

**ASIAN DEVELOPMENT BANK**

**TAR:INO 35143**

**TECHNICAL ASSISTANCE**

(Cofinanced by the Government of the United Kingdom of Great Britain  
and Northern Ireland)

**TO THE**

**REPUBLIC OF INDONESIA**

**FOR**

**PREPARING THE**

**SHELTER SECTOR PROJECT**

**July 2002**

## **CURRENCY EQUIVALENTS**

(as of 2 July 2002)

Currency Unit	–	rupiah (Rp)
Rp1.00	=	\$0.000115
\$1.00	=	Rp8,720

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
CoBILD	–	community-based initiatives for housing and local government
DFID	–	Department for International Development
DGHS	–	Directorate General of Housing and Settlements
NAP	–	neighborhood action plan
NGO	–	nongovernment organization
PMU	–	project management unit
SPAR	–	subproject appraisal report
TA	–	technical assistance
UPR	–	urban poverty reduction

## **NOTES**

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

## I. INTRODUCTION

1. The Asian Development Bank (ADB) fielded a reconnaissance mission in September 2001 to formulate technical assistance (TA)<sup>1</sup> to prepare a project to implement a neighborhood-based approach to improving shelter for the poor, and improving their social, economic, and physical well-being, in large and medium-size urban centers.<sup>2</sup> A fact-finding mission was fielded in January 2002. The missions included discussions with representatives of the central Government, local governments, external support agencies, nongovernment organizations (NGOs), and consultants working in the urban poverty sector. The mission visited poor urban communities in Jakarta, Java, and Sumatra. The objectives, scope, cost estimates and financing plan, implementation arrangements, and terms of reference for the TA are based on the understanding reached with the Government during the mission. The preliminary project framework is attached as Appendix 1.

## II. ISSUES

2. With the population of Indonesia expected to have reached 209 million inhabitants in 2000, and an urbanization rate of 40 percent, some 84 million people are living in Indonesian cities. The rate of urbanization continues apace despite the Asian financial crisis, which had a disproportionate impact on the urban poor. Against the backdrop of the crisis and the subsequent political uncertainty in Indonesia, urban poverty has increased from 9.6 percent of the urban population in 1996 to 16 percent in 1999.<sup>3</sup> Almost all of these people are living in informal areas and are experiencing a deterioration in the level of services and infrastructure provided by local government, itself hard pressed by fiscal stringency caused by the crisis.

3. Shelter is a basic human need along with water and food. Yet Indonesian cities have, despite their phenomenal precrisis economic growth, generally failed to provide adequate shelter for the majority of their inhabitants. In some cities, over 60 percent of the population is housed informally. Generally, this housing is of low standard, is poorly serviced by basic infrastructure, and is insecure as the occupants have no formal title to the land on which their house stands. Poor urban management practices and rampant land speculation have priced the poor out of the urban housing market. Policies and subsidies ostensibly designed to assist the poor obtain housing in fact did not reach the target groups. Where these involved interest rate subsidies for house purchase, they did not benefit the poor by and large, and distorted the capital markets creating a special circuit for housing dependent on government funding.

4. The Government recognizes the importance of addressing the needs of the poor in the cities and has established the Directorate General of Housing and Settlements (DGHS) within the Ministry of Settlements and Regional Infrastructure to provide oversight in the development and implementation of national shelter policy. Clear objectives for urban shelter, focused on meeting the needs of the poor for improved housing and more accessible housing finance, are set out in the National Development Plan (PROPENAS) and in the detailed policy prepared by DGHS. However, new mechanisms need to be developed to achieve these objectives in the context of a sweeping decentralization of powers to local government under laws 22 and 25/1999. External support for the Government's shelter and decentralization programs has been

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<sup>1</sup> The TA first appeared in *ADB Business Opportunities* on 24 October 2001 (Internet Edition).

<sup>2</sup> "Urban center" in this report refers generally to built-up areas that could be in municipalities (*kota*) or regencies (*kabupaten*). *Kota* and *kabupaten* are referred to as districts in the Indonesian context.

<sup>3</sup> World Bank. 1999. Indonesia: Urban Poverty Project, Project Appraisal Document, Report No: 18359-IND. Washington D.C.

substantial.<sup>4</sup> The main themes of this assistance have been support to policy and pilots in the shelter sector, and to priority areas of local government capacity building, especially in planning investments and in strengthening civil society. ADB has implemented a series of TAs providing support for the institutions involved in decentralization<sup>5</sup> and is currently undertaking TA to prepare the Urban Poverty Reduction (UPR) Project which will address fundamental issues of urban poverty, specifically supporting city economic development and the capacity of the poor to partake of that development.

5. To complement the comprehensive approach of the UPR Project, community-based support is needed to reduce poverty. In this regard, much remains to be done to improve the quality of life and income opportunities for the inhabitants of poor areas. These community-based approaches focus on improvements to the neighborhood and the household assets of the poor (including housing). The Government has instituted a pilot program<sup>6</sup> designed to determine the most effective methods of comprehensive upgrading. Studies<sup>7</sup> of the sector suggest that an important focus of assistance should be support to these comprehensive approaches to upgrading communities and developing new communities for the poor in areas that cannot be upgraded. Finance for such activity is crucial. The ongoing TA to prepare the UPR project has determined that local governments see a need for such finance and that they are open to borrow for this purpose. On the demand side, current experience with the United Nations Development Programme's (UNDP) CoBILD project provides both a demonstration of high demand<sup>8</sup> for improved shelter and a model of a neighborhood-based, decentralized delivery mechanism.

6. However, existing mechanisms of urban upgrading and development of new areas will not address the structural problems that exist in the sector. Structural interventions need to address two key areas of market failure in the sector: (i) finance of supply-side interventions (project finance) to provide shelter products appropriate to the poor, and (ii) finance of demand-side (end finance) to enable the poor to save for and buy improved shelter. Successful intervention in these areas will establish the basis for a sustainable housing and housing development finance system.

7. In this context, the Government has requested assistance to prepare a sector project for shelter development in the urban areas of Indonesia, focused on shelter development for the poor. The project is to strengthen mechanisms and institutions on both supply and demand sides, specifically local urban development corporations and financial institutions catering to the finance needs of the poor, and will include significant capacity building in order that proposed institutional arrangements can be implemented effectively.

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<sup>4</sup> World Bank-financed Housing Markets in Indonesia (HOMI) project for policy formulation in the Housing Sector; Formulation of Provincial Shelter Strategies to Strengthen the National Shelter Strategy executed by United Nations Centre for Human Settlements (UNCHS) funded by the Government of Finland and United Nations Development Programme (UNDP); Community-Based Low Cost Housing and Enabling Strategy for Shelter Development Projects executed by UNCHS funded by UNDP; the ADB TA 2586-INO preparation of a Secondary Mortgage Facility; the Community-Based Initiatives for Housing and Local Development (CoBILD) executed by UNCHS funded by the Government of the Netherlands through UNDP (INS/00/013).

<sup>5</sup> ADB is supporting decentralized urban development and management, including: (i) the Capacity Building for Urban Infrastructure Management (CBUIM: Loan 1572-INO); and (ii) the Policy and Guidelines for Urban Sector Development in a Decentralized Environment (ADB TA 3326-INO).

<sup>6</sup> Directorate General of Housing and Settlements. 2001. Draft Evaluation Report of the Slum Improvement Project in 30 Provinces for FY 2001. Jakarta.

<sup>7</sup> ADB Indonesia Housing Finance for the Urban Poor October 2001 and the draft final report of the HOMI Project (footnote 4). December 2001.

<sup>8</sup> The UNDP project (footnote 4) has disbursed \$3 million of housing microcredit in its first 5 months of lending.

### III. THE TECHNICAL ASSISTANCE

#### A. Purpose and Output

8. The TA will help the Government identify and prepare a sector project (i) for local governments to establish shelter planning and provision systems focusing on provision for the poor through a partnership with the central Government, civil society, and the private sector; and (ii) for strengthening of the capacity of financial institutions to cater to the financing needs of the poor.<sup>9</sup> The TA will prepare the Project to cover metropolitan, large, and medium-size urban centers in Indonesia. The Government has identified these areas as priority areas with large numbers of urban poor and pressing shelter needs.<sup>10</sup>

9. The TA will prepare the three interrelated parts of the Project all of which focus on poverty reduction: (i) part A: neighborhood upgrading for poor communities; (ii) part B: support to the shelter and housing finance sector; and (iii) part C: strengthening national, regional, and local systems for planning, regulation, and oversight of shelter and shelter finance.

#### B. Methodology and Key Activities

10. The TA will assist the Government in preparing each of the project components and is structured to specifically address each of them. The TA will analyze the housing and shelter issues, and prepare subproject appraisal reports (SPARs) in six pilot local government areas chosen in a competitive process that demonstrates the commitment of local governments to address the shelter needs of the poor and participation of local stakeholders.

11. **Part A: Neighborhood Upgrading.** Benefiting from the experience of the UPR project, the TA will design appropriate systems for local government to plan and to facilitate the provision of shelter to those with incomes below the 35<sup>th</sup> percentile. It will review existing practice in multisectoral upgrading interventions in Indonesia and elsewhere, and assess their effectiveness for sustainable poverty reduction and asset building for low-income groups including the poor. The TA will define the role, and legal basis, of the local government housing section and the local development corporation in respect to upgrading activity and potential for DGHS to support the development of such a role. It will define the role of the local land office in this process. It will also define the role and legal basis of the national and local development corporations in respect to land consolidation and development. In the pilot local governments, it will strengthen, or assist the local government to establish, as necessary, a housing section and a local development corporation; undertake stakeholder information campaigns and consultations; prepare a shelter plan; identify upgrading and new site infrastructure projects that may be financed under the Project; and commence the preparation of one example project. It will define the role of, and identify, participating NGOs. The TA will also determine national and provincial support requirements for implementing the Project

12. **Part B: Shelter and Housing Finance.** This part will design systems for providing shelter microfinance for the poor and low income groups below the 35<sup>th</sup> percentile of incomes in the context of national policy and in the light of experience in the CoBILD project and similar activities. It will assess the capacity of national, regional, and local financial institutions to channel finance for upgrading and shelter development for the poor and low income groups. This activity will be undertaken in the context of, and in consultation with agencies involved in,

<sup>9</sup> The loan project, likely to be a core poverty intervention, is programmed for 2004 in the current country strategy and program for Indonesia.

<sup>10</sup> Directorate General of Housing and Settlements. 2001. Inception Report of the DGHS Slum Improvement Project in 30 Provinces Project. Jakarta.

the design of decentralized local government financing systems. It will define the role and legal basis of local financial institutions for sustainable project- and end-financing of upgrading and new site development, and the potential for DGHS to support the development of such a role. It will establish or strengthen community initiatives and local financial institutions in local governments where pilot projects will be undertaken in part A of the Project. It will define the role of and identify participating NGOs. The TA will also determine requirements for upscaling of this part of the loan project.

13. **Part C: Strengthening National, Regional, and Local Systems for Planning, Regulation, and Oversight of Shelter and Shelter Finance.** The TA will recommend policies for implementing effective approaches to upgrading and developing new sites for low income groups including the poor, in the context of an assessment of broader shelter sector institutional strengthening needs. The TA will identify key legislation required to implement the approach and draft appropriate amendments in consultation with DGHS and other relevant agencies. The TA will assess and cost the resources required for building systems and provision of training for all stakeholders to implement this approach and other priority systems (such as sector data collection) through the ensuing loan project.

14. For subproject design and implementation, the loan project will be based on a community-based design strategy involving project beneficiaries in preparation, implementation, management, and monitoring tasks. This activity will involve both NGOs and technical personnel from local administrations in the preparation of a neighborhood action plan on the basis of which the subprojects will be appraised.

15. The TA will deliver a fully prepared shelter sector project including full documentation of pilot SPARs and feasibility assessment of the overall project according to the policies and procedures of ADB. The TA will provide a detailed policy matrix and project description, including rationale and expected outcomes, benefits and poverty impact analysis, a fully developed logical framework, geographic scope, lending modality and subsidiary loan arrangements, assessment of implementing agencies, estimates of inputs and costs, and implementation arrangements and schedule. All subcomponents will be analyzed, as appropriate, for technical, financial, economic, social, environmental, and institutional viability and sustainability.

### **C. Cost and Financing**

16. The total cost of the TA is estimated at \$1.25 million equivalent, comprising \$636,000 in foreign exchange cost and \$614,000 equivalent in local currency cost. The Government requested financing for \$1,000,000 equivalent to cover the entire foreign exchange cost and \$364,000 equivalent of local currency cost. The TA will be financed on a grant basis, by the United Kingdom Department for International Development (DFID) providing \$500,000 equivalent and ADB providing \$500,000 equivalent from the ADB-funded TA program. The Government will finance the remaining local currency costs amounting to \$250,000 equivalent to cover the office and support facilities, counterpart staff, administrative support, part of workshop expenses, and report production and dissemination. Details of the cost estimates and a financing plan are shown in Appendix 2. The Government has been informed that approval of the TA does not commit ADB to finance any ensuing project.

### **D. Implementation Arrangements**

17. DGHS will be the Executing Agency. A project management unit (PMU) will be established within DGHS and be responsible for organizing the technical and administrative

aspects of the TA. The TA will include suitably qualified and experienced counterpart staff to work alongside the TA consultants. Counterpart staff will work as agreed under the direction of the head of the PMU. The TA consultants will provide full support to the head of the PMU and will work in close collaboration with the counterpart team. A steering committee comprising representatives of the relevant sections of DGHS, BAPPENAS, the Ministry of Home Affairs and Regional Autonomy, and the Ministry of Finance (MOF) will be constituted by the end of month one of the TA. An advisory committee consisting of representatives of local governments and civil society will be constituted in time to take part in the TA inception workshop, and will provide advice to the steering committee on all aspects of project design and implementation.

18. The TA will require inputs of 25 person-months of international and 38 person-months of domestic consultants with expertise in shelter upgrading, development, and management; housing and microfinance; municipal finance; sociology and resettlement; environmental sciences; and training needs assessment. The consultants will be engaged in accordance with the ADB's *Guidelines on the Use of Consultants* or other arrangements satisfactory to ADB for the engagement of domestic consultants. Any procurement under the TA will be conducted in accordance with ADB's *Guidelines for Procurement*. DGHS in the Ministry of Settlements and Regional Infrastructure will be responsible for the provision of the agreed counterpart resources. The consultants will be based in Jakarta and will be expected to travel as necessary to the regions. The proposed outline terms of reference for consultants are included in Appendix 3.

19. The TA is expected to commence in August 2002, be implemented over 10 months and be completed to the stage of a final report in April 2003 with intermittent inputs supporting the refinement of project investment proposals thereafter. The consultants will also produce (i) an inception report at the end of the first month; (ii) a strategy report on providing upgrading and new shelter development for the poor at the end of the third month; (iii) a detailed implementation strategy for upgrading and new shelter development in pilot cities by the end of the fourth month; and (iv) draft documentation of a sector project and pilot SPARs by the end of month eight. Tripartite reviews will be held to review each of these five outputs, and corresponding to these reviews, stakeholder consultation workshops will be held to present progress to, and obtain input from, central Government agencies, local governments, civil society, and representatives of the communities involved.

#### **IV. THE PRESIDENT'S DECISION**

20. The President, acting under the authority delegated by the Board, has approved (i) ADB administering a portion of technical assistance not exceeding the equivalent of \$500,000 to be financed on a grant basis by the United Kingdom Department for International Development, and (ii) ADB providing the balance not exceeding the equivalent of \$500,000, to the Government of the Republic of Indonesia for preparing the Shelter Sector Project, and hereby reports this action to the Board. The ADB-financed portion of the technical assistance, initially financed as a grant, will be subject to the reimbursement arrangements set forth in *Technical Assistance Operations*<sup>11</sup> and *Streamlining of Technical Assistance Operations*.<sup>12</sup> If the technical assistance results in an ADB loan, ADB may charge against the loan, and recover from it, the portion of the initial grant that exceeds \$250,000 equivalent.

<sup>11</sup> ADB. 1977. *Technical Assistance Operations*. R51-77, 20 May. Manila

<sup>12</sup> ADB. 1988. *Streamlining of Technical Assistance Operations*. R44-88, 21 March. Manila

## PRELIMINARY PROJECT FRAMEWORK

<b>Design Summary</b>	<b>Performance Indicators/Targets</b>	<b>Monitoring Mechanisms</b>	<b>Assumptions and Risks</b>
<p><b>Goal</b> The urban poor and vulnerable near poor participate in and benefit from shelter development, management, and financing decisions that increase their income, assets, and well-being</p>	<p>The number of poor and near poor households have reduced vulnerability to economic, environmental, and other adverse impacts The number of households benefiting from improved housing The number of households benefiting from improved environmental conditions The number of households with access to local microcredit</p>	<p>National socioeconomic survey National housing survey and other surveys of Central Bureau of Statistics (BPS) Local government and nongovernment organization (NGO) records of development Directorate General of Housing and Settlements (DGHS) records Bank Indonesia statistics for financial institutions Regional Development Bank (RDB) records and records of other financial institutions</p>	<p>Continued and consistent commitment of government to poverty reduction Stable macroeconomic management with growth rate higher than rate of population increase Good governance and effective decentralization No financial sector “meltdown”</p>
<p><b>Purpose</b> Local governments regularly implement effective poverty-focused city shelter strategies in partnership with the central Government, civil society, and private sector Financial institutions will have and profitably use shelter finance products appropriate to the needs of the poor</p>	<p>The number of city participatory upgrading and new site projects targeted to the poor and near poor The number of poor and near poor beneficiaries of such projects The number of local parliament-endorsed pro-poor shelter development strategies</p>	<p>As above Plus Project management unit (PMU) and consultant records Surveys undertaken by other stakeholders and academic institutions.</p>	<p>Adequate revenue and willingness to borrow on the part of local governments Acceptance of targeted and market-friendly subsidy mechanisms</p>
<p><b>Outputs</b> City shelter strategies Upgrading projects New site development projects Shelter planning and management systems including participatory processes appropriate to the needs of the poor Established housing sections as a separate group within local government Establish local development corporations Established shelter finance products appropriate to the needs of the poor within financial institutions to which the poor have good access.</p>	<p>Number of shelter strategies Number and size of shelter projects Number of shelter management systems established  Number of housing sections established  Number of development corporations established  Number of participating intermediary financial institutions and disbursements</p>	<p>Progress reports and review missions  Project Performance Monitoring Systems (PPMS)</p>	<p>Resolution of approach to, and implementation of, a funds channeling mechanism appropriate for multilateral support to local governments.</p>
<p><b>Activities/Inputs</b> (to be developed by implementing the TA)</p>			

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
<b>A. External Financing<sup>a</sup></b>			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	555.0	0.0	555.0
ii. Domestic Consultants	0.0	245.0	245.0
b. International and Local Travel	12.0	8.0	20.0
c. Reports and Communications	4.0	11.0	15.0
2. Equipment	10.0	5.0	15.0
3. Training, Seminars, and Conferences			
a. Facilitators	0.0	50.0	50.0
b. Training Program	0.0	0.0	0.0
4. Surveys	0.0	10.0	10.0
5. Miscellaneous Administration and Support Costs	0.0	10.0	10.0
6. Representative for Contract Negotiations	5.0	0.0	5.0
7. Contingencies	50.0	25.0	75.0
<b>Subtotal (A)</b>	<b>636.0</b>	<b>364.0</b>	<b>1,000.0</b>
<b>B. Government Financing</b>			
1. Office Accommodation and Transport	0.0	105.0	105.0
2. Remuneration and Per Diem of Counterpart Staff	0.0	69.0	69.0
3. Others			
a. Workshop Expenses	0.0	52.0	52.0
b. Report Production and Dissemination	0.0	12.0	12.0
c. Miscellaneous Administration and Support Costs	0.0	12.0	12.0
<b>Subtotal (B)</b>	<b>0.0</b>	<b>250.0</b>	<b>250.0</b>
<b>Total</b>	<b>636.0</b>	<b>614.0</b>	<b>1,250.0</b>

<sup>a</sup> The Department for International Development (DFID) will provide a \$500,000 equivalent grant, and the Asian Development Bank (ADB) will provide a \$500,000 equivalent from the Technical Assistance Special Fund.  
Source: Asian Development Bank estimates.

## **OUTLINE TERMS OF REFERENCE FOR CONSULTANTS**

1. The consultants will design and fully prepare an urban shelter sector project to strengthen the systems of provision and finance of slum upgrading and low income housing, including a draft project framework and feasibility study. The activities under the Project will be organized under three components (i) a shelter supply component focused on the planning and delivery of community-based upgrading and low income housing; (ii) a low-income shelter finance component focused on design and initial funding of financial systems for both project and end finance of beneficiaries; and (iii) a capacity building component to institutionalize the systems.

2. The TA will be carried out in two phases. Phase one, which will last three months, will address general review, preparation, and planning issues, and will focus on preparing assessment reports to be used as planning background for project implementation. Phase two will last seven months. It will result in the preparation of (i) an action plan for the implementation of the shelter delivery component, including the preparation of the pilot subprojects; (ii) guidelines for the technical, financial, and institutional strengthening of the shelter sector in Indonesia; and (iii) a final project document.

### **A. Phase One**

3. Phase one will review the current context of the project in respect of the delivery of shelter and shelter finance to the poor in Indonesia. For part A (community-based mechanisms for neighborhood upgrading and new housing development) the consultants will do the following:

- (i) Review existing policies and experience regarding slum upgrading and new housing development and the effectiveness of previous strategies for community based shelter provision mechanisms.
- (ii) Identify and define the roles of key stakeholders including the private sector, nongovernment organizations (NGOs) and community groups involved in various stages of community-based shelter provision.
- (iii) Review the institutional interrelations in the shelter sector especially for local government's role, participation of communities, and land tenure.

4. The consultant will propose a methodology of participatory planning with the communities and methods of engagement with civil society, through public information campaigns and urban forums where established, to achieve the project objectives. Based on the conclusion of these assessments, identify potential project sites and define a preliminary implementation framework for participatory slum upgrading and new-house development.

5. The consultants will complete the following to prepare part B (low income shelter finance systems):

- (i) Review the shelter conditions in the pilot cities in general and of poor communities in particular, and determine the shelter finance needs of these communities.

- (ii) Review sector policy and experience with shelter finance for the poor in Indonesia, including experience with the United Nations Development Programme (UNDP) community-based initiatives for housing and local development (CoBILD) project and other ongoing initiatives.
- (iii) Review current institutional setting and practice of microcredit in Indonesia assessing the possibilities of linking shelter microfinance into the wider formal financial system.
- (iv) Assess the financing needs of potential shelter development organizations within local government, in the private sector, and within the NGO community; and design a community-based delivery system catering to these needs.
- (v) Determine the need and processes for providing tenure to beneficiary communities in order to facilitate participation in the project and to provide collateral for financial institutions.

6. For identified participating financial institutions (PFIs), the consultants will assess the role, modality, and financial impact of participation in the project.

7. The consultants will do the following to prepare for part C (capacity building for pro-poor shelter):

- (i) Review the operation of the existing organizational framework for pro-poor shelter provision. This will include a review of the roles and legal bases of, among others, the local government housing section, National Land Agency (BPN), Directorate General of Housing and Settlements (DGHS), Perumnas, local governments, NGOs, and civil society in shelter upgrading and new housing activities.
- (ii) Review national and local systems for planning, regulation, and oversight of shelter upgrading and housing activities; and identify core capacity building issues associated with shelter upgrading and new housing development.

## **B. Phase Two**

8. Based on the results of phase one activities, the consultants will, as input into the subproject appraisal reports (SPARs) and the broader project appraisal, design appropriate systems for provision of shelter finance and project finance to be implemented by the Project, including the required shelter microcredit administration systems and the systems for establishing and maintaining the community-based organizations required.

9. Based on the results of phase one, part C activities, the consultants will do the following as input to the SPARs and the broader project:

- (i) Assess and estimate the resources required for building systems to implement the above approaches and draft appropriate amendments in consultation with DGHS.
- (ii) Prepare and cost an institutional strengthening plan to strengthen the various institutions involved in shelter upgrading and new housing development.

- (iii) Develop a detailed training needs assessment of local governments (particularly the local government housing section and local development corporations), local land offices, relevant provincial agencies, DGHS, participating banks and other financial institutions, and participating NGOs.
- (iv) In preparation for project implementation, supply selected organizations in the pilot cities with, and conduct training in the shelter microcredit systems designed in para. 5.

10. Taking into account the above activities, to prepare the pilot city SPARs the consultants will:

- (i) Prepare a detailed shelter plan with associated basic services package that will have three elements: (a) profile of communities, recommended designs, and priorities for slum upgrading; (b) designs and priority for low-income housing development; and (c) preliminary design and priority of infrastructure required to implement (a) and (b).
- (ii) Assess capacity and willingness of urban governments to borrow for shelter and shelter-related infrastructure, estimate inputs and costs, and confirm plausible subproject financing and implementation arrangements including potential central Government, private sector, and community financing.
- (iii) Define a proposed subproject for each city consisting of priority shelter and shelter-related infrastructure interventions to be funded under the project.
- (iv) Detail inputs and costs estimates, and analyze the technical, financial, and economic feasibility of the subproject interventions.
- (v) Prepare a social assessment and poverty analysis report fitting ADB requirements and relating the socioeconomic situation in the pilot city with issues relative to each subproject.
- (vi) For each subproject assess voluntary and involuntary resettlement issues, and if needed prepare a resettlement plan fitting ADB requirements.
- (vii) Identify civil society capacity and resources needed to provide assistance in the establishment of a community association for each subproject and to facilitate the preparation/implementation of neighborhood action plans reflecting the participatory planning requirements of the project, setting out any capacity building required for NGOs and civil society, describing in detail subproject initiatives, and providing implementation schedules and costs.
- (viii) Supervise the production and documentation of neighborhood action plans for each subproject.
- (ix) While conducting pilot project preparation in accordance with the design developed in para. 4, evaluate the approach, and draw conclusions as to a recommended approach to be used in the other subprojects.

11. In respect to the whole project and to ensure that the project is prepared to a stage ready for ADB and Government appraisal, the consultants, based on the experience gathered during pilot project preparation, will undertake the following:

- (i) Prepare a project selection framework establishing parameters for project eligibility, project evaluation, and processing conditions.
- (ii) Prepare the six SPARs as detailed above.
- (iii) Prepare a detailed project cost estimate, assuming a sector project modality involving approximately 30 subprojects over up to six years, using the COSTAB software. Provide for physical and price contingencies, and interest during construction. The cost estimate will break down each cost component into foreign exchange and local currency requirements, and indicate associated taxes and duties. Determine the ratio of cost sharing, both in cash and kind, (community, private sector, civil society, ADB, and governments) for each component and implementation stage, including operation and maintenance.
- (iv) Examine the feasibility of utilizing a cluster loan modality for the Project, prepare a financing plan for the project using COSTAB, and describe the channeling of funds as well as cost recovery measures and means.
- (v) Design a system to disseminate good practice and provide support to implementing organizations, in addition to the benefit, monitoring, and evaluation system. Define and cost the requirements for institutionalization of the system and include in the program of activities for part C.
- (vi) Define all arrangements for project implementation. Demonstrate the relationship between relevant institutions and organizations, including systems of negotiation among stakeholders, and indicate the chain of command and responsibilities for project implementation on a flow chart. Estimate the number and expertise of consulting staff, central and local government staff, staff from civil society organizations, and community/private sector participants to be involved in implementing the project. Identify their training needs. Comment on urban governments' absorptive capacities. Describe procurement methods and packages. Prepare draft terms of reference for project implementation and management consulting services, identify international and domestic consultants' tasks, and cost these proposals.
- (vii) Prepare a participatory framework for project implementation and monitoring directly involving beneficiary communities and NGOs.
- (viii) Describe how the operation and maintenance of project facilities will be effected and the means by which services will be sustained (whether software or hardware). Identify responsibilities, funds mobilization for maintenance, and future monitoring arrangements.
- (ix) Undertake a financial, economic, and fiscal analysis of project components as appropriate. For all components define the distribution of project benefits. For components that are potentially directly revenue generating, conduct a financial internal rate of return analysis. Conduct an economic internal rate of return

analysis for all components. The financial, economic, and poverty analyses will be undertaken in accordance with ADB guidelines<sup>13</sup> and models developed by ADB's Economics and Research Department.

- (x) Prepare a general project social justification, including a detailed poverty impact analysis, in compliance with ADB's Guidelines for Incorporation of Social Dimensions in Bank Operations as supplemented by guidelines from ADB specialist staff.
- (xi) Conduct a comprehensive environmental impact assessment and produce an initial environmental assessment, and environmental impact assessment(s) if required, for project components following the Environmental Assessment Requirements and Environmental Review Procedures of ADB.
- (xii) Develop a benefit monitoring and evaluation system for estimating benefits and impacts, including relevant benchmarks, following ADB's *Handbook on Benefit, Monitoring and Evaluation* which includes the ability to monitor impacts as perceived by the community.
- (xiii) Convene workshops in Jakarta, the pilot cities, and elsewhere to include a full range of stakeholders in project formulation and implementation.

### **C. Schedule and Reporting**

12. The duration of the TA will be 10 consecutive months with intermittent activities thereafter in support of appraisal, and activities will be overlapping. The consultants will produce (i) an inception report at the end of the first month; (ii) a phase one strategy report on provision of upgrading and new shelter development for the poor at the end of the third month; (iii) a detailed implementation strategy for upgrading and new shelter development in pilot cities by the end of the fourth month; (iv) draft documentation for a sector project and SPARs by the end of month eight; and (v) the final report for the project fully documenting the sector project by the end of month 10. The process of selecting pilot cities will be complete by the inception workshop. Tripartite reviews and stakeholder workshops will be held to review each of these outputs.

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<sup>13</sup> The following ADB guidelines will be used: *Framework for the Economic and Financial Appraisal of Urban Development Sector Projects*, *Guidelines for Water Supply Projects*, *Guidelines for Economic Analysis of Projects*, *Handbook for Integrated Poverty Impact in Economic Analysis of Projects*, and *Handbook on Poverty and Social Analysis*.