

U N C L A S S I F I E D

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D.C 20523

Supplemental Authorization for the Municipal Finance Project 497-0365

INDONESIA

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JAKARTA

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

ACTION MEMORANDUM FOR THE DIRECTOR, USAID/INDONESIA

FROM Vivian Gary, PED *Vivian Gary*
THROUGH Philip-Michael Gary, DD *1/11*
SUBJECT Supplemental Authorization for the Municipal Finance Project 497-0365

ACTIONS You are requested to authorize a \$10.0 million grant supplement to the Municipal Finance Project (MFP) thereby raising the total life-of-project (LOP) funding to \$15.0 million and to extend its Project Assistance Completion Date (PACD) to September 30, 1998 making MFP a ten-year project. Subject to availability of funds, the additional \$10.0 million will be incrementally obligated in FY 1993 through FY 1997.

BACKGROUND The original \$5 million MFP technical assistance grant was authorized in tandem with a Housing Guaranty program (497-HG-001) which eventually grew to provide \$120 million in loans to support the implementation of the GOI's urban Policy Action Plan. The 1992 evaluation of the combined MFP grant and loan program found that MFP provided a model for operating a policy-based sectoral HG program and that it showed how long-term involvement in an integrated program with clearly focused sub-objectives can lead to important and measurable policy change. The 1992 evaluation made two recommendations both of which were endorsed by the Mission: 1) develop a new HG program to continue to support the basic elements of the Policy Action Plan and 2) provide necessary TA support by amending the existing MFP grant. In December, 1992 the Mission's Executive Committee reviewed and approved a new \$125 million HG program known as the Municipal Finance for Environmental Infrastructure (MFEI) program (497-HG-006). 93 STATE 185584 dated June 18, 1993 confirmed that the HG credit subsidy for MFEI had been approved. On June 30, 1993 you approved the Project Paper and signed the authorization for the new HG program. The Letter of Advice for the first borrowing under the five-year program was issued on August 10, 1993.

DISCUSSION The July, 1992 Action Memorandum for the Assistant Administrator of the Asia Bureau which delegated the authority to you to authorize the \$125 million MFEI program noted that "Once the MFEI policy reform framework is negotiated with the GOI into a HG-006 policy agenda, the Mission will prepare a grant [amendment], up to \$10

million, to provide technical assistance in support of the MFEI program " The requisite policy reform framework has been negotiated in principle and is found in the MFEI-HG Project Paper (PP) In response, the Mission has prepared a Supplement to the MFP grant PP

Purpose of the Municipal Finance Project Amendment (MFP/A)

The MFP/A will provide the GOI with long-term and short-term technical assistance advisors and funding for short-term training activities in the U S and Indonesia Consequent policy reforms will result in increased local capacity for the delivery and sustainable management of urban environmental infrastructure, including water supply, sanitation, solid waste management facilities, and drainage The sustainability of the new delivery systems will be enhanced by the development of indigenous training systems for urban management and by the program's emphasis on urban environmental quality management

The MFEI-HG and MFP/A are highly inter-linked They share the same Goal, Purpose, and EOPS statements Their indicators of progress towards policy reform are the same MFP/A will conduct annual reviews of the MFEI-HG and will also evaluate the appropriateness of its own technical assistance In this connection, MFP/A clearly incorporates the resolution to issue no 11 first raised by the Executive Committee in its review of the MFEI-HG program "the scopes of work of both evaluations and annual assessments will include a requirement (1) to analyze the degree of 'plausible attribution' to the MFEI Project of changes in policy and in levels of investment, and (2) to determine the appropriateness of the 'progress indicators and their anticipated degree of change "

Results of the Latest Design Committee Meeting

The MFP/A Design Committee meeting of June 16, 1993 discussed and resolved seven concerns as follows

1 The environmental advisor is charged with integrating gender concerns into new local planning processes but will be funded for only 24 months It was determined that 24 months is enough time to at least initiate the integration of gender issues and that the burden of follow-up would fall to the other advisors who will be able to review sex-disaggregated data for the first time Also, the new urban management training curriculum should help sensitize professionals to be more aware of gender as a design factor

2 The MFP/A Project Paper Supplement will note the Mission s 40% female trainee target for 1994 and 50% by 1996 The project will commit itself to a "best efforts" try to reach these targets

3 The MFP/A Project Paper Supplement will better define the difference between MFEI-HG reviews or assessments and MFP/A evaluations

4 The inability of the combined MFEI-HG and MFP/A grant to generate sex-disaggregated beneficiary data was discussed Since the MFEI-HG is, in fact, a policy-driven program it

does not finance specific neighborhood infrastructure. Rather the program attributes certain types of investments to the loans which are borrowed. Therefore, characterization of beneficiaries at the community level is the smallest level of disaggregation possible. Finally, the intent of the attribution process is to address the question of the household income of typical beneficiaries. To help possibly extrapolate sex-disaggregated data, it was agreed that the PP Supplement will include references to women-in-development surveys being conducted under the auspices of CIDA and the upcoming Indonesia Family Life Survey being performed by the RAND Corporation. The Urban Policy Division would review these surveys to see if it could infer information which is sex-disaggregated.

5 The MFP/A PP Supplement would clarify the GOI's role in financing local source procurement

6 Regarding the projected rapid rise in TA costs during FY 94, it was explained that four factors contributed to this sudden increase: a) the reserving of funds both to demobilize the first TA contractor and also prospectively to mobilize a new TA contractor, b) a significant backlog of short-term advisors who have been held in abeyance until more funds were assured, c) the initiation of a university curriculum/training component, and d) the inclusion of the Urban Policy Advisor into the TA line item.

7 It was argued and accepted that the obligation of FY 93 funds for MFP/A technical assistance grant should await the obligation of the first MFEI-HG credit subsidy. Submission of the attached MFP/A authorization package has, in fact, awaited approval and authorization of the new HG program as well as issuance of the first Letter of Advice for borrowing to the GOI.

Other Steps Leading to MFP/A Authorization

In addition to completion of the Design Committee's work, several other steps have been taken leading to project authorization. First, the Urban Policy Division has maintained a dialogue with counterparts in the Ministry of Finance concerning the content of the PP Supplement and have incorporated their concerns. Second, pursuant to Handbook 3, Chapter 13, Section 13 D 3 which offers guidance on the preparation of PP Supplements, the Design Committee submitted to the Indonesia Desk Officer drafts of the MFP/A Amplified Project Description, Revised Budget, and Logical Framework so that the Asia Bureau may be advised of the intended modification. We discussed this approach with the Asia Bureau General Counsel prior to taking the action. We have asked that Bureau comments or reactions be received by June 28th. Asia Bureau comments were received and addressed in the final text of the Project paper. Third, copies of the PP Supplement (including Facesheet and Annexes), a draft of this Action Memorandum, a draft MFP Authorization Amendment no. 1, and a draft Congressional Notification were forwarded for review and finalization by the Asia Bureau General Counsel in Washington, D.C. Fourth, the Asia Bureau Environmental Officer approved a Categorical Exclusion for MFP/A on June 15, 1993. Fifth, 93 STATE 185584 confirmed that a credit subsidy had been approved for the first \$25 million tranche of HG authority under 497-HG-006.

CONCLUSION

The MFP/A package is consistent with the overall intent of the new MFEI Housing Guaranty program and has been finalized by the Design Committee. The Bureau has been consulted as to the proposed MFP/A changes. Changes recommended by the Asia Bureau's General Counsel or the Mission's Executive Committee have been incorporated.

AUTHORITY

The Action Memorandum to the Assistant Administrator of the Asia Bureau delegating you authority to authorize the MFEI Housing Guaranty program also advised that grant-funded technical assistance be designed to support the HG program. Pursuant to Section 2 B (1) of the Amended and Restated Delegation of Authority (DOA) issued on August 9, 1991 by the Assistant Administrator for the Bureau for Asia and Private Enterprise, you have the authority to amend project authorizations which do not result in a total life of project funding of more than \$30.0 million. Pursuant to Section 2 A (4) of the same DOA you have the authority to authorize projects which do not have a life of project in excess of ten years.

CONGRESSIONAL NOTIFICATION

A Congressional Notification (CN) was required for this project supplement since its life-of-project funding will be increased. The CN was submitted to Congress on July 23, 1993 and expired without objection on August 6, 1993 pursuant to 93 STATE 263836 dated August 28, 1993.

RECOMMENDATIONS

That you approve the Project Paper Supplement to the Municipal Finance Project to raise the total authorized level of assistance under the Project to \$15.0 million and to extend the PACD to September 30, 1998 by signing the attached Project Data Sheet Amendment, Project Authorization Amendment No. 1, and the Initial Environmental Examination (Annex 3 to the PP Supplement), and

That you sign the attached Amendment No. 3 to the Municipal Finance Project

Approved

Philip H. ...

Disapproved

Date

August 31, 1993

Attachments

- A Congressional Notification Data
- B Project Data Sheet Amendment
- C Project Authorization Amendment No 1
- D Project Paper Supplement and Annexes
- E Project Agreement Amendment No 3

Municipal Finance Project/Amendment No 3 - Action MemoClearances

- ISusanto, PPS (draft) date 7/20/93
- NLangworthy, PPS (draft) date 7/20/93
- MLee, PED (draft) date 8/5/93
- JKolker, PED/UPD (draft) date 7/20/93
- WmFrej, PED (draft) date 7/20/93
- CChristensen, FIN (draft) date 7/26/93
- REdler, CM (draft) date 7/22/93
- GBisson, ASIA/GC (draft -attached) date 7/9/93



drafter GBricker, PPS/MLee, PED 6/22/93 and 7/20/93

Municipal Finance Project/Amendment No 3 - Action Memo

Clearances

- ISusanto, PPS	(draft)	date 7/20/93
- NLangworthy, PPS	(draft)	date 7/20/93
- MLee, PED	<u>ML</u>	date <u>8/5/93</u>
- JKolker, PED/UPD	<u>JK</u>	date <u>7/20/93</u>
- WmFrej, PED	<u>WmFrej</u>	date <u>7/20/93</u>
DBrazier, FIN	<u>DB</u>	date <u>7/20/93</u>
- REdler, CM	<u>RE</u>	date <u>7/22/93</u>
- GBisson, ASIA/GC	(draft -attached)	date 7/9/93

Municipal Finance Project/Amendment No 1

Action Memo

Clearances

- ISusanto, PPS _____ date _____
- MLee, PED _____ date _____
- DBrazier, FIN _____ date _____
- NLangworthy, PPS _____ date _____
- JKolker, PED/UPD _____ date _____
- REdler, CM _____ date _____
- GBisson, ASIA/GC _____ date _____

[Handwritten signature]

Jul 7 1993

*Action Memo w
GC clearance*

PLANNED PROGRAM SUMMARY SHEET

Indonesia

PROJECT TITLE Municipal Finance		PROJECT NUMBER 497 0365
		<input checked="" type="checkbox"/> GRANT <input type="checkbox"/> LOAN
PROPOSED OBLIGATION BY FUNDING SOURCE (In thousands of dollars)		
FY 1993 1 500 DA	LIFE OF PROJECT FUNDING 15 000 DA	
INITIAL OBLIGATION FY 1988	ESTIMATED FINAL OBLIGATION FY 1997	ESTIMATED PROJECT COMPLETION FY 1998

Purpose To assist the Government of Indonesia (GOI) to adopt an enabling framework for integrating urban environmental management within a system of improved decentralized municipal finance and planning

Project Description The project authorized in 1988 for \$5 million has provided technical assistance and training to complement the Housing Guaranty supported urban policy agenda. This project is being amended to add \$10 million and extend the completion date to August 31, 1998 in order to make the systems pledged by the GOI's urban Policy Action Plan fully institutionalized and self sustaining. The amendment will provide the GOI with long term and short-term technical assistance advisors and funding for short term training activities in the U.S. and Indonesia. Consequent policy reforms will result in increased local capacity for the delivery and sustainable management of urban environmental infrastructure including water supply, sanitation, solid waste management facilities, and drainage.

Sustainability The central theme of the project is the development of financial self sufficiency in local governments and utility undertakings for the delivery of environmental infrastructure including the creation of sustainable credit mechanisms for financing urban infrastructure. Sustainability of delivery systems will be enhanced by the development of indigenous training systems for urban management and by the program's emphasis on urban environmental quality management. The project enjoys a high level of host country commitment by virtue of providing support specifically for the GOI's urban Policy Action Plan.

Relationship to AID Strategy The project is directly supportive of all four of USAID's strategic objectives and in particular its first objective "to improve the balance in public and private provision of basic services". The project advances a policy agenda to re-define the role of the public sector in urban management and promotes the adoption of proven policies and practices in urban environmental management.

Host Country and Other Donors The host country will provide support in cash and in kind for office space for long term advisors, salaries and expenses of counterpart personnel and round trip airfares for trainees to the west coast of the U.S. USAID is working closely with staff of the World Bank and the Asian Development Bank in complementary efforts to promote sustainable credit mechanisms for municipal finance.

Beneficiaries Project beneficiaries will be urban households, particularly those below the median income which use the infrastructure and benefit from the improved environmental quality that will result from this project. Greater benefits will accrue to women and children than to the population at large.

Major Outputs Policy achievements will comprise (1) the development of a viable and sustainable finance and credit system for local government, (2) the development of an indigenous system of education, training and technical assistance in urban management, and (3) effective programs and policies to further urban environmental quality management and the provision of urban environmental infrastructure.

AID Financed Inputs

Life of Project

(In thousands of dollars, rounded)

Long and Short-Term T A	12 250
Training	2 000
Commodities	250
Audit Evaluation Monitoring	<u>500</u>
Total	15 000

✓ it is total from the source + ...

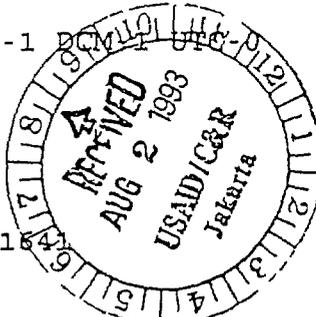
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TAGS

SUBJECT CONGRESSIONAL NOTIFICATION - INDONESIA

1 CONGRESSIONAL NOTIFICATION FOR MUNICIPAL FINANCE (497-0365) IN THE AMOUNT OF DOLS 1,500,000 DEVELOPMENT ASSISTANCE, WAS SUBMITTED TO THE HILL ON JULY 23, 1993

2 WE WILL ADVISE SEPTTEL WHEN CN EXPIRES WITHOUT OBJECTION AND OBLIGATION CAN BE INCURRED
CHRISTOPHER

BT
#1998

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AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

1. TRANSACTION CODE
 A = Add
 C = Change
 D = Delete

Amendment Number
1

DOCUMENT CODE
3

2. COUNTRY/ENTITY
Indonesia

3. PROJECT NUMBER
497-0365

4. BUREAU/OFFICE
ASIA 04

5. PROJECT TITLE (maximum 40 characters)
 Municipal Finance

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)
 MM DD YY
09/30/98

7. ESTIMATED DATE OF OBLIGATION
 (Under "B" below, enter 1, 2, 3, or 4)
 A. Initial FY 88 B. Quarter 4 C. Final FY 97

8. COSTS (\$000 OR EQUIVALENT \$1 = Rp 2,075)

A. FUNDING SOURCE	FIRST FY <u>88</u>			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(3,000)	()	(3,000)	(15,000)	()	(15,000)
(Loan)	()	()	()	()	()	()
Other	1					
U.S.	2					
Host Country		400	400		5,400	5,400
Other Donor(s)						
TOTALS	3,000	400	3,400	15,000	5,400	20,400

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1 Grant	2. Loan	1 Grant	2. Loan	1 Grant	2. Loan	1. Grant	2. Loan
(1) SD				5,000		0		5,000	
(2) DP						10,000		10,000	
(3)									
(4)									
TOTALS				5,000		10,000		15,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODES

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

15. PROJECT PURPOSE (maximum 480 characters)

To assist the Government of Indonesia to adopt an enabling framework for integrating urban environmental management within a system of improved, decentralized municipal finance and planning

14. SCHEDULED EVALUATIONS

Interim MM YY 08/95 Final MM YY 08/97

15. SOURCE/ORIGIN OF GOODS AND SERVICES
 000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

Municipal Finance Project Amendment No 1 adds \$10 million in grant funding and extends the PACD by four years so as to provide additional technical support for USAID/Indonesia's new \$125 million Housing Guaranty program - Municipal Finance for Environmental Infrastructure (497-HG-006)

I have reviewed the methods of implementation and financing in this Project Paper

Gary Eidet, Controller

17. APPROVED BY

Signature: *[Signature]*
 Title: Director
 USAID/Indonesia

Date Signed: MM DD YY 08 09 98

18. DATE DOCUMENT RECEIVED IN AID/M OR FOR AID/M DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

PROJECT AUTHORIZATION AMENDMENT NO 1

INDONESIA MUNICIPAL FINANCE PROJECT NO 497-0365

1 Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, the Municipal Finance Project (497-0365) was authorized on August 30, 1988 with a Project Assistance Completion Date of September 30, 1994, involving planned obligations of not to exceed \$5,000,000 in grant funds over a six-year period. The planned Government of Indonesia (GOI) contribution, representing both public and private sector funds, was the equivalent of \$1,800,000. The project authorization is hereby amended as follows: The total authorized life of project grant financing is hereby increased to \$15,000,000, and the total host country contribution, from both public and private sector sources, is \$5,400,000. The Project Assistance Completion Date is extended to September 30, 1998 thereby establishing a ten-year project. Planned obligations will be subject to the availability of funds in accordance with the A I D Operating Year Budget/allowance process, to help in financing foreign exchange and local currency costs for the Project.

2 The purpose of this Project Amendment is to assist the GOI to adopt an enabling framework for integrating urban environmental management within a system of improved, decentralized municipal finance and planning. A I D financed inputs will include technical assistance, training, and commodities.

3 Except as amended herein, the Project Authorization is unchanged and, as amended, remains in full force and effect.

Approved



Charles F. Weden
Director

Date

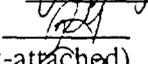
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PED/UPD WmFrej



date 7/20/93

PED VGary

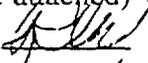


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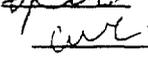
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CM REdler



date 7/22/93

FIN, PPS, DD CChristensen



date 7/26/93

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MUNICIPAL FINANCE PROJECT

PROJECT PAPER SUPPLEMENT

(PROJECT 497-0365)

August 1993

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MUNICIPAL FINANCE PROJECT AMENDMENT

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3	Initial Environmental Examination
4	Statutory Checklist
5	Draft Amendment to the Program Agreement (Annex 1)
6	GOI Request for Assistance
7	Draft Scopes of Work for Long-Term Advisors

GLOSSARY AND LIST OF ACRONYMS

ADB	Asian Development Bank
A I D	Agency for International Development
AID/W	Agency for International Development, Washington
AMDAL	Environmental assessment process
ANDAL	Environmental Impact Assessment
BANGDA	Directorate of Urban Development, Ministry of Home Affairs
Bappeda	Regional Planning Boards
BAPPEDAL	Environmental Impact Management Agency
BAPPENAS	National Planning and Development Board
BKSAKSI	Association of Indonesian Municipalities
Cipta Karya	Directorate General of Human Settlements, Ministry of Public Works
DA	Development Assistance
EOPS	End of Project Status
FY	Fiscal Year
GOI	Government of Indonesia
HG	Housing Guaranty
IEE	Initial Environmental Examination
IUIDP	Integrated Urban Infrastructure Development Program
Kampung	Unserviced, informal, unplanned neighborhoods
KIP	Kampung Improvement Program
KLH	Ministry of Population and the Environment
MEIP	Metropolitan Environmental Improvement Program
MFEI	Municipal Finance for Environmental Infrastructure
MFP	Municipal Finance Project
MOF	Ministry of Finance
PACD	Project Assistance Completion Date
PAP	Policy Action Plan
PDAM	Regional water enterprise
PD&S	Project Development and Support
PIL	Project Implementation Letter
PP	Project Paper
PSC	Personal Services Contractor
PUOD	Directorate of Regional Finance, Ministry of Home Affairs
PURSE	Private Participation in Urban Services
RDA	Regional Development Account
REPELITA	National Five Year Economic Development Plan
RFP	Request For Proposals
RHUDO/EA	Regional Housing and Urban Development Office for East Asia
Rp	Rupiah
SUSENAS	National Socio-economic Survey
TA	Technical Assistance

TKPP	Tim Koordinasi Pembangunan Perkotaan Inter-ministerial Coordination Team for Urban Development, BAPPENAS
UEQM	Urban Environmental Quality Management
UMT	Urban Management Training
UNDP	United Nations Development Programme
UPD	Urban Policy Division
USAID	United States Agency for International Development, Indonesia
USL	Urban Sector Loan

1 SUMMARY AND RECOMMENDATIONS

1.1 Title

Title Municipal Finance Project Amendment (MFP/A)(497-0365)

Period of Implementation 5 years (FY 1993-98)

1.2 Summary Project Description

The amended goal of the MFP is to broaden access to basic services by facilitating the delivery of urban environmental infrastructure on a financially viable and sustainable basis

The project purpose is to assist the Government of Indonesia (GOI) to adopt an enabling framework for integrating urban environmental management within a system of improved, decentralized municipal finance and planning

This Project Paper Amendment (PP/A) describes a proposal to add funding to, and to extend the life of, the Municipal Finance Project (MFP)(497-0365) MFP was approved in August 1988, with a Project Assistance Completion Date (PACD) of September 30, 1994 The amendment will extend the PACD to September 30, 1998, to make a full ten-year project MFP/A will provide additional technical assistance and training to support the GOI's achievement of the objectives of the Municipal Finance for Environmental Infrastructure (MFEI) Housing Guaranty program, 497-HG-006, as identified in the GOI's urban Policy Action Plan MFEI itself is the successor to that part of the MFP that was supported by Housing Guaranty loans

The current Policy Action Plan is divided into the six themes listed below, comprising groups of mutually-reinforcing objectives MFP/A will provide substantive assistance to achievement of these objectives

- (1) Enhancing local government resource mobilization and financial management
- (2) Establishing effective mechanisms to support municipal borrowing, and improving the system for allocating intergovernmental grants
- (3) Strengthening the institutional capacity of local governments
- (4) Improving intergovernmental coordination and consultation in urban development
- (5) Strengthening and clarifying local government responsibility for urban infrastructure
- (6) Implementing a coordinated and decentralized process for programming urban infrastructure investment and urban environmental quality management

The project strategy remains the same as for the grant component of the original MFP project to make available to the GOI key technical assistance and training inputs to facilitate achievement of the goals of the GOI's Urban Policy Action Plan. MFP/A project activities will support the six policy areas outlined above, and will take place in the following five categories: (a) long-term technical assistance, (b) short-term technical assistance, (c) policy analysis, (d) short-term training, and (e) evaluations.

1.3 Project Management

1.3.1 Steering Committee

The project will continue to receive broad policy direction from the inter-ministerial MFP Counterpart Team, comprising representatives from the Ministry of Finance, BAPPENAS, the Ministry of Home Affairs, the Ministry of Public Works and BAPPEDAL. A USAID representative will attend meetings of the Counterpart Team when requested by the GOI.

1.3.2 Annual Planning Process

An annual planning process will be undertaken in parallel with the MFEI review process, to ensure that technical assistance and training support is provided by MFP/A in accordance with the priority needs of MFEI. This process is essentially the same as the process that has been used for planning actions to be taken in the current project.

It involves, firstly, an annual statement by the GOI of progress towards meeting the objectives of the Policy Action Plan. Subsequently, USAID sponsors an external assessment, which helps to document constraints to progress, if any, and to propose new quantitative targets for the Policy Action Plan for the coming year. This assessment will also be used to feed into an annual review meeting of the Counterpart Team, at which decisions will be taken regarding changes in emphasis, if any, to be made to MFP/A, and the outline of a work plan for the following year.

1.3.3 The Project Team

The project will be continued to be managed by a small team of resident advisors. Under the current project, long-term advisors are assigned to the Ministry of Finance, the Ministry of Home Affairs, the Ministry of Public Works, and BAPPENAS. These positions will be maintained until the end of the present institutional contract, which expires on July 31, 1994.

For the period of MFP/A, the team will consist of four resident expatriate experts, one locally-hired Training Coordinator, and a USAID Urban Policy Advisor. The four expatriate experts and the training coordinator will be hired through an institutional contractor, who will also be responsible for management of short-term technical assistance and training activities.

The institutional contractor's Chief of Party will serve as the senior advisor on issues of municipal finance, and will work with the Ministry of Finance (Bureau for Regional Financial Analysis) This advisor will be responsible for providing technical advice on matters relating to municipal finance, and for providing overall guidance and direction to the technical assistance team of long-term and short-term consultants This Advisor will take particular responsibility for providing support, directly and through management of short-term consultants, to the GOI in its achievement of the Objectives (1) and (2) of the Policy Action Plan as listed in Section 1.2 above

The institutional contractor's Local Government Policy Advisor will be assigned to the Ministry of Home Affairs, and will advise PUOD and BANGDA on the development of local government capacity to play a more prominent role in the financing, provision and management of urban infrastructure and services In that role, the Advisor will assist the Ministry with its achievement of Objective (3), and will work closely with the Chief of Party in assisting the GOI to achieve Objective (1)

The institutional contractor's Urban Development Advisor will assist BAPPENAS to create a sustained capability to participate in the inter-departmental policy dialogue in urban and regional finance Thus, the Advisor will assist BAPPENAS with the achievement of Objective (4) of the Policy Action Plan as listed above, and with development of the system for allocating intergovernmental grants

The institutional contractor's Environmental Advisor will be based in the Ministry of Public Works (Cipta Karya), and will have the responsibility of assisting the Ministry to implement the environmental components of Objectives (5) and (6) in the Policy Action Plan, and particularly of working to strengthen the AMDAL process for urban infrastructure projects promoted by local governments, and of integrating gender concerns into the local planning processes

The institutional contractor's Training Coordinator will be assigned to report directly to the MFP Counterpart Team The Coordinator will have the responsibility of coordinating inputs to the Urban Management Training Program and to the Regional Universities Program The Coordinator will also work with other team members to manage the MFP training function

The Urban Policy Advisor will work with USAID to assist in the management of the project, including its monitoring, and with direct management of project activities outside the scope of the long term contractor (including project evaluation, UPD quarterly reports and certain short-term training activities) The Advisor will also provide some substantive assistance to the GOI in fulfilling the objectives of this program The USAID Urban Policy Advisor will be a USAID Personal Services Contractor, reporting to the chief of USAID's Urban Policy Division

The majority of the long- and short-term technical assistance, training, and commodities required will be covered by a long-term institutional contract For the remainder of the first

period of project implementation (up to July 31, 1994), this will be a Host-Country Contract For the second period of project implementation (immediately following completion of the Host-Country Contract), this will be an A I D direct institutional contract Certain activities will be outside the scope of these contracts, principally the Urban Policy Advisor, and audits and evaluations

1 4 Funding and Resource Requirements

The cost of the amendment is \$13 6 million, comprising \$10 million in A I D grant funds and GOI direct contributions of \$3 6 million (equivalent in local currency) The total budget for the amended MFP is therefore now \$20 4 million, representing \$15 0 million in A I D grant funding and \$5 4 million in Indonesian funding

1 5 Status of Negotiations

USAID/Indonesia has received a formal request for assistance from the Government of Indonesia (Annex 6) The GOI members of the MFP Counterpart Team met in early 1993 for detailed discussions about relative priorities for inclusion of components within the project amendment The Team's position was discussed between the GOI (represented by Dr. Dono Iskandar and the MFP Project Manager, Dr. Susiyati Hirawan), and Mission representatives in May 1993, and substantive agreement was reached shortly thereafter on the content of this Amendment

The Ministry of Finance (Agency for Financial and Monetary Analysis) has agreed in principle to all of the general terms and conditions of this Project Paper Amendment It is anticipated that final negotiation with the GOI of the Project Grant Agreement Amendment will proceed rapidly upon USAID approval of this Project Paper Amendment

1 6 Recommendation

The Project Committee recommends that the USAID/Indonesia Mission Director approve an amendment to the Municipal Finance Project, which will add \$10 million to the existing Life of Project funding of \$5 million, and will extend the PACD to September 30, 1998

2 THE PROJECT CONTEXT

2 1 MFP Project History

The Municipal Finance Project (MFP) was approved on August 30, 1988, with a PACD of September 30, 1994 It incorporates \$5 million in DA grant funds for technical assistance and training and an initially approved level of \$100 million in loan guarantees In February 1992, AID/W approval was given for a further \$20 million of HG resources to be added to the combined grant-loan project The Mission Director approved this additional authorization

in August 1992, bringing total guaranty authority to \$120 million. Disbursement of the fourth tranche of \$25 million took place in late-October 1992. Disbursement of the final tranche of \$20 million is expected to take place in mid-1993.

The DA-funded technical assistance and training component of MFP has provided a variety of activities designed to complement the HG-supported policy agenda, including the services of four full-time technical advisors to the Ministries of Finance, Home Affairs and Public Works, and to BAPPENAS. Short- and long-term training, and technical assistance provided under the project has been structured to assist the GOI meet selected policy objectives articulated in its Policy Action Plan.

An interim evaluation of MFP conducted in July, 1992 concluded that MFP served as a model for operating a policy-based sectoral HG program. The program has made, and continues to make, substantial progress. Major accomplishments include decentralizing and coordinating (across sectors) the urban infrastructure programming process, improving the management and yields of the property tax and other local own source revenues, setting a sound base for expanding private sector participation in urban services, establishing the Regional Development Account (RDA) as a major step toward an effective credit finance system for local government, and institutionalizing inter-ministerial coordination at the central level. The report found that "the technical assistance and training component has been effective in advancing priority program initiatives and interagency collaboration."

The evaluation team recommended that the MFP project give priority to (1) increasing local tax authority, (2) preparing an action plan for building the RDA into a market-based credit system, (3) establishing an indigenous system for building local capacity in urban management, and (4) inclusion of policy agenda items which address urban environmental degradation. Those recommendations have been incorporated into the design of MFEI.

The interim evaluation recommended that the linkage between future HG and grant programs be reinforced by amending the MFP.

2.2 Project Rationale

MFP/A is expressly designed to provide support to the GOI to implement the Policy Action Plan included in the MFEI Housing Guaranty program. The PP for MFEI was authorized by the Mission Director in June, 1993. The project has two basic inputs:

(1) Support will be provided for the GOI's urban policy agenda on sustainable, financially viable and environmentally sound ways to increase the level of investment in urban environmental infrastructure, through implementation of a Policy Action Plan. This plan focuses on the long-term development of effective programs and policies to further a viable and sustainable finance and credit system for local government. To achieve this effectively, programs and policies included in the plan necessarily also promote (a) private sector

participation in urban services, (b) an indigenous system of education, training and technical assistance in urban management, and (c) urban environmental quality management

(2) Housing Guaranty loans of up to \$125 million will support infrastructure investments made under the GOI's next five-year development plan (Repelita VI)

The MFEI project was designed to be supported by the Private Participation in Urban Services (PURSE) Project (497-0372), and by an amendment to MFP, to provide training and technical assistance to the GOI for implementation of the Policy Action Plan

With this understanding, the second and subsequent tranches of HG loans under MFEI are conditioned on prior approval of MFP/A (See MFEI Project Paper, Section 9.1.1, page 69)

2.3 Relationship to Other Projects

2.3.1 Private Participation in Urban Services (PURSE)

The purpose of the PURSE Project, approved in September, 1991 with a PACD of September 30, 1998, is to expand the participation of the private sector in the provision of selected urban environmental services (water, wastewater and solid waste) through direct investment, contracted participation in supply, delivery or other operational functions. PURSE will thus provide support to the GOI for the implementation of those objectives in the Policy Action Plan relating to private sector participation in urban services delivery.

MFP/A and PURSE will thus be complementary insofar as both will provide specialist support for implementation of the GOI's urban policy agenda.

2.3.2 Virginia Commonwealth University - University of Hasanuddin (VCU/UNHAS)

Supported by A I D 's University Development Linkage Project, the VCU/UNHAS linkage is a means by which Virginia Commonwealth University (Richmond, Virginia) and Hasanuddin University (Ujung Pandang) will develop and implement a long-term sustainable relationship in the field of urban management.

The program, discussed further in Annex 2 C, will, among other activities

- Implement a graduate management training program at UNHAS,
- Establish a self-sustaining training center at UNHAS for public sector employees in urban and regional management as a complement to, but separate and distinct from, the academic graduate programs, and
- Provide a research and training program of direct consultation with local and regional governments on critical developmental issues

These activities will develop a future cadre of professional urban managers to complement the MFP-supported Urban Management Training Program for current senior urban managers (see Section 7.1.2)

2.4 Conformity with Indonesia's Strategies and Programs

By the mid-1980s, there was widespread recognition on the part of GOI officials that Indonesia had to address its growing urban problems through the increased provision and strengthened management of urban infrastructure. Central government planners conceded that local government needed to become more involved in the management of urban services and that local revenue generation and private funding would have to be tapped to fill the ever-widening gap between required services and limited central government resources. In recent years, therefore, the GOI has been moving towards implementation of a number of urban management reforms which will both increase the financial and managerial capacity of local authorities to manage the delivery of urban infrastructure.

The Policy Action Plan included in the MFEI project was first derived from the GOI/World Bank Policy Action Plan of 1987, and was most recently updated on the basis of the March, 1992 report by BAPPENAS, *Issues and Priorities*. This summarizes recent progress in urban development, and in the formulation and implementation of urban policy. It also identifies the actions proposed by the GOI for the next two fiscal years to develop urban policy and strategy, and to accelerate program implementation. The current Policy Action Plan thus reflects continuity in the GOI's pursuit of a stable and dynamic urban development policy.

Priority concerns of the GOI listed in the *Issues and Priorities* report include (1) the development of systems and instruments for mobilizing domestic resources on a large scale for urban infrastructure finance, coupled with establishing the creditworthiness of local governments, (2) systematically building environmental objectives into municipal management systems, (3) providing incentives for improving local government revenue and expenditure performance, and (4) developing policies and programs that will further enhance local government personnel capabilities. Simultaneously, the GOI is proposing to encourage a shift of emphasis from project management to municipal management, among other ways by strengthening institutional capacities to increase the supply of urban management staff.

Since all of these concerns are incorporated into the MFEI project, they are also included, by extension, into MFP/A.

2.5 Relation of MFP/A to Mission Strategic Objectives and A I D Regional Activities

2.5.1 Mission Strategic Objectives

Since the objectives of MFP/A are identical to those of MFEI, the analysis in the MFEI PP regarding the program's relationship to the Mission's strategic objectives (Section 2.6) is

equally valid for MFP/A. That analysis found that the program is supportive of all four strategic objectives, although to varying degrees, ranging from fundamentally essential for Strategic Objective #1 ("Improved Balance in Public and Private Provision of Basic Services") which advances a policy agenda to re-define the role of the public sector in urban management, directly responsive to Strategic Objective #2 ("Wider Adoption of Proven Policies & Practices in Natural Resource Management & Environmental Conservation"), and indirectly supportive of Strategic Objectives #3 and 4 ("Increased Promotion of Individual and Broad-Based Community Rights and Good Governance", and "Broadened and Increased Private Trade and Investment")

2.5.2 Relation to A I D Regional Activities

There are three A I D - supported regional programs currently under way that can be tapped to advance the objectives of MFP/A: the new academic program on Urban Environmental Management being developed by the Asian Institute of Technology, the US-ASEAN Council, and the United States - Asia Environmental Partnership (US-AEP). This latter program seeks to promote environmental improvement through increased trade and investment by American private sector companies involved in pollution prevention, monitoring and control. The USAEP also provides opportunities for fellowships exchanging representatives of American and Asian institutions to improve the sharing of environmental information among their respective countries.

2.6 Other Donors

The principal multilateral donors supporting Indonesia's urban development financing requirements have been the World Bank, the Asian Development Bank (ADB) and UNDP. Major bilateral urban donors include the Japanese, the Canadians and the British. Mission/RHUDO staff maintain a regular dialogue with representatives of these agencies to assure program complementarity.

The forerunner of the major, multilateral, urban programs was the World Bank's Urban Sector Loan (USL), which was approved in 1987 and closed in 1991. The Loan provided support for the GOI's pursuit of an ambitious urban policy agenda, designed to move the responsibility for formulating, financing and implementing local urban services from central to local governments. The USL was designed to provide technical and training support for urban sector policy and institutional reforms. The formulation of these reforms constituted the GOI's Urban Policy Action Plan.

USL, over the course of its implementation, clearly supported a number of sector achievements. However, the Bank's own evaluation found there to be "considerable unfinished business on the agenda. Improved allocation criteria for central government grants, establishment of a viable credit mechanism, and legislative action to expand the local tax base are all essential components of a strategy to enable the sector to establish, over time, pricing policies which can manage the increasing demand for basic urban services more

effectively and generate or mobilize an increasing proportion of investment capital requirements from domestic savings, and facilitate a more decentralized framework for administering local urban services in line with government policy "

The Bank's evaluation also found that "policy and institutional reform is a gradual process", and that implementation of reforms "is necessarily uneven and fragmented, determined by what is politically possible at any point in time", that "the sector is clearly under-funded", and that the "key challenge in the financing area is to mobilize more resources at the local level and to utilize the available central government resources more efficiently"

In relation to the key challenge of local resource mobilization in support of fiscal decentralization, the establishment of a credit mechanism for local government was proposed under USL This followed a prior recommendation made in the World Bank's Indonesia Urban Services Sector Report This credit mechanism, the RDA, was formally established by ministerial decree in October 1991, eight months after the close of USL However, due to currently perceived RDA institutional issues, including presumed incompatibility with World Bank and ADB international procurement requirements and present appraisal and financial management capabilities, the multilateral donors are not now utilizing the RDA mechanism They are, instead, continuing to finance infrastructure investment packages through subsidiary loan agreements, according to their own established lending procedures USAID continues to maintain a close dialogue with both the World Bank and ADB regarding the establishment of this important credit scheme for Indonesian municipalities Both of the other donors recognize that the perceived operating weaknesses of the RDA will need to be addressed to enable them to fully utilize this facility for their future infrastructure investments

However, the Banks do support the full operationalization of the RDA In the November 2, 1992 ADB Report to the Board on the proposed Central Java and Yogyakarta Urban Loan, the ADB stated that, "the RDA represents the first step in establishing a municipal credit scheme in Indonesia Its success will help municipalities eventually to have access to the private capital market In this connection, USAID has provided technical assistance to help define the RDA's future development The Bank continues to maintain close dialogue with USAID on the RDA Under its technical assistance program, the Bank is prepared to assist in institutional strengthening of the RDA, in cooperation with USAID " ADB representatives have subsequently informed USAID of their recommendation to earmark \$5 million from the proposed Eastern Islands urban project for capitalization of the RDA

The World Bank has also informed USAID of the Bank's intention to review its existing disbursement procedures and explore the possibility of utilizing the RDA as a channel for partial funding of its urban projects

Of other technical assistance and training programs in the sector, UNDP and UNCHS (Habitat), in association with the World Bank, are providing long-term support for the Integrated Urban Infrastructure Development Program (IUIDP) The IUIDP, which started

in 1985, provides a variety of forms of long and short term TA to central and local governments for the decentralization of infrastructure planning and management MFP is closely collaborating with these efforts

The World Bank-assisted Metropolitan Environmental Improvement Program (MEIP) was started by UNDP and the World Bank in 1989 to help Asian cities tackle their rapidly growing environmental problems In Jakarta, the Jabotabek Urban Development Project (JUDP III) sets the framework for many MEIP efforts, including support for joint wastewater treatment, institutional strengthening of provincial pollution control authorities, environmental improvement in low-income settlements, and informal-sector, community-based composting and recycling enterprises

3 PROJECT DESCRIPTION

3 1 The Policy Agenda

MFP/A will provide support for the GOI to implement the Policy Action Plan incorporated in the MFEI project insofar as external support is needed and is not available from other sources

The Plan, which is detailed in the PP for MFEI, is divided into six themes, comprising groups of mutually-reinforcing objectives MFP/A will provide material assistance to achievement of the objectives of the Policy Action Plan listed below

- (1) Enhancing local government resource mobilization and financial management
- (2) Establishing effective mechanisms to support municipal borrowing, and improving the system for allocating intergovernmental grants
- (3) Strengthening the institutional capacity of local governments
- (4) Improving intergovernmental coordination and consultation in urban development
- (5) Strengthening and clarifying local government responsibility for urban infrastructure
- (6) Implementing a coordinated and decentralized process for programming urban infrastructure investment and urban environmental quality management

3 2 Overall Project Strategy

The project approach is to help to GOI to achieve specified urban policy objectives by the most effective means a combination of long- and short-term technical assistance and training The strategy will be defined with more precision by the presentation of a Work

Plan at the beginning of each year, which will identify and justify the activities to be undertaken in the following 12 months. The approach was determined as a consequence of the definition of the Policy Action Plan, experience of implementation of MFP, and the interim evaluation of that project.

3.3 Project Purpose, Outputs and Inputs

3.3.1 Project Goal and Purpose

The goal of MFP/A is to broaden access to basic services by facilitating the delivery of urban environmental infrastructure on a financially viable and sustainable basis.

The purpose of the Project is to assist the Government of Indonesia to adopt an enabling framework for integrating urban environmental management within a system of improved, decentralized municipal finance and planning.

The goal and purpose of MFP/A are identical to those of MFEI.

MFP/A will adopt the same indicators and End-of-Project-Status (EOPS) indicators as will be used for the MFEI project. They are as follows:

Indicator #1	Improved performance of local governments in resource mobilization as indicated by
•	An increase in real per capita Own Source Revenues (OSRs). The EOPS achievement is a continued year-on-year increase in real per capita OSRs.
Indicator #2	Improved performance of local governments in resource mobilization as indicated by
•	An increased share of user charges in local government own source revenues from 19% (1989/90 actual) to an EOPS of 25%.
Indicator #3	Improved performance of local governments in mobilizing resources from high priority sources as indicated by
•	An increased proportion of property taxes (PBB formerly IPEDA) in local government own source revenues from 26% (1989/90 actual) to an EOPS of 30%.
Indicator #4	Increased share of central local transfer payments under local government discretionary authority as indicated by
•	An increased share of INPRES grants in total capital transfers from central to local governments (DIPs + INPRES) from the current 23% (1991-92 Budget) to an EOPS of 30%.
Indicator #5	Better targeting of central local financial transfers to the highest priority level of local government (Dati II) as indicated by
•	An increased Municipality/District share of central government SDO and INPRES grants to local governments from the current 52% (1991-92 budget) to an EOPS of 60%.

- Indicator #6 Procedures are developed and implemented for incorporating environmental concerns within IUIDP decentralized investment packages, as indicated by
- Increased use of environmental impact studies and urban environmental management guidelines
-

3 3 2 Project Outputs

As with MFEI, the primary activities of MFP/A will lead to the following outputs

A viable and sustainable finance and credit system for local government

Output 1 A stable institutional source of domestic credit is developed, under which municipalities can borrow to finance part of their capital needs, including investment in environmental infrastructure

Output 2 Policies adopted for mixing loans with grants, involving approval of loans, capital grants, capital expenditures and debt management, under a single investment package

Development of an indigenous system of education, training and technical assistance in urban management

Output 3 Establishment of an indigenous capacity to deliver technical assistance and training in urban management

Effective programs and policies to further urban environmental quality management and the provision of urban environmental infrastructure

Output 4 National guidelines are established for sustainable pricing of environmental infrastructure and services, and for cost recovery targets appropriate for different types of environmental infrastructure

Output 5 Procedures are developed and implemented for incorporating environmental concerns within IUIDP decentralized investment packages

Output 6 Establishment of a capacity for reviewing AMDAL assessments of locally-generated urban environmental infrastructure projects

3 3 3 Project Inputs

MFP/A project activities will support the policy areas outlined in Section 3 3 2 above, (municipal finance and credit, development of an indigenous training delivery system, urban environmental quality management), and will take place in the following five categories

- * long-term technical assistance
- * short-term technical assistance
- * policy analysis
- * short-term training
- * evaluations

Section 5 identifies indicative expenditures in each of the above five categories to support the three main objectives of MFEI. Ceiling expenditures within each category will be agreed between USAID and GOI, and will be formally incorporated into a Project Implementation Letter. That Letter will also state that allocations may subsequently be shifted between categories, subject to mutual agreement.

Section 7 and Annex 2 A describe the agenda to be covered in order to achieve the outputs identified above, and give illustrative examples of activities which would appropriately be financed by MFP/A. Section 7.1.1 covers the municipal finance and credit agenda, Section 7.1.2, the development of an indigenous training system, Section 7.1.3, urban environmental quality management, and Section 7.1.4, the development of urban environmental impact assessments for locally-initiated projects.

This amendment will add approximately \$13.6 million in combined USAID-GOI expenditures over an additional five years life-of-project. Of this, approximately 54 percent will be attributable to the municipal finance and credit objective, 27 percent to the training delivery system objective, 11 percent to the urban environmental quality management objective, and 7 percent to project management.

3.4 Project Management

3.4.1 Project Coordination

The GOI representative responsible for coordination and implementation of MFP/A will continue to be a designate of the Ministry of Finance, currently the head of the Agency for Financial and Monetary Analysis.

The project will continue to receive broad policy direction from the inter-ministerial MFP Counterpart Team. This is chaired by the designate of the Ministry of Finance, with senior representatives from BAPPENAS (Office of the Deputy for Regional Affairs), Ministry of Home Affairs (Directorate General PUOD), the Ministry of Public Works (Directorate General Cipta Karya) and the Environmental Impact Management Agency (BAPPEDAL). A USAID representative will attend meetings of the MFP Counterpart Team when invited by the GOI.

The MFP Counterpart Team will be appointed by a representative of the Ministry of Finance, in close consultation with Deputy V, BAPPENAS, since the latter appoints the

MFEI Steering Committee It is likely that both committees will have identical membership, and will meet simultaneously so as better to coordinate their activities

An annual planning process will be undertaken in parallel with the MFEI review process, to ensure that technical assistance and training support is provided by MFP/A in accordance with the priority needs of MFEI. This involves, firstly, an annual statement by the GOI of progress towards meeting the objectives of the Policy Action Plan. Subsequently, USAID sponsors an external assessment, which helps to document constraints to progress, if any, and to propose new quantitative targets for the Policy Action Plan for the coming year. This assessment will also be used to feed into an annual review meeting of the Counterpart Team, at which decisions will be taken regarding changes in emphasis, if any, to be made to MFP/A

3 4 2 USAID Responsibilities

USAID/Indonesia has appointed a Project Officer, who supervises the MFP with the assistance of an Urban Affairs Advisor as day-to-day project manager and an Indonesian Project Manager. The project management team work in the Urban Policy Division of the Mission's Private Enterprise Development Office. A similar arrangement will continue for the life of MFP/A

In order to minimize demands on the time of other Mission offices, the Urban Policy Division employs long-term contractors responsible for various management tasks such as sub-contracting and financial accounting. For MFP/A, all substantive services will be performed under a long-term institutional contract, with the principal exception of the following activities: the Urban Policy Advisor, some discretionary training activities, and audits and evaluations

The USAID project management staff will continue to participate in periodic progress meetings with the advisory team

3 4 3 Procurement Plan

Immediately following obligation of \$1.5 million in FY 93 grant support, preparation of a Request for Proposals under full and open competition will begin for a new long-term A I D direct technical assistance contract. It is anticipated that one prime contractor will be able to bring together the required sub-contractors to carry out the Project's specified activities and to provide support to the technical assistance team. Such documentation will be cleared by the Counterpart Team prior to issuance. It is the intention of USAID to have the long-term technical assistance team mobilized on completion of the present long-term contract (July 31, 1994)

It is anticipated that the majority of the long- and short-term technical assistance, training, and commodities required will be covered by a single long-term A I D direct contract

Most overseas training and in-country training will be funded through the contract. It is anticipated that significant subcontracting will be done with domestic Indonesian suppliers of technical assistance and training services over the life of the project.

The contract will provide the following services:

- * One Long-term Advisor to the Ministry of Finance (Chief of Party)
- * One Long-Term Advisor to the Ministry of Home Affairs
- * One Long-term Training Coordinator
- * One Medium-term Advisor to BAPPENAS
- * One Medium-term Advisor to Cipta Karya
- * Short-term advisors (about 152 person-months)
- * Short-term overseas training (for about 60 participants and 2 study tours)
- * In-country workshops (about 8 events)
- * Curriculum development (about 4 courses developed)
- * Commodities and office rental
- * Local logistics support
- * Home office support

USAID will retain a limited amount of funding outside the long-term contract to be used on a contingency basis for special training needs, short-term technical assistance, or purchase of materials. Such needs may be procured through a direct A I D contract or may be pre-financed by the GOI and reimbursed by USAID, pursuant to mutual agreement and issuance of a PIL.

Evaluations and assessments will also be contracted separately, through buy-ins, IQCs or direct contracts.

USAID will also retain funds for part of the cost of a Personal Services Contractor (PSC) who will assist USAID with project management in the role of USAID Urban Policy Advisor. The PSC will be contracted directly by A I D.

Expenditures will be made only for work requested by the GOI or otherwise administratively required by USAID (such as project evaluations). Approvals will be limited to work that is

- * clearly supportive of the MFEI Policy Action Plan,
- * not able to be funded from any other source,
- * within the mutually-agreed expenditure limits for the appropriate category of activity.

4 IMPLEMENTATION PLAN

4.1 Technical Assistance

4.1.1 Long-Term TA

Until the end of the present institutional contract, the Technical Assistance team comprises five positions: a USAID Urban Policy Advisor, and four long-term advisors to the GOI (advising the Ministry of Finance/BAKM, Ministry of Home Affairs/PUOD and BANGDA, BAPPENAS/Deputy V, and the Ministry of Public Works/Cipta Karya). From the start of the second institutional contract, the Technical Assistance team will consist of the following long-term positions:

TABLE 1
LONG-TERM TECHNICAL ASSISTANCE (August 1994 - PACD)

Source	Position	Assignment
<u>Expatriate</u>	Municipal Finance Advisor/Chief of Party	MOF
	Local Government Policy Advisor	MOHA
	Urban Development Advisor	BAPPENAS
	Environmental Advisor (medium term hire)	Cipta Karya
<u>Local</u>	USAID Urban Policy Advisor	USAID
	Training Coordinator	TKKP

The **Municipal Finance Advisor** will also function as the Chief of Party, and will work with the **Ministry of Finance (MOF)(BAKM)**. The Advisor will continue to act as the direct counterpart of the MOF Project Manager in providing technical assistance on matters relating to municipal finance, and for providing overall guidance and direction to the technical assistance team of long-term and short-term consultants. This Advisor will take particular responsibility for providing support, directly and through management of short-term consultants, to the GOI in its achievement of Objectives 1 and 2 of the Policy Action Plan quoted in Section 3.1.

The **Ministry of Finance Advisor** will focus on mechanisms for increasing the volume, reliability and diversity of resources to finance the provision and management of urban infrastructure and services. The Advisor will, through continuing advice and through the management of short-term consultants, assist the GOI with policy advice regarding development of the municipal credit development strategy (Section 7.1.1 and Annex 2.B). The Advisor will also assist the GOI with regard to policy analyses regarding local government resource mobilization, allocation and utilization, including own source revenue, local and central government transfers, and debt instruments.

The **Local Government Policy Advisor** will be based in the **Ministry of Home Affairs**, and will advise PUOD and BANGDA on the development of local government capacity to play a more prominent role in the financing, provision and management of urban infrastructure and services. In that role, the Advisor will assist the Ministry with its achievement of Objective (3), and will work closely with the Chief of Party in assisting the GOI to achieve Objective (1).

The Ministry of Home Affairs Advisor will assist the GOI to increase the efficiency of local government administration for resource mobilization and allocation, including better determination of debt carrying capacity and improved debt management. The Advisor will work with the other team members on the further development of monitoring indicators, and on the implementation of the urban management training program.

The **Urban Development Advisor** will continue to be based at **BAPPENAS**, assisting BAPPENAS to create a sustained capability to participate in the inter-departmental policy dialogue in urban and regional finance. This Advisor will take particular responsibility for assisting BAPPENAS with the achievement of Objective (4) of the Policy Action Plan, including strengthening its system for monitoring municipal finances, and with development of the system for allocating intergovernmental grants. This Advisor will also be responsible for managing MFP/A-funded short-term consultants working with BAPPENAS. The position of Urban Development Advisor will be funded only for three years, from August 1, 1994 until July 31, 1997.

The BAPPENAS advisor will also assist the GOI with updating, monitoring and evaluating Indonesia's national urban development strategy, together with continuing policy analyses of central government transfers to local governments in the context of the overall national development strategy.

The **Environmental Advisor** will be based in the **Ministry of Public Works (Cipta Karya)**, and will have the responsibility of assisting the Ministry to implement Objectives 5 and 6 in the Policy Action Plan, and particularly of working to strengthen the AMDAL process for urban infrastructure projects promoted by local governments, and of integrating gender concerns into the local planning processes. This Advisor will manage MFP/A-funded short-term consultants working with Cipta Karya, and other agencies responsible for urban environmental quality management. The position of Environmental Advisor will be funded only for two years, from August 1, 1994 until July 31, 1996.

The Cipta Karya Advisor will assist the GOI to improve the planning and delivery of local government urban infrastructure and services, among other ways by re-orienting Cipta Karya's role from being the principal provider of urban public facilities to serving as a technical resource to support local governments and local government enterprises in the provision of those facilities.

The **Training Coordinator** will be assigned to report directly to the MFP Counterpart Team. The Coordinator will have the responsibility of coordinating inputs to the Urban Management Training Program and to the Regional Universities Program. The Coordinator will also work with other team members to manage the MFP training function. The training function includes brokering training programs and resources available throughout Indonesia as well as directly handling MFP/A-sponsored conferences, short courses, individual networks, institutional networks, study tours, on-the-job-training and institution building. The Coordinator will have the responsibility of coordinating donor assistance to the Indonesian Urban Management Training Program. The Training Coordinator will be a local hire position.

The **USAID Urban Policy Advisor** will be assigned to work with USAID to assist in the management of the project, including its monitoring, and with direct management of project activities outside the scope of the long term contractor (including project evaluation, UPD quarterly reports and certain short-term training activities). The Advisor will also provide some substantive assistance to the GOI in fulfilling the objectives of this program.

All of the above positions, except for the Urban Policy Advisor, will be members of the team provided by the long-term contractor. The Urban Policy Advisor will be a USAID Personal Services Contractor, reporting to the chief of USAID's Urban Policy Division. Illustrative Scopes of Work for all Advisors are included in Annex 7.

The Training Coordinator's position will commence from about December, 1993, the positions of Municipal Finance Advisor, Local Government Policy Advisor, Urban Development Advisor and Environmental Advisor will commence from the start of the second institutional contract (August 1, 1994). The position of Urban Policy Advisor is continuing.

4.1.2 Short-Term TA

The approach to the provision of short-term technical assistance and policy analyses will be flexible. Initially, assistance will be allocated to project components in terms of levels of effort, rather than an exact description of activities.

The annual work plans described in Section 1.3.2 will contain an outline of intended utilization of short-term technical assistance over the following year. Specific requests for assistance will be prepared by government agencies and submitted to a working group designated by the Counterpart Team. The working group will include representatives from the Ministry of Finance and from USAID. The group will have the authority to approve requests and allocate the TA effort, subject to necessary formal approvals and scheduling considerations. Approvals will accord with the project principles as described in this paper, and as elaborated in Project Implementation Letters from time to time. The Chief of Party will prepare periodic reports of balances remaining in each component "account".

In order to avoid the problem of lack of familiarity by short-term consultants with the current policy environment, the long-term contractor will be expected to make available a pool of

expatriate advisors with relevant experience and qualifications, who may be called upon periodically to return to Indonesia to undertake short-term assignments

MFP/A will provide approximately 55 person months of short term expatriate assistance and 97 person months of short term local assistance, including both technical assistance and policy advice -- see Table 2

TABLE 2
LEVEL OF EFFORT SUMMARY
(person-months, August 1994 - PACD)

	Long-term Expat	Long-term Local	Short-term Expat	Short-term Local	Total
Municipal Finance and Credit	132	-	35	35	202
Urban Environ- mental Manage- ment	24	-	5	32	61
Training Systems Develop- ment	-	56	15	30	101
Project Manage- ment	40*	-	-	-	40
TOTAL	196	56	55	97	404

* equivalent person-months, October 1993 - August 1998

Approximately 60 percent of the budget for short term assistance under the MFP/A will be allocated to work on municipal finance and credit issues, 15 percent to urban environmental quality management and 25 percent to training systems development. Section 7 describes the policy agenda to be pursued under each of the substantive topic areas, and this is summarized in Table 3 below

TABLE 3
ILLUSTRATIVE POLICY AGENDA TO BE ADDRESSED BY SHORT-TERM TA
(August 1994 - PACD)

Task	Level of Effort
<u>Municipal Finance and Credit</u>	
<ol style="list-style-type: none"> 1 Institutional assessment of RDA, prepare 5-year development plan 2 Preparation of disclosure guidelines for RDA 3 Continuing TA to RDA 4 Develop other municipal credit market alternatives 5 Improvement of urban management guidelines 6 Improve financial performance of local enterprises 7 Devise pricing strategies for water sector services - supplementary to PURSE 	35 expat person-months + 35 local person-months
<u>Urban Environmental Quality Management (UEQM)</u>	
<ol style="list-style-type: none"> 1 Develop environmental guidelines for use in PJM updates 2 Research on economic interventions for UEQM 3 Promote an active role for women in the design and management of UEQM programs 4 Provide TA to Cipta Karya in disseminating AMDAL guidelines to regional offices 5 Study on the incidence of benefits of urban environmental programs 	5 expat person-months + 32 local person-months
<u>Training Systems Development</u>	
<ol style="list-style-type: none"> 1 Curriculum development 3-4 courses 2 University training system development 3 Feasibility study urban management training institute 	15 expat person-months + 30 local person-months

4.2 Training

4.2.1 Training Strategy

The MFP/A training strategy is designed to support the policy agenda of MFEI, by the strategic use of short-term courses in the U S and Indonesia, seminars and workshops, and by assisting the development of a nationwide system of training and education for urban management

The training goals are as follows

- 1 The adoption of appropriate national and local policies, as articulated in the MFEI Policy Action Plan. The target group is senior policy officials in central and regional government, and the private sector
- 2 Skill development of staff in key agencies participating in the implementation of the MFEI Policy Action Plan. The target group comprises senior and mid-level staff of central and regional governments, and the NGO community
- 3 Building the capacity of national training institutions, as articulated in the MFEI Policy Action Plan (Objective 5.2)

Goal 1 (policy adoption) will be achieved, within MFP/A, mainly by holding policy seminars and workshops, predominantly in Indonesia, and by sponsoring occasional study tours with the aim of disseminating information on techniques of policy change, if and only if study tours are the most effective means of achieving those ends

Goal 2 (skill development) will be achieved by supporting the attendance of participants at short courses, and sponsoring and co-sponsoring short training courses, on subjects relevant to the Policy Action Plan

Goal 3 (capacity building) will be achieved by a variety of techniques, and will achieve (1) the development of and initial implementation of 3-4 Tier I courses, and (2) strengthening urban management training capacity at major regional universities. This is described more fully in Section 7.1.2 below

Several other modes of training may be supported under MFP/A, if priority to these events is given by the Counterpart Team. For instance, networks of individuals and institutions can be funded, insofar as materials (hardware and software) can be purchased and costs associated with convening members of the network can be funded. On-the-job (OJT) arrangements and exchanges like twinning and staff exchanges may also take place

Although much of the training will take place in Indonesia, some specialist short courses and conferences will be held abroad

MFP/A will not support long-term training (in excess of three months duration)

Training opportunities will be made available and accessible to both men and women. Project Implementation Letters will set targets for the participation of women so far as possible in accordance with the Mission's Country Training Plan. That Plan sets a target for 40 percent of overseas training participants to be women, by the end of 1994, and for 50 percent to be women by the end of 1996. The GOI asked USAID to note, however, that although the GOI Project Manager and the BAPPENAS representative on the Counterpart Team are women, the number of women presently employed in central or local government positions suitable to benefit from participant training is extremely small.

It will be a standard requirement that training institutions contracted to perform work should have proven capabilities to work with both men and women, and should demonstrate a gender-sensitive curriculum. As relevant, course materials developed to meet Training Goal 3 will highlight gender issues to raise awareness of constraints and opportunities for the involvement of women in the corresponding programs.

4.2.2 Training Priorities

Consistent with the priorities identified for MFEI, training events would primarily complement the project focuses: (1) establishment of a viable system of finance and credit for local government, (2) improved urban environmental quality management (UEQM) and the provision of urban environmental infrastructure, and (3) the development of an indigenous capacity to deliver technical assistance and training in municipal finance and urban management. The development of training delivery capacity is discussed separately, in Section 7.1.2 and Annex 2.C.

TABLE 4
ILLUSTRATIVE TRAINING STRATEGY
(indicative participant numbers, 5 years FY 1994-98)

	Municipal Finance and Credit	Urban Environmental Management	Training Systems Development
Short-term U S / regional	40 participants	10 participants	10 participants
Study tours	2 study tours (10 participants)		
Seminars, Workshops	6 events	1 event	1 event
Curriculum development			3-4 equiv courses developed*

* curriculum development funded from the "Short-term TA" budget line item

4 2 3 Managing the Training Function

MFP/A staff time devoted to training coordination, management and delivery is estimated at 2 25 person years/year, including full time of the training coordinator, and a quarter time of the Chief of Party, the Ministry of Home Affairs Advisor, the BAPPENAS Advisor, the Cipta Karya Advisor and the USAID Advisor

4 3 **USAID Staff Roles and Relationships**

Project management will continue to be the responsibility of the Urban Policy Division (UPD) of USAID/Indonesia Staffing and management of UPD are described in the MFEI Project Paper

4 4 Implementation Schedule

TABLE 5
ILLUSTRATIVE MFP/A IMPLEMENTATION SCHEDULE (FY93 - PACD)

Action	Target dates
PP/A Approved	August 1993
Project Agreement Amendment signed	September 1993
Issue the RFP for the 2nd Institutional Contract	October 1993
Review contractor proposals	2nd qtr FY94
Award the 2nd Institutional Contract	3rd qtr FY94
1st Institutional Contract completed	July 30, 1994
2nd Institutional Contract team mobilized	July 31, 1994
Annual Project Review, mid 1994, (MFEI Assessment)	3rd qtr FY94
Annual Project Review, mid-1995, Interim Evaluation of MFP (and MFEI)	3rd qtr FY95
Annual Project Review mid-1996, (MFEI Assessment)	3rd qtr FY96
Annual Project Review mid-1997, Final Evaluation of MFP (and MFEI)	3rd qtr FY97
2nd Institutional Contract completed	July 31 1998
PACD	August 30, 1998

5 FINANCIAL PLAN

5 1 Cost Estimates

Total project expenditures will be \$20.4 million, of which \$15 million will be from A I D grant funding, and \$5.4 million from Indonesian Government funding. Of these totals, project expenditures for the amendment will be \$13.6 million, comprising \$10 million in A I D grant funds and GOI direct contributions of \$3.6 million. USAID resources will be used to fund all foreign exchange costs for technical assistance, training and commodities. Local currency costs will be borne jointly by USAID and the GOI. The foreign exchange and local currency costs and the expenditure projections for the project, by Indonesian Fiscal Year, will be detailed in Project Implementation Letters.

A summary of the estimated resource requirements appears in the tables which follow.

5 2 Government of Indonesia Contributions

The GOI contribution will include financing for local support for the long-term technical assistance team, including office space for the advisors attached to specific ministries, and space for some training activities, office accommodation for short-term technical assistance.

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team members, as needed, salaries of GOI staff assigned to work on this project, space for GOI staff working on this project, partial in-country costs for some training, including salaries, travel, per diem and honoraria, and round-trip airfares to the west coast of the U S for the approximately 70 short-term training and study tour participants

During project implementation, the annual workplans and budgets prepared will contain detailed breakdowns of required USAID and GOI contributions, and GOI contributions will be included in the annual DIPs

5 3 USAID Contributions

USAID contributions will include short- and long-term technical assistance, short-term training, both in-country and overseas, per diem for short-term overseas training, and airfares from the west coast of the U S to the point of training, facilities costs for in-country workshops and seminars, administrative support staff under the contract, commodities, including vehicles and computers, audits and evaluations USAID will not pay for office accommodation of short-term team members

Additional details regarding anticipated levels of USAID contributions for each specific activity will be given in Project Implementation Letters The annual workplans and budgets will contain detailed breakdowns of these costs

5 4 Disbursements

Disbursements will be handled in compliance with the intent of the Joint Decree of the Minister of Finance and the Minister of State for National Development Planning/Chair of BAPPENAS No 48/KMK 012/1987/Kep 004/Ket/I/1987, dated January 27, 1987, based on details to be determined between USAID and the GOI Disbursement procedures for various project activities, consistent with the details determined between USAID and the GOI above, will be agreed upon by Project Implementation Letter

5 5 Project Financing Procedures

The Project will finance activities using three methods (1) direct payment by USAID, (2) direct payment by the GOI, and (3) pre-financing by the GOI with reimbursement from USAID

USAID will contract for all technical advisory assistance All long-term technical assistance except for the part-funding for the USAID Urban Policy Advisor, and most short-term training will be included in the long-term technical assistance contract The long-term contract will also provide funding for short-term advisors and the required materials and facilities for the in-country training, forums and workshops Vehicles, computers and related hardware and software will be procured under the long-term contract or under a sub-contract to the long-term contract

A limited amount of funding will be available outside the long-term contract to be used for special training requirements, short-term technical assistance, project implementation support or other contingencies. It is anticipated that USAID will contract for any required services.

For any pre-financing of activities by the GOI, the GOI will seek reimbursement by USAID pursuant to PILs which will commit funds for these specific purposes. Pre-financing will follow the procedures described in SKB-48.

Evaluations and audits will be funded directly by USAID, through IQCs, buy-ins to centrally-funded projects, or through A I D direct contracts.

A I D encourages the participation to the maximum extent possible of small, disadvantaged, and women-owned small business concerns in this activity in accordance with Part 19 of the FAR and Gray Amendment. It is anticipated that the prime contractors will utilize such business concerns for at least 15% of the total contract value, including bridging technical assistance activities.

5.6 Local Source Procurement

Local source procurement is authorized for financing: (1) locally required technical assistance, local costs of training, seminars and workshops, policy studies, and local administrative and logistic services, (2) local procurement of other commodities and services as listed in paragraph 18A1c, Chapter 18, AID Handbook 1, Supplement B, and (3) such other locally required goods and services as may be agreed to by AID in project implementation letters.

TABLE 6
ESTIMATED MFP/A RESOURCE REQUIREMENTS (FY94 - PACD)
(\$000)

PROJECT INPUT	Description of Input		USAID Funding	GOI Funding			Total Project
	Qty	Cost/Unit		Cash	In-Kind	Total	
PERSONNEL							
<u>a Long-term Technical Assistance</u>							
Chief of Party	48 p-m	25 4	1 219		220	220	1 439
Local Govt Advisor	48 p-m	25 4	1 219		220	220	1 439
Urban Developpt Advisor	36 p-m	25 9	931		165	165	1 096
Environmental Advisor	24 p-m	26 8	643		110	110	753
Training Coordinator	56 p-m	10 3	578				578
Urban Policy Advisor	40* p/m		492				492
<u>b Short-term Technical Assistance</u>							
Mun Finance/Credit							
- Expat	35 p/m	35	1 225				1 225
- Local	35 p/m	5	175				175
Training systems							
- Expat	15 p/m	35	525				525
- Local	30 p/m	5	150				150
UEQM							
- Expat	5 p/m	35	175				175
- Local	32 p/m	5	160				160
<u>c GOI Personnel</u>							
			-		500	500	500
<u>d GOI Office Space</u>							
			-		350	350	350
Sub-total			7 492		1 565	1 565	9 057
TRAINING							
<u>a Overseas Training</u>							
- Short-term	60 part	5	300	400	100	500	800
- Study tours	2	37 5	75	40	10	50	125
<u>b In-country Training</u>							
- Conferences	8	17 5	140	560	260	820	960
Urban Management Training	3	275	820		370	370	1 190
Sub-total			1 335	1 000	740	1 740	3 075
COMMODITIES							
- Supplies tpt etc							
			160				160
Sub-total			160				160
OTHER COSTS							
- Evaluation and Audit							
			270		50	50	320
- Contingency and Inflation							
			743	50	195	245	988
Sub total			1 013	50	245	295	1 308
Project Total			0 000	1 050	2 550	3 600	13 600

* equivalent person months

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TABLE 9
ESTIMATED MFP/A GRANT EXPENDITURES BY U S FISCAL YEAR
(\$000)

PROJECT INPUT						TOTAL
	FY94	FY95	FY96	FY97	FY98	
1 PERSONNEL						
a Long-term T A						
Chief of Party	90	288	288	288	265	1,219
Local Govt Advisor	90	288	288	288	265	1,219
Urban Developpt Advisor	90	288	288	265	-	931
Environmental Advisor	90	288	265	-	-	643
Training Coordinator	95	126	126	126	105	578
USAID Urban Advisor	100	100	100	100	92	492
(Sub-total)	555	1,378	1,355	1,067	727	5,082
b Short term T A						
Munic Finance/Credit	250	300	300	300	250	1 400
Training Systems Devt	200	175	175	125	-	675
UEQM	110	75	75	75	-	335
(Sub-total)	560	550	550	500	250	2,410
2 TRAINING						
Overseas training	75	75	75	75	75	375
In country training	250	250	210	200	50	960
(Sub total)	325	325	285	275	125	1,335
3 COMMODITIES						
Supplies tpt etc	40	40	40	40	-	160
(Sub-total)	40	40	40	40	-	160
4 OTHER COSTS						
Evaluation and Audit		60	75	60	75	270
Phys Contingencies*	46	49	48	44	23	210
Inflation*	-	69	139	168	157	533
(Sub-total)	46	178	262	272	255	1,013
Total Expenditure	1,526	2,471	2,492	2,154	1,356	10,000

* Price inflation of 5% p a applied to long-term TA contracts only physical contingencies of 5% on all other components

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TABLE 10
ESTIMATED MFP/A EXPENDITURE OF GOI CONTRIBUTIONS
BY INDONESIAN FISCAL YEAR
(\$000)

PROJECT INPUT													TOTAL
	IFY 93/94		IFY 94/95		IFY 95/96		IFY 96/97		IFY 97/98		IFY 98/99		
	Cash	In Kind											
1 PERSONNEL													
a Long term T A				120		175		175		175		70	715
b Short term T A				90		120		120		120		50	500
c GOI Personnel				63		84		84		84		35	350
d Office Space													
2 TRAINING													
a Overseas	30	8	92	21	93	22	94	24	95	25	36	10	500
b In country			140	150	140	150	140	160	140	170			1 190
3 COMMODITIES													
a Supplies etc													
4 OTHER COSTS													
a Evaluation & Audit				10		10		10		10		10	50
b Contingency	2	1	17	33	17	41	17	42	17	43	3	12	245
Total Expenditure	32	9	249	487	250	602	251	615	252	627	39	187	3 600

6 MONITORING AND EVALUATION

6.1 Project Monitoring

The MFEI PP describes procedures for monitoring the GOI's performance on implementation of the Policy Action Plan. Tools employed include annual reports by the GOI on specific statistical indicators, annual reports by Deputy V, BAPPENAS, on progress and accomplishments towards implementation of the Policy Action Plan, and periodic status reports by USAID's Urban Policy Division. These will provide input for the project progress indicators listed in Section 3.3.1 above.

These reports will be complemented by quarterly reports by the contractor, addressed to USAID and the GOI, which report activities undertaken in the previous quarter, propose activities for the next quarter, and note emerging opportunities and obstacles to achievement of the project objectives. The quarterly reports will, so far as possible, report information on a gender-disaggregated basis.

6.2 Project Evaluation

Two formal evaluations of the MFEI project are planned over its life; they will be complemented with shorter "assessments" to be undertaken at intervals of about one year. As stated in the PP for the MFEI project, funding for the evaluations and assessments will be provided from the evaluation line item in the MFP.

The annual evaluations and assessments will be used to assess, among other things, progress and accomplishments in terms of the Policy Action Plan, hence to determine the extent to which the objectives of MFP/A are being met. Their findings will be an important input into decisions concerning relative priorities for programming technical assistance under MFP/A for subsequent years. The evaluations will be more far-reaching than the assessments in conforming in full to the AID requirements for formal evaluations, for instance including an appraisal of progress towards meeting the development objectives defined in the project's log frame -- Annex 1.

The evaluations and assessments of the MFEI HG program will be complemented with two formal evaluations of the MFP/A grant. The interim evaluation of MFP/A will be scheduled to coincide with the second evaluation of MFEI, in mid-1995. The final evaluation of both MFP and MFEI, to be held prior to completion of the projects, in late 1997, will build on the findings of the MFEI assessments.

The interim evaluation of MFP/A will assess the continuing validity and relevance of the project to the GOI's urban policy objectives as addressed by the MFEI project, and will address whether the implementation arrangements are the most efficient and effective to achieve the desired outputs. Findings will be used to help determine the need for modifica-

tions to the existing program, including revisions to project objectives, institutional arrangements and funding

The final evaluation will review overall implementation in relation to benchmarks achieved. This evaluation will also be used to determine whether the required actions have been carried out, whether performance has been consistent with expectations, and whether additional actions are needed to ensure the sustainability of project accomplishments. The evaluation will be keyed to the project outputs, purpose and goal as described in this Project Paper Amendment.

Both of the MFP/A evaluations will address issues of program sustainability, and the extent to which the benefits and achievements of the program can be maintained in the absence of further donor inputs. They will analyze the degree of 'plausible attribution' to the MFEI project of changes in policy and in levels of investment. The evaluations will also examine the appropriateness of the chosen progress indicators, and their anticipated degree of change over the remaining life-of-project, and will encompass "lessons learned" reports, suitable for distribution to other donors, interested GOI officials, etc.

7 TECHNICAL ANALYSES

7.1 Technical Assistance Requirements

Annex 2 A summarizes the technical assistance requirements in the areas of municipal finance and credit, training systems development, urban environmental quality management, and environmental impact assessments.

7.1.1 Municipal Finance and Credit

The Policy Action Plan focuses on two aspects of municipal finance: enhancement of local government financial management, and establishment of effective credit mechanisms. In summary, the goals and objectives are as follows:

- **Enhancing local government resource mobilization, financial management**

Objective 1: Enhance local government resource mobilization

To date, the MFP has supported this objective by focusing on two sub-objectives: (a) improved financial management capacity through various activities such as the consolidation of accounting and financial management packages and an inventory of urban management guidelines, and (b) improved cost recovery and management of regional enterprises via study of water authority (PDAM) financial performance, and analysis of the regulatory framework for local government.

MFP/A will continue providing support from the Ministry of Home Affairs Advisor for consolidation of financial management and management information systems packages, using short-term technical assistance as necessary. Support for the resource mobilization objective may include TA and training to maintain continued improvement in property tax administration and property tax revenue collection, to water enterprises to support continued improvement in financial management, and greater use of cost-recovery service pricing, and for studies on the pricing of water supply, wastewater removal and treatment, solid waste collection and disposal, and other environmental services.

Technical assistance may also be used to support the development of urban management guidelines. MFP has already initiated a comprehensive inventory and assessment of all regulations concerning urban management (including finance). The next phase of this work is intended to eliminate overlapping and duplicative laws, regulations and guidelines, and then supplement a unified and consolidated set of instructions with fresh guidance in currently omitted areas.

(Policy Plan Objective 2 relates to private sector participation in environmental infrastructure and service delivery. Technical assistance to achieve this objective is available through the PURSE project. No additional support for TA and training for this objective will be provided by MFP/A.)

- **Establishing effective mechanisms to support municipal borrowing, and improving the system for allocating intergovernmental grants**

Objective 3 Support development of the RDA as a transition vehicle that facilitates market-based lending to local governments and integration of municipal credit into the private financial sector.

The Regional Development Account (RDA) has been formalized as a credit mechanism for municipal governments and local public enterprises, but operational implementation has been limited. MFEI and MFP/A will support the development and institution of systems to implement the principles already embodied in the RDA regulations, will support eventual integration of RDA into the commercial financial sector, by moving municipal lending closer to private market principles, and will pursue alternative options for capital mobilization, including local government bonds.

Objective 4 Improve the system for allocating intergovernmental grants

For the foreseeable future, central government grants and direct expenditures will continue to finance a large part of local infrastructure investment. The development of clearer criteria for allocating these resources is an important part of the municipal finance agenda. Central government grant resources are appropriately targeted on infrastructure facilities that service the poor, have substantial externalities associated with them, or are important for national economic development objectives. The MFEI Policy Action Plan supports this targeting,

while seeking to give local authorities greater control over the detailed allocation of grant funds to projects that meet these criteria. MFP is providing assistance for more effective targeting of grant resources in accordance with GOI development policies.

Objectives 1,3 and 4 above will be supported by long-term technical assistance under MFP/A, and may be advanced by short-term TA, as appropriate. The scope of possible assistance is described in Annex 2 B.

7.1.2 Training Systems Development

Annex 2 C reports the need to increase the quantity and quality of urban management training, and to improve the institutional capacity of training organizations in the country.

Key guiding principles to address problems in training delivery were first developed by a working group of urban professionals. Subsequently, an Urban Management Training (UMT) Task Force was convened to develop a plan of action, including allocation of roles and responsibilities for implementation of integrated urban management training, and to provide guidance for program execution. The Task Force comprises representatives of the main central government agencies involved in urban management, major providers of training, and urban management consultants. Currently, the Task Force is convened by the representative of the Ministry of Finance.

The MFP/A proposals are designed to support the initiatives of this Task Force.

Most of the funding under MFP/A devoted to training will be allocated to support the development of an indigenous training capacity within the framework designed by the Task Force. It is, however, certain that the resources of MFP/A will be insufficient to achieve all of the Task Force's objectives, and that support will need to be selective and to be supported by the injection of resources from central government and other donors.

Components of the program to be supported by MFP/A, described in more detail in Annex 2 C, include the following:

- o MFEI Training Coordinator (see Section 4.1.1)
- o Development of core curricula of certain short term programs designed to meet the needs of urban managers. The UMT Task Force has advocated the development of a new training program in urban management, calling for several tiers of courses but giving priority to the development of the "Tier 1 Courses", which would offer materials on strategic management for Tk II top management teams. TA/training resources would be applied to extend the design of this system and to implement it. This would include (1) preparing an institutional development plan, including a needs evaluation, (2) curriculum and training materials development, (3) training of trainers (in substantive fields, on training methods, on course materials, and on refresher

courses), (4) pilot testing in two or three selected locations, and (5) assistance in managing the overall program. Development of a single course will cost between \$300,000 and \$450,000. An indicative total of \$1,345,000 is set aside under MFP/A for support of the development of core curricula of short term programs (\$525,000 for short-term technical assistance, and \$820,000 for training)

- o Assistance with development of longer term formal educational courses at undergraduate and graduate level at regional universities. The objective of the university capacity building component would be to strengthen the capacity of selected regional universities to integrate urban management into their urban development curricula, and to complement the urban management training program. An indicative total of \$100,000 is set aside under MFP/A for short-term TA support of the development of the University Training Delivery System
- o Development of an urban management training institute. Since demand-driven urban sector training in many countries is usefully provided through professional associations, this option could be explored in Indonesia. MFP/A would be able to fund a feasibility study for creating such an association with a clear training mandate. An indicative total of \$50,000 is set aside under MFP/A for support of studies for development of an Urban Management Training Association and/or of an Urban and Regional Development Institute

7.1.3 Urban Environmental Management

This component addresses the development of Urban Environmental Quality Management (UEQM). This is the set of activities directed at improving environmental conditions at the urban level. It includes the identification of environmental problems, the formulation and implementation of environmental policies, including the regulation of development through environmental impact assessments and through the use of economic interventions, the delivery of urban environmental services, and the dissemination of information about environmental issues and their solutions. UEQM involves numerous actors, but is of particular importance at the local level.

Annex 2 D identifies activities that are responsive to the requirements of the Policy Action Plan, are consonant with present opportunities and needs, and could appropriately be supported by MFP/A.

7.1.4 Environmental Impact Assessments

AMDAL (Indonesia's environmental impact assessment process) can arguably be considered the most practical application of UEQM to date, and it will constitute a primary vehicle for the promotion of UEQM in the future. Concepts of, and procedures for, AMDAL reviews are described in detail in Annex 2 E.

In the light of these analyses, some technical assistance will be used to address strengthening of the AMDAL process, both at Cipta Karya for its own projects, and to reinforce the regional AMDAL process

Assistance to the regional AMDAL process will be preceded by a more detailed needs analysis. This will include examination of the extent to which RDA-funded and other locally-initiated projects are likely to be exempted by the new Cipta Karya guidelines from AMDAL requirements, the feasibility of incorporating an AMDAL compliance monitoring function within the RDA administrative structure, provincial/local level research into the experience of AMDAL application to RDA projects to date, in order to determine the most efficient method (and responsible institution) for tracking the compliance of RDA projects with AMDAL, and an investigation of key institutional problems associated with AMDAL review in areas of concentrated RDA activity

Subsequent to that analysis, MFP/A would be able to provide limited support, from the long-term advisor based at Cipta Karya and from the short-term TA budget, for certain activities to strengthen the regional AMDAL process. Annex 2 E identifies a range of activities that would be eligible for MFP/A funding

7.2 Social and Economic Analysis

7.2.1 Beneficiaries

Benefits will accrue to households through three separate mechanisms

1 Policy reform As part of its analysis of priorities for programming in the urban sector, BAPPENAS has restated its concern that there is a need to accelerate the attack on urban poverty, particularly through programs that provide urban services for the lower income groups. Within the present project, the GOI will continue to support the development of appropriate mechanisms for the delivery of urban environmental services to these households. Other reforms intended to improve local management, facilitate private sector participation, and strengthen municipalities to finance and manage services, are expected to result in an improvement and expansion of services for the urban poor

2 Increased service levels The program will support the development of increased capacity for local governments to finance and deliver environmental infrastructure on a sustainable basis. Important components of the program will comprise support for development of the RDA and the further development of own-source revenues. The program will also move towards a rationalization of intergovernmental financial relations to encourage a more efficient use of government resources. These policy reforms will all enable municipalities to increase their service levels, implementation of the policy agenda will help ensure that these services are equitably targeted to lower income neighborhoods

3 Improved environmental quality Insofar as environmental deficiencies adversely affect lower income families more than those in higher income groups, and because the poor can less well afford to protect themselves against environmental pollution, the program's emphasis on environmental quality management will necessarily improve conditions for below median-income households

7 2 2 Impact on Women

The MFEI Project Paper noted that improved delivery of infrastructure services, as targeted by that project, provides greater benefits to women and children than to the population at large. That project will result in increased levels of construction and improvement of urban infrastructure, particularly water and sanitation, and more efficiently operated urban services. Women and children in the kampungs, which are the principal project areas, are likely to benefit most: the former from additional productivity, time and cost savings, and the latter because children are at special risk from water-related diseases.

Annex 2 F of this paper includes an analysis of gender issues in relation to the implementation of environmental infrastructure projects. It starts with a description of the GOI's position on the role of women in national development, finding, however, that the ability of the Ministry for the Role of Women to influence activities, particularly those in more non-gender specific sectoral programs, is limited. Integration of gender concerns into sectoral programming is problematic. Within Public Works, for example, program targeting generally stops at the household level, rather than dealing with gender relations within them. Certain programs, most notably the Kampung Improvement Program (KIP), include specific mechanisms for community involvement, including women, but, in practice this has often been limited to community involvement as a source of labor (*gotong royong*) at the time of project implementation. Elsewhere, practical avenues for WID integration are even more limited, the only potential avenue within the annual programming and budgeting structure currently lying in the bottom-up series of meetings (*Rakorbang*) held, starting at the village level, to designate priorities and potential projects and where women's interests could conceivably be expressed.

Recently, there have been efforts to incorporate Community Based Development (CBD) within the broader Cipta Karya program aimed at Integrated Kabupaten Infrastructure Development. In principle, CBD provides a concrete framework for both women and the poor to be directly involved in the provision of infrastructure for their respective communities. In practice, however, there are questions about just how far this involvement can reasonably be expected to extend.

While the significant role women play in relation to infrastructure utilization in Indonesia is undeniable, the major problem faced by these women is ultimately still one of poverty and limited access to safe services in the same way as for men. In this sense, equity at the household or family level in the provision of public urban infrastructure should remain the primary objective in program design. Even so, key women's issues can still be addressed at

the level of the individual project (e.g. in terms of design, implementation and management) and focus on the need to sensitize such things as location of infrastructure, as well as management and operations, to the roles and needs of women in poor households

7.2.3 Gender Concerns in MFP/A

Gender concerns have therefore been incorporated into MFP/A in four ways. Firstly, technical assistance will be made available under the UEQM component for the promotion of a more active role for women and women's organizations in the design and management of UEQM programs at the local level. USAID/Indonesia expects that this study will be undertaken within the first two years of the project amendment. Secondly, Project Implementation Letters will set targets for the participation of women in MFP-funded training activities. It will be a standard requirement that training institutions contracted to perform work should have proven capabilities to work with both men and women and should demonstrate a gender-sensitive curriculum. Course materials will highlight gender issues to raise awareness of gender issues. Thirdly, the Scope of Work of the Environmental Advisor will include a requirement that this consultant advises the GOI on ways of integrating gender concerns into the local planning process. Fourthly, the need to address gender concerns will be written into the Request for Proposals for the second Institutional Contractor, and into other Scopes of Work, including those for project monitoring and assessment.

7.2.4 Beneficiary Studies

Annex 2 F addresses the issue of the extent to which implementation of urban environmental programs adequately reflect national social welfare and equity objectives. It finds that very little is presently known about the extent to which urban programs are benefiting the poor or, conversely, the extent to which the urban poor are benefiting from infrastructure programs. The Annex describes a number of ways in which the data can be collected and analyzed to begin to address the questions of the incidence of benefits of urban programs, and of the extent to which they are instrumental in the alleviation of poverty and in enhancing the role of women.

Since poverty alleviation is a firmly-stated goal of the GOI and is also an objective of the HG-supported MFEI project, and since it is the GOI's policy, actively supported by USAID, to enhance the capacities and opportunities of women in the nation's development, USAID wishes to earmark a nominal part of the overall budget of MFP/A for catalytic studies. However, since the scale of many of the studies identified in the Annex is substantial, MFP/A resources would probably need to be used in conjunction with other resources and activities, including the on-going Indonesian Family Life Survey. As with other studies proposed for MFP/A, proposals for beneficiary studies would need to be reviewed by the joint GOI-USAID Working Group, and would need to conform to the criterion that it cannot be funded from other sources.

7 2 5 Economic Analysis

Significant economic benefits of the program will be achieved through support of the GOI Policy Action Plan. The long-term impact of policy change will be to stimulate higher levels of investment in urban services, to improve cost recovery, debt management, and more efficient use of resources by local governments and enterprises, and to establish sustainable credit mechanisms whose capital base will ultimately be augmented from private financial markets.

Other benefits of policy reform are likely to include the following:

- Preservation or retarded depletion of non-renewable natural resources, especially water, due to the development and economic pricing of urban infrastructure and services.
- Increased effective demand for urban infrastructure and services, thus greater financial viability of such capital investments, due to decentralized planning and management of such projects.
- Decreased foreign borrowing due to the development of a sustainable credit system for financing local investments in urban infrastructure and services, as well as the utilization of previously untapped local revenue sources and private sector capital.
- Increased efficiency and competitiveness due to the development of more capable urban managers and municipal technical staffs.

In sum, the result of these spread effects will be to enhance investment in urban environmental infrastructure. If, as a result of the reforms identified in the Policy Action Plan, the level of investment were to increase by 15 percent a year, urban infrastructure investment would double in five years. Almost Rp 800 billion (\$400 million) was invested in urban infrastructure in 1991/92, as a consequence of policy reform, this level could increase to Rp 1,600 billion a year (\$800 million) by the end of the project period.

8 **CONDITIONS AND COVENANTS**

8 1 **Conditions Precedent**

There are no conditions precedent to disbursement.

8 2 **Covenants**

8 2 1 Annual Plans

The covenant relating to the Technical Assistance and Training Grant component of MFP, by which the GOI covenants to develop a yearly implementation plan, remains unchanged.

8 2 2 Staffing

The GOI will agree to provide all staff required to implement the Project in a timely and effective manner

9 INITIAL ENVIRONMENTAL EXAMINATION

USAID regulations require that all projects be reviewed for the potential to cause significant negative impacts on the environment. An Initial Environmental Examination (IEE) is conducted, and followed, in appropriate cases, by more extensive assessments.

This program advances policy reforms aimed at improving the country's system of municipal financing of environmental infrastructure, of establishing an indigenous training system for urban management, and of improving urban environmental quality management in Indonesia.

The category of technical assistance and training programs is normally categorically excluded from further environmental review in accordance with A I D Regulations Section 216 2(c)(2)(i).

Policy reforms intended to further urban environmental quality management, including development of Indonesia's environmental impact assessment system, especially for locally-initiated projects, and the integration of environmental management into the local planning processes are included in the program. To address the issue of policy reforms having adverse environmental consequences, the program also includes an analysis of the application of economic instruments for environmental management.

In addition, the Mission intends to monitor policy change in relation to environmental impact assessments. The review concluded that MFP/A places a very high priority on monitoring and enforcement for all environmental infrastructure, as well as monitoring of its requisite policy reforms. The project does not include any activities that will directly affect the environment.

Considering these factors, the program has received a Categorical Exclusion from further environmental review.

July 14, 1993

MUNICIPAL FINANCE PROJECT AMENDMENT

ANNEXES

(PROJECT 497-0365)

MUNICIPAL FINANCE PROJECT AMENDMENT

ANNEXES

- 1 Logical Framework
- 2 Technical Analyses
 - 2 A Summary of Technical Assistance Requirements
 - 2 B Municipal Finance and Credit
 - 2 C Training Systems Development
 - 2 D Urban Environmental Quality Management
 - 2 E Environmental Impact Assessments
 - 2 F Beneficiary Studies
- 3 Initial Environmental Examination
- 4 Statutory Checklist
- 5 Draft Amendment to the Program Agreement (Annex 1)
- 6 GOI Request for Assistance
- 7 Draft Scopes of Work for Long-Term Advisors

ANNEX 1

LOGICAL FRAMEWORK

Municipal Finance Project Amendment

LOGICAL FRAMEWORK

Project Title Municipal Finance Project Amendment

07/12/83

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>OUTPUTS</p> <p>3 1 Continued improvement in the role of central government in funding urban infrastructure and services through a system of grants and loans that encourages local resource mobilization</p> <p>3 1 1 A stable institutional source of domestic credit is developed, under which municipalities can borrow to finance part of their capital needs including investment in environmental infrastructure</p> <p>3 1 2 Policies adopted for mixing loans with grants involving approval of loans capital grants capital expenditures and debt management, under a single investment package</p> <p>3 2 Strengthened capacity of the local government finance system to mobilize and manage resources</p> <p>3 2 1 Establishment of an indigenous capacity to deliver technical assistance and training in urban management</p> <p>3 2 2 National guidelines are established and applied for sustainable pricing of environmental infrastructure services and for cost recovery targets appropriate for different types of environmental infrastructure</p> <p>3 2 3 Procedures are developed and implemented for incorporating environmental management concerns within IUIDP decentralized investment packages</p> <p>3 2 4 Establishment of a capacity for reviewing AMDAL assessments of locally-generated urban environmental infrastructure projects</p>	<p><u>Illustrative Output Targets</u></p> <p>3 1 1a The RDA and/or other sources of domestic credit, including local government bonds, finance a growing volume of urban environmental infrastructure investment, measured in real terms</p> <p>3 1 2 Issue of a policy statement relating grant and loan allocations to local governments</p> <p>3 2 1a For the Urban Management Core Course and at least two other short courses needs evaluation undertaken curricula developed training of trainers pilot testing and routine course implementation on a demand basis.</p> <p>3 2 1b Establishment of a coordinating mechanism for regional universities engaged in training and education for urban management.</p> <p>3 2 2 Decrees and directives are issued for pricing environmental infrastructure based on model assessments of the cost effectiveness of alternative delivery systems for environmental service and investment priorities across sectors</p> <p>3 2 3 The environmental infrastructure management priorities identified in the above assessments are incorporated into an approved intergovernmental capital financing plan for at least 4 cities.</p> <p>3 2 4 The issue and dissemination of guidelines on the Cipta Karya subsectors to Kanwil and regional AMDAL commissions.</p>	<p>3 1 1a RDA data on credit financing.</p> <p>3 1 2 BAPPENAS reports on progress of urban sector planning and investment.</p> <p>3 2 1 Routine reports of the MFP Training Coordinator</p> <p>3 2 2 Ministry of Public Works, Home Affairs and Finance decrees and directives in progress</p> <p>3 2 3 BAPPENAS report on progress of urban sector planning investment and IUIDP process</p> <p>3 2 4 MFP Progress Reports</p>	<p><u>Important Assumptions</u></p> <p>3 2 2 Externalities associated with different types of environmental infrastructure services can be identified clearly enough to be reflected in appropriate service pricing policies.</p> <p>3 2 3 IUIDP process or its successors can be broadened to include environmental sectors not now covered.</p>

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LOGICAL FRAMEWORK

Project Title Municipal Finance Project Amendment

07/12/93

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><u>PROJECT GOAL THE BROADER OBJECTIVE TO WHICH THE PROJECT CONTRIBUTES</u></p> <p>1 Broaden access to basic services by facilitating the delivery of urban environmental infrastructure on a financially viable and sustainable basis</p> <p><u>PROJECT PURPOSE</u></p> <p>2 Assist the GOI to adopt an enabling framework for integrating urban environmental management within a system of improved, decentralized municipal finance and planning</p>	<p><u>Measures of Goal Achievement</u></p> <p>1 1 An increase in the total level of investment in shelter-related environmental infrastructure as indicated by a real increase in urban investment year-on-year from Rp 790 bn (1991/92)</p> <p><u>EOPS</u></p> <p>2 1 Issuance of a policy statement relating grant and loan allocations to local governments</p> <p>2 2 A uniform incentive system for improving revenue generation and expenditure control by local governments is developed as indicated by</p> <p>2 2 1 An increased share of INPRES grants in total capital transfers from the central government to local governments from the current 23% (91/92) to an EOPS of 30%</p> <p>2 2 2 An increased district/municipality share of central government grants to local governments from the current 52% (91/92) to an EOPS of 80%</p> <p>2 3 A central government lending mechanism is operationalized, as indicated by the issue of operational guidelines by the RDA</p> <p>2 4 Central government loans funds to municipalities on terms reflecting the cost of capital risk and servicing</p> <p>2 5 The financial management capacity of local governments is enhanced, as indicated by an increased share of user charges in local government own source revenues from 19% (1989/90) to an EOPS of 25%</p> <p>2 6 Procedures are developed and implemented for incorporating environmental concerns within IUIDP decentralized investment packages as indicated by an increased use of environmental impact studies and urban environmental management guidelines</p>	<p>1 1 Urban investment data as maintained by Cipta Karya and the SIKD information system developed under MFP</p> <p>2 1 Issue of policy statement by BAPPENAS.</p> <p>2 2 1 MFP Monitoring Indicators</p> <p>2 2 2 MFP Monitoring Indicators</p> <p>2 3 Issue of RDA Guidelines</p> <p>2 4 Annual announcement of RDA on-lending rate by the Minister of Finance</p> <p>2 5 MFP Monitoring Indicators</p> <p>2 6 Periodic review of IUIDP investment packages</p>	<p><u>Assumptions for achieving goal targets</u></p> <p>1 1 1 Increase in MFEI HG resources is not offset by decrease in GOI and other donor investments</p> <p>1 1 2 Other major donors (World Bank and ADB) will support the project purpose</p> <p>2 2 The GOI will continue to shift responsibility for the financing and planning of urban services/infrastructure to local government.</p>

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LOGICAL FRAMEWORK

Project Title Municipal Finance Project Amendment

07/12/83

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><u>INPUTS</u></p> <p>4 1 Technical assistance in analyzing and drafting strategies, policies, regulations and procedures relating to decentralized municipal finance and planning</p> <p>4 2 Training for public and private sector participants to develop their capacity to manage urban development on a financially viable and sustainable basis.</p>	<p><u>Implementation Target (Type and Quantity)</u></p> <p>4 1 202 person-months of TA for municipal finance 61 person-months of TA for UEQM 101 person-months of TA for training systems development 40 person-months of TA for project management</p> <p>4 2 60 participants in short-term U.S. training 2 study tours 8 local workshops or conferences 3 intensive training courses developed</p>	<p>4 Project documentation MFP Progress Reports Annual program reviews</p>	<p><u>Assumptions for providing inputs.</u></p> <p>4. Qualified organizations and individuals can be identified, and appropriate contacts negotiated</p> <p>Technical and financial resources will be provided as planned from all sources.</p>

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INITIAL ENVIRONMENTAL EXAMINATION OR CATEGORICAL EXCLUSION

(A) PROGRAM COUNTRY Indonesia

(B) ACTIVITY Municipal Finance Project Amendment
(497-0365)

(C) FUNDING \$10 million

(D) PERIOD OF FUNDING FY 1993 - FY 1998

(E) STATEMENT PREPARED BY William Frej
William Frej, USAID/Indonesia

(F) ENVIRONMENTAL ACTION
RECOMMENDED Categorical Exclusion under
A.I.D Regulation 16, Section
(C)(2)(i)

(G) ENVIRONMENTAL OFFICER
CLEARANCE Jerry Bisson
Jerry Bisson, USAID/Indonesia

(H) DECISION OF ASIA BUREAU ENVIRONMENTAL OFFICER

APPROVED M. Kux
M Kux, ASIA/DR/TR

DISAPPROVED _____

DATE 6-15-93

(I) DECISION OF USAID/INDONESIA DIRECTOR,

APPROVED [Signature]

DISAPPROVED _____

DATE August 21, 1993

EXAMINATION OF THE NATURE, SCOPE AND MAGNITUDE OF THE ENVIRONMENTAL IMPACT

A. DESCRIPTION OF THE PROGRAM:

The proposed program amendment will provide additional funding in the amount of \$10 million for the purpose of advancing policy reforms aimed at improving the country's system of municipal financing of environmental infrastructure, of establishing an indigenous training system for urban management, and of improving urban environmental quality management in Indonesia

The primary purpose of the program is to provide long- and short-term technical assistance and training which will support the policy reform objectives of the GOI as described in the Project Paper Amendment

The category of technical assistance and training programs is normally categorically excluded from further environmental review in accordance with A I D Regulations Section 216 2(c)(2)(i)

Policy reforms intended to further urban environmental quality management, including development of Indonesia's environmental impact assessment system, especially for locally-initiated projects, and the integration of environmental management into the local planning processes are included in the program To address the issue of policy reforms having adverse environmental consequences, the program also includes an analysis of the application of economic instruments for environmental management

In addition, the Mission intends to monitor policy change in relation to environmental impact assessments The review concluded that MFP/A places a very high priority on monitoring and enforcement for all environmental infrastructure, as well as monitoring of its requisite policy reforms The project does not include any activities that will directly affect the environment

B RECOMMENDATION

It is therefore recommended that the proposed program receive a Categorical Exclusion from further environmental review This recommendation is consistent with A I D Regulation 16, Section 216 2(C)(2)(i) which provides for a categorical exclusion for "education, technical assistance, or training programs except to the extent such programs include activities directly affecting the environment (such as construction of facilities, etc"



ANNEX 2

TECHNICAL ANALYSES

- 2 A Summary of Technical Assistance Requirements
- 2 B Municipal Finance and Credit
- 2 C Training Systems Development
- 2 D Urban Environmental Quality Management
- 2 E Environmental Impact Assessments
- 2 F Beneficiary Studies

ANNEX 2 A

SUMMARY OF TECHNICAL ASSISTANCE REQUIREMENTS

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ANNEX 2.A

SUMMARY OF TECHNICAL ASSISTANCE REQUIREMENTS

1.0 MUNICIPAL FINANCE AND CREDIT

1.1 Scope of MFP/A Support for the Municipal Finance Objectives of the Policy Action Plan

The Policy Action Plan focuses on two aspects of municipal finance enhancement of local government financial management, and establishment of effective credit mechanisms. In summary, the goals and objectives are as follows:

- **Enhancing local government resource mobilization, financial management and involvement of the private sector in infrastructure and service delivery:**

Objective 1 Enhance local government resource mobilization

To date, the MFP has supported this objective by focusing on two sub-objectives: (a) improved financial management capacity through various activities such as the consolidation of accounting and financial management packages and an inventory of urban management guidelines, and (b) improved cost recovery and management of regional enterprises via study of water authority (PDAM) financial performance, and analysis of the regulatory framework for local government.

MFP/A will continue providing support from the Ministry of Home Affairs Advisor for consolidation of financial management and management information systems packages, using short-term technical assistance as necessary. Support for the resource mobilization objective may include TA and training to maintain continued improvement in property tax administration and property tax revenue collection, to water enterprises to support continued improvement in financial management, and greater use of cost-recovery service pricing, and for studies on the pricing of water supply, wastewater removal and treatment, solid waste collection and disposal, and other environmental services.

Objective 2 Support private sector participation in environmental infrastructure and service delivery

Technical assistance to achieve this objective is available through the PURSE project. No additional support for TA and training for this objective will be provided by MFP/A.

- **Establishing effective mechanisms to support municipal borrowing, and improving the system for allocating intergovernmental grants**

Objective 3 Support development of the RDA as a transition vehicle that facilitates market-based lending to local governments and integration of municipal credit into the private financial sector

The Regional Development Account (RDA) has been formalized as a credit mechanism for municipal governments and local public enterprises, but operational implementation has been limited. MFEI and MFP/A will support the development and institution of systems to implement the principles already embodied in the RDA regulations, and will support eventual integration of RDA into the commercial financial sector, by moving municipal lending closer to private market principles.

Objective 4 Improve the system for allocating intergovernmental grants

For the foreseeable future, central government grants and direct expenditures will continue to finance a large part of local infrastructure investment. The development of clearer criteria for allocating these resources is an important part of the municipal finance agenda. Central government grant resources are appropriately targeted on infrastructure facilities that service the poor, have substantial externalities associated with them, or are important for national economic development objectives. The MFEI Policy Action Plan supports this targeting, while seeking to give local authorities greater control over the detailed allocation of grant funds to projects that meet these criteria. For more routine services, cost recovery pricing and debt financing of investment provide a sustainable basis for efficient service provision.

Objectives 1, 3 and 4 will be supported by long-term technical assistance under MFP/A, and may be advanced by short-term TA, as appropriate. The scope of possible assistance is described in Annex 2 B, and summarized below.

1.2 Enhancing Local Government Resource Mobilization

Improving Financial Performance of Local Enterprises Regional enterprises, which include local water authorities (PDAMs), play a pivotal role in the GOI's fiscal decentralization strategy. Evidence, from a study supported by MFP, is that a large percentage of PDAMs are not meeting financial targets, and a significant number of borrowers may not be able to service debts. MFP/A may provide follow-up to the earlier study, as a prototype for improving the policies and field operations of regional enterprises in general.

Urban Management Guidelines MFP has already initiated a comprehensive inventory and assessment of all regulations concerning urban management (including finance). The next phase of this work is intended to eliminate overlapping and duplicative laws, regulations and guidelines, and then supplement a unified and consolidated set of instructions with fresh guidance in currently omitted areas.

Devise pricing strategies for "water sector services" "Water sector services" comprise water supply, groundwater extraction, and wastewater collection, removal and treatment

The first-year target of the Policy Action Plan is the completion of a study of current pricing of water-related services in larger cities, and of social, economic and environmental factors that need to be incorporated into price-setting decisions. Subsequently there may be a need to engage short-term consultants to complete an economic and financial analysis of appropriate pricing strategies for water-related services, in conjunction with the analyses to be undertaken through PURSE, in order that the GOI may issue guidelines for setting appropriate prices, and incorporate incentives in national financing mechanisms for local water sector enterprises to follow the guidelines. Support will be available under MFP/A, through short-term TA assignments, for addressing this range of issues, in order to achieve the Policy Action Plan targets

1.3 Municipal Credit

The Policy Action Plan records the GOI's commitment to supporting the development of the RDA as a transition vehicle that facilitates market-based lending to local governments and integration of municipal credit into the private financial sector. The RDA was set up in 1988/89 as a funding facility for loans to local governments and local government enterprises via a special account at Bank Indonesia. RDA is actively lending, and about four-fifths of its portfolio is for loans to the water sector, with the remainder lent for transport terminals, markets, solid waste, sewerage and miscellaneous investments.

Annex 2 B lays out the issues with respect to a role for technical assistance for development of the RDA and the municipal credit system. The objective of MFP/A in this sub-sector is to help the GOI create a municipal credit system that supports decentralized investment decisions by municipalities and local public enterprises, and does so in a way consistent with market orientation and deregulation in the financial sector.

Steps in the process are as follows: (1) to operate the municipal credit system so that it responds to local investment priorities and local willingness to pay in the least bureaucratic manner possible, (2) to expand the scale of municipal credit so that it becomes a significant source of sector financing, (3) to require and actually collect full repayment of loans, (4) to increase local sources of tax and fee revenue so that local governments can repay credits on a larger scale, and, (5) eventually explicitly to integrate municipal credit within the private credit market.

The four-step sequence comprises the following activities:

Step 1 Stimulation of demand for credit from local governments

Step 2 a The GOI commissions an independent institutional assessment of RDA's capacity and present operations

b A five year development plan for RDA is prepared, in conjunction with local governments and relevant central government ministries

c RDA implements a policy of full disclosure, regarding the characteristics of all outstanding and new loans, changes in loan terms, loan repayment rates, etc , at least to the international organizations that contribute capital to it, and preferably to all local participants in the RDA

d The GOI negotiates for external technical assistance, as necessary, in the areas that the institutional assessment indicates must be strengthened in order to meet the objectives of the five year development plan

Step 3 Carrying out the detailed technical assistance indicated by the external institutional assessment to be necessary to fulfill the 5-year development plan

Step 4 Technical assistance in developing other municipal credit market alternatives

1 4 Grant Structure

It is GOI policy to make a shift away from direct infrastructure investment by central government (DIPs) toward sectoral and unrestricted block grants (INPRES) that give local authorities more control over investment choices. The allocation formulas for central-government grants were to be made more transparent and revamped to target grant assistance more effectively on low-income households, low-income areas and projects with large externalities

Technical assistance to resolve these issues will be needed to undertake a study of how incentives can be built into the grant structure and the system for allocating grants, to encourage targeting of grant funds to activities most appropriate for central-level subsidy (a) investment packages for poor regions, (b) investment projects that benefit low-income households, (c) investment projects that generate high degree of externalities. This activity will be complemented with continuing policy advice from the MFP Advisor to BAPPENAS, utilizing short-term TA if appropriate

2 0 TRAINING SYSTEMS DEVELOPMENT

2 1 Analysis

Annex 2 C reports the need to increase the quantity and quality of urban management training, and to improve the institutional capacity of training organizations in the country. The annex also describes the overall status of urban sector training in Indonesia, outlining the training needs of urban managers (training demand) and the training system that is now in place (training supply). The gaps between training demand and supply are noted and a set of principles to guide the development of MFP/A training is also defined

There is no "critical mass" of expertise in urban management and finance in Indonesia. This makes it hard to find skilled trainers and to produce good locally-adapted training materials for local governments. The gaps in the current system are problems of both structure and content. The main structural deficiencies result from the extremely fragmented nature of the existing system -- this comes both from the sheer number of different actors in the system as well as the over-reliance on foreign project support. The content problems exacerbate the structural deficiencies. Of the content problems cited above, two are most critical. First, the lack of professional expertise in urban management (including finance) within Indonesia is a fundamental deficiency. This lack means that training/TA services will continue to be reliant on intermittent foreign project support. Second, the current system is not designed to help urban managers actually manage -- it is designed to deliver pieces of management skills and tools. While undoubtedly helpful in part, this approach leaves too many gaps and does not address the basic management task at the local level.

Key guiding principles to address these problems were first developed by a working group of urban professionals. Subsequently, an Urban Management Training (UMT) Task Force was convened to develop a plan of action, including allocation of roles and responsibilities for implementation of integrated urban management training, and to provide guidance for program execution. The Task Force comprises representatives of the main central government agencies involved in urban management (BAPPENAS, and the Ministries of Finance, Home Affairs and Public Works), major providers of training, and urban management consultants. Currently, the Task Force is convened by the representative of the Ministry of Finance.

The MFP/A proposals are designed to support the initiatives of this Task Force.

The UMT Task Force has determined that the urban management training program should be directed both towards training of existing local government officials, and of the next generation of officials. Agreed principles are that the system should address both structural and content deficiencies, should target all relevant actors (central as well as local) while being focused on management of urban local government services consistent with the national policy of decentralization, should be "demand driven" and responsive to the job needs of local managers, should be paid for in large part by local governments, should merge the concepts of technical assistance and training, and should be consciously experimental.

2.2 Scope of MFP/A Training Systems Support

Most of the funding under MFP/A devoted to training will be spent to support the development of an indigenous training capacity within the framework designed by the Task Force. It is, however, certain that the resources of MFP/A will be insufficient to achieve all of the Task Force's objectives, and that support will need to be selective and to be supported by the injection of resources from central government and other donors. Nevertheless, certain other A I D initiatives can and will be tapped in order to support the overall objectives. Thus, expertise from the VCU-UNHAS Linkage Project will be critical to support the project.

goals To a lesser degree, the AIT/RHUDO-Bangkok work on urban environmental management curriculum building in Asia will also be relevant MFP/A can provide leadership, management and coordination throughout the life of the project

Components of the program to be supported by MFP/A, described in more detail in Annex 2 C, include the following

- o MFP Training Coordinator
- o Development of core curricula of certain short term programs designed to meet the needs of urban managers
- o Assistance with development of longer term formal educational courses at undergraduate and graduate level at regional universities
- o Feasibility study for the development of an urban management training institute

2.3 Training Unit

Analysts of Indonesian urban sector training have advocated the establishment of a central training facility to meet these needs However, it is not clear that a totally new institution is necessary, nor is it clear where the most appropriate institutional home should be At present the interagency task force is taking responsibility for promoting urban sector training in the country and there is an excellent spirit of collaboration among project-funded staff Providing this interagency group with a staff (Training Coordinator and support staff) and basic resources, to constitute a Training Unit, will allow for the incubation of a focal group on urban sector training By the end of the project period, the training unit will have been integrated into some organization within which it can function in an ongoing basis

Funds are set aside under the budget of the Training Coordinator for rent of office space, and to engage assistants for the Training Unit

2.4 Core Curricula - Short Term

The UMT Task Force has advocated the development of a new training program in urban management, calling for several tiers of courses but giving priority to the development of the "Tier 1 Courses", which would offer materials on strategic management for Tk II top management teams

The Tier 1 courses will include

- short intensive Urban Management Core Courses, and

- short intensive courses (1 to 3 weeks each) in (1) Financial Management Strategy, (2) Service Delivery Management, (3) Infrastructure and Capital Investment Planning, (4) Spatial Planning and Land Management, and (5) Urban Environmental Management

TA/training resources would be applied to extend the design of this system and implement it. This would include (1) preparing an institutional development plan, including a needs evaluation, (2) curriculum and training materials development, (3) training of trainers (in substantive fields, on training methods, on course materials, and on refresher courses), (4) pilot testing in two or three selected locations, and (5) assistance in managing the overall program.

The Task Force has identified, for each of the proposed six course areas (the urban management core course, and five substantive areas) the appropriate supervisory agencies, the group to be responsible for development of curricula and course materials, sources of materials (including central government agencies, universities, private sector organizations, and donor-assisted consulting groups), and possible sources of trainers.

Development of a single course will cost between \$300,000 and \$450,000. An indicative total of \$1,345,000 is set aside under MFP/A for support of the development of core curricula of short term programs. Thus it will be necessary for the UMT Working Group to identify GOI or donor resources equivalent to a further, say \$0.75 million to fully fund the development of all five short courses.

2.5 University Training Delivery System

Whereas training programs for local officials address short-term requirements, there is a corresponding need for development and expansion of formal education courses in urban management, at undergraduate and graduate level. Presently the premier courses are given by the Bandung Institute of Technology (ITB), which is the longest-established institution in Indonesia offering education in urban planning. However, several regional universities have recently started to offer courses in urban planning and management, or to plan to mount such courses, often specializing in particular fields. This includes the Hasanuddin University - Virginia Commonwealth University linkage, supported by A I D. It may be appropriate that, although selected universities will play a major role in the delivery of urban management training and education in Indonesia, each of these universities would provide expertise in different urban development specializations.

Despite this expansion of interest in providing planning education -- confirmed by considerable demand for places at these universities -- the supply of planning graduates will continue to fall far short of the need for the foreseeable future. At the same time, the curricula at these universities may not appropriately reflect current needs, and deserve a fresh review to determine whether and how they should be updated. Most existing programs, for instance, do relatively little in providing cohesive and consistent urban management approaches. Their faculty, too, are largely drawn from the fields of architecture, engineering, economics and

urban planning, and have had little training in management and in the planning process related to urban management

TA/Training resources would focus on upgrading the ability of Indonesian universities to deliver a greatly expanded pool of urban managers with sufficient academic preparation to meet urban challenges. This component will complement the larger program of urban management training described above.

The objective of the university capacity building activity would be to strengthen the capacity of selected regional universities to integrate urban management into their urban development curricula, and to complement the urban management training program. This could be achieved, over the medium term, by the following actions:

- Firstly, undertake an inventory of faculty resources and expertise related to urban management, identify current courses and programs of study that relate to urban management, and assistance to faculty to identify urban management curriculum materials
- Offer short courses of intensive training in urban management to a few faculty members from the selected regional universities
- Provide training of trainers, including the development of prototype training materials for urban management, as well as training potential trainers in their use
- Facilitate university linkage programs, similar to the VCU/UNHAS linkage

Given that MFP/A cannot (and probably should not) fund all the preceding activities, it will be necessary for the GOI and the universities themselves to identify other sources of funding for the different activities. An indicative total of \$100,000 is set aside under MFP/A for catalytic short-term TA support for development of the University Training Delivery System.

2.6 Urban Management Institute

There is currently no professional association of city officials and municipal specialists in Indonesia, there is an Association of Indonesian Municipalities (BKS-AKSI), but its charter is not along the lines of a professional association. Since demand-driven urban sector training in many countries is usefully provided through professional associations, this option could be explored in Indonesia. MFP/A would be able to fund a feasibility study for creating such an association with a clear training mandate. If there is scope for establishing such an organization, subsequent consultations on organizational development and management can make it a reality.

The establishment of an independent Urban and Regional Development Institute (URDI), has been discussed within GOI and there is donor interest to support this initiative. Its primary

goal would be to serve the interests of local governments as a development forum and a center of excellence in urban and regional development and management. Not only would such an institute be able to provide services in the field of research, development, training, information and communication, it would also provide the much-needed process-oriented and continuous support which is difficult to obtain from line agencies. In the short term, a further study on the feasibility of such an institution could be commissioned. One possibility would be to support the development of the Institute within BKS-AKSI to undertake the roles described, another could build on a parallel initiative at ITB.

An indicative total of \$50,000 is set aside under MFP/A for support of studies for development of an Urban Management Training Association and/or of an Urban and Regional Development Institute.

2.7 Summary

The indicative amount to be set aside from the MFP/A budget for Indigenous Training Systems Development is \$2,073,000. This is made up as follows:

Training Systems Development Component	Indicative Budget	Budget Line (Table 9)
Training Coordinator	\$ 578,000	Long-Term TA Training Coordinator
Curriculum Development	\$525,000	Short-Term TA Training Systems Devt
Training of Trainers	\$ 820,000	Training In-Country Training
Regional Universities	\$ 100,000	Short-Term TA Training System Devt
Training Assoc Study	\$ 50,000	Short-Term TA Training System Devt
TOTAL (exc contingencies)	\$2,073,000	

3.0 URBAN ENVIRONMENTAL MANAGEMENT

Urban environmental quality management (UEQM) is the set of activities directed at improving environmental conditions at the urban level. It includes the identification of environmental problems, the formulation and implementation of environmental policies, including the regulation of development through environmental impact assessments and through the use of economic interventions, the delivery of urban environmental services, and the dissemination of information about environmental issues and their solutions. UEQM involves numerous actors, but is of particular importance at the local level.

An initial policy framework for the development of an integrated UEQM strategy in Indonesia was summarized in the MFEI Project Paper, and the next steps for its implementation have been integrated into the GOI's Urban Policy Action Plan.

The development of an overall conceptual strategy guiding UEQM initiatives in Indonesia is still in its formative stages and most initiatives are donor-driven. Annex 2 D provides a brief overview of key agencies with respect to their interests and potential roles in supporting a UEQM program in Indonesia.

Among other things, it finds that the Ministry of Finance could play an important role in UEQM, particularly in supporting the use of financial instruments and policies (e.g. resource pricing) aimed at promoting environmental protection, the conservation of natural resources and environmentally sustainable development within municipalities. Policy research could appropriately investigate what techniques would be most applicable and feasible in Indonesia. Over time, the MOF could be instrumental in introducing new policies and enabling legislation for these financial instruments and provide municipalities with the requisite training for implementation.

Cipta Karya could also contribute to the decentralization of UEQM by serving as a resource for local and regional governments with limited exposure to environmental management. As an increasing proportion of local infrastructure projects are financed through the RDA, for example, greater responsibility for environmental management will filter down to regional and local levels of government. Tapping Cipta Karya's expertise represents a principal means to strengthening the environmental review capabilities of regional and local governments.

The role of BAPPENAS as chair of the IMG/TKPP provides a strategic link to ongoing IUIDP implementation initiatives nationwide, in conjunction with the IUIDP Implementation Support Project (IISP), BAPPENAS importantly maintains operational input into IUIDP preparation and implementation. It is in this capacity, more than any other, which BAPPENAS could influence and advance the integration of UEQM within the IUIDP process.

The Association of Indonesian Municipalities, BKS-AKSI, has traditionally functioned primarily as a forum for discussion, however, it is expanding its scope to include the provision of technical assistance in municipal finance and management. As environmental management becomes more closely aligned with national urban policy development, BKS-AKSI could provide a critical communication link with and an independent forum for local government representatives in the articulation of national policies and guidelines for implementation.

WALHI, too, could play a role in UEQM by identifying and training NGOs and community-based organizations (CBOs) at the local level to promote education/ awareness programs on issues of community concern such as garbage collection, water pollution, recycling and sanitation.

Annex 2 D finds that the following activities are responsive to the requirements of the Policy Action Plan, are consonant with present opportunities and needs, and could appropriately be supported by MFP/A.

Initiatives to Incorporate UEQM in the Local Planning Process

The application of UEQM strategies and procedures at the local level represents one of the most effective and promising means to address urban environmental problems. In Indonesia, however, environmental issues and considerations are not routinely and explicitly addressed as part of the planning process at the local level. To the extent that environmental impacts associated with urban development are addressed at the local level, it is typically a "reactive" as opposed to a "proactive" process.

To incorporate UEQM in the local planning process requires that current planning procedures and mechanisms be strengthened to include environmental criteria and proactive urban environmental plans that support the reduction of environmental impacts associated with urban development. The following activities represent a means toward the incorporation of UEQM into the planning process at the local level.

- * *Provide Technical Assistance to Develop Environmental Planning Guidelines for Use by Local Planners for PJM Updates*
- * *Support the Development of Training Curricula for Local Officials on the Use of the Environmental Planning Guidelines*
- * *Support Pilot Training Programs for Implementation of the Environmental Planning Guidelines*
- * *Support Research on the Feasibility of Using Economic Interventions for UEQM at the Local Level*

Promote Greater Public Participation in UEQM at the Local Level

In Indonesia, public participation in UEQM, including local planning processes, is minimal and public education programs on environmental issues generally do not exist. Potential assistance for developing mechanisms to allow the public to more actively participate in the planning and decision-making process concerning environmental management at the local level are included in the suggested activities listed below.

- * *Support Programs to Promote Greater Community Input in the AMDAL Process for Local Development Projects*
- * *Promote Greater Public Participation in the IUIDP Preparation Process*
- * *Support the Development of Environmental Education/Awareness Materials and Programs to Inform Communities About Local Environmental Issues and Concerns*
- * *Provide Support to Protect Community-based Enterprises Involved in Recycling, Composting and Garbage Collection Activities*
- * *Promote an Active Role for Women and Women's Organizations in the Design and Management of UEQM Programs at the Local Level*

4.0 ENVIRONMENTAL IMPACT ASSESSMENTS

4.1 AMDAL Overview

AMDAL (Indonesia's environmental impact assessment process) can arguably be considered the most practical application of UEQM to date, and it will constitute a primary vehicle for the promotion of UEQM in the future. In comparison with the National Environmental Policy Act (NEPA) which was adopted in the United States in the early 1970s, AMDAL is still in its infancy. The many problems associated with the use, application and management of AMDAL in Indonesia reflect the natural "growing pains" that typically result from the introduction of new, broad-based environmental legislation. Nevertheless, the GOI has come to realize the importance of AMDAL and the need to address the environmental impacts of development.

Concepts of, and procedures for, AMDAL reviews are described in detail in Annex 2 E.

4.2 Responsibility for AMDAL

Development projects which enter the AMDAL process at the central government level are reviewed by Central AMDAL Commissions (Komisi Pusat). Central Commissions are established and chaired by each sectoral or non-departmental government agency. At the

central level, BAPEDAL participates in project reviews of all commissions. Each Ministry implements the process for its "own" projects. The Ministry of Public Works is recognized to be one of the most advanced departments in applying AMDAL.

Proposed municipal environmental projects will enter the AMDAL review process at the provincial level, either through sectoral agencies or non-departmental government agencies. The Regional AMDAL Commissions (Komisi Daerah) represent the major AMDAL review agencies for local urban infrastructure projects including RDA-financed projects. Komisi Daerah are chaired by a representative of BAPPEDA or the Provincial Development Planning Board. They also have permanent and temporary members which may include those potentially affected by a proposed development.

4.3 Projects Subject to AMDAL

Not all projects need to enter the AMDAL process. In general, criteria include project type, size, complexity and location. The criteria to screen projects in the "Cipta Karya sectors" is under revision in an effort to streamline the screening process. Projects that are exempted from the AMDAL process are "approved" subject to compliance with standard operating procedures (SOPs). SOPs define a set of environmental impact mitigation guidelines to which the project proponent must adhere during both the development and operational phases of the proposed project.

The Cipta Karya screening criteria also apply to all urban infrastructure projects (within the Cipta Karya sectors) proposed and financed by local government, including RDA-financed projects.

4.4 Issues Concerning the AMDAL Process for RDA Projects

Annex 2 E identifies several issues which stem from the fact that the "participants" in the AMDAL process for RDA projects are different than those involved with the process for Cipta Karya projects.

- Many of the local Project Officers for RDA projects, responsible for complying with the AMDAL process, are inexperienced with AMDAL and, consequently, do not have a clear understanding of their roles and responsibility with respect to AMDAL.
- Since the Komisi Daerah yield considerable influence in shaping the quality of the AMDAL review for RDA projects, inexperience and the lack of training or expertise on behalf of the Komisi Daerah are reported to have contributed to costly delays for RDA-financed projects.
- The Kanwil is responsible for monitoring AMDAL process at the provincial level as well as enforcing the environmental management and monitoring plans. Their

effectiveness with respect to these activities is largely a function of their training as well as experience

The linkage to Cipta Karya in the AMDAL process for RDA projects is important, even though Cipta Karya is not directly involved in the process itself. Because Cipta Karya is responsible for preparing, updating and disseminating the numerous guidelines used by the Komisi Daerah, Cipta Karya has significant influence in shaping the AMDAL review for projects within its sectors. It follows that training in the use and application of these guidelines to the local Project Officer, the Komisi Daerah, the Kanwil and the AMDAL consultants is critical to ensure that the guidelines are incorporated into the process as envisioned and intended by Cipta Karya.

4.5 Policy Issues Related to the Application of AMDAL to RDA Projects

Financial Issues The AMDAL process is perceived to be time consuming and inefficient. This has a direct and measurable impact upon local governments that participate in the RDA. Between the time of RDA project approval and project implementation, municipal governments are required to assume commitment charges on the loan itself. Any delay which might occur (including the required AMDAL review process) will prolong the commitment charge period and constitute a financial liability for the local government.

A more compelling liability relates to the economic implication associated with a delay in project start-up which might be posed by the AMDAL review process for RDA projects and the associated opportunity cost to the municipality -- losses can be incurred both financially and developmentally.

Relationship of AMDAL and RDA Administration Issues related to environmental monitoring are clearly perceived as being outside the administrative purview of the Ministry of Finance. However, given the relationship of the viability of the project (a central RDA concern), and both the administrative requirement that it receives AMDAL clearance and the linkage between environmental and technical soundness of a project, it follows that the Ministry of Finance does have an interest in ensuring that the regional AMDAL process is performed effectively and efficiently.

Regional Distribution of RDA Loans Given that the majority of RDA-financed projects have originated from the most urbanized regions of the country and where donor assistance has been concentrated, there is concern regarding the efficiency (and financial burden) of the AMDAL review process for RDA projects in other regions of the country.

4.6 AMDAL and MFP/A

In the light of these analyses, some technical assistance will be used to address strengthening of the AMDAL process, both at Cipta Karya for its own projects, and to reinforce the regional AMDAL process.

Assistance to the regional AMDAL process will be preceded by a more detailed needs analysis. This will include examination of the extent to which RDA-funded and other locally-initiated projects are likely to be exempted by the new Cipta Karya guidelines from AMDAL requirements, the feasibility of incorporating an AMDAL compliance monitoring function within the RDA administrative structure, provincial/local level research into the experience of AMDAL application to RDA projects to date, in order to determine the most efficient method (and responsible institution) for tracking the compliance of RDA projects with AMDAL, and an investigation of key institutional problems associated with AMDAL review in areas of concentrated RDA activity.

Subsequent to that analysis, MFP/A would be able to provide limited support, from the long-term advisor based at Cipta Karya and from the short-term TA budget, for certain activities to strengthen the regional AMDAL process. Annex 2 E identifies a range of activities that would be eligible for MFP/A funding.

ANNEX 2 B

MUNICIPAL FINANCE AND CREDIT

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ANNEX 2.B

MUNICIPAL FINANCE AND CREDIT

1 INTRODUCTION

1.1 Municipal Finance Objectives of the Policy Action Plan

The Policy Action Plan focuses on two aspects of municipal finance enhancement of local government financial management, and establishment of effective credit mechanisms. In summary, the goals and objectives are as follows:

- **Enhancing local government resource mobilization, financial management and involvement of the private sector in infrastructure and service delivery**

- Objective 1 Enhance local government resource mobilization

To date, the MFP has supported this objective by focusing on two sub-objectives: a) improved financial management capacity through various activities such as the consolidation of accounting and financial management packages and compiling an inventory of urban management guidelines, and b) improved cost recovery and management of regional enterprises via study of water authority (PDAM) financial performance, and analysis of the regulatory framework for local government.

MFP/A will continue providing support from the Ministry of Home Affairs Advisor for consolidation of financial management and management information systems packages, using short-term technical assistance as necessary. Support for the resource mobilization objective may include TA and training to maintain continued improvement in property tax administration and property tax revenue collection, to water enterprises to support continued improvement in financial management, and greater use of cost-recovery service pricing, and for studies on the pricing of water supply, wastewater removal and treatment, solid waste collection and disposal, and other environmental services.

- Objective 2 Support private sector participation in environmental infrastructure and service delivery

The Policy Action Plan supports the development of ministerial decrees and directives necessary to establish legal, regulatory and institutional reforms, to encourage and facilitate private sector participation in urban services.

Technical assistance to achieve this is available through the PURSE project. No additional support for TA and training for this objective will be provided by MFP/A.

- **Establishing effective mechanisms to support municipal borrowing, and improving the system for allocating intergovernmental grants**

- Objective 3 Support development of the RDA as a transition vehicle that facilitates market-based lending to local governments and integration of municipal credit into the private financial sector

The Regional Development Account (RDA) has been formalized as a credit mechanism for municipal governments and local public enterprises, but operational implementation has been limited. MFEI and MFP/A will support the development and institution of systems to implement the principles already embodied in the RDA regulations, and will support eventual integration of RDA into the commercial financial sector, by moving municipal lending closer to private market principles.

- Objective 4 Improve the system for allocating intergovernmental grants

For the foreseeable future, central government grants and direct expenditures will continue to finance a large part of local infrastructure investment. The development of clearer criteria for allocating these resources is an important part of the municipal finance agenda. Central government grant resources are appropriately targeted on infrastructure facilities that service the poor, have substantial externalities associated with them, or are important for national economic development objectives. The MFEI Policy Action Plan supports this targeting, while seeking to give local authorities greater control over the detailed allocation of grant funds to projects that meet these criteria. For more routine services, cost recovery pricing and debt financing of investment provide a sustainable basis for efficient service provision.

2 ENHANCING LOCAL GOVERNMENT RESOURCE MOBILIZATION

2.1 Improving Cost Recovery of Local Enterprises

Regional enterprises, which include local water authorities (PDAMs), play a pivotal role in the GOI's fiscal decentralization strategy.

Over the past eight years, PDAMs have accounted for 59 percent of all local government borrowing and 83 percent of borrowing from the RDA. It is expected that PDAMs will continue to engage in extensive borrowing, given the GOI's desire to increase access to potable water via debt-financed expansion of piped water systems.

However, the regulatory structure is not well developed, and monitoring of financial performance is practically non-existent. The GOI is simultaneously trying to determine an appropriate balance between somewhat contradictory PDAM policies: reliance on PDAMs as providers of a basic human need, development of PDAMs as self-financing local enterprises, or utilization of PDAMs as net revenue generators for local governments.

Evidence, from a study supported by MFP, is that a large percentage of PDAMs are not meeting financial targets, and a significant number of borrowers may not be able to service debts. For instance, in 1990, 8 of the 14 sampled PDAMs were below the World Bank debt coverage limit, 8 of the 14 had a negative return on sales, and 6 of the 14 had a zero or negative return on assets.

Recommendations made by the MFP team included the following, some of which could be supported by short-term TA under MFP/A:

- Undertake a crash program of training and TA aimed at the PDAMs already in financial difficulty, focusing on commercial practices, production efficiency, financial management and fixed asset management
- Develop a more comprehensive, long-term program for PDAM training and TA in accounting, reporting, and financial planning and management
- Develop a universal, continual system to monitor and evaluate PDAM financial and technical performance, especially regarding the results of the preceding TA and training activities, as well as potential future PDAM needs
- Assist PDAMs in determining the effective demand for piped water services, as well as the price elasticity of this demand
- Develop a strategy for dealing with PDAM arrears management
- Consider rescinding the practice of distributing PDAM "net profits" to local governments
- Re-examine the national strategy for quickly converting all BPAMs to PDAMs with a self-financing mandate, regarding both the timetable for this conversion and the appropriateness of the PDAM institutional form for small or poor PDAM jurisdictions
- Re-examine the following three key national policies governing the water supply sector: commitment to rapid expansion of piped water supply in all urban areas, reliance on PDAMs as the exclusive vehicle of new urban water supply, and reliance on debt financing for a large part of sector expansion

2.2 Urban Management Guidelines

MFP has already initiated a comprehensive inventory and assessment of all regulations concerning urban management (including finance). The next phase of this work is intended to eliminate overlapping and duplicative laws, regulations and guidelines, and then supple-

ment a unified and consolidated set of instructions with fresh guidance in currently omitted areas

2.3 Devise pricing strategies for "water sector services"

"Water sector services" comprise water supply, groundwater extraction, and wastewater collection, removal and treatment

The first-year target of the Policy Action Plan is the completion of a study of current pricing of water-related services in larger cities, and of social, economic and environmental factors that need to be incorporated into price-setting decisions

Subsequently there will be a need to engage short-term consultants to complete an economic and financial analysis of appropriate pricing strategy for water-related services in order that the GOI may issue guidelines for setting appropriate prices, and incorporate incentives in national financing mechanisms for local water sector enterprises to follow the guidelines

Pricing is a powerful tool for efficient resource use pricing and cost recovery issues are discussed in some detail in Annex D 4 of the PP for MFEI Among other problems reported there are that

- most water delivery through the PDAMs is not priced to achieve full cost pricing in terms of recovery of investment costs Tariff rates have been set to cover at least operation and maintenance costs, but debt service often remains unfunded at municipal level Nevertheless, subsidies miss the low-income target groups that they are intended to benefit Often these groups do not have access to piped water Subsidies through lower tariffs often support middle-income groups, who could well afford services charged at full cost
- Disproportionately high fees for industrial and commercial consumers have driven a number of these consumers to develop their own groundwater supplies Though these users have developed their own facilities at some cost, fees for groundwater extraction are very low and, given present tariffs, they are not inclined to transfer to piped water even if it is available At present, there appear to be no moves to adjust groundwater charges to reflect the real resource cost of possible aquifer depletion
- Unaccounted-for water typically exceeds 40 percent of supply in most Indonesian cities, compared with less than 10 percent in Singapore High tariffs are needed to pay for these losses
- Failure to generate revenue from household collections of waste results in heavy financial losses by the municipal cleansing agencies each year With respect only to operation and maintenance costs of collection, and operation of landfills and transfer

stations, average cost recovery in cities with a population over 100,000 is only 28 percent Full cost recovery probably is as low as 5 to 10 percent of total real costs

- Sewerage tariffs are calculated to recover only the operation and maintenance costs of sewer services and do not include original capital costs or capital replacement Explicit cross-subsidies have been included in the official tariff schedule, revenues from commercial customers, especially large commercial buildings and hotels, are used to subsidize rates for residential customers

Support will be available under MFP/A for addressing this range of issues, in order to achieve the Policy Action Plan targets, through short-term TA assignments

3 MUNICIPAL CREDIT

3 1 The Issues

The Policy Action Plan commits the GOI to supporting the development of the RDA as a transition vehicle that facilitates market-based lending to local governments and integration of municipal credit into the private financial sector The RDA -- whose status in mid-1992 was described in Annex D 1 of the MFEI Project Paper -- is designed to

- help meet investment targets by increasing capital resources through loan reflows,
- increase local investment levels and stabilize local investment planning by decreasing local government dependence on central government transfers, and
- support the government policy of decentralization in the urban infrastructure sector by promoting a demand-driven and market-oriented credit system

The RDA was set up in 1988/89 as a funding facility for loans to local governments and local government enterprises (BUMDs) via a special account at Bank Indonesia RDA is actively lending, and about four-fifths of its portfolio is for loans to the water sector, with the remainder lent for transport terminals, markets, solid waste, sewerage and miscellaneous investments

This section lays out the issues with respect to a role for technical assistance for development of the RDA and the municipal credit system

The objective of MFP/A in this sub-sector is to help the GOI create a municipal credit system that supports decentralized investment decisions by municipalities and local public enterprises, and does so in a way consistent with market orientation and deregulation in the financial sector

Steps in the process are as follows (1) to operate the municipal credit system so that it responds to local investment priorities and local willingness to pay in the least bureaucratic

manner possible, (2) to expand the scale of municipal credit so that it becomes a significant source of sector financing, (3) to require and actually collect full repayment of loans, (4) to not significantly distort the rest of the capital market, (5) to increase local sources of tax and fee revenue so that local governments can repay credits on a larger scale, and, (6) eventually explicitly to integrate municipal credit within the private credit market

3.2 A Municipal Credit Development Strategy and the Role for Technical Assistance

An orderly four-step sequence to achieve the targets of the Policy Action Plan would be as follows

3 2 1 Step 1

Stimulation of demand for credit from local governments.

It is intended that the RDA respond to demand from local governments rather than allocating funds and then developing projects. However, to date the RDA has been operating more as a supply-driven vehicle, with several consequences. Among other things, some local governments or local enterprises may be reluctant to use the account, or may not fully understand the procedures for applying for loans, the magnitude and nature of potential demand for RDA loans is not well known, hence it is difficult to plan for capitalization of the account, or even to assess appropriate interest rates over the long run

This is to be achieved by several initiatives. Firstly, **improvement of the accounting system of the RDA**. This was set up and computerized under earlier technical assistance from the ADB, is being revised and improved so that it will produce regular billing of borrowers, management reports, and reports on RDA operations which will be available to donor agencies. The revised system will be in operation in mid-1993

Secondly, creation of a project preparation facility. A major problem in operating the RDA as a demand-driven credit system for urban development has been that the local governments do not have sufficient funds to prepare the feasibility studies necessary to support a request for an RDA loan. The local governments have the capability to identify needed investment, and the capability to implement or contract construction once a loan has been received. However, without funds for feasibility study preparation, many projects will not be developed

It is therefore appropriate for the GOI to seek grant funds to create a demand-driven project preparation facility that would pre-finance appraisal of projects submitted by local governments for RDA financing

Simultaneously, revision and re-issue of the borrowers' manual. The manual would be revised, to make it both more comprehensive and more comprehensible, its re-issue would be

accompanied by an issue of a circular re-asserting the availability of RDA funds and inviting applications

3 2 2 Step 2

a The GOI commissions an independent institutional assessment of RDA's capacity and present operations

b A five year development plan for RDA is prepared, in conjunction with local governments and relevant central government ministries.

c. RDA agrees to a policy of full disclosure, regarding the characteristics of all outstanding and new loans, changes in loan terms, loan repayment rates, etc., at least to the international organizations that contribute capital to it, and preferably to all local participants in the RDA. (Semi-annual reporting of key information like repayment rates, arrears and default rates, re-negotiations of loan terms, sources of new capital, volume of loans, gross revenues, expenses of operations, average time of loan appraisal etc)

d The GOI negotiates for external technical assistance, as necessary, in the areas that the institutional assessment indicates must be strengthened in order to meet the objectives of the five year development plan

The technical assistance requirements for Step 2 might be as follows

a For the institutional assessment, it might be necessary for a three-person team to spend approximately six weeks in Indonesia

The team would carry out **(a) a thorough examination of RDA's current procedures and technical capacity** This would include tracking how information about loan funds availability is promulgated to local governments, monitoring loan applications to see how these are handled and how long a period passes between initial application and loan approval (or rejection), analyzing RDA technical capacity for project appraisal and how it adjusts its appraisal procedures depending upon the completeness of local loan applications and local competency in project appraisal, RDA's management of its outstanding loan portfolio including notification to municipal borrowers of payments due, collection procedures, monitoring of past-due obligations, and RDA's practice in tying new loans to the payment status of outstanding loans Of special concern is analysis of RDA's approach to loan appraisal Does this appraisal concentrate on the local borrower's willingness and ability to repay its loan, as is appropriate in a decentralized system of credit, or does it attempt to reach an independent judgment about the desirability and priority of the proposed local projects? What percentage of loan applications are rejected, and on what grounds?

In addition, the team would **(b) examine RDA's relations with local governments,** by interviewing a sample of municipalities with outstanding loans from RDA and/or new

applications pending This would include local perceptions of the ease or difficulty of RDA's administrative requirements, local perceptions of the helpfulness of RDA's project appraisals, local perceptions of the reasons for arrears in loan repayment and RDA's notification / collection procedures, local perceptions as to how RDA loan funding fits into overall financing of local investment packages, and local perceptions of how RDA's role should be developed in the future

The team would then (c) **interview private commercial banks, Regional Development Banks, and central and local government officials about the feasibility of integrating RDA into the private credit market and the feasibility of alternative sources of municipal lending** This would include establishing the conditions under which commercial banks would be willing to lend to municipalities, their attitudes toward using the RDA as a central funding source which would re-purchase participations in municipal loans initiated by commercial banks, the potential for expanding municipal lending on the part of the Regional Development Banks and their willingness (and that of the Ministry of Home Affairs) to adhere to market principles in the operation of such a lending program, and the feasibility of direct issuance of municipal bonds by local governments in the strongest financial position

b For development of the five-year plan, external technical assistance might not be needed However, if it is requested, the same technical assistance team that prepared the initial assessment could assist in background work for preparation of the development plan Whether the technical assistance team participates in plan preparation or not, the plan for RDA's development should take into account the assessment findings, in terms of RDA's technical strengths and weaknesses, local government perceptions of RDA, and the feasibility of developing alternative municipal credit mechanisms

c As regards disclosure guidelines, technical assistance can be highly focused There are several organizations in the United States which have had a great deal of experience on disclosure standards and disclosure mechanisms in recent years The same disclosure standards developed for RDA and its borrowers should be intended to apply to municipal lending generally, and prepare the way for eventual private market participation in municipal credit By far the most critical obstacle to establishing a market in municipal credit is the regular publication of accurate, reliable information on municipal financial condition and indebtedness, from which lenders can form an informed opinion of credit risk In the United States, the municipal credit market has been transformed since the late 1970s from a market in which disclosure was very spotty, to one with universally accepted standards for disclosure Key organizations in this process include the Government Finance Officers Association and municipal committees of the Financial Accounting Standards Board

3 2 3 Step 3

Carrying out the detailed technical assistance indicated by the external institutional assessment to be necessary to fulfill the 5-year development plan

It is impossible to lay out the details of the technical assistance that will be needed at this stage, until the external assessment has been conducted. This will identify the priority areas for improvement in the RDA's administration, as well as the areas where appropriate technical assistance already is being offered to improve operations.

It is, however, possible to identify probable areas of TA priority. It is important that the technical assistance design respond both to the actual institutional assessment and to the priority areas of development laid out in the RDA development plan, rather than impose a "standard" technical assistance plan. For example, most "standard" plans spend a great deal of time and effort in upgrading the technical appraisal capacity of the staff of the municipal credit institution. Often, this TA is counter-productive. Once the staff possess these technical skills, they have a natural desire to utilize them. However, this can readily draw the municipal credit institution (MCI) into inappropriate roles, namely, project-by-project technical and economic appraisal on behalf of local governments or substitution of the MCI's technical appraisal for that of the local government. This is inconsistent with a system designed to strengthen decentralized infrastructure investment choice. Instead, the RDA should focus on financial appraisal of projects and loans--aimed at reducing the RDA's risk as lender--while technical assistance is used to strengthen local governments' own capacity to technically appraise projects and make project choices.

A technical assistance plan for RDA is likely to require emphasis on

- 1 Promulgating information on loan availability to local governments. This involves feedback mechanisms for monitoring whether such information is reaching local governments in different regions of the country, and identifying obstacles to lending in regions of the country from which few loan applications have been received.
- 2 Working with local governments to identify what must go into a successful loan application. This includes simplifying loan applications to cover only information that is actually used in making a lending decision, and finding ways to assure local governments that better prepared loan applications, based on more thorough project assessments and completion of appropriate planning procedures for deciding project priorities, will receive more expeditious loan approval.
- 3 Strengthening local project appraisal capacity and priority-setting procedures.
- 4 Improving the monitoring of loan repayment rates, procedures for notifying municipalities of loan payments due, and collections procedures. This will require upgrading of technical systems, but also the adoption of policies that provide appropriate incentives for loan repayment--e.g., the decision not to make new loans to municipalities that are in arrears on repayment of existing loans. Given current administrative arrangements, this step may also require negotiation with the Bank of Indonesia about timely sharing of information on loan payments and other matters.

5 Computerization of RDA operations Several of the above steps can be facilitated by appropriate computerization procedures The RDA already has installed some computerized systems The institutional assessment should advise whether there are further opportunities to boost administrative efficiency, consistent with the basic systems that have been installed In general, automated systems are desirable for basic accounting and financial reporting, with loan portfolio modules, billing and collection modules, budgeting and forecasting capability, management and external reporting system

6 Steps to reduce municipal credit risk The Stage 1 consultation with private sector credit institutions should identify steps that can be taken to reduce municipal credit risk as perceived by potential private lenders Some actions of this kind are discussed in the Annex D 1 of the PP for MFEI These should receive emphasis in the technical assistance program

7 Other priorities as identified in the institutional assessment and the five-year development plan

3 2 4 Step 4

Technical assistance in developing other municipal credit market alternatives

Based on the initial assessment, other areas for technical assistance are likely to be identified, in strengthening the municipal lending role of the Regional Development Banks or creating a structure for local municipal bond issuance A national policy meeting on the future of municipal bonds is scheduled for mid-1993, this meeting should chart the development of the institutional structure needed to support municipal bond issuance

3 2 5 Summary

Although a good estimate of the scale of TA requirements for Steps 1 and 2 is not possible until the initial institutional assessment has been completed, it is prudent to count on the following minimum

- 36 person-months of long-term foreign expert input (two persons for 18 months each), and
- 36 person-months of short-term foreign and Indonesian expert input

4 GRANT STRUCTURE

The Interim Evaluation for MFP reported that it is GOI policy to make a shift away from direct infrastructure investment by central government (DIPs) toward sectoral and unrestricted block grants (INPRES) that give local authorities more control over investment

choices The allocation formulas for central-government grants were to be made more transparent and revamped to target grant assistance more effectively on low-income households, low-income areas and projects with large externalities

The sectoral credit strategy and the sectoral grant strategy were intended to complement each other The increased use of credit for cost-recovery projects was supposed to free up grant funds for a higher degree of targeting on the poor

Relatively little progress has been made towards meeting these objectives Only isolated changes in grant formulas have been made Nor have analyses been undertaken that establish a priority agenda for future formula change

The evaluation stated, "Reduction in central-government direct provision of capital facilities is key to almost all of the other sectoral financing reforms Until central government financing is reduced, it is unrealistic to expect that substantial local government demand for own-source revenues will emerge, or that local authorities will be eager to expand their use of credit Any rational local government will use "free" government funds to the extent they are available before falling back on alternative sources of financing that imply direct local costs In other words, local governments is not likely to become an enthusiastic constituency for the bundle of financing reforms until they are convinced that the traditional policy of central-government financing no longer is available to them "

Technical assistance to resolve these issues will be needed to undertake a study of how incentives can be built into the grant structure and the system for allocating grants, to encourage targeting of grant funds to activities most appropriate for central-level subsidy (a) investment packages for poor regions, (b) investment projects that benefit low-income households, (c) investment projects that generate high degree of externalities This activity will be complemented with continuing policy advice from the MFP Advisor to BAPPENAS, utilizing short-term TA if appropriate

ANNEX 2 C

TRAINING SYSTEMS DEVELOPMENT

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ANNEX 2 C

TRAINING SYSTEMS DEVELOPMENT

1. THE CONTEXT FOR TRAINING PROVISION

1.1 The Need for Development of the Sector¹

Indonesia is urbanizing at an ever increasing rate, and there is a related need for improved urban management throughout the country. Manpower studies in the country have indicated a significant gap between the number of skilled urban managers needed and the number available. In the past, training has been used for the skill development of senior officials in central and local government, NGOs and the private sector. Training has also been used to support the development of appropriate national policy initiatives. Studies have indicated that there is a need to increase the quantity and quality of urban management training. In addition, there is a need to improve the institutional capacity of training organizations in the country.

1.2 Related Programs

1.2.1 USAID/Indonesia

MFP is one of four related A.I.D.-funded projects in Indonesia. The others are MFEI, PURSE and the VCU/UNHAS Project. Technical assistance and training in support of the MFEI policy agenda will be carried out under MFP/A and PURSE. The cooperative agreement between Virginia Commonwealth University and Hasanuddin University, Ujung Pandang (VCU/UNHAS), summarized below, will also provide additional training support.

1.2.2 Virginia Commonwealth University - University of Hasanuddin

The VCU/UNHAS linkage project has three major goals, each supported by objectives that will be achieved during the five years of the linkage agreement. The goals are

- o Directly assist, through educational activities, in the realization of economic development and environmental sustainability objectives of Indonesia. Key activities include
 - Implement a Graduate Management Training Program at UNHAS

¹ More detail can be found in *Analysis of Options for Delivery of Training in Urban Finance and Management in Indonesia*, PADCO for USAID/Indonesia, December 1992.

- Provide UNHAS faculty with opportunities for doctoral study, professional development and research at VCU
- o To assist UNHAS in serving as an educational catalyst directly involved in human resource development through outreach and training activities Key objectives include
 - Establish a self-sustaining training center at UNHAS for public sector Level I and Level II employees in urban and regional management as a complement to, but separate and distinct from, the academic graduate programs
 - Provide a research and training program of direct consultation with local and regional governments on critical developmental issues
 - Assist UNHAS faculty in defining and examining critical local policy issues and strategies through a regular series of professional seminars
- o To promote the internationalization of VCU in those academic disciplines that directly contribute to the global objectives of a public urban university entering the 21st century Key objectives include
 - Organize a series of lectures at VCU to support the Urban Management Program

1 2 3 Other Programs

IUIDP (Integrated Urban Infrastructure Development Programme) Founded in 1984, IUIDP's immediate purpose is to achieve a systematic investment programming and cost-effective implementation in water supply, drainage, sanitation, solid waste disposal, urban roads and kampung improvement The goal of the IUIDP Implementation Support Project (IISP) is to facilitate the planning and coordination of all investments and external assistance coming into IUIDP sectors, and to help develop human resources Particular attention is being given to the development of urban management capacity, with a focus at local government level IISP has provided significant support to urban management training throughout the country Technical advisors funded through this project are also working collaboratively with the MFP Advisors to improve urban management training in Indonesia

The project is due to be completed in March 1994 Discussions are, however, in progress for the agreement to be renewed, possibly in some other form

Birmingham University Project The Regional Finance Project, implemented by the Institute for Local Government Studies (ILGS), University of Birmingham, England, provides (a) support for training local government finance staff at the Universities of Indonesia and Gajah Mada, (b) short-term TA on central-local fiscal relations, and (c) post-graduate and shorter training for government and university staff at the University of Birmingham The long-established project is due to finish in late 1993, although an

extension is currently being negotiated. The program is considered successful, the local government finance training program is soon to be extended to a third university, probably Hasanuddin University, Ujung Pandang.

ILGS staff have worked closely with the MFP Advisors and the IISP team in developing concrete proposals for strategic management training, as summarized in later sections of this annex.

1.2.4 Other AID - Supported Programs

There are several AID-supported programs currently under way that can be tapped to advance the environmental objectives of MFP/A, including the following:

USAEP The United States-Asia Environmental Partnership (US-AEP) is a coalition of American and Asian businesses, governments and community groups working together to enhance Asia's environment and promote economic progress. 'Environmental Fellowships and Training' is one of the four program components; this program provides competitive grants for Asian and American managers and scholars to analyze and bring immediate attention to the most pressing problems and promising opportunities in the area of environment.

In addition to the fellowships, US-AEP brokers training opportunities, many are provided through the US Environmental Training Institute (USETI), The US Environmental Protection Agency and the World Environment Center. Specially designed study tours can also be arranged through US-AEP and through its collaborating organizations.

AIT Urban Environmental Management Program In January 1994, the Asian Institute of Technology (AIT) will offer a new Masters Program Urban Environmental Management. This curriculum will prepare its graduates to manage urban challenges in an environmentally sustainable manner and the graduates will have developed their competencies in a number of areas relating to urban planning and management.

Complementing this MA program will be a number of short courses offered each year to which practitioners will be invited. In 1994, these are expected to include the following:

- o New Trends in Urban Development and Environmental Policy Development in Asia. This will focus on the increasing role of local government agencies in the field and the growing importance of the private sector in environmental management and policy.
- o National and Local Public Policy Instruments for Protecting the Environment in Urban Areas. This will focus on state-of-the-art experience.
- o Public-Private Partnerships in Implementing Urban Environmental Policies and Programs. This course will focus on emerging trends toward public sector and

- o private sector cooperation in dealing with environmental problems, and the roles of business in contributing to environmental protection
- o Privatization of Urban Services at the Local Level

1.3 Training Framework

This section describes the overall status of urban sector training in Indonesia, outlining the training needs of urban managers (training demand) and the training system that is now in place (training supply). The gaps between training demand and supply are noted and a set of principles to guide the development of MFP/A training is also defined. More than one analyst has documented the fact that there is no existing training in "urban management" in Indonesia, and although specific skill training exists, it is fragmented, mostly financed by projects, and its volume is totally inadequate.

1.3.1 Training Needs of Urban Managers: The Demand

The need for greatly expanding training and technical assistance activities for urban local governments in Indonesia has been recognized for some time. In 1988 the GOI initiated the large scale Urban Institutional and Manpower Development Study (UIMDS). This found a severe shortage of training in urban management and finance directed to local government staff. The critical shortfalls in urban management skills, which were well documented by the UIMDS, are growing more severe simply because the demands placed on urban local government managers are growing continually stronger. These demands are increasing for many reasons, but the most crucial include:

- o A rapidly increasing GOI urban investment program which is producing infrastructure facilities that need to be managed by local governments
- o Rapid urban population growth, now estimated at 5.3% a year
- o Shifting of management responsibility from central to local governments in line with national decentralization policies

These trends have a compounding effect on the need for better management skills at the local level -- simultaneously, local government managers are having to assume broader responsibility, take control of new facilities and cope with rapidly growing service populations.

1.3.2 Urban Sector Training: The Supply

The current system for providing training and technical assistance to urban local government is very fragmented. It has the following elements:

- o the system of local government training centers under Dalam Negeri comprised of the central coordinating unit (Badan Diklat) and provincial training centers (Diklat Propinsi),
- o the system of training units in central government sectoral departments and their regional branches,
- o the network of regional universities (some of which are already involved in limited training and consulting activities in urban development),
- o the training and technical assistance activities of urban infrastructure projects, most of which are supported with foreign loans and currently rely on private consultant firms, and
- o the emerging system of Provincial Monitoring and Development Units (PMDUs) which provide TA to local water authorities under the provincial governments and with technical support from Cipta Karya and PUOD

An Addendum contains an inventory of all training programs currently available for local officials, produced through a collaborative effort by the advisory teams of the MFP and IISP

1.3.3 System Gaps Between Training Demand and Supply

Training demand and supply are quite far apart. Key points describing this situation include

- o No part of the existing system is truly providing training or technical assistance for urban management -- that is, training to provide urban government staff what it needs to know in order to run cities efficiently
- o There is no domestic system for delivering urban sector training and technical assistance systematically to local governments
- o The scale of the supply of managers, staff and technical specialists being produced by the existing delivery system is nowhere near sufficient to meet the existing and foreseeable need for skilled professionals in the several levels of government which have to be responsible for urban management -- in particular, government at the local level
- o Central agencies as a group are not yet well-equipped to deliver training and technical assistance
- o Some of the clearly important subject areas are not being addressed at all or are getting inadequate attention, for example local development programming which integrates planning for economic, physical, fiscal and institutional development, transport planning and traffic management, and urban land management

- o The private consultancy industry is still in the early stages of development
- o Existing training activities are uncoordinated in their planning and their execution
- o Large amounts of technical assistance are being delivered to individual projects, largely through external funding, but this technical assistance is not linked systematically with training, and generally is not institutionalized. Moreover, this assistance is typically designed to transmit subject-specific skills or tools (e.g., how to operate the tax records system) rather than build broader urban management skills and the knowledge of when and how to use those tools
- o There is no adequate supply of training materials available to any level of government and there is at present no plan or mechanism for producing the necessary materials

Hence, there is no "critical mass" of expertise in urban management and finance in Indonesia. This makes it hard to find skilled trainers and to produce good locally-adapted training materials for local governments. As can be seen from the above list, the gaps in the current system are problems of both structure and content. The main structural deficiencies result from the extremely fragmented nature of the existing system -- this comes both from the sheer number of different actors in the system as well as the over-reliance on foreign project support. The content problems exacerbate the structural deficiencies. Of the content problems cited above, two are most critical. First, the lack of professional expertise in urban management (including finance) within Indonesia is a fundamental deficiency. This lack means that T/TA services will continue to be reliant on intermittent foreign project support. Second, the current system is not designed to help urban managers actually manage -- it is designed to deliver pieces of management skills and tools. While undoubtedly helpful in part, this approach leaves too many gaps and does not address the basic management task at the local level.

1.3.4 Key Guiding Principles

In analyzing urban management training needs and priorities, the Urban Management Training Program (UMTP) working group outlined several key principles that should guide the development of the new training framework. These include

- o The framework should address both structural and content deficiencies in the current delivery system
- o The framework should include in its target audience all of the actors which play a role in urban management
- o Training and technical assistance should be developed in conformity with the national policy of decentralization

- o Training and technical assistance should be demand-driven and responsive to the job needs of local government managers and staff and the other relevant participants in urban management. This requires different training and technical assistance activities targeted to the different audiences.
- o Because urban development must be an intergovernmental undertaking and involve governmental and non-governmental contributors, some training activities should be addressed to functional "teams" of participants who must collaborate in the business of planning, installing and managing urban facilities and services.
- o Local governments should pay for a large part of the training and technical assistance costs and, therefore, should have optional suppliers of these services (including the private sector).
- o Training and technical assistance services should be developed in tandem and artificial distinctions between the two should be eliminated. There are two important aspects of this principle. First, there should be permanent domestic sources of technical assistance available "on call" to the local and other government managers and staff who need them. Intermittent, and externally funded, projects should not be the primary source of technical assistance. Second, when technical assistance is provided through projects (funded externally or domestically), it should be integrated with training in the projects and it should contribute to the institutionalization of regularly-needed training in the fields concerned. It therefore should be linked with the activities of existing training institutions.
- o Institutions and individuals should be called on to fulfill roles in the training and technical assistance delivery system based on their competence and capability rather than organizational mandate.
- o The development of the training and technical and assistance system should be consciously "dynamic", especially at the outset, since it is not clear which approaches will work best. Furthermore, different approaches may work better in different regions so that flexible system designs are preferable to a uniform standard.
- o The schedule through which the training and technical assistance strategy is implemented should reflect the government's priorities. One of the most urgent needs is to deliver intensive training and technical assistance which will help to relieve the bottlenecks in implementation which are presently reducing the effectiveness of the urban investment program. There are long delays in implementing some of the investment projects which is both costly for the nation and painful for the target communities.

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These principles were presented to a national policy workshop (supported by the MFP), held in Bali in February 1993, and attended by over one hundred local and central government officials, university and other trainers, and others interested in training systems development. The objectives of the workshop were to develop a consensus on the approach to be taken, and to identify local government urban management training needs. The workshop agreed that follow-up action should include the initiation of development of an urban management core course curriculum, and development of the training component of MFP/A.

Subsequently, an Urban Management Training Task Force was convened, in order to develop a plan of action, including allocation of roles and responsibilities for implementation of integrated urban management training, and to provide guidance for program execution. The Task Force comprises representatives of the main central government agencies involved in urban management (BAPPENAS, and the Ministries of Finance, Home Affairs and Public Works), major providers of training, and urban management consultants. Currently, the Task Force is convened by the representative of the Ministry of Finance.

The MFP/A proposals are designed to support the initiatives of this Task Force.

2. TRAINING PRIORITIES AND PROPOSED TRAINING ACTIVITIES

2.1 Target Groups for Training

Government of Indonesia-sponsored urban sector trainees have largely been mid-career professional staff of central, provincial and local agencies directly involved in the planning, programming, implementation, operation and maintenance of urban infrastructure and services. Most urban sector training in the recent past has been conducted under IUIDP, of those participating in IUIDP training between 1987 and 1992, 20% were from central government, 20% from provincial government and 60% from local government. Target groups not usually reached by IUIDP or other urban sector training in Indonesia include senior managers and policy-makers at all levels of government, NGOs, real estate developers, university faculty and representatives from financial organizations.

Target groups for MFP/A are a subset of this large group and fall into the following categories:

- o National, provincial and local government senior policy-makers and managers, and
- o University and training institution faculty and administrators charged with providing long and short term training opportunities to the main target group.

2.2 Development of Indigenous Training Capacity

The UMTF Task Force has determined that the urban management training program should be directed both towards training of existing local government officials, and of the next generation of officials. Agreed principles are that the system should address both structural and content deficiencies, should target all relevant actors (central as well as local) while being focused on management of urban local government services consistent with the national policy of decentralization, should be "demand driven" and responsive to the job needs of local managers, should be paid for in large part by local governments, should merge the concepts of technical assistance and training, and should be consciously experimental.

The greater part of the funding under MFP/A allocated for training will be spent to support the development of an indigenous training capacity within the framework designed by the Task Force. It is, however, certain that the resources of MFP/A will be insufficient to achieve all of the Task Force's objectives, and that support will need to be selective and supported by the injection of resources from central government and other donors. Nevertheless, certain other AID initiatives can and will be tapped in order to support the overall objectives. Thus, the VCU-UNHAS Linkage Project will be critical to support the project goals. To a lesser degree, the AIT/RHUDO-Bangkok work on urban environmental management curriculum building in Asia will also be of assistance. It is expected that other projects in Indonesia will also be supportive. MFP/A can provide leadership, management and coordination throughout the life of the project.

Since resources under the MFP/A, VCU-UNHAS, and AIT-RHUDO/Bangkok programs are limited, funded training activities need to be carefully planned. The key components, further described below, include

- o MFP Training Coordinator
- o Development of Core Curricula of Short Term Programs designed to meet the needs of urban managers
- o Development of longer term formal educational courses at the undergraduate and graduate levels at regional universities
- o Development of an organization of urban management training -- composed of providers and consumers modeled on a trade association

2 6 1 MFP Training Coordinator

The most significant item in training support is the appointment of a Training Coordinator. The Coordinator will have the responsibility of coordinating inputs to the Urban Management Training Program and to the Regional Universities Program.

An additional challenge is to develop the "training cell" (described below) and, in conjunction with other team members, to manage the MFP/A training function. A full job description is in Annex 7. As noted there, the training function includes brokering training programs and resources available throughout Indonesia as well as directly handling MFP/A-sponsored conferences, short courses, institutional networks, study tours and on-the-job training. The Coordinator will have the responsibility of coordinating donor assistance to the Indonesian Urban Management Training Program.

This individual's task is also to "work him/herself out of a job." The Training Coordinator will develop and manage a training cell, incubated and prepared for relocation in whatever institutional home is deemed most seemly by the project's end. Reporting to the MFP Counterpart Team, the Training Coordinator should be able to build the foundations for municipal training and draw upon resources available through other programs and projects. In the process of fulfilling this role, the Coordinator will be able to analyze the quality of the training programs and evaluate their effectiveness in terms of MFP program goals and objectives.

Competencies required for this job include a knowledge of the fields of training and human resources development practice and urban management. Strong communication and management skills are also critical, as are networking and leadership abilities. Familiarity with Indonesian urban sector training institutions is important, and Indonesian language facility is necessary. Priority for hiring will be given to Indonesian citizens.

2 6 2 Training Unit

The needs in the field of urban sector training in Indonesia are vast and, in spite of the fact that there are many projects and government organizations in the country that provide training in this field, there is no organization or entity primarily responsible for promoting urban sector training. Some analysts of Indonesian urban sector training have advocated the establishment of a central training facility to meet these needs. However, it is not clear that a totally new institution is necessary, nor is it clear where the most appropriate institutional home should be.

At present the interagency task force is taking responsibility for promoting urban sector training in the country and there is an excellent spirit of collaboration among project-funded staff. Providing this interagency group with a staff (Training Coordinator and support staff) and basic resources, to constitute a Training Unit, will allow for the incubation of a focal group on urban sector training. Attention can then be given to the

structure and content of the training without committing resources to institution building. The interagency task force can evaluate alternative institutional homes for the training unit over the course of the next few years, and the task force and its training coordinator can focus on the highest priority training tasks.

By the end of the project period, the training unit will have been integrated into some organization within which it can function on an ongoing basis. This should be a conscious objective and organizing principle. The training coordinator's work plan should include an ongoing assessment of the options by which the range of urban sector training can be integrated. It is not money that will make this happen but a deliberate time commitment on the part of the MFP/A staff to refine the integrated training vision and see to it that it is implemented.

Funds are set aside under the budget of the Training Coordinator for rent of office space and hire of assistants for the Training Unit.

2.6.3 Core Curricula - Short Term

The UMTP Task Force has advocated the development of a new training program in urban management, calling for several tiers of courses. The general concept in the curriculum development is to create tiers of training courses that are appropriately targeted to the needs of different levels of management, with special attention being paid to ensuring consistency of course materials between the different tiers and courses. The Task Force gives priority to the development of the "Tier 1 Courses", which would offer materials on strategic management for Tk II top management teams.

The Tier 1 courses will include

- a short, intensive Urban Management Core Course targeted to the Tk II senior management team (Walikota/Bupati, Sekwilda, BAPPEDA, Kadinas PU, Kadinas Pembangunan and Kabag Keuangan). It will cover general management skills and the crucial linkages of the technical disciplines which are needed for effective Urban Management. The emphasis is on general management skills and integration of the senior management team, and
- short (1 to 3 weeks each) intensive courses in (1) Financial Management Strategy, (2) Service Delivery Management, (3) Infrastructure and Capital Investment Planning, (4) Spatial Planning and Land Management, and (5) Urban Environmental Management. These courses will be targeted to relevant members of the senior management team and will cover the strategic management issues and practices within these substantive topics. The Task Force has made a preliminary identification of the target audience, and of the outline content of each of these courses.

TA/training resources would be applied to extend the design of this system and implement it. This would include (1) preparing an institutional development plan, including a needs evaluation, (2) curriculum and training materials development, (3) training of trainers (in substantive fields, on training methods, on course materials, and on refresher courses), (4) pilot testing in two or three selected locations, and (5) assistance in managing the overall program.

The Task Force has identified, for each of the proposed six course areas (the urban management core course, and five substantive areas) the appropriate supervisory agencies, the group of institutions to be responsible for development of curricula and course materials, sources of materials (including central government agencies, universities, private sector organizations, and donor-assisted consulting groups), and possible sources of trainers.

The Task Force proposes that the course be developed sequentially, starting with the Urban Management Core Course. A suggested schedule is shown on the next page.

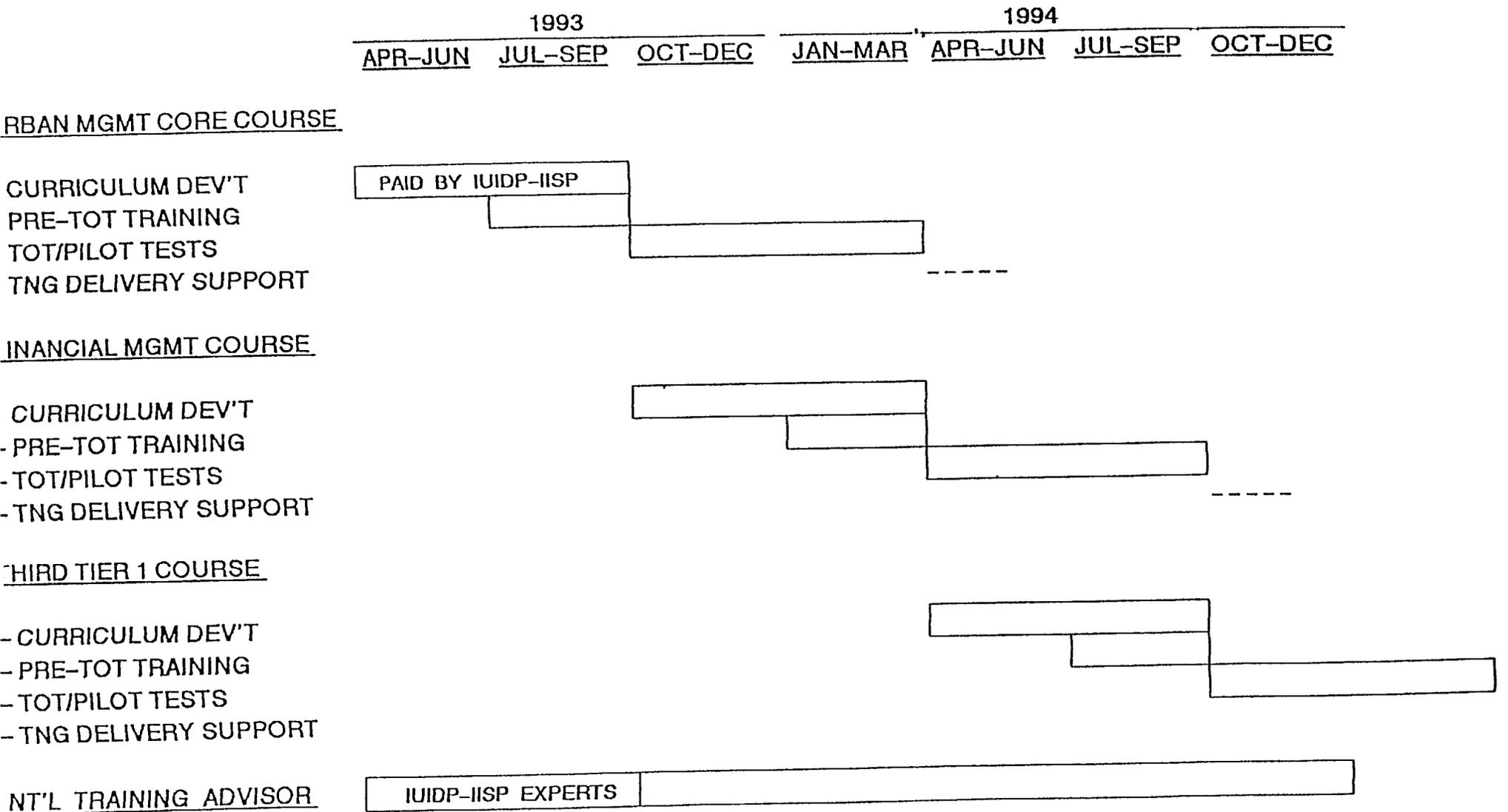
The program has attracted a great deal of support among various government entities and other donors. It is neither possible, desirable nor necessary that MFP/A shoulder the complete responsibility for development of the system. For instance, development of the curriculum for the core urban management course is to be funded by IUIDP-IISP, the British Government, through ILGS, is considering partial support for development of the municipal finance curriculum, it is reasonable to look for GOI funds to support, for example, some of the costs of pilot testing the courses, and user fees will meet the participant costs of ultimately delivering the polished courses.

For illustrative purposes, it is assumed that development of a single course will cost about \$500,000, made up as follows:

o needs evaluation	\$ 30,000
o curriculum / training materials development	\$175,000
o training of trainers	\$155,000
o pilot testing	\$100,000
o implementation "seed money"	\$ 40,000
	<u>\$500,000</u>

An indicative total of \$1,345,000 is set aside under MFP/A for support of the development of core curricula of short term programs (\$525,000 for short-term technical assistance, and \$820,000 for training). Thus it would be necessary for the UMT Working Group to identify additional GOI or donor resources to fully fund the development of all five short courses.

URBAN MANAGEMENT TRAINING PROGRAM PHASING / SCHEDULE



1/2

In addition to the Tier I short courses, other practical seminars and workshops, on local revenue generation, urban management guidelines and urban environmental quality management will also become part of the short course menu to be supported by MFP/A.

2 6 4 University Training Delivery System

Whereas training programs for local officials address short-term requirements, there is a corresponding need for development and expansion of formal education courses in urban management, at undergraduate and graduate level. Presently the premier courses are given by the Bandung Institute of Technology (ITB), which is the longest-established institution in Indonesia offering education in urban planning. However, several regional universities have recently started to offer courses in urban planning and management, or to plan to mount such courses, often specializing in particular fields. This includes the VCU-UNHAS initiative described earlier. Others showing interest include Diponegoro University at Semarang and the University of Gajah Mada at Yogyakarta. It may be appropriate that, although selected universities will play a major role in the delivery of urban management training and education in Indonesia, each of these universities would provide expertise in different urban development specializations.

Despite this expansion of interest in providing planning education -- confirmed by considerable demand for places at these universities -- the supply of planning graduates will continue to fall far short of the need for the foreseeable future. Graduates from schools of urban planning and management will be needed by central and local government, consulting firms and the media, NGOs, and other organizations involved in urban development. At the same time, the curricula at these universities may not appropriately reflect current needs, and deserve a fresh review to determine whether and how they should be updated. Most existing programs, for instance, do relatively little in providing cohesive and consistent urban management approaches. Their faculty, too, are largely drawn from the fields of architecture, engineering, economics and urban planning, and have had little training in management and in the planning process related to urban management.

TA/Training resources would focus on upgrading the ability of Indonesian universities to deliver a greatly expanded pool of urban managers with sufficient academic preparation to meet urban challenges. This component will complement the larger program of urban management training described above.

The objective of the university capacity building activity would be to strengthen the capacity of selected regional universities to integrate urban management into their urban development curricula, and to complement the urban management training program. This could be achieved, over the medium term, by the following activities:

- Firstly, undertake an inventory of faculty resources and expertise related to urban management, identify current courses and programs of study that relate to

urban management, and assistance to faculty to identify urban management curriculum materials. This activity would also assist to assist universities in securing affiliations with overseas universities, perhaps on the VCU-UNHAS model.

- Offer short courses of intensive training in urban management to a few faculty members from the selected regional universities. The course would also cover techniques of conveying information to students and practitioners through training and coursework. The training would seek to accomplish the following: expose participants to leading concepts and approaches in urban management, including alternative models of management processes, develop the skills necessary to define, articulate and assess urban management in practice, and contribute to the development of university-led curricula.
- Provide training of trainers, including the development of prototype training materials for urban management, as well as training potential trainers in their use.
- Facilitate university linkage programs, similar to the VCU/UNHAS linkage. University curriculum development is a major undertaking, the VCU/UNHAS collaborative effort has the funding and scope to develop the capacity of one university.

There are two alternative approaches to achieving this objective, which both have their advantages and disadvantages. These need to be evaluated prior to proceeding with program design.

- a) One selected university takes the lead as a "Center of Excellence". This could be ITB since (a) ITB already has a well established faculty in urban and regional planning, and (b) it would be in a strong position to coordinate a network of regional universities with similar (yet not identical) programs. One advantage of this approach would be that ITB could achieve results quickly and absorb considerable workload from the National Training Coordinator. One disadvantage might be that other universities benefit less than the lead university, or
- b) No single university is dominant, which allows for the selected group of universities to operate as a collaborative network from the outset. A potential advantage is that a more equitable distribution of resources is ensured. At the same time however, the burden of coordination will remain with the National Training Coordinator, which could create bottlenecks and delays in reaching consensus among the group.

Given that MFP/A cannot (and probably should not) fund all the preceding activities, it will be necessary for the GOI and the universities themselves to identify other sources of funding for the different activities. It will also be necessary to determine a more

concrete work plan To achieve this, it will be desirable to hold one or more workshops attended by representatives of selected universities and of the UMT Working Group In turn, the output of the workshop might best be guided by a commissioned report which describes the options for further action

It would be appropriate for MFP/A, if necessary, to provide financial support for this initial study and workshop(s) In addition, the training coordinator will work closely with those working on this collaborative effort to ensure that the vision of the interagency task force is taken into consideration by the VCU/UNHAS group, and, correspondingly, that the expertise of the VCU/UNHAS management group can be utilized by the Training Unit

An indicative total of \$100,000 is set aside under MFP/A for catalytic support of the development of the University Training Delivery System

2 6 6 Urban Management Institute

There is currently no professional association of city officials and municipal specialists in Indonesia, there is an Association of Indonesian Municipalities (BKS-AKSI), but its charter is not along the lines of a professional association Nevertheless, BKS-AKSI is intending to strengthen its professional activities by the establishment of an Institute for Urban Management and Development, whose mandate would include the oversight of training for municipal officials

Since demand-driven urban sector training in many countries is usefully provided through professional associations, this option should be explored in Indonesia One possibility for institutionalizing the training cell is to activate it within a newly formed association of municipal officials MFP/A will be able to fund a feasibility study for creating such an association with a clear training mandate If there is scope for establishing such an organization, subsequent consultations on organizational development and management can make it a reality

The establishment of an independent Urban and Regional Development Institute (URDI), has been discussed within GOI and there is donor interest to support this initiative Its primary goal would be to serve the interests of local governments as a development forum and a center of excellence in urban and regional development and management Not only would such an institute be able to provide services in the field of research, development, training, information and communication, it would also provide the much-needed process-oriented and continuous support which is difficult to obtain from line agencies In the short term, a further study on the feasibility of such an institution could be commissioned One possibility would be to support the development of the Institute within BKS-AKSI to undertake the roles described, another could build on a parallel initiative at ITB

An indicative total of \$50,000 is set aside under MFP/A for support of studies for development of an Urban Management Training Association and/or of an Urban and Regional Development Institute

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The indicative amount to be set aside from the MFP/A budget for Indigenous Training Systems Development is \$2,073,000 This is made up as follows

Training Systems Development Component	Indicative Budget	Budget Line (Table 9)
Training Coordinator	\$ 578,000	Long-Term TA Training Coordinator
Curriculum Development	\$525,000	Short-Term TA Training Systems Devt
Training of Trainers	\$ 820,000	Training In-Country Training
Regional Universities	\$ 100,000	Short-Term TA Training System Devt
Training Assoc Study	\$ 50,000	Short-Term TA Training System Devt
TOTAL (exc contingencies)	\$2,073,000	

Fig 1 SUPPLY OF TRAINING AND TECHNICAL ASSISTANCE FOR REGIONAL GOVERNMENTS

TRAINING COURSES/TECHNICAL ASSISTANCE	FREQ FY 91/92	NBR PARTI CIPANTS	DURATION	IMPLEMENTING AC CONSULTANTS IN
URBAN MANAGEMENT				
- Local Training				
Manajemen Pemda dan Perkotaan bagi Sekwilda	4	35	2 weeks	Bandiklat
Manajemen Kawasan Pekotaan	1		3 weeks	Puslitbangkim PU
- Overseas Training				
Integrated Urban Development Management (IUDM)	2		5 months	IHS Netherlands
fellowships under WJSSCUDP		28		
fellowships under Botabek UDP		10		
fellowships under Dutch Bilateral Assistance		10/year		
Master degree Management of Cities in Development			16 months	Erasmus Univ Rotterd
fellowships under Botabek UDP		20		
Pendidikan Pasca Sarjana Bidang Urban Management		12	18 months	ENTPE Lyon France
- Project TA				
BOGPALUDP Urban Management Specialist (Palembang)				12 Int+12 Nat
BOGPALUDP Urban Management Specialist (Bogor)				12 Int+12 Nat
IUIDP/PLANNING AND PROGRAMMING				
- Local Training				
IUIDP Programming/Monitoring		20-25	2-3 weeks	UP2L
IUIDP Program Appraisal		15	1 week	UP2L
IUIDP Project Appraisal		15	1 week	UP2L
Project Appraisal	2	20-25	10 weeks	BPLK HIID
IUIDP Implementation		20-25	1-2 weeks	UP2L
LPTPK (under development)				Bandiklat
Latihan P3KT di Maluku	3	40/course	2-6 days	UP2L Diklat Propinsi
Latihan P3KT di Kalteng Kaltim NTB	2		2-5 days	UP2L Diklat Propinsi
- Project TA				
EJBUDP Appraisal Support Bappeda I			2 years	36 Int+180 Nat
EJBUDP IUIDP Training			2 years	12 Int+72 Nat
SULIRUDP IUIDP Training			1 year	60 man months
BOGPALUDP Training Coordinator (Palembang)				12 Int+12 Nat
BOGPALUDP Training Coordinator (Bogor)				12 Nat
IUIDP IRJA				
SPATIAL PLANNING				
- Local Training				
Thematic Mapping		20	1-2 weeks	UP2L
Pelatihan Sistem Informasi Geografi	1	75	5 days	Diklat CK
Penataan Ruang Kota Metropolitan	1	50	3 days	Diklat CK
Penataan Ruang Daerah Sektor Pariwisata	1	25	3 days	Diklat CK
Penataan Ruang Daerah Tingkat Kabupaten LTA-28	1	25	5 days	Diklat CK
Pengembangan Profesi Perencana	1	30	5 days	Diklat CK
Tentang Gambar Bidang Penataan Ruang	1	30	4 days	Diklat CK
- Project TA				
BOGPALUDP Urban Planner (Palembang)				12 Int+24 Nat
BOGPALUDP Urban Planner (Bogor)				12 Int+24 Nat

Fig 1 SUPPLY OF TRAINING AND TECHNICAL ASSISTANCE FOR REGIONAL GOVERNMENTS

TRAINING COURSES/TECHNICAL ASSISTANCE	FREQ FY 91/92	NBR PARTI CIPANTS	DURATION	IMPLEMENTING AC CONSULTANTS
URBAN SERVICES MANAGEMENT				
- Project TA				
EJBUDP DPUP Eng & Superv Advisors			4 years	100 Int+250 Nat
EJBUDP POMMS			2 Years	24 Int+300 Nat
SULIRUDP POMMS			18 months	14 Int+180 Nat
BOGPALUDP Municipal Engineer O&M (Palembang)				12 Int+24 Nat
BOGPALUDP Municipal Engineer O&M (Bogor)				12 Int+24 Nat
POMMS Introduction in 10 Tk IIs				
WATER SUPPLY				
- Local Training				
Per Jaringan Distribusi dan Analisa Blaya	1	20	12 days	Diklat CK
Ketrampilan Pompa dan Genset	5	50	12 days	Diklat CK
Trouble Shooters	6	90	6 days	Diklat CK
Kasi Hubungan Langganan	2	40	6 days	Diklat CK
Direktur PDAM/Kepala BPAM (dasar)	2	40	12 days	Diklat CK
Kasi Administrasi Umum dan Kepegawaian	2	36	6 days	Diklat CK
Kepala Unit IKK/Cabang BPAM/PDAM	2	60	10 days	Diklat CK
Direktur PDAM/Kepala BPAM (lanjutan)	1	20	10 days	Diklat CK
Kasi Pembukuan	2	40	10 days	Diklat CK
Anggaran dan Analisa Keuangan	3	60	6 days	Diklat CK
Para Petugas Laboratorium	2	20	12 days	Diklat CK
Kabag Teknik (dasar)	2	40	12 days	Diklat CK
Praktek untuk Petugas Pemasangan Pipa	2	20	12 days	Diklat CK
Kabag Administrasi dan Keuangan	2	40	10 days	Diklat CK
Kasi Perencanaan dan Pengawasan	2	40	10 days	Diklat CK
Mencari dan Menemukan Kebocoran Air	3	30	12 days	Diklat CK
Kabag Teknik (lanjutan)	1	20	10 days	Diklat CK
Kasi Transmisi/Distribusi	1	40	10 days	Diklat CK
Kasi Produksi	1	20	10 days	Diklat CK
Kasi Bengkel/Pemeliharaan	1	20	10 days	Diklat CK
- Overseas Training				
Pendidikan Pasca Sarjana Bidang Teknik Penyehatan		25	11 months	IHE Delft Holland
Mgnt dan Perenc Infrastr Perkotaan di Bidang Air Bersih		15	8 weeks	IHE Delft Holland
Program Pendidikan Pasca Sarjana		10	2 years	Unv Manitoba Canac
- Project TA				
EJBUDP Advisors to PMDU			4 years	36 Int+225 Nat
SULIRUDP Advisors to PMDU Sulawesi			2 years	34 Int+96 Nat
SULIRUDP UFW Task Force			2 years	24 Int+72 Nat
SULIRUDP PMDU Irian Jaya			2 years	24 Int
SULIRUDP Training for Irja enterprise staff		600 participants		
BOGPALUDP Financial Adviser PDAM (Pal)				24 Nat
BOGPALUDP Financial Adviser PDAM (Bogor)				24 Nat
PMDU Strengthening for Jabar Jatim Aceh				
17 Cities Program for West Java				
x Cities Program for West Sumatera				
Twinning Program for 6 PDAMs				
JUDP II Training for PDAMs DKI & Tangerang				73 Int+112 Nat

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Fig 1 SUPPLY OF TRAINING AND TECHNICAL ASSISTANCE FOR REGIONAL GOVERNMENTS

TRAINING COURSES/TECHNICAL ASSISTANCE	FREQ FY 91/92	NBR PARTI CIPANTS	DURATION	IMPLEMENTING AGENCY/ CONSULTANTS INPUTS
SANITATION AND SOLID WASTE				
- Local Training				
Anggota Organisasi Wanita/PKK	1	20	6 days	Diklat CK
Staf Pengawas Bidang Persampahan	4	20/course	6 days	Diklat CK
Perencana Bidang Drainase	1	20	12 days	Diklat CK
Pengawas Bidang Air Limbah	3	20/course	6 days	Diklat CK
Tenaga Penyuluh Masyarakat	5	20/course	1 day	Diklat CK
Perencana Bidang Persampahan	2	20/course	12 days	Diklat CK
Perencana Bidang Air Limbah	2	20/course	12 days	Diklat CK
Pelaksana Bidang Persampahan	1	20	6 days	Diklat CK
Pengumpulan dan Pengangkutan Sampah (lanjutan)	1	10	12 days	Diklat CK
Pengolahan Air Limbah Domestik (lanjutan)	1	10	12 days	Diklat CK
Staf Pengawas Bidang Drainase	1	20	6 days	Diklat CK
- Project TA				
BOGPALUDP Solid Waste Management Spec (Pal)				6 Int+24 Nat
BOGPALUDP Solid Waste Management Spec (Bogor)				24 Nat
URBAN ROADS				
- Local Training				
Administrasi Bantuan Luar Negeri	1			Diklat Tenaga DPUK
Desain Jalan/Jembatan	1			Diklat Tenaga DPUK
Kepala Dinas Kabupaten (Appresiasi)	1			Diklat Tenaga DPUK
Kepala Workshop DPUK (Appresiasi)	1			Diklat Tenaga DPUK
Mekanik Dasar	1			Diklat Tenaga DPUK
Operator Peralatan Jalan	1			Diklat Tenaga DPUK
Pelatihan Tenaga Sarjana dan Sarjana Muda Sipil	8			Diklat Tenaga DPUK
Pengawas Pelaksana Kohstruksi Jalan	4			Diklat Tenaga DPUK
Peningkatan Laboratorium	1			Diklat Tenaga DPUK
Peningkatan Mekanik UT	1			Diklat Tenaga DPUK
Pimpro BPJK/IPJK	1			Diklat Tenaga DPUK
Training Job Site (OECF)	1			Diklat Tenaga DPUK
Keselamatan Jalan 1	1			Dit Binkot (RUCTP)
Keselamatan Jalan 2	1			Dit Binkot (RUCTP)
Manajemen Lalu Lintas 1	1			Dit Binkot (RUCTP)
Manajemen Lalu Lintas 2	1			Dit Binkot (RUCTP)
Manajemen Proyek	1			Dit Binkot (RUCTP)
Manajemen Proyek 1 (TH Senior)	1			Dit Binkot (RUCTP)
Manajemen Proyek 2 (TH Senior)	1			Dit Binkot (RUCTP)
Manajemen Proyek 3 (TH Senior)	1			Dit Binkot (RUCTP)
Pemeliharaan Rutin & Berkala Jalan Kodya I	1			Dit Binkot (RUCTP)
Pemeliharaan Rutin & Berkala Jalan Kodya III	1			Dit Binkot (RUCTP)
Pemeliharaan Rutin & Berkala II	1			Dit Binkot (RUCTP)
Pemeliharaan Rutin & Berkala IV	1			Dit Binkot (RUCTP)
Penanganan & Perawatan Alat-Alat Konstruksi Jalan	1			Dit Binkot (RUCTP)
Perencanaan & Pembuatan Prog Transportasi Perkotaan	2			Dit Binkot (RUCTP)
Perencanaan & Pembuatan Prog Transportasi Perkotaan	1			Dit Binkot (RUCTP)
Persiapan & Evaluasi Proyek 1	1			Dit Binkot (RUCTP)
Persiapan & Evaluasi Proyek 2	1			Dit Binkot (RUCTP)
Persiapan & Evaluasi Proyek 3	1			Dit Binkot (RUCTP)
Workshop/Seminar	4			Dit Binkot (RUCTP)

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Fig 1 SUPPLY OF TRAINING AND TECHNICAL ASSISTANCE FOR REGIONAL GOVERNMENTS

TRAINING COURSES/TECHNICAL ASSISTANCE	FREQ FY 91/92	NBR PARTI CIPANTS	DURATION	IMPLEMENTING AGENCY/ CONSULTANTS INPUTS
ENVIRONMENTAL CONTROL				
- Local Training				
Amdal A	3		20-30 days	Dik Prop/UGM/UNHAS/IPB
Amdal B	1			Dik Prop/UGM/UNHAS/IPB
- Project TA				
EJBUDP Amdal Institutional Development			3 years	12 Int+105 Nat
FINANCIAL MANAGEMENT				
- Local Training				
Training for members of Badan Pengawas		35	10 days	DYEUDA LPEM
Regional Finance Studies	10	40	1 week	DKEUDA, Bandiklat
Latihan Keuangan Daerah	2	30	3 months	LPEM
Kursus Keuangan Daerah	2		6 months	LPEM UGM
IUIDP Financing		20	1-2 weeks	UP2L
Bendaharawan A	6		35 days	Diklat Prop Dep Keu
Bendaharawan B	4			Diklat Prop Dep Keu
- Project TA				
EJBUDP RIAP Implementation			4 years	
SULIRUDP RIAP and Mapatda Implementation			one year	15 Int+70 Nat
EJBUDP Financial Accounting and Management Reform			2 years	27 Int+250 Nat
BOGPALUDP Financial Adviser RIAP (Palembang)				12 Int+24 Nat
BOGPALUDP Financial Adviser RIAP (Bogor)				12 Int+24 Nat

* Based on data from 16 Diklat Propinsi

ANNEX 2 D

URBAN ENVIRONMENTAL QUALITY MANAGEMENT

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2 2	UEQM Institutional Analysis Update	2D - 4
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ANNEX 2.D

URBAN ENVIRONMENTAL QUALITY MANAGEMENT

1 0 THE EMERGING ROLE OF ENVIRONMENT IN URBAN DEVELOPMENT¹

1 1 A Review of the Issues

As the pace of urbanization in Indonesia quickens, a commensurate rise in the demand for urban services has created further strain on the already overburdened system of environmental infrastructure throughout the country, particularly within larger cities. In a climate of decreased public expenditures to support the expanded requirements of urban infrastructure development, problems associated with urban environmental degradation have been compounded, particularly in the key environmental areas of **water and water-related issues, public sanitation and solid waste management**. The impact of such developments on the health and welfare of urban residents as well as the urban economy is unquestioned, though as yet largely unquantified. Such impacts include but are not limited to

- Degradation of coastal waters (declining fisheries and lower returns from tourism),
- Aquifer depletion and an increased cost of providing safe, potable water,
- Excessive groundwater extraction causing permanent environmental damage to aquifers,
- Poor drainage causing traffic jams after floods and associated financial losses

There has emerged a demonstrated and causal linkage between environmental degradation and the inability of public expenditures to keep pace with the demand for urban infrastructure. These investment deficiencies have been primarily attributed to "shortcomings in the municipal finance system and by institutional bottlenecks" (USAID/Interim Evaluation, Municipal Finance Project, 1992). It is the case within government nonetheless, that "sufficient institutional support for urban environmental improvement has emerged to make it likely that environmental investment not only will be viewed as necessary but will actually occur and be supported by continuing urban environmental management priorities" (MFEI Project Paper, 1993). In a recent USAID-sponsored study of environmental conditions in Jakarta and Ujung Pandang, it was shown that households as well as business and industrial concerns viewed environmental improvement as an important issue -- some fifty percent (50%) of respondent households in fact expressed a willingness to pay for basic environmental improvements (Chifos/Lubis 1991).

¹ This Section is based on the Interim Evaluation Indonesia Municipal Finance Project (Kingsley/Peterson, 1992) USAID/MFEI Project Paper, 1993 and Urban Environmental Management as a Component of an Integrated Development Strategy (Chifos/Lubis, 1992)

Urban environmental management has moved to the forefront among policy issues affecting sustainable urban growth and, as discussed below, it is directly related Indonesia's system of municipal finance and urban management, " environmental degradation, particularly contamination of surface and ground water resources from the discharge of untreated household wastes, is emerging as the most serious consequence of inadequate urban finance and management" (MFEI Project Paper, 1993)

It is widely held that the key element in sustained and efficient urban growth is (and will remain) the establishment of true decentralized local autonomy, a critical component of which is improved local government finance and management. The success of UEQM will depend on the degree to which environmental concerns can be sufficiently incorporated into the framework of ongoing efforts to improve local municipal finance and management practice in Indonesia

2 0 UEQM IN INDONESIA

2 1 Overview of UEQM in Indonesia

Urban environmental quality management (UEQM) is a broad term. For the purpose of this paper, UEQM is defined as the collective set of activities directed at improving environmental conditions at the urban level. These activities include, but are not limited to the identification of environmental problems, the formulation and implementation of environmental policies, including the regulation of development through environmental impact assessments and through the use of economic interventions, the delivery of urban environmental services, and the dissemination of information about environmental issues and their solutions. UEQM involves numerous actors, but is of particular importance at the local level.

2 1 1 Integrative Measures

An initial policy framework for the development of an integrated Urban Environmental Quality Management strategy in Indonesia has been put forth in the Interim Evaluation of the MFP Project (Kingsley/Peterson, 1992) which includes, first and foremost, the integration of UEQM within ongoing initiatives of GOI's Urban Policy Action Plan. Fundamental to the PAP is the furtherance of local autonomy through the decentralization process as a means of improving the management of urban development. Improvement of environmental conditions is contingent on more efficient provision of urban infrastructure, thus the concentration of resources and technical assistance associated with an integrated UEQM strategy should logically focus on upgrading the management capacities of local governments, particularly those involved with preparation and implementation of the IUIDP. Specific sectoral strategies will need to be delineated to redress current deficiencies in water supply, waste disposal and treatment and land management. The preparation phase for the IUIDP medium term investment plans (PJM) may well be the most appropriate channel through which to promote UEQM integration within the municipal planning and budgeting process as it

represents the core component of the IUIDP mechanism and the point at which local participation could best be incorporated

Additional "integrative" measures through which to promote UEQM include the modification of the Policy Action Plan to include environmental objectives, techniques to quantify urban environmental impacts, introduction of analytical techniques to local planners, incorporation of strategic UEQM measures within the decentralized urban development program, supportive research, policy development and training at national and provincial levels

The Interim Evaluation includes a series of broad program themes in support of environmental management at the urban level which include

- Responding to service demands that can be met by local governments and helping to structure a tariff policy that can feasibly and equitably recover costs from beneficiaries
- Introduction of appropriate and alternative technologies of the type supported by KIP
- Developing public awareness and support for environmental quality through local organizations and community self-help groups in urban areas
- Encouraging private sector involvement in areas such as septic tank cleaning, sludge removal and solid waste collection
- Providing better data and analysis of environmental impacts on health and economic function and involvement of the community in such activities

2 1 2 GOI Initiatives

In Indonesia, the concept and application of UEQM is relatively new. AMDAL (Indonesia's environmental impact assessment process) was introduced as recently as 1986. It can arguably be considered the most practical application of UEQM to date, and it will constitute a primary vehicle for the promotion of UEQM in the future. In comparison with the National Environmental Policy Act (NEPA) which was adopted in the United States in the early 1970s (as well as many State-wide environmental policy acts), AMDAL is still in its infancy. Therefore, the many problems associated with the use, application and management of AMDAL in Indonesia reflect the natural "growing pains" that typically result from the introduction of new, broad-based environmental legislation. Nevertheless, the Government of Indonesia (GOI) has come to realize the importance of AMDAL and the need to address the environmental impacts of development.

Another important step toward improving environmental quality in Indonesia came with the formation of BAPEDAL in June 1990. BAPEDAL is Indonesia's Environmental Impact Management Agency with functions and responsibilities similar to those of the United States

Environmental Protection Agency (EPA) The role of BAPEDAL in UEQM is further discussed in Section 2.2

Although AMDAL has acted to raise the awareness of the environmental impacts associated with development and the need to mitigate such impacts, there remains a significant need to incorporate environmental planning and improved operation and maintenance of environmental facilities at the local level. New initiatives in this direction included the IBRD East Java/Bali Urban Development Project which calls for sustained support of institutional development of the provincial environmental commissions (Komisi Daerah) and other relevant participants in the environmental assessment and management process. In addition, as part of its proposed Central Java and D I Yogyakarta Urban Development Project, the ADB will provide technical assistance and training to strengthen the environmental review capabilities of the Komisi Daerah.

The development of an overall conceptual framework or strategy guiding UEQM initiatives in Indonesia is still in its formative stages and most initiatives are donor-driven. There is a need for the GOI to work toward articulating and adopting an overall UEQM strategy to direct and manage its own (as well as donor) resources most efficiently, to addressing environmental problems and promoting sustainable development.

2.2 UEQM Institutional Analysis Update

Through the mid 1980's virtually all urban infrastructure in Indonesia was planned by central government agencies in Jakarta and implemented by their field offices in the 27 provinces. Up to that time, planning and implementation of projects in different sectors (e.g. water and roads) were seldom coordinated. Local community officials had little influence on project decisions, and little consideration was given to the impact that separately planned projects would have on the community. With the rapid growth of cities, it was recognized that centralized planning and initiation of single sector projects was not meeting urban needs adequately and that a new approach was needed. Thus a major decentralization program was initiated.

During the same mid-1980's time period, the GOI also passed substantial new legislation creating organizations and responsibilities to ensure that future developments would be in harmony with a sustainable environment. Carrying out decentralization and environmental programs simultaneously has presented an unprecedented challenge to all levels of government. For example, the environmental legislation established a need for a new umbrella agency. Indonesia's Environmental Impact Management Agency (BAPEDAL), is the centerpiece of the central government's program for developing environmental standards and guidelines for testing and monitoring compliance. Many of the environmental standards have been developed and promulgated. Periodic organizational adjustments are still being made, and a high level of GOI and donor activity to develop the needed institutional capabilities is continuing at the central and regional levels.

Increasingly, these efforts are focusing on extension of capabilities to the regions and on development of operational capabilities. As could be expected during this transition period, new organizational elements and the placement and development of qualified staffing proceeds on varying schedules in the different agencies. This issue continues to cause coordination and management problems across ministries and within the various levels of government involved in the effort to develop and implement needed projects.

Recent years have seen action to strengthen coordination and consultation in the urban development sector. The most basic step under this policy was the formal establishment of TKPP (the Inter-ministerial Coordinating Team for Urban Development) in 1987, and the subsequent decree extending its responsibility for an indefinite period. TKPP was established to insure synchronization of planning, financing and implementation of various urban development investments. TKPP consists of representatives at the Director General level from BAPPENAS and the Ministries of Home Affairs, Finance and Public Works. Although there had been some concern during 1990 that it was losing some of its initial forcefulness, several steps were taken in 1990 and 1991 to strengthen TKPP institutionally. Most important, TKPP chairmanship was vested clearly with Deputy V (responsible for spatial planning and development) within BAPPENAS. Second, the interministerial IUIDP Management Group (IMG), established to support of TKPP in implementation of urban infrastructure projects, was strengthened through clarification of its responsibilities and the establishment of regular meeting schedules.

The implementation framework which the Government of Indonesia has established for the emplacement of urban infrastructure and related programs as well as the furtherance of its national urban policy objectives (as defined by the Policy Action Plan) includes the IUIDP, the IUDP and the Secondary Cities Urban Development Program (SCUDP).

Collectively these programs will likely function as the vehicle for the integration of environmental management principals within the urban development cycle.

- The Integrated Urban Infrastructure Development Program (IUIDP) which is an approach to integrating various plans, programs, and infrastructure development efforts across sectors involving local staff in planning and implementing investment programs. The IUIDP provides support to local governments (Tk II) in preparing technical infrastructure projects. For smaller cities, the Secondary Cities Urban Development Program (SCUDP) provides essentially the same support. These processes have already been implemented in the majority of Indonesian local governments (Kabupatens).
- More recently, the Integrated Urban Development Program (IUDP) was developed and is being implemented as part of two projects East Bandung and West Java and Sumatra (WJS) with three selected towns. The IUDP process is still in the pilot stage, and it is planned to augment and continue in parallel with the IUIDP. The IUDP, however, includes some spatial development considerations and is oriented to

accommodate projects initiated by local governments. The IUIDP/IUDP approach is expected to play an important and continuing role in managing urban development and implementing environmental quality policies.

- In concert with the IUIDP/IUDP, as well as the Secondary Cities Urban Development Program (SCUDP), the Government of Indonesia's process for environmental impact assessments is embedded within the AMDAL process. This process is linked to the IUIDP/IUDP programs discussed above and it is the GOI's mechanism to provide environmental reviews for all public development and urban infrastructure projects. Improvements to technical reviews, staff training, and additional refinements to the AMDAL process are continuing as the total urban environmental management capacity is developed.

Additional institutional issues are addressed within the Policy Action Plan by setting targets for strengthening and clarifying local government responsibility for urban infrastructure, for strengthening and developing the IUIDP process, including the incorporation of environmental reviews into the process, for the consolidation of urban management guidelines for local governments, and the development of an indigenous system of training for local government staffs and for strengthening intergovernmental coordination, monitoring and research.

2.3 Institutionalization of UEQM

This section provides a brief overview of key GOI Agencies, NGOs and associations with respect to their interests and potential roles in supporting a UEQM program in Indonesia. Although there exists widespread interest among the various persons interviewed to become involved in different components of a UEQM program for Indonesia, there is little clear idea how a broad-based UEQM program could be structured to incorporate all of the relevant components.

2.3.1 Institutional Overview of Relevant GOI Agencies

- **Ministry of Finance**

The Ministry of Finance could play an important role in UEQM, particularly in supporting the use of financial instruments and policies (e.g. resource pricing) aimed at promoting environmental protection, the conservation of natural resources and environmentally sustainable development within municipalities. The application of "economic interventions" to prevent environmental degradation in developing countries is only recent. The MOF could initially investigate what techniques would be most applicable and feasible, given existing political, economic and social considerations in Indonesia. Over time, the MOF could be instrumental in introducing new policies and enabling legislation for these financial instruments and provide municipalities with the requisite training for implementation.

The MOF's involvement in UEQM must support its current functional area of responsibility finance. Although many RDA-financed projects could be subject to AMDAL review, the MOF, as coordinator of the RDA, does not consider it to be their role or responsibility to check, as part of their due diligence process, whether a RDA-financed project has satisfied the requirements of AMDAL. The MOF's position is that the borrower is responsible for complying with all applicable regulations, including AMDAL. Furthermore, the MOF views its responsibility to be the evaluation of proposed projects on financial criteria only. The MOF has expressed concern, however, that AMDAL is a very lengthy process which acts to raise the costs of project financing for borrowers whose projects are subject to AMDAL review.

■ **Ministry of Public Works - Directorate of Human Settlements (Cipta Karya)**

Cipta Karya is indirectly involved in UEQM by virtue of role in preparing and disseminating technical review guidelines for urban infrastructure projects (within its sectors) subject to AMDAL as well as managing the AMDAL process for Cipta Karya projects. Although Cipta Karya has substantial experience and technical expertise with the environmental impact assessment process, additional training and technical assistance is needed to ensure that AMDAL's for urban infrastructure projects are truly effective tools for UEQM.

Cipta Karya could also contribute to the decentralization of UEQM by serving as a resource for local and regional governments with limited exposure to the environmental impact assessment process (See Kingsley Peterson, 1992). This type of assistance would be demand-driven and support the decentralization of urban management and service delivery. As an increasing proportion of local infrastructure projects are financed through the RDA, for example, greater responsibility for the AMDAL process will filter down to regional and local levels of government. Tapping Cipta Karya's expertise represents a principal means to strengthening the environmental review capabilities of regional and local governments.

■ **BAPPENAS**

BAPPENAS is the monitoring and coordinating agency within GOI responsible for the Urban Policy Action Plan. The role of BAPPENAS as chair of the IMG/TKPP also provides a strategic link to ongoing IUIDP implementation initiatives nationwide, in conjunction with the IUIDP Implementation Support Project (IISP), BAPPENAS importantly maintains operational input into IUIDP preparation and implementation. It is in this capacity, more than any other, which BAPPENAS could influence and advance the integration of UEQM within the IUIDP process.

■ **BAPEDAL**

In June 1990, the Environmental Impact Management Agency (BAPEDAL) was formed. The State Minister of Population and the Environment is the Head of BAPEDAL, and reports directly to the President. BAPEDAL's mandate and mission is to "execute the government

functions to control environmental impacts using ecological principles in the utilization of natural resources such that the negative impacts of development do not alter environmental functions"

The environmental management policies of BAPEDAL center around resource conservation and efficient utilization, waste minimization, reuse, and safe disposal, use of environmental impact analysis (AMDAL) as a tool for sustainable development, minimization of the use of hazardous substances, and management of hazardous wastes which are produced, development of environmental management support systems such as institutions, laws, incentives, training, laboratories, information systems, etc , and increasing public awareness and participation Seven "priority focus areas" have been identified for BAPEDAL which include Various small-scale activities, Surface water pollution, Air Pollution - mobile sources, Sanitation in urban areas, Control of environmental destruction, Application of Environmental Impact Assessment (AMDAL) and, Hazardous waste management As will be discussed in Section 2 4, donor support to strengthen BAPEDAL is substantial

■ **Ministry of Home Affairs, Directorate General of Regional Development**

□ **Directorate for Urban Development (BANGKOTA)**

Primarily responsible for coordinating affairs within the urban sector between central, provincial and local government levels, BANGKOTA has, in recent years, established an expanded role in institutional training for urban development within the context of IUIDP Local Institutional Development Action Plans

BANGKOTA could therefore provide an important link for training in the AMDAL process to local government entities It is likely that BANGKOTA will execute several training components within upcoming IUIDP projects (see below) relevant to institutional strengthening of regional environmental commissions and municipal agencies BANGKOTA's recent efforts in compiling national guidelines for urban management highlights its importance as a coordinating mechanism for urban development initiatives

□ **Directorate for Environmental Development**

The Directorate for Environmental Development within DG BANGDA has been involved with the preparation of comprehensive guidelines for environmental affairs as these pertain to the operation of local governments Though at present the Directorate is not directly involved with the execution of urban projects (as is the case for example with BANGKOTA), it will likely have an increased role in the articulation and implementation of environmental policy in the coming years

■ **BKS-AKSI**

The Association of Indonesian Municipalities is a member-supported organization which currently represents over 95 Walikota throughout Indonesia. Though traditionally BKS AKSI has functioned primarily as a forum for discussion of issues related to city administration and dissemination of related information, the organization is expanding its scope to include the provision of technical assistance in the area of municipal finance and management support in conjunction with ongoing activity at the local government level. As environmental management becomes more closely aligned with national urban policy development, BKS-AKSI could provide a critical communication link with and an independent forum for local government representatives in the articulation of national policies and guidelines for implementation.

■ **WALHI**

WALHI, the Indonesian Forum for the Environment, is an NGO dedicated to improve and enhance communication and cooperation among Indonesian NGOs in the environment and sustainable development. WALHI is involved in many facets of the environmental movement in Indonesia. WALHI has initiated seven of the twelve lawsuits centered around AMDAL compliance. WALHI could play a role in UEQM by identifying and training NGOs and community-based organizations (CBOs) at the local level to promote education/awareness programs on issues of community concern such as garbage collection, water pollution, recycling and sanitation.

More importantly, the experience of WALHI as an advocate for the community and as a legal representative for environmental issues (albeit non-governmental) could well serve as the foundation for a future comprehensive legal and regulation system governing activities within the environmental sector nationally. The precedent for such a role may be observed in the United States.

■ **INKINDO**

INKINDO is the Association of Professional Consultants who are "certified" to prepare AMDAL documents. Members of INKINDO have received certificates of completion for the Category A AMDAL Course--AMDAL Preparer. INKINDO represents a valuable resource for information pertaining to the preparation of AMDALs as well as the effectiveness of the overall process. Members of INKINDO could also assist in AMDAL training activities, particularly for individuals who only require an overview of the process.

2.4 Donor Support Programs for UEQM in Indonesia

A summary of current donor support programs for UEQM in Indonesia is presented below

■ Integrating UEQM within the IUIDP

□ IUIDP -- An Overview

Since 1985 the Integrated Urban Infrastructure Development Program -- the IUIDP -- has been the primary vehicle for the flow of donor, GOI and local government financing to support urban infrastructure emplacement throughout Indonesia. The IUIDP represents a phased approach to decentralization of infrastructure provision in which the central government supports local capacity building while working simultaneously with local staff in planning and implementing investment programs in eight targeted sectors.

Although IUIDP has brought about a substantive and productive transformation in GOI's approach to urban development through its bottom-up methodology, many problems associated with its implementation remain. To date, the majority of participant municipalities have yet to fully institutionalize the process or to develop the requisite skills to implement it effectively. The establishment of the Tim Koordinasi Pembangunan Perkotaan (TKPP) within BAPPENAS marked an important step in promoting further decentralization and institutionalization of the urban development process. The inter-ministerial IUIDP Management Group, chaired by BAPPENAS, and the related IUIDP Implementation Support Project have contributed to more effective central coordination and intensive local support for IUIDP implementation initiatives.

□ IUIDP and the Local Government Planning Process -- the PJM

Throughout IUIDP's implementation, a recurrent need has emerged for a planning mechanism which could enable governments to guide and direct urban development in accordance with stated policy objectives. The development of the multi-year urban infrastructure investment program, the so-called PJM (Program Jangka Menengah), has provided such a mechanism -- a fundamental link to local infrastructure planning and development through the IUIDP. The PJM therefore serves as a strategic planning document through which to assist local government in achieving specific urban **infrastructural, financial and institutional** targets established through the IUIDP process.

The centrality of the PJM process to IUIDP implementation and planning at the local level is unquestioned. *It is imperative therefore that any attempt to introduce UEQM at regional and local levels be undertaken within the framework of this essential planning process.* The integration of UEQM within the IUIDP will present a formidable challenge for all parties participant in the development process -- the donor community, all levels of government, the community and the private sector. This level of integration will require further refinement of the IUIDP process.

Several forthcoming donor projects will present the GOI with pilot applications of UEQM within the framework of IUIDP through institutional support activities to relevant agencies involved with environmental assessment at both regional and local government levels. The IBRD East Java/Bali Urban Development Project, for example, calls for sustained support of institutional development of the provincial environmental commissions (Komisi Daerah) and other relevant participants in the environmental assessment and management process. Initial focus would be on a critical region of East Java to conduct an inventory of existing environmental data, design an environmental database and monitoring system, and train concerned officials in environmental management and assessment. In addition as part of its proposed Central Java and D I Yogyakarta Urban Development Project, the ADB will also provide technical assistance and training to strengthen the environmental review capabilities of the Komisi Daerah. The significance of both donor projects is that they represent the first major attempt to address the issue of institutional strengthening for improved environmental monitoring and assessment, they are targeted at the regional level thereby reinforcing a key environmental linkage to local government, and IUIDP will be supported as the implementation vehicle.

These initiatives will likely involve both DG Cipta Karya in a technical supervisory capacity as well as DG BANGDA in support of institutionalization at the regional and local levels.

■ BAPEDAL

Donor support for BAPEDAL is (and has been) substantial. At present, twenty two donor-funded projects are underway (or planned) to support BAPEDAL (see Table 4 1), a brief description of each project appears in Appendix 1. One of the most significant projects involves JICA's support for a National Environmental Center -- the construction of a fully-equipped testing and monitoring laboratory for pollution control. A number of donors have provided financial support to strengthen Regional BAPEDAL's which are responsible for environmental monitoring and enforcement at the regional and local levels. This support for the Regional BAPEDALs does not include support for the Komisi Daerah.

■ EMDI

The Canadian International Development Agency (CIDA) has focused its support efforts on the Environmental Management Development in Indonesia (EMDI) Project. EMDI, a joint project of the Ministry of State for Population and Environment (KLH) and the School for Resource and Environmental Studies, Dalhousie University, is designed to support KLH's mandate to provide guidance and leadership to Indonesian agencies and organizations responsible for implementing environmental management and sustainable development. The vast majority of EMDI's training and technical assistance efforts have been directed at strengthening the environmental review and monitoring activities at BAPEDAL, particularly in relation to the AMDAL process.

Table 4 1 · Bapedal Project List, March 15, 1993

Establishment of Regional Bapedal Network	Asian	ADB RegBap
Environmental Management Development Technical Assistance	Australia	AIDAB Jawa Timur
Development of Groundwater Monitoring and Protection Capability	Britain	ODA GWMP
Environmental Management Development in Indonesia Phase 3	Canada	CIDA EMDI3
Technical Assistance to Regional Bapedal West Kalimantan	Germany	GTZ Kai Barat
Technical Assistance to Regional Bapedal South Sumatra	Germany	GTZ Sum Sel
Environmental Management Center (EMC)	Japan	JICA EMC
Pollution Abatement Equipment Project	Japan	OECF PAE
Bapedal Public Relations Awareness and Communication Programs	United Nations	UNDP
Strengthening Bapedal s Legal Mandate	World Bank	WB BDTAP1
Enforcement and Compliance Systems	World Bank	WB BDTAP2
Management of Regional Bapedal	World Bank	WB BDTAP3
Management of Bapedal Training Programs	World Bank	WB BDTAP4
Management of Bapedal Regional Laboratories	World Bank	WB BDTAP5
Bapedal Staff Acquisition	World Bank	WB BDTAP6
Project Management Office	World Bank	WB BDTAP7 PMO
Jabotabek Hazardous Wastes Management Feasibility Study	World Bank	WB IEPA
Joint Wastewater Treatment Systems DKI Industrial Estates	World Bank	WB JUDP HBOIA
Small Scale Industries Waste Reduction DKI Jakarta	World Bank	WB JUDP HBOIB
Environmental Institution Strengthening DKI Jakarta	World Bank	WB JUDP HC01A
Environmental Action Plan DKI Jakarta	World Bank	WB JUDP HC01B
Pollution Management & Control North Sumatra East Kalimantan	World Bank	WB PMCA2

■ Asian Development Bank (ADB)

As more fully explained in Section 2.2, the ADB is currently sponsoring two important IUDP implementation projects which have been designed to include environmental criteria as part of the planning process. In addition the ADB has provided significant technical assistance to the Ministry of Public Works, DG Cipta Karya in support of the AMDAL process, these assistance programs are explained in detail in Annex 2 E.

■ World Bank (IBRD)

In addition to supporting the East Bali/Java project the World Bank is currently engaged in a three year project to provide financial support in the development of 12 of the described in Section 2.4, 55 Centers for Environmental Studies (PSLs) which are located in regional universities throughout Indonesia. The function of the PSLs is provide through a series of workshops and seminars, training in the AMDAL process for selected individuals in Government involved in AMDAL preparation and implementation. World Bank support is directed to strengthening the institutional capability of the PSLs to support the AMDAL process. The thrust of the World Bank support is initially aimed at providing intensive support to 15 PSLs with the expectation that these will in turn transfer training to the remaining PSLs. In addition, the World Bank is supporting the development of a MoPW project information system which is further described in Annex 2 E.

□ MEIP

The Metropolitan Environmental Improvement Program (MEIP) is a joint World Bank/UNDP project which was initiated in 1989 and implemented throughout Asia. The project is structured to support joint waste-water treatment and institutional strengthening of provincial pollution control authorities.

A major project component provides intensive support through a pilot project in East Jakarta -- Bidaracina -- wherein a community participation/development model is being implemented in order to encourage more involvement on the part of community residents in environmental management activities, within the context of kampung improvement. Project accomplishments to date have included the improvement in solid waste collection and recycling/composting activities and, improvement in drainage and river/river bank cleaning. The latter activity is crucial as solid waste dumping is a major source of environmental degradation within urban communities. The project has developed a prototype "greening and community open space program" on former river bank dump sites.

Of significance are the institutional building aspects of the Bidaracina project. MEIP is working through the Kelurahan Council -- LKMD (Lembaga Ketahanan Masyarakat Desa) comprised of formal (Lura) and informal (CBOs/NGOs) community leaders. MEIP has found this community institution to be a most effective mechanism for

eliciting community participation in the KIP program and is forging strategic ties between LKMD and relevant Dinas Kotamadya departments involved with IUIDP implementation. As the KIP program becomes institutionalized within local government and thereby phased out of the IUIDP program (a KIP office has been established in DKI Jakarta), MEIP will continue to provide management support in the implementation of community-based projects)

□ **JUDP III**

The Third Jabotabek Urban Development loan supports a range of activities related to environmental improvement in Jakarta and the surrounding kabupaten of Bogor, Tangerang and Bekasi. In addition to supporting environmental components of the Jabotabek Metropolitan Plan Review and Kampung Improvement Projects, an integrated environmental project has recently been initiated under the Jabotabek Urban Environmental Strategy Project. In conjunction with BAPEDAL the preparation of a strategic urban environmental strategy is underway consisting of (a) an assessment and prioritization of urban/regional environmental problems including pollution control and abatement, (b) drafting of strategic mitigation measures, (c) preparation of cost estimates for such measures and, (d) quantification of the economic implications of regional environmental degradation.

■ **UNDP**

In addition to supporting IUIDP via the IISP, the UNDP is working with the World Bank to support the MEIP program. The UNDP is also assisting the GOI with a number of water and sanitation projects throughout Indonesia, strengthening the Center for Oceanological Research and Development of the Indonesian Institute of Sciences to address marine pollution, assisting the Ministry of Public Works formulate a national water resources policy, and sponsoring a comprehensive program on environmental health through the Ministry of Health. The UNDP's involvement in urban-focused programs, therefore, lies primarily in its support for IUIDP and MEIP.

■ **WRI**

The World Resources Institute's Center for International Development and Environment (WRI/CIDE) and WALHI in cooperation with the Asia Bureau of A I D and the Japanese International Cooperation Agency (JICA), is conducting a review of environmental impact assessment (EIA) capacity in Asian countries. The intent of the project is to develop strategies for strengthening the capacity of Asian countries to undertake EIA as an integral part of their development planning and environmental management process.

Indonesia, the Philippines and Sri Lanka have been selected as case study countries because of respective USAID mission interests and their representative array of in-country EIA experience. In each country a multisectoral working group will be established and a team of

local experts will prepare a case study of the EIA process. Each case study team will 1) describe the state-of-the-art of EIA practice in their respective country, 2) analyze the main weaknesses and impediments currently limiting the country's capacity to conduct EIA effectively, and 3) help define strategic actions and programs that individual countries could carry out (with or without donor support) to strengthen their own institutional EIA capacities.

Results of the three country case studies will be presented and discussed at a series of in-country and regional workshops. The study was initiated during October of 1992, and is scheduled to be completed by December, 1993.

3 0 INSTITUTIONAL SUPPORT OPTIONS

The following section describes means of providing support for strengthening UEQM, in response to the opportunities and needs summarized in the preceding paragraphs.

3 1 Initiatives to Incorporate UEQM in the Local Planning Process

Statement of the Problem The application of UEQM strategies and procedures at the local level represents one of the most effective and promising means to address urban environmental problems. In Indonesia, however, environmental issues and considerations are not explicitly addressed as part of the planning process at the local level. To the extent that environmental impacts associated with urban development are addressed at the local level, it is typically a "reactive" as opposed to a "proactive" process.

To incorporate UEQM in the local planning process requires that current planning procedures and mechanisms be strengthened to include environmental criteria and proactive urban environmental plans that support the reduction of environmental impacts associated with urban development. The following activities represent a means toward the incorporation of UEQM into the planning process at the local level.

Activity 1 Provide Technical Assistance to Develop Environmental Planning Guidelines for Use by Local Planners for PJM Updates

Description In concert with the need to move local officials into a more commanding role in ongoing PJM preparation and implementation, there is a need to strengthen the PJMs to include environmental criteria and environmental planning guidelines that support the reduction of environmental impacts associated with urban development. As indicated above, the PJM represents one of the most promising and viable mechanisms to incorporate UEQM into the local planning process.

The proposed environmental planning guidelines could be developed in concert with the World Bank-supported East Java-Bali project, this project serves a pilot case for

building in environmental assessments of alternative capital plans (via the PJMs) at an early stage in the decision making process

The environmental planning guidelines should also be prepared to incorporate environmental planning considerations into the local planning process via the Local Institutional Development Action Plan (LIDAP), the LIDAP, completed as part of the IUIDP preparation process, is a prerequisite for IUIDP funding

To be Achieved Environmental planning guidelines to be incorporated into the IUIDP

Relevant Institutions This activity would require association with most institutions involved in IUIDP planning and implementation activities

Activity 2 Support the Development of Training Curricula for Local Officials on the Use of the Environmental Planning Guidelines

Description Support would be required for the development of training curricula for local officials on the use of the environmental planning guidelines in the various phases of the IUIDP implementation process This curriculum should be tailored to address the responsibilities of the different local officials responsible for the preparation and implementation of the PJM and LIDAP

To be Achieved Training curriculum developed

Relevant Institutions This activity would integrate proposed training initiatives under the Urban Management Training Project (MFP/IISP) and could constitute the proposed "environmental component" of the UMTP Key conclusions of previous IUIDP training efforts should be incorporated within this activity, most notably the IUIDP Training Program Unit (UP2L)

Activity 3 Support Pilot Training Programs for Implementation of the Environmental Planning Guidelines

Description Pilot training programs should be selected to be integrated with (and supportive of) future IUIDP updates This could as well occur within the environmental component of the proposed UMTP program An effort should be made to coordinate the training curriculum as well as its delivery with the IUIDP Training Development Program (UP2L)

To be Achieved Training programs pilot tested

Activity 4 Support Research on the Feasibility of Using Economic Interventions for UEQM at the Local Level

Description The use of economic instruments for UEQM represents an important component of the MFEI policy objectives. Proposed activities, among others, include "the development of curricula for training in environmental economics and the formulation of sustainable resource pricing policies."

However, before such instruments can be realistically introduced and applied in Indonesia, considerable research is needed to assess whether economic interventions (and which ones) are the most viable to pursue, given political, economic, social and institutional considerations. The MFEI Project Paper has reviewed different types of regulatory and economic instruments as they apply to surface water protection, ground water protection and solid waste management, but this review did not purport to address how such instruments could (or should) be applied in Indonesia.

To be Achieved An authoritative study on the political, economic and social feasibility of introducing pricing or market-based instruments in Indonesia for the purpose of promoting environmental protection and the efficient use of natural resources.

Relevant Institutions The MOF represents the most relevant institution, research support from universities in Indonesia should also be considered.

3.2 Promote Greater Public Participation in UEQM at the Local Level

Statement of Problem In Indonesia, public participation in UEQM, including local planning processes, is minimal and public education programs on environmental issues generally do not exist. The effects of urban environmental problems on households and on the urban poor has been well documented by USAID, UNDP, the World Bank, and others. A case study of 12 Indonesia cities conducted for USAID (see Chifos/Lubis, 1991) documented specific environmental problems affecting the urban poor and discussed the role and importance of public participation in addressing these problems at the community level. Additionally, an ongoing study of the environmental impact assessments in Asian cities by the World Resources Institute for USAID's Asian Project includes an assessment of role of public participation in the environmental impact assessment process.

Potential assistance for developing mechanisms to allow the public to more actively participate in the planning and decision-making process concerning environmental management at the local level are included in the proposed activities listed below.

Activity 1. Support Programs to Promote Greater Community Input in the AMDAL Process for Local Development Projects

Description Although AMDAL legislation requires that the AMDAL documents "be available to the public," there are no defined mechanisms or procedures to ensure their availability nor is there a standard process to incorporate public concerns into the decision making process. A broad-based education program could be designed, aimed at providing environmental NGOs and CBOs with information and strategies of how to become more involved in the AMDAL process at the local level. Elements of such a program could include information about the AMDAL process, the role of public participation, means to ensure access to AMDAL documents, mechanisms for public review, discussion and comment, and how the legal system can be used to address AMDAL compliance.

To be Achieved A programmatic approach to increase public participation in the AMDAL process.

Relevant Institutions WALHI represents a key resource in the development of an environmental program and to identify NGOs and CBOs for program implementation at the local level.

Activity 2 Promote Greater Public Participation in the IUIDP Preparation Process

Description The basis of the IUIDP program is decentralization and local government responsibility and there is also a requirement for public participation in the process, however, greater efforts are required to disseminate information to the public and to integrate public input into the planning process. Support could be directed to promote community forums to describe proposed the plans and elicit community input and support. Consideration might be given to adding a public participation component to the UMTP as well as the IUIDP Training Program for local officials as well as community leaders. The lessons learned from ongoing MEIP training in community participation for KIP should be incorporated into this activity.

To be Achieved Institutionalized programs to promote greater public participation in the IUIDP process.

Relevant Institutions LAN and the related urban management training institutions, the IUIDP Training Program Unit (UP2L) and the LKMDs--the Kelurahan Council--are the most relevant institutions for this activity.

Activity 3 Support the Development of Environmental Education/Awareness Materials and Programs to Inform Communities About Local Environmental Issues and Concerns

Description Individuals and households are often unaware of the health and safety problems associated with environmental pollution. There exists a real need for educational/awareness programs to inform community residents about the health impacts of water pollution, sanitation, household waste, and industrial pollution. Such public education/awareness programs can result in substantial improvements in public health and environmental quality at the local level by influencing both individual and household behavior.

To be Achieved The development of environmental awareness/ educational materials and programs.

Relevant Institutions WALHI represents a key resource in the development of an environmental program and to identify NGOs and CBOs for program implementation at the local level.

Activity 4 Provide Support to Protect Community-based Enterprises Involved in Recycling, Composting and Garbage Collection Activities

Description Community-based enterprises involved in recycling, composting and garbage collection activities play a significant role in improving environmental conditions at the local level. These activities are market-driven and typically involve a middleman or informal agreements with end-users such as small industries, however, the markets for reclaimed materials are fragile and unpredictable. Therefore, programs aimed at promoting stronger markets for reclaimed materials, perhaps via the establishment of community recycling centers and promoting more formal agreements with the users of reclaimed materials as well as garbage collection companies, would also serve to protect these community-based enterprises.

To be Achieved Support programs for community-based enterprises.

Relevant Institutions CBOs and community-based enterprises.

Activity 5 Promote an Active Role for Women and Women's Organizations in the Design and Management of UEQM Programs at the Local Level

Description There are considerable benefits to be achieved by the promotion of an active role for women and women's organizations in the design and management of UEQM programs at the local level (Annex 2 C). In Indonesia, women have a strong and widely recognized responsibility for family health conditions which, in turn, directly affects community welfare.

In an effort to improve family and community health conditions, it is recommended that women's organizations play a major role in the design and implementation of environmental education/awareness programs to inform communities about local environmental issues and concerns (see Activity 2) Women are perhaps the best teachers to inform their families and communities about environmental health issues such as water, sanitation and pollution control Women are also directly involved in community-based recycling, composting and garbage collection enterprises and efforts to protect these enterprises should explicitly address the role of women (see Activity 3)

An assistance program could strengthen women's participation in existing development programs such as the Kampung Improvement Program (KIP) While KIP "does include specific mechanisms for community involvement, including women, but, in practice this has often been limited to community involvement as a source of labor at the time of project implementation" (Oey-Gardiner, 1992) The involvement of women in KIP should be expanded to include participation in program design and community education activities

To be Achieved The development and support programs specifically aimed at expanding the role of women in environmental activities at the local level

Relevant Institutions Indonesia women's organizations, specific recommendations include Yayasan Melati, Yayasan Kalyanamitra and Solidaritas Perempuan

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ANNEX 2 E

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ANNEX 2 E

URBAN ENVIRONMENTAL IMPACT ASSESSMENT

10 A REVIEW OF THE AMDAL PROCESS

11 AMDAL Overview

AMDAL (Analisis Mengenai Dampak Lingkungan, or Analysis of Environmental Impacts) is an integrated environmental review process for proposed development activities. The AMDAL process is established through Government Regulation No. 29, 1986, or PP29/1986. PP29/1986 was the first piece of environmental protection legislation promulgated under Indonesia's environmental law, Act Number 4, 1982, which established the principle of sustainable development.

National and provincial environmental quality standards are used in the AMDAL process to provide a policy context for determination of impact significance and as project decision criteria. Standards specific to Indonesia have been established (or are in the process of establishment) for water, air, and noise. Provinces may develop their own standards provided they are no less stringent than national standards. Where no standards have yet been developed, project proponents are advised to apply existing international standards. Ambient water quality criteria and air emissions standards covering 9 parameters were first established during 1988. Work on revised standards is continuing and being expanded to encompass issues such as management of coral reef ecosystems and community noise standards. BAPEDAL, as referenced in the preceding Section, represents the lead agency in the development and enforcement of environmental quality standards for Indonesia.

12 Responsibility for AMDAL

Overall coordination of the AMDAL Process was initially the responsibility of the Ministry of State for Population and Environment (KLH). This responsibility was transferred to the new Environmental Impact Management Agency (BAPEDAL-Badan Pengendalian Dampak Lingkungan) in June, 1990.

Authority for AMDAL process implementation currently lies with the Central and Provincial levels of government:

- 1 at the Central level with 14 sectoral government departments and non-departmental government institutions, and
- 2 at the Regional level with the 27 provincial governments of Indonesia

Development projects which enter the AMDAL process at the central government level are reviewed by Central AMDAL Commissions (Komisi Pusat) Central Commissions are established and chaired by each sectoral or non-departmental government agency At the central level, BAPEDAL participates in project reviews of all commissions Other sectoral agencies, non-governmental organizations or the public may participate as temporary commission members at the invitation of the chair of the commission

Regional AMDAL Commissions (Komisi Daerah) are established by the governor of each province and chaired by a representative of BAPPEDA (Badan Perencanaan Pembangunan Daerah) or the Provincial Development Planning Board They also have permanent and temporary members which may include those potentially affected by a proposed development The Komisi Daerah is under the MoHA.

Central and Regional AMDAL Commissions

	Central Commissions (Komisi Pusat)	Regional Commissions (Komisi Daerah)
Established by	Each sectoral Minister or Head of non departmental government agency	Governor
Chaired by	Typically the Secretary General of the agency	Typically Provincial Development Planning Board (BAPPEDA)
Permanent members	Ministry of Home Affairs, BAPEDAL University or other experts, agency representatives	Provincial office of the State Ministry of population and Environment (BKLH), Environmental Study Center in the province (PSL)
Temporary members	May included members of the local community non-government organizations other government agencies affected by a proposal and the Investment Board For example if a project falling within one of Cipta Karya's sectors is from the local level, then a member Cipta Karya's regional KANWIL would sit on the Regional Commission	

Source EMDI

Regional AMDAL commissions are established in all 27 provinces Most have also formed technical teams and are usually chaired by BAPPEDA Proposed municipal environmental projects (including RDA projects) will enter the AMDAL review process at the provincial level, either through sectoral agencies or non-departmental government

agencies The Komisi Daerah represent the major AMDAL review agencies for local urban infrastructure projects such as RDA-financed projects

Each Ministry implements the process for its "own" projects, with the help of Central and Regional environmental review commissions The Ministry of Public Works (MoPW) is recognized to be one of the most advanced departments in applying AMDAL

13 AMDAL Documents

Before reviewing the AMDAL process for Cipta Karya projects as well as urban infrastructure projects proposed and financed by local governments, it is instructive to review the various AMDAL documents

AMDAL Documents

PIL	Preliminary Environmental Information <u>Purpose</u> To determine if the project requires an ANDAL <u>Contents</u> Brief description of the activity and its potential environmental impacts, a preliminary plan of action to manage the predicted impacts, and an identification and evaluation of residual impacts (those that cannot be integrated)
KA	Terms of Reference <u>Purpose</u> To clearly identify the scope of the ANDAL study <u>Contents</u> Specification of data requirements and report components to include in the ANDAL report
ANDAL	Environmental Impact Analysis <u>Purpose</u> To determine if the anticipated environmental impacts of a proposed project, and to determine if they are mitigable, to determine if a proposed project should be rejected because it will result in significant adverse impacts which cannot be mitigated <u>Contents</u> An in-depth study of the impacts of a proposed activity, a plan of action to manage the predicted impacts (conceptual RKL and RFP reports), and the identification and evaluation of residual impacts
RKL	Environmental Management Plan <u>Purpose</u> To set out all design changes, construction and operating procedures and site rehabilitation measures undertaken to mitigate identified impacts <u>Contents</u> Detailed description of all design changes, construction and operating procedures and site rehabilitation measures undertaken to mitigate identified impacts, specification of compliance

standards and activity responsibilities and schedules, and compensation plans for unmitigable or residual impacts

RPL

Environmental Monitoring Plan

Purpose. To ensure that mitigative measures suggested in PIL or AMDAL and RKL documents are effective, and to detect unanticipated changes to the environment

Contents. Types of impacts and/or environmental factors being observed, locations, frequency and accuracy of data collection, responsibilities for conducting, analyzing, reporting, managing and utilizing monitoring results

14 Projects Subject to AMDAL

Cipta Karya Projects

Not all projects need to enter the AMDAL process. In general, criteria include project type, size complexity and location. The criteria to screen projects in the "Cipta Karya sectors", namely water supply, drainage, sanitation/wastewater, solid waste and residential development, is under revision in an effort to streamline the screening process. Projects that are exempted from the AMDAL process are "approved" with contingencies attached, namely standard operating procedures (SOPs). SOPs define a set of environmental impact mitigation guidelines to which the project proponent must adhere during both the development and operational phases of the proposed project.

A summary of newly proposed screening criteria for Cipta Karya projects is shown in Table 11. These criteria have not yet been approved by the Minister of Public Works, but approval is expected before year-end 1993.

Figure 11 provides a step-by-step summary of the AMDAL procedures and Table 12 presents a summary of the general relationship between AMDAL and the project planning process. For Cipta Karya projects, the project officer is encouraged to prepare the PIL, but preparation of the remaining AMDAL documents is usually contracted out to AMDAL consultants who have received a certificate for completing a Category B (AMDAL Preparer) course, the Category A (AMDAL Basic) course is designed for persons responsible for AMDAL review, such as persons on the Central and Regional Commissions.

Table 1.1 Proposed Screening Criteria for Cipta Karya Projects

(1) <u>Water Supply Projects</u>	<u>Reservoir Volume</u>	<u>Transmission Pipe Length</u>
ANDAL	> 100,000 m ³	> 50 Km
PIL	25,000 - 100,000 m ³	15-20 Km
Exempt	< 25,000 m ³	< 15 Km

(2) Drainage Projects

Combination of criteria involving drain classification (primary, secondary, tertiary), length of system (Km), and catchment area (Ha)

(3) Sanitation/Wastewater Projects

Combination of criteria involving service capacity (persons), distance of project from residential area (meters), and area of installation (Ha)

(4) Solid Waste Projects

City Size	F a c i l i t y			
	Incinerator	Controlled Sanitary Landfill	Open Dumping	Collection/ Transportation
Metro/Large	A	A	A	P
Medium-sized	P	P	A	E
Small	P	E	P	E
IKK/Desa	P	E	E	E

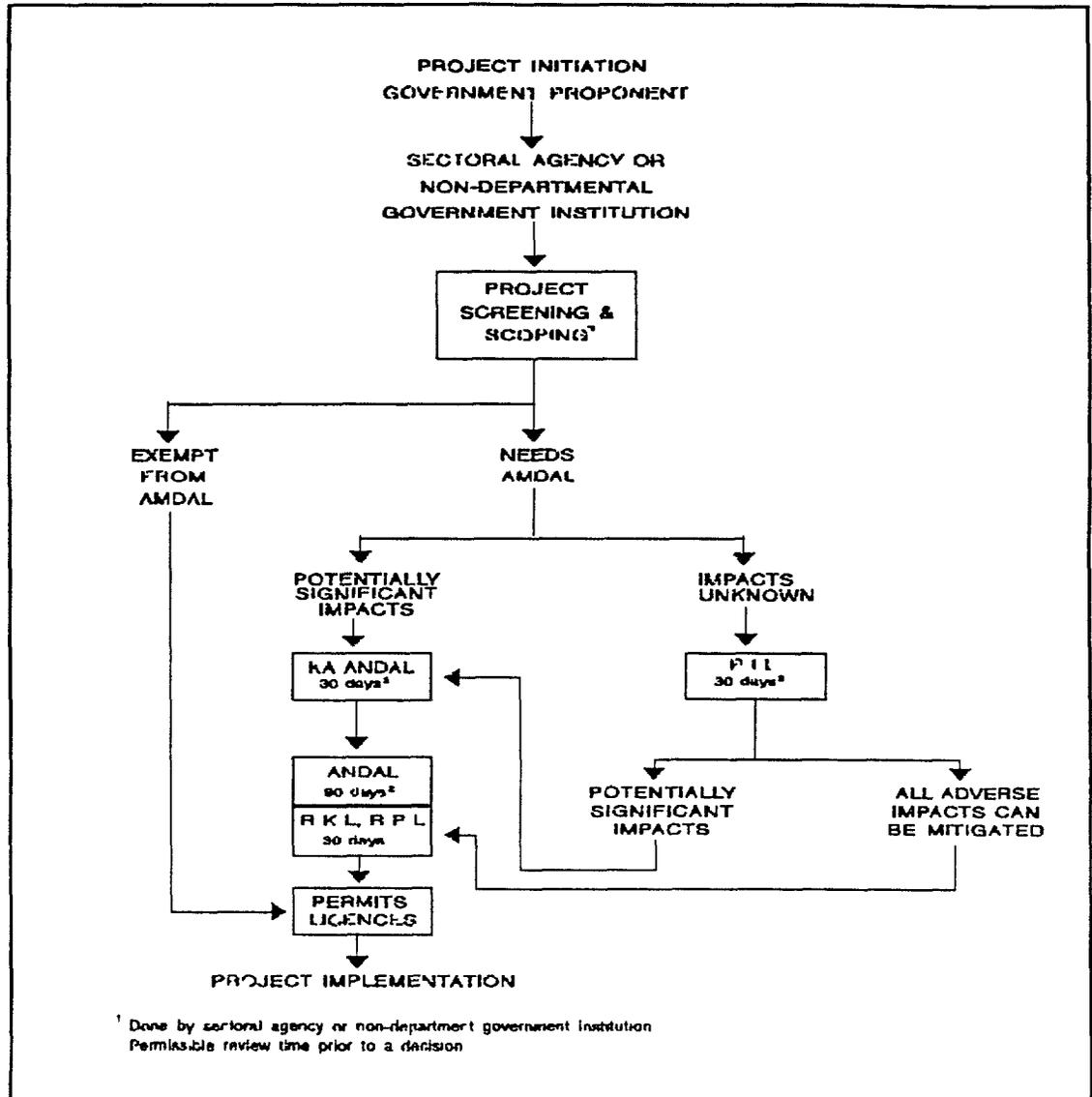
A = ANDAL P = PIL E = EXEMPT

(5) Residential Development Projects

ANDAL	> 250 Ha
PIL	50-250 Ha
Exempt	< 50 Ha

Source Taylor 1993

Figure 1 1: AMDAL Procedures



SOURCE: SUPRAL 1992

Table General Relationship Between AMDAL and Project Planning

AMDAL Stage	Project Cycle Phase
Initial screening of project	Planning and program development
PIL	Pra feasibility design
ANDAL and conceptual outline of the RKL/RPL	Feasibility design
Project Approval-in-principle	Feasibility design
Detailed RKL/RPL	Detailed design and permits
Implementation of RKL/RPL Modification if necessary	Pre-construction Construction Operation

SOURCE: SUPRAL 1992

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RDA Projects

The Cipta Karya screening criteria also applies to all urban infrastructure projects (within the Cipta Karya sectors) proposed and financed by local government, including RDA-financed projects. As noted above, RDA-projects generated at the local level would enter the AMDAL process at the provincial level, subject to review by the Komisi Daerah. As explained in detail in Section 1.5, the Komisi Daerah is responsible for screening locally-generated projects, not the Working Team of Cipta Karya which only screens Cipta Karya projects.

1.5 The AMDAL Process for Cipta Karya Projects

As explained above, the Working Team at Cipta Karya is responsible for the screening of all projects in the Cipta Karya Sectors to determine whether the project type is exempt from the AMDAL Process and, if not, where in the process it should enter. The Working Team at Cipta Karya has 19 members and made is up as follows:

<u>Directorate/Subdirectorate</u>		<u>No. of Members</u>
Chairman	Director Bina Program Cipta Karya	1
Vice Chairman	Head of the Sub Directorate of PEP	1
DBP	Program Development	3
DTKTD	Urban and Regional Planning	1
DTB	Public Building Standards	1
DP	Housing	2
DAB	Water Supply	2
PLP	Sanitation Drainage Solid Waste	4
DPP	Research	1
Perumnas	National Housing Corporation	1
Menpera	Coordinating Ministry of Housing	1

The Working Team or Select members thereof meet regularly to review projects. The Working Team passes its comments on to the Technical Team which in turn, presents final recommendations (to approve/disapprove of AMDAL documents for Cipta Karya projects) to the Central Commission. The Central Commission meets weekly.

AMDAL should be initiated as early as possible in the planning stages of the project. For Cipta Karya projects, the Working Team will make one of three decisions based on project information and documentation provided by the Project Officer (Pimpro), defined as the Cipta Karya project "proponent":

- a Project is exempt from the AMDAL Process,
- b The potential impacts of a project are unknown, thus the proponent will be asked to prepare a PIL document,

- c There are thought to be important impacts associated with the project, thus the proponent will be asked to prepare KA for an ANDAL report

If an ANDAL document is prepared for a Cipta Karya project, it will be reviewed by the Central Commission. The Commission may at any time make the decision to reject an ANDAL document due to inadequacies.

If a PIL is prepared first, a decision will be made within 30 days of its submission to

- a Proceed to KA for an ANDAL, because the PIL has shown that there are potentially important impacts. Preparation of the KA is the responsibility of the proponent. Approval and sign-off are the joint responsibility of the proponent and government.
- b Proceed to the RKL/RPL, because impacts are not significant and can be mitigated and managed¹

For Cipta Karya projects, PILs are usually prepared in-house by the project managers, PILs for locally-generated projects are usually prepared by AMDAL consultants.

After the KA are approved, the project officer (proponent) will submit an ANDAL report (including the RKL and RPL) to the Central Commission. The Commission has 90 days to approve ANDAL RKL and RPL documents. The decision approving the AMDAL expires if the proposed activity is not implemented within 5 years of it.

Final decisions on (and approval of) Cipta Karya projects are made by the Minister of Public Works, on recommendation of the Central AMDAL Commission. As discussed below, decisions on projects reviewed at the provincial level are made by the Governor, on recommendation of the Regional Commission.

Detailed engineering design and associated permits follow the AMDAL decision and incorporate the conceptual environmental management and monitoring conditions laid out in the feasibility design. Responsibility for the management and enforcement of the RKL/RPL, for example, lies with the KANWIL (the regional office of MoPW) as well as BAPEDAL.

¹ The MoPW requires that the submission of PIL and ANDAL documents will include RKL and RPL documents such that the bureaucracy is shortened and the reviewer can be aware which of the identified impacts can be mitigated and managed.

16 The AMDAL Process for RDA Projects

Although this section describes the AMDAL process for RDA projects, the process below applies to all urban infrastructure projects (within the Cipta Karya sectors) that are proposed by local governments in Indonesia and subject to AMDAL

The AMDAL process for local government projects is initiated when the local project officer presents the proposed project (with all requisite descriptive materials) to the Komisi Daerah for initial screening. Assuming that the proposed project is an infrastructure project, a member of Cipta Karya's regional KANWIL would sit on the Komisi Daerah to assist in the screening process.

Using Cipta Karya's screening criteria, the Komisi Daerah would determine if the project is exempt or whether the project needs to continue with AMDAL. If the project is exempt, a SOP is issued and the proponent can proceed with project implementation subject to conditions spelled out in the SOP.

If the project is subject to the AMDAL process, the Komisi Daerah will also make a determination as to whether a KA ANDAL or a PIL is required. The project proponent's consultants would proceed to prepare the necessary documents.

The Komisi Daerah will review the resulting documentation, either an ANDAL plus the RKL/RPL or the PIL plus RKL/RPL. Assuming no revisions are needed, the Komisi Daerah will recommend approval of the AMDAL documents, final approval is granted upon receipt of the Provincial Governor's signature.

Upon receipt of the Governor's approval, local government is authorized to grant requisite licenses and permits and the project proponent can begin the project implementation phase. From construction through project completion and operation, the KANWIL and BAPEDAL are responsible for monitoring compliance with (and enforcing) the RKL/RPL plans and procedures.

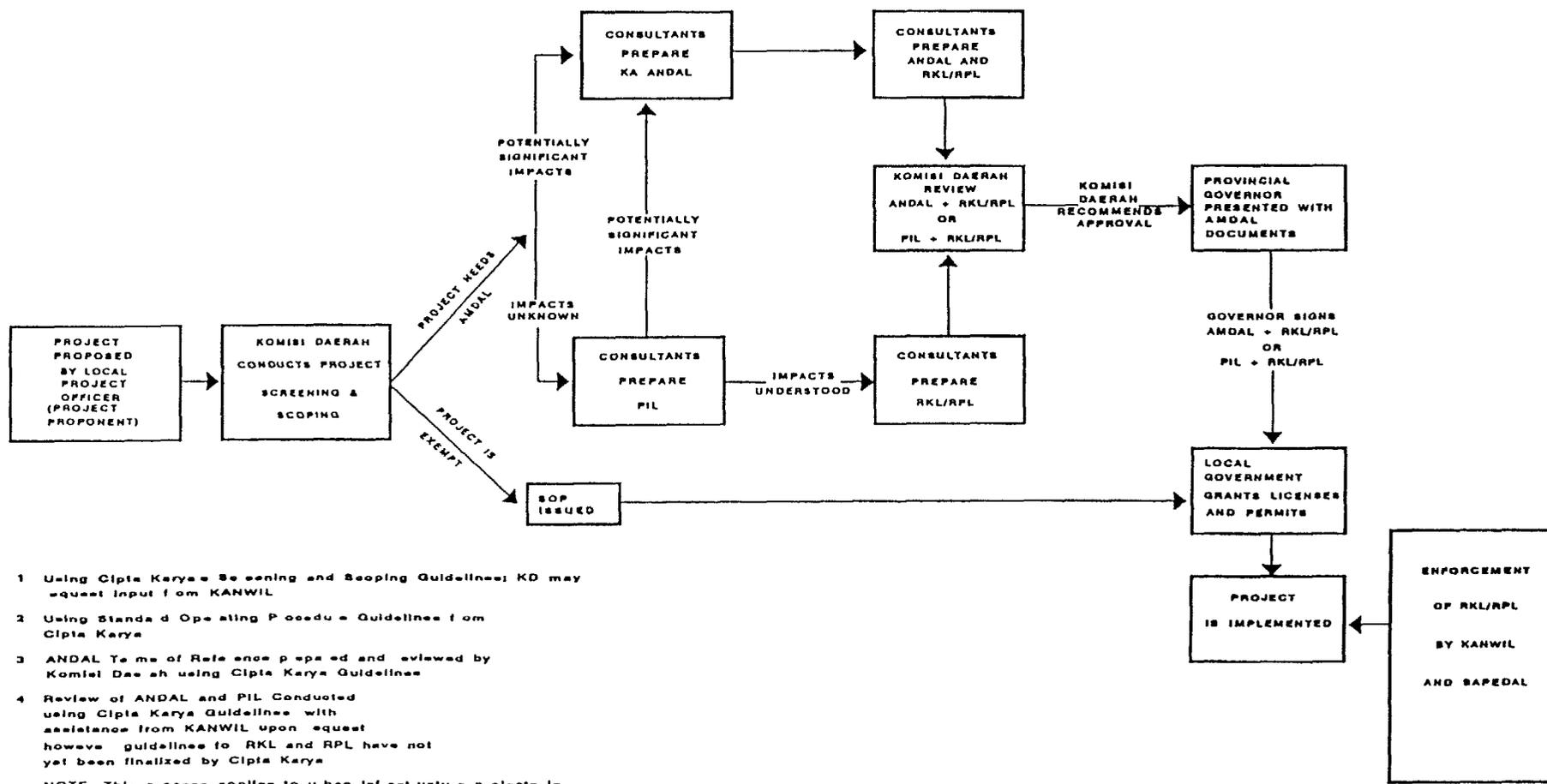
Figure 1.2 illustrates the AMDAL process for urban infrastructure projects supported by local government, including RDA projects.

17 Issues Concerning the AMDAL Process for RDA Projects

17.1 The Participants

The "participants" in the AMDAL process for RDA projects are different than those involved with the process for Cipta Karya projects. The local Project Officer for RDA projects is defined to be the project proponent and is responsible for complying with the AMDAL process. Based on discussions many individuals familiar with the AMDAL

Figure | 2
AMDAL PROCESS FOR URBAN INFRASTRUCTURE PROJECTS
SUPPORTED BY LOCAL GOVERNMENT



- 1 Using Cipta Karya Screening and Scoping Guidelines; KD may request input from KANWIL
 - 2 Using Standard Operating Procedure Guidelines from Cipta Karya
 - 3 ANDAL Terms of Reference prepared and reviewed by Komisi Daerah using Cipta Karya Guidelines
 - 4 Review of ANDAL and PIL Conducted using Cipta Karya Guidelines with assistance from KANWIL upon request however guidelines to RKL and RPL have not yet been finalized by Cipta Karya
- NOTE This process applies to urban Infrastructure projects in Cipta Karya Sector

The Komisi Daerah represent another important participant in the AMDAL process for RDA projects. The Komisi Daerah's AMDAL review capabilities are a function of the training the Commission members have received, their access to expertise relevant to the type of project under review and their experience with the AMDAL process itself. Although the quality of the AMDAL documents per se is largely influenced by the AMDAL consultants, the Komisi Daerah play a significant role in monitoring (and enforcing) quality standards for the AMDAL documents. Therefore, the Komisi Daerah yield considerable influence in shaping the quality of the AMDAL review for RDA projects. Inexperience and the lack of training or expertise on behalf of the Komisi Daerah could conceivably contribute to costly delays for RDA-financed projects.

The KANWIL is responsible for monitoring AMDAL process at the provincial level as well as enforcing the RKL/RPL. Their effectiveness with respect to these activities is largely a function of their training as well as experience.

Finally, the quality of the AMDAL documents is greatly influenced by the AMDAL consultants. One mechanism of "quality control" is the requirement that all AMDAL consultants must be certified as having completed the Category B (AMDAL preparer) Course. Nevertheless, a number of other factors enter into the quality equation for the AMDAL documents, including size of the budget to prepare the necessary studies as well as the perceived scrutiny of the Komisi Daerah in the AMDAL review process.

1.7.2 The Linkage to Cipta Karya

The linkage to Cipta Karya in the AMDAL process for RDA projects is important, even though Cipta Karya is not directly involved in the process itself. Because Cipta Karya is responsible for preparing, updating and disseminating the numerous guidelines used by the Komisi Daerah, namely the Screening and Scoping Guidelines, the SOP Guidelines and the AMDAL Guidelines, Cipta Karya has significant influence in shaping the AMDAL review for projects within its sectors. It follows that training in the use and application of these guidelines to the local Project Officer, the Komisi Daerah, the KANWIL and the AMDAL consultants is critical to ensure that the guidelines are incorporated into the process as envisioned and intended by Cipta Karya.

1 8 Policy Issues Related to the Application of AMDAL to RDA Projects

The following are key issues with regard to the application of AMDAL to RDA projects

1 8 1 Financial Issues

The AMDAL process is perceived to be time consuming and inefficient

This has a direct and measurable impact upon local governments that participate in the RDA. Between the time of RDA project approval and project implementation, municipal governments are required to assume "commitment charges" on the loan itself. Any delay which might occur (including the required AMDAL review process) will prolong the "commitment charge" period and constitute a financial liability for the local government. The extent of this liability is variable and difficult to quantify.

Perhaps a more compelling liability relates to the "economic" implication associated with a delay in project start-up which might be posed by the AMDAL review process for RDA projects and associated "opportunity cost" to the subject municipality -- the losses incurred both financially and developmentally. Such losses are also difficult to quantify but no less important.

To mitigate such concerns, it might therefore be advisable that a concerted effort be made to initiate AMDAL review in parallel with the "feasibility study" required prior to RDA loan approval. The candidate municipality itself would make the determination whether "to invest" in an AMDAL prior to RDA approval, presumably based on the estimated probability of approval.

1 8 2 Policy Administration and the Development of an AMDAL Monitoring Function Within RDA

Issues related to environmental monitoring are clearly perceived as being outside the administrative purview of the Ministry of Finance. Given the inter-ministerial sensitivities and the clearly defined roles and responsibilities of the various departments, this constitutes an important policy issue. Should AMDAL compliance be an element of the "due diligence" process for RDA projects? The consideration of an AMDAL compliance monitoring function within the RDA administrative structure should be carefully thought out and researched. As mentioned, AMDAL on the whole is perceived to be an inefficient process with respect to the financial requirements of RDA projects. In general outside the circle of institutions responsible for AMDAL review, there is a lack of knowledge regarding the process itself. It has been suggested that provincial/local level research be conducted into the experience of AMDAL application to RDA projects to date, in order to determine the most efficient method (and responsible institution) for tracking the compliance of RDA projects with AMDAL.

1 8 3 Regional Distribution of RDA Loans

Given that the majority of RDA-financed projects have originated from the most urbanized regions of the country (i.e. Java) and where donor assistance has been concentrated, there is concern regarding the efficiency (and financial burden) of the AMDAL review process for RDA projects in regions other than Java

A recent HIID study provides insight into regional distribution of RDA loans and confirms that RDA loan disbursement follows the pattern of urbanization throughout the country. This would suggest that before substantial support is directed to strengthening regional and local institutions responsible for RDA project AMDAL reviews, it would be advisable to investigate key institutional problems associated with AMDAL review, as they currently exist, in such areas of concentrated RDA activity

2 0 TRAINING AND TECHNICAL ASSISTANCE NEEDS AT CIPTA KARYA

The following section presents an overview of training and technical assistance needs within Cipta Karya aimed at strengthening the AMDAL preparation and implementation process. These needs are based on recommendations outlined in ADB reports, generated as part of their TA to MoPW and Cipta Karya, as well as discussions with Cipta Karya staff and consultants familiar with the AMDAL process at Cipta Karya

2 1 An Overview of the Need to Strengthen AMDAL at Cipta Karya

Although considerable support is being provided to BAPEDAL by the multilateral and bilateral donor community, the support for AMDAL in MoPW and Cipta Karya is at a much lower level. As the number of urban infrastructure projects increases, the need for environmental assessments also increases, thereby exerting tremendous pressures on existing resources in MoPW, including Cipta Karya

The ADB recently completed TA to Cipta Karya to help strengthen their in-house capabilities with the AMDAL process. Although this TA produced additional guidelines and manuals, proposed a monitoring and information system, and generated substantial training materials, it did not actually conduct much training nor disseminate guidelines/manuals, nor was it intended to do so (Taylor 1993). Importantly, the ADB TA was designed to produce the guidelines/manuals, not to conduct the follow-up training or disseminate the materials, hence, the TA accomplished its intended objectives

Before reviewing the status of specific ADB proposals and recommendations to assist Cipta Karya with the AMDAL process, it is instructive to highlight some of the key problems associated with environmental management at Cipta Karya (see Collier 1992). These problems include

- 1 AMDAL implementation at the Regional level (through the Komisi Daerah) can be problematic due to the limited experience, technical capability and knowledge of the project officers and their staff on the AMDAL process
- 2 Project screening procedures and guidelines for the MoPW can be very time-consuming and require simplification to be more focused on the rapid identification of project-specific environmental impacts, as indicated in Section 1.3, Cipta Karya has proposed a simplified set of screening criteria
- 3 There is a need for sectoral environmental assessment guidelines and procedures to allow for the evaluation of a series of small similar projects which have a similar range of impacts (which are understood), rather than conduct an AMDAL evaluation for each project individually
- 4 There is a need to develop and incorporate additional standard operating procedures (SOPs) in the AMDAL process for the many small and rather well understood methods for mitigating project-related impacts, SOPs define conditions, which require compliance, that outline mitigation measures, thereby eliminating the need for the project to go through the entire AMDAL process
- 5 There is a need to refine the technical guidelines and procedures for the environmental management plan (RKL) and the environmental monitoring plan (RPL), the ADB produced such guidelines, but Cipta Karya does not have the resources needed for translation and distribution
- 6 Greater coordination is needed among the 27 provinces on their Cipta Karya projects as the AMDAL process becomes more decentralized and the Komisi Daerah assume greater responsibility. Komisi Daerah are responsible for all projects (including projects under Ministries besides MoPW) subject to AMDAL
- 7 There is a need for greater coordination with other Ministries and levels of government when project are multi-sectoral (e.g. project impacts go beyond the purview of MoPW, such as the traffic impacts associated with a landfill facility)
- 8 There remains the need to consider and incorporate public participation into the project cycle and into the AMDAL process

2.2 Status of ADB Assistance to Cipta Karya and the AMDAL Process

2.2.1 Overview

This Section provides a brief review and summary of recent ADB-funded assistance to the AMDAL process in Cipta Karya. The ADB supported three major technical assistance efforts

to improve the capability of conducting, monitoring and managing environmental impact assessments in the Ministry of Public Works as well as in Cipta Karya. The principal ADB TA effort was initiated in February 1989 and completed in July 1990 with the publication of their *Final Report*. The ADB has supported short-term follow-up TA initiatives and these were completed in 1992.

In addition to the *Final Report*, the ADB project produced an *Environmental Impact Assessment Manual* including Part 1 - fourteen EIA guidelines, Part 2 - thirty-one papers presented by the consultant team, at three in-house training workshops, Part 3 - four case study reports, and Part 4 - a training manual for four regional training workshops.

The 14 EIA guidelines cover environmental screening for MoPW projects, scheduling and integration of environmental impact assessment in the MoPW project cycle, preparation of terms of reference for environmental impact assessment studies, consultant evaluation, preparation of environmental management plans and environmental monitoring plans, environmental impact assessment of road projects, solid waste disposal projects, water supply projects, waste water treatment projects, urban drainage projects, multipurpose dams (including weirs and irrigation, river training and flood control), and resettlement, and evaluation of environmental impact assessment documents.

The 31 workshop papers cover a range of topics relevant to the implementation of environmental impact assessment in each DG.

The case study reports cover TOR for an ANDAL study of a large multipurpose dam project, TOR for an ANDAL study for an estuary reservoir (water supply) project, TOR for a toll road study, and a strategy for incorporating environmental work into an IUIDP (Integrated Urban Infrastructure Development Project).

Although these efforts have provided considerable assistance in the development of procedures, guidance materials, and training and development of staff resources for the AMDAL process, many of their *Final Report* (TA 1013) suggestions for training have not yet been implemented.

2.2.2 Status of ADB Recommendations

The current status of recommendations contained in the *Final Report* (TA 1013) are briefly discussed in the following paragraphs.

ADB Suggestion #1 - 'A remaining need which is considered most urgent is for specific guidance to be given to persons with environmental responsibilities but non-environmental backgrounds'

- The environmental guidelines drafted during TA 1013 were translated into Bahasa Indonesia for roads and highways, solid waste disposal, water supply projects,

wastewater treatment plants, urban drainage projects, multipurpose dams, weirs, irrigation and river training projects, and resettlement aspects for public works projects

- The environmental ministerial decree guidelines for high rise and urban renewal have not yet been drafted
- The model PIL (Preliminary Environmental Information) material was packaged, and training was provided throughout the five regions on three separate occasions. A total of approximately 1,500 people have received this training to date. These materials are identified as "Materials AMDAL" and have been designed specifically for individuals without extensive environmental backgrounds. In addition, RKL (Environmental Management Plan) and RPL (Environmental Monitoring Plan) draft guidelines were completed during 1992 and are to be included in AMDAL training curriculum, but require translation
- PIL training materials are also supported by the PIL, RKL, RPL, and KA ANDAL model which guides the scoping and writing of assessments. Experience has shown that present project manuals and materials need improvements to aid in understanding and application

ADB Suggestion #2 - "Improved career paths and incentives should be treated as prerequisites for significant improvement in the return on investment of environmental training in MPW"

- This suggestion continues to be a problem issue with respect to limitations of "structural" job categories in MoPW and payment limitations which are not competitive for certain technical skills. AMDAL activities are "functional" in MoPW, meaning that a person who concentrates on an AMDAL functional task does not gain points for career advancement since his main structural assignment will be in some other field. This results in low motivation and high turnover and there is no proposed legislation to resolve this issue

A related issue is that within Cipta Karya itself, the AMDAL Section falls under the administrative purview of Directorate Bina Program. AMDAL activity is coordinated under a "Section" within the Bina Program **Subdirectorate for Program and Evaluation**. Although the AMDAL Section is considered "structural" in nature, it does not hold the commensurate authority associated with other structural Sections within Cipta Karya -- authority is needed to bring about the necessary policy modifications and facilitate the integration of UEQM into the operational activities of other strategic Directorates

ADB Suggestion #3 - "The consultant believes that technical assistance in the form of specialist expert consultants can be cost effective and useful in association with virtually

*every kind of project within MoPW's broad scope of work and 27- provincial service areas
A model that has precedent in previous training involves use of most specialists on a long-
term part-time basis that resembles an apprenticeship relationship"*

*"It is suggested that a panel of consultants with one chairman and separate assistants for
each director general and possibly a small core of full time-long term advisors be provided"*

- This suggestion has not been carried out

*ADB Suggestion #4 - The consultant found both serious structural problems in information
management at MoPW and also considerable under-utilized potential The consultant
recommended a number of technical tasks, including a) the establishment of an information
management committee to set policies and guidelines for the entire department, and b)
integration of PUSDATA into the work of the KOMPUS central commission*

- For the past year the World Bank has provided a loan to the MoPW to develop and implement a department-wide project information system for all Directorate General groups, including Cipta Karya The system is developed under the Institutional Development and Training Project (IDTP) Pilot tests are being conducted in three provinces - Yogyakarta, East Java, and West Java Pilots will be followed by implementation in all provinces The reports will include the top 20% of the most important environmental and other project data and will track projects from the pre-feasibility phase through the construction phase The operation, maintenance, and monitoring phases are not included in the system
- PUSDATA (Central Office of Data Management) is responsible for sectoral data base management A study is currently underway in PUSDATA Also, KANWIL (Regional Office of MoPW) has been mandated to develop regional environmental data bases, but this effort has not been initiated

*ADB Suggestion #5 - Extension of AMDAL training to consultants that serve MoPW both
from the private and governments sectors*

- This suggestion is being addressed through numerous tasks and involving a number of organizations outside MoPW, including the Association of Indonesian Planners (INKINDO) and the Centers for Environmental Studies (PSLs)
- Ministerial decree environmental guidelines for each of the MoPW individual sectors have been established (except for highrise and urban renewal projects) However, many the manuals could not be printed and distributed due to lack of funds Also, comprehensive training on use these guidelines was not completed for regional and local staff involved in the preparation and review of AMDAL projects

- Technical training to improve senior management and program management and to improve capabilities of the Working Team, the KANWIL, and the Komisi Pusat was completed. These organizations were trained to identify and use various methods of data collection and information analysis appropriate to AMDAL process
- Training to improve planning and monitoring capabilities of MoPW Kanwil and regional government Dinas and BAPPEDA I and II to utilize AMDAL documents and data bases is not yet complete however, several efforts to strengthen this broad training for Cipta Karya projects are now underway, including the East Java/Bali project supported by the World Bank A similar new training project is currently being defined for Central Java/Yogyakarta which will be sponsored by the ADB

ABD Suggestion #6 - A number of roles and responsibilities are proposed for KANWIL in connection with decentralization

- During 1991, the MoPW issued a formal letter of instruction (Surat Edaran Menteri PU) that the KANWIL will
 - Be responsible as coordinator and supervisor for AMDAL implementation in the Provinces
 - Be responsible to develop and maintain an environmental data bank in the Provinces

2 2 3 Assessment of ADB TA Efforts

The ADB assistance efforts to the MoPW and Cipta Karya appears to have aided substantially in the development and improvement of the environmental impact assessment process Many of the proposed long-term support proposals in the Working Papers have also been partially achieved, are being implemented now, or will be considered as resources are available

The Study Team reviewed the status of many of the training and institutional development proposals and has confirmed that progress is being made, however, they recommend that more needs to be done in order to

- fully develop AMDAL documentation
- use the documentation to develop assessment and training materials
- complete training
- implement better guidance
- improve information library and systems components
- extend training and information to the public
- increase overall efficiency and management of the process

3 0 INSTITUTIONAL SUPPORT OPTIONS

The following section describes means of providing the institutional support to strengthen the AMDAL process as it applies to urban infrastructure projects promoted by local governments

Statement of the Problem To upgrade the quality and efficiency of the of the AMDAL preparation, review and management process for urban infrastructure projects promoted by local governments requires that technical support be provided to Cipta Karya in order to complete technical documents, to upgrade training materials and to aid in AMDAL implementation at the local level

As an increasing proportion of urban infrastructure projects are expected to be promoted and financed by local governments, there is a need to ensure that the AMDAL process for these projects functions efficiently Delays associated with the AMDAL process for locally-generated projects can result in increased project financing costs for the borrower (i e local government) Whereas Cipta Karya has the experience and expertise with AMDAL implementation for Cipta Karya projects, this same level of experience and expertise does not exist among the institutions and individuals at the local and regional levels

The following activities would respond to the need to strengthen the AMDAL process as it applies to urban infrastructure projects promoted by local governments

Activity 1 Provide Technical Assistance to Cipta Karya for the Purpose of Updating, Translating and Distributing Technical Guidelines used in the AMDAL Process

Description As indicated in Section 2 0, the ADB assistance efforts to Cipta Karya were instrumental in developing technical guidelines to be applied to urban infrastructure projects subject to AMDAL However, Cipta Karya requires further technical and financial assistance to update, translate and distribute these guidelines to end-users Completion of this activity would increase the efficiency and effectiveness of the AMDAL process, as it applies to urban infrastructure projects, and also result in improved quality of the AMDAL documentation

The Technical Guidelines of most importance include

- 1 EIA Guidelines for Cipta Karya Project Sectors (require updating)
- 2 PIL Guidelines (require simplification and the incorporation of SOPs)
- 3 RKL/RPL Plan Guidelines (require finalization, as guidelines have yet to be distributed to users and reviewers)

4 EIA Guidelines for Urban Renewal & Highrise Projects (require preparation)

In addition to the requirements noted above, the documents would require translation and distribution, training needs associated with the use of these documents are discussed below

To be Achieved This activity would result in the completion and distribution of AMDAL technical guidelines listed above

Relevant Institutions Cipta Karya represents the primary institution to receive direct assistance from this activity, but the end-products of this assistance would benefit a number of institutions, including Komisi Pusat, Komisi Daerah, INKINDO, the Working Team, and Project Officers at central and local levels of government

Activity 2 Provide Technical Assistance to Cipta Karya for the Purpose of Completing AMDAL Training Materials for Urban Infrastructure Projects

Description Cipta Karya also requires assistance in completing training materials for preparing and reviewing AMDALs for urban infrastructure projects These training materials would be used for new AMDAL "reviewer" and "preparer" courses-- formerly the Category A (Basic) and Category B (Preparer) courses These courses are primarily directed at training relevant Cipta Karya staff, the AMDAL preparers, the Komisi Pusat members, Komisi Daerah members, the KANWIL staff, local project officers and others interested in AMDAL, including journalists, lawyers and NGOs

To be Achieved This activity would result in the completion of AMDAL training materials for urban infrastructure projects in Cipta Karya sectors

Relevant Institutions Cipta Karya represents the primary institution to receive direct assistance from this activity, but the end-products of this assistance would benefit a number of institutions, including Komisi Pusat, Komisi Daerah, INKINDO, the Working Team, and Project Officers at central and local levels of government

Activity 3 Support Technical Assistance and Training to Strengthen Institutions and Individuals Responsible for the AMDAL Process for Local Urban Infrastructure Projects

Description As indicated in Section 1 6, many of the institutions and individuals responsible for the AMDAL process as it applies to local urban infrastructure projects simply lack AMDAL training and experience, specifically, the local project officer, the Komisi Daerah and the KANWIL The best source of technical expertise for the development of training materials is the Working Group of Cipta Karya

To address the training needs of the local project officer, the Komisi Daerah and the KANWIL, three training modules should be developed. These modules could be delivered as supplements to a basic AMDAL course. To develop the contents of these modules would require extensive input from Cipta Karya, primarily from the Working Group.

Training delivery would be best achieved through the use of PSLs and INKINDO members. Because the proposed modules go beyond the standard AMDAL training, there would be a need to train trainers. Again, Cipta Karya is seen as the primary institutional resource for supporting and developing this proposed training. As noted by Kingsley and Peterson (1992), "it could be that a major function for Cipta Karya in the future, perhaps the primary function, would be to serve as a center for technical assistance and training to local (and regional) governments."

To be Achieved Training modules and courses tailored to describing the functional responsibilities of the local project officer, the Komisi Daerah and the KANWIL.

Relevant Institutions In addition to the Working Group at Cipta Karya, relevant institutions to conduct training include the PSLs and INKINDO.

Activity 4 Provide Technical Assistance to MoPW in the Design of an Environmental Information Data Management System

Description The ADB proposal to develop technical and management policies and procedures for a central project information library and data base at Cipta Karya is supported.

A comprehensive environmental information data management system cannot be designed without a concept plan. This could be supported by assisting the MoPW establish a technical data management steering committee. This committee could be more comprehensive than the committee suggested by ADB by including representation from BAPEDAL, INKINDO, provincial governors and mayors. Thereafter, assistance might be needed to prepare a problem definition statement and a concept plan for designing and implementing an environmental information data management system within MoPW. This plan should incorporate the data needs of MoPW, BAPEDAL, Cipta Karya and regional and local institutions, and would also be directed toward including environmental monitoring indicators for urban infrastructure projects for use by the GOI and USAID for updating progress toward achievement of the objectives of the Policy Action Plan.

To be Achieved A concept plan for designing and implementing an environmental information data management system within MoPW.

Relevant Institutions The principal institutions to receive support would be the MoPW and Cipta Karya

REFERENCES

See references for Annex 2 D

ANNEX 2 F

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ANNEX 2 F

BENEFICIARY IMPACT

1 INTRODUCTION

Social welfare and equity objectives form a fundamental part of the broad policy framework guiding development in Indonesia. This is true at the most global policy levels reflected in the 'Development Trilogy' of growth, equity and security and in the quinquennial *GBHN (Garis Besar Hulan Negara)* which provide a, largely normative and equity driven, policy base for the various sectoral Five-Year Development Plans or *Repelita*. It is also reflected in sectoral guidelines across a wide range of government departments and, perhaps more important, in views of local officials in many areas who frequently see social and economic divisions within the community as a major threat to political security and long term sustainable development.

Even so, questions are often raised regarding the degree to which implementation actually reflects these goals. At one level this can be seen in questions about the degree to which the poor are or are not being reached by services, reflected, for example, in comments on deteriorating conditions in areas inhabited by the urban poor or on widening socio-economic gaps either interregionally or between rural and urban areas. At another level this can be seen in questions about who benefits from specific sectoral projects and programs, even where, at least in theory, there are distributional objectives inherent in the guidelines and plans.

Both of these levels of questioning are reflected, among others, in the recent Interim Evaluation of the Municipal Finance Project, which queried both the equity of expenditure patterns in terms of the regional and city size class distribution of the low income population, and the representation of low income population as actual beneficiaries of sectoral expenditure programs. Most important, it stressed the current inability to reach firm conclusions on these matters, citing, in particular, the singular "dearth of information regarding the degree of poverty targeting of current sector programs."

The present annex therefore addresses the questions

- (a) How information on the incidence of benefits might be obtained in the most cost effective manner, and
- (b) How that information might be used to redirect programs to match the GOI's poverty alleviation goals.

One addendum to the annex addresses policy formulation and planning issues with regard to the questions of benefit targeting.

A second addendum looks at gender issues and notes their importance in a range of policy and program context, particularly in programs aimed largely at the provision of environmental infrastructure services impinging on family health conditions for which women have a strong widely recognized responsibility. For the simple reason that equity based policies and targets seldom explicitly include gender specific goals, it is important to include at least some reflection on gender considerations in any attempt to define specific objectives for research or monitoring activity.

While the significant role women play in relation to infrastructure utilization in Indonesia is undeniable, a conclusion is that the major problem faced by these women is ultimately still one of poverty and limited access to safe services in the same way as for men. In this sense, the analysis finds that equity at the household or family level in the provision of public urban infrastructure should, as is more or less currently the case, remain the primary objective in program design. Even so, key women's issues can still be addressed in terms at the level of the individual project (e.g. in terms of design, implementation and management) and focus on the need to sensitize such things as location of infrastructure, as well as management and operations, to the roles and needs of women in poor households. More important to this annex it means that methodologies aimed at measuring conditions or beneficiary impact among poor households can also be used to measure conditions among poor women. The key remains that, within an overall or project-defined universe of poor or non-poor households, household surveys or other research instruments should be addressed to women as well as to men, and analysis carried out on a gender-specific basis in order to assess any differential impact/benefit on women and the degree to which projects meet needs of poor women in terms of both their familial and economic roles.

2 ARE THE URBAN POOR BEING SERVED? ARE URBAN SERVICES BENEFITTING THE POOR?

2.1 The Key Questions¹

In order to establish a sound methodological framework for investigating issues of equity and impact of programs on the poor, there is a need to distinguish between two questions

- are the urban poor being served? and
- are urban services benefitting the poor?

It should be clear that both of these questions are important. Yet, it should also be emphasized at the outset that there is a tendency to confuse the rather distinct methodological and analytical implications inherent in them. In simplest terms the first is a question of distributional equity (and changes in equity) in overall access to services, the second is a question of the efficacy of program and project implementation and the results of that implementation measured from a perspective of the degree to which intended beneficiaries are actually making use (benefitting) from the services involved. The measurement base for the first question is logically the universe of population/households (either poor or total) at the level of aggregation (e.g. national, regional) deemed most appropriate for the particular analysis. The measurement base for the latter is the universe defined by a set of sectoral programs or projects implemented over a given period of time.

2.2 Are the Urban Poor Being Served? Options for Data Collection and Analysis

The main objective here is to assist policy formulation, program targeting and formulation of models/approaches for more equitable allocation of available resources, by measuring changes

¹On poverty, due in part, perhaps, to the more diverse and fragmented nature of programs, there is a singular lack of virtually any comprehensive study on policies and programs throughout government. A few general articles can be cited, including Firdausy C and C Tisdell, (1989), *Indonesian Economic Development Plans, Achievements and Policies for Alleviating Poverty and Income Inequality*, **Asian Journal of Economics and Social Studies**, 8 (2), pp 107-120, and, with a focus on rural areas, Tjondronegoro, S M P, I Soejono and J Hardjono, (1992), *Rural Poverty in Indonesia Trends, Issues and Policies*, **Asian Development Review**, 10 (1), pp 66-90. A more focussed discussion dealing with one urban area, Jakarta, is contained in Papilaya, Alex, et al, (n.d.), *The Jakarta Urban Poor: An Assessment of its Profile, Policies and Program*, Jakarta, Center for Child Survival, University of Indonesia and Bureau of Planning (Health Project III), Department of Health. Finally, the 1990 World Bank poverty report, **Indonesia Strategy for Sustained Reduction in Poverty**, Washington DC, contains a full chapter on poverty alleviation issues in water supply, sanitation, KIP and housing sectors in urban areas.

in the distribution of access to services (in terms, for example, of region, city size class, sector and income class) over time. Compiling and analyzing data on levels and trends in access to services would provide a more solid basis for program management and for recommending changes in data collection procedures and organization (primarily from national censuses and surveys) that would provide more effective indicators of performance.

At this level, there are a number of options in relation to information system development, data collection and analysis. There is already a wealth of data available, much of which has not been utilized to a maximum extent and, further, that modifications or adjustments to existing data collection structures could well prove to be more effective in supporting improved policy formulation and sectoral programming than consideration of major new data collection efforts.

There are a range of possible options which bear additional scrutiny, among these including

- a Extending analysis of the 1990 decennial population census to more effectively utilize existing information on housing characteristics,
- b Supporting efforts to develop *Susenas* (particularly under its new format) into the main vehicle for measuring access to key social and environmental services by income/expenditure group and including support of detailed analysis of the 1992 *Susenas*,
- c Implementing a new National Housing Survey (e.g. following on the National Housing Survey conducted in 1988), and
- d Improving local statistical data on social and economic characteristics.

Each of these are discussed in greater detail below.

2.2.1 Decennial Population Census

The five percent national sample of the decennial Census of Population and Housing already includes a limited number of questions on housing conditions and access to a selected range of services (e.g. source of drinking water, source of washing/bathing water, type of human waste disposal, etc.). The main advantage of the census lies in the size of the sample (over 2 million households nationally in 1990) which permits reasonably reliable simple (one-way) tabulations of basic population and household characteristics at *Tingkat II* (*kabupaten/kotamadya*) level (at least to the level of individual *Tingkat II* on Java and for groups of *Tingkat II* outside Java). Other, more frequent, national surveys (notably *Susenas*) are based on much smaller samples and generally allow tabulations at province level at best.²

²For 1993, a larger *Susenas* sample will permit *Tingkat II* level tabulations for items contained in the core questionnaire. As discussed in greater detail below, this will include a limited number of questions (9 in all) on housing characteristics.

The main problems have to do with frequency (the census is carried out only once every 10 years) and with the lack of specific information on household income. Because of the high cost of census operations and the difficulties of asking even remotely reliable income questions on such a large sample, attempts to increase frequency or include direct income information are not likely to be financially or methodologically feasible.

Even so, the census provides a singularly rich source of information which has yet to be fully exploited by analysts and policy makers. Its potential is particularly underrated as a vehicle for providing indicators of longer term regional patterns of change which can be used at a policy level to target specific areas where service levels are low or where poverty related indicators (e.g. poorer health conditions, lower educational levels) indicate relatively greater levels of need.

Specific initiatives could include

- a. Relatively small analytical efforts using existing data and with an aim of synthesizing relevant material in ways that will educate and inform decision makers. Mapping of levels and dynamics in key household variables, perhaps down to *kabupaten* level, other forms of analysis of regional social and economic dynamics (e.g. using PQLI³ type measures) with policy or targeting implications could be of benefit here.
- b. More complex studies which would require adjustments to data processing and tabulation programs and which would organize output in a more user-friendly and user-relevant fashion. In particular, such efforts could include
 - Organization (and recoding) of records to produce tabulations according to 'size of place' for cities and towns in Indonesia. This could lead to objective measures of conditions and service levels not only according to administrative unit, but also according to functional categories of city size.
 - Linkage of household and individual data (e.g. on educational attainment of head of household) which would allow comparison of housing and service characteristics by proxies for socio-economic class. A useful example of this type of exercise is represented in the Ford supported work on Women Headed Households carried out based on 1980 Census data.
- c. Technical Assistance could also be considered to recommend minor changes in some of the household questions and response categories which would provide information more directly tailored to needs of sectoral planners and

³The PQLI or Physical Quality of Life Index is a composite measure based on levels of infant mortality and of female literacy or education.

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administrators⁴ This latter item is obviously not relevant to the 1990 Census, but given existing levels of ambiguity in the way a number of the current questions are phrased, efforts in this area could benefit not only census operations, but also other surveys where household or housing data are being collected⁵

Particularly for activities under item (b), and as with the *Susenas* data discussed below, a major cost item is in accessing raw data, either through cooperative arrangements with *BPS* or in purchasing tapes for processing by outside agencies. There are also legal and bureaucratic aspects in accessing data which are not insignificant for the institutions and/or researchers involved. There are a number of past and ongoing efforts to improve cooperation in this area, including some of the work of the MFP, but constraints still remain and the costs are real and are often difficult to internalize within existing GOI departmental budgeting structures. Supporting data acquisition and/or data processing costs may thus be an additional area (besides direct TA or support of focused research projects) where donor assistance could promote more extensive application of the census data.

2.2.2 Susenas

The National Social and Economic Survey (*Susenas*) is now being conducted on an annual basis covering a sample of roughly 65,000 households. The survey includes a standard core questionnaire covering a limited number of population and household characteristics along with a more detailed investigation of household expenditure patterns. To this are appended modules, which vary from survey to survey, covering specific topics of interest.

Susenas provides the main basis for national and regional calculation of income-related measures, including poverty, using expenditure as a proxy⁶. Its main deficiency lies in the

⁴Some discussion of possible modifications occurred during the sectoral studies carried out under the First World Bank Urban Sector Loan (USL I). However, due to general lack of interest, this was not implemented to the extent of formal recommendations for inclusion in the 1990 Census.

⁵Evidence of useful change is already evident in the questions being asked in the 1992 *Susenas*, use of electricity for lighting is divided into *PLN* and non-*PLN* sources, and the question on source of drinking water is now preceded by one which asks if the source is private, shared or public and followed by one (for pump and well water) on the distance from the nearest source of human waste disposal.

⁶The 1992 *Susenas* included substantial revision of the core questionnaire designed both to simplify collection and improve the overall reliability of the expenditure data.

small sample size which means that variations can generally be assessed only at the broad regional level (e.g. provinces on Java, islands outside Java) ⁷

Even so, the greater frequency of *Susenas* clearly enhances its value as a monitoring tool. The more intensive nature of this survey also means that modules can be more detailed than in a very large scale operation such as the census. Of greatest interest is the fact that the 1992 survey included a housing and environment module which, in turn, included questions on access to infrastructure (expanding on the types of questions asked in the census) ⁸. There is considerable scope for analysis here, including both analysis of the housing data in the core questionnaire and in the housing module itself cross-classified by income (expenditure) group, and analysis of service levels to the poor nationally and by region cross-classified by the spatial distribution of expenditure (obtained from budget sources) both globally and by source of funds. Encouragement and possible support of secondary data analysis which contains a strong regional perspective could be particularly helpful to efforts aimed at making more informed policies for targeting of resources in ways that best promote equity objectives and support poverty alleviation goals.

A program of more intensive secondary analysis could reap rewards. For example, it may be that statements made about regional equity, or the lack of it, in terms of urban investment programs and in terms of various funding sources, may not have as solid a base in empirical analysis as one might wish. Is DKI Jakarta over-funded? Possibly, but what about rapid urbanization on the periphery in the province of West Java? What about other large cities on Java and elsewhere? Work under the INUDS Project to produce an Investment Allocation Framework for *Repelita V* suggested, for example that urban West Java (which includes the urban fringe of DKI Jakarta as well as the large city of Bandung) was one of the most relatively under-funded areas in the country.

In particular there is a need to

- a Carry out extensive cross-sectional analysis of housing data by income/expenditure group and by region (re the valuable work carried out in the

⁷It is understood that the 1993 *Susenas* will cover a considerably larger sample, of more than 200,000 households. This would place the data collection effort on a par with that of the Intercensal Population Survey (*Supas*) conducted by BPS in 1985 and would dramatically increase the ability to break estimates down regionally, at a minimum by rural and urban areas within provinces and, at least in some cases, down to *kabupaten/kotamadya* level.

⁸Current plans are to establish a three-year cycle of modules. Thus the housing and environment module would be repeated in 1995, 1998 and so on. Only the core questionnaire, however, will utilize the larger (200,000 plus) household sample. Sample size for the modules will remain more or less at current (1992) levels and will thus remain amenable to analysis only at the regional or, in some cases, province level.

1988 by the Urban Institute and PT Hasfarm Dian Konsultan as part of the Urban Housing Study) Efforts to organize the urban sample according to city size class and, in particular, efforts to relate this analysis to actual expenditure patterns (most notably grant components of expenditure) could also have significant relevance for policy

- b Attempt (as far as data permit) analysis of cost structures (based on the expenditure data) and the types or standards of services being received by households Some of the RAND's work on costs and benefits in the health sector which made extensive use of *Susenas* data is a useful reference here ⁹

The 1992 *Susenas*, with its improved core questionnaire and housing module could prove to be one the most valuable sources of information for the first half of the 1990s

2 2 3 New Urban Housing Survey

Besides the *Susenas* mechanism there is also the potential to implement a separate survey of urban housing conditions in Indonesia The work of the 1988 Urban Housing Study cited earlier has been widely quoted (see, for example, the World Bank strategy paper on poverty alleviation) in part because it is the only source for the latter part of the 1980s (and early 1990s up to the recent *Susenas*) which permits direct linkage of income/expenditure levels with access to urban services

A distinct survey could offer some advantages, among them the ability to tailor the sample design more specifically to urban sector needs (focussing on urban areas, including city size classes as a distinct sample criteria) and the ability to go into greater detail in housing questions, for example to obtain information on gender-related issues or on linkages of specific technologies, costs and demand On the other hand, costs of such an effort would be high (probably into the billions of rupiah) and it is not clear how high a priority would be assigned to this by GOI who would, in any case, have to bear most of the cost As well, the expansion of the *Susenas* sample in 1993 to more than 200,000 households (about 0.5 percent of the national total) will mean that the urban sample will also be much larger and amenable to a wider variety of forms of tabulation and analysis With this in mind, a more logical (cost-effective) option may be to ensure that a housing module is periodically included in *Susenas* (e.g. every 3 to 5 years) and that efforts are made to support methodological work to strengthen such a module to address specific issues in urban sector policy formulation and programming

⁹Efforts here are likely to be limited as the revised (1992) expenditure schedule provides only one cell for all housing related expenditure and including such things as rent and costs of house maintenance as well as expenditures on services such as electricity, water, garbage collection and so on

In fact, as noted earlier, plans are already in place to include a housing and environment module in *Susenas* every three years. The main weakness lies in the fact that the expanded sample size (starting in 1993) will be limited to the core questionnaire. An obvious, and likely more cost effective, possibility would be to consider supplementary funding to augment the urban sample for the housing module to include all households covered by the expanded sample for the core.

2.2.4 Improvement of Local Social and Economic Data

The IUIDP process is built around a Local Government (*Tingkat II*) planning system under which priorities are established and expenditure programs derived locally for submission to higher levels of Government through the *PJM* process. Most important, where local plans have been prepared, it is now GOI (*Cipta Karya*) policy to utilize these expenditure programs as a basis for establishing annual time slices for implementation through the regular budgeting process. In short, within such a bottom-up system, confidence in the equity of the entire expenditure program will increasingly depend on confidence in the equity (poverty-directedness) of the individual expenditure programs prepared by the Local Governments involved. Improving the information base and hence the ability at this level to make more informed decisions on the targeting and nature of expenditure is clearly critical to this process.

This was noted in the 1990 Municipal Finance Seminar. Although the focus was on financial planning and management systems, there was a clear desire on the part of virtually all Local Government participants to develop and make more effective use of social information as a planning and monitoring tool and to strengthen relations with organizations (particularly local statistical offices - *Kantor Statistik*), in the provision of requisite data and information.

There have been a number of efforts in this area. The same seminar, for example, reported on work to develop a local financial and demographic reporting system and, although considerable question was raised about the way this work was being carried out, it did not obviate the concern with more effective collection and utilization of appropriate social, economic and environmental indicators as part of the local planning process.

Other useful initiatives - for example, efforts to develop local (*kecamatan* level) indicators and monitoring systems of population and environment, and plans to introduce regular tabulation of social and welfare indicators (*Inkesra*) at *Tingkat II* level based on the expanded *Susenas* sample can be cited. Efforts to improve the poverty targeting of expenditure programming by Local Government are among the more important and deserve the most careful consideration in any overall program or work geared to improve equity in the urban expenditure program. Here, for example, interest in and continued support of efforts to develop locally implemented and managed Planning and Management Information Systems (PMIS) which include poverty related data and efforts to bring poverty alleviation more explicitly into the sectoral planning process, perhaps through formal provision for some form of Social Impact Assessment (SIA) within the local planning (*PJM*) process (see below), could well be worthy of serious consideration.

2 3 Are Urban Services Benefitting the Poor Options for Program and Project Evaluation

Merely knowing the income distribution of beneficiaries is only one part of the problem. The ultimate goal is to improve service delivery to the poor in forms they will utilize and at affordable cost. Beneficiary income incidence thus needs to be dealt with in a broader context of overall system evaluation.

2 3 1 Analysis of PJM

Although these are plans, and hence measures of intention rather than results, IUIDP Medium-term Investment Plans (*Perencanaan Jangka Menengah* or *PJM*) which are prepared at the city level, generally contain information which would allow reasonable determination of portions of program expenditure benefitting poor areas, if not the actual urban poor. Virtually all of these plans contain a degree of spatial targeting within which sectoral impacts on areas where poor people (below medium income population) are most likely to reside can, at least in theory, be assessed. Many, although not all, of these plans also contain estimates of income distributions or average income levels within these sub-areas based on limited real-demand surveys which would allow more direct evaluation of likely impact on poor households.

Although they do not yet reach 100% coverage of sectoral funding, an attempt to aggregate and/or summarize information from *PJMs* (which have now been completed for some 170 cities in Indonesia and some 65% of the urban population) in a systematic analytical framework could produce some useful results. Here it should be kept in mind that

- a As noted earlier, where completed and approved, *PJM* are increasingly becoming the basis for sectoral funding. This has been an evolving process, but has been enhanced by processes of donor participation which are increasingly built around integrated funding plans defined by sector and which imply specific sectoral project commitments, not only by the donor but also by the GOI. This means that these expenditure programs are increasingly becoming a viable and realistic base for assessing equity intentions and against which the distribution reflected in actual implementation can be assessed.
- b At present, these plans are the only practical source of information for linking sector with sources of funding (loan, grant, central, local, etc.) and, via spatial intentions regarding sectoral investment, of linking sources of funding with beneficiary characteristics.¹⁰
- c On the other side of the coin, there is a degree of variability in quality of plans which could hamper aggregative analysis. One solution would be to focus on plans for which

¹⁰This statement applies to within-city analysis. Analysis of interregional and city size class patterns of expenditure by funding source can be carried out based on annual budget data compiled by *Cipta Karya* which is discussed in the following section.

a suitable standard can be assumed, for example those which have been incorporated into major donor projects (SCUDP - ADB, East Java-Bali - World Bank, etc), and which can be presumed to be indicative of standards to eventually be achieved nationwide

Here it is also worth noting that while IUIDP processes include specific procedures for financial planning (RIAP) and institutional development (LIDAP), there are no explicit provisions for poverty or more general social impact assessment beyond the conventional planning analysis, noted earlier, which focusses on spatial analysis to define areas in need of service or service improvement. Besides the potential value in getting a better idea of just how much we know or do not know from a close examination of existing *PJM*, this analysis could also be directed toward the development of guidelines and procedures for addressing poverty related concerns in the context of local planning with the ultimate objective of making social impact assessment an essential component of the planning process. Among others, this would be supportive of possible initiatives noted earlier aimed at improving local demographic and social information and would be an integral part of efforts to enhance confidence in the equity directedness of the expenditure programs

2.3.2 Analysis of Sectoral Expenditure Patterns

Cipta Karya now produces detailed lists of projects undertaken in each financial year under its major Directorates. These are organized by sector, by location (province, city or town), by type of expenditure (e.g. specific type of infrastructure provided, amounts and costs), and by source of funding (e.g. *DIP*, *Inpres*, loan, other own-source revenue, etc.). Besides their usefulness as a sampling frame for more detailed surveys of beneficiaries (see below), simply reorganizing the information in these lists in a tabular format would permit production of indicators on expenditure distribution by key structural variables (e.g. sector/type of expenditure, region, and city size class). Augmenting this with information on variations in 'need' (either sector specific or in terms of variations in socio-economic conditions) could allow a gross level of evaluation of the efficacy of expenditure vis a vis these structural variables.

This is a particularly rich source of data which has not yet been systematically exploited. Because it contains summarized information on funding source and, for example, allows differentiation between foreign and domestic (rupiah) *DIP* expenditure, one can directly examine location and sectoral characteristics of expenditure in terms of funding source and evaluate the relative equity of expenditure patterns in terms of source-based criteria (e.g. biases toward weaker areas in terms of central-local grants as opposed, for example, to loans). As noted earlier, this exercise is necessary background work to development of an appropriate contextual and analytical frame for design of a beneficiary survey. We also feel, however, that this material (which is presently contained in a series of very thick and unwieldy provincial volumes) could be synthesized and presented in ways that would be useful for management information purposes and which could complement work already undertaken by the MFP on development of, mainly financial, monitoring indicators for the Urban Policy Action Plan.

2 3 3 Survey of Project Beneficiaries

Primary research questions which are essentially project or expenditure based generally (due to the relatively small number of households which can be classified as 'beneficiaries') cannot be answered usefully by surveys which draw on a national or regional 'universe' of households for a primary sample frame

There are a number of technical and methodological concerns which need to be resolved, not the least of which is simply how to identify beneficiaries for projects which are community or area based (e.g. provision of standpipes, *MCK*, access roads, etc.) and are not explicitly tied to individual households, or to distinguish, in a reasonably rigorous sample frame, intended beneficiaries - in terms of project objectives - from those actually making use of the various services being provided. There will probably need to be a fairly high 'pilot' content in any initial survey work, allowing for testing of a variety of field procedures both from the point of view of cost and efficiency and from the point of view of the content validity of the information collected

In principle the relevant sample is one of projects defined in terms of the annual budget cycle or a multi-year plan. The most appropriate sample frame, discussed in the previous section, are the annual project listings maintained by *Cipta Karya* for their expenditure programs. This is not a complete frame of urban investment. For example, it does not cover urban roads programs funded under *DG Bina Marga*. It also covers both urban and rural programs (e.g. *IKK* or *Ibu Kota Kecamatan*) since these are also part of the *Cipta Karya* expenditure program. The lists do, however, cover the main sectors of USAID interest - water supply, environmental sanitation (human waste, solid waste, flood control) and urban housing (*KIP* and Market Area Improvement or *MIP*). More important, as noted earlier, there is a direct linkage to the *IUIDP* process since, for areas where *PJM* have been produced, these data are expected to more or less represent reflections of annual time slices of medium-term sectoral expenditure programs. Finally, the data contain appropriate information for sample stratification, notably information on project location (down to the city or *kecamatan* level), type of expenditure within each sector and funding source.

One additional problem is that these rather comprehensive data sets are prepared as part of the budgeting process and reflect planned as opposed to actual expenditure. Final sample selection would need to be based on projects actually implemented. Linking budgeted projects with reports on implementation can be done as *Cipta Karya* does have its own monitoring apparatus for reporting of project expenditure. However, time lags could be introduced which could mean that field work could only be carried out some months after the end of the relevant fiscal year. Coupled with data collection and processing time requirements would likely mean a delay of at least 9-12 months from the end of a particular fiscal year until preliminary results of such a beneficiary survey would become available.

Addendum 1

Policy Formulation and Planning Issues in Targeting and Resource Allocation

At the national policy level, and virtually since the start of the New Order Government, there have been clear distributional objectives in programming and project expenditure. For example, and in terms of broad spatial priorities, two major groups of equity-based concerns have dominated national policy since the mid 1970s. First are concerns related to inter-regional equity (in general reflecting desires to accelerate development in 'Outer Island' regions and, more recently, in what is referred to as 'Eastern Indonesia' (*Indonesia Bagian Timur*) or *IBT*) and, second, concerns related to rural-urban distributions of the fruits of development (frequently phrased in terms of objectives aimed at promoting rural and smaller town development, particularly on Java, as a means of stemming "push" driven migration to the larger urban centers). A pertinent example is given in the *GBHN* guidelines on Spatial Development for *Repelita IV* (1983/84-1988/89) which roughly translates as follows:

In the framework of implementing national development which is spread more equally over the country, efforts will be made to harmonize the growth rate among regions and in each region. For this purpose it is necessary to increase smooth communications within one region or island as well as between regions and islands. More attention should especially be paid to the development of the relatively backward regions, the isolated regions and border territories. Besides, due attention should be given to the minus and densely populated regions so as to minimize the flow of people moving to the big cities. In this regard, the capacity for planning, executing and controlling apparatus for regional development needs to be improved.¹¹

None of this is explicitly poverty related, although it does clearly reflect a policy framework within which disparity is to be addressed and it does complement the long-standing view that poverty is essentially a rural problem and a problem of rural Java in particular. For this, as well as for reasons of national stability, regional development has been seen as a major policy tool in promoting greater equity and in reducing poverty at a national scale. The emphasis on regions outside Java is not only aimed at indigenous population, but also at increasing the attractiveness of these regions to potential migrants from the densely populated core through labor related movement and transmigration.

¹¹National Urban Development Strategy, **Final Report**, Jakarta, Directorate of Urban and Regional Planning, Directorate General of Human Settlements, Department of Public Works, 1985, p. 20

Rural and regional development concerns have also been carried forward to *Repelita V*. Here reference can be made to a recent World Bank study¹² which highlights four specific programs (a) a program aimed at increasing service provision (mainly for education and health) in poorer communities (*P3D*) (b) a program aimed at water provision for lower income groups in water-stressed urban slum areas (c) a program aimed at improving local water supply and sanitation in rural areas (*RWSS*) and (d) a series of integrated area development projects (*IADPs*). Three of these programs are essentially rural in nature.

Data on the distribution and changes in service levels obtainable from major national census and survey sources is an important component of overall program or system evaluation and, thus, greater attention should be paid to its analysis. At this level, the goal is not only to see if public expenditure is being aimed (disproportionately) toward poorer regions and toward lower income segments of the population within these regions, but also to see whether or not gaps (adjusted for appropriate differences in service standards) are narrowing over time. Equity objectives at this level of analysis may be phrased in a variety of ways - as national aggregates, between regions, between rural and urban or various size classes of urban areas, and among various sources of funds. The need is to have as clear an agreement as possible on the levels of aggregation relevant for different policy and planning purposes. Once these have been established, appropriate measurement instruments and monitoring systems can be recommended.

With respect to the specific sectors of concern to MFP/A, it should be stressed that broad based equity concerns are fundamental to the "basic needs" approach underlying public provision of a range of services in both rural and urban areas. This includes basic public works investment in urban roads, water supply, sanitation, flood control, etc., and it is tied primarily to the use of appropriate technologies (e.g. communal as opposed to individual facilities) and to subsidization of these technologies within the budget structure. Program criteria exist, for example, which emphasize the use of public standpipes and communal bathing, washing and toilet facilities (*Mandi, Cuci, Kakus* or *MCK*) for poor people and areas.

The World Bank report cited above devoted an entire chapter to the objectives and performance of poverty-related efforts in urban water supply, sanitation, kampung improvement and public housing up to the end of *Repelita IV*. The analysis carried out there drew heavily on results of the Housing Market Behavior Survey carried out by the Urban Institute and P. T. Hasfarm Dian Konsultan in 1988 as part of the Urban Policy Studies Project, which (as a result of collecting data simultaneously on income/expenditure levels and levels of service) could be used to demonstrate the degree of disparity between poor and non-poor households.

In general, however, it seems safe to say that there are few explicit poverty criteria in IUIDP guidelines and procedures. There are, however, a number of more ecological criteria which are supposed to play a role in infrastructure development planning and which have a decided relation

¹²World Bank, **Indonesia Strategy for a Sustained Reduction in Poverty**, Washington D C , 1990

with the location of generally poorer households within the urban sphere. Field visits also tend to confirm that these same ecological/ environmental conditions (e.g. high density settlement, frequent flooding, extensive pollution of surface and/or shallow ground water sources) are equally if not more so perceived by Local Governments as factors which should be used in designating areas for high priority attention.

This reflects the preeminent concerns of the physical planner. People (rich or poor) living in areas where they cannot be expected to be able to provide (relatively inexpensively) an environmentally sound level of service for themselves should have first priority for public service provision. In this respect the fact that poor people tend to live in environmentally poor areas may be seen as somewhat fortuitous. On the other hand, if accepted, it offers a potential for evaluating urban infrastructure plans and implemented programs at an area level, in effect asking if projects are, in fact, being directed (or an appropriate proportion of projects directed) toward those parts of the urban area where environmental conditions are poorest and where privately initiated options are most constrained.

Income concerns appear more explicitly in guidelines dealing with financial planning and financing of sectoral projects. There is a linkage here to service standards under a modified 'basic needs' approach which has been adopted by IUIDP. Here, basic needs remains a 'core' element (all people in need of public services should be served at least at a basic level) but this is modified by the idea that, where possible, the better off should be offered higher standards of service (commensurate with demand) and charged accordingly, presumably according to a progressive scale. To the degree that cost recovery becomes a principle of financial planning for service provision, there is an implicit trade off between allocating more funds to the poor (where cost recovery potential is less) and building a sustainable self-supporting program over the longer term which requires at least some emphasis on those (the better off) more likely to maximize returns on investments.

Equity concerns also differ according to sources of project finance. In theory, grant aid to Local Governments should have a higher equity component than loans for the simple reason that, for grants, cost recovery is less of a problem - they do not need to be paid back¹³. For the bulk of Housing Guarantee Loan, which is given as support to sectoral *DIP* (e.g. to grant) funding, this raises the question of the level of aggregation (in terms of funding sources) at which any attempt to monitor or evaluate the equity and gender sensitivity of expenditure patterns should be carried out. In short, it may well be more relevant to ask about the degree to which assistance under the principal grant components is being directed toward the poor.

¹³Reference should be made here to the one poverty-related statement in the Urban Policy Action Plan (PAP) (Section 4.04) which stresses the equity driven nature of grant (*DIP* and *Inpres*) funding and the need to develop systems for improving targeting of such expenditure and to monitor whether or not projects funded predominantly with grants are reaching the intended beneficiaries. This aspect of the PAP is discussed in greater detail in the following section of the report.

Although distinct from the *DIP*, *Inpres* is also seen as one of the most equity driven components of expenditure and here the World Bank poverty study cited earlier, notes the significant real increase in *Inpres* allocations in FY 1990/91, particularly in the block grants (*Inpres Dati I*, *Inpres Dati II*, and *Inpres Desa*) provided to various levels of local government, as an indicator of increased GOI attention to poverty related concerns. Because of the way allocations are handled, except for *Inpres Dati II* which is per-capita based, there is clear bias in distribution away from the more densely populated regions and this has been seen as means of promoting increased interregional, if not interpersonal, equity by many observers. Even so, this is not a guarantee of benefit accruing to the poor and the Bank report clearly notes that "effects of these increased allocations in offsetting existing regional income disparities [will need] to be closely monitored"¹⁴

In practice, however, the situation is more complex and there are even significant problems in trying to evaluate poverty relevance of different funding sources at the project level. First, some projects may be funded from multiple sources (e.g. APBN, ABLN, *Inpres* Grants, Local Own Revenue, etc.) One is faced with the question of how to evaluate funding sources within such a context. Second, if financial plans conform to guidelines and objectives (vis a vis use of loans and local own revenue, for example) and if overall equity in distribution of expenditure can be demonstrated at the city or local government level, it is not clear, from a policy or program management related perspective, why one needs to be concerned with how funds from particular sources are allocated.

This suggests that one primary research question has to do with the degree to which the poor are being attended to by expenditure programs regardless of source of funds. If qualification is required, it should reflect income group or area-related measures of objective need, defined in terms of base (pre-expenditure) levels of service provision and measures of "need" for public service as opposed to private service provision. Concern with base levels of service is, in fact, also less necessary if we can concern ourselves only with the gap between the poor and the better off. In this case, for example, if we want to ensure that the gap between below and above median income households is not getting larger, it is sufficient to show that 50 percent or more of expenditure is benefitting below median income households. We do not need to ask how wide the gap was to begin with, even though, obviously, for targeting purposes, this latter question is a rather significant one.

¹⁴Here, the data in the Interim Evaluation Report (Tables 2.1 and 2.2) which show a drop in *Inpres* expenditure in the urban investment program in 1990/91 and 1991/92 should be interpreted carefully. This does not mean that *Inpres* funds have been declining, merely that local governments are allocating a smaller share of *Inpres* to the urban investment program as defined in the report. Although it remains an hypothesis at this stage one wonders if this simply reflects rational decision making on the part of IUIDP sectoral planners in utilizing other forms of grant aid (e.g. *DIP* and, particularly, foreign aid) for types of projects where this is more readily available and budgeting *Inpres* for projects outside of the defined 'urban investment program' where *DIP* funding may be less readily available.

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Issues in Program and Project Planning, Implementation and Evaluation

Ultimately, the main question has to do with just who is benefitting from existing patterns of urban expenditure, and the degree to which these investments are meeting perceived needs at an affordable level of cost

Are monitoring surveys needed? Particularly if the goal is to monitor overall expenditure patterns at the national or broad regional level, by sector and, particularly, by funding source, the answer is clearly yes. On the other hand, it seems that, for both conceptual and methodological reasons, there are limitations on the cost-effectiveness of efforts to measure income distribution of project beneficiaries, unless this is closely tied to more comprehensive research designs aimed at obtaining information for improving service delivery and overall economic efficiency of system implementation and operation. The question is not only if urban services are reaching the poor, but also if such services are meeting a defined demand, at an affordable level of cost to beneficiaries and if they are being utilized and managed in an efficient manner.

There are also legitimate questions about the utility of emphasizing target shares of sector expenditure to be aimed at poor households.

Targeted shares of expenditure aimed at poor households are, themselves, basically policy variables. There may well be a validity in assigning a target for each sector, but this should be exogenously determined based on a variety of information on relevant service levels, technologies utilized, levels of real demand, etc., differentiated by income group. Survey data can be useful in building appropriate analytical models, but it is these models which should be used to direct policy and expenditure patterns. Simply knowing the share of expenditure going to particular income groups has limited policy or program relevance outside of this more comprehensive framework.

In practice, the only valid assessment on appropriate levels of equity in program expenditure lies not in analysis of project beneficiaries but in global measures of service distribution across various regions and income groups in the society. The key questions (which are exclusively the province of population-based national and regional household surveys) remain ones of the share, and trends in the share, of urban households with access to safe services and of whether or not conditions of the urban poor are improving or deteriorating in absolute and/or relative terms.

Even so, improving the allocation of central-local transfers (grants) toward the poor merits closer attention. Work in this area within *Bappenas* has already led to the creation of a new *Inpres*, (*Inpres Perkotaan*) which is being implemented at a level of Rp 38 billion for FY 1992/93 and directed, at this stage, toward supporting basic sectoral planning (*PJM* preparation) for IUIDP. Most important however, is not what has been accomplished to date, but the existence of a climate supportive of a wide range of initiatives aimed at improving resource allocation in ways that will most directly benefit the poor.

As intimated earlier, the research agenda is not simple and, if it is to be meaningful, the range of assessments which should be part of the system extend beyond those related solely to beneficiary income distribution ¹⁵ For example, among the questions to be asked and types of assessments to be carried out we could include

- a Is system design appropriate for the poor?
 - Assessment of standards and technologies
 - Assessment of demand and affordability
 - Assessment of pricing policies

- b Is implementation effectively targeted toward the poor?
 - Assessment of criteria and standards used for targeting

- c Are the poor actually benefiting (ex post facto)
 - Assessment of utilization of provided infrastructure and services
 - Assessment of impact on welfare and environment

All of these questions are indicative of objectives which must be part of overall objectives aimed at improving conditions among the poor, and are reflective of what we feel is the critical issue in this process, that is - improving service delivery to and service utilization among lower income households This clearly includes, but is not limited to, assessment of the income incidence of beneficiaries of urban sector expenditure programs and projects It also includes the need to place these expenditures within a broader financial and administrative context

A useful example can be drawn from the discussion on urban clean water supply in the World Bank study on poverty in Indonesia cited earlier They note the lack of financial incentives for *PDAM* (local water enterprises) to build standpipes in poor areas, even though these are supposed to be the main technology for reaching, and subsidizing water provision to, poor households and national guidelines exist on ratios of standpipes versus house connections (50/50) that should be part of programmed expenditure For public supply they note a tendency to prefer construction of public hydrants (*hydran umum*) which can be, in effect, sold at full cost to concessionaires who, in turn, sell water to final consumers, but often at exorbitant rates One recommendation here is actually for further deregulation of water supply, allowing even those with private supply (house connections) to sell water, thus breaking the monopoly position of concessionaires and, hopefully, reducing costs to those who must count on purchased water for survival

¹⁵In fact, the same complexity applies to dealing with gender-relevance at the project level and more or less the same typology of research questions as indicated here for assessing beneficiary impact in terms of income group could be applied to assessing the degree to which women, and particularly poor women, are or are not being benefitted by infrastructure delivery

Another example can be drawn from the work of Dr Oey-Gardiner in looking at Community Based Development (CBD) activities within the Integrated Kabupaten Infrastructure Development Program (IKIDP). Her conclusion was that while CBD was a useful idea, it was simply infeasible in most areas within the current administrative and bureaucratic structures. She suggested greater emphasis on a concept of Community Participation within the current bottom-up/top-down planning and implementation system¹⁶ as a means to promote popular awareness and involvement in infrastructure development, particularly in poor areas and among poor people.

Thus, to the degree that this annex adopts a view that the main objective is one of service delivery and utilization and not just one of measurement of income incidence, the evidence seems to imply a need to adopt research designs and methodologies which include the ability to look at community wide factors and at institutional linkages among others.

¹⁶Bottom-up as represented by the *Rakorbang* system for setting local priorities and project wish lists, and top-down as represented by the still Central Government dominated processes for project selection and implementation.

Table 1 - Percentage of Households Using Electricity for Lighting by Urban-Rural Residence and Region, 1980 and 1990

Region	Urban		Rural	
	1980	1990	1980	1990
Java	47.4	86.7	3.8	34.6
DKI Jakarta	50.3	95.6	16.1	
W Java	50.8	86.8	5.6	38.4
C Java	37.7	82.0	1.7	32.2
DI Yogyakarta	47.0	82.9	1.7	35.3
E Java	49.2	83.4	3.9	32.8
Sumatra	49.7	79.8	8.5	23.7
Kalimantan	60.8	85.8	10.6	22.1
Sulawesi	52.0	81.9	8.5	28.7
Nusatenggara	47.7	83.7	5.1	29.9
Maluku & Irian	48.5	77.2	7.0	18.6
INDONESIA	48.5	85.2	5.4	30.7

Sources 1980 - **Penduduk Indonesia Hasil Sensus Penduduk 1980**, Seri S, Nomor 2, Jakarta, Biro Pusat Statistik, 1983, Tabel 63.1
 1990 - **Penduduk Indonesia Hasil Sensus Penduduk 1990**, Seri S, Nomor 2, Jakarta, Biro Pusat Statistik, 1992, Tabel 61.1

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Table 2 - Percentage of Households Served by Piped Drinking Water Supply by Urban-Rural Residence and Region, 1980 and 1990

Region	Urban		Rural	
	1980	1990	1980	1990
Java	25 3	30 4	1 7	3 2
DKI Jakarta	30 0	46 0	5 4	-
W Java	13 2	18 2	1 6	3 0
C Java	23 4	24 7	1 6	2 5
DI Yogyakarta	11 3	9 7	1 2	1 2
E Java	35 8	40 7	2 0	4 2
Sumatra	27 8	33 7	2 2	4 5
Kalimantan	28 6	53 7	1 1	4 6
Sulawesi	30 3	50 2	2 0	7 1
Nusatenggara	29 1	37 5	5 7	11 0
Maluku & Irian	49 7	56 2	3 6	7 4
INDONESIA	26 4	33 4	2 1	4 4

Sources 1980 - **Penduduk Indonesia Hasil Sensus Penduduk 1980**, Seri S, Nomor 2, Jakarta, Biro Pusat Statistik, 1983, Tabel 64 1
 1990 - **Penduduk Indonesia Hasil Sensus Penduduk 1990**, Seri S, Nomor 2, Jakarta, Biro Pusat Statistik, 1992, Tabel 62 1

Table 3 - Percentage of Households with Private Toilet and Septic Tank by Urban-Rural Residence and Region, 1980 and 1990

Region	Urban		Rural	
	1980	1990	1980	1990
Java	28 1	42 2	3 7	6 9
DKI Jakarta	41 8	57 9	22 6	-
W Java	18 7	36 8	4 0	8 3
C Java	23 7	37 3	2 8	6 4
DI Yogyakarta	30 3	36 5	6 5	12 2
E Java	27 7	40 4	3 5	5 5
Sumatra	32 4	48 8	4 0	7 8
Kalimantan	26 5	47 8	2 9	4 8
Sulawesi	33 0	45 4	5 2	8 2
Nusatenggara	26 6	41 8	3 8	7 8
Maluku & Irian	31 4	48 8	4 6	7 3
INDONESIA	28 9	43 7	3 8	7 1

Sources 1980 - **Penduduk Indonesia Hasil Sensus Penduduk 1980**, Seri S, Nomor 2, Jakarta, Biro Pusat Statistik, 1983, Tabel 67 1
 1990 - **Penduduk Indonesia Hasil Sensus Penduduk 1990**, Seri S, Nomor 2, Jakarta, Biro Pusat Statistik, 1992, Tabel 65 1

Addendum 2

Gender Considerations

Gender issues are important in a range of policy and program contexts, particularly so in programs aimed largely at the provision of environmental infrastructure services impinging on family health conditions for which women have a strong and widely recognized responsibility. For the simple reason that equity based policies and targets seldom explicitly include gender specific goals (although they often explicitly recognize the importance of the 'role of women'), it is important to include at least some reflection on gender considerations in any attempt to define specific objectives for research or monitoring activity.

The following paragraphs attempt a brief summary and discussion of the policy environment regarding women in Indonesia in recent years, with a focus, due to the nature of this report, on the public works sector and, particularly, programs carried out by the Directorate General of Human Settlements (*Cipta Karya*) in the Department of Public Works. The introductory nature of this discussion should, however, be kept in mind and the reader should refer to more detailed sources for additional documentation.¹⁷

Policies and Programming at the National Level

What is perhaps most interesting in the Indonesian policy environment is the prominent position given to gender. Starting in 1978, the *GBHN* along with documentation for *Repelita III* (1978/79 - 1983/84) devoted a section to the role of women in national development. In the same year, an Associate Minister for the Role of Women was appointed, a post which was elevated in 1983 to full Ministerial status as the State Minister for the Role of Women (*Menteri Negara Urusan Peranan Wanita* or *MenUPW*). Policies expressed in these documents have undergone minor changes over the years, but it seems safe to say that there has been a consistent and overriding emphasis throughout on women's roles in the family and, more specifically, on enhancing the role of women in creating healthy and prosperous families (*P2WKSS*), and in guiding the younger generation in the context of developing the Total Indonesian Person (*Manusia Indonesia Seutuhnya*).

Key policy statements for *Repelita V* are contained in the 1988 *GBHN* and can be summarized as follows:

¹⁷For women, the most useful document is Oey-Gardiner, Mayling, (1991), **Women in Development: An Update for Indonesia**, Manila, Programs Department (East), Asian Development Bank.

- 1 To raise and enhance the status and role of women in society according to their nature as women, attention will primarily be paid to improving the welfare of poor women in urban as well as rural areas, and secondly to those aged 15-29 years
- 2 To develop healthy, prosperous and happy families, women should not only be objects but also implementers and beneficiaries in various fields of development For this purpose the program for Enhancing the Role of Women toward Healthy and Prosperous Families (*Peningkatan Peranan Wanita menuju Keluarga Sehat dan Sejahtera* or *P2WKSS*) has to be strengthened and better coordinated
- 3 With regard to education and skills, policies will be directed at (a) eliminating illiteracy, ignorance of Bahasa Indonesia and deficiency in basic education, (b) encouraging, especially poor women, to gain access to post basic education, (c) promoting a more conducive social environment for women to gain equal access to formal and informal employment as well as various positions in society, (d) encouraging greater participation among women in the development and utilization of science and technology, and (e) enhancing knowledge and skills of women in raising their children
- 4 Efforts to improve family welfare will increasingly be based on active social participation in various development activities In this regard the role of *Lembaga Swadaya Masyarakat* or *LSM* (a term often used as a translation for Non-Government Organizations or NGO), the Family Welfare Movement (*Pembinaan Kesejahteraan Keluarga* or *PKK*) as well as other women's organizations will be further developed in order to enable them to participate in all aspects of development and in all areas
- 5 To enhance the role and responsibility of women in development, greater opportunities will be given to women to become decision makers, policy makers, planners and beneficiaries of development (Oey-Gardiner 1991)

Implications for Program Implementation

As a State Ministry, *UPW* does not implement its own policies Rather, its role lies in the establishment of policies and in the coordination of activities which are carried out by other sectoral departments, other government agencies and non-government organizations Each department is thus supposed to incorporate WID efforts as part of its overall activity, following guidelines and initiatives emanating from *MenUPW* During *Repelita IV* most sectoral departments established a bureau, unit or group of officials specifically assigned to handle women's programs, all under the general title of Enhancing the Role of Women (*Peningkatan Peranan Wanita* or *P2W*) These units are supposed to be responsible for seeing that women's issues are integrated into policy formulation and plan implementation for their respective sectors For example, the Department of Public Works received funds to train female extension workers for housing improvement, and including sub-sectors such as water, sanitation and pollution control

For *Repelita V*, regional responsibility for coordinating WID programs was elevated to the level of the Deputy Governor¹⁸ In provinces with no Deputy Governor, the Regional Government Secretary (*Sekwilda*) was to be in charge At the second level of Local Government (*Dan II* or *Kabupaten/Kotamadya*) overall responsibility was assigned to the Second Level Regional Government Secretary (*Sekwilda Dati II*) This was a major accomplishment since it placed WID concerns in a relatively high position within the regional bureaucracy In theory, at least, the ability to influence actions and to hold regions accountable should be improved

In practice, however, the abilities of *MenUPW* to influence activities, particularly those in more non-gender specific sectoral programs, is limited *MenUPW* has few resources to actively supervise or monitor individual sectoral departments and their programs and the departments, in turn, generally have few skills or, perhaps more important, any strong motivation to spend the time required for WID incorporation Here a distinction should be made between efforts which are **WID directed** in the sense that they are more or less directly targeted toward women and those which are **WID integrated** in the sense that they require building a WID component into what is essentially a non-gender specific program or project Programs and activities implemented through women's organization, most notably the *PKK*, are a good example of the former *MenUPW* also coordinates specific projects (most of them donor funded), some of which are directly concerned or contain components concerned with the housing sector¹⁹

WID integration is even more problematic Within Public Works, for example, program targeting generally stops at the household level (or at the level of groups of households) rather than dealing with gender relations within them Concepts are more likely to be expressed in terms of need - defined in terms of service levels (the proportion of households or population served) or in terms of area-specific constraints (high population density, lack of suitable ground water, proneness to flooding, etc) limiting the ability of household to provide safe services on their own Certain programs, most notably the Kampung Improvement Program (*KIP*), include specific mechanisms for community involvement, including women, but, in practice this has often been limited to community involvement as a source of labor (*gotong royong*) at the time of project implementation Elsewhere, practical avenues for WID integration are even more limited, the only potential avenue within the annual programming and budgeting structure currently lying in the bottom-up series of meetings (*Rakorbang*) held, starting at the village level, to designate priorities and potential projects and where women's interests could conceivably be expressed

¹⁸Previously this job was held by the Head of the Regional Office of the Directorate of Community Development (*Kepala Direktorat Pembangunan Desa* or *Kadit Bangdes*)

¹⁹For example, in *Repelita V* there are specific efforts on enhancement of the role of women in transmigration settlements and fishing villages, on enhancing the role of women in urban slum areas through their status and quality of life, and on promotion of clean water and sanitation in rural villages

Recently, there have been efforts to incorporate Community Based Development (CBD) within the broader Cipta Karya program aimed at Integrated Kabupaten Infrastructure Development (IKIDP). In principle, CBD provides a concrete framework for both women and the poor to be directly involved in the provision of infrastructure for their respective communities. In practice, however, there are questions about just how far this involvement can reasonably be expected to extend. Oey-Gardiner (1992), in a report to the Dutch Government notes the practical difficulties of by-passing established administrative systems (notably those involved in annual programming and budgeting) and suggests that a simpler, and more appropriate approach may be to try and increase levels of community participation, including women, within and in support of the current administrative structures and procedures.

Conclusion

While the significant role women play in relation to infrastructure utilization in Indonesia is undeniable, the major problem faced by these women is ultimately still one of poverty and limited access to safe services in the same way as for men. In this sense, and in the context of this report, the equity at the household or family level in the provision of public urban infrastructure should, as is more or less currently the case, remain the primary objective in program design. Even so, key women's issues can still be addressed in terms at the level of the individual project (e.g. in terms of design, implementation and management) and focus on the need to sensitize such things as location of infrastructure, as well as management and operations, to the roles and needs of women in poor households.²⁰ More important to this annex, it means that methodologies aimed at measuring conditions or beneficiary impact among poor households can also be used to measure conditions among poor women. The key remains that, within an overall or project-defined universe of poor or non-poor households, household surveys or other research instruments should be addressed to women as well as to men, and analysis carried out on a gender-specific basis in order to assess any differential impact/benefit on women and the degree to which projects meet needs of poor women in terms of both their familial and economic roles.

Because of this reasoning, the annex focusses on poverty and on issues related to policy formulation, programming and beneficiary impact monitoring among poor households. Gender issues are subsumed within this framework, gender analysis is seen throughout as an important component of study or system design.

²⁰For examples from other countries on how the inclusion of women's needs in infrastructure delivery and maintenance can increase the effective utilization of such services, see Jo Beall, **Integrating the Gender Variable into Urban Development**, paper prepared for the DAC meeting on Aid for Urban Development, OECD, Paris, November 1992.

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ANNEX 3

INITIAL ENVIRONMENTAL EXAMINATION

Municipal Finance Project Amendment

ANNEX 4

STATUTORY CHECKLIST

Municipal Finance Project Amendment

ANNEX 4

5C(2) - ASSISTANCE CHECKLIST

<p>Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.</p>	
<p>CROSS REFERENCE IS COUNTRY CHECKLIST UP TO DATE?</p>	<p>Yes</p>
<p>A CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS</p>	
<p>1 Host Country Development Efforts (FAA Sec 601(a)) Information and conclusions on whether assistance will encourage efforts of the country to (a) increase the flow of international trade (b) foster private initiative and competition (c) encourage development and use of cooperatives credit unions and savings and loan associations (d) discourage monopolistic practices, (e) improve technical efficiency of industry agriculture, and commerce and (f) strengthen free labor unions</p>	<p>(b) and (d) By developing private sector lending for urban development the project will discourage monopolistic practice in municipal credit and (e) by improving urban environmental infrastructure will improve the efficiency of urban industry and commerce (a) (b) (c) and (f) N/A</p>
<p>2 U S Private Trade and Investment (FAA Sec 601(b)) Information and conclusions on how assistance will encourage U S private trade and investment abroad and encourage private U S participation in foreign assistance programs (including use of private trade channels and the services of U S private enterprise)</p>	<p>The project will finance long and short term technical assistance from the United States</p>
<p>3 Congressional Notification a General requirement (FY 1993 Appropriations Act Secs 522 FAA Sec 634A) If money is to be obligated for an activity not previously justified to Congress or for an amount in excess of amount previously justified to Congress has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?</p>	<p>CN has been submitted to Legislative Affairs. No obligation will be made until Mission has received cabled approval.</p>
<p>b Notice of new account obligation (FY 1993 Appropriations Act Sec 514) If funds are being obligated under an appropriation account to which they were not appropriated has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?</p>	<p>N/A</p>

<p>c Cash transfers and Non-project Sector Assistance (FY 1993 Appropriations Act Sec 575(b) (3) If funds are to be made available in the form of cash transfer or nonproject sector assistance has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U S interests to be served and a description of any economic policy reforms to be promoted?</p>	<p>N/A</p>
<p>d Special Notification Requirement (FY 1993 Appropriations Act, Sec 540) Has the special notification to Congress been made as required for all Indonesian programs, projects and activities for FY93?</p>	<p>CN has been submitted to Legislative Affairs No obligation will be made until Mission has received cabled approval</p>
<p>4 Engineering and Financial Plans (FAA Sec 611(a)) Prior to an obligation in excess of \$500,000 will there be (a) engineering financial or other plans necessary to carry out the assistance and (b) a reasonably firms estimate of the cost to the U S of the assistance?</p>	<p>N/A</p>
<p>5 Legislative Action (FAA Sec 611(a) (2)) If legislative action is required within recipient country with respect to an obligation in excess of \$500,000 what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?</p>	<p>No further legislative action is required</p>
<p>6 Water Resources (FAA Sec 611(b) FY 1993 Appropriations Act Sec 501) If project is for water or water related land resource construction have benefits and costs been computed to the extent practicable in accordance with the principles standards and procedures establishment pursuant to the Water Resources Planning Act (42 U S C 1962 <u>et seq</u>)? (See A I D Handbook 3 for guidelines)</p>	<p>N/A</p>
<p>7 Cash Transfer and Sector Assistance (FY 1993 Appropriations Act Sec 575(b)) Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements nonproject sector assistance)?</p>	<p>N/A</p>
<p>8 Capital Assistance (FAA Sec 611(e)) If project is capital assistance (<u>e.g</u> construction) and total U S assistance for it will exceed \$1 million has Mission Director certified and Regional Assistant Administrator taken into consideration the country s capability to maintain and utilize the project effectively?</p>	<p>N/A</p>

<p>9 Multiple Country Objectives (FAA Sec 601(a)) Information and conclusions on whether projects will encourage efforts of the country to (a) increase the flow of international trade (b) foster private initiative and competition (c) encourage development and use of cooperative credit unions, and savings and loan associations, (d) discourage monopolistic practices, (e) improve technical efficiency of industry, agriculture and commerce and (f) strengthen free labor unions</p>	<p>(b) and (d) By developing private sector lending for urban development, the project will discourage monopolistic practice in municipal credit, and (e), by improving urban environmental infrastructure, will improve the efficiency of urban industry and commerce (a), (b) (c) and (f) N/A</p>
<p>10 U S Private Trade (FAA Sec 601(b)) Information and conclusions on how project will encourage U S private trade and investment abroad and encourage private U S participation in foreign assistance programs (including use of private trade channels and the services of U S private enterprise)</p>	<p>The project will finance long- and short-term technical assistance from the United States</p>
<p>11 Local Currencies</p> <p>a Recipient Contributions (FAA Secs 612(b), 636(h)) Describe steps taken to assure that to the maximum extent possible the country is contributing local currencies to meet the cost of contractual and other services and foreign currencies owned by the U S are utilized in lieu of dollars</p>	<p>The GOI will provide the equivalent of over \$6 million for the Project, primarily for the local costs</p>
<p>b U S -Owned Currency (FAA Sec 612 (d)) Does the U S own excess foreign currency of the country and if so what arrangements have been made for its release?</p>	<p>No</p>
<p>c Separate Account (FY 1993 Appropriations Act Sec 575) If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies</p>	<p>N/A</p>
<p>(1) Has A I D (a) required that local currencies be deposited in a separate account established by the recipient government (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized and (c) established by agreement the responsibilities of A I D and that government to monitor and account for deposits into and disbursements from the separate account?</p>	<p>N/A</p>
<p>(2) Will such local currencies or an equivalent amount of local currencies be used only to carry out the proposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?</p>	<p>N/A</p>

<p>(3) Has A I D taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?</p>	<p>N/A</p>
<p>(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?</p>	<p>N/A</p>
<p>12 Trade Restriction a Surplus Commodities (FY 1993 Appropriations Act Sec 521(a)) If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U S producers of the same, similar or competing commodity?</p>	<p>N/A</p>
<p>b Textiles (Lautenberg Amendment) (FY 1993 Appropriations Act Sec 521(c) Will the assistance (except for programs in Caribbean Basin Initiative countries under U S Tariff Schedule "Section 807", which allows reduced tariffs on articles assembled abroad from U S -made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U S exports, of textiles, apparel, footwear handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?</p>	<p>No</p>
<p>13 Tropical Forests (FY 1993 Appropriations Act Sec 533(c)(3)) Will funds be used for any program project or activity which would (a) result in any significant loss of tropical forests or (b) involve industrial timber extraction in primary tropical forest areas?</p>	<p>a No b No</p>
<p>14 PVO Assistance a Auditing and registration (FY 1993 Appropriations Act Sec 536) If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A I D , and is the PVO registered with A I D ?</p>	<p>N/A</p>

<p>b Funding source (FY 1993 Appropriations Act, Title II, under heading "Private and Voluntary Organizations") If assistance is to be made to a United States PVO (Other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from source other than the United States Government?</p>	<p>N/A</p>
<p>15 Project Agreement Documentation (State Authorization Sec 139 (as interpreted by conference report)) Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A I D LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision)</p>	<p>The Project Grant Agreement in this case is for less than \$25 0 million and accordingly is not required to follow Case-Zablocki Act procedures</p>
<p>16 Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec 5164, as interpreted by conference report, amendment Metric Conversion Act of 1975 Sec 2, and as implemented through A I D policy) Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A I D specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?</p>	<p>The bulk of the procurement under the Project will be for technical services To the extent commodities are purchased, efforts will be made to use metric measurements to the maximum extent possible</p>
<p>17 Women in Development (FY 1993 Appropriations Act, title II, under heading "Women in Development) Will assistance be designed so that the percentage of women participants will be demonstrably increased?</p>	<p>Yes</p>
<p>18 Regional and Multilateral Assistance (FAA Sec 209) Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs</p>	<p>No The proposed project is concerned exclusively with urban infrastructure and services in Indonesia</p>

<p>19 Abortions (FY 1993 Appropriations Act Title II, under heading "Population, DA", and Sec 524)</p> <p>a Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?</p>	<p>No</p>
<p>b Will any funds be used to lobby for abortion?</p>	<p>No</p>
<p>20 Cooperatives (FAA Sec 111) Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?</p>	<p>No</p>
<p>21 U S -Owned Foreign Currencies</p> <p>a Use of currencies (FAA Secs 612(b), 636(h), FY 1993 Appropriations Act Secs 507, 509) Describe steps taken to assure that to the maximum extent possible, foreign currencies owned by the U S are utilized in lieu of dollars to meet the cost of contractual and other services</p>	<p>The GOI will contribute 34% of total project costs</p>
<p>b Release of currencies (FAA Sec 612(d) Does the U S own excess foreign currency of the country and, if so, what arrangements have been made for its release?</p>	<p>No</p>
<p>22 Procurement</p> <p>a Small Business (FAA Sec 602(a)) Are there arrangements to permit U S small business to participate equitably in the furnishing of commodities and services financed?</p>	<p>Yes</p>
<p>b U S procurement (FAA Sec 604(a) as amended by section 597 of the FY 1993 Appropriations Act) Will all procurement be from the U S , the recipient country, or developing countries except as otherwise determined in accordance with the criteria of this section?</p>	<p>Yes</p>
<p>c Marine insurance (FAA Sec 604(d)) If the cooperating country discriminates against marine insurance companies authorized to do business in the U S , will commodities be insured in the United States against marine risk with such a company?</p>	<p>Indonesia does not so discriminate</p>
<p>d Non-U S Agricultural Procurement (FAA Sec 604(e)) If non U S procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U S)</p>	<p>N/A</p>

<p>e Construction or Engineering Services (FAA Sec 604(g)) Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries)</p>	<p>No</p>
<p>f Cargo preference shipping (FAA Sec 603) Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U S flag commercial vessels to the extent such vessels are available at fair and reasonable rates?</p>	<p>No Section 90 (b) applies</p>
<p>g Technical assistance (FAA Sec 621(a)) If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?</p>	<p>Yes Yes, as appropriate</p>
<p>h U S Air Carriers (International Air Transportation Fair Competitive Practices Act, 1974) If air transportation of persons or property is finance on grant basis will U S carriers be used to the extent such service is available?</p>	<p>Yes</p>
<p>i Termination for convenience of U S Government (FY 1993 Appropriations Act Sec 504) If the U S Government is a party to a contract for procurement, will the contract contain a provision authorizing termination of such contract for the convenience of the United States?</p>	<p>Yes</p>
<p>j Consulting Services (FY 1993 Appropriations Act Sec 523) If assistance is for consulting service through procurement contract pursuant to 5 U S C 3109 are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?</p>	<p>Yes</p>

<p>k Metric conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec 2 and a implemented through A I D policy) Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to united States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A I D specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, through the implementation stage)?</p>	<p>The bulk of the procurement under the Project will be for technical services To the extent the commodities are purchased efforts will be made to use metric measurement to be maximum extent possible</p>
<p>l Competitive Selection Procedures (FAA Sec 601(e)) Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?</p>	<p>Yes</p>
<p>23 Construction</p> <p>a Capital project (FAA Sec 601(d)) If capital (e.g., construction) will U S engineering and professional services be used?</p>	<p>N/A</p>
<p>b Construction contract (FAA Sec 611(c)) If contracts for construction are to be financed will they be let on a competitive basis to maximum extent practicable?</p>	<p>N/A</p>
<p>c Large projects, Congressional approval (FAA Sec 620(k)) If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U S not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation) or does assistance have the express approval of Congress?</p>	<p>N/A</p>
<p>24 U S Audit Rights (FAA Sec 301(d)) If fund is established solely by U S contributions and administered by an international organization does Comptroller General have audit rights?</p>	<p>N/A</p>
<p>25 Communist Assistance (FAA Sec 620(h)) Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?</p>	<p>Yes</p>

<p>26 Narcotics</p> <p>a Cash reimbursements (FAA Sec 483) Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?</p>	<p>Yes</p>
<p>b Assistance to narcotics traffickers (FAA Sec 487) Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances), or (2) been involved in the illicit trafficking of, any such controlled substance?</p>	<p>Yes</p>
<p>27 Expropriation and Land Reform (FAA Sec 620(g)) Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?</p>	<p>Yes</p>
<p>28 Police and Prisons (FAA Sec 660) Will assistance preclude use of financing to provide training, advice, or any financial support for police prisons, or other law enforcement forces, except for narcotics programs?</p>	<p>Yes</p>
<p>29 CIA Activities (FAA Sec 662) Will assistance preclude use of financing for CIA activities?</p>	<p>Yes</p>
<p>30 Motor Vehicles (FAA Sec 636(i)) Will assistance preclude use of financing for purchase sale long-term lease exchange or guaranty of the sale of motor vehicles manufac-tured outside U S , unless a waiver is obtained?</p>	<p>Yes</p>
<p>31 Military Personnel (FY 1993 Appropriations Act Sec 503) Will assistance preclude use of financing to pay pensions annuities retirement pay or adjusted service compensation for prior or current military personnel?</p>	<p>Yes</p>
<p>32 Payment of U N Assessments (FY 1993 Appropriations Act Sec 505) Will assistance preclude use of financing to pay U N assessments arrearages or dues?</p>	<p>Yes</p>
<p>33 Multilateral Organization Lending (FY 1993 Appropriations Act Sec 506) Will assistance preclude use of financing to carry out provisions of FAA Section 209(d) (transfer of FAA funds to multilateral organizations for lending)?</p>	<p>Yes</p>

<p>34 Export of Nuclear Resources (FY 1993 Appropriations Act Sec 510) Will assistance preclude use of financing to finance the export of nuclear equipment fuel or technology?</p>	<p>Yes</p>
<p>35 Repression of Population (FY 1993 Appropriations Act Sec 511(a)) Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?</p>	<p>Yes</p>
<p>36 Publicity or Propaganda (FY 1993 Appropriations Act Sec 516) Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States or for any publicity or propaganda purposes not authorized by Congress?</p>	<p>No</p>
<p>37 Marine Insurance (FY 1993 Appropriations Act Sec 560) Will any A I D contract and solicitation and subcontract entered into under such contract include a clause requiring that U S marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?</p>	<p>Yes</p>
<p>38 Exchange for Prohibited Act (FY 1993 Appropriations Act Sec 565) Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is if carried out by the United States Government, a United States official or employee expressly prohibited by a provision of United States law?</p>	<p>No</p>
<p>39 Commitment of Funds (FAA Sec 635 (h)) Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of 5 years from the date of the contract or agreement?</p>	<p>No</p>
<p>40 Impact on U S Jobs (FY 1993 Appropriations Act Sec 599)</p> <p>(a) Will any financial incentive be provided to a business located in the U S for the purpose of inducing that business to relocate outside the U S in a manner that would likely reduce the number of U S employees of the business?</p>	<p>No</p>

<p>(b) Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment and safety laws do not apply? If so has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U S ?</p>	<p>No</p>
<p>(c) Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade of 1974, of workers in the recipient country?</p>	<p>No</p>
<p>B CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY</p> <p>1 Agricultural Exports (Bumpers Amendment) (FY 1993 Appropriations Act Sec 521(b), as interpreted by conference report for original enactment) If assistance is for agricultural development activities (specifically any testing or breeding feasibility study variety improvement or introduction, consultancy publication conference, or training), are such activities (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States and can the activities reasonably be expected to cause substantial injury to U S exporters of a similar agricultural commodity, or (2) in support of research that is intended primarily to benefit U S producers?</p>	<p>N/A</p>
<p>2 Tied Aid Credits (FY 1993 Appropriations Act Title II under heading Economic Support Fund) Will DA funds be used for tied aid credits?</p>	<p>No</p>
<p>3 Appropriate Technology (FAA Sec 107) Is special emphasis placed on use of appropriate technology (defined as relatively smaller cost saving labor using technologies that are generally most appropriate for the small farms small businesses and small incomes of the poor)?</p>	<p>Appropriate technologies will be emphasized</p>

<p>4 Indigenous Needs and Resources (FAA Sec 281(b)) Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country, utilizes the country's intellectual resources to encourage institutional development, and supports civic education and training in of skills required for effective participation in governmental and political processes essential to self government</p>	<p>The project is based on more than six years of analytical work in the urban services and infrastructure sector which has explored options in assisting the GOI to achieve greater economic growth and increased efficiencies through improved policy, institutional, and regulatory frameworks and rationalizing the GOI's role in the delivery of infrastructure and services Local capabilities will be used to the maximum extent possible</p>
<p>5 Economic Development (FAA Sec 101(a)) Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?</p>	<p>Yes</p>
<p>6 Special Development Emphases (FAA Secs 102(b), 113, 281(a)) Describe extent to which activity will (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U S institutions, (b) encourage democratic private and local governmental institutions (c) support the self-help efforts of developing countries, (d) promote the participation of women in the national economies of developing countries and the improvement of women's status, and (e) utilize and encourage regional cooperation by developing countries</p>	<p>a The poor will benefit from an increase in employment opportunities generated by more efficiently delivered urban services and infrastructure, directing investment to the productive sector an expanded productive sector resulting from a relaxation of government interventions and from an increase in their health and welfare through better urban services i.e water sanitation and solid waste management</p> <p>b The project will encourage local participation in urban environmental quality management, and will encourage the participation of the organization of local authorities in urban training design</p> <p>c N/A</p> <p>d The project will promote a more active role for women's organizations in the design and management of urban programs, and will set targets for the participation of women in project-funded training activities</p> <p>e N/A</p>

<p>7 Recipient Country Contribution (FAA Secs 110, 124(d)) Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?</p>	<p>Yes</p>
<p>8 Benefit to Poor Majority (FAA Sec 128(b)) If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?</p>	<p>Yes</p>
<p>9 Abortions (FAA Sec 104(f), FY 1993 Appropriations Act Title II, under heading "Population, DA," and Sec 534)</p> <p>a Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?</p>	<p>No</p>
<p>b Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?</p>	<p>No</p>
<p>c Are any of the funds to be made available to any organization or program which, as determined by the President supports or participates in the management of a program of coercive abortion or involuntary sterilization?</p>	<p>No</p>
<p>d Will funds be made available only to voluntary family planning projects which offer either directly or through referral to or information about access to, a broad range of family planning methods and services?</p>	<p>No</p>
<p>e In awarding grants for natural family planning will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?</p>	<p>No</p>
<p>f Are any of the funds to be used to pay for any biomedical research which relates in whole or in part to methods of or the performance of abortions or involuntary sterilization as a means of family planning?</p>	<p>No</p>
<p>g Are any of the funds to be made available to any organization of the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?</p>	<p>N/A</p>

<p>10 Contract Awards (FAA Sec 601(e)) Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?</p>	<p>Yes</p>
<p>11 Disadvantaged Enterprises (FY 1993 Appropriations Act Sec 563) What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises historically black colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?</p>	<p>Given the broad nature of the technical assistance contract to be awarded under this project supplement, it is unlikely that any one firm or organization could fill all of the required positions. There are, however, a number of such entities which could qualify as a partner for recruiting short-term experts for the project's needs, as well as providing sub-contracting activities under the prime contract.</p>
<p>12 Biological Diversity (FAA Sec 119(g)) Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity, (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats, (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?</p>	<p>(a) No (b) No (c) No (d) No</p>
<p>13 Tropical Forests (FAA Sec 118, FY 1993 Appropriations Act Sec 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act)</p> <p>a A I D Regulation 16 Does the assistance comply with the environmental procedures set forth in A I D Regulation 16?</p>	<p>Yes</p>

<p>b Conservation Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible (1) stress the importance of conserving and sustainably managing forest resources, (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas, (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management, (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices, (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded, (6) conserve forested watersheds and rehabilitate those which have been deforested, (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing, (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction loss, or degradation, (9) conserve biological diversity in forest areas by supporting efforts to identify establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas, (10) seen to increase the awareness of U S Government agencies and other donors of the immediate and long-term value of tropical forests (11) utilize the resources and abilities of all relevant U S government agencies (2) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (13) take full account of the environmental impacts of the proposed activities on biological diversity?</p>	<p>N/A</p>
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<p>c Forest degradation Will assistance be used for (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems, (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas, (3) activities which would result in the conversion of forest lands to the rearing of livestock, (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands, (5) the colonization of forest lands, or (6) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?</p>	<p>N/A</p>
<p>d Sustainable forestry If assistance relates to tropical forests will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources with the goal of developing a national program for sustainable forestry?</p>	<p>N/A</p>
<p>e Environmental impact statements Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A I D regulations requiring an environmental impact statement for activities significantly affecting the environment</p>	<p>Yes</p>
<p>14 Energy (FA 1993 Appropriations Act Sec 533(c) as referenced in section 532(d) of the FY 1993 Appropriation Act) If assistance relates to energy, will such assistance focus on (a) end-use energy efficiency least-cost energy planning and renewable energy resources, and (b) the key greatest impact on reducing emissions from greenhouse gases?</p>	<p>N/A</p>

<p>15 Debt-for-Nature Exchange (FAA Sec 463) If project will finance a debt-for-nature exchange, describe how the exchange will support protection of (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves, or describe how the exchange will promote (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management</p>	<p>N/A</p>
<p>16 Deobligation/Reobligation (FY 1993 Appropriations Act Sec 515) If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated and have the House and Senate Appropriations Committees been properly notified?</p>	<p>N/A</p>
<p>17 Loans</p> <p>a Repayment capacity (FAA Sec 122(b)) Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest</p> <p>b Long-range plans (FAA Sec 122(b)) Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?</p> <p>c Interest rate (FAA Sec 122(b)) If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years and at least 3 percent per annum thereafter?</p> <p>d Exports to United States (FAA Sec 620(d)) If assistance is for any productive enterprises which will compete with U S enterprises, is there an agreement by the recipient country to prevent export to the U S of more than 20 percent of the enterprise s annual production during the life of the loan or has the requirement to enter into such an agreement been waived by the President because of a national security interest?</p>	<p>N/A</p> <p>Yes</p> <p>N/A</p> <p>N/A</p>

<p>18 Development Objectives [FAA Secs 102(a), 111 113, 281(a)] Extent to which activity will effectively involve the poor in development, by expanding access to economy at local level, increasing labor intensive production and the use of appropriate technology spreading investment out from cities to mall towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U S institutions, (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions, (3) support the self-help efforts of developing countries, (4) promote the participation of women in the national economies of developing countries and the improvement of women s status, and (5) utilize and encourage regional cooperation by developing countries?</p>	<p>(1) The poor will benefit from an increase in employment opportunities generated by more efficiently delivered urban services and infrastructure directing investment to the productive sector, an expanded productive sector resulting from a relaxation of government interventions, and from an increase in their health and welfare through better urban services, i e water, sanitation and solid waste management</p> <p>(2) The project will encourage local partici-pation in urban environmental quality management and will encourage the participation of the organization of local authorities in urban training design</p> <p>(3) N/A</p> <p>(4) The project will promote a more active role for women's organizations in the design and management of urban programs, and will set targets for the participation of women in project-funded training activities</p> <p>(5) N/A</p>
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<p>19 Agriculture, Rural Development and Nutrition, and Agricultural Research (FAA Secs 103 and 103A)</p> <p>a Rural poor and small farmers If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor, or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made</p> <p>b Nutrition Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs, and the undertaking of pilot or demonstration programs explicit addressing the problem of malnutrition of poor and vulnerable people</p>	<p>N/A</p> <p>N/A</p>
<p>c Food security Describe by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production building national food reserves, expanding available storage facilities, reducing post harvest food losses and improving food distribution</p>	<p>N/A</p>
<p>20 Population and Health [FAA Secs 104(b) and (c)] If assistance is being made available for population or health activities describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children using paramedical and auxiliary medical personnel clinics and health posts commercial distribution systems and other modes of community outreach</p>	<p>The project will improve the urban environment through expanding the delivery of piped water supply, wastewater treatment and solid waste management Access to these services will have a significant positive impact on the quality of life particularly health standards of the urban poor</p>

<p>21 Education and Human Resources Development (FAA Sec 105) If assistance is being made available for education, public administration, or human resources development describe (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development, and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities</p>	<p>N/A</p>
<p>22 Energy, Private Voluntary Organizations, and Selected Development Activities (FAA Sec 106) If assistance is being made available for energy, private voluntary organizations and selected development problems, describe extent to which activity is</p> <p>a concerned with data collection and analysis the training of skilled personnel, research on and development of suitable energy sources and pilot projects to test new methods of energy resources which are environmentally acceptable and require minimum capital investment,</p>	<p>N/A</p>
<p>b concerned with technical cooperation and development, especially with U S private and voluntary, or regional and international development organizations,</p>	<p>This Project will extensively involve the U S Private Sector for the technical assistance components</p>
<p>c research into, and evaluation of, economic development processes and techniques,</p>	<p>Research and analysis will be conducted to assess the policy, regulatory and institutional constraints and requirements in the provision of urban services and infrastructure</p>
<p>d reconstruction after natural or manmade disaster and programs of disaster preparedness,</p>	<p>N/A</p>
<p>e for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U S assistance,</p>	<p>N/A</p>
<p>f for urban development especially small labor intensive enterprises, marketing systems for small producers, and financial or other institutions to help the urban poor participate in economic and social development</p>	<p>The project is designed to broaden access to urban environmental infrastructure, especially for the urban poor and thereby will better equip the urban poor to participate in economic and social development</p>

<p>23 Capital Projects (Jobs Through Export Act of 1992, Secs 303 and 306(d)) If assistance is being provided for a capital project, is the project developmentally sound and will the project measurably alleviate the worst manifestations of poverty promote environmental safety and sustainability at the community level?</p>	<p>N/A</p>
<p>C CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY</p> <p>1 Economic and Political Stability (FAA Sec 531(a)) Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?</p>	<p>Not ESF funded</p> <p>N/A</p>
<p>2 Military Purposes (FAA Sec 531(e)) Will this assistance be used for military or paramilitary purposes?</p>	<p>N/A</p>
<p>3 Commodity Grants/Separate Accounts (FAA Sec 609) If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1993, this provision is superseded by the separate account requirements of FY 1993 Appropriations Act Sec 571(a), see Sec 571(a)(5))</p>	<p>N/A</p>
<p>4 Generation and Use of Local Currencies (FAA Sec 531(d)) Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1993, this provision is superseded by separate account requirements of FY 1993 Appropriations Act Sec 571(a), see Sec 571(a)(5))</p>	<p>N/A</p>
<p>5 Cash Transfer Requirements (FY 1993 Appropriations Act Title II under heading Economic Support Funds and Sec 571(b)) If assistance is in the form of a cash transfer</p> <p>a Separate account Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds?</p>	<p>N/A</p>

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<p>b Local currencies Will local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A I D entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A I D and that government to monitor and account for deposits and disbursements?</p>	N/A
<p>c U S Government use of local currencies Will all such local currencies also be made available to the U S Government as the U S determines necessary for the requirements of the U S Government, or to carry out development assistance (including DFA) or ESF purposes?</p>	N/A
<p>d Congressional notice Has Congress received prior notification providing in detail how the funds will be used, including the U S interests that will be served by the assistance and as appropriate the economic policy reforms that will be promoted by the cash transfer assistance?</p>	N/A
<p>6 Capital Projects (Jobs Through Exports Act of 1992, Sec 306, FY 1993 Appropriations Act Sec 595) If assistance is being provided for a capital project, will the project be developmentally-sound and sustainable, i e , one that is (a) environmentally sustainable (b) within the financial capacity of the government or recipient to maintain from its own resources, and (c) responsive to a significant development priority initiated by the country to which assistance is being provided (Please note the definition of "capital project" contained in section 595 of the FY 1993 Appropriations Act</p>	N/A

ANNEX 5

**DRAFT AMENDMENT TO THE
PROGRAM AGREEMENT ("ANNEX 1")**

Municipal Finance Project Amendment

A I D PROJECT NO 497-0365

AMENDMENT NO 3
PROJECT GRANT AGREEMENT
BETWEEN THE
REPUBLIC OF INDONESIA
AND THE
UNITED STATES OF AMERICA
FOR THE
MUNICIPAL FINANCE PROJECT

DATED

Dated

This AMENDMENT NO 3 is entered into between the REPUBLIC OF INDONESIA ("Grantee") and the UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT ("A I D")

WHEREAS, the Grantee and A I D entered into a Project Grant Agreement for the Municipal Finance Project dated August 31, 1988, as amended on March 21, 1990 and September 28, 1992 ("Grant Agreement"), whereby A I D agreed to grant to the Grantee up to Five Million United States Dollars (\$5,000,000) ("Grant"), and

WHEREAS, pursuant to Article 2 of the Grant Agreement, the Grantee and A I D desire to amend the Grant Agreement to provide an additional increment of A I D financing of \$1,500,000 for the Project and to make other related changes in the agreement,

NOW, THEREFORE, the Grantee and A I D hereby agree as follows

1 In Section 2 1, Definition of Project, amend the first paragraph to read as follows "The Project, which is further described in Annex I, has as its goal to broaden access to basic services by facilitating the delivery of urban environmental infrastructure on a viable and sustainable basis The Project purpose is to assist the Government of Indonesia to adopt an enabling framework for integrating urban environmental management within a system of improved, decentralized municipal finance and planning "

2 In the last sentence of Section 2 2(a), change "Five Million United States Dollars (\$5,000,000)" to read "Fifteen Million United States Dollars (\$15,000,000)"

3 In the first sentence of Section 3 1, change "Five Million United States Dollars (\$5,000,000)" to read "Six Million Five Hundred Thousand United States Dollars (\$6,500,000)"

4 In Section 3 2 (b), change "One Million Eight Hundred Thousand United States Dollars (\$1,800,000)" to read "Five Million Four Hundred Thousand United States Dollars (\$5,400,000) "

5 In the first sentence of Section 3 3(a), change "September 30, 1994" to read "September 30, 1998"

6 Annex I, the Amplified Project Description, is deleted in its entirety, substituting therefor the attachment to this Amendment No 3 labeled "Annex I Amplified Project Description" which includes a new Budget Summary

7 Article B, Section B 5 of the Project Grant Standard Provisions Annex (Annex 2) Reports, Records, Inspecting, Audit is deleted in its entirety, substituting therefor the following

"SECTION B 5 Reports, Accounting Records, Audits, Inspections

(A) The Grantee shall furnish A I D such information and reports relating to the project and to this agreement as A I D may reasonably request

(B) The Grantee shall maintain accounting books, records, documents, and other evidence relating to the Project and to this Agreement, adequate to show, without limitation, all costs incurred under the Grant, the receipt and use of goods and services acquired under the Grant, the costs of the Project supplied from other sources, the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion ("Project books and records") At the Grantee's option, with approval from A I D , project books and records shall be maintained in accordance with one of the following methods (1) generally accepted accounting principles prevailing in the United States, (2) generally accepted accounting principles prevailing in the country of the Grantee, (3) accounting principles prescribed by the International Accounting Standards Committee

(an affiliate of the International Federation of Accountants), or (4) such other accounting principles as the parties may agree to in writing. Project books and records shall be maintained for at least three years after the date of last disbursement by A I D

- (C) If US\$ 25,000 or more is disbursed under this Agreement directly to the Grantee in any one calendar year, the Grantee, except as the parties may otherwise agree in writing, shall have financial audits made of the funds disbursed to the Grantee under the Grant in accordance with the following terms
- (1) The Grantee shall select an independent auditor in accordance with the "Guidelines for Financial Audits contracted by Foreign Recipients" issued by the A I D Inspector General ("Guidelines"), and the audits shall be performed in accordance with the "Guidelines"
 - (2) An audit of the funds provided under the grant shall be conducted for each fiscal year of the Grantee. The audit shall determine whether the receipt and expenditure of the funds provided under the Grant are presented in accordance with generally accepted accounting principles agreed to in Section (B) above and whether the Grantee has complied with the terms of the Agreement. Each audit shall be completed no later than one year after the close of the Grantee's fiscal year.
- (D) The Grantee shall submit an audit report to A I D within 30 days after completion of each audit arranged for by the Grantee in accordance with this section. The A I D Inspector General will

review each report to determine whether it complies with the audit requirements of this Agreement. Subject to A I D approval, costs of audits performed in accordance with the terms of this section may be charged to the Grant. In cases of continued inability or unwillingness to have an audit performed in accordance with the terms of this section, A I D will consider appropriate sanctions which include suspension of all or a portion of disbursements until the audit is satisfactorily completed or A I D performs its own audit.

- (E) The Grantee shall submit to A I D , in form and substance satisfactory to A I D , a plan by which the Grantee will ensure that funds made available to subrecipients that receive US\$25,000 or more in any one calendar year under the Grant are audited in accordance with this Agreement. The plan should describe the methodology to be used by the Grantee to satisfy its audit responsibilities with respect to any subrecipient to which this section applies. Such audit responsibilities with respect to subrecipients may be satisfied by relying on independent audits of the subrecipients or on appropriate procedures performed by the internal audit or program staff of the Grantee, by expanding the scope of the independent financial audit of the Grantee to encompass testing of subrecipients' accounts, or by a combination of these procedures. The plan should identify the funds made available to subrecipients that will be covered by audits conducted in accordance with other audit provisions that would satisfy the Grantee's audit responsibilities (a non profit organization organized in the United States is

required to arrange for its own audits, a for-profit contractor organized in the United States that has a direct contract with A I D is audited by the cognizant U S Government agency, a private voluntary organization organized outside the United States with a direct grant from A I D is required to arrange for its own audits, and a host country contractor should be audited by the cognizant Grantee contracting agency) The Grantee shall ensure that appropriate corrective actions are taken on the recommendations contained in the subrecipients' audit reports, consider whether subrecipients' audit necessitate adjustment of its own records, and require each subrecipient to permit independent auditors to have access to records and financial statements as necessary

(F) A I D may, at its discretion, perform the audits required under this Agreement on behalf of the Grantee by utilizing funds under the Grant or other resources available to A I D for this purpose The Grantee shall afford authorized representatives of A I D the opportunity at all reasonable times to audit or inspect the Project, the utilization of goods and services financed by A I D , and books, records and other documents relating to the Project and the Grant "

8 Except as amended herein, the Project Grant Agreement is unchanged and, as amended, remains in full force and effect

IN WITNESS WHEREOF, the Republic of Indonesia and the United States of America, each acting through its duly authorized

representative, have caused this Amendment No 3 to be signed in their names and delivered as of the day and year first above written

UNITED STATES OF AMERICA

REPUBLIC OF INDONESIA

Robert L Barry
Ambassador
United States of America

H E Mar'ie Muhammad
Minister of Finance
Republic of Indonesia

AMPLIFIED PROJECT DESCRIPTION

MUNICIPAL FINANCE PROJECT (497-0365) TECHNICAL ASSISTANCE AND TRAINING GRANT

1 Project Purpose

The Municipal Finance Project (MFP) provides support for the Government of Indonesia (GOI) to implement the Policy Action Plan incorporated in the \$120 million Municipal Finance and Shelter Housing Guaranty Program, and the \$125 million Municipal Finance for Environmental Infrastructure (MFEI) Housing Guaranty program, insofar as external support is needed and is not available from other sources

The current Policy Action Plan is divided into six themes, comprising groups of mutually-reinforcing objectives. MFP will provide material assistance to achievement of the objectives of the Policy Action Plan, as listed below

- (1) Enhancing local government resource mobilization and financial management
- (2) Establishing effective mechanisms to support municipal borrowing, and improving the system for allocating intergovernmental grants
- (3) Strengthening the institutional capacity of local governments
- (4) Improving intergovernmental coordination and consultation in urban development
- (5) Strengthening and clarifying local government responsibility for urban infrastructure
- (6) Implementing a coordinated and decentralized process for programming urban infrastructure investment and urban environmental quality management

The approach of MFP is to help the GOI to achieve specified urban policy objectives by the combination of long- and short-term technical assistance and training. The strategy will be defined with more precision by the presentation of a Work Plan at the beginning of each year, which will identify and justify the activities to be undertaken in the following 12 months

The goal of MFP is to broaden access to basic services by facilitating the delivery of urban environmental infrastructure on a financially viable and sustainable basis

The purpose of the Project is to assist the GOI to adopt an enabling framework for integrating urban environmental management within a system of improved, decentralized municipal finance and planning

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2 Project Outputs

The primary activities of MFP will lead to outputs within the following policy areas

A viable and sustainable finance and credit system for local government

Output 1 A stable institutional source of domestic credit is developed, under which municipalities can borrow to finance part of their capital needs, including investment in environmental infrastructure

Output 2 Policies adopted for mixing loans with grants, involving approval of loans, capital grants, capital expenditures and debt management, under a single investment package

Development of an indigenous system of education, training and technical assistance in urban management

Output 3 Establishment of an indigenous capacity to deliver technical assistance and training in urban management

Effective programs and policies to further urban environmental quality management and the provision of urban environmental infrastructure

Output 4 National guidelines are established for sustainable pricing of environmental infrastructure and services, and for cost recovery targets appropriate for different types of environmental infrastructure

Output 5 Procedures are developed and implemented for incorporating environmental concerns within IUIDP decentralized investment packages

Output 6 Establishment of a capacity for reviewing AMDAL assessments of locally-generated urban environmental infrastructure projects

3 Project Inputs

Total project expenditures will be \$20.4 million of which \$15.0 million will be from A I D grant funding, and \$5.4 million from Indonesian Government funding

The project activities of MFP, as amended, will support the policy areas identified in Section 2 (municipal finance and credit, development of an indigenous training delivery system, urban environmental quality management), through long- and short-term technical assistance, and short-term training

Of the total expenditures of the new four-year MFP extension, approximately 54 percent will be attributable to the municipal finance and credit objective, 27 percent to the training delivery system objective, 11 percent to the urban environmental quality management objective, and 7 percent to project management

3.1 Long-Term Technical Assistance

Through long-term technical assistance the four-year extension of the project will be managed by a team of four resident expatriate experts, one locally-hired training coordinator, and a USAID Urban Policy Advisor, with a total input of about 252 person-months. The four expatriate experts and the training coordinator will be hired through an institutional contractor, who will also be responsible for management of most other technical assistance and training activities under the project.

The institutional contractor's Chief of Party will serve as the senior advisor on issues of municipal finance, and will work with the Ministry of Finance (Bureau for Regional Financial Analysis). This advisor will be responsible for providing technical advice on matters relating to municipal finance, and for providing overall guidance and direction to the technical assistance team of long-term and short-term consultants. This Advisor will take particular responsibility for providing support, directly and through management of short-term consultants, to the GOI in its achievement of the Objectives (1) and (2) of the Policy Action Plan as listed in Section 1 above.

The institutional contractor's Local Government Policy Advisor will be assigned to the Ministry of Home Affairs, and will advise PUOD and BANGDA on the development of local government capacity to play a more prominent role in the financing, provision and management of urban infrastructure and services. In that role, the Advisor will assist the Ministry with its achievement of Objective (3), and will work closely with the Chief of Party in assisting the GOI to achieve Objective (1).

The institutional contractor's Urban Development Advisor will assist BAPPENAS to create a sustained capability to participate in the inter-departmental policy dialogue in urban and regional finance. Thus, the Advisor will assist BAPPENAS with the achievement of Objective (4) of the Policy Action Plan as listed above and with development of the system for allocating intergovernmental grants.

The institutional contractor's Environmental Advisor will be based in the Ministry of Public Works (Cipta Karya), and will have the responsibility of assisting the Ministry to implement the environmental components of Objectives (5) and (6) in the Policy Action Plan, and particularly of working to strengthen the AMDAL process for urban infrastructure projects promoted by local governments, and of integrating gender concerns into the local planning processes.

The institutional contractor's Training Coordinator will be assigned to report directly to the MFP Counterpart Team. The Coordinator will have the responsibility of coordinating inputs to the Urban Management Training Program and to the Regional Universities Program. The Coordinator will also work with other team members to manage the MFP training function.

The Urban Policy Advisor will work with USAID to assist in the management of the project, including its monitoring, and with direct management of project activities outside the scope of the long term contractor (including project evaluation, UPD quarterly reports and certain short-term training activities). The Advisor will also provide some substantive assistance to the GOI in fulfilling the objectives of this program. The USAID Urban Policy Advisor will be a USAID Personal Services Contractor, reporting to the chief of USAID's Urban Policy Division.

3.2 Short-term Consultancies

To complement the work of the long-term advisory team, a variety of short term consultancies, totalling about 152 person-months, will be provided to add more in-depth knowledge of technical areas and to work with GOI staff on the design, conduct and analysis of special studies, additional projects and training courses in the three policy areas of MFP focus. Determination of the use of short-term advisory services and the need for specially-focused studies and analyses will be made by the GOI in consultation with USAID and the long-term advisory team.

3.3 Training Activities

Project support will provide for two types of training assistance -- short-term overseas, and local workshops and training programs -- which are directly related to the implementation of the Policy Action Plan. Most of the training will be funded and managed under the long-term TA contract. The project will support approximately 60 participants in short-term overseas courses, 2 study tours, and 8 local seminars or workshops, and will provide for the development of approximately 3 to 4 curricula for short courses in urban management training.

3.4 GOI Inputs

The GOI contribution will include financing for local support for the long-term technical assistance team, including office space for the advisors attached to specific ministries, and space for some training activities, office accommodation for short-term technical assistance team members, as needed, salaries of GOI staff assigned to work on this project, space for GOI staff working on this project, partial in-country costs for some training, including salaries, travel, per diem and honoraria, and round-trip airfares to the west coast of the U S for the approximately 70 short-term training and study tour participants.

4 Executing Agency and Project Management

The Executing Agency for the project will be the Ministry of Finance

The GOI representative responsible for coordination and implementation of MFP will be a designate of the Ministry of Finance. The project will receive broad policy direction from the inter-ministerial MFP Counterpart Team. This is chaired by the designate of the Ministry of Finance (currently, head of the Agency for Financial and Monetary Analysis), with senior representatives from BAPPENAS (Office of the Deputy for Regional Affairs), Ministry of Home Affairs (Directorate General PUOD), the Ministry of Public Works (Directorate General Cipta Karya), and BAPPEDAL. A USAID representative will attend meetings of the MFP Counterpart Team when invited by the GOI.

An annual planning process will be undertaken in parallel with the MFEI review process, to ensure that technical assistance and training support is provided by MFP in accordance with the priority needs of MFEI. This involves, firstly, an annual statement by the GOI of progress towards meeting the objectives of the Policy Action Plan. Subsequently, USAID sponsors an external assessment, which helps to document constraints to progress, if any, and to propose new quantitative targets for the Policy Action Plan for the coming year. This assessment will also be used to feed into an annual review meeting of the Counterpart Team, at which decisions will be taken regarding changes in emphasis, if any, to be made to MFP.

For MFP, the majority of the long- and short-term technical assistance, training, and commodities required will be covered by a long-term institutional contract. For the first period of project implementation (up to July 31, 1994), this will be a Host-Country Contract. For the second period of project implementation (August 1, 1994 - July 31, 1998), this will be an A I D direct institutional contract. Certain activities will be outside the scope of these contracts, principally the Urban Policy Advisor, and audits and evaluations. USAID will also retain a limited amount of funding outside the long-term contract to be used on a contingency basis for special training needs, short-term technical assistance, or purchase of materials.

5 Monitoring and Evaluation

Monitoring tools will include annual reports by the GOI on specific statistical indicators, annual reports by Deputy V, BAPPENAS, on progress and accomplishments towards implementation of the Policy Action Plan, and periodic status reports by USAID's Urban Policy Division. These reports will be complemented by quarterly reports by the contractor, addressed to USAID and the GOI, which report activities undertaken in the previous quarter, propose activities for the next quarter, and note emerging opportunities and obstacles to achievement of the project objectives.

Evaluations and 'assessments' of the MFEI project will be used to assess, among other things, progress and accomplishments in terms of the Policy Action Plan, hence to determine the extent to which the objectives of MFP are being met. Their findings will be an

important input into decisions concerning relative priorities for programming technical assistance under MFP for subsequent years

There will also be three formal evaluations of MFP. The first was incorporated with an interim evaluation of the HG-funded Municipal Finance and Shelter Project. The second interim evaluation will be scheduled to coincide with the mid-term MFEI assessment. The final evaluation will build on the findings of the final MFEI evaluation.

The second interim evaluation will assess the continuing validity and relevance of the project to the GOI's urban policy objectives as addressed by the MFEI project, and will address whether the implementation arrangements are the most efficient and effective to achieve the desired outputs. The final evaluation will review overall implementation in relation to benchmarks achieved. This evaluation will also be used to determine whether the required actions have been carried out, whether performance has been consistent with expectations, and whether additional actions are needed to ensure the sustainability of project accomplishments.

The MFP evaluations will address issues of program sustainability, and the extent to which the benefits and achievements of the program can be maintained in the absence of further donor inputs. They will analyze the degree of 'plausible attribution' to the MFEI project of changes in policy and in levels of investment. The assessments and evaluations will also examine the appropriateness of the chosen progress indicators, and their anticipated degree of change over the remaining life-of-project.

6 Disbursement

Disbursements will be handled in compliance with the intent of the Joint Decree of the Minister of Finance and the Minister of State for National Development Planning/Chair of BAPPENAS No 48/KMK 012/1987/Kep 004/Ket/I/1987, dated January 27, 1987, based on details to be determined between USAID and the GOI. Disbursement procedures for various project activities, consistent with the details determined between USAID and the GOI above, will be agreed upon by Project Implementation Letter.

7 Financial Plan

The financial plan is illustrative only. The Parties may increase or decrease the funding used for any budget line item by up to fifteen percent (15%) of the amount shown in the Financial Plan included in this agreement without formally revising the project budget. Any reallocation of funding to or from a budget line item which would cause that line item to increase or decrease by more than 15% of the amount shown for that line item in the then agreed financial plan will require a formal revision of the financial plan by the parties. In the event the financial plan agreed to by representatives of the parties is subsequently revised

by them, the adjustments in budget line items permitted above may be applied to the new financial plan in the same manner and to the same limitations are stated above

MUNICIPAL FINANCE PROJECT (497-0365)

Budget Summary

PROJECT INPUT	Agreement as amended by PIL #19	Obligation FY 93	Obligation to date	Life of Project Funding		
				USAID	GOI	Total
1 Long-Term Technical Assistance	3 742 0	530 0	4 272 0	9 350	3 100	12 450
2 Short-Term Technical Assistance	422 7	590 0	1 012 7	2 950	0	2 950
3 Training	587 0	340 0	927 0	2,000	2 150	4,150
4 Commodities	74 0	40 0	114 0	250	0	250
5 Audits Monitoring and Evaluations	174 3	0 0	174 3	450	150	600
PROJECT TOTAL	5 000 0	1 500 0	6 500 0	15 000	5 400	20 400

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ANNEX 6

GOI REQUEST FOR ASSISTANCE

Municipal Finance Project Amendment

MINISTRY OF FINANCE OF THE REPUBLIC OF INDONESIA
THE BOARD FOR STATE FINANCE CREDITS AND BALANCE OF PAYMENTS ANALYSIS
Gedung B Jl Dr Wahidin Tromol Pos 3638
JAKARTA 10710

Our Ref S-128/BA/1992

6 June 1992

Mr William Frej
Chief
Urban Policy Division
USAID
Jl Medan Merdeka Selatan 12
Jakarta Pusat

Dear Mr Frej,

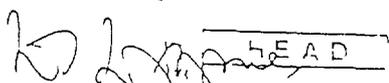
This letter is to confirm that the Government of Indonesia is interested in expanding the program of technical support from USAID in the area of municipal finance. We request that USAID move expeditiously to develop with the GOI a plan for amending the current Municipal Finance and Shelter Program to increase activities in the following areas

- 1 Urban Finance and Management Training,
- 2 Local Government Credit System Development,
- 3 Financial Management of Regional Enterprises,
- 4 Regional Investment Planning,
- 5 Urban Management Guidelines and Regulation, and
- 6 Financing of Urban Environmental Improvements

While the exact scope and level of support needed will have to await detailed planning and discussions between GOI and USAID, we anticipate that the technical support package will require approximately \$10 million over a four year period

We have found the USAID support in this sector to be of great benefit in our development efforts and we greatly appreciate your continuing assistance

Sincerely yours,


HEAD

Dr Dono Iskandar
Head, the Board for State Finance, Credits and
Balance of Payments Analysis

ANNEX 7

DRAFT SCOPES OF WORK FOR LONG-TERM ADVISORS

- 7 A MUNICIPAL FINANCE ADVISOR / CHIEF OF PARTY
(MINISTRY OF FINANCE)
- 7 B LOCAL GOVERNMENT POLICY ADVISOR (MINISTRY OF
HOME AFFAIRS)
- 7 C URBAN DEVELOPMENT ADVISOR (BAPPENAS)
- 7 D ENVIRONMENTAL ADVISOR (CIPTA KARYA)
- 7 E TRAINING COORDINATOR
- 7 F USAID URBAN POLICY ADVISOR

MUNICIPAL FINANCE ADVISOR

SCOPE OF WORK

1 Background

The Municipal Finance Advisor shall supervise all MFP-funded project activities undertaken in the name of the Contractor for the project

This Advisor will also function as the Chief of Party, and will work with the **Ministry of Finance (MOF)(BAKM)** The Advisor will continue to act as the direct counterpart of the MOF Project Manager in providing technical assistance on matters relating to municipal finance, and for providing overall guidance and direction to the technical assistance team of long-term and short-term consultants This Advisor will take particular responsibility for providing support, directly and through management of short-term consultants, to the GOI in its achievement of Objectives 3 and 4 of the Policy Action Plan included in the MFEI Project Paper

A level-of-effort of 48 person-months is planned for this advisor

2 Specific Duties

2.1 Project Management

1 Supervise all long-term consultants, both expatriate and Indonesian, employed by the contractor

2 In close coordination with the Counterpart Team, design and implement an annual work planning process which formulates objectives and develops a schedule for completion of activities and specific deliverables for each long-term and medium-term resident advisor and for all short-term technical assistance and training activity

3 Oversee the development of project information systems Establish baseline data to be updated on a quarterly and annual basis in order to track progress toward achievement of project outputs

4 Provide overall financial management, formulate systems and procedures for tracking budget expenditures, and provide quarterly and annual financial reports Prepare the commodity procurement plan for submission three months after initiation of contract activities

5 Supervise the preparation of quarterly and annual reports which review implementation progress, identify operational problems and policy constraints, and

make recommendations regarding management, implementation, and policy issues which require further attention

6 In consultation with the Counterpart Team, coordinate the identification of all project short-term technical assistance needs, the development of suitable scopes of work for that assistance, and recruitment of consultants. Provide overall supervision for all short-term consultants, both expatriate and Indonesian, employed by the contractor

7 Facilitate dialogue between USAID and the Ministry of Finance (BAKM), BAPPENAS, and the Ministries of Public Works, (Directorate General Cipta Karya) and Home Affairs (Directorates General PUOD and BANGDA) on all technical, administrative, and financial matters related to the project

8 Assist USAID and the GOI in the design of mid-term and final project evaluations

2.2 Policy, Legal, and Regulatory Guidance

1 Assist the GOI with policy advice regarding development of the municipal credit development strategy, including development of RDA management policies and practices, and formulation of a long-term strategy for expansion of local government access to credit beyond the current RDA program

2 Advise the MOF on alternative mechanisms for increasing the volume, reliability and diversity of resources to finance the provision and management of urban infrastructure and services

3 Assist the GOI with regard to policy analyses regarding local government resource mobilization, allocation and utilization, including own source revenue, local and central government transfers, and debt instruments

4 Assist the GOI in increasing the efficiency of local government administration for both resource mobilization and allocation, including better determination of debt carrying capacity and improved debt management

5 Assist the GOI to determine local government debt carrying capacity, as well as to monitor local government debt management

6 Advise the MOF on the use of financial instruments and policies (e.g. resource pricing) aimed at promoting environmental protection, the conservation of natural resources and environmentally sustainable development within municipalities

7 Co-ordinate with all providers of technical assistance to the municipal finance sector to assure that the technical assistance is integrated, complementary and non-duplicative Assist in the preparation of terms of reference for technical assistance from major donors to assure integration of technical assistance

8 Advise the MOF Project Manager and other members of the TA team on various international programs from which experience gained would be relevant to the further strengthening of the Indonesian municipal finance system

2.3 Training

1 Provide overall direction to the MFP in-country training program, participate in workshops, conferences and meetings as appropriate

2 Supervise the Training Coordinator in managing the formal overseas and in-country training programs, promoting training in urban management, urban environmental quality management, and training systems development and delivery, for approximately 70 participants in short courses/study tours Supervise the Training Coordinator in processing applications, travel arrangements, etc for trainees

3 Assist the Training Coordinator to prepare and submit a detailed training plan for the life of the project

4 Provide advice on the development of curricula of the intensive short courses on urban finance and management as appropriate

3 Qualifications

In order to carry out these responsibilities, the consultant must have had ten years of experience serving as a policy advisor on municipal finance Four years experience working on municipal finance and credit in a developing country, preferably in South East Asia, is required It is expected that this individual will possess strong prior experience as a team leader for project implementation and extensive knowledge of AID practices and procedures She/he must have at least a masters degree in public policy, urban and regional planning, law, or a related field On-the-job experience may be substituted for graduate level experience for a maximum of two years of graduate school studies

Relevant on-the-job experience should include hands-on preparation of policy directives, regulations, and implementing guidelines related to municipal finance and credit Prior experience with project management in the context of regulatory reform, and demonstrated capability to direct innovative programs in the urban sector, are qualities highly

sought after for this position Indonesian language capability would be an advantage but is not required

LOCAL GOVERNMENT POLICY ADVISOR

SCOPE OF WORK

1 Background

The Local Government Policy Advisor will be assigned to the Ministry of Home Affairs, and will advise PUOD and BANGDA on the development of local government capacity to play a more prominent role in the financing, provision and management of urban infrastructure and services. In that role, the Advisor will assist the Ministry with its achievement of Objective 5 of the Policy Action Plan included in the MFEI Project Paper, and will work closely with the Chief of Party in assisting the GOI to achieve Policy Action Plan Objectives 3 and 4. The Advisor will also be responsible for managing MFP/A-funded short-term consultants working with the Ministry of Home Affairs.

A level-of-effort of 48 person-months is planned for this advisor.

2 Specific Duties

2.1 Policy, Regulatory and Legal Guidance

1 Assist the Ministry of Home Affairs to increase the efficiency of local government administration for resource mobilization and allocation, including better determination of debt carrying capacity and improved debt management.

2 Work with the Ministries of Home Affairs and Finance to improve the policy and regulatory framework of local government enterprises (BUMDs), together with their financial performance, especially regarding debt management and cost recovery practices.

3 Advise the GOI on issues of deregulation, decentralization and diversification of the provision of urban infrastructure and services, with a particular focus on the water sector.

4 Advise the GOI on consolidating and upgrading local government urban management guidelines.

2.2 Training and Communications

1 Work with the Training Coordinator in designing and managing the formal overseas and in-country training programs, promoting training in urban management, urban environmental quality management, and training systems development and delivery.

- 2 Assist the Training Coordinator to prepare and submit a detailed training plan for the life of the project
- 3 Provide advice on the development of curricula of intensive short courses as appropriate, and provide liaison with the Ministry of Home Affairs for training of trainers and pilot testing of the short courses
- 4 Participate in workshops, conferences and meetings as appropriate

2.3 Project Management

- 1 Assist the Chief-of-Party in identifying short-term technical assistance needs for the Ministry of Home Affairs, including development of scopes of work and recruitment of consultants. Supervise both expatriate and Indonesian short-term consultants providing assistance to activities under his/her purview
- 2 Provide quarterly and annual reports which review implementation progress on the Advisor's activities, identifying operational or administrative problems, assessing the policy environment within which the project is operating and making recommendations to the Chief of Party on management, implementation, and policy issues which require special attention during the current fiscal year
- 3 Provide financial management and control of operations within his/her purview
- 4 Assist the Chief-of-Party in the design of the mid-term and final project evaluations

3 Qualifications

In order to carry out these responsibilities, this Consultant should have a minimum of ten years working experience in public administration, including experience of local government capacity building and municipal finance. Four years experience working in a developing country, preferably in South East Asia, is required. The consultant should have at least a masters degree in urban planning, economics, business administration or an equivalent degree. On-the-job experience may be substituted for graduate-level experience at a ratio of up to three years of hands-on experience for a maximum of two years of graduate school studies.

An understanding of USAID administrative procedures, and prior experience with project management in the context of regulatory reform are qualities highly sought after for this position. Indonesian language capability would be an advantage but is not required.

URBAN DEVELOPMENT ADVISOR

SCOPE OF WORK

1 Background

The Urban Development Advisor will work directly with **BAPPENAS** to create a sustained capability to participate in the inter-departmental policy dialogue in urban and regional finance. She/he will take particular responsibility for assisting BAPPENAS in the completion of studies necessary for its fulfillment of objectives identified in the Policy Action Plan, and in particular with the achievement of Objectives 4.2 and 6 of the Policy Action Plan included in the MFEI Project Paper, including strengthening its system for monitoring municipal finances, and with development of the system for allocating intergovernmental grants. The Advisor will also be responsible for managing MFP/A-funded short-term consultants working with BAPPENAS.

A level of effort of 36 person-months is planned for this advisor.

2 Specific Duties

2.1 Policy, Regulatory and Legal Guidance

- 1 Advise BAPPENAS, the TKKP PMU, and the USAID MFEI Project Manager on the status of implementation of the GOI Policy Action Plan agreed under the Program Agreement for the Municipal Finance for Environmental Infrastructure project, and recommend revisions, additions, alternative approaches, etc, for subsequent revisions of the Policy Action Plan.
- 2 Provide advisory assistance to BAPPENAS with respect to the allocation of grants for urban infrastructure development, including INPRES and DIP, and their relationship to credit mechanisms available to local governments,
- 3 Advise the GOI on the collection and interpretation of data for monitoring the Government's urban programs, with particular reference to municipal finance, and to update and better utilize Monitoring Indicators in the articulation and implementation of future urban development policies.
- 4 Assist the GOI with updating, monitoring and evaluating Indonesia's national urban development strategy, together with continuing policy analyses of central government transfers to local governments in the context of the overall national development strategy.

5 Help develop the capacity of BAPPENAS to participate in interministerial policy discussions regarding urban and regional finance

2.2 Training and Communications

1 Work with the Training Coordinator in designing and managing the formal overseas and in-country training programs, promoting training in urban management, urban environmental quality management, and training systems development and delivery

2 Assist the Training Coordinator to prepare and submit a detailed training plan for the life of the project

3 Provide advice on the development of curricula of the intensive short courses on urban finance and management as appropriate

4 Participate in workshops, conferences and meetings as appropriate

2.3 Project Management

1 Assist the Chief-of-Party in identifying short-term technical assistance needs for BAPPENAS, including development of scopes of work and recruitment of consultants. Supervise both expatriate and Indonesian short-term consultants providing assistance to activities under his/her purview

2 Provide quarterly and annual reports which review implementation progress on the Advisor's activities, identifying operational or administrative problems, assessing the policy environment within which the project is operating and making recommendations to the Chief of Party on management, implementation, and policy issues which require special attention during the current fiscal year

3 Provide financial management and control of operations within his/her purview

4 Assist the Chief-of-Party in the design of the mid-term project evaluation

3 Qualifications

In order to carry out these responsibilities, this Consultant should have a minimum of ten years working experience in urban and regional economic development, including intergovernmental fiscal relations. Four years experience working in a developing country, preferably in South East Asia, is required. The consultant should have at least a masters degree in urban planning, economics, business administration or an equivalent degree. On-the-job experience may be substituted for graduate-level experience at a

ratio of up to three years of hands-on experience for a maximum of two years of graduate school studies

An understanding of USAID administrative procedures, and prior experience with project management in the context of regulatory reform are qualities highly sought after for this position. Indonesian language capability would be an advantage but is not required.

URBAN ENVIRONMENTAL ADVISOR

SCOPE OF WORK

1 Background

The Environmental Advisor will be based in the **Ministry of Public Works (Cipta Karya)**, and will have the responsibility of assisting the Ministry to implement Objectives 1.2 and 2 in the Policy Action Plan included in the MFE Project Paper, and particularly of working to strengthen the AMDAL process for urban infrastructure projects promoted by local governments, and of integrating gender concerns into the local planning processes. This Advisor will manage MFP/A-funded short-term consultants working with Cipta Karya, and other agencies responsible for urban environmental quality management.

A level-of-effort of 24 person-months is planned for this advisor.

2 Specific Duties

2.1 Policy, Regulatory and Legal Guidance

1 Assist the GOI to improve the planning and delivery of local government urban infrastructure and services, among other ways by re-orienting Cipta Karya's role from being the principal provider of urban public facilities to serving as a technical resource to support local governments and local government enterprises in the provision of those facilities, in particular, provide technical assistance to develop environmental planning guidelines for use by local planners for PJM updates.

2 Advise the GOI on ways of integrating gender concerns into the local planning process, and the design and management of urban environmental quality management programs at the local level.

3 Assist the Municipal Finance Advisor on use of financial instruments and policies aimed at promoting environmental protection and environmentally sustainable urban development.

4 Undertake a detailed needs assessment for further technical assistance to the regional AMDAL process, provide advice on follow-up activities, as needed, to strengthen the regional AMDAL process, and assist Cipta Karya with determining TA needs and, if appropriate, liaising with potential donors.

2.2 Training and Communications

- 1 Work with Cipta Karva to support the development and dissemination of training materials for local officials on the use of the AMDAL process for projects in the Cipta Karya subsectors
- 2 Work with the Training Coordinator in designing and managing the formal overseas and in-country training programs, particularly those promoting training in urban environmental quality management
- 3 Assist the Training Coordinator to prepare and submit a detailed training plan for the life of the project
- 4 Participate in the development of the intensive short course on urban environmental quality management
- 5 Participate in workshops, conferences and meetings as appropriate

2.3 Project Management

- 1 Assist the Chief-of-Party in identifying short-term technical assistance needs for Cipta Karya, including development of scopes of work and recruitment of consultants. Supervise both expatriate and Indonesian short-term consultants providing assistance to activities under his/her purview
- 2 Provide quarterly and annual reports which review implementation progress on the Advisor's activities, identifying operational or administrative problems, assessing the policy environment within which the project is operating and making recommendations to the Chief of Party on management, implementation, and policy issues which require special attention during the current fiscal year
- 3 Provide financial management and control of operations within his/her purview

3 Qualifications

The Environmental Advisor should have a minimum of eight years experience in environmental policy and urban environmental quality management. She/he must have experience in the development of policy and regulations for management of the urban environment at a local level. The consultant must also have experience in the design and implementation of environmental impact assessments. Four years experience working in a developing country, preferably in South East Asia, is required, strong preference will be given to candidates with prior experience in Indonesia. She/he should also have

experience in training for environmental impact analysis. The consultant should have at least a masters degree in environmental science, urban and regional planning or an equivalent degree or certification. On the job experience may be substituted for graduate level experience at a ratio of up to three years of hands-on experience for a maximum of two years of graduate school studies.

An understanding of USAID administrative procedures and prior experience with project management in the context of policy and regulatory reforms are qualities highly sought after for this position. Indonesian language capability would be an advantage but is not required.

TRAINING COORDINATOR

SCOPE OF WORK

1 Background

The **Training Coordinator** will report to the MFP Counterpart Team. The Coordinator will have the responsibility of coordinating inputs to the Urban Management Training Program and to the Regional Universities Program. The Coordinator will also assist to develop a training unit and, in conjunction with other team members and training secretariat support staff, will manage the MFP/A training function. The training function includes brokering training programs and resources available throughout Indonesia as well as directly handling MFP/A-sponsored conferences, short courses, institutional networks, study tours and on-the-job training. The coordinator will have the responsibility of coordinating donor assistance to the Indonesian Urban Management Training Program. The Coordinator will be responsible for providing the leadership of and management of MFP/A training activities, assisting with the accomplishment of MFP/A goals and objectives through the facilitation and provision of effective training services.

A level-of-effort of about 56 person months is planned for this advisor.

2 Specific Duties

2.1 Urban Management Training System Design

1 Prepare and submit a detailed plan, for the life of the project, for the structure, organization, policies, programs, services and practices needed to accomplish the development of national systems for urban management training, as outlined in the MFP Project Paper Amendment.

2 Assist with the identification and recruitment of short-term consultants to work on the development of the short-term intensive courses in urban management, by needs assessment, curriculum development, training of trainers, pilot testing or in other regards.

3 Supervise the work of the short-term consultants, and assist them as appropriate, for instance with the preparation of written learning and instructional materials, written case studies, audio and video scripts, etc. As necessary, present information and direct structured learning experiences, for instance in the course of training of trainers, or pilot testing the short courses.

4 Liaise with other donors and with other agencies involved in urban management training to help assure (a) consistency of program design, and (b) continuity of funding and other support for the urban management training program

5 Assist with the design and management of a feasibility study for the development of an Urban Management Training Association, if this is considered a priority activity for funding by MFP/A

2.2 Regional University Education for Urban Management

1 Prepare and submit an outline plan for the structure, organization, policies, programs, services and practices needed to accomplish the development of formal education systems for urban management at regional universities, as visualized in the MFP Project Paper Amendment. Prioritize the activities appropriate for funding under MFP/A

2 Assist with the identification and recruitment of short-term consultants and institutions to work on the development of the university training delivery system, for instance in undertaking an inventory of resources, the provision of short courses in urban management, training of trainers, and the development of university linkage programs

3 Supervise the work of the short-term consultants

4 Liaise with other donors and with other agencies involved in urban management training to help assure (a) consistency of program design, and (b) continuity of funding and other support for the regional universities program

2.3 MFP/A Training System Management

1 Prepare and submit a detailed plan, for the life of the project, which describes and justifies the use of funds allocated under MFP/A for short-term training, overseas and in-country, and including study tours, conferences, workshops, etc. Provide a periodic review and update of this plan, not less than once a year

2 Facilitate the processing of MFP/A-funded participants for short term overseas training and study tours, including coordinating the application procedures and travel arrangements

3 Manage, or arrange the management of, MFP/A funded workshops and conferences, including coordination of the substance of the event, and of the

logistic arrangements Ensure that the components of each event are present and that program logistics run smoothly

4 Process trainees for US , third-country, or in-country programs in accordance with A I D Handbook 10 on participant training, including any necessary medical examinations and English language tests In consultation with the USAID training office, be responsible for submitting for USAID approval "unfunded PIO/P" forms for participants or groups of participants

2 4 Project Management

1 Assist the Chief-of-Party in identifying short-term technical assistance needs for to assist with the development of urban management training and education systems, including developing scopes of work and recruitment of consultants Supervise both expatriate and Indonesian short-term consultants providing assistance to activities under his/her purview

2 Provide quarterly and annual reports which review implementation progress on the Coordinator 's activities, identifying operational or administrative problems, assessing the policy environment within which the project is operating and making recommendations to the Chief of Party on management, implementation, and policy issues which require special attention during the current fiscal year

3 Provide financial management and control of operations within his/her purview

4 Assist the Chief of-Party in the design of the mid term and final project evaluations

3 Qualifications

The Training Coordinator should have a minimum of ten years of experience serving in the professional field of Training and Human Resources Development It is expected that at least three years has been devoted to field specific training in urban planning, municipal finance and budgeting and urban environmental services Two years training work in a developing country, preferably in South East Asia, is required It is expected that this individual have extensive knowledge and experience of training development and management

She/he must have at least a masters degree in human resources management, adult learning/education, sociology, psychology public administration/management, urban and regional planning or a related field

Relevant on-the-job experience should include management of training and development programs for an organization, training program design work, demonstrated ability as instructional writer, instructor, group facilitator, media specialist and training program administrator and evaluator

Familiarity with Indonesian urban sector training institutions is important. Priority for hiring will be given to Indonesian citizens

An understanding of USAID administrative procedures would be an advantage but is not required. Fluency in Indonesian and English language is required

USAID URBAN POLICY ADVISOR

SCOPE OF WORK

1 Background

The Urban Policy Advisor will work with USAID to assist in the management of the project, including its monitoring, and with direct management of project activities outside the scope of the long term contractor (including project evaluation, UPD quarterly reports and certain short-term training activities) The USAID Urban Policy Advisor will be a USAID Personal Services Contractor, reporting to the chief of USAID's Urban Policy Division

2 Specific Duties

The Contractor will serve as the Urban Policy Advisor to the Pusat Analisa Keuangan Negara (PAKD) of the Ministry of Finance and USAID/Indonesia, and will be called upon to

- 1 Assist PAKD and USAID/Indonesia in the implementation and evaluation of the Municipal Finance Project (MFP)
- 2 Assist PAKD and USAID/Indonesia with the design and operation of quantitative systems to monitor the shelter and urban sector development of the region
- 3 Provide economic and financial analysis and advice on matters related to the shelter and urban development sectors in Indonesia, as directed by PAKD and USAID/Indonesia
- 4 Assist the Government of Indonesia and USAID/Indonesia in the design of new project/program initiatives in the urban sector