must be managed properly. The project triggers OP 4.01, 4.10, and 4.12.

82. **Involuntary Resettlement** (OP4.12), including land acquisition, may take place for newly developed subprojects, but the project will not finance such activities. The specific environmental and social impacts of subprojects cannot be defined as their exact footprints and impact areas are not yet known. A Land Acquisition and Resettlement Policy Framework (LARPF) was prepared and disclosed on the Bank website on April 21, 2019.

83. The PIU prepared an ESMF to provide reference and guidance for the project management staff, consultants, city governments, and other related parties participating in the project on a set of principles, rules, procedures, and institutional arrangements to screen, assess, manage, and monitor the mitigation measures of potential environmental and social impacts of changes in spatial planning arising from the project and for the handling of project consultation processes and grievances.

84. The ESMF includes a LARPF, Process Framework (PF), and an IPPF, as well as Grievance Redress Mechanisms and Disclosures. The ESMF also includes an Environmental and Social Code of Practices (ESCoP) as the best practices for planning guidelines to safeguard the project. The approach to safeguard interventions is to strengthen existing planning processes by mainstreaming E&S analysis, strengthening the capacity for public participation /citizen engagement, and embedding E&S in the CIP criteria.

85. Other safeguards risk related to lack of capacity in preparing and implementing safeguards instruments. Ongoing monitoring and implementation support will be provided to PIU to help ensure that subnational governments fulfill the requirements specified in the ESMF. This will include advice on TOR for SESA and gap filling between Indonesia's country systems and the Bank's safeguards policies.

86. Draft ESMF was disclosed in MPWH's website (http://bpiw.pu.go.id/) on December 12, 2018 prior to public consultations. The consultations were held twice on December 19, 2018 and February 8, 2019. The final version of the ESMF incorporating relevant inputs from the stakeholder consultations was disclosed on MPWH's website and on the Bank's website on April 21, 2019.

87. **Citizen Engagement:** The proposed project will leverage and strengthen the existing structure for community participation within the Indonesian planning process, known as *Musrenbang*. *Musrenbang* is a mandatory forum for

negotiations between government and community stakeholders to achieve consensus on development priorities and budgets. The deliberative process is intended to create a sense of community ownership over the management of local government and encourage transparency and accountability. Within NUDP, there is an emphasis on creating a more transparent and uniform process for identifying city objectives and prioritizing capital investments accordingly. Published reports on feedback from consultations on priority area development planning and if/ how this feedback has been used will be monitored in the Results Framework.

88. Drawing on *Musrenbang*, the CIP process will be informed through community consultations. These consultations will be modeled on international best practices, moving away from the traditional Indonesian approach of holding a consultation in every community and neighborhood, which overburdens local capacity and does not necessarily succeed in soliciting representative feedback. Instead, consultation days will be advertised, and community groups can make appointments within an open calendar to engage with local officials and provide coordinated feedback on any proposals. This method allows community groups to present feedback by affiliation rather than by residential location. Groups that will be solicited include: women's groups, LGBTQ groups, student and youth organizations, professional associations, artists, entrepreneurs, and non-governmental organizations with the goal of engaging a diverse swath of the community. In addition to community consultations, the local government will ensure citizen engagement through public discussions and information disclosure, especially as related to environmental and social safeguards.

89. **Gender:** Promoting gender equality in Indonesia's development planning system is regulated by Presidential Instruction 9/2000, which requires all government agencies to mainstream gender concerns across each stage of the regional development process: planning, implementation, organization, reporting, monitoring, and evaluation. Since 2004, the RPJMN provides direction for each local government to mainstream gender considerations into urban development processes, aiming to reduce inequality between men and women in terms of access to infrastructure as well as participating in public decision-making processes. However, such mainstreaming processes that are being introduced in development planning are weaker for spatial planning, which will be supported through project interventions. Spatial design of cities has the potential to influence some of the underlaying causes for existing gender gaps. Therefore, aligned with the Presidential Instruction Number 9/2000 the project will support the strengthening of concrete aspects of the spatial planning - including its process and the data that informs it - to ensure the design of cities can help decrease relevant existing inequalities between men and women. For instance, a 2006 study[15] of gender and transport issues in Jakarta found that the physical separation of living areas from working areas has led to increasing travel distances with high costs in time and fares, huge volumes of traffic, and disruption of non-motorized mobility. An estimated 62.5 percent of all working-age women in Indonesia are not engaged in paid work in Greater Jakarta. This issue is in part due to the lack of connection between land use planning and transportation planning which leads to ill job-housing connection - integrated land use and transport plans (ILUTP) will enhance urban mobility and ensure better connections between peoples, jobs and services. NUDP will measure this through the intermediate indicator under Component 2, "cities with integrated land use and transport plan developed" which will help address the job accessibility gender gap by introducing ILUTP.

90. As pointed out in the Indonesia Flagship Report, the physical design and layout of urban public spaces and infrastructure can be planned and designed to be more socially inclusive and especially safer for women. A recent safety audit by UN women in Jakarta found that female respondents have experienced violence in buses, trains and even taxis. In addition, a report by Indonesia's National Commission on Violence against Women said that in 2016, there were 259,150 reported cases of violence against women, with 3,092 of them occurring in public spaces. The

[15] http://siteresources.worldbank.org/EXTTSR/Resources/463715-1322323559362/Gender-Transport-MENA.pdf

Central Bureau of Statistics' National Women's Life Experience Survey in 2016 said 1 in 3 Indonesian women suffered from violence (90 percent domestic violence), and 36.3 per cent of violence occurred in the cities. All this evidence points to the fact that the potential of experiencing violence in public space influences women's freedom and choices. Often, women choose to skip accessing education or work opportunities because of fear and lack of safety if they have to access education facilities or workplaces. One of the study's recommendations includes improvements in physical infrastructure, such as including street lightening, upgrading sidewalks for greater pedestrian safety, installing emergency alarms and CCTV cameras. Inclusive urban planning and design principles in the spatial planning process, utilization of urban design and construction standards when designing public spaces and public buildings will be leveraged to enhance safety for women in public spaces.

91. There are at least three ways to do this through the development of Priority Area Development Plans developed under project Component 2. Firstly, crime prevention through environmental design (CPTED) is a well-known concept that encourages passive surveillance of public spaces and streets, creating more "eyes on the street" and can be incorporated in local-level urban design guidelines and the Priority Area Development Plans. Secondly, design of Priority Area Development Plans will adopt "placemaking" approach, through which cities design public places collaboratively with communities with an emphasis on including perspectives of women, children, the elderly, and people with disabilities to create spaces that strengthen connections between communities and the places in which they live. Due to the nature of the TA loan, the investments may not be actualized within the project or be financed by the project, however Priority Area Development Plans will also enable such "placemaking" processes to become the norm across NUDP cities. In NUDP, the Priority Area Development Plans will improve women's safety in public space and will measure this through the intermediate indicator under Component 2, "cities with Priority Area Development Plans reflecting inclusive urban design principles with a specific focus on enhancing women's safety in public spaces and universal accessibility" which will help address the gender gap on safety in public space. This will measure the percentage of participating cities that have developed Priority Area Development Plans that reflect inclusive urban design principles with a specific focus on enhancing women's safety in public spaces and universal accessibility for the disabled and elderly.

92. The Indonesia Flagship Report also finds that women, traditionally the primary caregivers, have greater access to economic and educational opportunities through urbanization. Their new, varied role gives many of them more complex transport patterns than men as they journey between places of employment, schools, and homes. For more than two decades, labor force participation among women in Indonesia has been low, around 51 percent, compared with 84 percent among men. Badly congested roads in Indonesia's major cities, particularly during peak commuting times, and large urban transport or commuting costs increase the time it takes women to perform daily activities outside the home. Public transport investments arising from urban mobility approach within the Integrated Land Use and Transport Studies (Component 2) will potentially lead to reduced commuting costs and time savings, which can increase female labor force participation by expanding urban mobility and empower women to achieve their economic productivity potential.

93. Finally, to properly inform planning there is a need to fill the existing gap in availability of gender disaggregated data. Establishing baseline data is critical to measure that relevant gender gaps have been addressed in the project. Currently, such baseline figures and benchmarks do not exist in most planning documents in Indonesia, especially at the city level. Under Component 2, city-level baseline survey will include questions on perceptions of men and women around key indicators (including crime and safety in public spaces) to bring in a gendered perspective in the establishment of city level targets and benchmarks that is currently lacking in most RPJMDs. Such benchmarking will also influence the inclusion of a gendered perspective in future infrastructure investments to meet city's socio-

economic targets and lead to positive downstream impacts by securing a gendered lens within urban development. The baseline results derived from project interventions will also allow city governments to track gender-disaggregated community satisfaction with service provision over the longer term.

(ii) Other Safeguards

No other safeguard policies are triggered for the project.

(iii) Grievance Redress Mechanisms

Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

V. KEY RISKS

94. The overall risk rating is substantial given the substantial rating for risks pertaining to technical design, institutional capacity, and fiduciary risks (see SORT table in the Data Sheet).

95. **Technical Design of Project: Substantial.** The technical design of the project is complex and poses substantial risk within execution and sustainability of project activities. The innovations in this project have the potential for transformative change but require interaction vertically between the national and city levels, and across sectors. The project extensively builds upon international practices and experiences to extract the lessons learned. Throughout the project preparation, in-depth workshops with the GoI have focused on replicability of international good practices to the Indonesian context and scalability of the proposed interventions to ensure a demand-driven approach. Outputs of the project directly support the enhancement of city-specific statutory plans and introduce practical mechanisms to link planning with infrastructure prioritization. From an implementation perspective, the phased approach is supplemented with a knowledge capture and change management mechanism (see Sustainability, para 64-65) to ensure learning from the earlier phases. The project will include regular workshops and focus group discussions to facilitate interaction among relevant stakeholders and encourage a collaborative approach to implementation. In addition, procurement packages are carefully designed to bundle together activities with technical design interdependencies to ensure that they are executed smoothly. Finally, all procurement packages are assigned to specific PIU (no joint-PIU packages) for ease of technical management. The phased approach is also internalized within the procurement plan to minimize technical risk (*see Annex 1*).

96. **Institutional Capacity for Implementation: Substantial.** The multi-stakeholder project design offers a significant

opportunity to engender better coordination and alignment of priorities between different levels of Government. However, this opportunity presents substantial risk if institutional arrangements are not sufficiently supported to increase inter-agency collaboration and shift the business as usual scenario of working in silos. In addition, weak institutional capacity for implementing and sustaining a TA Loan may adversely impact the PDO, as implementation involves activities in multiple cities and coordination between multiple agencies of differing capacities. In Indonesia's decentralized context, ensuring local governments align their efforts with the central government is no easy task. While the implementing agencies have some capacity to implement elements of the project with assistance from external consultants, overall coordination and alignment of expenditures and activities requires significant and continuous effort during implementation, building upon the inter-ministry/agency coordination initiated during preparation.

97. To mitigate coordination risks at the national level, the project design builds on existing mechanisms to establish and strengthen an Inter-ministerial Coordination Team for Urban Development. Such high-level coordination will ensure better alignment of agencies at the national level as well as coordination and oversight of the provincial and municipal agencies responsible for integrated planning and alignment of national sectoral programs. A detailed list of activities operationalizing the components has been carefully designed in collaboration with all PIUs to address the achievement of the PDO. Each activity has a specific PIU responsible for its achievement to ensure clarity in terms of M&E. Activities are aligned with the mandate of the agencies responsible for them and, as far as possible, linked with the internal mid-term targets of national and local agencies to enhance ownership. For instance, the spatial planning interventions are aligned with the detailed spatial planning outputs of ATR/BPN's proposed 5-year internal work plan. Sufficient technical support mechanisms are financed under Component 4 to strengthen the PIUs in monitoring their respective activities.

98. Several lessons learned from the implementation of other platform projects such as National Slum Upgrading Program (NSUP), Local Government Decentralization Project (LGDP) and National Rural Water Supply and Sanitation Project (PAMSIMAS) have been internalized, especially in terms of the support for a multi-PIU structure and the measures for enhancing coordination and buy-in from the local governments (including socialization workshops and draft MOUs). The Directorate assigned as the lead for NUDP under MOHA is further coordinating internally with MOHA's local government coordination units to highlight this project as a national priority program for local governments., Local governments will be asked to express commitment and implement reforms under a national priority program, which is receiving support from NUDP as proposed technical assistance under this framework. Finally, to strengthen the local level buy-in, local governments will be expected to establish Coordination Committees under their own budgets as a condition for inclusion into the project (see also Implementation arrangements, para 59).

99. **Fiduciary: Substantial.** The financial management (FM) risk is assessed as being substantial before mitigation, and moderate after mitigation. A Financial Management Assessment (FMA) for NUDP assessed the adequacy of the financial management systems of the proposed implementing agencies to produce timely, relevant, and reliable financial information on project activities. The Financial Management Specialist (FMS) has assigned a substantial risk rating due to (i) project design, which requires multi-agency cooperation at various levels and operates on complex institutional structures, posing coordination challenges during implementation and (ii) a demanding role for RIDA (MPWH) as the proposed CPMU for the project to coordinate all implementing agencies and implementing 60 percent of the proposed project allocation. To mitigate the associated risk, the proposed action plan is for (i) RIDA to prepare detailed technical guidelines on FM within the POM to manage implementation and coordinate the PIUs, (ii) CPMU and all PIUs to appoint staff to support project financial management during implementation; and (iii) CPMU to conduct periodic coordination with all stakeholders of the project.

100. At this stage, the procurement risks identified under the project include: (a) procedural non-compliance due to implementing agencies' insistence to follow the Government's Procurement procedures instead of the Bank's Procurement Regulations for IPF Borrowers, which govern procurement under the project; (b) weak procurement capacity of the CPIU and PIUs owing to the ad hoc establishment of Procurement Services Units (ULP/UKPBJ) whose staff are accredited on the basis of rudimentary training in the Government's procurement regulations and have limited understanding of the Bank's procurement procedures; and (c) lack of systemic monitoring and evaluation of procurement and contract performance. Based on the above, the procurement risk under the project is 'Substantial.' Procurement related capacity building efforts under Component 3.2 of the project are directed at local government but also offer the possibility of including national governments in some sessions where good principles of procurement may be beneficial to all stakeholders.

101. **Environmental and Social: Moderate.** The social environmental risks are moderate as the project will focus on technical assistance to build capacity for integrated planning. Overall, the project impacts are expected to be positive from an environmental and social perspective, in the long run improving the efficiency of service delivery and providing better-quality living environments in participating cities. The project is designed to improve city capacity to finance and implement existing plans for urban infrastructure development supported by the current statutory framework. This creates the potential for a positive feedback loop of proper planning, prioritization and optimization toward better resource management, positive social impacts and less adverse impact to the environment. The application of the ESMF as the safeguards instruments for activities under Component 2 will help promote the integration of environmental and social concerns within the municipal planning processes, and mitigate potential risks associated with downstream projects (*see Section V Appraisal Summary and Annex 2 for further detail*).

VI. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY: Indonesia
National Urban Development Project (NUDP)

Project Development Objectives(s)

To increase the number of participating cities carrying out integrated planning and prioritizing their capital investments.

Project Development Objective Indicators

Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
To strengthen participating cities to carry out integrated planning								
City's long-term spatial planning reflects the spatial development framework approach (Percentage)		0.00	0.00	0.00	0.00	30.00	60.00	80.00
National Urban Infrastructure Strategy Plan completed (Yes/No)		No	No	No	Yes	Yes	Yes	Yes
To strengthen participating cities to prioritize their capital investments								
City is utilizing spatially-informed capital investment planning and budgeting framework (Percentage)		0.00	0.00	0.00	0.00	30.00	50.00	70.00

Intermediate Results Indicators by Components

Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Component 1: National Urban Institutional and Policy Development								
Inter-ministerial Coordination Team for Urban Development annual work program developed (Yes/No)		No	No	No	Yes	Yes	Yes	Yes
National knowledge exchange workshop with all stakeholders conducted (Number)		0.00	0.00	1.00	2.00	3.00	4.00	5.00
Synthesis report of national urban infrastructure strategy completed (Yes/No)		No	No	Yes	Yes	Yes	Yes	Yes
Component 2: Integrated Planning for Urban Development								
Cities with key planning datasets available (Percentage)		0.00	0.00	20.00	40.00	60.00	80.00	80.00
Cities with integrated data platform established (Percentage)		0.00	0.00	0.00	20.00	40.00	60.00	60.00
City regulation on Municipal Spatial Data Infrastructure (MSDI) drafted (Percentage)		0.00	0.00	0.00	20.00	40.00	60.00	60.00
Trainings on data and geospatial skill development (Percentage)		0.00	0.00	0.00	30.00	60.00	80.00	80.00
Cities with integrated land use and transport plan developed (Percentage)		0.00	0.00	20.00	40.00	60.00	80.00	80.00

Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Cities with spatial development framework developed (Percentage)		0.00	0.00	20.00	40.00	60.00	80.00	80.00
Cities with spatial area framework developed (Percentage)		0.00	0.00	0.00	40.00	60.00	80.00	80.00
Cities with priority area development plans developed (Percentage)		0.00	0.00	0.00	0.00	20.00	40.00	60.00
Cities with priority area development plans reflecting inclusive urban design principles with a specific focus on enhancing women's safety in public spaces and universal accessibility (Percentage)		0.00	0.00	0.00	0.00	20.00	40.00	60.00
Number of public consultations held on integrated planning (Number)		0.00	0.00	2.00	4.00	7.00	8.00	10.00
Number of public consultations held on priority area development planning (Number)		0.00	0.00	0.00	0.00	2.00	4.00	7.00
Published reports on feedback from consultations on priority area development planning and if/ how this feedback has been used (Yes/No)		No	No	No	Yes	Yes	Yes	Yes
Cities with capacity building		0.00	0.00	0.00	20.00	40.00	60.00	80.00

Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
on integrated planning delivered (Percentage)								
Cities with spatially-informed capital investment plans developed (Percentage)		0.00	0.00	0.00	0.00	30.00	60.00	80.00
Revised regulation drafted to institutionalize CIP and consultations held with relevant ministries (Yes/No)		No	No	No	No	No	Yes	Yes
Component 3: City Financial Management Capacity Development								
Cities with city capacity assessment completed (Percentage)		0.00	0.00	20.00	40.00	60.00	80.00	90.00
Cities with training and workshop delivered on planning and budgeting, project management, and procurement (Percentage)		0.00	0.00	0.00	30.00	60.00	80.00	80.00
Component 4: Project Implementation Support								
Project management support systems established and operational (Yes/No)		No	No	Yes	Yes	Yes	Yes	Yes

Monitoring & Evaluation Plan: PDO Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
City's long-term spatial planning reflects the spatial development framework approach	Percentage of cities with a long-term spatial plan that reflects the SDF approach and, operationalized through one or more of the following: (1) full revision of the RTRW (including the organization of chapters) based on this approach, or (2) the SDF as an input for the technical document that informs the statutory RTRW, or (3) SDF synthesis document available to the city as a reference for spatially informing the CIP in scenarios or, (4) SDF as the input for adding spatial dimension to RPJP/RPJMD, or (5) RDTRs identified based on the SDF analytical approach.	Annual	City Governments	Evaluation of RTRW quality	MPWH
National Urban Infrastructure Strategy Plan completed	National urban infrastructure strategic plan is completed	Once	MPWH	Monitoring	MPWH
City is utilizing spatially-informed capital investment planning and budgeting framework	Percentage of participating cities with prioritized capital investments with spatial	Annual	City Governments	Evaluation of RPJMD and RKPD quality	MOHA

	locations developed using the approach designed under the project, and providing inputs to either RPJMD (medium-term development plan), or RKPD (annual development plan).				

Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Inter-ministerial Coordination Team for Urban Development annual work program developed	Work plan, roles and responsibilities for the Inter-ministerial Coordination Team for Urban Development is completed and operationalized	Annual	BAPPENAS	Monitoring	BAPPENAS
National knowledge exchange workshop with all stakeholders conducted	Number of national-level workshop organized to facilitate knowledge exchange between national and city-level governments	Annual	BAPPENAS	Monitoring	BAPPENAS
Synthesis report of national urban infrastructure strategy completed	Report of national urban infrastructure strategy for the national and city-level development guidance completed and synthesized	Annual	Consultant report	Monitoring	MPWH
Cities with key planning datasets available	Percentage of participating cities with key planning datasets	Once	City government	Field monitoring	MPWH

Cities with integrated data platform established	Percentage of participating cities that have established or improved the integrated data platform to facilitate automated data sharing mechanisms	Once	City government	Field monitoring	MPWH
City regulation on Municipal Spatial Data Infrastructure (MSDI) drafted	Percentage of participating cities that have drafted mayoral regulations on data governance	Annual	City Governments	Field monitoring	MPWH
Trainings on data and geospatial skill development	Percentage of participating cities that have received training on data governance, spatial analytics, data development and relevant geospatial skill development	Annual	City government	Field monitoring	MPWH
Cities with integrated land use and transport plan developed	Percentage of participating cities with integrated land use and transport plan developed	Annual	Consultant reports	Field monitoring	MPWH
Cities with spatial development framework developed	Percentage of participating cities that have developed a synthesis spatial development framework which will serve as a direct input to and strengthen the RTRW	Annual	Consultant reports	Field monitoring	MPWH
Cities with spatial area framework developed	Percentage of participating cities that have developed strategic area frameworks for priority areas which will	Annual	Consultant reports	Field monitoring	MPWH

	serve as a direct input to and strengthen the RDTR				
Cities with priority area development plans developed	Percentage of participating cities that have developed priority area development plans	Annual	Consultant reports	Field monitoring	MPWH
Cities with priority area development plans reflecting inclusive urban design principles with a specific focus on enhancing women's safety in public spaces and universal accessibility	Percentage of participating cities that have developed priority area development plans that reflect inclusive urban design principles with a specific focus on enhancing women's safety in public spaces and universal accessibility for the disabled and elderly.	Annual	Consultant reports	Field monitoring	MPWH
Number of public consultations held on integrated planning	Number of public consultations organized and completed on integrated planning	Annual	City government/ consultant reports	Field monitoring	MPWH
Number of public consultations held on priority area development planning	Number of public consultations organized and completed on priority area development planning	Annual	City government/ consultant reports	Field monitoring	MPWH
Published reports on feedback from consultations on priority area development planning and if/ how this feedback has been used	Reports published on feedback from consultations on priority area development planning and if/ how this feedback has been used	Annual	City governments / consultant reports	Field monitoring	MPWH

Cities with capacity building on integrated planning delivered	Percentage of capacity building delivered per participating city to internalize the knowledge of integrated planning approach	Annual	City government/ consultant reports	Field monitoring	MPWH
Cities with spatially-informed capital investment plans developed	Percentage of participating cities with prioritized capital investments with spatial locations developed using the approach designed under the project	Annual	City governments	Field monitoring	MPWH, MOHA
Revised regulation drafted to institutionalize CIP and consultations held with relevant ministries	Revised relevant ministries' regulation on formulation of mid-term and annual development plan drafted to include the adoption of CIP methodology for city's project prioritization, followed by consultations with relevant ministries	Once	MOHA	Monitoring	MOHA
Cities with city capacity assessment completed	Percentage of participating cities with a baseline established for city capacity on fiscal, public financial management, procurement, and project management, etc.	Annual	City government/ consultant reports	• City capacity assessment report • Field monitoring	MPWH/ MOHA-Bangda
Cities with training and workshop delivered on planning and budgeting, project management, and procurement	Percentage of participating cities provided with relevant capacity building training/ workshops including project	Annual	City governments	Field monitoring	MPWH

	management and procurement and/ or budgeting and/ or access to alternative sources of finance				
Project management support systems established and operational	Executing Agency and Project Implementing Units established, staffed, operationalized, and functioning for project management	Annual	MPWH	Monitoring	MPWH

ANNEX 1: Implementation Arrangements and Support Plan

COUNTRY: Indonesia
National Urban Development Project (NUDP)

Project Institutional and Implementation Arrangements

1. **Project Executing Agency.** The MPWH is the Executing Agency for NUDP. A CPMU is established under RIDA. As the CPMU, RIDA will be responsible to coordinate the results achieved by each PIU as well as ensuring the achievement of the Project's development objective. In addition, the CPMU has the following responsibilities: hold regular meetings with PIUs to ensure on-target progress; implementation of environmental and social safeguards in accordance with Bank policies as specified in the ESMF, management and reporting on the Monitoring and Evaluation Framework, development, utilization and updating of the POM in coordination with PIUs.

2. The CPMU will be supported by PMS to ensure overall work quality, accountability and timeliness. The PMSs will ensure that project implementation is in accordance with the work plans and will also provide city-level consultants to support local government coordination. In addition to operational experts (Financial Management, Procurement, M&E etc.), the PMS will also retain a pool of technical experts to draw upon for providing technical support for smooth implementation. The CPMU and PIUs are expected to be established in the months leading up to the project's expected date of effectiveness. These implementation arrangements are being designed based on similar arrangements that have been established – and are currently in place – in the same ministries and departments for another projects (e.g. PAMSIMAS, NSUP, Integrated Infrastructure Development for National Tourism Strategic Areas), thus learning from existing successful multi-ministry Platforms in Indonesia, where the MPWH is also the executing agency.

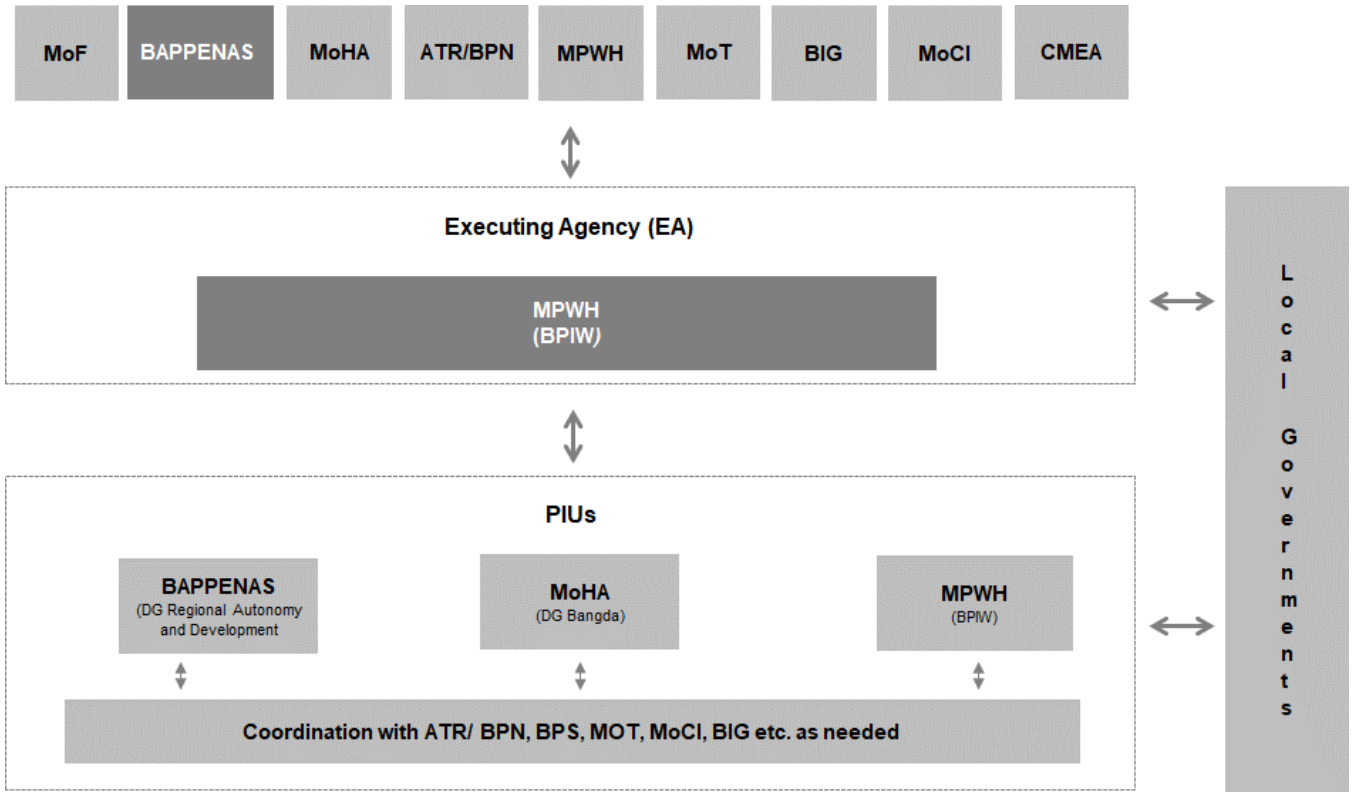
3. **Project Implementing Unit(s).** NUDP has multiple PIU's because NUDP is understood as an integrator of multi-sectoral works. The project needs significant involvement of various ministries that are responsible for urban area planning and development. PIU's include relevant directorates of ministries in charge of sub-components and will be established within BAPPENAS, MPWH and MOHA. Each of these lead agencies will coordinate with key agencies at the national level, as appropriate. ATR/BPN will play an important role as a coordinating ministry in working closely with the PIUs on review and institutionalization of the results of the project interventions. During implementation, based on joint review of project need and implementation status with GOI, ATR/BPN can be included as a PIU. No city-level PIUs will be established, but the PMS's will provide consultants to support city level coordination. PIUs will be responsible for achieving the project development objective and relevant performance indicators by coordinating all activities under their mandate, ensure that the activities progress in line with the progress implementation schedule and work plans in the POM; overseeing the implementation of sub-components under their responsibility; coordinating with relevant directorates or agencies in implementing their obligations, and ensuring that financial, procurement and contract management, safeguards and overall project implementation conforms with the Bank policies. Each PIU will be supported in their implementation role by TMCs, who will be supervised by the PIU staff. TMCs will also be responsible for regularly coordinating with the PIU's on the status of specific packages under implementation. Each PIU will be responsible to procure and manage consultants that will be deployed to the participating cities for each respective activity.

4. **Inter-Ministerial Coordination at the national level:** A multi-ministerial urban coordination structure at the national level will be enabled and strengthened. The objective is to ensure coordination on key policies and programs related to urban development within the NUDP scope of work. The TKPPN under BAPPENAS will be leveraged for high

level coordination during implementation and to ensure that strategic issues are adequately addressed. The coordination structure will also include government agencies/ministries that have no direct implementing responsibility for the project but are critical stakeholders. The committee comprises high-level officials from the Ministry of Finance, Ministry of Home Affairs, Ministry of Land and Spatial Planning, Ministry of Public Works and Housing, Ministry of Transportation, Geospatial Information Board, Ministry of Communication and Information, and Coordinating Ministry of Economy.

5. Organogram as presented in the figure below illustrates the project's institutional arrangements:

Figure 1 Project Institutional Arrangements



6. **Coordination at the city level.** To ensure smooth coordination at city level, the project requires an establishment of a NUDP coordination team at city level, assigned by the City Secretary (Sekda). The coordination team, under the overall guidance of the Sekda, will coordinate and monitor all city-level activities under NUDP. It will consist of senior level officials from key agencies that are involved in the NUDP activities. The city implementation arrangements shall be institutionalized by the Mayor through a Mayoral Decree (SK – Surat Keputusan Walikota).

7. **Technical working groups will be established to implement the NUDP activities.** These working groups report on a day to day basis to the coordination team and regularly to the Sekda on project progress. There will be three technical groups: spatial planning working group, CIP working group, and a capacity building working group. The final composition of the local team will depend on the mayor's discretion.

PIU specific TMCs will further support the city coordination committee as needed. The technical working groups will tap into existing institutional mechanisms where possible. For instance, the Integrated Planning Working Group would leverage an existing mechanism available in some cities, namely the City Spatial Planning Coordination Unit (TKPRD – Tim Koordinasi Perencanaan Ruang Daerah). The working groups will report regularly to the City Coordination Committee and periodically to the Sekda on project progress. Cities will be asked to commit to the establishment the NUDP City Coordination Committee as part of the Expression of Interest (EOI) to join the project, which will be solidified via a Memorandum of Understanding (MOU) with the national government.

8. **Spatial planning coordination team at city level.** A technical working group to be responsible for the spatial planning related activities is required at city level. Currently, cities are mandated to establish a City Spatial Planning Coordination Unit (TKPRD – Tim Koordinasi Perencanaan Ruang Daerah), who is responsible for formulating spatial plans implement and control the spatial utilization. NUDP will leverage the existing mechanism and strengthen the role and function of TKPRD.

9. **CIP implementation at city level.** The City's Development Planning, Research and Development Agency (BAPPPEDA) will be responsible for coordinating, implementing and monitoring of the CIP. It will work in close coordination with the other agencies, especially the Local Finance and Asset Management Unit (BPKAD). As the coordinator for the CIP, BAPPEDA will provide strategic guidance and submit a consolidated CIP to the executive budget committee (TAPD – Tim Anggaran Pemerintah Daerah). An annual capital planning and implementation process plan will be prepared, highlighting the involvement of all stakeholders, key deadline dates and deliverables. The Mayor or Sekda will be asked to assign BAPPEDA to be the capital investment coordinator and to act on behalf all sectors and agencies involved as part of the MOU with cities.

10. **Capacity building working group at city level.** Capacity building under component 3 will be conducted in the areas of planning and budgeting and access to finance, procurement, and project management. Key stakeholders include BAPPEDA, BPKAD, Procurement Unit (ULP - Unit Layanan Pengadaan), and Public Works. This working group will be chaired by the Sekda, and also include the ad-hoc budget committee (TAPD) as appropriate. The local parliament members (DPRD – Dewan Perwakilan Rakyat Daerah) will also receive capacity building related to their role in the budgeting process and city government access to alternative financing. The capacity building activities will be closely coordinated with the progress of activities under Component 2 and aligned with the government annual budgeting process. The NUDP coordination team and technical working groups will be encouraged and supported to share knowledge with other agencies and cities, and to facilitate the formal adoption of innovations as part of NUDP's sustainability strategy.

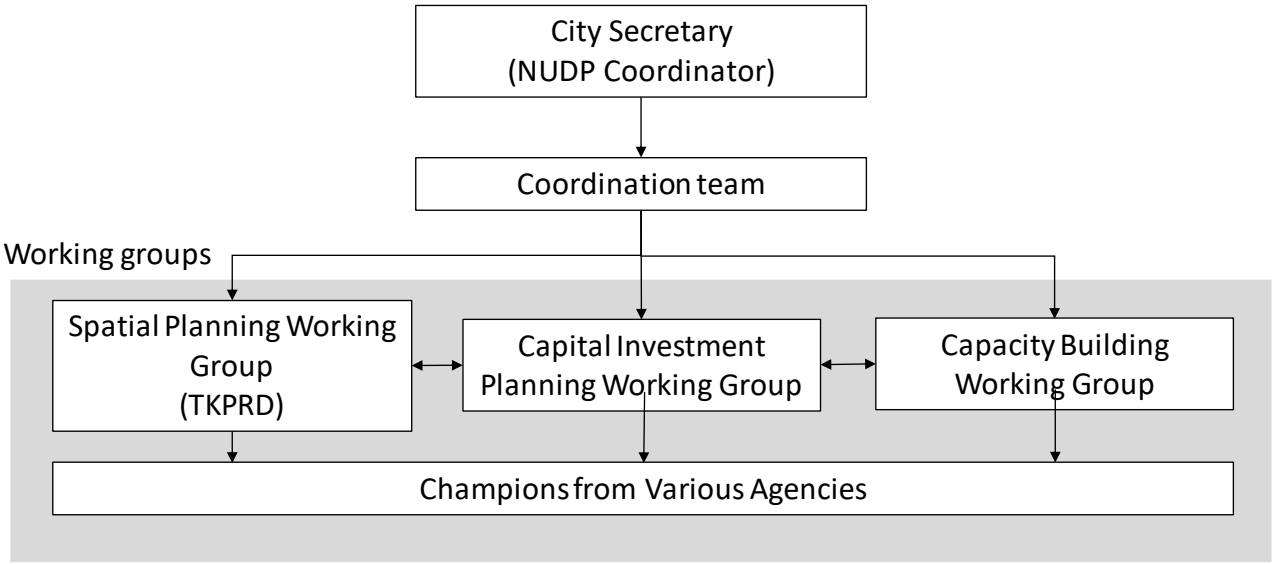
11. **An MOU will be signed between the participating cities and the CPMU**, as is common procedure between city governments and national government in implementing projects. The MOU will outline the roles and responsibilities of both parties, confirm the city-level institutional arrangements, and commitment.

12. The provincial governments are key stakeholders related to facilitating knowledge exchange, brokering and learning. Provincial governments will be supported in sharing the innovations and learning of NUDP to other Indonesian cities and will be involved in knowledge sharing and learning events and scaling-up wherever opportunities exist.

13. Meetings between CPMU, PIUs, and city governments will be conducted at least on an annual basis to ensure and foster the local-national coordination. City government will be able to provide feedback on the implementation of

NUDP through this dialogue platform.

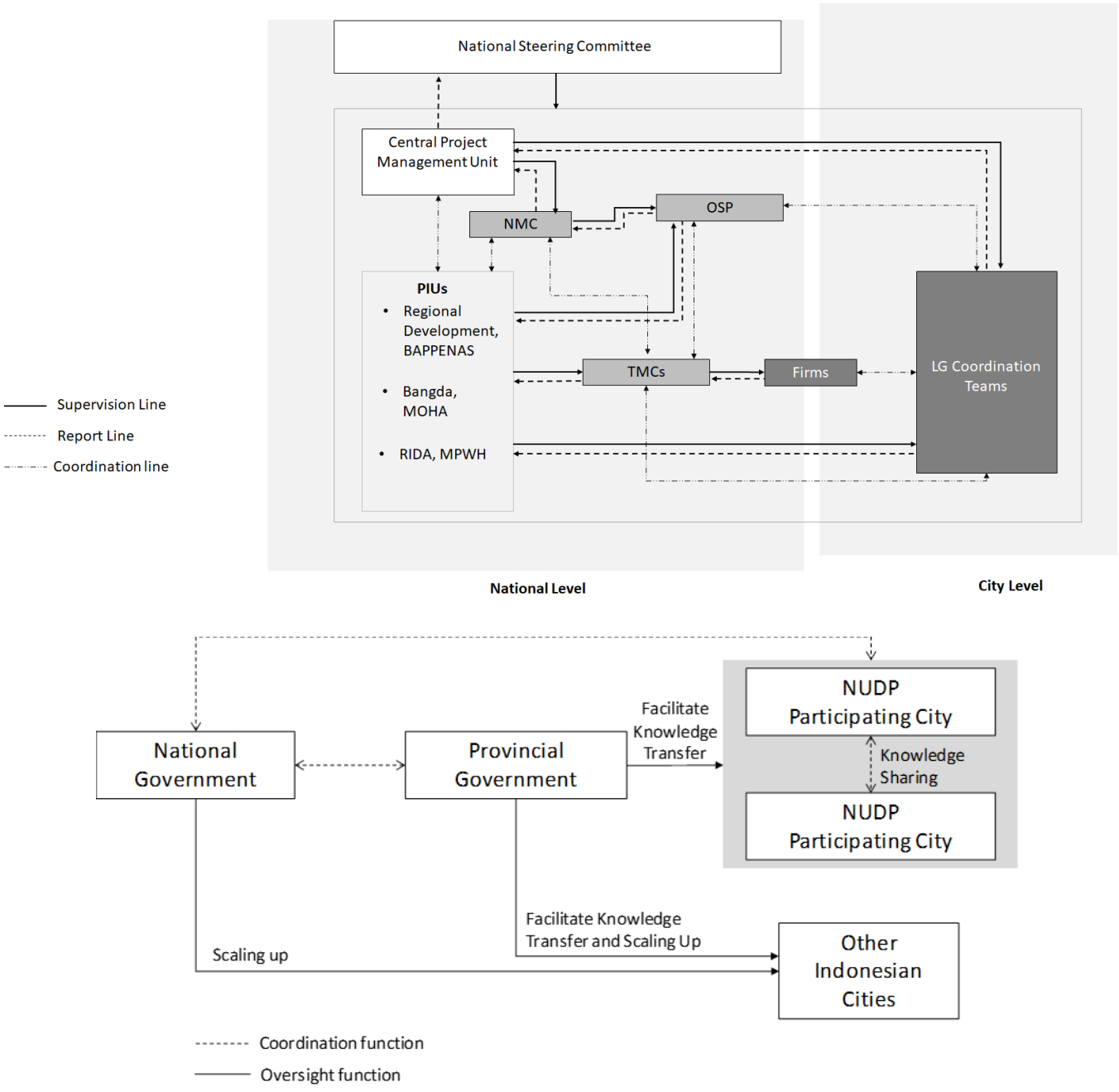
Figure 2 Institutional Arrangements at the City Level



14. **Project Implementation Support.** The project will have a set of technical assistance delivery support with the following distinctive roles and functions:

a. For daily project management, a PMS firm will be contracted and managed by the CPMU that will include specialists in Financial Management, Procurement, and Environmental and Social Safeguards, others as needed. The PMS will support the CPMU in conducting overall project management, manage implementation challenges, and to monitor project implementation alignment with program objectives and in compliance with the loan agreement.
b. As part of the PMS, there will be city-level consultants to support the coordination and implementation of NUDP at city level. The consultants will work closely with the City Government's Coordination Team and the firms but report to the PMS under the CPMU. They will act as the liaison with city government as well as the national government for reporting on project activities progress.
c. For project activities oversight at the city level, each PIU will be responsible to recruit and manage the contract of TMCs that need to have specific expertise related to each TA activity. TMC's will have responsibility for day-to-day operations, to monitor the work at the city level, and to ensure the quality of service provided for city government complies with the requirements as outlined in the ToR.
d. An OSP will be recruited by the Executing Agency to support CPMU and PIU's in managing any events such as trainings, workshops, etc.

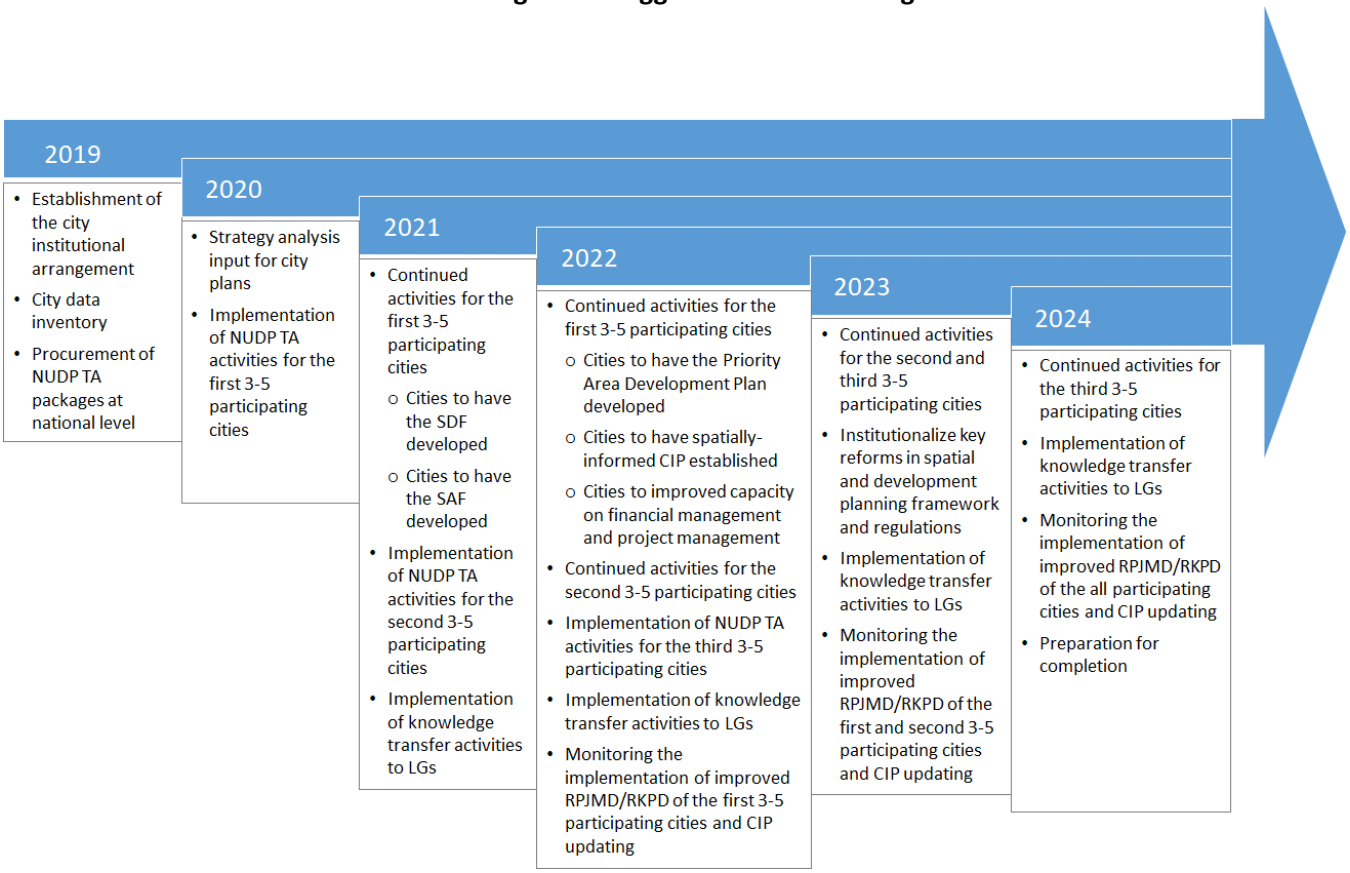
Figure 3 NUDP Implementation Arrangements



15. **Project Cycle.** The project will take a phased approach and is expected to work with 10-15 cities throughout the six years of project period with phased approach in delivering its activities. Cities will be divided into three groups of phases respectively, with 3-5 cities for each phase. For the first 18 -24 months of implementation, the project will primarily work with Phase 1 selected cities. The initial phase at 2019 (year 1) will mainly be used for preparation process both at national level and city government. Procurement of NUDP Technical Assistance packages at national level should be completed by the end of year one. Socialization of NUDP concept and implementation arrangement for Phase one cities is necessary to prepare the city governments. It is expected that city should have already established

the focal point team in this year to ensure the smooth implementation in the upcoming years. In addition, analysis for input to city plans will start, namely the City Positioning and Economic Development Study financed by the Component 1 and strategic inputs studies financed under Component 2. The main activities of NUDP under Component 2, the support for Integrated Planning for Phase 1 cities will start in 2020 (year 2). Component 3 activities will start in 2021 (year 3). The institutionalization of the key reform in the spatial and development planning framework and regulation into the City government and National Government mechanism will start in 2022 (year 4) once there is a clear evidence base to inform the institutionalization and legalization processes. A key aspect of NUDP will be that knowledge management and peer to peer learning activities will be integrated from the very beginning of the project. This cycle will continue for the remaining cities of phase 2 and phase 3 in the following years. In summary, during the project period, there will be simultaneous activities across the 10-15 participating cities with different levels of progress in year 4.

Figure 4 Suggested NUDP Phasing



Financial Management

16. **Budgeting:** In Indonesia, financing arrangements for Bank-financed or Bank-supported projects implemented by Central Government Agencies are governed by the Integrated Budget Implementation List, or DIPA, maintained by the Ministry of Finance. Sources of financing for project activities, including financing percentage, are detailed in DIPA and strictly followed. As such, project activities identified to be financed by the Bank will be 100 percent of its respective share, as there will be no co-financing. The budget for the project must be included respectively in DIPA of MPWH, BAPPENAS and MOHA to finance activities of the project. CPMU and all PIUs are expected to work closely with their

respective planning bureau to ensure timely issuance of DIPA and inclusion of the proposed disbursement plan in DIPA for the Bank funds. This arrangement is reflected in the POM.

17. **Internal controls:** Most of the project activities will be implemented by RIDA in MPWH and MoHA under component 2 of the project. MPWH is expected to appoint staff to implement the project FM, and will support all PIUs, to implement the project and work closely with MPWH. Similarly, BAPPENAS and MOHA will also require appointing staff to work with CPMU. FM training will be conducted before the project start and the FM team will continuously support the project throughout its implementation.

18. The CPMU has prepared the POM to cover the following: (i) Organizational structure of the project; (ii) Guidelines for inclusion of project budgets into DIPA; (iii) Supervision and payment verification mechanisms; (iv) Funds flow mechanism; (iv) IFR format preparation and submission to the Bank; (v) Disbursement mechanism and withdrawal application preparation process; (vi) Annual project financial statement preparation; and (vi) Internal and external audit arrangement.

19. Financial management assessment will be conducted for participating cities during project implementation to identify financial management issues for improvement (focus on planning and budgeting) right after the list of participating cities is confirmed. CPMU and PIU should agree to work with responsible institutions (for financial management capacity improvement) for implementation of component 3.

20. The project will follow the Government's internal control system. The CPMU is expected to appoint staff to be responsible for all aspects of the project's FM arrangements and accountable to support all PIUs to be able to implement the project. FM training for the CPMU and all PIUs will be conducted before the project start, and the FM team will continuously support the project throughout its implementation. CPMU has prepared the POM to cover (i) Organization structure of the project, (ii) guidelines for inclusion of project's budget into DIPA, (iii) supervision and payment verification mechanism, (iv) funds flow mechanism, (v) IFR format, preparation and its submission to the Bank, (vi) disbursement mechanism and withdrawal application preparation process, (vii) annual project financial statement preparation, (viii) internal and external audit arrangement.

21. **Payment verification:** To intensify project verification procedures, CPMU and PIUs will officially appoint dedicated staff to conduct detailed verification of consultants' invoices prior to issuance of payment requests. Guidelines on how to conduct such verification has been included in the POM, and will cover third party confirmation, site visits, technical review, and thorough review of the documentation received.

22. **Monitoring and Evaluation:** All PIUs will report on the progress of the project implementation to the CPMU on a quarterly basis. All the above arrangements has been reflected in the POM.

23. **Internal audit:** Lectorates of CPMU and all PIUs will conduct internal audit of the project implementation. The request letter to CPMU and all PIUs Inspectorate for the internal audit for project implementation will be prepared by the project. All Inspectorates' Reports related to the project implementation will be accessible to the Bank.

24. **Accounting and Reporting:** CPMU and all PIUs will maintain separate accounting records for all payment orders (SPM) and remittance orders (SP2D) on a cash basis. All financial transactions will be recorded in the government accounting system and included in the respective ministries' financial statements. All PIUs will keep original remittance payment records (SP2Ds) and maintain files for audit purposes.

25. The CPMU will prepare Interim Financial Reports (IFRs) for project monitoring purposes. The CPMU will be responsible for submitting IFRs to the Bank on a quarterly basis not later than 45 days after the end of each quarter. IFRs must cover all project expenditures and counterpart funding. An annual project financial statement will be prepared by the CPMU for audit purposes. Guidelines on IFR and annual project financial statement preparation is part of the POM.

26. **Flow of Funds:** The project will use the advance method for flow of funds, as follows:

a. Designated Accounts (DA) will be opened at the Central Bank.
b. The CPMU submits a request for an advance to the Bank through Ministry of Finance
c. The Bank will transfer an initial deposit (advance) to the DA based on request (using IFR format, which includes a projection of program needs for the 6-month period).
d. All PIUs will follow the government treasury system to process payment.
e. Additional transfer can be made based on requests (using IFR format which include projection of program needs for the 6 months' period).

27. The Government of Indonesia may opt for the pre-financing method, where instead of transferring the funds to the DA, the Bank transfers the funds to Government's account as reimbursement for the pre-financing amount. The flow of funds arrangement is described in more detail in the POM.

28. **Disbursement arrangements:** The applicable disbursement methods are Advance and Reimbursement. The DA will be denominated in USD and opened in the Central Bank under the name of Ministry of Finance for the Loan source of funds. The DA will be a segregated account with a fluctuated ceiling. The DA will be used for financing eligible expenditures of the project. Disbursement arrangements for the project has been reflected in the POM and agreed with the Bank. Applications for the replenishment of the DA advance may be submitted through quarterly IFRs, which consist of (i) a DA Activity Statement; (ii) a Statement of Expenditures under Bank's prior review and non-prior review; (iii) a Project Cash Forecast for 6-month period; and (iv) a Project Sources and Uses of Funds statement. The disbursement category and allocation for activities financed by the Bank is described in the table below.

Table 1 Allocation of Loan Proceeds

Category	Amount of IBRD allocated (in USD)	% of Expenditures to be financed (inclusive of taxes)
Consulting services, non- consulting services, goods, training, workshops, goods and incremental operating costs	49,600,000	100
TOTAL	49,600,000	

29. **External audit arrangements:** The CPMU will be responsible for preparing annual project financial statements. The project financial statement will be subject to audit by BPK. Each audit will cover a period of one fiscal year of the recipient. The project financial statements must be reviewed by IG MPWH before submitted to BPK for audit. The audit will be conducted in accordance with the agreed Terms of Reference acceptable to the Bank. BPK will provide an opinion on the financial statements and prepare comments on the internal control of the project and compliance with the POM. Audit reports and audited financial statements will be furnished to the Bank by not later than six months after the end of the fiscal year concerned and shall be made available to the public.

30. **Supervision Plan:** Risk-based supervision of program financial management will be conducted. This will involve desk supervision, including review of IFRs and audit reports and field visit. Financial management supervision plan to be conducted every 6 months together with the task team as part of the program implementation support.

Procurement

31. All Procurement anticipated under the project and financed from the loan shall be carried out in accordance with the Bank's Procurement Regulations for IPF Borrowers of July 2016 revised November 2017 and August 2018, and the provisions of the Procurement Plan and Financing Agreement. This also applies to procurement through the Request for Bids method using the National Competition market approach, which shall also be governed by the Bank's Procurement Guidelines, except that the Government's procurement regulations may be used to the extent they do not conflict with the Bank's Procurement Regulations and subject to the required improvements listed in the Procurement Plan, which are incorporated in the harmonized model bidding documents agreed between the Bank and LKPP (National Public Procurement Agency) for national competitive procurement. In such case of a conflict or difference in opinion arising during the procurement process, the Bank shall provide clarification in writing which shall be followed. The Government's SPSE e-procurement system (version 3.6) may only be used for procurement under the Request for Bids method through the National Competition market approach and using the harmonized model bidding documents agreed between the Bank and LKPP. Furthermore, the SPSE e-procurement system as modified by MPWH may be used and adopted by the CPMU and PIUs only for selection of consultant firms under the Quality and Cost Based Selection (QCBS) method and using the Bank's standard Request for Proposal document, adjusted to the Bank's satisfaction for electronic use. Procurement under all other methods shall be carried out through a non-electronic process with manual issuance of invitation for bids and receipt of bids, until such time that the modifications of the SPSE e-procurement system have been completed by LKPP and are acceptable to the Bank, which will be confirmed through the Bank's written letter of no objection. During project implementation, the Bank's Systematic Tracking of Exchanges in Procurement (STEP) tool shall be used to record all procurement and contract implementation processing under the project.

32. Most of the procurement under the project for the initial 18 months is expected to be for consultant services to support each of the project components such as Project Management Support (PMS) under Component 4 and some consulting firms for assignment under Components 1 and 2, to be selected mainly by the QCBS method. There are some non-consulting services such as for Event Organizers (EO) and OSP contracts to hire TMC personnel under Component 4. Advance procurement is possible for the PMS contract and OSP for TMC personnel and other priority contracts and is under discussion between the Bank, the EA, and PIUs.

33. Procurement and contract management responsibility for most of the procurement packages for the initial 18 months have been confirmed, i.e. which package is to be procured by which PIU. The highest contract packages (Development of CIP framework and implementation for 10 cities) fall under Component 2, to be procured by MoHA. MOHA will also be primarily responsible for city positioning and economic development studies under Component 1. BAPPENAS will be responsible for Capacity building activities for strengthening national-level inter-ministerial coordination under Component 1. RIDA-MPWH is the Executing Agency (EA), which will be responsible to coordinate the results achieved by each PIU and supported by PMS which will be hired under component 4. As PIU, RIDA-MPWH will be responsible for consolidated package of City Spatial Planning, Data Collection, Benchmarking, Data Management, Capacity Building and Institutionalization for Phase 1 cities; National Urban Infrastructure Strategy Plan 2020-2024, and Integrated Data Platform (IDP) for Phase 1 cities. The details of key procurement packages are listed in

Table 2.

34. RIDA-MPWH and MOHA have previous experience in carrying out selection of consultants under Bank-financed projects following the Consultant Guidelines, while BAPPENAS has limited experience. This will be the first time for MPWH, BAPPENAS, and MOHA applying the Bank's Procurement Regulations under the new Procurement Framework, including preparing a PPSD. An assessment of the agencies' procurement capacity, identification of procurement and contract management risks, and proposed mitigation measures has been completed. Procurement data for the last 2 years had been submitted by all PIUs (BAPPENAS, MOHA and MPWH) to facilitate the procurement assessment.

35. The procurement assessment indicates that procurement risk under the project is "Substantial" due to the following risks: (a) procedural non-compliance due to implementing agencies' preference to follow the Government's Procurement procedures instead of the Bank's Procurement Regulations for IPF Borrowers, which govern procurement under the project; (b) weak procurement capacity of the CPMU and PIUs owing to the ad hoc establishment of Procurement Services Units (ULP/UKPBJ) whose staff are accredited on the basis of rudimentary training in the government's procurement regulations and have limited understanding of the Bank's procurement procedures; (c) lack of systemic monitoring and evaluation of procurement and contract performance, and (d) coordination challenges between Project Executing Agency (MPWH) and the PIUs could affect timely start of the procurement. These risks will be mitigated through a range of measures for strengthening controls, including (i) a provision in the Project Operations Manual to highlight the applicability of the Bank's Procurement Regulations, (ii) a procurement specialist to be included under the PMS consultants contract to support CPMU in monitoring procurement and contract management performance, (iii) establishment by MPWH of set procedures for coordination, reporting, and monitoring of procurement under the project, (iv) delivery by the Bank of training to the EA and PIUs on the Bank's Procurement Regulations for IPF Borrowers, (v) mandatory use by the EA and PIUs of the Bank's online procurement planning and tracking tool (STEP) and (vi) procurement supervision in the field to be conducted at least twice per year, including prior review of the large value, strategic, or critical contracts, and ex-post review of at least 20 percent of the remaining contracts. Procurement packages have been grouped to the extent possible where the firm expertise will be quite similar and will lead to efficiencies in implementation. This will also help manage the risk of one output from a firm (such as SDFs) being reliant on an output from another firm (such as input studies and data). Details are outlined in the table below.

Table 2 Key Procurement Packages and Grouping of Activities

No.	Description of Assignment	Remarks	PIU
1	Capacity building activities for strengthening national-level inter-ministerial coordination	Required to create the institutional base for cross-PIU collaboration.	BAPPENAS
2	City Positioning and Economic Development Study	Critical activity to start very early in the implementation.	MOHA
3	National Urban Infrastructure Strategy Plan 2020-2024	High demand from CPMU.	MPWH
4	City Spatial Planning, Data Collection, Benchmarking, Data Management, Capacity Building and Institutionalization for Phase 1 cities	Key activities include: 1) City-level input analytics, models and studies and development of spatial development framework and strategic area framework (includes data production, economic strategy study, environment zoning and land suitability study, strategic integrated transport and land use planning study) 2) City baseline survey, analytics and benchmarking, 3) Capacity building + development of MSDI 4) Development control studies and pilots and 5) Institutionalization of 1), 2), 3) and 4).	MPWH

No.	Description of Assignment	Remarks	PIU
5	Integrated Data Platform (IDP) for 3 cities (Phase 1)	PhasedIPP package for 10 cities – within same contract, contract continuation from initial 3 cities dependent on performance measured against KPIs. Separated out from #4 due to nature of firm expertise required (software development).	
6	Development of CIP framework and implementation in 10 cities	Development of CIP framework and roll-out in 10 cities.	MOHA
7	National Project Management Support	PMSs will ensure that project implementation is in accordance with the work plans and will also provide city-level consultants to support local government coordination	MPWH
8	Technical Management Consultants	TMCs will also be responsible for regularly coordinating with the PIU's on the status of specific packages under implementation. Each PIU will be responsible to procure and manage consultants that will be deployed to the participating cities for each respective activity.	All PIUs

Environmental and Social (including safeguards)

36. The activities across all components entail strengthening planning, prioritization, and optimization of resource management, with strong opportunities to increase attention to potential environmental and social impacts. A mainstreaming approach to environmental and social safeguard considerations will be embedded through the TA activities, including through strengthening strategic environmental and social impact assessment capacity and processes for public consultation. Direct safeguards risks related to the TA activities are minimal or nonexistent, however some associated risks relate to the outcomes of TA support and other strategic/analytical studies which may have potential downstream environmental and social implications, such as the exploitation of natural resources, natural habitat degradation in the city area and from the physical construction related impacts or urban redevelopment projects with regards to environmental health and safety, physical and cultural resources, and involuntary resettlement. Determination of priority infrastructure locations will require impact analysis and consultation. On-site redevelopment or expansion of existing infrastructure may not need to acquire land, but social issues arising from temporary relocation of traders, for instance, must be managed properly. The project triggers OP 4.01, 4.10, and 4.12.

37. The ESMF also includes a TOR for strengthening KLHS – the nationally regulated strategic environmental assessment of SESA - that will provide options for mitigation measures to avoid or minimize potential environmental and social impacts associated with spatial development under SDF. The TOR could be a stand-alone document and part of the ESMF. The SESA will cover: profile of the cities; identification of policies, plans and programs; results of SESA scoping; identification and assessment of likely strategic environmental and social risks and impacts of proposed policies, plans and programs; description of the policy, legal, regulatory, institutional and capacity gaps; impacts mitigation and assessment of alternative policy/design options; public consultations; recommendations for policy design, implementation, and monitoring and evaluation (including legal and policy reforms) based on the results of the SESA; recommended safeguards areas/issues of focus that need to be mainstreamed in the preparation of specific environmental and social safeguards instruments for a particular investment to be implemented as recommended by the SDF; and, identify any gaps in knowledge where additional data-gathering and analysis may be needed.

38. Other risk is related to lack of capacity in preparing, implementing and enforcing SESA as part of safeguard instrument in spatial planning. Ongoing monitoring and implementation support will be provided to PIU to help ensure that subnational governments fulfill the requirements specified in the ESMF. This will include advice on TOR for SESA

and gap filling between Indonesia's country systems and the Bank's safeguards policies.

39. Draft ESMF was disclosed on MPWH's website (http://bpiw.pu.go.id) on December 12, 2018 prior to public consultations. The consultations were held twice on December 19, 2018 and February 8, 2019. The final version of the ESMF incorporating relevant inputs from the stakeholder consultations will be disclosed on MPWH's website and the Bank website on April 21, 2019.

Monitoring and Evaluation

40. The Executing Agency is responsible to coordinate the data gathering, reporting, and using the information for monitoring purposes during implementation. However, with the multiple set up of the PIUs, each respective indicator will have its specific responsible parties to monitor its achievement, carry out specific action to achieve its target, and report to the EA (RIDA) every semester. Results Framework table, as presented in Annex 1, indicates the specific responsible parties to guide the results measurement process.

41. Each PIU is responsible to allocate resources to carry out its M&E function, including the financing of field monitoring to review project progress and formulation of thematic evaluation as relevant. A joint field monitoring schedule needs to be made and agreed with all PIU members and to be conducted at least once a year. PIU will use information submitted by the TMC and PMS; and will carry out spot checks during field monitoring to validate project progress and quality.

42. RIDA will be supported by an M&E Unit that will be part of the Project Management Support (PMS). The M&E Unit will collect and process information necessary for tracking project outcomes and outputs. More specifically, their role is to:

- Develop NUDP results monitoring and measurement strategy and instruments;
- Lead the development of NUDP MIS and SOP for project reports;
- Provide technical support including institutionalization of M&E process within the implementing agent and coordinate performance management system;
- Organize annual data collection to monitor KPIs for the project, triangulate the results, evaluate project achievement, and prepare periodic performance/progress reports to be transmitted to CPMU for endorsement;
- Undertake the baseline survey to collect data for key performance indicators for surveys at mid-term and project end;
- Inform the EA to for any required proactivity towards achievement of project targets.

43. In addition, PMS will also monitor the compliance of implementation with the project plan and Bank Guidelines, including for:

a. The ESMF implementation to be submitted to the National Steering Committee as the project's steering committee and to the Bank.
b. Preparation of TORs in compliance with guidelines for the Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants
c. Procurement as well as contract management performance as reported in periodic progress reports.

44. PMS is responsible to compile, analyze and prepare progress reports and submit to CPMU for subsequent finalization and transmission of periodic project performance summaries. All the reports prepared and consolidated by

PMS should be reviewed and approved by the CPMU before submission to the Bank.

45. **Technical Management Consultants (TMCs)** work closely with the PIUs and consultant firms. TMCs are the extended arm of the PIU in monitoring and evaluating the work of consultant firms at city level for the respective activity. TMCs are responsible to report the quality of outputs to the PMS and recommend a reasonable remedial action in any case of deviation. TMCs are expected to coordinate with each city coordinator to develop an institutionalization strategy for key outputs within the city government planning system.

46. A Monitoring system will be developed by RIDA as the Executing Agency, which will be regularly monitored by the PMS. The monitoring system will include the following tools:

a. A Monitoring Information System (MIS) shall be developed under NUDP as a web-based online tool to disseminate information relating to project processes, outputs and outcomes. The system is expected to be a powerful source of information, communication and learning for the project, as well as be prepared as a platform for collaboration among sectors related to spatial-informed capital investment process at city level.
b. A national level communication system will be developed to allow local government to channel complaints and inquiries. Contact information for complaints will be handled via email. All communication with NUDP stakeholders should be publicized, and the record of complaints may be publicized on the project website. RIDA will also develop an exit strategy for complaint handling management to ensure its sustainability.
c. Financial audit – the official government audit agency, BPK, is responsible for annual auditing of the project's finances. Audit reports are submitted to the Bank within 6 months after the end of the government's fiscal year.

47. CMPU will gather data and information and consolidate reports from the PIUs of relevant directorates of ministries in charge of components or sub-components for reporting on and making project adjustments when needed. CPMU will be supported by the PMS for all monitoring and evaluation activities. CPMU will finalize and endorse semester and annual reports of each PIU's and submit the report to the Bank. CPMU is required to submit several reports to the Bank as follows:

a. **Implementation Status and Results reports (ISRs)** to be submitted no later than two weeks after the end of each quarter. These reports will include: (i) a summary of progress in work-plan implementation, including a review of any challenges encountered; (ii) a summary of expenditures relative to project disbursement targets; and (iii) a summary of results being achieved, including a copy of the Results Framework (RF) listing performance targets and accomplishment. The performance targets are not expected to change every semester, but the progress of performance will be summarized and any challenges that may affect the achievement of project targets will be highlighted in each semester report.
b. **Annual progress report** to provide an overview of the status of achievement of each performance indicator at impact, outcome, and output levels and summarize the results of related monitoring and impact studies.
c. **Mid-Term Review** to evaluate and assess the progress of project at the midpoint of project duration and to assess whether the project design is still relevant and within the plan.
d. **Implementation Completion and Results Report (ICR)** to be submitted within 6 months after project completion. Content of this report should include: (i) evaluation of development objective design; (ii) implementation experience and project operations; (iii) evaluation of expected and actual results

achieved; (iv) evaluation of Executing Agency performance during project preparation and implementation focusing on lessons learned; and (v) evaluation of the performance of the Bank on the effectiveness of relations as well as input for future project operation arrangements.

48. Joint implementation support - The Bank together with central government agencies (MPWH, BAPPENAS and MOHA), the PMS and the TMCs will conduct full Implementation Support Missions (ISM) at least twice a year, complemented by several thematic supervision missions. The missions will aim to review project progress, performance, and management issues, as well as provide feedback to improve the overall performance of the project.

Implementation Support Plan

49. The objective of the Bank's implementation support is to provide assistance to the GoI on the overall project supervision and technical assistance during project operations. This will remain critical and relevant throughout the project period to ensure timely and effective project implementation. The broad areas of support include the supervision particularly related to the achievement of integrated and prioritized planning for cities, assistance to procurement and project financial management, safeguards management, and other substantive related hands-on support.

50. The Bank will maintain a sizable core team based in Jakarta and HQ, consisting of specialists in urban planning, municipal finance, financial management, safeguards, procurement, and monitoring and evaluation. The team based in Jakarta will maintain a frequent and intensive coordination and collaboration with the GoI, particularly with the CPMU and various ministries as the PIU members. Whenever required, particularly to provide just-in-time advisory services, the core team will be complemented with technical experts on economics, public policy, capacity development, and others as needed. The team will carry out intensive collaboration with sectoral specialists within and outside the Bank's urban group to ensure NUDP platform objective is facilitated and achieved.

51. Two formal implementation support missions are planned on an annual basis with a possibility of regular field monitoring and supervision in quarterly basis, particularly in the first half of the project period for intensive coordination with the participating cities on SDF and CIP preparation as well as the self-assessment on planning and budgeting. The formal missions will be carried out jointly with the PIU members and will include Bank fiduciary and safeguards staff and other experts as needed.

52. The implementation support mission might include various types of assessments, each of which will be designed to mitigate any issues and answer different questions on the status of project implementation. Such assessments could focus on, but are not limited to, technical substance adequacy: city-wide data sharing workflow, spatial-aspect integration in planning documents, CIP quality assessments; system sustainability: CIP institutionalization, value-for-money analyses; fiduciary assessments: procurement, financial management, and safeguards, etc. Risk-based assessment directly linked to the risks provided in the SORT and target-based assessment directly linked to the project indicator targets will be used as an approach to determine the assessment focus, in continuous coordination with the PIUs.

53. Any formal mission will be complemented by the issuance of an Aide-Memoire and Management Letter, which will be used as a formal documentation for all observation reports as well as analyses of the fact findings. Findings, recommendations, and agreed decisions in the Aide Memoires will be used jointly by the GoI and the Bank team to improve project implementation through better quality and targeted technical assistance, FGD as needed, or any other

follow-up actions.

54. Considering the demands of the platform and requirement for a sizable core team based in Jakarta, it is expected that the standard Bank Implementation Support Budget will not be sufficient. The task team will not only be supported by the Implementation Support Budget, but also seek trust fund(s) to ensure the project is implemented. The Task Team has also requested a higher implementation support budget for FY20.

55. Detailed description of each specialist in the team is as follows:

a. Urban Planning: The specialists in urban planning will carry out a regular supervision to ensure the improved quality of input to the development and spatial plans as well as ensuring integration aspect of the spatial and program plans are realized. These specialists will need to undertake intensive coordination and dialogue with all PIU members.

b. Financial Management: Financial management specialists will conduct regular financial management assessments on a risk-based sample of project locations to gauge compliance with key elements of formal and informal fiduciary controls, including: (i) budgeting and counterpart funding; (ii) disbursement status; (iii) internal controls (including internal audits); (iv) accounting and financial reporting; and (v) FM facilitation. Formal supervision of financial management will be undertaken as part of each formal supervision mission. Financial management specialist will also support the implementation of relevant assessment and activities in Component 3.

c. Procurement: Procurement supervision by the Bank will be conducted, at least twice per year, as part of the Implementation Support Missions, by a dedicated Accredited Procurement Specialist who is an integral member of the Task Team and based in the Jakarta Office. Additional guidance and support will be provided by the Procurement Hub Leader who is also based in the Jakarta Office. In addition, the procurement team will provide training regularly to PIUs and suggest improvements as needed. The specialist will also carry out assessment on city-level procurement capacity, which is particularly relevant for assessing the feasibility of prioritized projects resulting from CIP.

d. Environmental and Social Safeguards: The safeguards team will conduct the necessary assessments to the safeguards related risk of project activities as well as join the formal supervision missions. Bank safeguards specialists will conduct initial training to the PIU members, who will then need to transfer knowledge to participating city staff. The specialists will also review the implementation of safeguards policies in the field and provide backstop advisory on the required improvements.

e. Municipal Finance: The specialist will jointly supervise the overall city financial management and project management strategy with the PIU member, particularly with MoHA and other partners and agencies as applicable. The specialist will oversee the city's capital investment financing strategy and provide necessary advice as needed.

f. Monitoring and Evaluation: The specialist will supervise the overall implementation of project monitoring as well as providing any necessary guidance to the counterparts on the project results measurement methodology, beyond output monitoring activities. The specialist will need to guide the client through the mid-term review process as well as jointly design the end-term evaluation and maintain close coordination

with all PIU members.

g. Other Experts: Other experts such as economists, public policy specialists, capacity development specialists, and gender specialists will participate in formal and routine supervision missions as needed to assess the project implementation. They will propose strategies and modifications to project design as needed and provide recommendations for technical assistance needed to improve project implementation. In addition, these experts will also monitor the achievement of indicators and provide inputs for adjustment or improvement of operations guidelines, as needed.

Table 3 Implementation Support Plan and Resource Requirements

Time	Focus	Skills Needed	Resource Estimate (# Staff weeks)
First 12 months	Team leadership	TTL	15
	Procurement: review and training	Procurement specialist	4
	Financial management: training	Financial specialist	3
	Project management: socialization, work plan	Project management specialist	4
	Safeguards	Environmental specialist	2
		Social safeguards specialist	2
	Urban and spatial planning	Urban specialist	4
Annual	Team Leadership	TTL	15
	Urban and spatial planning	Urban specialist	12
	Capital investment	Capital investment specialist	8
	Financial management	Financial specialist	4
	Project management	Project Management Specialist	4
	Procurement: contract management, training, and support at CPMU	Procurement specialist	6
	Municipal finance	Municipal finance	8
	Capacity Building	Institutional capacity building	10
		Geospatial	4
	Results assessment and evaluation	M&E specialist	6
		MIS	4
	Safeguards	Environmental specialist	2
		Social safeguards specialist	2
		Gender specialist	2
	Knowledge management	Knowledge management specialist	3
	Implementation support	ACS	10

Table 4 Skill Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
TTL	15	6	International
Urban specialist	12	4	International or Local
Capital investment specialist	8	3	International or Local
Financial specialist	4	2	Local
Project Management Specialist	4	8	International or Local
Procurement specialist	6	6	Local
Municipal finance	8	4	Local
Institutional capacity building	10	4	Local
Geospatial	4	4	International or Local
M&E specialist	6	2	Local
MIS	4	2	Local
Environmental specialist	2	2	Local
Social safeguards specialist	2	2	Local
Gender specialist	2	2	International or Local
Knowledge management specialist	3	6	Local

ANNEX 2: Detailed Project Description

COUNTRY: Indonesia
National Urban Development Project (NUDP)

1. NUDP includes four components, namely, (1) National Urban Institutional and Policy Development; (2) Integrated Planning for Urban Development; (3) City Financial Management Capacity Development; and (4) Project Implementation Support. Component 2 is at the core of the NUDP operation, while Components 1 and 3 are enabling components to ensure sustainability. Component 2 interventions will address the quality of spatial plans in cities and introduce a shift towards a strategic spatial vision within the existing statutory plans. It will further leverage strategic spatial guidance as the basis for the prioritization of capital investments by implementing a spatially-informed, medium-term Capital Investment Planning and Budgeting process in selected local governments, including annual tracking mechanisms for implementation of budgeted investments. This approach to integrated spatial and capital investment planning will together contribute to reducing the vulnerability of infrastructure investments and urban residents to climate-related hazards. Component 1 aims to create an enabling national environment by addressing inter-ministerial coordination and policy issues that prevent city governments from being the agents of sustainable urban development. Component 3 will focus on addressing the demand side constraints at the city level to accessing alternative sources of financing and effective implementation of capital investments, including capacity building for better project and procurement management, financial management, expenditure efficiency and creditworthiness.

2. This annex details the following six areas to strengthen the main text (where all relevant sections are cross-referenced for readability). For Component 2, further information is provided on improving data and inputs to strengthen statutory plans (detailed studies and analysis and their scope), as well as a description of the innovation of three tiers of spatial planning proposed under NUDP which these improved data and inputs will inform, followed by details on potential development control studies and activities to ensure the realization and implementations of the proposed plans. Further information is also provided on how the proposed CIP relates to the Indonesian budgeting cycle, which is important from the perspective to institutionalize CIP and align with the budgeting cycle. For Component 3, a menu of available WB technical assistance options for NUDP-participant cities is listed, with reference to the various tools. Finally, the annex includes detailed shortlisting criteria for NUDP cities, envisaged to be 10-15 considering early budget estimations.

Component 1: National Urban Institutional and Policy Development

3. This component will finance the strengthening of inter-ministerial coordination platform on cross-sectoral urban issues at the national level. The capacities of local governments to plan strategically, prioritize capital investments and access alternative sources of finance will be significantly enhanced through an enabling national policy environment pertaining to strategic planning and urban management. Activities under this component will provide the opportunity to explore and better understand these coordination needs and develop appropriate approaches to address the issues at national and local levels. This component will also support the development of national policies, guidelines and strategies to promote efficient, sustainable and climate-resilient urban development.

Sub-component 1.1: Strengthening the capacity of an Inter-ministerial Coordination Team for Urban Development
Sub-component 1.2: Support for the formulation of the national urban policies for promoting integrated urban development

Sub-component 1.3: Formulation of National Urban Infrastructure Strategy Plans

Component 2: Integrated Planning for Urban Development

Improving Data and Inputs to strengthen Statutory Plans

4. This component aims to strengthen the quality, strategic approach and implementation of integrated spatial planning within the participating cities, and links spatial planning with the prioritization of capital investments. In addition, a spatially informed, medium-term, annually rolling capital investment planning and budgeting framework will be developed and implemented under this component. Component 2 activities will jointly strengthen the capacity of cities to make spatial planning more effective, forward-looking and increase strategic prioritization of infrastructure and services to enhance sustainability and environmental and social resilience of cities.

5. A key principle under NUDP is to enhance the quality of existing statutory plans/mechanisms in Indonesia and focus on bridging the gap from plan to implementation. Mainstreaming the interventions within the existing planning and regulatory frameworks will ensure institutional sustainability of the proposed interventions. Discussions with relevant Ministries to reform the existing frameworks based on findings of first phase of interventions have been positive, with the aim to review regulations based on early implementation results. Activities also build upon several ongoing trust funded activities that have been tested and tailored to the Indonesian context, including activities being carried out under the IDSUN, particularly the TAs on City Planning Labs (CPL) and Municipal Finance, as well as the Indonesia Urbanization Flagship Report.

Sub-component 2.1: Support for strengthening quality of data and institutional capacity for data governance.
Sub-component 2.2: Support for integrated spatial planning
Sub-component 2.3: Support for Priority Area Development Planning
Sub-component 2.4: Capital Investment Planning and Budgeting (CIP) established as an investment prioritization and tracking system

6. **Strengthening data and information foundations, and institutional capacity for data governance.** All activities will be developed with an aim to scale-up by ensuring proof-of-concept is robust. Additionally, this subcomponent will mainstream interventions through regulatory reforms. Key activities will include:

- **Enhancing Data Quality, Production, Management and Maintenance:** Through the design of a hands-on, on-the-job training program, cities' capacity to produce and manage high-quality data and conduct analytics will be boosted, with the aim to enhance evidence-based urban planning. This component will also include data production using, among others, remote sensing and drone based data production.
- **Facilitating Data Sharing through establishment of a robust data governance framework under the MSDI framework**: MSDI is an umbrella to formulate procedures and processes for data governance and data sharing. This will include advisory support for development of regulatory framework to be mandated through a Mayoral Decree (Perwali) that will include protocols for data sharing, data custodianship, data publishing, etc.
- **Development and installation of an IDP:** Support will be provided to the target cities to establish a single data platform in line with Indonesian geospatial standards, to ensure that spatial data is better managed and integrated with other sources of planning data. Forms of support will include software packages, server systems, linkages between existing city-level ICT systems, integration between local, provincial and national geoportals, data production and management training, automated urban planning tools and related advisory services.
- **Stocktaking and development of a broad infrastructure asset inventory for select pilot cities:** This includes

assets managed by municipally-owned enterprises. This will further include training to maintain the inventory databases. It is important that this intervention is tested in pilot cities and adapted to the Indonesian context.

7. **Strategic analytics to provide high-quality inputs for statutory plans.** The following table indicates the list of studies with corresponding information on the objective and contents, outputs and suggested updating timeframe.

Table 5 Objective, Contents, Outputs, Updating Timeframe of Studies

Name of Study	Objective and Contents	Outputs
City Positioning and Economic Development Study	The objective of the study is to map the NUDP cities against global benchmarks in competitive indicators and capital assets. This will aid in the formulation of vision and policies for cities' long-term economic growth trajectory in alignment with national economic objectives as well as support urban policy development. The first part will be the national and city-level population projections. Though the population is still growing in the short-to-medium term, projecting 40-50 years' ultimate growth of population and economy at the national, provincial, and city level is critical to be prepared for growth. The output of this study will provide an estimate of the carrying capacity of the project cities and feed into growth scenarios for NUDP cities under the Economic Strategy Study under Component 2. The remaining parts will highlight the relative strategic importance of a wide range of cities (including all NUDP cities and global cities) based on the characteristics of population, economic strength, growth potential and regional competitiveness. Cities cannot become competitive without a comparative advantage to attract people and services. The purpose of this part will be to define what that growth potential will be for the various cities. Outputs will feed into the Economic Strategy Study under Component 2 as well as RPJNM 2020-2024 preparation. To be updated every 10 years.	• Estimate of the carrying capacity of the project cities (national and city level population projections) • Relative strategic importance of cities in the national and regional context based on the characteristics of population, economic strength, growth potential, and regional competitiveness • Indicators for strategic level of competitiveness across a range of assets including: economic (GDP, etc.), institutional, human health and educational capital, Intellectual, city's physical & transport Infrastructure, natural hazards, environment quality and resource endowments, social and cultural heritage, sustainability, and climate change resilience • Benchmarking of NUDP cities with international cities to identify strength, weakness, gaps, opportunities, and threats • The role, alignment, and hierarchy of NUDP cities in the Indonesian economic growth corridors, growth centers, and clusters • Current position and potential future position(s), translation to visions and objectives, goals, and policy directions for city's economic growth and restructuring to be agreed with the city through consultative sessions with the city's officials and mayors
Economic Strategy Study	The objective of the study is to translate visions of the city's future state from the city's positioning study and policy directions into appropriate strategies for generating employment and economic prosperity for the city Long term projection of population and economic growth is needed to estimate the demand for resources in particular land areas for housing and industries for short, medium, and long-term for both low and high growth scenarios. To be updated every 5 years.	• A review of the city positioning study. A Review of vision, objectives, goals and policy directions to support the economic growth strategy • Economic growth rate - Projection of GDP growth and GDP per capita, growth policies and strategies for promoting economic development, attracting investment and creating employment in short, medium, and long term • Growth estimates of population in short, medium, and long term, and of employment in various economic sectors such as service, manufacturing, construction, tourism, logistics, agriculture, mining, forestry, etc.

Name of Study	Objective and Contents	Outputs
		• Corresponding demand for land for housing and other economic sectors in the short, medium, and long-term and for low and high growth scenarios
Baseline Survey and Analytics Study	The objective of the study is to establish the socio-economic data which can serve as a baseline for integrated and spatial planning. Household interview surveys combined with person-trip surveys will be conducted to boost primary socio-economic data. Diagnosis at the *kelurahan* level can become an M&E framework. To be updated every 10 years.	• Baseline socio-economic data at *kelurahan* level • Origin-destination matrix for traffic demand forecasting • *Kelurahan* level socio-economic diagnosis
Environmental Zoning and Land Suitability Study	The objective of the study is to determine the supply of land resource that may be sustainably developed for meeting the needs of the city as it grows to the final ultimate size. This study will assess land development suitability and providing primary environmental considerations to balance economic efficiency with environmental sustainability. This can be done through an overlay of thematic maps in GIS to identify areas suitable for development, which can also be referred to as "broad environmental zoning" to ensure that development does not happen in undesirable areas. To be updated every 5 years.	• Natural hazards - landslides, volcanic zones, subsidence, and flood zones • Land development suitability map (city planning area identified) • Broad environmental protection zoning map of natural water courses, lakes, natural forests, national parks, historical and heritage parks, agricultural land under city's jurisdiction including the city's metropolitan area
Strategic Integrated Transport and Land Use Planning Study	The objective of the study is to bring a holistic and integrated approach to the planning of all the necessary transport and infrastructure to sustainably meet the requirements of land-use for the ultimate population of the city and to ensure that all such land is safeguarded. This will include strategic transport modeling to establish priority land transport corridors and nodes, linked with strategic infrastructure utilities (water supply, sewage treatment, solid wastes, power/ telecommunications). To be updated every 5 years.	• Strategic plan of infrastructural utilities and their land requirements integrated into the land use plan - water reservoirs and water supply, storm drainage system, sewerage system, sewage treatment plants, waste management and disposal grounds, telecoms, power supply and substations, and renewables and other sources of energy • Direction for strategic growth - plan of land supply for short, medium, and long-term development and boundaries for city's ultimate development • Transport network plan, integrated into land-use plans for maximum accessibility to jobs and services, safeguarding land for transport corridors to provide adequate infrastructure for population growth in the short, medium, and long term. The transport network plan covers all modes of transport in a green and sustainable system: arterial and highway networks, interchanges, mass transit (MRT, LRT or BRT) corridors, MRT stations, transit and bus depots, logistics, ports, airports, regional and high-speed rail line and railway stations, and connectivity to regional and national networks. • Land use concept plan - map of supply of land for long-term demand and ultimate population level, robust to changes in future demand and resilient

Name of Study	Objective and Contents	Outputs
		against environmental hazards. The plan aims to achieve a sustainable urban-rural ecosystem for minimum carbon footprint in the short term, neutral carbon footprint in the long term.

Three Tiers of Spatial Planning proposed under NUDP

8. The first layer, the **SDF:**

a. Provides the spatial interpretation of the political vision and strategy for development within city boundaries.
b. Provides an understanding of how the current urban system functions and the problems and inefficiencies to be addressed as the city develops further.
c. Sets the principles for development and dictates the kind of urban development model to be followed to achieve strategic goals.
d. Integrates other sectoral plans and strategies such as transportation master plans, housing plans, economic strategies and environmental plans to ensure a holistic and comprehensive view of development.
e. Used as a starting point to align community and sectoral needs/wants with the overall direction of development of the city.

9. The project proposes to use the SDF approach to improve RTRWs. Both documents are mandatory plans that serve as reference for spatial development direction for city stakeholders and consider the integrated infrastructures. The critical differences lie in the approach and structure that prevent RTRW from serving as an integrated planning document. While RTRW serves as a reference for infrastructure plans in multiple sectors and involves heavy sectoral analysis to determine strategic priority areas, SDF provides an overview of the strategic investment focus and how it links back to the spatial strategy. This approach helps ensure that the spatial development is determined based on city vision and employs appropriate strategies to reach the goal.

10. The second layer, the **SAF**:

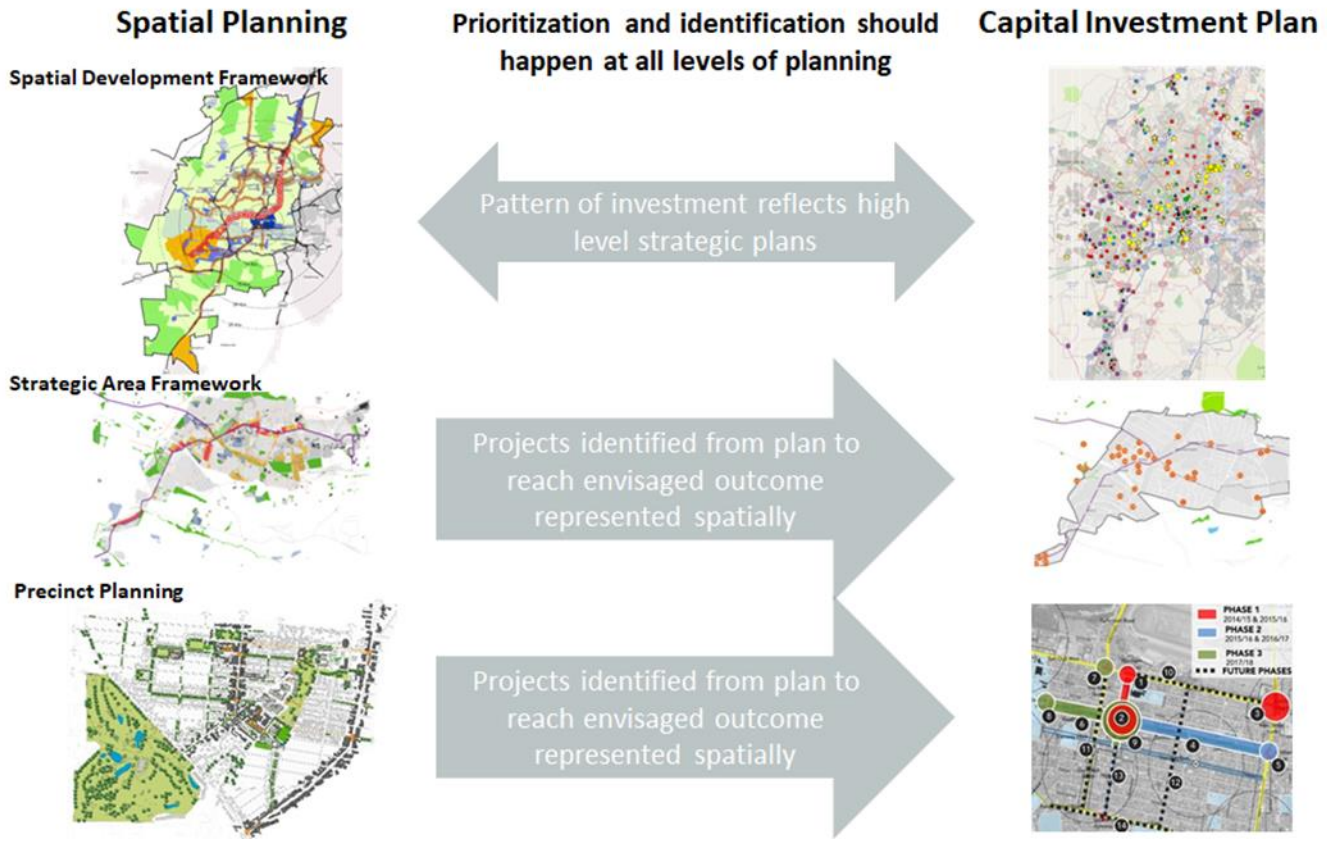
a. Translate the strategic spatial prioritization direction provided in the SDF into locations for capital investments.
b. Are prepared only for specific strategic areas of focus identified through the SDF (not the whole city).
c. Are for any type of land use, and not limited to residential areas.
d. Are priority area or specific transport corridors with a focus in functional demarcation.
e. Map out, for strategic areas, where capital investments are needed and create visualizations.

11. SAFs are at the same level as RDTR, but the critical difference is in the approach and structure that prevents RDTR from providing the strategic locations of capital investment. Unlike the current RDTR, SAFs are not prescriptive in terms of a rigid scale of mapping but include guidance on it to allow more detailed mapping if necessary. Moreover, SDF and SAF visualize tabular data into spatial data, while RTRW and RDTR tend to use only tabular data.

12. The third layer, **Priority Area Development Plans** bridge plans and investments, targeting a priority neighborhood or corridor sub-section determined by RDTR. Priority Area Development Plans:

a. Are important to establish principles and objectives, spatial structure, strategic directions, and targets for a specific priority area
b. Aim to guide development and highlight interventions required to implement the development vision (what may happen in a neighborhood area)
c. Translate the concept proposals contained in the Strategic Area Framework (SAF) (or RDTR, in the NUDP project context) into a more detailed neighborhood plan and urban design framework that will enable implementation and investment.
d. Must be supported by a thorough understanding of the area from an economic, social, and functional perspective.

Figure 5 Three Tiers of Spatial Planning proposed under NUDP and Relationship with CIP



Note: This is an indicative example from Johannesburg City which will be tailored and localized to the Indonesian context in NUDP.

Development Control studies and pilots

13. **Study to identify new methods to streamline RDTR formulation**, with focus on time/ finance savings: 1) Sub-zonation maps (full coverage but working on first step of RDTR formulation), 2) RDTR for priority areas identified in the SDF (limited coverage but working on all layers of RDTR formulation), 3) Upfront consideration of survey methods at RTRW level to ensure usability at RDTR level.

14. **Study on new development control mechanisms**, with focus on international examples and the applicability/ feasibility in the Indonesian context. Proposed approaches include: (i) growth boundary establishment, (ii) land use zone matrices (including objectives of each zone type, permitted/ conditional/ prohibited use by building type, Floor Area Ratio/ Building Coverage Ratio (BCR) and height control, etc.), (iii) securing land upfront at the planning stage to minimize downstream land acquisition costs (through regulating the issuance of planning permission/ building permission for land where infrastructure development is planned), and (iv) incentive zones for investment (e.g. relaxing FAR/ BCR and height control).

15. **Pilots on implementing the new development control approaches** identified above and localized to the

Indonesian context. Suggested city number to pilot this approach is three cities maximum.

16. **Training and capacity building** to 1) improve quality control for RDTRs (for planning officials in cities) and 2) planning/ development license/ permit issuance procedures (for licensing officials in cities)

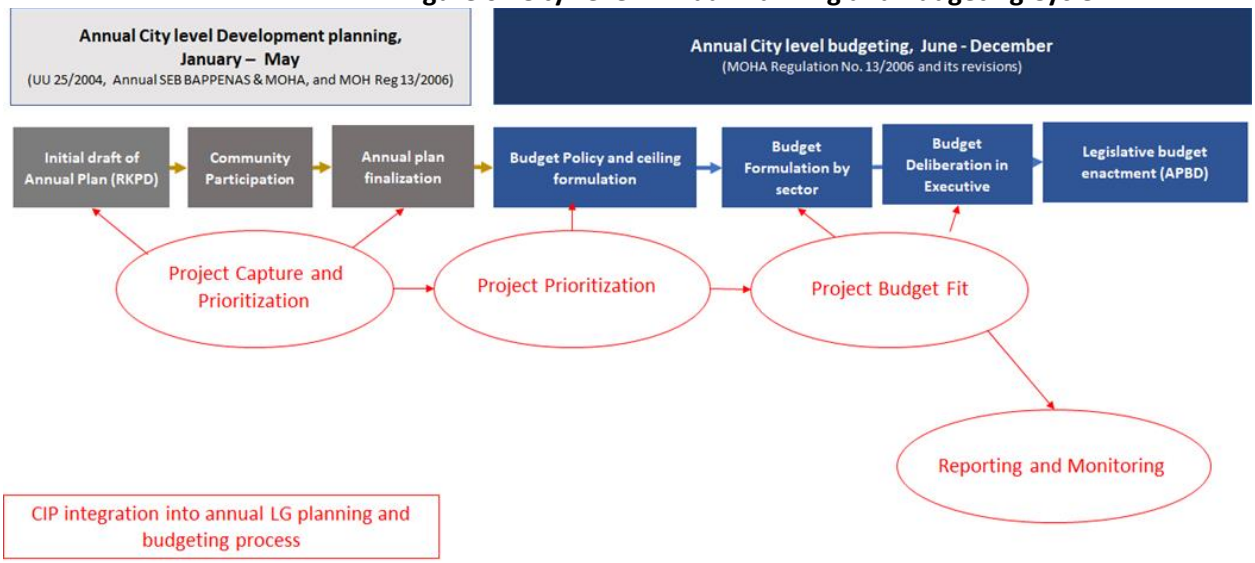
Capital Investment Planning and Budgeting Cycle

17. Under the CIP framework, the cities will move beyond piecemeal identification of investment priorities towards investments within strategic areas highlighted by spatial plans. The CIPs will be multi-year rolling plans for capital investments (including retrofitting and maintenance), prioritized by year, with anticipated beginning and completion dates, annual estimated costs, proposed financing mechanisms for the investment life cycle, and identification of the overall financing gap. Four key steps under the implementation of the CIP framework will be: project capture, prioritization, budget fit, and monitoring and reporting. Optional models on climate-resilient infrastructure investment projects can be implemented within this approach.

18. The proposed CIP framework ensures effective operationalization of spatial plans into investments through spatial targeting of investments in high priority areas with a clear understanding of budgets and by tracking implementation progress annually. Prioritization from the long list of projects (all captured within a unified database in the system prior to filtering) is based on pre-agreed, city-specific objective criteria. In the context of this project, investment prioritization scoring will include higher score for infrastructure aligned with spatial priority areas/corridors highlighted by the suite of planning documents, linkage with articulated mayoral visions and targets, environmental and socio-economic considerations, climate-resilient aspects, among other city-specific priorities. Based on ongoing discussions with MOHA, upon successful implementation, CIP will be subsumed within a city's RPJMD and RKPD to provide it a statutory basis, mandating its development and implementation by local governments to enhance sustainability. Development of CIP framework and system can start in parallel to the spatial planning activities under sub-component 2.2 integrating inputs as they become available in the subsequent years of implementation. The CIP framework and its implementation, together with the development of SDF/SAFs/PPs, form the core of the interventions within Component 2.

19. In the current RPJMDs, chapter 7 on 'Investment Programming' is expected to play this role but is underdeveloped, lacks strategic and spatial prioritization, and is only weakly operationalized or referenced by the RKPD. This will be the entry point for the inclusion of the baseline CIP output within the RPJMD. CIP's active implementation as an annual rolling plan will be institutionalized through the city's RKPD and monitored within the project's M&E framework. A conceptual diagram to align CIP cycle and city annual planning and budget cycle is shown below.

Figure 6 City Level Annual Planning and Budgeting Cycle



Component 3: City Financial Management Capacity Development

20. Component 3 will finance capacity building activities for local governments to address constraints to effective implementation of capital investments, including demand side constraints to accessing alternative sources of finance beyond national government transfers. Activities under Component 3 will also create an enabling environment for the operationalization of the prioritized capital investments identified within the CIP process. Participating cities will develop the additional financial management, procurement and project management capacity, that will in turn ensure better implementation of the prioritized strategic capital investments derived from the Component 2 interventions. Overall, Component 3 will strengthen the capacity of participating cities to (i) to procure large-scale infrastructure projects more efficiently and effectively; (ii) improve infrastructure project management, implementation and oversight and to (iii) better manage fiscal and financial resources and access alternative financing.

Subcomponent 3.1: City level assessment of financial and project management capacity
Subcomponent 3.2: Project Management and procurement training
Subcomponent 3.3: Enhancing capacity for accessing alternative sources of finance

Menu of available WB Technical Assistance options

21. NUDP has leveraged insights from existing technical assistance work within Indonesia, such as the De-Bottlenecking Study developed by the Bank's Indonesia Governance group and activities under the IDSUN; more specifically CPL and the municipal finance work, especially on increasing the creditworthiness of cities. NUDP project interventions build upon many of these tools, especially the scalable outputs of CPL in Semarang City and Denpasar City that have implemented tailored international good practice to the Indonesian context. Other important tools include the medium-term fiscal framework (MTFF) developed by the Bank's Indonesia Macroeconomics, Trade & Investment group.

Name of TA option	Description
Creditworthiness Academy	City Creditworthiness Academies are hands-on learning programs that teach city leaders the fundamentals of creditworthiness and municipal finance, including issues determined by the enabling environment and options for financing. The Bank's creditworthiness initiative has already been successfully implemented by other programs in Indonesia (e.g. RIDF). It provides local authorities with comprehensive, hands-on, and long-term support and help them to: (i) Achieve higher creditworthiness by strengthening financial performance; (ii) develop an enabling legal, regulatory, institutional, and policy framework for responsible sub-national borrowing through reforms at the national level; (iii) improve the "demand" side of financing by developing sound, climate-smart projects that foster green growth; (iv) and Improve the "supply" side of financing by engaging with private sector investors.
Medium-term Fiscal Framework (MTFF)	To strengthen subnational fiscal management, the Bank' Macroeconomics, Trade and Investment group has been providing technical assistance (TA) to selected subnational governments in medium term fiscal planning and analysis. The objectives of the TA are to establish resource envelope projections for the medium-term budget/APBD as inputs into the ongoing preparation of the technocratic draft of the RPJMD and to strengthen the capacity of BAPPEDA and other agencies in preparing medium-term fiscal projections through tool development and trainings.
City Resilience Program (CRP)	The Bank Group's (WBG) City Resilience Program (CRP) is an effort to assist city governments to build greater resilience to climate and disaster risks. Given that cities are sometimes held back from pursuing the necessary investments because they lack the technical expertise and/or the access to capital to finance them, CRP aims to fill that gap by better connecting cities to potential financing including the private sector (capital mobilization through an assessment of the city's investment portfolio. The capital mobilization takes a phased approach including rapid diagnostics, transaction identification and support for transaction structuring.

Component 4: Project Implementation Support

22. For successful implementation of the complex project activities, a strong implementation support framework is needed. To operationalize this implementation support, this component will finance the costs of PMS for the CPMU, TMCs for all PIUs and OSPs to strengthen the capacity of the CPMU and PIUs to oversee implementation of the program at national, provincial and city levels. It will include contract supervision, financial and technical audit, oversight on the inclusion of environmental and social safeguards aspects (including citizen engagement), monitoring and evaluation etc.

Demand

23. In terms of demand from cities, the Task Team has done preliminary demand assessments in metro and large cities during preparation and found the demand to be high. The assessments were done through the existing technical assistance engagements with relevant cities, specifically under the ongoing technical assistance programs of Indonesia Sustainable Urbanization Trust Fund such as the City Planning Labs, which is closely linked to Component 2. The Task Team and national government have also attempted to assess demand through technical workshops with cities during project preparation. For example, the CIP Workshop during preparation highlighted a strong demand, as did the Creditworthiness Academy. Within these technical assistance engagements, the task team has received numerous

informal requests by cities to receive NUDP assistance.

Shortlisting Criteria for NUDP Cities

24. Primary criteria for Phase 1:

    a. **Population:** NUDP interventions will prioritize large, metro and mega cities, where the pace of urbanization is the greatest. Five categories of city sizes are determined by population and given a score as follows:
        - Large city with population between 500,000-1,000,000 has the highest score
        - Metro with population between 1,000,000 – 3,000,000 also has the highest score
        - Mega with population above 3,000,000 has the second highest score
        - Medium city with population between 250,000-500,000 has the lowest score

    For phase 1 of NUDP, small and medium-term cities will not be considered, but may participate in Phase 2 and 3 of NUDP as agreed.

    b. **Presence of other national urban programs:** To execute NUDP's platform and integrator function, the highest impact can be achieved where there is co-location of WB and GoI infrastructure projects. Cities with a higher number of co-located projects will receive a higher score.

25. Secondary criteria:

    c. **Status of RTRW:** One of the main outputs of NUDP is to improve the quality of spatial planning in Indonesia. To be able to reach the goal, the status of the spatial plans becomes essential. It is easier to improve quality of the planning document when the document is still in the development stage instead of already enacted. Hence, NUDP will prioritize the cities where the RTRW will be revised during the project implementation.

    d. **Mayoral period:** The mayor period is directly linked to RPJMD, hence careful consideration of election cycles is critical to secure long-term city leadership commitment. The elected mayor must formulate the new RPJMD as the guidance for their work. Technocratic RPJMD preparation is started one year before the election of the new Mayor. Cities with mayoral terms ending within the first three years of NUDP implementation, 2019-2021, will have the highest score. Cities with mayoral terms ending after 2021 have the second highest score, and cities with mayoral terms ending before 2019 have the lowest score.

26. Other considerations:

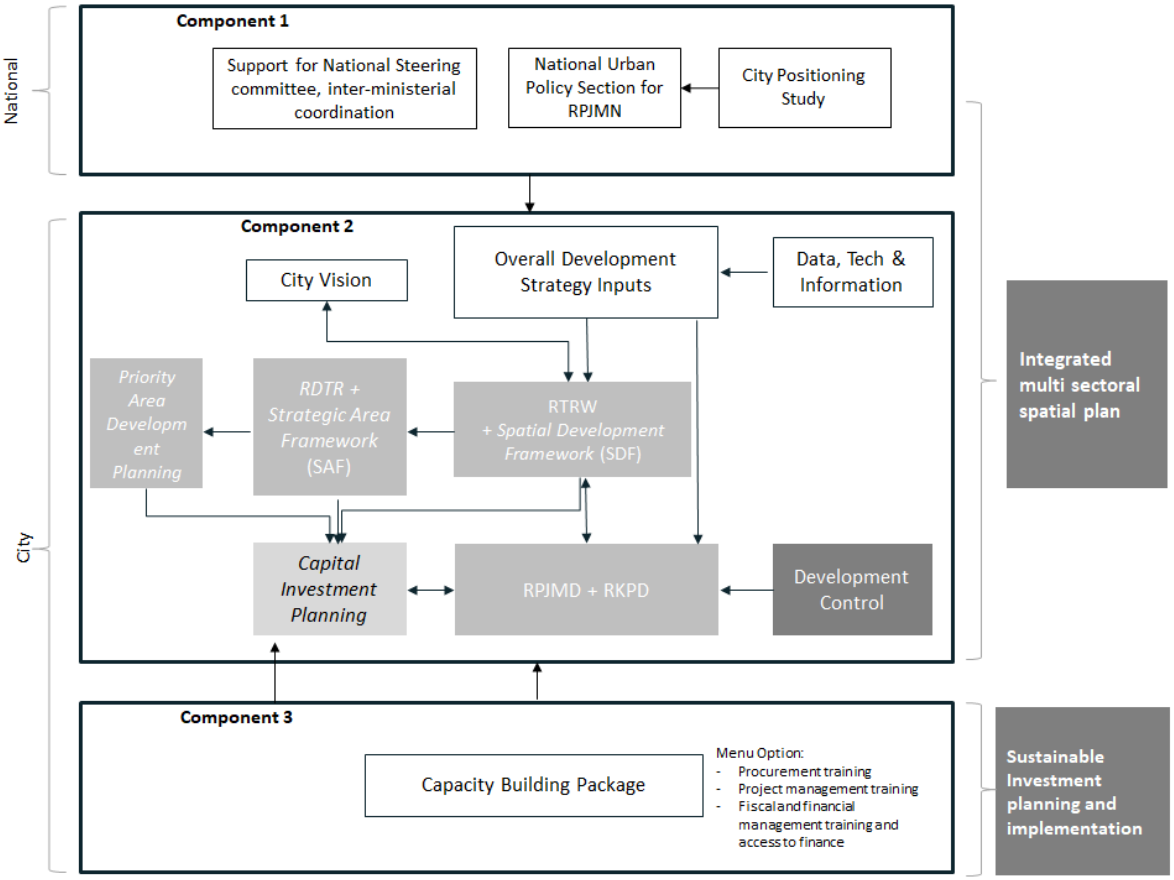
    e. **Mayoral progressiveness:** One additional criteria, i.e., progressive mayor is chosen as a consideration but has not been applied as a scoring criterion since this is subjective. Leadership plays an important role in the sustainability of the program and determining its success. This will be assessed and confirmed during the expression of interest process of the short-listed cities.

27. See the following table for the shortlist of cities.

Table 6 Short list of potential participant cities

No	City	City Size by Population	Population Size (2018)
1	Bitung	Small	214,860
2	Bengkulu	Medium	374,355
3	Ambon	Medium	457,486
4	Jayapura	Medium	296,833
5	Balikpapan	Large	643,305
6	Bogor	Metro	1,092,866
7	South Tangerang	Metro	1,683,329
8	Bandar Lampung	Metro	1,029,357
9	Banjarmasin	Large	698,849
10	Semarang	Metro	1,778,979
11	Surakarta	Large	517,384
12	Denpasar	Large	926,542
13	Surabaya	Mega	2,882,815
	TOTAL		**12,596,960**

Figure 7 NUDP Design



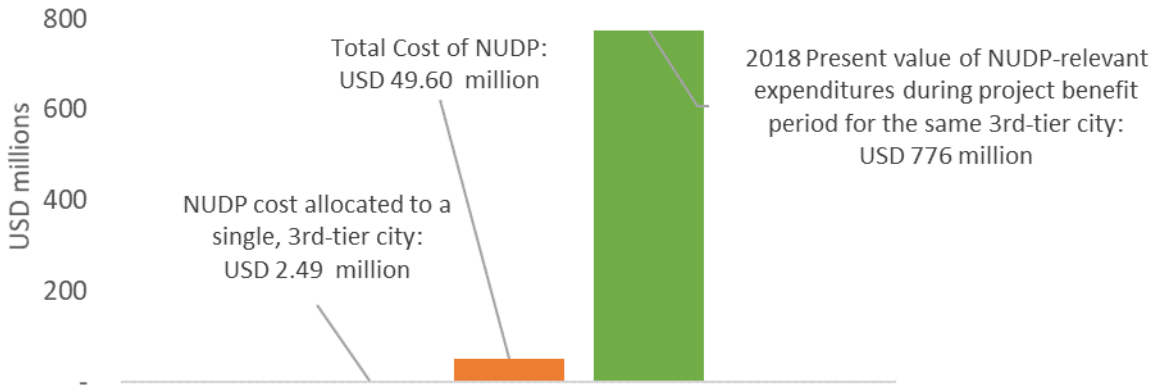
ANNEX 3: Economic Analysis

COUNTRY: Indonesia
National Urban Development Project (NUDP)

Analytical framework

1. The National Urban Development Project (NUDP) is unusual as a Bank loan. Rather than undertaking any capital investment directly, NUDP targets better planning and implementation of existing capital expenditure pipelines for the selected cities. The intended benefits are a function of leverage against each city's investment activities. These benefits must be measured based on the degree to which improvements in investment choices, spatial planning, and implementation increase the city's return on investment versus the without-NUDP counterfactual scenario. The stream of expenditures that NUDP can influence is hundreds of times larger than NUDP's own budget, making the potential returns enormous on the upside.

Figure 8 Present value of city-level expenditures potentially influenced by NUDP



Source: RPJMD 2017-2021 for the sample city.

2. To illustrate the scale of potential benefits, consider the pipeline of planned capital expenditures for the mid-sized city chosen for this analysis—in 2017, municipal capital expenditures were about US$34.7 million for priority and supporting programs, with the medium-term development plan (RPJMD) projecting 10 percent capex growth to 2021. If we project at a conservative nominal growth rate of 3.57 percent annually (or 50 basis points below the 2010-2016 GRDP growth rate for the city), the present value of capital expenditures during the assessment period from 2019 to 2036 amounts to US$776 million (see Figure 8 above). If NUDP were to increase the return on this single city's investment by even 7 percent, the resulting increase in economic benefit would exceed the cost of the NUDP program budget for all participating cities.

3. NUDP benefits will be broad and diffuse by nature; and include among other effects:

- Avoided costs of repeated procurements or reinvestment, saved expenditures from foregone projects.
- Public benefits from utilization of higher-quality and faster-completed infrastructure, agglomeration economies from better managed urban density, health benefits of reduced hazards from poor or non-existent infrastructure.

- Improved returns on capital expenditures from better prioritization of investments.
- Economic gains from improvements to the business environment including transparent and competitive tender processes, better logistics infrastructure, clear zoning enforcement, etc.
- Contract price gains from increased competition.

4. These benefits will be interrelated and compounding; for example, better planning can improve transport mobility while increasing residential density, public time saved from less traffic congestion then contributes to improved business logistics and lowered transaction costs while less urban sprawl prevents environmental losses. Program benefits will also take different forms in each participating city as the interventions undertaken must adapt to the needs in each city.

5. This analysis examines a single city case-study in-depth, using detailed budget, planning, procurement, and demographic data to assess the value of marginal improvements in a few key drivers of value, as simulated in two sector-wide assessments (water supply and housing development), and two procurement-related operational assessments. Each sub-assessment is evaluated in isolation with the understanding that spillover effects can be assumed to be net-positive.

6. The sample city will remain anonymous by request of the officials who provided the necessary data for the analysis. It is a mid-sized, non-Javanese city with a population between 600 and 700 thousand people.

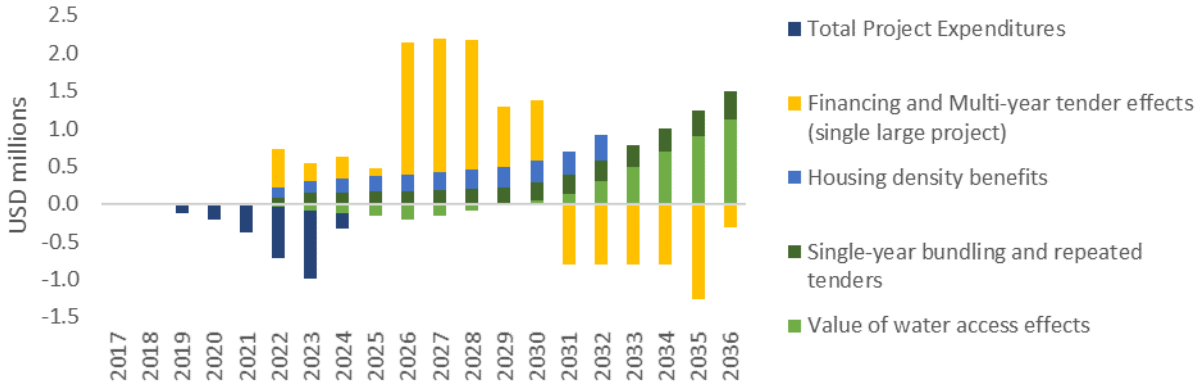
Summary of results

7. The analysis compares the mean Economic Internal Rate of Return (EIRR), forecasted both "With NUDP" and "Without NUDP," for the sample city in the selected sectors. The differences in resulting net benefits are then compared against the portion of the NUDP project budget that would be allocated to a city of comparable size—US$ 2.49 million[16]—to arrive at the EIRR for the NUDP itself. In our base-case scenario (described in detail below), we estimate a single-city ENPV[17] of US$5.14 million, which implies an EIRR of 41 percent as a program-wide estimate. The large positive gap between EIRR and discount rate means this project is not only economically feasible but has potential for enormous impact if implemented effectively. Figure 9 illustrates the flow of costs and benefits for the sample city.

[16] Costs are allocated based on distribution of the total budget to a shortlist of 15 cities weighted by their individual capital expenditures in 2016 according to data from the Ministry of Finance Directorate General of Fiscal Balance. Since the final list of cities is yet to be decided, the actual budget for a single city may differ from our assumptions.

[17] World Bank guidelines call for the use of a social discount rate approximately equal to the long-term GDP growth expectations for the project country. As of May 2018, the OECD expects Indonesia's growth rate to rise modestly in coming years from the current 5.3 percent projections for 2018. Accordingly, we employ a 6 percent social discount rate for this analysis.

Figure 9 Cost/benefit pipeline by sub-assessment



8. Even under the conservative assumptions considered in each sub-assessment, the overall results are positive enough that any of the four sub-assessments could be reduced to zero benefits without harming the overall feasibility of the project. The greatest risk to feasibility is that NUDP intervention fails to produce a lasting impact on the status quo of operations, bringing the magnitude of benefits close to zero in most or all participating cities. To mitigate this risk, the team recommends concentrating limited NUDP resources, both human and financial, on a small number of high-potential cities. In the following sections, we examine the sub-assessments in detail, including sensitivities of results to key driving assumptions.

Detailed description of sub-assessments

Sub-assessment #1: value of improvements in clean water supply

Scope: sector-wide.

Key driver(s): # of additional households with clean water supply.

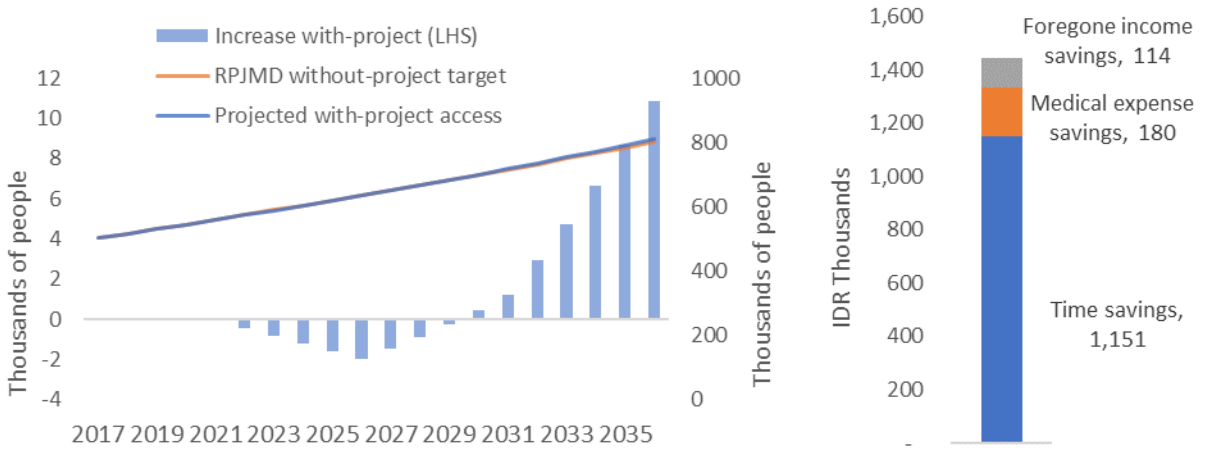
9. The sample city for the study plans to spend approximately US$6 million on water supply and wastewater management during the five-year period from 2017 to 2021, according to the city's medium-term development plan (RPJMD). The targeted increase in the drinking water coverage rate only slightly outpaces expected population growth—from 78.4 percent coverage in 2017 to 80.8 percent in 2021.

10. Benefits in the water sector, as in other sectors, may arise from higher quality inputs into the planning process, improved analytics leading to tailored implementation improvements, more competitive tenders leading to higher quality construction with less delay, and efficiency gains enabled by better spatial coordination between infrastructure investments and zoning decisions and enforcement.

11. To estimate these potential benefits in the water sector, we use the number of additional households with access to clean water in a with-project scenario as the key driver of our model. We use the city's own medium-term development plan as the counterfactual against which we measure with-project estimates. The city projects a gradual decrease in the rate of population growth, from about two percent annually from 2016 to 2021 down to about 1.6 annually from 2031 to 2036. The city's RPJMD coverage target increases linearly as a proportion of population at an added 0.6 percentage points per year, implying a slowdown in growth rate of added coverage. By contrast, NUDP is

assumed to have a mild negative impact on coverage increases for nearly a decade, followed by a steady year-on-year increase in household coverage from 2030 to 2036. This approach is intended to model first the challenges of implementation associated with changing the status quo, followed by an increase in efficiency as investments in water infrastructure are coordinated with those in other sectors such as housing and transportation.

Figure 10 Projected beneficiaries of increased access to water (left), and benefits per person (right)



Source: Bank staff calculations.

12. To express the value of an increase in water access as a result of NUDP intervention, we break down the benefits per additional person with access into three components: the value of the time saved by no longer having to collect water from a shared community source, the value of savings from foregone medical expenses arising from water-borne illness, and the value of missed income avoided due to a decrease in sick days caused by water-borne illness. Figure 10 above (right) shows the base-case summary of benefits per person.

Sub-assessment #2: value of improved zoning and land-use in the housing sector

Scope: sector-wide.

Key drivers: Square meters of land re-purposed for public benefit because of higher density residential development; value of re-purposed land; fraction of value captured as new benefits to society.

13. Current spatial plans for the chosen sample city estimate that a total of 137,583 new housing units will be needed for the period from 2012 to 2032 and that these housing units require an average of 153.33 m^2 of residential land development per unit. This implies a lower-than-optimal residential population density for greenfield development in a mid-sized city, especially if a transit-oriented development (TOD) approach were to be adopted and integrated with the municipal capital investment plan, as NUDP aims to achieve. By comparison, the average land-use per unit for all non-high-rise housing units purchased under the nationwide FLPP subsidy program in 2017 was 95.5 square meters,[18] and a typical high-rise development in Surabaya manages with about 20 square meters per unit.[19] If NUDP intervention can increase planned density and help implement related infrastructure investments efficiently, the public stands to benefit from better infrastructure, less congestion, shorter commute times and distances, and more attractive public

[18] Data from the Ministry of Public Works and Housing; World Bank staff analysis.
[19] Data from the 2016 Review of the RTRW 2012-2032 for the sample city.

spaces compared to the without-project scenario.

14. The impact of a change in land-use plans on the economy will affect different stakeholders differently. Some landowners will benefit while others will miss out as their plots appreciate less than would have been the case otherwise. Rental prices will adjust differently in different neighborhoods, larger construction projects will impose short-term costs with the promise of sustained longer-term benefits if executed well. Greater concentration of homes will create concentrations of employment that may otherwise have been more dispersed. Many of the benefits experienced by the public will not be new benefits generated by the intervention, but rather transfers of value from one party to another. However, there are also quantifiable ways that new value can be generated.

15. If accompanied by appropriate investments in transport and other infrastructure, an increase in residential density can lower transaction costs arising from the negative effects of urban congestion (including time, cost of owning a vehicle, etc.). Lowered transaction costs in turn cause a reduction in deadweight loss to the economy from foregone transactions.

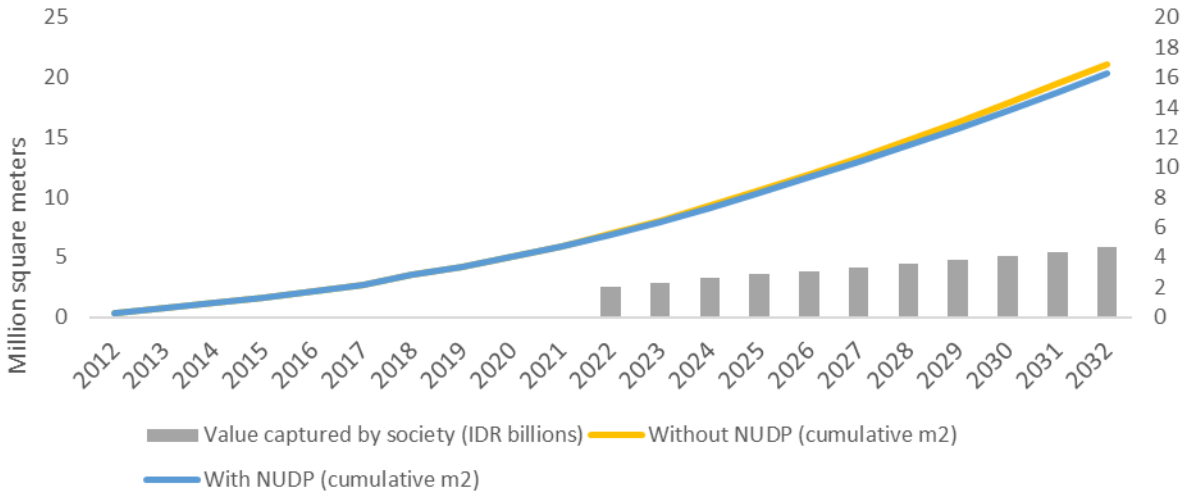
16. Land made available for public-use spaces such as parks, sidewalks, and walking streets generate social and economic benefits including impacts on physical and mental health, air quality, storm drainage (for green spaces), crime reduction, and commerce.[20] These benefits are evidenced in cities around the world by higher property values near such public spaces. Accordingly, NUDP intervention will generate this type of benefit to the extent that it enables higher residential density to be balanced by high-quality public spaces. Planned development of higher-density residential areas can also slow the spatial expansion of a growing city, preventing some of the environmental and socio-economic costs of urban sprawl.

17. To estimate the potential benefits to our sample city of better-planned and executed residential land-use, we:

- Estimate the portion of total land needed for development of new homes according to the current spatial plan that could be re-purposed for other uses if housing density were increased. For the base-case, we target a 5 percent reduction in average land area per housing unit.
- Project the land area used annually for greenfield residential development in proportion to spending projections in the RPJMD.
- Apply the 5 percent reduction in land area developed per year from 2022 to 2032.
- Project the growth in land prices over the same period. During the period from 2010 to 2016, the local real estate sector grew 5.69 percent annually, outpacing the GRDP for the city by over 100 bps per year.[21] By comparison, we chose a conservative growth rate of 3.57 percent for our projections—or the 2010 to 2016 GRDP growth minus 50 basis points.
- Calculate the value of the released land at concurrent prices in each year.
- Assume conservatively that net benefits generated will be equal to about one percent of the value of the released land. Calculate the resulting benefit flow over the period of analysis and discount to 2019 to yield an estimate of present value of benefits.

[20] Commission for Architecture and the Built Environment. 2003. “The Value of Public Space: How high-quality parks and public spaces create economic, social and environmental value.” Literature review brochure, CABE Space: London.
[21] Badan Pusat Statistik, 2017.

Figure 11 Land area for new residential development, 2012-2032



18. A 5 percent reduction in average land area per housing unit built over the period from 2022 to 2032 implies a cumulative reduction in land-use of about 759 thousand square meters, or 3.73 percent of the targeted total in current spatial plans. The economic value of this reduction, estimated as described above, has an ENPV of US$1.59 million.

Sub-assessment #3: value of cost savings from bundling of small procurement packets and reduction in repeated tenders

Scope: All NUDP-relevant procurements.

Key drivers: Average administrative costs for tender contracts above and below a threshold of IDR 1 billion, growth rate of municipal capital expenditures, proportion of small tenders bundled together, reduction in frequency of repeated tenders.

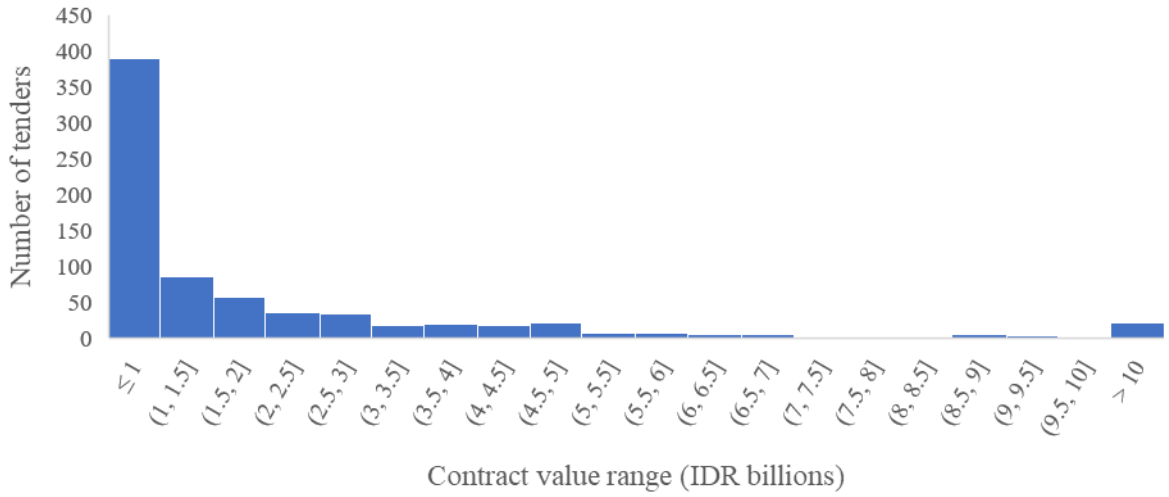
19. This sub-assessment attempts to estimate the total potential budget savings (as opposed to economic benefits estimated in the other sub-assessments) that might be expected from a push to bundle multiple small procurement packages together within a given budget year. Theoretically the higher contract values and less frequent tendering that result from such bundling will yield more competitive bidding and lowered administrative costs. This section ignores multi-year procurement bundling, which is addressed in a separate sub-assessment. The key driving assumption is based on a 1998 paper by Tommy Firman of ITB, which found that land acquisition costs were roughly doubled (from 5 to 10 percent) as a percentage of contract values for projects with tender values below a certain threshold.[22] We projected the equivalent of this threshold in 2018 spending-power terms to be about IDR 1 billion. Another key assumption is that contracts chosen for bundling would be chosen at random from those contracts below the IDR 1 billion threshold (i.e. pre-bundled average contract value is the same for those bundled as for those not bundled), but post-bundled contracts would be well below the average above-threshold values.

20. To estimate the potential for savings of municipal expenditures on the administrative process of tendering

[22] Firman, Tommy. 1998. "Towards an Indonesian urban land development policy." *City, Space+ Globalization: An International Perspective.* Proceedings of an International Symposium, College of Architecture and Urban Planning, University of Michigan, February 26-28, 1998.

construction projects, we collected procurement records for all construction tenders from the sample city from 2012 to early 2018, including tender contract values, frequency, timeline from announcement to closing, ratio of repeated tenders, individual bid values, winning bid values, and project types.[23] As Figure 12 below demonstrates, a majority of contracts were valued at IDR 1 billion or less. The median tender value for the period was IDR 965 million.

Figure 12 Distribution of construction tenders by contract value, 2012-2018



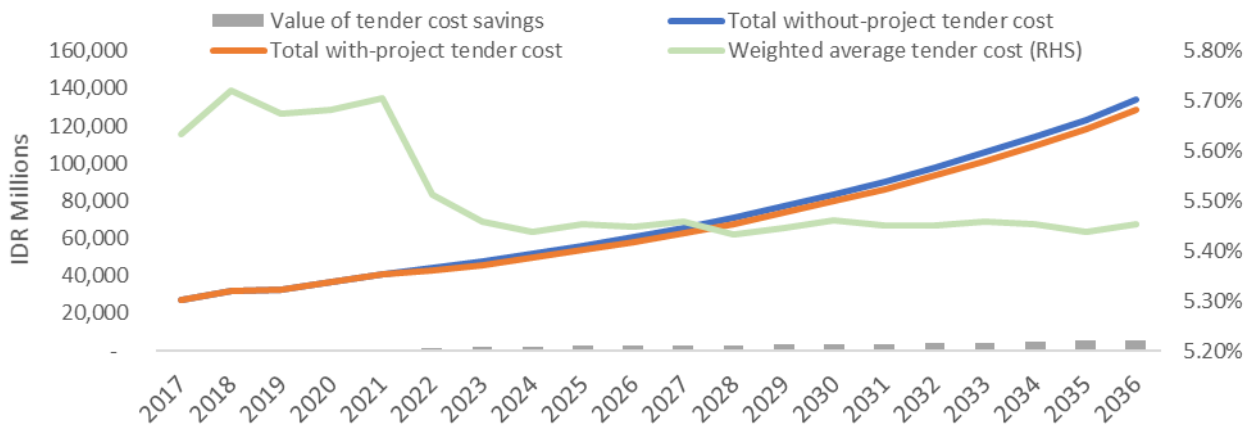
Source: LPSE website for the sample city.

21. For the 730 construction tenders listed from 2012 to early 2018, the sample city had a repeated tender rate of 20.7 percent, or 1 in 5 tenders repeated.24 This repeat rate, along with the volume and average values for contracts above and below the IDR 1 billion threshold were assumed to remain constant on average in real terms over the projection period from 2019 to 2036 to form the basis of the without-NUDP projection. We then calculate the savings that would result if NUDP intervention achieved a target reduction of 5 percentage points on average for repeated tenders, along with an increase in overall average contract value of 15 percent through bundling of small tenders below the IDR 1 billion threshold. The resulting savings over the 2019 to 2036 period would have a net present value in 2019 of USD 1.92 million, as summarized in Figure 13.

[23] This data is publicly available online through the national Government Procurement Policy Bureau (LKPP) e-procurement (LPSE) website.

[24] An analysis of year-to-year changes in contract volume, values, and repeat rates showed several anomalies surrounding the election year in 2014, including spikes in volume, average value, and big-ticket items before the election and a total absence of listed tenders the following year. Since the data available covers only one election year, we chose to exclude year-by-year analysis, instead examining the 5-year period in aggregate to avoid mistaking what may be cyclical patterns for progressive trends. Further analysis could examine whether this election-year pattern appears in procurement data for other NUDP cities, however this has not been examined to date.

Figure 13 Procurement savings for construction tenders



Note: Results shown under base-case assumptions, 2019 PV of benefits = USD 1.92 million.

Sub-assessment #4: value of financing and multi-year tendering

Scope: Single example project (urban thoroughfare widening/upgrading).

Key drivers: Loan interest rate and tenor, tender price premium for pay-as-you-go, difference in resurfacing frequency to maintain road quality, ratio of capex required to annual budget allocated.

22. This sub-assessment attempts to estimate the potential benefits of using a single tender along with debt financing for a major investment project requiring multiple years of construction. Key assumptions include that the project requires a much larger capital expenditure than the city can afford to spend in a single year on a single project in a given sector, that the project has a strong positive expected IRR once completed, and that the status quo for such projects at the municipal level is to employ a "pay-as-you-go" approach, conducting one or more tenders in each budget year to complete one segment of construction at a time until eventually the project is complete (the latter is corroborated by discussions with city officials).

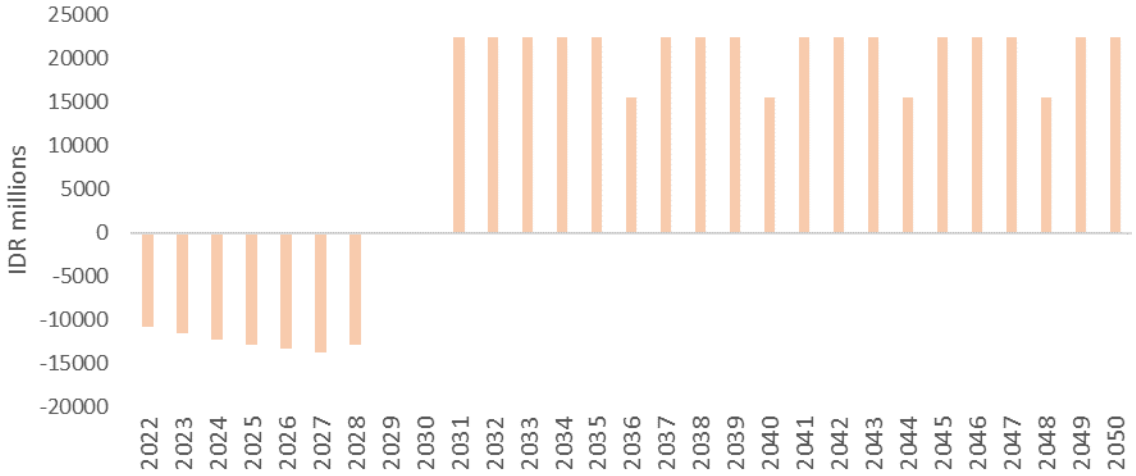
23. The example project for analysis is a hypothetical road upgrade project requiring land acquisition on both sides of 2 km of an existing urban thoroughfare in the sample city. Based on local land and construction costs, wages, estimates of time and fuel saved per trip and trip volume on the completed road, the project would cost about IDR 79 billion to complete and yield a without-NUDP EIRR of about 13.4 percent measured from the first year of expenditure and construction if benefits are measured over a 20-year period following completion. This assumes that in either the with or without project scenario, the road will be periodically resurfaced as needed to continue to yield equal benefits in either case. The frequency of required resurfacing may be adjusted to reflect assumptions about differing quality of construction in each scenario.

24. The benefits expected from NUDP intervention arise from several factors: that financing the entire construction upfront allows a single tender, faster construction, and less administrative delay. A higher contract value is expected to drive more competitive bidding by larger, more experienced firms, as well as opportunities for economies of scale to be realized by the winning bidder, resulting in a higher quality construction for lower overall cost. Furthermore, faster completion minimizes negative externalities such as increased congestion during the construction phase and enables

faster realization of benefits, the compounding economic effects of which are proxied by a lower discount factor in calculating the present value of those benefits.

25. To model the without-NUDP scenario, we projected the time required for project completion as a function of the number of years of budget allocation required to cover the total capital expenditure for the project, plus an additional four months of delay per budget year of expenditure, rounded to the nearest year. This relatively high assumption for administrative delay is intended to reflect an average impact arising from the risk that later procurements for large projects sometimes become stalled for years or indefinitely after initial construction has begun.25 For a construction period that would take 3 years under ideal conditions, the without-NUDP scenario projects 8 years of construction and delay, assuming the capital expenditure needed exceeds available annual budget by a factor of 7 in the starting year. Accordingly, benefits begin to be realized in the 9th year after the initial tender and continue for a period of 20 years with periodic resurfacing costs subtracted every 4 years. Figure 14 summarizes the resulting net benefit flows.

Figure 14 Net benefits without NUDP - No financing, pay-as-you-go procurement



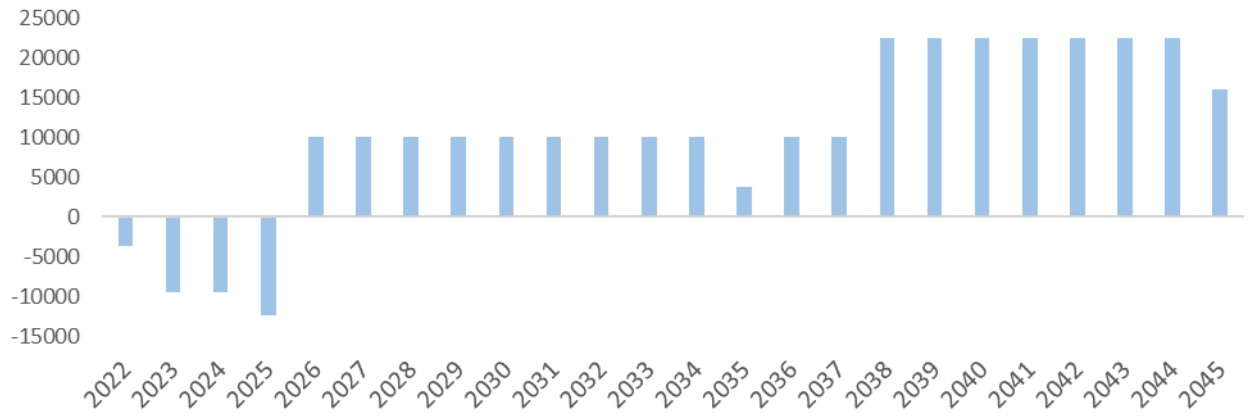
Note: Administrative delay is accounted for in the years following construction expenditures for the sake of modeling simplicity. Available budget for capital expenditure increases in proportion with RPJMD projections for road and bridge expenditures. Resurfacing takes place every 4 years to reflect relatively poor-quality construction.

26. For the with-NUDP scenario, we assume that financing for the project would be available at an annual interest rate of 10.3 percent[26] for a tenor of 15 years, with a grace period of 2 years before principal payments begin. Construction would take 4 years to complete to account for a longer initial procurement process. To reflect a more competitive bid process, the contract price is reduced by 9.1 percent (implying a 10 percent premium for less competitive tenders). Administrative costs of procurement are assumed to be 5 percent of the total contract value. For

[25] Interviews with local Public Works and Regional Planning officials during World Bank team field visit to the sample city, November 2017.
[26] Benchmarked to the commercial market rate for investment capital loans (Bank Indonesia, July 2018).

a consistent comparison, we again measure benefits for 20 years from the first year they begin to be realized.[27] Resurfacing costs are deducted every 10 years to reflect the expectation if higher quality construction. The resulting net benefit flows are summarized in Figure 15.

Figure 15 Net benefits with-NUDP - Financing and multi-year procurement



Note: Costs reflected include budget expenditures for debt servicing, procurement costs, and periodic resurfacing costs. Interest payments begin in year 2, principal payments in year 4.

27. Under the assumptions described above, the present value of benefits arising from NUDP intervention is USD 1.69 million—for a single large road project. However, this result is highly sensitive to the following assumptions:

- **The spread between the cost of funds and the discount rate**—the wider this spread, the closer the cost of funds will come to offsetting the value of faster delivery of benefits. Our base-case assumption of 10.3 percent is set at the commercial market rate for investment loans, but it is likely that municipal governments will have access to lower rates. For example, municipal investment projects financed through the Bank's Regional Infrastructure Development Fund (RIDF) are eligible for rates as low as 8 percent. For a project of this size, a 1 percent change in spread results in an NPV shift of close to US$400,000.
- **The number of years of delay forgone by using financing and a single tender**—the value of faster project delivery is closely linked to the discount rate/cost of funds gap described above. If either one is minimized, the impact of the other becomes minor. Conversely if either one is significant, the impact of the other is magnified.
- **The ratio of required capital expenditure to available budget allocation**—The model is sensitive to this input mostly due to its effect on the years of delay. The more severely constrained the annual budget, the more years and individual tenders required to complete the project under the pay-as-you-go scenario.

28. Among the key lessons of the analysis is that debt financing is not always appropriate but can provide significant benefits if the circumstances are right. Part of the aim of the NUDP intervention is to build local capacity to assess the relevant circumstances and use debt financing only in cases where potential benefit is high. It is to reflect this necessary

[27] Note that this results in project lifetimes of differing lengths for the two scenarios due to the differing construction and procurement delays. Assuming equal project lifetimes would unduly favor the with-NUDP scenario by truncating the benefits of the without-NUDP scenario in later years.

selectivity that we have chosen to estimate benefits in this sub-analysis for only a single large project as opposed to sector-wide.

ANNEX 4: Supplemental Information on Climate Change Co-benefits

COUNTRY: Indonesia
National Urban Development Project (NUDP)

1. The project integrates climate change mitigation and adaptation measures wherever possible. This annex provides details on how individual activities within components and sub-components address climate change.

2. **Component 1: National Urban Institutional and Policy Development:** This component will support the development of national policies, guidelines and strategies that will promote low carbon and climate-resilient urban development.

a. **Sub-component 1.1. Strengthening the capacity of an Inter-ministerial Coordination Team for Urban Development:** As part of the capacity building activities, trainings and lessons will be developed that promote low carbon and resilient development planning.

b. **Sub-component 1.2. Support for the formulation of the national urban policies for promoting integrated urban development:** The analytical studies, position papers, and assessments financed by this component aim to enhance the environmental sustainability and resilience to climate-related disasters of Indonesian cities. The City Positioning and Economic Development Study will provide strategic information for cities, including their climate vulnerabilities.

c. **Sub-component 1.3: Formulation of National Urban Infrastructure Strategy Plan**: The National Infrastructure Strategy Plan will include urban infrastructure strategies that promote climate resilience, low-carbon development, densification, and transit-oriented development.

3. **Component 2: Integrated Planning for Urban Development:** This component will improve integrated spatial planning that prioritizes and enhances the sustainability and environmental resilience of cities. More than an estimated 65 percent of the total project budget is assigned to this Component. Within Component 2, around a third will go to Sub-component 2.2 and 2.4 each, and the remainder will go to Sub-component 2.1 and 2.3.

a. **Sub-component 2.1: Support for strengthening quality of data and institutional capacity for data governance**: Data development financed by this component will provide detailed information for evidence-driven integrated urban planning. Special attention will be given to datasets relevant for climate adaptation and mitigation. This includes datasets needed for land suitability and carrying capacity analyses that consist of climate change risks, forested areas, urban footprint, etc. (see Annex 2 for further information)

b. **Sub-component 2.2 Support for integrated spatial planning:** Analytical studies will be financed that include information on climate resilience (e.g. Environmental Zoning and Land Suitability Study) and low carbon development (e.g. Integrated Transport and Land Use Planning). The sub-component also invests in the development and piloting of plans of actions, such as development control approaches in hazard prone areas and integrated transport. These activities will be further supported through the financing of trainings and related capacity

building. Analytical studies, plans of actions, pilots, trainings, and capacity building will promote climate adaptation and mitigation within spatial planning.

c. **Sub-component 2.3 Support for Priority Area Development Planning**: Sub-component 2.3 will support development of plans leading to investments which contribute to climate adaptation and mitigation at the local level. Through this Sub-component, the project ensures that these climate-relevant investments will be considered in the Priority Area Development Plans through the encouragement of low-carbon and efficient transport. Moreover, the Priority Area Development Plans will promote universally accessible design features and ensure walkable neighborhoods (less car-dependent) with inclusive designs for women, children, the elderly and disabled. The Priority Area Development Plans are a "bridging document" between statutory spatial plans and investment projects, on which investment implementation plans are built on (i.e. feasibility studies and detailed engineering designs). Most of the identification of capital investments under local government mandate are identified at this level, hence it is a critical step towards the identification of climate-resilient and low-carbon local investments.

d. **Sub-component 2.4 Capital Investment Planning and Budgeting (CIP) established as an investment prioritization and tracking system:** The CIP system will include modules such as climate-smart investment (in which they will be prioritized in the CIP, increasing the likeliness for actual investment to happen) and has a high potential to mainstream adaptation and mitigation measures in future investments identified. Four key steps under the implementation of the CIP framework will be: project capture, prioritization, budget fit, and monitoring and reporting. Optional models on climate-resilient infrastructure investment projects can be implemented within this approach and will reduce greenhouse gases through the promotion of low-carbon transport.