



1. Project Data :
OEDID: L3340
Project ID: P003922
Project Name: Sulawesi - Irian Jaya Urban Development
Country: Indonesia
Sector: Other Urban Development
L/C Number: L3340
Partners involved : Japan Grant
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2. Project Objectives, Financing, Costs and Components :
The project objectives were to:

- provide urban infrastructure, water supply, and sanitation services in selected cities in Sulawesi and Irian Jaya;
- support the development of local government capacity to program infrastructure investments, prepare and execute O&M programs and improve financial planning; and
- encourage local government and water enterprise revenue generation and improved financial management.

Estimated project cost was US\$188.2 million, of which the Bank was to finance US\$100.0 million. Actual cost was US\$163.95 million and the loan was US\$95.83 million. The undisbursed balance may yet be used for emergency poverty relief during the current financial crisis. The project components were: (a) infrastructure development (water supply, drainage, solid waste, sanitation, roads, improvement of slums and markets) and O&M for nine cities; (b) water supply system rehabilitation; and (c) technical assistance.

3. Achievement of Relevant Objectives :
In spite of the serious shortcoming detailed below, the project substantially provided urban physical infrastructure as planned, and most of the civil works financed under the project were handed over to the local water enterprises . Increasing local government capacity for programming, financial planning and O&M was partially achieved . Increasing revenue and improving financial management was partly achieved, but the revenue -generating measures proposed by the project had little influence on the outcome .

4. Significant Achievements :
The project can be viewed as a first effort in a task that requires a series of sustained interventions to bring about long-term changes in government practice. Project efforts in watershed protection were showing success in some towns. Modification of components during implementation in response to on-the-ground conditions exceeded capacity of both Bank and borrower.. The criteria used for sub-project selection were not clear, nor were the procedures for the economic and financial analyses as good as they should have been.

5. Significant Shortcomings :
The percentage of unaccounted-for-water remained high. The re-estimated economic rates of return for most water, road and drainage sub-projects are marginal. Some local governments were not sufficiently involved in planning, design and implementation; ownership was poor--certain officials actively opposed project initiatives; technical assistance was ineffective and late; contractor performance and inter-agency coordination were poor; procurement procedures were inadequate; and there was a lack of sufficient capable local staff. Start-up was delayed for more than one year, and the loan was extended for six months to allow a few of the larger works and facilities to be completed. There were problems with low construction quality; and maintenance was ineffective in many project cities.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Marginally Unsatisfactory	ICR noted that project should be considered only marginally satisfactory . Although many shortcomings will be addressed by the follow-on, ERR was marginal, some physical works are of poor quality, maintenance is often not taking place, UFW did not come down, and project had negative environmental impacts and persistent institutional weaknesses.
Institutional Dev .:	Partial	Modest	These ratings are largely equivalent
Sustainability :	Unlikely	Unlikely	
Bank Performance :	Satisfactory	Satisfactory	OED and the Region concur on a rating of marginally satisfactory
Borrower Perf .:	Satisfactory	Satisfactory	OED and the Region concur on a rating of marginally satisfactory
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :

- 1.Physical achievements cannot be sustained unless they are supported by increased institutional capacity and changed attitudes towards service delivery and maintenance.
- 2.In the absence of on-the-ground supervision, the preparation of environmental assessment documents did little to improve environmental management during implementation.
- 3.The Bank should give more attention to the impacts of urban services and ways to measure them.
- 4.Local governments need to move away from a "project focus" towards more of an overall urban management approach.
- 5.Much more emphasis should be placed on community involvement in service delivery.

8. Audit Recommended? Yes No

Why? In April or May of 1999, at the time of the mid-term review of the follow-on (Second Sulawesi UDP), OED should ascertain that the identified shortcomings have been overcome . The Region supports this plan.

9. Comments on Quality of ICR :

The ICR provides a good account of why the project's objectives were only partially met, and of the steps taken in the follow-on project to ensure that the objectives of this project are attained .