IAT: Mission 2 Report

Indonesia Infrastructure Initiative (IndII) Phase 2

September 2014



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AID ACTIVITY SUMMARY

Aid Activity Name	Indonesia Infrastructure Initiative (IndII)			
AidWorks initiative number	INH582			
Commencement date	1 July, 2011	Completion date	<i>extended to</i> 31 January, 2016	
Total Australian dollars	AUD330 million (up to AUD240 million grants; AUD67.8 million TA); and additional AUD12.1 million TA to support the extension period			
Total other dollars				
Delivery organisation	SMEC International Pty Ltd			
Implementing Partner(s)	Bappenas, Ministry of Public Works, Ministry of Finance, Ministry of Transportation			
Country/Region	Indonesia			
Primary Sector	Infrastructure			

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EXECUTIVE SUMMARY

This document reports the findings of the second of three missions by an impact assessment team (IAT) assigned to Phase 2 of the Indonesia Infrastructure Initiative (IndII). The IAT mission was conducted in Jakarta over the period 18 August – 5 September, 2014 by three independent consultants. The broad methodology for data collection was qualitative, comprising: document reviews, key informant interviews and observation. The scope was fourfold: i) a stocktake of recommendations from Mission 1, and implementation progress of key projects; ii) an exploration of the notions 'leverage' and 'influence'—specifically in relation to four sampled activities; iii) a review of lessons learned from IndII's monitoring and evaluation (M&E); iv) the identification of issues for improvement in the remainder of IndII Phase 2, and for consideration in the design of DFAT's next phase of infrastructure investment in Indonesia.

Progress stocktake

The IAT noted mixed progress in implementing recommendations from Mission 1 especially in relation to ongoing recommendations requiring joint action between IndII and DFAT. High-level implementation progress indicators also presented a mixed picture, with notable improvements in the communication of expenditure forecasting by IndII, and the execution rate of TA deliverables. Early progress with the implementation of PRIM was encouraging. Implementation progress on water and sanitation has continued to be challenged by a confluence of factors mostly associated with working through partner 'systems'.

Leverage and influence

The concepts of 'leverage' and 'influence' have become important—the former in pursuit of value-for-money, the latter as an underlying rationale for investment. For the purpose of this review, 'leverage' was defined as the use of aid funds to attract additional public or private expenditure in priority areas during the life of this investment. 'Influence' was broadly related to changes in policy, practice or attitude. The IAT explored the relationship between these concepts to support the design of the new phase of Australian aid investment in infrastructure by assimilating the perceptions of key IndII stakeholders associated with four IndII projects: Australia Indonesia Infrastructure Grant for Sanitation (sAIIG); 20 PDAMs; Water and Sanitation Service Index (WSSI); National Roads. The IAT concluded that these projects are broadly achieving leverage and influence, but that there is no prescription for how these agendas can be achieved. The complex and interdependent variables mean that planned results cannot necessarily be engineered or warranted. This is arguably a key rationale/benefit of the 'facility' modality since it enables an evolving response to the dynamic context. The IAT also noted that overtly framing a bilateral engagement in terms of leverage and influence risks being viewed as imperialistic by stakeholders being 'leveraged' and 'influenced'.

Three scenarios were observed in relation to leverage and influence in the four cases studied: i) The 'classic scenario' (Leverage \rightarrow Influence \rightarrow Impact) was observed in relation to sAIIG in which a relatively small but well-placed aid investment was matched and extended by GoI to achieve more than either party might have achieved individually. With this investment, GoI was amenable to policy advice to improve practice in order to protect its stake. ii) The 'inverse scenario' (Influence \rightarrow Leverage \rightarrow Impact) was observed in relation to the 20 PDAMs project, such that the influence of business planning TA on PDAMS appears set to leverage finance from commercial sources, which in turn could unleash revenue-expanding investments by these PDAMs. iii) The 'premium scenario' (Influence \rightarrow Impact) was observed in relation to the WSSI and National Roads projects. In

these cases there was little or no 'leverage' of financial resources, but early indications suggest influence is occurring (at least in underlying attitudes, if not practice), and as a consequence, significant impact is plausible. In effect, these cases demonstrate that in certain circumstances, influence can be achieved as an end in itself through timely TA.

Monitoring and evaluation

IndII is implementing extensive project-level M&E arrangements, supported by a comprehensive management information system. IndII's focus on project-level M&E was agreed with DFAT during the Phase 2 inception. Project logic models are developed for every project, and then form the basis for progress assessments and evaluations. All projects are assessed at design by gender and social inclusion staff, and categorised using a Gender Screening Tool. Gender is acknowledged to be a lightly resourced area of IndII. Most M&E resources are spent on desk reviews and quality control. IndII has also conducted some reviews of outcomes—both with internal M&E resources and through outsourced contracts. Work is planned over the next year to assemble evidence of impact from a range of sources. M&E findings are not presented to the IndII board.

DFAT has begun considering alternative M&E arrangements for the next phase of infrastructure investment and is currently exploring the merit of extending the experience of the Education Partnership's Performance Oversight Monitoring (POM) contractor to the infrastructure program. Interviews with the Education POM identified a number of critical success factors that may help to refine discussions concerning a similar set-up for the infrastructure program. The experience of the Education Partnership POM suggests that there is likely to be merit in a similar function attached to the new infrastructure design.

Support for the design of a new phase of infrastructure investment

Through reviewing the four case studies, the IAT identified generalisable lessons for consideration by DFAT and the design team for the next phase of DFAT's infrastructure investment in Indonesia. Further, of the nine recommendations made in this report, six suggest actions that could be taken in the next phase.

CONSOLIDATED RECOMMENDATIONS

Indll should explore more creative ways to 'socialise' (promote and explain) the 1. sAIIG and build demand at local government level. A more comprehensive local government engagement strategy could help to improve uptake and expenditure of the sAIIG; and it would likely yield valuable lessons for a new phase of infrastructure investment by DFAT, if such a future program aims to influence local government 2. Indll should study the most viable and sustainable institutional arrangements for local governments to administer sanitation services, and develop a package of support to help LGs to implement the preferred arrangements. Such clarity will be of particular relevance in focusing any future DFAT support in the sanitation sector.... 16 Given the successful 'demonstration effect' of IndII, DFAT should consider a 3. progressive process to appropriately transition away from funding hibahs; and increasingly support GoI in rolling out its own performance-based systems rather Indll (or AIPD, as directed by DFAT) should respond to the request by MoF for 4. TA support to help reconcile and streamline the inter-ministerial approval process In the new phase of infrastructure investment, DFAT should prioritise 5. interventions to reduce the complexity of intra and inter-Ministerial processes that complicate central – local government engagement in infrastructure planning and delivery. Such support to streamlining GoI processes would significantly enable extension of performance-based mechanisms of support to local governments; even 6. Indll should explore ways to provide follow-up support for poor performing PDAMs identified by the WSSI to improve their 'health'. The complexity of such support may necessitate engagement in the next phase of infrastructure investment. 7. In the next phase of infrastructure investment, DFAT should consider a national roads package as a practical demonstration of innovations in policy, planning and IndII should succinctly document all plans for outcome and impact evaluations 8. so that DFAT can appreciate what information will be available to support the design of a new infrastructure investment......24 Indll should ensure that planned impact studies capture evidence of gender 9. equality impacts; and identify the implications and lessons of the gender

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LIST OF ACRONYMS

AUD	Australian Dollars
Bappenas	National Development Planning Agency
BPPSPAM	Development Support Agency of Water Supply System (Badan Pendukung Pengembangan Sistem Penyediaan Air Minum)
CMEA	Coordinating Ministry for Economic Affairs
СРА	Contractor Performance Assessment
DFAT	Department of Foreign Affairs and Trade
EINRIP	Eastern Indonesia National Roads Improvement Program
GDP	Gross Domestic Product
Gol	Government of Indonesia
IAT	Impact Assessment Team
IndII	Indonesia Infrastructure Initiative
M&E	Monitoring and evaluation
MDG	Millennium Development Goal
MIS	Management Information System
MoF	Ministry of Finance
MoHA	Ministry of Home Affairs
MoPW	Ministry of Public Works
MoT	Ministry of Transport
NTB	Nusa Tenggara Barat
ODA	Official Development Assistance
P&I	Policy and Investment
PDAM	Regional Water Company (Perusahaan Daerah Air Minum)
PRIM	Provincial Roads Improvement Program
RPJMN	National Medium Term Development Plan
sAIIG	Australian Indonesia Infrastructure Grant for Sanitation
ТА	Technical Assistance
ToR	Terms of Reference
USAID	United States Agency for International Development
USD	United States Dollars
WSSI	Water and sanitation services index

1. INTRODUCTION

1.1 Document Purpose

This document reports the findings of the second of three missions by an impact assessment team (IAT) assigned to Phase 2 of the Indonesia Infrastructure Initiative (IndII). IndII is a facility funded by the Australian Government's aid program (administered by the Department of Foreign Affairs and Trade, DFAT); implemented by a managing contractor (SMEC International Pty Ltd); and governed by a board comprising DFAT and the Government of Indonesia (GoI)¹. The IAT mission was conducted in Jakarta over the period 18 August – 5 September, 2014 by three independent consultants.

1.2 Background

Indonesian context

Indonesia has made progress in tackling poverty, emerging as one of the fastest growing market economies in the world—at a rate of six per cent per annum since the global financial crisis in 2008 – 09. The establishment of a vibrant democracy was affirmed on 21 August 2014 (during the first week of this mission) when the Constitutional Court confirmed former Governor of Jakarta, Joko Widodo, as the next president.

However, the new government faces a current account deficit that more than doubled in this year's second quarter reaching USD9.1 billion (4.3% of GDP). Second quarter growth slowed to 5.12% (the weakest in five years), and the gap between rich and poor is widening². Slowing growth is considered to be a function of declining demand from China for key Indonesian export commodities (coal, rubber, palm oil and mineral ores) compounded by a failure to promote labour market reform and infrastructure improvements during the commodities boom of 2005 - 2011. A weaker rupiah made government imports even more expensive—which forced large budget cuts this year for public works and transportation. The World Bank projects a fiscal deficit of about 2.8% of GDP this year, close to the legal limit of 3% and vulnerable to both rising oil prices and declining rupiah value. Subsidies amount to some 3% of GDP and are slated to increase to a record high of over USD31 billion, or 18% of total spending.

Indonesia's second National Medium Term Development Plan $(2010 - 14)^3$ linked infrastructure investment to the goal of achieving seven per cent economic growth by 2014 and reducing poverty to between six and eight per cent. Infrastructure development remains a core focus of Indonesia's third National Medium Term Development Plan (2015 - 19) currently under preparation for the new government. Revised targets include achieving 100 per cent access to clean water and sanitation for the population, the construction of 6,000 kilometres of new roads and a focus on improving the average percentage of maintainable provincial roads from 63 per cent to 80 per cent.

Australian context

Australia's development partnership with Indonesia is helping to strengthen bilateral trade, investment and economic cooperation⁴. Australia's official development assistance (ODA) to Indonesia grew strongly after the 2004 Boxing Day earthquake and tsunami when Australia committed AUD1 billion of assistance under the Australia Indonesia Partnership for Reconstruction and Development. Investment in transport infrastructure was a key part of

¹ Bappenas, Ministry of Finance (MoF) and Coordinating Ministry for Economic Affairs (CMEA)

² Brooks, K. (2014) A Daunting Agenda for Jokowi, *The Wall Street Journali*, August 26, 2014, p 11.

³ RPJMN 2010-2014

⁴ DFAT (2013) Indonesia Infrastructure Sector Delivery Strategy (Draft), Jakarta

this assistance⁵. Beyond the humanitarian underpinnings, support for sustainable growth and economic management was a foundation of Australia's aid to Indonesia in support of the agenda of then President Susilo Bambang Yudhoyono⁶.

Support to improve infrastructure and infrastructure planning has been one of three priority areas for Australian aid to Indonesia and the largest single element⁷—comprising nearly 25 per cent of Australia's ODA in $2012 - 13^8$. In June 2014, the Australian Government released a new aid policy⁹ that focusses on prosperity and growth, and which emphasises infrastructure together with trade facilitation and international competitiveness as one of six pillars. A new performance framework for the aid policy contains an Aid for Trade 'benchmark' towards which infrastructure will contribute around half. Furthermore, infrastructure underpins the Australian Government's new Economic Diplomacy agenda focusing on trade, growth, investment and business.

In parallel with this IAT mission DFAT commissioned a design team to consider options for a new phase of infrastructure investment beyond 2015.

1.3 Facility Overview

Schedule 1B of the IndII contract defines the goal as: *"to improve infrastructure provision by reducing policy, regulatory, capacity and financing constraints on infrastructure expenditures at the national and sub-national levels"*¹⁰. The facility is pursuing three program areas: water and sanitation; transport; and policy and investment (P&I). Each program area has its own end-of-program outcomes.

IndII was approved by the Australian Government in October 2007 at an initial cost of AUD64.8 million to provide technical assistance (TA) to Gol's infrastructure policy, planning and investments at national and sub-national levels. In 2009 IndII was expanded to include substantial water and sanitation funding—which became the water hibah. In May 2011, a contract clause was exercised to extend IndII for four years (to June 2015). The second phase of activity was allocated up to AUD330 million of which up to AUD240 million was set aside for government-to-government grants¹¹; and AUD67.8 million was allocated to TA¹². Approval has been obtained to again extend IndII until January 2016 to enable the design of a third phase of infrastructure investment to be informed by the new Gol's priorities.

The *modus operandi* of the facility is the use of grants to 'incentivise' transformational changes in GoI policy and process in relation to infrastructure planning and investment. While Indonesia is Australia's largest aid recipient, funding equates to less than 0.5 per cent of the GoI budget¹³. Even as the largest bilateral grant donor in the infrastructure sector, DFAT's contributions represent a very small percentage of GoI spending—which is in turn small relative to need. In this context, using grants (supported by TA) to leverage

⁵ Principally via a AUD336 million package of grants and loan called the Eastern Indonesia National Roads Improvement Program (EINRIP), 2007 – 2014.

⁶ Sworn into office on 20 October, 2004.

⁷ Australia's increased investment in infrastructure coincided with—and arguably was driven by—a period of rapid scale-up of Australia's ODA in pursuit of a targeted 0.5% of GDP by 2015. A significant contextual factor for IndII is that the aid program in Indonesia was under pressure to grow by more than AUD135 million (25%) each year for four years, peaking at around AUD950 per year. Contracting fiscal conditions and a shift in Australian government priorities downgraded this outlook.

⁸ Over 85 per cent of Australia's expenditure on infrastructure aid to Indonesia in 2012 – 13 (AUD111 million out of AUD130 million) was delivered through EINRIP and IndII.

⁹ Australian aid: promoting prosperity, reducing poverty, enhancing stability

¹⁰ The goal stated in the approved M&E plan is worded differently: "to contribute to sustainable, rapid and inclusive economic growth and poverty reduction through improved infrastructure access and service provision". Of note, the goal in the contract is pitched at a conceptual level below economic growth. Both goals can be critiqued from a technical standpoint for conflating two levels of logic into one (reflected in the use of the words 'by' and 'through', respectively).

¹¹ Australia Indonesia Infrastructure Grants (AIIG) are administered through direct funding agreements (DFA) managed by DFAT. ¹² TA is administered by IndII.

¹³ AusAID, Indonesia Annual Program Performance Report 2011, Canberra, July 2012

government spending, and introduce efficiency-enhancing reforms to policy and process is sensible, and if successful in fostering lasting change, will represent good value for money.

2. METHODOLOGY

2.1 Scope

The subsidiary agreement for IndII prescribed an IAT to assess the effectiveness of the facility in meeting agreed objectives, and to gauge perceptions of the facility among GoI partners. This second of three IAT missions focussed specifically on:

- i. Assessing the status of recommendations from Mission 1, and implementation progress of key projects;
- ii. Exploring conceptions of 'leverage' and 'influence'—specifically in relation to four sampled activities;
- iii. Reviewing lessons learned from IndII's monitoring and evaluation (M&E).

The second and third of the above foci were to inform the design of a third phase of infrastructure investment by Australian aid beyond January 2016. The terms of reference (ToR) for Mission 2 are provided in Appendix A.

2.2 Sample

The second aspect of the scope discussed in Section 2.1 concerned an exploration of the notions of leverage and influence. To address this, the IAT reviewed four IndII activities drawn from a two-stage sampling process.

The **first stage** involved the IAT defining a sample frame to identify the four activities:

- Projects drawn from each of IndII's three program areas (transport, water and sanitation, P&I);
- A range of project sizes/investments;
- Level of Gol engagement;
- A mix of on central/policy emphasis, and local/investment emphasis.

The sample frame delivered the following activities:

- i. Australia Indonesia Infrastructure Grant for Sanitation (sAIIG);
- ii. 20 PDAMs¹⁴;
- iii. Water and Sanitation Service Index (WSSI);
- iv. National Roads¹⁵.

The **second stage** involved DFAT and IndII collaborating to identify key informants for the IAT to interview—drawn from DFAT, Gol¹⁶, IndII, subcontractors and informed third-party observers. A list of interviewees is provided in Appendix B. A framework to guide high-level questions is provided in Appendix C.

2.3 Methods

The broad methodology for data collection was qualitative:

 Document reviews: a comprehensive review of key documents produced by the facility along with relevant sector literature helped to identify key issues ahead of the mission, and provided the basis for factual data presented in this report.

¹⁴ Perusahaan Daerah Air Minum (Regional Water Company).

¹⁵ Note that one of the IAT members (Pak Windhu Hidranto) was engaged separately to this assignment to support National Roads activities.

¹⁶ Ministry of Public Works (MoPW, Ministry of Transport (MoT), Ministry of Finance (MoF), Coordinating Ministry of Economic Affairs (CMEA), Bappenas.

- **Key informant interviews:** 63 purposively selected individuals (only 10 female) provided the backbone of the primary data collection. The IAT was able to probe and triangulate stakeholder perspectives during the course of the mission.
- Observation: general observations during the mission supplemented the other methods in relation to issues such as: interactions/relationships between stakeholders, the degree of professionalism, the quality and appropriateness of deliverables, and the general attitude/engagement of various stakeholders.

IAT members compiled notes of interviews and discussions and used content analysis methods to identify common and exceptional themes against the evaluation questions.

Limited quantitative analysis involved a review of high-level implementation progress indicators agreed with IndII during Mission 1. Some analysis of financial expenditure/leverage and output delivery also involved simple quantitative analysis.

2.4 Limitations

The IAT mission proceeded as outlined in an evaluation plan approved by DFAT. Nevertheless, minor factors may have affected the findings, including:

- Immersion: a recognised limitation of program evaluations is that external/independent evaluators are constrained to the extent that they can become immersed in the history, technical and managerial nuance, geopolitical context and cultural norms associated with a large and complex program. To some extent this limitation was mitigated by the process of engaging the IAT for a series of three missions. Also, DFAT's appointment of an Indonesian infrastructure specialist was crucial to ensuring that findings were grounded and relevant in the local context.
- Interpretation: the IAT employed rapid qualitative methods of inquiry to identify key issues. Such evaluation methods are known to ultimately rely on professional judgement. Individual team members each brought their assumptions and experiences to this task. The IAT adopted a consensus approach to findings and recommendations in the first instance; but was prepared to document diversity within the team if consensus was unachievable.
- Stakeholder access: despite the best efforts of all involved, it was not possible for the IAT to meet with all desired stakeholders. The Indonesian IAT member conducted two additional interviews with Gol counterparts following the conclusion of the mission. There was limited engagement by the IAT with MoHA, IndII subcontractors or third-party observers. There was no engagement with any local government representatives, or community level beneficiaries.
- Gender equity: only around 23% of interviewees were female (of which almost all were DFAT staff); despite wide recognition that aspects of infrastructure development disproportionately affect women. The gender asymmetry in this review is a function of the under-representation of women in the infrastructure sector. Future IAT missions that seek community perspectives will aim to achieve more equitable representation.

3. FINDINGS

3.1 **Overview**

The IAT's findings are presented in the following sections in line with the three focus areas defined in the ToR (see Section 2.1).

3.2 Progress stocktake

 \boxdot Timely extension of contract to allow for Phase 3 design without loss of engagement or implementation momentum.

Generally satisfactory progress of implementation; especially strong management of TA deliverables.

Disappointing overall response to agreed recommendations and coordination of joint action between DFAT and IndII.

Apparent tendency to defer some operational challenges to the next phase of infrastructure investment, when valuable lessons could be learned from action in the current phase.

Status of Mission 1 recommendations

The first IAT mission in February 2014 culminated in 16 recommendations, of which DFAT had responsibility for 10, IndII had responsibility for two, and the remaining four required joint action. All 16 recommendations were accepted, at least in principle.

For Mission 2, the IAT assessed the status of the recommendations against the following categories:

- **Completed:** recommendations actioned by the commencement of Mission 2.
- Not started: recommendations for which no substantive progress had been undertaken by the commencement of Mission 2.
- **Ongoing:** recommendations for which some action had been initiated, or where routine activity was required.
- **Retired:** recommendations not started, but considered no longer relevant.

The following table provides a succinct overview of the assessment.

Recommendation responsibility, number & summary content		Summary observations				
		NS	OG	С	R	
Indll (2)	1.	Forecasting scenarios				
	6.	Board Briefing information				
Joint (4)	7.	CMEA Engagement				
	8.	MoHA Engagement				
	11.	Process change (IAT Appendix G)				
	12.	Workshop (IAT Appendix H)				
DFAT (10)	2.	Nominate forecasting Bands				
	3.	Contract performance measures				
	4.	Timely CPAs				
	5.	Agree Board's ToR				
	9.	Raise IndII consultants' AUD\$				
	10.	Permit Eol's release sooner				
	13.	Extend Indll Contract term				
	14.	Board engage better with Gol				
	15.	Suggested new design inputs				
	16.	Contacts facilitation				
I		Figure 1: IAT assessment of status of Missi	on 1 recon	mendations		1

Figure 1: IAT assessment of status of Mission 1 recommendations

Following are some salient points in relation to the above summary table:

 Completed: one recommendation (#13)—concerned with DFAT's extension of the current phase of IndII—was substantially 'completed'. This was to enable the design of a new phase of infrastructure investment to proceed without disrupting current engagements and implementation momentum; and importantly, to allow the new design to be shaped by the new Gol's priorities. DFAT was able to negotiate internal processes to reach a timely decision about extension, although at the time of drafting this report, contracts were yet to be furnished.

- Retired: one recommendation (#2) was 'retired'. The IAT recommended that DFAT define a band of acceptability for financial forecast accuracy. This was to provide an unambiguous basis for performance discussions with IndII. However, around the time of Mission 1, IndII moved to accounting on a full accrual basis, meaning that financial forecasts reflect actual contract values—essentially eliminating any variability. This in turn allowed DFAT to more accurately manage internal cash flows and reporting demands. DFAT has recently defined a 10% margin of error for projects one year ahead, with this margin reducing to less than 1% by April each year when internal reconciliations occur.
- Jointly assigned: of the four recommendations jointly assigned to DFAT and IndII, two were rated 'not started' (#8 and #11), and two were rated 'ongoing' (#7 and #12). Recommendation #8 concerned engagement with MoHA. This was seen to be important because of the many challenges associated with mobilising local government action encountered by Indll projects-most notably the sAIIG. This matter is an area for further study by the design team. Nevertheless, the IAT's discussions with GoI counterparts affirmed the importance of involving MoHA as a 'critical process facilitator', but underscored some of the complexity. It would not be acceptable to opportunistically engage MoHA only when problems arise; nor would it be workable to enmesh MoHA in all aspects of Indll's operations. Also, given the breadth of MoHA's structure and mandate, it remains unclear which directorate or sub-directorate might be the most constructive point of engagement. Recommendation #12 concerned the streamlining of the project development and approval process; and Recommendation #11 concerned a facilitated workshop to develop mutual understanding of the key issues. A workshop in June 2014 to articulate a preliminary 'theory of change' for the new phase of infrastructure investment partly served this purpose, but not entirely¹⁷. Further, a proposal for a more structured approach to project development offered by the IAT in Mission 1 as a starting-point for discussion appears to have been not well understood. A simplified form of this proposal is presented again in Appendix D. While there is an understandable inclination to transfer this issue for consideration by the design team for the next phase of infrastructure investment, we argue that lessons learned through tackling this issue in the current phase¹⁸ will position the next investment favourably.
- Indll-assigned: two recommendations (#1 and #6) assigned to Indll were rated 'ongoing'. Recommendation #6 concerned the content and style of communication with the Indll board. In response, Indll presented a range of formats to DFAT for review but the matter remains outstanding in part because it has not been possible to convene a board meeting since before Mission 1. The IAT noted that most stakeholders were of the view that the board lacked focus now that the bulk of Indll's resources have been allocated. This suggests an important area for resolution in the new infrastructure investment design—that is, how the governance arrangements might be best structured for various phases of implementation (i.e. purpose, membership, function).

¹⁷ 2014 Report – IIAP TOC Workshop – 20140611, IIAP, Notes on Theory of Change and Design Scoping Workshop, 34pp.

¹⁸ Around AUD2 million remains to be allocated—mostly for programming in the transport subsector.

DFAT-assigned: ten recommendations were assigned to DFAT, of which five were rated 'ongoing' (#3, #4, #14, #15, #16). Recommendations #3 and #4 concerned DFAT's management of SMEC's performance—both in terms of incentives to accelerate implementation of the grants (noting inherent challenges associated with working through counterpart systems), and in terms of contractor performance appraisals (CPA). The IAT was advised that the design team is considering ways to incentivise grant implementation; and that SMEC's CPA for the period ending June 2014 is in the final stages of drafting. Recommendation #16 concerned DFAT's need to be an active player in dialogue with Gol counterparts. The IAT noted that this remains an area of contention, with ongoing discussions required to align expectations and norms.

Implementation progress

With the majority of IndII's budget now allocated, focus has moved from project development and approvals to implementation and performance evaluation. Discrepancies between forecast and actual expenditure that were a source of contention between DFAT and IndII leading up to the IAT's first mission have been addressed by the adoption of full accrual accounting. Also, IndII has continued an earlier trajectory of exceeding amended contract expenditure milestones¹⁹.

¹⁹ Figure 2 depicts refreshed charts that were presented in the IAT's Mission 1 report (Source: SMEC).



Figure 2: Variance between forecast and actual expenditure, and expenditure relative to performance milestones

During the first mission in February 2014, the IAT agreed with IndII a set of 'high level' progress indicators attached to key grants and TA investments:

- Household connections per local government per month (water hibah—for each of DFAT and USAID-funded projects, sanitation hibah, sAIIG);
- Proportion of provincial road maintained per month (Provincial Road Improvement Program, PRIM);
- Proportion of TA deliverables produced per month.

The current status of these indicators suggests mixed progress. Figure 3 shows that the monthly average number of household connections per local government for the water hibah (DFAT-funded) and sanitation hibah are in steady decline over the life of these investments (see Figure 3). The water hibah (DFAT-funded) is currently down from a high of 684 household connections in March 2013 to 238 in July 2014. The sanitation hibah is down

from a high of 605 household connections in November 2013 to 116 in July 2014. Indll's experience from Phase 1 suggests that the high initial spike is an artefact of reporting on a backlog of work. The second lesser spike captures the higher efficiency of PDAMs that outsource work, compared to PDAMs that implement capital works with internal resources—reflected in the declining tail of the graphs.



Figure 3: Declining trend in monthly average household connections for both the water hibah (DFAT-funded) and sanitation hibah, respectively

Figure 4 shows the water hibah (USAID-funded) and sAIIG to have 'u-shaped' graphs for average monthly household connections. Both projects show recent increases in connection rates from lows of 131 (September 2013) and 86 (June 2014) for the water hibah (USAID) and sAIIG respectively. The water hibah (USAID) was recently at 185 connections (May 2014); and sAIIG was at 209 (July 2014). The sAIIG in particular continues to be plagued by a raft of local government and central government complexity—underpinned by a generally low level of demand for improved sanitation services.



Figure 4: 'U-shaped' trend in monthly average household connections for both the water hibah (USAIDfunded) and sAIIG, respectively

In the case of PRIM, road maintenance works were carried out in three months (January, March, June) over the first half of 2014. These works treated 13%, 11% and 9% of the 1,369 km road network in NTB, respectively (see Figure 5).



Figure 5: Discrete/new road maintenance works in NTB

However, PRIM's design is for new maintenance packages to be cumulatively added to the provincial work plan, meaning that by July 2014, a total of 459 km of provincial road was under routine maintenance—or 34% of the NTB network. This suggests steady progress towards the target of 100% road maintenance coverage (Figure 6).



Figure 6: Cumulative road maintenance works

For M&E and contract management purposes, all IndII TA contracts are broken down into a series of time-bound deliverables. The extent to which these deliverable targets are cumulatively met is a standard project management indicator. Since July 2011, achievement of monthly targets for TA deliverables has been variable, but the substantive finding is that the cumulative completion rate at July 2014 was 91%—broadly acceptable by project management standards.



Figure 7: Achievement of monthly TA deliverables

3.3 Leverage and influence

 \square The four cases studied suggest that IndII is achieving both leverage and influence (as defined), but there is no universal application of these concepts and the results are subject to a complex array of contextual factors. This means that it is not possible to engineer and warrant particular outcomes.

 \boxdot Sometimes modest TA resources are all that is required to influence significant national policy, practice and resource allocation changes.

 \blacksquare Effective leverage and influence was achieved through a timely, responsive and flexible alignment of needs with appropriate resources.

DFAT's infrastructure program represents a significant investment by Australia—around a quarter of Australia's ODA to Indonesia. But this investment remains small compared to the size of Indonesia's budget for infrastructure²⁰. Consequently, the concepts of 'leverage' and 'influence' have become important—the former in pursuit of value-for-money, the latter as an underlying rationale for investment.

More broadly, Australia's new aid policy emphasises the concepts of leverage and influence. The policy uses the word 'leverage' more than ten times, and the third of four 'tests' to be applied to aid investments ("Australia's value-added and leverage") concerns improving the effectiveness of public spending, private sector investments and other development finance.

For the purpose of this review, 'leverage' was defined as the use of aid funds to attract additional public or private expenditure in priority areas during the life of this investment²¹. 'Influence' was broadly related to changes in policy, practice or attitude. Both 'leverage' and 'influence' are both means to achieving the desired end of 'impact'.

The IAT explored the relationship between these concepts to support the design of the new phase of Australian aid investment in infrastructure by assimilating the perceptions of key IndII stakeholders associated with the four IndII projects cited previously, *viz*:

- sAIIG;
- 20 PDAMs;
- WSSI;
- National Roads.

A summary of each of these four projects is provided in Appendices E (sAIIG), F (20 PDAMs), G (WSSI) and H (National Roads). The IAT concluded that these projects are broadly achieving leverage and influence, but that there is no prescription for how these agendas can be achieved. The complex and interdependent variables mean that planned results cannot necessarily be engineered or warranted. This is arguably a key rationale/benefit of the 'facility' modality since it enables an evolving response to the dynamic context. The IAT also noted that overtly framing a bilateral engagement in terms of leverage and influence risks being viewed as imperialistic by stakeholders being 'leveraged' and 'influenced'.

In terms of the relationship between these concepts, the IAT noted a general expectation that *leverage* could be a mechanism or tactic to achieve *influence*. It is plausible that in response to a relatively small but well-placed aid investment, GoI might match or extend this investment with national resources to achieve more than either party might have achieved

²⁰ 2014: <u>http://www.indonesia-investments.com/doing-business/risks/infrastructure/item381</u> (Regarding funding for infrastructure projects, the government has set targets in both the National Medium-Term Development Plan 2010-2014 (RPJMN) and the Masterplan for the Acceleration and Expansion of Indonesia's Economic Development Plan (MP3EI 2011-2025) which - to a large extent - will be financed by the private sector. It is projected that more than 70 percent of both the USD \$150 billion investment needs in the RPJMN and the USD \$468 billion investment needs in the MP3EI will be contributed by the private sector through public-private partnerships. Approximately 45 percent of the MP3EI is reserved for infrastructure development.)

²¹ N.B. The IAT also acknowledges that leverage may occur or compound beyond the life of this investment, but for the purposes of this review, our focus was predominantly on the current period of investment.



Indeed in this review, the IAT found this phenomenon to be emerging in relation to sAIIG. However, it became evident that the relationship between these concepts was complex with various pathways to impact being employed in IndII; and with leverage and influence interacting in three different ways in the four cases studied.

The case of the 20 PDAMs project illustrated an alternative pathway to impact that was the reverse of the 'classic' scenario above such that the *influence* of business planning TA on 'weak' PDAMS appears set to *leverage* finance from commercial sources, which in turn could unleash revenue-expanding investments by these PDAMs. The relationship in this instance may be depicted as (the '**Inverse**' scenario):



A third scenario was observed in relation to the WSSI and National Roads projects. In these cases there was little or no 'leverage' of financial resources, but early indications suggest that influence is occurring (at least in underlying attitudes, if not practice), and as a consequence, significant impact is plausible. This phenomenon might be depicted as follows (the '**Premium**' scenario):



These three scenarios are elaborated in the following subsections with reference to the sampled projects (with additional detail provided in Appendices E - H).

sAllG: a case of leverage enabling influence

The sAIIG is a bilateral grant designed to stimulate local government investment in municipal infrastructure for sanitation, and to provide incentives for governance reforms that will impact sanitation and other sectors²². The intention was for DFAT to invest AUD40 million in grants over a three-year period to support approximately 40 selected local governments in implementing municipal sanitation infrastructure using an output-based modality. The design anticipated improved sanitation for approximately 92,000 households or 400,000 beneficiaries. As noted in Section 3.2 (see Figure 4), implementation is substantially delayed²³. Reasons for delays (see IAT Report #1, p 18 - 20) are in large part a function of the challenges of working through government systems; but given that the wider aim of the

²² SAIIG differs from Sanitation Hibah in that it is concerned with more than just investing. It is also concerned with helping LGs establish an institutional basis for public services in sanitation.
²³ At the time of this review, the program had engaged 43 local governments (more than the target), but had committed a little

²³ At the time of this review, the program had engaged 43 local governments (more than the target), but had committed a little over half (AUD22 million) of the anticipated disbursements.

sAIIG is to influence these same systems, encountering these challenges is arguably an opportunity rather than a threat to the wider aims of the Facility.

Notwithstanding the significant implementation challenges, the sAIIG (along with the water hibahs-funded by DFAT and USAID-and PRIM) appears to have influenced attitudes and practices in relation to local government financing. Under the outputs-based arrangements, local governments pre-finance sanitation works and claim reimbursement²⁴ after verification of household connections. This is not a change in policy per se, rather an application of the existing policy in a new way—in sanitation services. The IAT was advised²⁵ that GoI intends to adopt outputs-based mechanisms to administer its own funds even without bilateral support. This is arguably a successful 'demonstration effect' by Indll. To support this move, Indll was requested by Bappenas to examine ways to 'mainstream' the hibah from 2016 onwards²⁶. Interviewees at Cipta Karya advised the IAT of an intention to expand the mechanism to solid waste, with one senior official noting that the quality of work performed under the outputs-based mechanism was higher than that witnessed under regular DAK transfers²⁷. MoF interviewees with responsibility for Fiscal Matters and Centre-Regional debt management were enthusiastic over performance-based budgeting, because in their view it positively changed the nature of the financial engagement between central and local government.

This change has been achieved in part through Gol's own recognition of the ineffectiveness of developing the water and sanitation sectors by channelling funds through the DAK mechanism alone. However, it is also arguable that the use of Australian aid funding to 'leverage' additional Gol investment in the sector has helped to highlight the issue of access to sanitation. A Cipta Karya official advised that local governments have increased their funding allocations to sanitation by between 1 - 2%, partly as a consequence of sAIIG. Further, Australian aid funding has illuminated some of the obstacles faced by Central government in channelling funding to local governments²⁸. The major obstacles include:

Socialisation': promotion of the sanitation program among relevant local government decision makers has proved challenging. The official 'protocol' events convened by Cipta Karya to publicise the grant have targeted a relatively narrow group of local government stakeholders and have evidently been ineffective in triggering demand among key decision-makers. A consequence is that demand creation by IndII and Cipta Karya has been less effective than hoped—contributing to slow uptake²⁹. This situation suggests that more creative and effective ways to 'socialise' support for centrally funded local projects are needed beyond just the formal 'protocol' events. A more comprehensive stakeholder engagement strategy is likely to be of continuing relevance in this phase of IndII; and may also be of relevance to the design and implementation of a new phase of infrastructure investment, and in supporting Gol more broadly to move to performance-based mechanisms.

²⁴ IDR3 million per household connection and IDR4 million per connection to a sewerage utility.

²⁵ By interviewees in Bappena, MoF and MoPW.

²⁶ What was less clear to the IAT (given the limitations of the methodology; see Section 2.4) is the views of local government stakeholders to this fundamental change in the way central government administers the flow of resources. An official in Cipta Karya conceded that "Local governments are not so keen on the outputs-based mechanism…they prefer us to just give them the money like with DAK".

²⁷ N.B. the World Bank administers a DAK reimbursement program which is also quasi-outputs based. Gol is about to borrow an additional \$500m to supplement the original \$220m loan, which may suggest that some sections of Gol consider that DAK is delivering useful results.

²⁸ Currently the quantum of funds retained/expended by Cipta Karya at central level is ten times more than the value of DAK funding channelled to local governments. There is recognition within Gol that the hibah mechanism provides a way to balance this equation—in the process improving the efficiency and accountability of public expenditure.

²⁹ As noted in Footnote 23, delays with sAIIG are a function of the slow expenditure rate. The small package sizes are arguably a function of the low demand/prioritisation of sanitation services among local government decision-makers.

- Mandate: there is diversity in the acceptance by local government stakeholders concerning their responsibility for household sanitation services. Although the IAT did not have opportunity to engage directly with local government stakeholders in this review, IndII's experience confirmed the views of Cipta Karya interviewees that some local government officials resist their mandated obligation to deliver household sanitation services. This may suggest a stronger role for MoHA in IndII's local government engagement (as recommended in the first IAT mission).
- Institutional arrangements: there is diversity and a lack of clarity concerning the most appropriate institutional arrangements to administer sanitation services. A variety of institutional set-ups are being used across local governments and there is little consensus concerning which are likely to be most successful in the long-term. This issue warrants detailed study in order to develop guidance for local governments wishing to improve sanitation on an enduring basis.
- Cost: the cost of rolling out sanitation has been significantly higher than anticipated. This poses particular difficulties for fiscally challenged local governments—especially when projects extend over more than one financial year before reimbursements can occur.

Notwithstanding these persistent challenges, it was evident that with DFAT's support, the merit of a performance-based approach to administering central government infrastructure investments at local government level has been well demonstrated. This suggests that DFAT should be cautious about further/indefinite funding for the hibahs in a future phase of support, since this could plausibly erode GoI ownership and sustainability.

Recommendation:

- 1. Indll should explore more creative ways to 'socialise' (promote and explain) the sAIIG and build demand at local government level. A more comprehensive local government engagement strategy could help to improve uptake and expenditure of the sAIIG; and it would likely yield valuable lessons for a new phase of infrastructure investment by DFAT, if such a future program aims to influence local government implementation of public works.
- 2. Indll should study the most viable and sustainable institutional arrangements for local governments to administer sanitation services, and develop a package of support to help LGs to implement the preferred arrangements. Such clarity will be of particular relevance in focusing any future DFAT support in the sanitation sector.
- 3. Given the successful 'demonstration effect' of IndII, DFAT should consider a progressive process to appropriately transition away from funding hibahs; and increasingly support Gol in rolling out its own performance-based systems rather than resourcing the mechanism directly.

The sAIIG case suggests that in some circumstances, using aid to leverage additional counterpart investment can lead to opportunities for wider influence on policy and practice. This in turn may enable greater development impact than might have been achieved through direct delivery approaches.

20 PDAMs: a case of influence leading to leverage

As noted above, the 20 PDAMs project exhibits a different scenario in relation to leverage and influence than that observed in relation to sAIIG.

A reported 191 of Indonesia's 335 municipal water corporations (PDAMs) have been rated 'financially unhealthy' owing to poor governance, institutional inefficiency and a history of

loan defaults following the 1997 Asian financial crisis. Most of these PDAMs have been insufficiently creditworthy to access commercial finance, which has constrained their ability to maintain existing infrastructure and expand household connections—thereby achieving higher revenue streams. This situation has in turn compromised the Gol's achievement of MDG-related targets in relation to national piped urban water supplies.

The 20 PDAMs project was conceived to assist unhealthy PDAMs to meet commercial bank borrowing requirements. Assistance has primarily focussed on business planning to achieve full cost recovery, enabling previously defaulting PDAMs to access commercial loans, including under Presidential Regulation No. 29/2009 ('Perpres 29')³⁰.

At the time of this review only one of the twenty selected PDAMs (Lombok Timur) had successfully accessed finance³¹. A further seven PDAMs were considered likely to be approved by MoF before the conclusion of Perpres 29 at the end of 2014, leaving 12 uncertain PDAMs. Stakeholder discussions revealed that a range of factors have conspired to make project implementation fraught, *inter alia*:

- The stringent requirements of MoF to guarantee loans to PDAMs;
- A complex approval process requiring sign-off by seven Gol Directorate Generals³² (N.B. in interviews with MoF officials, the IAT was asked if IndII could provide technical assistance to help streamline the internal approval processes currently affecting the 20 PDAMs project).
- A requirement for approval of loans by local parliaments—themselves affected by leadership turnover and competing economic and political priorities;
- Inherent capacity limitations within the corporate structures of the PDAMs—that can compromise implementation of the business plans³³.

Recommendation:

4. Indll (or AIPD, as directed by DFAT) should respond to the request by MoF for TA support to help reconcile and streamline the inter-ministerial approval process that is currently delaying the 20 PDAMs project.

Notwithstanding the seemingly disappointing performance of this project, the IAT formed the view that the 20 PDAMs project demonstrates a scenario in which *influence* (in the form of performance-enhancing business planning TA) can lead to *leverage* (i.e. significant additional capital investment and revenue growth). PDAM business planning supported by IndII has cost around AUD2.8 million³⁴, which is anticipated to enable a drawdown of approximately AUD70 million loan capital from commercial banks. This twenty-five-fold 'leverage' in the first instance could be further geared if PDAMs implement the cost-recovery and revenue reflow strategies that underpin their business plans. That is, reinvestment of the increased revenue in developing further network expansion could in turn generate additional revenue. IndII forecasts suggest that full implementation of the 20 business plans could yield 1.7 million household connections. Even if only partially realised,

³⁰ A government debt restructuring program in which the Central Government guarantees 70% of outstanding loan amounts. It remains to be seen if Perpres 29 will be extended, amended or closed by the end of 2014.

³¹ N.B. even this business plan took 23 months to progress through MoF approval processes.

³² Three Directorate Generals in MoF (debt management, treasury, fiscal policy), one in MoHA (regional finance), one from the State Auditor, one from Cipta Karya (human settlement) and one from Bappenas.

³³ A Cipta Karya interviewee noted that IndII had been allocated especially weak PDAMs because the program offered more resources and better qualified consultants than was available through the GoI support program. DFAT confirmed that this was appropriate, and in fact a design-feature of the intervention. Nevertheless, this fact has significantly contributed to delays and complexity in implementation.

³⁴ At an average cost of AUD140,000 per plan.

this suggests a catalytic aid investment in private enterprise in Indonesia with significant development impacts.

In the case of Lombok Timur, this aid investment paved the way for an IDR11.18 billion loan. Interviewees in MoF and Cipta Karya indicated that this level of commercial investment in a PDAM was implausible without professional technical support. In the case of the Surabaya PDAM, a complex business plan cost approximately AUD200,000, and before obtaining finance this enabled 30,000 new household connections, which later expanded to 160,000. The IAT was also advised of the Banyumas PDAM, which has already increased network coverage by 24% (from around 44,000 to over 55,000 connections). As the next in line for Perpres 29 approval, the business plan is projected to deliver more than 120,000 connections (i.e. more than double). Data assembled by IndII (Figure 8) suggests that the 20 PDAMs supported by Australian aid are indeed outperforming the average of all other PDAMs—and even more so, comparable PDAMs³⁵. This level of influence is particularly significant give the fact that the 20 PDAMs were known to be among the most 'unhealthy'.



Figure 8: Performance of Indll supported PDAMs relative to average and a control group

It seems that by providing professionally supported business planning, the 20 PDAMs project has fostered commercial confidence in the PDAMs, while also exposing them to the more stringent management obligations of commercial lending institutions. This in turn appears to provoke stronger corporate performance³⁶. This approach stands in contrast with more conventional development approaches such as that taken by the USAID-supported IUWASH program in which capacity development is invested in the first instance, in anticipation that through time, PDAMs will attract capital and improve their performance as capacity development effects take hold³⁷.

³⁵ The control group was constructed using simple propensity score matching techniques based on three key attributes (2009): i) size (number of total connections); ii) cost of production of water (to capture different physical and efficiency circumstances); iii) Percent of full cost recovery.

³⁶ This scenario could arguably be a case of Say's law in classical economics, in which increasing supply leads to an increase in demand, rather than the converse.

³⁷ IUWASH is believed to have invested USD38.4 mill, and benefited an estimated 400,000 households. On this narrow measure, the approach taken by the 20 PDAMs project appears to represent better value for money.

Recommendation:

5. In the new phase of infrastructure investment, DFAT should prioritise interventions to reduce the complexity of intra and inter-Ministerial processes that complicate central – local government engagement in infrastructure planning and delivery. Such support to streamlining GoI processes would significantly enable extension of performance-based mechanisms of support to local governments; even beyond targeted sectors.

WSSI and National Roads: two cases of influence fostering impact without any financial leverage

In the cases of WSSI and National Roads, there was little *leverage* of financial resources. But in contrast to the starting hypothesis posited above, there was evidence of *influence* nonetheless. This influence is emerging even without leverage being used as a tactic to foster Gol ownership. This finding highlights again the complex pathways to realising impact in Indonesia's infrastructure sector. It also highlights that the conventional rationale for TA holds—that in certain circumstances, it can be an efficient way of achieving policy influence. The 'art' in designing development interventions is to understand when these circumstances are present, acknowledging that evaluations have also found that TA risks being squandered with little lasting impact when not well-placed and well-timed.

Based on comments by an official in the regulator (BPPSPAM³⁸), the value of the **WSSI** has been internalised as a complement to Gol's own PDAM performance assessment, and part of a wider strategy to 'turn around' PDAMs in pursuit of Presidential commitments to increase access to water. **National Roads** is similarly having a profound, as-yet intangible, influence on Bina Marga's conception of roads policy, planning and delivery, with IndII advisers involved in the preparation of the RPJMN³⁹ and RENSTRAs⁴⁰, and thus potentially shaping Gol attitudes to road assets.

WSSI is an easily understood index of customer satisfaction with local water and sanitation services. The rationale for the WSSI stems from the argument that declining service levels by public water and sanitation utilities is in part a function of weak demand from the community for better services. This in turn is due to the fact that there is no basis against which the community can assess these services. The WSSI combines eight sub-indices drawing on both measurable data and consumer perceptions—assimilating household surveys, official documents, interviews and water quality tests. The results are placed in the public domain to empower citizens to monitor progress towards water and sanitation goals, and to press for better services. The apparent success of WSSI appears to arise from its timeliness. The TA coincided with a political drive that recognised the critical importance of strengthening weak PDAMs as a means to improving Indonesia's international standing in access to water.

An emerging issue raised with the IAT stems from the apparent success of the project. In essence, the *raison d'être* of the project was to raise awareness of service delivery shortcomings. But with heightened awareness come expectations of remedial support for weak performing PDAMs. A program of follow-up support to strengthen these organisations

³⁸ Badan Pendukung Pengembangan Sistem Penyediaan Air Minum, Development Support Agency of Water Supply System

³⁹ *Rencana Pembangunan Jangka Menengah Nasional,* Indonesian: National Medium Term Development Plan; Indonesia

⁴⁰ *Rencana Strategis*, Indonesian: strategic plan

could be a priority area for the next phase of infrastructure investment, and could draw on IndII's experience in the 20 PDAMs project.

Recommendation:

6. Indll should explore ways to provide follow-up support for poor performing PDAMs identified by the WSSI to improve their 'health'. The complexity of such support may necessitate engagement in the next phase of infrastructure investment.

The **National Roads** project has sought to address known critical issues in transport policy, planning and delivery. There is no obvious *leverage*, with the investment involving what would appear to be conventional TA⁴¹ to *influence* policy.

TA makes a contribution to the considerable challenge faced by the GoI in implementing reforms required in the institutional structure and organisational culture of DGH, as well as helping facilitate improvements in the enabling environment⁴² to improve the quality of construction and engineering services in both the public and private sector.

The Vice Minister for Public Works advised the IAT that the most valuable aspect of Indll's work was "the influence on roads policy and planning". This emphasis on the importance of influencing thinking rather that delivering infrastructure projects outright is illuminating and highlights that successful TA is subject to an array of external factors: timeliness; engagement and ownership by relevant decision-makers; sufficient resources; political alignment; etc. The causal linkages between TA and policy influence are long and potentially ambiguous. This is frequently the basis for criticism of TA-centric development programs. However, the emerging picture from the National Roads case is that, well-placed TA that supports the technical and managerial needs of the bureaucracy in responding to political demands can position a bilateral program to achieve significant influence. The difficulty from a programming perspective is that such an outcome can rarely be engineered and warranted at the outset. The essence of TA-based engagement is that through building credibility and trust, opportunities to influence policy and strategy can be harnessed—if and when they arise. Conversely, such opportunities cannot be exploited if there is no relationship of confidence. This positioning and timing judgement is likely to be optimised through collegiate and close collaboration between DFAT and the implementing contractor

The work of IndII advisers appears to be an example of well-placed/well-timed TA with support provided for the preparation of the RPJMN and RENSTRAs—important processes for shaping attitudes and priorities to transport assets. Briefing notes for incoming ministers are hoped to compound the systemic influence achieved within the bureaucracy. The apparent basis for success has been the ability/flexibility of IndII to respond to the immediate technical needs of the MoPW in drafting the RPJMN and RENSTRAs. This 'helpfulness' along with the technical credibility of the TA has positioned DFAT to have a voice in relation to wider policy and strategy discussions. Arguably, IndII's emerging success within this domain has arisen from persistently articulating a coherent framework for analysing and addressing Indonesia's transport challenges. While it is too soon to point to tangible results, IndII's comparative analysis of the breakdown of funding in the 2010 – 14 RENSTRA *vis-à-vis* the 2015 – 2019 RENSTRA demonstrates significant changes in strategic priorities—some of which is plausibly a function of IndII's influence.

⁴¹ DFAT has approved AUD10 million for TA on national roads, with current expenditure in the order of AUD5.5 million.

⁴² "Enabling environment" encompasses institutions, laws, regulations, standards and processes in the transport/roads sector.

Figure 9: Changes in RENSTRA funding breakdown between 2010 - 14 and 2015 - 19

Salient aspects of the changes in priorities include a doubling of the overall transport budget, including the addition of 10.9% of budget dedicated to expressway construction; new allocations to support sub-national road networks; a doubling of bridge construction budgets; and greater transparency overall with respect to funding allocations.

The new urgent priorities for MoPW and DGH are to invest in road development to achieve national connectivity goals and to modernise the network into a safe and efficient means for land transport that supports trade competitiveness and economic growth. This national network would have: an expressway network as the backbone, with limited access, high capacity, dual carriageways, grade separation and 100 km/h design speed; arterial connections between economic centres and cities; and a supporting collector network, providing access to the arterial network for communities and producers, with 60 km/h design speed and road standards staged over time to satisfy local demand and growth.

Road safety programmes were not reviewed as part of the sample of activities for this IAT mission, however, we were advised that when the DFAT Minister Counsellor (Political and Trade) called on the Vice Governor of South Sulawesi and Mayor of Makassar in September

2014, the Vice Governor specifically mentioned the benefit of road safety training previously conducted in Makassar⁴³. IndII is supporting GoI with an Integrated Urban Road Safety Program (IURSP). This program will provide technical assistance to several pilot cities so that they can prepare a Detailed Engineering Design for improving pedestrian and urban mobility in selected areas and along selected road corridors. The road safety engagements are fundamental to achieving desired outcomes in the national roads program.

The IAT notes that neither the RPJMN nor the RENSTRA have been finalised, so the extent of IndII's influence remains to be seen⁴⁴. Given the level of investment and engagement by IndII in DGH processes, it is advisable for DFAT to continue providing TA requested by DGH; at least through the establishment phase of the incoming government, at which point decisions about continued TA can be informed by evidence of actual changes in practice emerging from the RPJMN and RENSTRA processes. For a future phase of infrastructure support, DFAT could consider introducing conditionalities on TA as one way to provide greater assurance of impact—noting that this can also backfire when it compromises the underlying relationship. Also, a future phase of infrastructure investment could consider implementation of a national roads package to demonstrate the practical effect of the key policy and strategy recommendations. Such an approach could draw on the lessons of the well regarded EINRIP which constructed roads, and has been lauded for showcasing better design practices.

Recommendation:

7. In the next phase of infrastructure investment, DFAT should consider a national roads package as a practical demonstration of innovations in policy, planning and delivery introduced by IndII.

In comparison with the sAIIG and 20 PDAMS cases described above in which financial leverage can be argued as evidence of GoI ownership, both the WSSI and National Roads projects could be criticised for being 'supply side' investments—that is, conceived and led by IndII. However, evidence suggests that in these cases, influence in the form of well-placed and timely TA could generate lasting impact.

The conclusion of the IAT's reflections on leverage and influence suggest that there is no universal interpretation or conception of these terms; but that both leverage and influence are successful tactics in so far as they are aligned with political imperatives, and are delivered in a timely and relevant form.

⁴³ 2014 Oct, <u>http://indii.co.id/list_recent.php</u>

⁴⁴ Recall that for the purpose of this review, the IAT defined 'Influence' as being broadly related to changes in policy, practice or *attitude* (p 11).

3.4 Monitoring and evaluation

☑ Comprehensive project level M&E arrangements and supporting MIS.

☑ Helpful gender categorisation of all project designs.

☑ Valuable plans for outcome and impact evaluations during remainder of IndII.

E Limited gender and social inclusion resources. No significant consequence of gender categorisation for designs and implementation.

Limited strategic M&E undertaken by DFAT/IndII.

Project-level M&E

The IAT found that IndII is implementing extensive project-level M&E arrangements, supported by a comprehensive and accessible management information system (MIS)⁴⁵. Expenditure tracking is close to real time and the status of 122 projects is succinctly summarised using 'traffic lights'.

Figure 10: Indll MIS screenshot

Evidently, IndII's focus on project-level M&E was agreed with DFAT during the Phase 2 inception when the IAT was conceived as a mechanism to assess facility-level impact, sustainability and relevance (aka 'performance above the line'), and IndII's M&E arrangements were to ensure accountability for project implementation progress. Arguably, the emphasis on scrutinising project level performance arose in the context of the then AusAID's rapid 'scale-up'; a stocktake of Phase 1 activities; and an Australian National Audit Office review⁴⁶. These factors may have reinforced the appetite for a census of project progress and performance, rather than more strategically focussed M&E.

Project logic models are developed for every project, and then form the basis for progress assessments and evaluations. All project teams submit reports on a monthly basis using a structured template. Indll Project Officers assimilate these reports and consolidate them into Six-monthly Facility Progress Reports—largely for internal management purposes, but are also circulated to DFAT.

Most M&E resources are spent on desk reviews and quality control. Some IndII consultants are of the view that the monthly reporting requirements are onerous. An assessment of

⁴⁵ Evidently DFAT staff have been given access to the MIS but appear not to be making full use of its potential.

⁴⁶ ANAO Audit Report No. 39, 2012-13, AusAID's Management of Infrastructure Aid to Indonesia, 168pp.

M&E utilisation may reveal a case for rationalising the reporting burden—either in terms of the amount of information and/or frequency of reporting. To some extent this judgement requires DFAT to be explicit about an expectation for the performance of *all* IndII projects to be assessed to some extent (i.e. a census) *versus* more in-depth M&E of an agreed selection of projects (i.e. a sample focussed on more strategic issues).

Notwithstanding IndII being tasked with a predominant project-level M&E focus, the facility has conducted some reviews of outcomes—both with internal M&E resources and through outsourced contracts; for example M&E staff conducted a review of support for Transjakarata. Work is ongoing over the next year to assemble evidence of impact from a range of sources. The National Opinion Research Centre (NORC) of the University of Chicago has been engaged to conduct quasi experimental baseline/impact studies for PRIM, sAIIG, water hibah, and the black spots project. IndII has recruited a statistician/researcher to analyse impact and changes in the operating context.

All projects are assessed at design by gender and social inclusion staff, and categorised using a Gender Screening Tool. However, there is little consequence of the screening for design or implementation. Gender is acknowledged to be a lightly resourced area of IndII. No expertise exists within the Facility in disability access. There have been no dedicated interventions aimed at addressing gender equality or other dimensions of social inclusion, although the road safety projects are likely to particularly benefit women.

M&E findings are not presented to the IndII board, and hence do not inform strategic decisions. DFAT has mostly rated IndII's M&E '4' (i.e. 'satisfactory' on a six-point ordinal scale) in CPAs.

Recommendation:

- 8. Indll should succinctly document all plans for outcome and impact evaluations so that DFAT can appreciate what information will be available to support the design of a new infrastructure investment.
- 9. Indll should ensure that planned impact studies capture evidence of gender equality impacts; and identify the implications and lessons of the gender categorisations.

Facility-level M&E

DFAT has begun considering alternative M&E arrangements for the next phase of infrastructure investment —arguably in response to a sense that IndII's M&E arrangements are not answering the 'big questions' for the aid program. This may be compounded by the fact that there was no IAT input for around two years, and two missions in 2014 have not explored dimensions of impact⁴⁷. It may also be that IndII has not adequately communicated the M&E arrangements to DFAT—and in particular the work planned to evaluate impact and outcomes over the forward period.

The following diagram simplistically distinguishes between 'levels' of facility M&E, and the core question to be answered at each level.

⁴⁷ 'Impact' is commonly described as significant and lasting changes in the lives of *ultimate beneficiaries*. The IAT's first mission focused on operational and managerial matters. This second mission has explored tactics/approaches to foster facility outcomes among selected *partners/counterparts*.

Figure 11: Levels of facility M&E

'Project level' M&E is concerned with the question 'what is happening?', and as such tracks the performance and quality of individual projects. This has been a key focus of IndII's M&E arrangements. 'Facility level' M&E assimilates the project-level performance information and asks 'so what?'—an inquiry into the collective value of the projects, and the merit or success of changes fostered. A broader and more profound question is then 'now what?' This 'strategic M&E' is concerned with wider questions of relevance in a dynamic context, and as such considers how the design and focus of the facility should adapt. Each level carries its own challenges. Project-level M&E is difficult because of the sheer workload required to make sense of a large array of activities. Facility-level M&E is conceptually challenging because it presupposes a high degree of coherence, purposefulness and synergy across the portfolio of projects—something which is frequently only possible in hindsight. Strategic M&E is challenging because of the ill-defined, existentialist nature of the questions—and the underlying 'wicked problems'⁴⁸.

DFAT is currently exploring the merit of extending the experience of the Education Partnership's Performance Oversight Monitoring (POM) contractor to the infrastructure program. Discussions with stakeholders variously suggest an expectation that such a structure is needed to strengthen 'facility-level' M&E and 'strategic M&E'. In DFAT's increasingly resource-constrained environment there is a case for stronger 'strategic M&E' to guide and inform bilateral engagements aimed at achieving policy influence and leverage.

Interviews with the Education POM identified a number of critical success factors that may help to refine discussions concerning a similar set-up for the infrastructure program, including:

 The critical importance of having senior vision and leadership to give purpose and credibility to the work of the POM.

⁴⁸ Rittel, Horst. "Dilemmas in a General Theory of Planning." *Policy Sciences*, 1973: 155-169. See explanation at <u>https://www.wickedproblems.com/1_wicked_problems.php</u>

- The need for clear delineation of responsibility between the various levels of M&E ("We're not replacing project-level M&E, we're complementing", Education POM contractor).
- The need for a clearly articulated 'theory of change' to underpin the facility, in order to give structure and purpose to facility-level M&E, and to enable meaningful strategic questions to be posed.
- The critical importance of managing relationships between the key stakeholders: DFAT, the POM contractors, the implementing contractors/M&E practitioners.
- The need to clarify the extent to which the POM contractors are sector specialists engaged to study technical content, or more general M&E practitioners testing alignment with stated agendas.
- The logical counterpart or 'client' of the POM's work is the governance structures. Governance would be more effective if it was more 'evidence-based'; and a POM might be more influential if it was more focussed on governance matters.

The broad notion of a 'trusted' third party specialist leading M&E processes holds intuitive appeal. One interviewee stated: "DFAT people tend to have an inherent distrust of M&E products produced by implementing contractors". The experience of the Education Partnership POM suggests that there is likely to be merit in adopting a similar model for the new infrastructure design. Discussions within DFAT concern the best structure and focus of a new POM(s) vis-à-vis related initiatives in economic governance, justice⁴⁹ and other sectors. To maximise value and minimise the risk of ambiguity/conflict, it is important that the scope of such a structure be clearly articulated vis-à-vis other M&E functions. Specifically, the boundaries of responsibility should be clear for M&E functions carried out by implementing contractors, and those carried out by an independent POM(s). This extends to the nature of data to be captured; how it is treated/analysed; and protocols for communicating/disseminating findings to various audiences. The clear additional value added by the Education POM has been the ability to independently reflect on the ongoing relevance and appropriateness of strategies within a dynamic context. In the case of an infrastructure-centric POM, such reflections could extent to researching emerging opportunities for leverage and influence.

⁴⁹ An internal discussion paper given to the IAT presents four scenarios/options, each with relative strengths and weaknesses. An important tension to balance is the extent to which the new POM is focussed on broad issues common to several investments (e.g. economic growth) or on sector-specific dynamics. On balance, the IAT's preference leans towards DFAT's Option 2B, with a POM the jointly focusses on infrastructure and economic governance, and a separate POM for justice. This option appears to provide the opportunity to reflect macro dynamics, while remaining attuned to sector dynamics. There is also some management economy associated with M&E oversight of two related domains within DFAT's structure (infrastructure and economic governance).
3.5 Key lessons for a new phase of investment

In support of the design process for a future phase of infrastructure investment, the IAT assembled the following high-level lessons drawn from the experience of IndII Phase 2:

- Process issues that have led to slow decision-taking and an adversarial relationship between the client and contractor should be addressed to mitigate similar challenges in the new phase;
- The specifics of new shared objectives between GoI/DFAT should be made explicit, and the metrics by which they will be measured should be articulated from the outset.
- The dynamism of the Indonesian infrastructure context warrants continuation of a flexible and responsive facility—noting that some elements of IndII's approach are 'mature' enough to be 'programmed'.
- Experience suggests slower rates of expenditure in early years. Performance expectations should align with this experience.
- Given DFAT's more resource-constrained environment it may be necessary to consider governance and management arrangements that give a contractor more latitude to develop the facility portfolio, with DFAT dedicating more focus on M&E and strategic engagement—in line with emerging ideas concerning a 'POMstyle' M&E structure.
- The governance arrangements for a future phase of infrastructure support should draw on lessons from Phase 2 that suggest that the purpose and membership of such structures change in step with the different phases of implementation.
- Lessons learned from sAIIG in relation to local government 'socialisation' processes should inform a comprehensive local government engagement strategy for future interventions aiming to mobilise local government implementation of public works.
- The GoI should be supported to study and clarify the optimal institutional arrangements/structures for administering sanitation services at the local level.
- The Gol's ambition to rollout performance-based engagements with local governments should be supported by a streamlining of central government interministerial approval and coordination processes to improve the efficiency and impact of the change in approach.
- A future infrastructure investment should include remedial support for poorperforming PDAMs identified through Gol's adoption of the WSSI, drawing on the experience of the 20 PDAMs project.

APPENDIX A: TERMS OF REFERENCE FOR MISSION 2

KEY EVALUATION QUESTIONS:

- 1. This second IAT mission will focus on the key issues raised in the design workshop and discussed above:
 - a. Leverage and influence, and how these issues are influenced by government engagement and ownership; and
 - b. The Monitoring and Evaluation Framework for IndII activities and the facility as a whole.
- 2. The purpose of the IAT reviewing these aspects is so the IIAP design team have a credible information base (including analysis, findings, and recommendations) to inform the IIAP design. As a result, the IAT will be requested to answer the following evaluation questions:
 - a. What has Australia been able to leverage and influence in its key policy activities and grants programs and how did internal and external factors influence these efforts?
 - i. Internal and external factors include the interface between the three key stakeholders (government engagement) as well as government ownership of IndII-supported activities/programs.

b. What lessons have been learned from the implementation of IndII's M&E Framework that are relevant to the design of the IIAP and the POM?

- i. To answer this question, the IAT may wish to consider the strengths and weaknesses of IndII's M&E program and what gaps exist that should be addressed in the design of the IIAP and the POM.
- 3. Given the breadth of these questions (and the breadth of the IndII Facility), the IAT will be expected to answer these evaluation questions in the context of a sample of cluster activities/programs. The IAT will be required to outline its sampling strategy in the evaluation plan including which cluster activities/grants programs have been selected. The evaluation plan should include a criteria (e.g. size, duration, Gol counterparts, outcomes, linkages to future programs, opportunities to leverage private sector investment etc) or rationale for this sampling strategy/selection of activities. The evaluation plan must also clearly define indicators (e.g. how will the IAT define and assess achievement of leverage/influence as well as strengths and weaknesses of the M&E system), a question guide and the selected methodology (e.g. interviews, workshops) that will be used by the IAT to collect and analyse data/information.
- 4. The timing of this second IAT mission will allow the IAT's findings to inform the design of the IIAP. This second mission will also overlap with the first mission of the IIAP design team to enable both teams to share and cross check initial findings. The IAT will be expected to provide recommendations to DFAT and the design team on what could be improved in the IIAP. The IAT may wish to make short-term recommendations to IndII and DFAT if these recommendations can be implemented and result in improvements before January 2016, when the current program finishes.
- 5. The IAT will also undertake a 'health check' of the program based on the performance indicators outlined in the first IAT report. In its health check assessment, the IAT may also wish to assess what recommendations have been implemented from the first IAT report and whether further follow up is needed/necessary.
- 6. In its assessment of the key evaluation questions, the IAT should consider gender equality and women's empowerment principles, noting the centrality of these principles

in Australia's new aid policy and the importance of the IIAP to address gender equality in order for Australia to meet its strategic performance targets.

REPORTING REQUIREMENTS:

- 7. The review team (led by the M&E specialist) will provide DFAT with the following reports (refer to Services Order/Contract for number of days input for each report):
 - a. Evaluation plan to meet the standards at Attachment A and be submitted at least two weeks prior to the in-country visit for stakeholder consideration (<u>4 August</u> <u>2014</u>). In preparing the evaluation plan, the IAT will be expected to hold at least one preparation meeting with DFAT (telephone conference).
 - b. Presentation of an Aide Memoire and discussion on the initial findings of the review to be presented to DFAT, the IndII managing contractor and to key Gol stakeholders at the completion of the in-country mission (<u>5 September 2014</u>).
 - c. Draft review report to be submitted to the DFAT review manager (for immediate distribution to the IndII managing contractor and GoI stakeholders) within two weeks of completing the field visit (<u>19 September 2014</u>).
 - d. Final review report to be submitted within two weeks of receipt of comments from DFAT, IndII and GoI on the draft report. The review team shall determine whether any amendment to the draft is warranted. The report shall be a brief and clear summary of the review outcomes and be based on a balanced analysis of the program. The final review report should be accessible to people with disabilities. The standards at Attachment B outlined DFAT's expectations for the final report.

REVIEW TEAM:

8. The review team will remain comprised of an M&E specialist (team leader) and an international infrastructure specialist. These two IAT members will be advised by an Indonesian infrastructure specialist. The IAT will be accompanied by translators on an as needs basis.

DFAT REVIEW TEAM:

9. The DFAT review team will be comprised of the Counsellor for Infrastructure and Economic Governance (review owner), the Infrastructure Analyst in Canberra (review manager) and the Jakarta Post Infrastructure Unit who will assist with preparations in Jakarta for the visit.

APPENDIX B: LIST OF INTERVIVEWEES

Date	Name	Organisation	Role	Gender
19 Aug	Ig David Hawes DFAT Principal Sector		Principal Sector Specialist	Male
	Anne Joselin	DFAT	Assistant Director, Water	Female
			and Sanitation	
	Sue Ellen	DFAT	Senior Program Manager,	Female
			Water and Sanitation	
	Paul Wright	DFAT	Assistant Director,	Male
			Infrastructure	
	Christiana Dewi	DFAT	Program Manager	Female
20 Aug	Mike Freeman	PDM	IIAP Design Team	Male
	Stacey Tennant	Stacey Tennant	IIAP Design Team	Female
		Consultancy Ltd		
	David Ray	Indll	Facility Director	Male
	Jeff Bost	Indll	Deputy Director	Male
21 Aug	Jeff Morgan	Indll	Program Coordinator	Male
	Ty Morrissey	Indii	Monitoring and	Male
			Evaluation	
	Eko Utomo	Indll	Gender Officer	Male
	Sulistiani	Indll	M & E Officer	Female
	Anne Joselin	DFAT	Unit Manager, Water and	Female
			Sanitation	
22 Aug	John Lee	Indll	Technical Director -	Male
			Transport	
	David Foster	Indll	Lead Adviser, Road	Male
			Implementation and	
			Safety	
	Eff Novara Neffadi	Indii	Senior Transport Program	wale
	Maria Ponny	Indii	Drincel Brogram Officar	Fomalo
		man	Transport	remale
	Sarah Leslie		Education POM manager	Female
	Lynton Ulrich		Technical Director –	Male
	-,		Policy and Investment	inare
25 Aug	Jim Coucouvinis	Indll	Technical Director –	Male
			Water and Sanitation	
	Poppy Lestari	Indll	Senior Program Officer	Female
			Water and Sanitation	
	Ruth Walujan	Indll	Senior Program Officer-	Female
			Water and Sanitation	
	Andreas Suwito	IndII	Grant Implementation	Male
			Program Officer	
	Ikabul Arianto	Indll	Program Officer – Water	Male
			and Sanitation	
	Andrew Dollimore	DFAT	Former Director	Male
	Harris H. Batubara	Ministry of Public Works	Directorate General of	Male
			Highways	
			Director of Planing	
	Herry T.Z	Ministry of Public Works	Directorate General of	Male
			Highways	
			Sub-Dir. Planning	
	DIKAIK KUdjito	Ministry of Public Works	Directorate General of	iviale
			Hood of Sub Directoret	
			Cooperation	

Date	Name	Organisation	Role	Gender
26 Aug	Sue Ellen	Indll	Program Coordinator	Female
	Paul Wright	DFAT	Transportation Specialist	Male
	Anne Joselin	DFAT	Unit Manager, Water and	Female
			Sanitation	
	Christiana Dewi	DFAT	Program Manager	Female
27 Aug	Lachlan Pontifex	DFAT	Counsellor, Infrastructure	Male
			and Economic	
			Governance	
	Sue Ellen	Indll	Program Coordinator	Female
	Louis O'Brien	IUWASH DAI	Chief of Party	Male
	Foort Bustraan	IUWASH DAI	Deputy Chief of	Male
			Party/Watsan Technical	
			Advisor	
	Wahyu	МОНА	Regional Development	Male
	Aries Gunawan	Indll	Program Officer,	Male
			Institutional	
			Development	
	Joel Friedman	Indll	Institutional	Male
			Development Adviser	
	Herry T.Z	Ministry of Public Works	Directorate General of	Male
			Highways	
			Sub-Dir. Planning	
	Gandhi Harahap	Indll	Senior Advisor	Male
	Antonius Budiono	Ministry of Public Works	Directorate General of	Male
			Human Settlements	
			Director of Program	
			Development	
	M. Maliki Moersid	Ministry of Public Works	Directorate General of	Male
			Human Settlements	
			Director of Enviromental	
			Sanitation Development	
	Chandra R. P.	Ministry of Public Works	Directorate General of	Male
	Situmorang		Human Settlements	
			Head of Central Project	
			ivianagement Unit	
	Subagua	Ministry of Dublic Martin	(LYIVIU)	Mala
	SUNARAO			ware
			Director of Technics!	
			Analis	

Date	Name	Organisation	Role	Gender
01 Sep Dedy S. Priatna		National Development	Deputy Minister for	Male
		Planning Agency	Infrastructure	
	Nugroho T. S. Utomo	National Development	Director for Water and	Male
		Planning Agency	Sanitation	
	Pino Iskandar	Conbloc Infratecno	President Director	Male
	Singgih Sunjaya	Conbloc Infratecno	Director	Male
	Nanang Prabowo	Conbloc Infratecno	Director	Male
	Purnomo	Indonesian Road	Ketua Bidang	Male
		Development Association	Pengembangan	
			Keteknikan	
	Lanti Achmad	Indll	PMU -20 PDAM	Male
	Elena V. A	Indll	Deputy Project Manager	Female
02 Sep	Rina Agustin Indriani	Ministry of Public Works	National Agency For	Female
			Water Supply System	
			Development	
			Secretary	
	Danny Sutjiono	Ministry of Public Works	Director of Water Supply	Male
			Development	
03 Sep	Les Taylor	sAllG	Consultant	Male
	David Ray	Indll	Team Leader	Male
	Jeff Bost	Indll	Deputy Team Leader	Male
	Lynton Ulrich	Indll	Director	Male
	John Lee	Indll	Director	Male
	Herman Hardak	Ministry of Public Works	Vice Minister	Male
04 Sep	Freddy R. Saragih	Fiscal Policy Office	Director	Male
		Central For Fiscal Risk		
		Management		
	Dr. Noor Faisal A	Direktorat Jenderal	Kasubdit Pelaksanaan	Male
		Perbendaharaan	Penerusan Pinjaman dan	
		Direktorat Sistem	Pemberian Pinjaman	
		Manajemen Investasi	Daerah	
08 Sep	Robert Sianipar	Coordinating Ministry for	Assistant Deputy for	Male
		Economic Affair (CMEA)	Infrastructure	
	Prof. Heru	Direktorat Jenderal	Direktur Pembiayaan dan	Male
	Subiyantoro	Perimbangan Keuangan	Kapasitas Daerah	
		Kementerian Keuangan		

APPENDIX C: HIGH-LEVEL QUESTIONS

	What are the elements of 'meaningful engagement' of Gol by DFAT/IndI!?	Any particular engagement of women?	
What cases illustrate this working well			
	Engagement Who are the key Gol stakeholders tha	,t	
	need to be 'engaged' at various activit	ty	
	policy and ways of working?		
	To what extent has Gol demo	a) Indit's	
ownership of (and curiosity in) Indli's activities?			
Ownership To what extent has the potential for			
Guestion Guide (leverage & ownership?			
influen	ce)		
	What cases suggest that Austr funding has indeed attracted a	ralian aid Gol sources?	
	funding?	Other sources?	
	What evidence suggests that using aid		
	Gol or other sources) is a successful way	-	
	for DFAT to achieve influence on policy and practice?		
	What specific cases demonstrate that	Notable influences on gender equality or emnow	verment?
	Indli's leveraged funding has led to a	rotable influences on gender equality of empow	verment :
Topic	Key questions	Kovinformants	
Engagement	What are the elements of 'meaningful	Gol counterparts	
Lingugeriterit	engagement' of Gol by DFAT/Indil?	Indil advisers	
	What cases illustrate this working well?	Gol counterparts	
	Any particular engagement of women?	Indll advisers	
	Who are the key GoI stakeholders that need	Gol counterparts	
	to be 'engaged' at various activity stages to	IndII advisers	
maximise DFAT's influence on policy and		DFAT managers	
	ways of working?		
Ownership	To what extent has Gol demonstrated	Gol counterparts	
	ownership of (and curiosity in) Indll's	IndII advisers	
	activities?	Third party observers	
	To what extent has the potential for financial	Gol counterparts	
	'leverage' fostered Gol ownership?	Indll advisers	
Leverage	What cases suggest that Australian aid	Gol counterparts	
funding has indeed attracted additional funding?		 IndII advisers 	
Additional funding from other sources?			
Influence	What evidence suggests that using aid funds	Gol counternarts	
to attract additional funds (from Gol or other		Indil advisers	
sources) is a successful way for DFAT to		DEAT managers	
	achieve influence on policy and practice?	2	
	What specific cases demonstrate that IndII's	Gol counterparts	1
	leveraged funding has led to a change in	IndII advisers	
	policy or practice?	• DFAT managers	

APPENDIX D: STRUCTURED PROJECT DEVELOPMENT PROCESS

IAT MISSION 1, RECOMMENDATION 11

APPENDIX G – Proposed Project Development & Approval Processes (ppXXIV-XXIX)

This recommendation has not been acted upon, and the IAT urges that DFAT and IndII staff resist the temptation to transfer the issue to the design team for "Phase 3". Discussion with senior staff in Jakarta indicated that the basic premise and approach being proposed in the Appendix (including Figure 5, the process flow diagram) was not fully understood. When the IAT clarified matters personally in Jakarta, then the potential advantages of adopting some form of the approach proposed became obvious, and greater enthusiasm to attempt to consider this matter was apparent.

The issue of approval process confidence, decision-making effectiveness and efficiency, "fitness-for-purpose", and delegated responsibility to experienced IndII senior Directors, was a key point of focus for the IAT Mission 1, and since nearly all the main parties involved will remain through the Phase 2 extension period into 2015, it is appropriate for them to resolve matters now, and not leave difficult decisions to subsequent future stakeholders.

Appendix G contains suggestions about the appropriate content of a typical Concept Note (CN), including "the Basics" (What, Why, Who, How, Results & Impact and Monitoring & Evaluation outline). These should lead to greater DFAT confidence that the CN is fit for purpose.

Key elements of the more streamlined approach are as follows:

- a. Project Concept originators "categorise" proposals when submitting them for approval.
- b. DFAT agrees or disagrees with that initial categorisation.
- c. Disagreement results in a short iterative loop until agreement is reached.
- d. Agreement triggers a pre-arranged set of stages to approval.
- e. Low value/Low risk CNs go directly to design with one DFAT final approval iteration.
- f. Higher value/Low risk CNs summit a design plan & work Gantt Chart for one DFAT iteration, then DFAT only sees the product for a final pre-launch approval.
- g. High Risk/High Value, or Low Value but of Reputational Risk and/or High Complexity CN proposals go through increasingly more iterative, but <u>proportionate</u>, DFAT approval cycles.

Table 2, from Mission 1 Appendix G, sets out the proposed threshold criteria. Figure 5 in that Appendix illustrates the cyclical/iterative decision-making flow.

(reproduced from Mission 1 report) Table 2: initial "Project Category" IndII assessment

Indll	Key Criteria	DFAT response (Agree & Approve ^a _{/or} Alternative ^b)
A	<a\$125k Low Risk; simple design (costs <a\$10k); implementation;<="" quick="" relatively="" td=""><td></td></a\$10k);></a\$125k 	
В	>A\$125K <a\$1.0m Low Risk; simple design (costs <a\$10k-50k); implementation;<="" quick="" relatively="" td=""><td></td></a\$10k-50k);></a\$1.0m 	

с	>A\$1.0M and/or Medium Risk Complex design & Longer implementation	
D	High Risk (including reputation/regardless of cost) Complex design; politically sensitive; implementation challenges severe	
E	Potentially High Risk/Complex/Sensitive – discussion required to assign Category	

^aProceed to design according to SoP for Category ^bIndII accept and proceed – or meet with adviser(s)/Prog Manager(s) to discuss

APPENDIX E: SAIIG CASE SUMMARY

Australia Indonesia Infrastructure Grants – Sanitation (sAIIG) Box F1: Project Summary Description^{50,51}

The Project: The sAIIG concept is an extension of the Infrastructure Enhancement Grants (IEG) for municipal sanitation, which was implemented as a pilot program during Phase I of IndII. The sAIIG incorporates important lessons learned during that earlier activity, most significant of which was to adopt an output-based modality, and reduce the types of infrastructure eligible for grants. Neighbourhood sewerage with treatment, or with a connection to existing sewerage, and solid waste transfer stations comprise the eligible grant components of the sAIIG. The sanitation AIIG was designed to provide \$40 million in grants over a three-year period to approximately 40 selected local governments for implementing municipal sanitation infrastructure using an output-based modality. The sAIIG should provide improved sanitation to approximately 92,000 households or 400,000 beneficiaries. The terms of each grant are defined in an on-granting agreement and LGs implement the program using Gol systems and procedures. LGs are required to pre-finance implementation and claim reimbursement after verification of the completed works. The DGHS ensure that LGs comply with the provisions of a Project Management Manual issued by decree of the Director General of Human Settlements and referenced in the on-granting agreements.

Components/Criteria:

Neighbourhood sewerage plus treatment - These are simplified sewerage systems, designed for gravity flow only, of shallow depths (less than 1.5 metres), with no manholes or pumping stations but with inspection chambers and cleanouts. Typically each system serves between 50 and 400 households. Treatment consists of an appropriate anaerobic process but is not prescribed. Effluent quality must meet Gol Ministry of Environment requirements.

Neighbourhood sewerage connected to existing sewerage system - These are identical to the neighbourhood schemes above except that in cities with existing sewerage schemes, the neighbourhood schemes may connect to the live sewer so that treatment will be provided by the existing facilities.

Intermediate Solid Waste Transfer Stations - Intermediate Transfer Stations (Stasiun Peralihan Antara, or SPA) receive solid waste from various sources, aggregate and compact it for haulage to the final disposal site. These facilities vary in size from $5,000m^2$ to more than $10,000m^2$.

Outcome/Impact: Early, if still slow, signs of increasing LG community recognition of the potential benefits of improved sanitation services, and strong indications that Gol Central Government intends to mainstream performance-based payments.

Goal and Strategic Objectives

The goal of the Program is to increase the provision of improved sanitation facilities by LGs through the implementation of public sanitation infrastructure. The *strategic objectives* of the Program are to:

- a. Increase LG investment in sanitation infrastructure that will contribute to meeting the Partner Government and MDG sanitation service targets by providing up *to* AUD40 million in output-based grants to approximately 40 LGs that are willing to pre-finance a total of approximately AUD61million of sanitation infrastructure during the three-year period of 2013-June 2015;
- b. Improve governance in the sanitation sector of these LGs by requiring them to

⁵⁰ Data sources include: 2011 December, Project Design Document, Australian Infrastructure Grants for Municipal Sanitation, 33pp, secondary references & bibliography and 71pp annexes.

⁵¹ 2014, February 28, Final Quality at Implementation Report for sAIIG, INK886, AusAID/Australian Government, 13pp.

adhere to an agreed multi-year sanitation investment program and improvements in governance.

Outputs: Some 62,000 beneficiary households will have received a sanitation connection by the end of the programme at current up-take levels.

Activities: Qualifying programmes' baseline survey; programme preparation; capacity building & community awareness ("socialization"); oversight; independent verification; M&E plan & implementation; communication & public diplomacy, including through "Prakarsa" publication.

RESOURCES: AUD(\$)40.0 Million

The grant for neighbourhood sewerage plus treatment was set at IDR 4,000,000 for each verified connection to a household. The grant for neighbourhood sewerage connecting to existing mains sewers was set at IDR 3,000,000 for each verified connection to a household.

The sAIIG does not pre-assign a unit cost for intermediate solid waste treatment facilities; rather each proposal will be reviewed, and a cost for the facility determined. The grant was fixed at 50% of the agreed cost, to be paid on satisfactory completion of the works.

Timescale:Start January 2012EndJune 2015

Gol Counterpart(s): Local Government, & Gol DGHS & MPW.

Gol Contribution: Implementation responsibilities are set out in Box B2 below. More widely, on average, approximately 1% of the LG investment budget goes to sanitation services. If salaries are included, the figure drops to 0.4% of the LG budget. This means that the average local government spends about \$100,000 on sanitation services each year. Most of this budget allocation is for operational costs and not for investment in new infrastructure.

Box F2: Implementation Responsibilities

- LocalGovernments (LGs) have overall responsibility for implementation of the Program
- The Directorate General of Human Settlements (DGHS) of Ministry of Public Works has the overall responsibility for executing the Program.
- Through the establishment of the Central Project Management Unit (CPMU), DGHS will:
 - a) Disseminate program information to LGs;
 - b) nominate participating LGs based on agreed criteria;
 - c) propose the grant amount to be awarded to each participating LG;
 - d) Provide technical advice to participating LGs and issue a Project Management Manual (PMM);
 - e) propose the LG grant award to the Directorate General Fiscal Balance (DGFB) of the Ministry of Finance;
 - f) Monitor the implementation of the Program in accordance with the on-granting agreement and Program Management Manual {PMM}; and
 - g) Verify the completion of the works by LG and provide a recommendation letter to DGFB for the release of the grant to the participating LG.
- The Directorate General of Fiscal Balance (DGFB), Ministry of Finance will be responsible for:
 - a) Reflecting the grants in its budget document, determining grants allocation to participating LGs, executing the on-granting agreements (PPH) with the LGs;
 - b) authorizing grant payments to the LGs, disbursing and monitoring the funds utilization from the special account;
 - c) reporting the grants utilization from the special account, in accordance with this Agreement.

- The Directorate General of Treasury (DGT) will nominate a special account in Bank Indonesia for the deposit of the GOA contribution in accordance with Clause 40- 45.
- The Managing Contractor (MC) will be responsible to GOA for the oversight and management of the Program implementation. This will include the provision of professional services and expertise to support DGHS in the appraisal of sanitation proposals, review of qualifying programs, conduct baseline surveys, independent verification and monitoring.
- The Partner Government will immediately inform the GOA in writing of any circumstances which may interfere or threaten to interfere with the successful implementation of the Program and, with a view to resolving the issue, will consult with GOA on remedial action to be taken.

^aAusAID/Govt Australia-GoI Agreement No 66387 regarding IndII Phase 2 Grants Programe, signed on 23 Sept 2011 & 24 April 2012.

Other planned complementary bilateral & multilateral resources

The World Bank – Water & Sanitation Program (WSP)⁵² ADB⁵³

The Government of the Netherlands⁵⁴

Gender & Cross-cutting issues

- Design Documentation identifies the opportunity for women in particular that improved sanitation offers. (Other water Hibah material identifies household & children's potential health benefits).
- Gender equality in design recommends equal opportunity for females to be part of consultant teams; a LG gender specialist to be included; socialisation measures to include equal weighting for women and men; the need for targeted information flow channels for women identified; Opportunities for women in government teams to be encouraged; consultative processes recognise the need to give women the opportunity

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⁵² WB-WSP implemented Phase 3 of the AusAID funded WASPOLA facility; delivering sanitation capacity improvements at LG and sub district/village level; and promoting adoption of better hygiene practice by the community through implementation of the CLTS program. WSP secured \$3 million from the Gates Foundation for 2008–10 and is applying for a further \$1.7 million for refinement of the CLTS capacity building efforts within LGs during 2011 and 2012. \$22.5 million AusAID funded PAMSIMAS component under WSI, which includes community-based sanitation for approximately 500 villages. The AusAID funded component was part of the IDA funded PAMSIMAS program covering 5,000 villages and periurban areas implemented as a community based water and sanitation program through DGHS. The World Bank Local Government and Decentralisation Project is supporting strengthened accountability of DAK disbursements.

⁵³ Asian Development Bank financed the Metropolitan Sanitation Management and Health Project (MSMHP) in Medan and Yogyakarta, which would finance downstream sewerage improvements. These required expansion of upstream tertiary and domestic sanitation infrastructure to feed downstream expansion. The sAIIG supported these upstream developments. Also, ADB was planning to finance major sewerage investments in five cities where IndII had completed Wastewater Master Plans. These required investment in upstream infrastructure by LGs, and where possible this was to be supported through the sAIIG. In August 2011 the ADB signed a \$100 million loan for Urban Sanitation and Rural Infrastructure Support to the PNPM Mandiri Project, to reduce poverty through community based initiatives to upgrade basic infrastructure in rural villages and improve sanitation services in poor urban neighbourhoods in nine provinces.

⁵⁴Govt Netherlands supported Gol with the Urban Sanitation Development Program, which provides €10 million for the development of PPSP pipeline projects including CSS. The sAIIG provides assistance to LGs to implement the pipeline programs.

to find voice in non-plenary environments; womens' organisations to be actively involved.

• Sosec baseline has captured gender and social inclusiveness issues and enables information collected to be sex disaggregated.

Key Challenges

Sanitation in Indonesia lags significantly behind its ASEAN neighbours. UNDP data shows improved sanitation facilities cover 67% of the urban population while some 9% use shared facilities, 8% use unimproved facilities, and an estimated 16% practice open defecation. Municipal services for solid waste sector are equally poor. Less than 50% of the household waste is disposed of in landfills, and very few landfills are operated in accordance with good sanitary disposal practice. Efforts to increase basic sanitation coverage are being set back by population growth, as investments in facilities have failed to keep pace with the growth in urban populations.

Despite decentralisation of responsibilities, LGs are not fully aware of the important health and economic benefits of sanitation and this is reflected in lower budget allocations. Constituents have a long-established tolerance for poor sanitary conditions, a poor understanding of sanitation benefits and do not actively pressure their local governments for improvements. Local governments have historically viewed sanitation as a private responsibility and have limited their investments to servicing private sanitation infrastructure.

The use of the output-based modality has significantly reduced grant implementation risks. Adequate safeguards are in place to detect the misuse of grant funds and to intervene as required. However, this intervention increases the possibility that allocated funds will not be disbursed. Many of the identified risks are related to procurement and implementation. Construction quality remains an issue. For those reasons, procurement quality will be one of the key governance benchmarks in the grant agreements and a central requirement for LGs in retaining the grant awards. Construction quality is to be addressed through dedicated field supervision and periodic review, prior to the handover of completed works, by independent consultants engaged under IndII contract. Post-procurement audits a re carried out periodically by the independent review consultant.

Leverage Evaluation

Financial/Economic

- Proves a pre-financing model for central government to engage with LGs can work;
- Gol intending to mainstream performance-based payments;
- AU\$3 levereragesLG\$1; and
- Target (with \$40m) 92,000 households = 400,000 beneficiaries.

Some 62,000 beneficiary households will have received a sanitation connection by the end of the programme at current up-take rates

Other Resources

- Strong indications that GoI Central Government intends to mainstream performancebased payments⁵⁵;
- Other bilateral & multilateral inputs as described previously.

Influence Evaluation

⁵⁵ IAT Mission 2 GoI MoF and other department interview observations/findings.

National Policy

• DFAT firmly aligned with Gol priorities (MDGs and presidential targets)...Waste Water Master Plan (2011).

Sub-National

- Clear development/humanitarian/epidemiological case for intervention
- Making a positive contribution to raising awareness of the importance of sanitation (& hygiene);

Enabling Legislation & Regulations

The GoI initiated a policy to address the deficiency of sanitation services as part of a broader policy platform that included a doubling of the sanitation sector budget in the 2010–2014 RPJM compared with the previous RPJM budget - to \$1.7 billion. GoI also emphasised the importance of sanitation by creating a separate sanitation category in the DAK starting in 2010^{56} .

At the operational level, sectoral ministries under the aegis of Bappenas have initiated the PPSP program as one part of the national policy to accelerate sanitation services in 330 cities⁵⁷. The Ministry for Public Works issued Ministerial Regulation (Permen) PU 16/2008 to support the development of wastewater treatment facilities. The Gol also enacted Solid Waste Law 18/2008, which required mandatory use of sanitary landfills by 2013.

LG & Community Action Accumulated issues for LGs:

- low demand from HH;
- costs exceed reimbursement;
- LGs fiscally weak, and exposed over several budget cycles;
- institutional ambiguity with respect to asset ownership;
- no incentive in annual budget guidance by MoHA.
- A variety of incentives in LG to keep contract packages small (<Rp50M) permitting direct local procurement.
- Extremely difficult to persuade local parliamentarians to approve land-take for siting new WWTW given the overall customer low demand.

Lessons Learned, Wider Achievements & Recommendations

⁵⁶ DAK (Dana alokasi khusus) is an annual central budget allocation to most local governments covering 18 sector development requirements. It replaced the previous Inpres (Instruksi Presiden) funds under predecentralisation budgets. The total DAK was \$2.5 trillion in 2010 and \$2.7 trillion in 2011. The sanitation component of the DAK was \$40 million in 2010 and \$45 million in 2010 and 2011.

⁵⁷ PPSP - Percepatkan Pembangunan Sanitasi Permukiman (Acceleration of urban sanitation). The objectives of PPSP by 2015 are to eliminate open defecation by increased sewerage coverage to 5 per cent of urban population in a minimum of 16 cities (includes five cities with new sewer systems); and implementing on-site public sanitation facilities in 226 cities. The five per cent coverage by all sewerage systems is less than 150,000 connections, which translates to services for about 1,750,000 people; this figure was influenced by the 2,000 commercial building connections in PDPAL Jaya with an estimated equivalent population (EP) of 500 each. The PPSP also targets improved solid waste management including recycling in 240 cities, and reduction in flooding of 22,500 ha of land in 100 LGs.

The implementation programme of sAIIG has been unexpectedly slow, and is extremely unlikely to deliver the (apparently) over-ambitious target of 90,000 functioning piped water connections by end of June 2015.

Nonetheless, by December 2013, 43 city governments had signed-up to the programme, exceeding the 40 design requirements. By February 2014, some 3,500 wastewater connections had been installed by nine city governments, benefitting approximately 17,400 people.

And, it is expected that by the end of the programme, with (by August 2014) having constructed 1500-2000 systems; contracted ~4800, designed ~6,900, some 62,000 beneficiary households (i.e. some 269,000 people) are likely to have received a sanitation connection.

Slow up-take is because:

- a. sAIIG is introducing a new and unfamiliar approach to performance-based budgeting with which most LGs are unfamiliar;
- b. Local community appetite/understanding for/of sanitation services, and so political imperative is low;
- c. LG capacity is weaker than expected;
- d. LG ability to pre-finance schemes is lower than expected, leading to both delay, and increased fragmentation/smaller schemes and so greater administrative and technical load on IndII.

APPENDIX F: 20 PDAMS CASE SUMMARY

Financial Reform of 20 *Perusahaan Daerah Air Minum* (20 PDAMS⁵⁸) Box G1: Project Summary Description⁵⁹,⁶⁰

In an effort to accelerate the provision of water supply to the community, and to reach the targets set forth in the Millennium Development Goals ("MDGs") the GoI commited to achieving ten million new household connections. More recently, the GoI has expressed its intention to achieve water supply development for urbanised areas at a 100% coverage ratio by 2020.

The regional water companies or *Perusahaan Daerah Air Minum* ("PDAM") spearhead the implementation of this acceleration and require support, especially financial (and, it transpires, Technical Assistance) support. PDAM current expenditure levels are not sufficient to properly maintain existing infrastructure. Additional funding is urgently required to improve services and to prevent further deterioration.

An option for funding is commercial loans provided by banks, whether regional or national banks. To encourage the banks (creditors) to provide corporate investment loans for PDAM investments, the Gol provides a guarantee on the loan and subsidizes interest payments. The President of the Republic of Indonesia issued Presidential Decree No. 29 Year 2009 ("Perpres 29") on the Guarantee and Interest Rate Subsidy to provide a framework for water utilities to increase their services to the community.

PT PricewaterhouseCoopers Indonesia Advisory ("PwC"), PT Sinclair Knight Merz ("Jacobs – SKM"), and the Project Management Unit of IndII ("PMU"), were appointed by IndII to assist a total of up to 20 selected PDAMs develop Business Plans ("BPs") for Perpres 29 Ioan application purposes. Further details are given subsequently in this Annex under "RESOURCES".

The consultants were to assist 20 PDAMs in preparing the following:

- Seven year (2014 2020) comprehensive BPs
- Full Cost Recovery ("FCR") tariff structures
- Good corporate governance ("GCG") regimes
- Preliminary Engineering Designs ("PEDs")
- Initial Environmental Examination ("IEEs")

Besides helping PDAMs for the above, PwC and Jacobs-SKM and support from PMU, were also developing a Toolkit on how to develop comprehensive business plan.

Outcome/Impact: These will become more clear by the end of 2014. The goal and long term outcomes of activity P260.05 is to contribute to improved national Water Supply System or *Sistem Penyediaan Air Minum* ("SPAM") in achieving a coverage ratio of 100% of urbanised areas by 2020; to enhance the delivery of piped water supply services to meet the basic need of all people of at least 60 litres per day for every people and to support national economic growth.

Short-term Outcomes include:

Business cases being used appropriately under *Perpres 29/2009* Providing a reliable source of water and Household connection functioning. Governance arrangements guiding funding decisions and arrangements

Outputs: (proposed)

PDAM selection criteria reviewed and revised. 20 Business Plans prepared and submitted (although MoF reported that PDAMs/LGs had yet

⁵⁸ PDAM – Regional WatSan Company

⁵⁹ Data sources include 2013 June, IndII/DFAT Activity Design Document, P260.05, Financial reform of 20 PDAMS, 41pp., &

⁶⁰ 2014 IndII/DFAT Activity Completion Report, P260.05, Stage 4, June, 18pp.

to send on most BPs for approval – whilst local resource allocations were being reviewed). Partnership arrangements established between PDAM, banks and MoF. Baseline study completed (connection and satisfaction survey). New household connections made.

Activities:

- a. Work out simplified feasibility study ("FS"), preliminary engineering design, Environmental Impact Assessment in terms of Initial Environmental Examination. These are in line with MoPW Regulations numbers 18/PRT/M/2007, 10/PRT/M/2008 and 21/PRT/M/2009);
- b. Finalize Real Demand and Socioeconomic surveys ("RDS") as a prerequisite to finalising designs and investment plans that comply with MoPW regulation no 18/PRT/M/2007;
- c. Assist PDAMs to develop full cost recovery tariffs and comprehensive business plans to facilitate (subsidised) commercial borrowings.
- d. Develop GCG regimes.
- e. Assist PDAMs to prepare and present their comprehensive business plans to DGCK, to participating national bank(s) under the Perpres 29 program, and to the MoF toward accessing new funding streams (subsidised commercial borrowings) for acceleration of SPAM development; and
- f. Develop guidance material to facilitate PDAM on subsidised borrowings (e.g. toolkits).

RESOURCES: AUD(\$): 1.279 Million (Stage 4)

Timescale:Start June 2013End June 2014

Gol Counterpart(s): Directorate General of Cipta Karya ("DGCK") at the Ministry of Public Works ("MoPW"), Ministry of Finance ("MoF"), PDAM Kota Pontianak, PDAM Kota Palembang, PDAM Kabupaten Sukabumi, PDAM Kabupaten Garut, and PDAM Kabupaten Purwakarta

Other Stakeholders: Badan Pendukung Pengembangan Sistem Penyediaan Air Minum ("BPP SPAM") of MoPW, Directorate General of Sumber Daya Air ("DGSDA") at the MoPW, Local Governments ("LGs") of PDAM Kota Pontianak, PDAM Kota Palembang, PDAM Kabupaten Sukabumi, PDAM Kabupaten Garut, PDAM Kabupaten Purwakarta, and participating Perpres 29 program national banks.

Gol Contribution: In order to meet the MDGs target, the government allocated Rp 7 trillion for five years to provide water for regional water companies, and Rp 11.8 trillion for five years to develop water installations in rural areas.

With this activity, though a combination of the Perpres 29 program and regular programs, 293,284 new Household Connections ("HCs") or $\pm \approx 1,173,000$ people (assuming one HC being four people) were to be achieved. Total capital expenditure ("CAPEX") to achieve the above target is estimated at Rp. 2,490.82 billion consisting of Rp. 2,223.38 billion for Perpres 29 Programs and Rp. 267.44 billion for Regular Programs or estimated at Rp 8.5 million/HC.

Previous IndII support⁶¹

⁶¹ Under the initial IndII activity (Stage 1a), the Directorate General of *Cipta Karya* identified 20 PDAMs as eligible to receive IndII assistance to improve their financial viability and develop good corporate governance regimes; to develop full cost recovery tariff structures; and to assist those PDAMs to access new revenue streams (commercial borrowings) to accelerate infrastructure provision. Three of those PDAMs (*PDAM Kabupaten Tasikmalaya, PDAM*)

Under the initial IndII activity (Stage 1a), the Directorate General of *Cipta Karya* identified 20 PDAMs as eligible to receive IndII assistance to improve their financial viability and develop good corporate governance regimes; to develop full cost recovery tariff structures; and to assist those PDAMs to access new revenue streams (commercial borrowings) to accelerate infrastructure provision. Three of those PDAMs (*PDAM Kabupaten Tasikmalaya, PDAM Kabupaten Kudus and PDAM Kabupaten Lombok Timur*) have completed the process. These new borrowings will result in 80,000 new household connections able to deliver reliable and good quality water supply to an additional 440,000 people.

When the initial budget for the 20 PDAM activity was formulated, costs were difficult to forecast prior to activity commencement, as each PDAM was anticipated to have its own strengths and weaknesses and varying degrees of political support which could/would result in differing levels of consultant input and cost. Therefore, it was proposed that the initial budget be reviewed after work on the first six PDAMs had been completed (roughly two PDAMs for each of the three IndII-contracted consultant firms) - and again after work with the 12 PDAMs had been completed.

The initial budget notionally allocated \$50,000 per PDAM (excluding VAT) as the cost of the reform work. It assumed two field trips per consulting firm/per PDAM and the same number of field trips for the Project Management Unit (PMU), and one workshop per PDAM as part of the reform process. However, actual implementation experience meant that four field trips each by both the consulting firm and the PMU, and a minimum of two workshops per PDAM were required for the reform process to be successfully implemented. This was due to the complexity of the issues to be addressed and the poor state of PDAM financial and technical management.

In addition, four PDAMS withdrew after the reform process began, due to a lack of additional raw water supply, and were replaced in the initial 20 PDAM selection - which caused additional costs and time. These unforeseen circumstances resulted in the average cost of completing the reform process for the initial three PDAMs rising from the initial estimate of \$A50,000 per PDAM to approximately \$A115,000 and then \$A140,00 per PDAM. (Fifteen other PDAMs completed Interim Reports which could form the basis of final Business Case development.)

Gender & Cross-cutting issues

- Active targeting, involvement or consideration of women not apparent.
- Activities included the task to work out a simplified feasibility study ("FS"), preliminary engineering design, and Environmental Impact Assessment in terms of Initial Environmental Examination. These are in line with MoPW Regulations numbers 18/PRT/M/2007, 10/PRT/M/2008 and 21/PRT/M/2009);

Key Challenges

Goal 7C of the Millennium Development Goals (MDGs) seeks to provide 80% of the population with access to safe drinking water by 2015. However, only 47.73% of Indonesian households currently have access to improved drinking water, and Government of Indonesia (GoI) projections suggest that the actual 2015 achievement may be closer to 70%.

Kabupaten Kudus and PDAM Kabupaten Lombok Timur) have completed the process. These new borrowings will result in 80,000 new household connections able to deliver reliable and good quality water supply to an additional 440,000 people.

Nevertheless, the GoI has stated its commitment to achieving ten million new household connections by 2013 as a contribution to the Millennium Development Goals (MDGs). To do so, an estimated 57 million more people will require improved water supply, and 73 million will need improved sanitation services, as well as necessary improvements in service quality for those already with access. In spite of the current constraints, the GoI is committed to achieving MDGs.

Indonesia (Gol) National Mid-Term Plans for increased access to water supply, the Government developed an initiative to accelerate provision of piped water supply to 10 million households in semi/urban areas, over a five-year period from 2008-2013.4 There is, however, a large gap between the current level of national piped water supply and the MDG target; this gap will require substantial investment by PDAMs and their local governments. This ambitious plan remains a challenge, as currently 195 of Indonesia's 335 PDAMs are rated in financial terms as either less healthy or unhealthy and are unable to fund expansion of water supply services (*Refer Figure(s) 3 below*).

Leverage Evaluation

Financial/Economic

- ~\$140k business plans x20 (\$2.8M) cost \rightarrow Rp 715 billion (~\$70M).
- Lombok Timur (1/20 PDAMs); 11.18 bn Rupiah loan.

Other Resources

Process provides an opportunity for previously defaulted PDAMs to access finance into the future...with TA have put together a credible business plan.

This loan was only 16% of PDAM budget, the rest was from other (mostly GoI) sources and own revenue, so potentially limiting leverage.

Influence Evaluation

National Policy

- NB: Support to PDAMs pre-dates Perpres 29.
- Gol already considering post-Perpres 29 options: a) extension; b) PIP (simpler process than MoF, but 2% higher interest & no MoF guarantee).
- Cipta Karya: "purpose not about amount of loan, but amount of learning about access to finance".

Sub-National

- Indll counterfactual analysis...evidence of growth in connections from 2009 for some reason...suggests positive influence without obvious explanation.
- IndII argues that purpose in developing a comprehensive Bus. Plan is to help engender trust (from financial institutions) in a previous financially defaulting PDAM. (IndII was never intended to be an "IUWASH" in terms of process).

Enabling Legislation & Regulations

For many years, the provision of water supply was considered to be a public function operated by local governments, while the primary role of the central government was the development of overall water sector policy and the provision of technical assistance for water sector development. In the 1990s, the private sector was given an opportunity to participate in the water sector's development as an incentive to provide new investment. The financial crisis forced the Government of Indonesia (GoI) to begin to focus on water as both an economic and a social good.

- 1999, the Government issued Law No. 22 of 1999 on Regional Autonomy transferred local investment to Local Governments and PDAMs.
- In 2000, to support PPP initiatives, the Minister of Home Affairs (MoHA) issued Regulation No. 43 providing guidelines for Regional Owned Enterprises (ROEs) such as PDAMs and cooperation with third parties. Restructuring of PDAMs was also undertaken in order to improve their performance. To address financial constraints and the need to accelerate infrastructure development, the Gol established a national-level committee tasked with coordinating and minimising the constraints hindering infrastructure development. In 2004, the GoI and Parliament issued Law No. 7 on Water Resources replacing Law No. 11/1974 on Water Affairs. Subsequently, the Gol also issued a number of significant Government Regulations related to water supply provision, and two important Ministerial Regulations. The Minister of Finance (MoF) Regulation No. 120/PMK. 95/2008 on PDAM Debts Restructuring requires all PDAMs to submit Business Plans by 2009, or be penalised. PDAM Business Plans are evaluated by BPKP (National Audit Agency on Financing and Development) on a six-monthly basis. Presidential Regulation # 29/2009 (Perpres 29) is a Government of Indonesia (GoI) initiative designed to encourage local water companies (PDAMs) to invest in the infrastructure needed to expand the number of household water connections. Under this regulation, Gol subsidises bank lending rates by up to 500 basis points and provides guarantees for nonperforming loans, making it easier for PDAMs to obtain commercial credit. To participate, PDAMs must meet clearly defined bankability requirements (including meeting technical and engineering standards). This has proved a major challenge for PDAMs, over half of which have received "unhealthy" financial ratings in the last decade. Within the framework of guidance provided by the Ministry of Public Works and the Ministry of Finance, Indll undertook a program to assist a select number of these PDAMs so that they would be eligible to obtain investment loans under *Perpres 29*. In 2009, the GOI issued Presidential Regulation No. 29/2009. This scheme is designed to assist PDAMs to secure medium-term investment financing from commercial banks on affordable terms. It is open to PDAMs that have a healthy performance audit rating, or that have secured MoF's approval to participate in the debt restructuring program. The central government will guarantee 70 percent of the outstanding loan amounts, with the LG undertaking to repay 30 percent if the guarantee is called. In addition, the central government will provide a subsidy for interest payments of up to 5 percent, to bring the loan interest rate down to the Central Bank (Bank Indonesia) reference rate.

LG & Community Action

- Verification process too resource intensive to take to scale
- Household demand is known weakness in sanitation (cost of connection)...household repairs up to Rp12 m
- LG demand is weak(a function of weak community demand)
- Limited MoH engagement...despite mandate for health awareness
- 17 socialisation workshops, but still difficult to engage LGs. ("Workshops" were more information showcases and "recruiting" instructions from CK than fully engaging and explaining processes. Indll staff speaking time constrained).
- Ambiguity RE institutional arrangements for sanitation management may confound/delay rollout.
- Design apparently did not adequately take into account the critical nature of engagement timing in LG budgetary processes, and the effective work period being March September.

• A variety of incentives in LG to keep contract packages small (<Rp50M) – permitting direct local procurement.

Lessons Learned, Wider Achievements & Recommendations

- No finance flowing yet...process bogged down in LG. MoF has yet to receive the next applications time runs out end September 2014 unless Perpres 29 is extended. 1/20 PDAMs only, actually has a loan.
- Key fundamental problem is the overall selection of 20 relatively "weak" PDAMS by MoWP (a "black box" selection process refusing IndII inputs). MoF recognises this problem and is accordingly critical of the likely competence and capacity of PDAMS to fulfil the elements of the Business Plans (see point below).
- Length and complexity of approval process in Gol...requiring 7 DGs to sign off
- Unreasonably high bus plan requirements of MoF although they counter with argument that the PDAMs are at high risk of default and therefore warrant significant checking by the loan guarantor (MoF).

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APPENDIX G: WSSI CASE SUMMARY

Water and Sanitation Services Index (WSSI) – Outline Summary Project Name: Water and Sanitation services Index (WSSI) Box H1: Project Summary

The Project: During the first half of Phase 2, IndII designed the Water and Sanitation Service Index (WSSI) and piloted the application in 12 local governments. The WSSI was designed as an easy-to-understand index that evaluates LG provision of water and sanitation services. By placing the Index in the public domain the WSSI provides an incentive to LGs to implement sustainable reforms that lead to improved water supply and sanitation services.

The WSSI does this by:

- encouraging competition between LGs;
- empowering citizens to press for better services; and
- monitoring progress towards water and sanitation goals.

The index measures local government performance in water and sanitation service delivery through a combination of eight sub-indices which use both measurable data and consumer perception. The scope of the sub-indices covers governance and technical data on water and sanitation. The sub-indices are made up from indicators based upon data from household surveys, official documents, interviews and physical tests of water quality.

Indll tested the WSSI pilot design in 12 LGs and refined the parameters of the index, the survey instrument for the consumer perception assessment and the methodology for reporting the data. The pilot was completed in June 2013. The results of the pilot were "socialised" to GoI stakeholders and DFAT during July and August 2013. The Activity Proposal for the Roll-out of the program was submitted to the Watsan Technical Team and approved on 18 November 2013.

Outcome/Impact: Too soon to tell, but the objective is the demonstration of a clear mechanism to empower customers and pressure PDAMs to "turn-around" and improve performance.

Outputs: A phased "going to scale" strategy will be developed for the eventual full rollout to all LGs and sources of funding for the full implementation of WSSI identified. A User Manual, informational materials and media events will be undertaken to publicise WSSI to the general public.

Activities: This Activity will begin rolling out the index in 50 selected city governments as the first step in an eventual process to involve all LGs. The activity will help Gol establish a Stakeholder Coordination Team which will identify partner Government agencies and other institutions where WSSI will ultimately reside (e.g. BPP SPAM). Consultants will be engaged by IndII to implement the WSSI in the 50 selected city governments.

RESOURCES:

Roll-Out of the Water and Sai	nitation Service Index (WSSI)
IndII Activity #	W277.02
Indicative start	April 2014
Activity duration	14 months
Budget estimate	\$500,000
Partner agency/ies	Bappenas, Ministry of Public Works,
	Ministry of Home Affairs
Directorate	Water Supply System Oversight

	Agency (BPPSPAM)
Other partners	Participating Local Governments,
	Universities
Location:	Jakarta and participating cities
IndII Technical Director	Jim Coucouvinis

Gol Contribution:

As part of project approval processes, DFAT requested and required a formal statement of support from GoI counterparts. The extract below (Box A2), taken from a BPP SPAM letter of 24 March 2014 sets out the support initially offered:

Box H2: BBP SPAM offer of support

BPP SPAM intends to use the WSSI to both complement and strengthen existing tools for assessing PDAM performance, such as the annual financial health assessment of PDAMs.

BPP SPAM understands that its counterpart role will involve the following functions :

- a. Assist with final fine tuning of the WSSI survey instrument and methodology
- b. Determine the list of PDAMs to be included in the survey (subject to budget constraints)
- c. Support with the rollout of the survey
- d. Broadly socialise and disseminate the results
- Engage with other GOI partners, e.g. BAPPENAS for the application of WSSI data for the NAWASIS initiative.

Subsequently, during this Mission, the IAT was advised by the current (female) Secretary of BPP SPAM, that in the event of a cessation of donor funding, departmental internal resources would be found to continue the WSSI product and process.

Gender & Cross-cutting issues:

Gender equality in development is of interest for both GoA and GoI. GoA policy⁶² requires that gender equality is taken into account in all development activities, while GoI Presidential Instruction (INPRES) No.9/2000 and the Medium Term National Development Plan 2010-2014 (Rencana Pembangunan Jangka Menengah Nasional 2010-2014) require that gender is mainstreamed for more effective and equitable development.

Based on the IndII's gender screening tool, this activity is categorized as **type B**. Relevant aspects of gender, disability and other social inclusiveness needed to be assessed and taken into account during the formulation and completion of the WSSI index. Coordination meetings and team establishment was supposed to encourage proportional participation and representation between males and females, whilst sex segregated data was to be reported.

The IAT concluded that it was unclear whether the index specifically targets views of women, actively involves women in the survey process & as enumerators, and specifically disaggregates the relative views of women and men in data review/reporting.

⁶² AusAID/DFAT Gender Guidelines: Water Supply and Sanitation – Supplement to the Guide to Gender and Development – March 2011, updated April 2005, and IndII's Gender Strategy and Plan (www.IndII.co.id/gender equality)

Key Challenges

- Weak demand from community for better services. This is partly due to the lack of a benchmark against which the community can assess their own service levels. While budgetary allocations to capitalize PDAMs have increased, PDAMs struggle to keep up with population growth.
- LG allocations to service units to directly provide sanitation services remain low. Efforts to reschedule the debts which PDAMs have incurred continue as do pilot efforts to assist PDAMs in securing necessary funding (see Annex 3). However, compared to water supply where awareness of the importance of available drinking water has increased, many LGs, and their constituents, have yet to prioritize the need for safe sanitation infrastructure and services.

Leverage Evaluation

Financial/Economic

 Verbal indication of willingness to include in next year's BPPSPAM budget; recognition of cost

Other Resources

• Rationale given to LGs by BPPSPAM was that WSSI findings can be used to advocate for more GoI resources (e.g. loans from Cipta Karya)

Influence Evaluation

National Policy

• Demonstration of a clear mechanism to empower customers and pressure PDAMs to 'turn around'

GoI to adopt WSSI; seen as complementary to PDAM performance indicators measured by BPPSPAM

Sub-National

- Designed to rank PDAMs; provide information/feedback to motivate 'turn around'. 'Name and shame' + help for the 'losers club'
- Timely: Association of Planners published in Aug/Sept 2014 (ranking of most liveable cities)

Enabling Legislation & Regulations

The Government has developed a variety of systems to measure LG performance including the delivery of water and sanitation services. The Water Supply System Oversight Agency (BPPSPAM) reports on PDAM (*Perusahan Daerah Air Minum*) performance through the Finance and Development Supervisory Board (BPKP) audits of LGs. The under-development NAWASIS system (National Water and Sanitation Information System) is coordinated by BAPPENAS. The Ministry of Home Affairs reviews LG annual development plans and budgets, assesses their accountability reports and monitors and evaluates overall performance. The Regional Autonomy Watch (KPPOD) ranks LGs across a number of indices as do a number of other non-governmental organisations, think tanks and universities.

LG & Community Action

- Many LGs do not demonstrate accountability towards their constituents in ensuring that water and sanitation services are properly delivered;
- Constituents are typically not involved in decisions regarding service delivery;
- Responsible agencies—PDAMS and LG service units—are often poorly managed;
- Relationships between the PDAMs and their LG owners are often fraught with misunderstandings and distrust;
- There is little understanding of the need to structure tariffs in ways to recover costs;
- Relationships between LGs and local legislatures (*Dewan Perwakinan Rakyat* Daerah or DPRD), who must approve budgetary allocations, are often difficult.

Lessons Learned, Wider Achievements & Recommendations

 Good pilot and rollout process; 12 cities, then more...to a total of 50 cities...out of 98 in Indonesia. Box H3 and Figure A1 below provide a summary of the key findings.

Box H3: Initial Results

Following the survey of 3,600 households, water testing of 960 water taps, and the collection of numerous water and sanitation planning and budgeting documents, notable highlights include the following:

- 86% of the household taps tested had insufficient water pressure according to Government of Indonesia (GOI) standards.
- 51% of household water samples were below the safe level of chlorine recommended by the World Health Organization.
- Only 17% of households were aware that local government (LG) was responsible for protecting water resources from sewage, while only 39% were aware that LG was responsible for ensuring access to dean water.
- Only 23% of households that possessed a septic tank could recall emptying it at any time.
- 1/3rd of water utility customers were not satisfied with the level of service they received from their local water utility.
- Only 3 out of 12 utilities completed and submitted an annual performance report to the district executive with the signatures of director and supervisory board.
- None of the local governments surveyed had enacted a law to regulate the disposal of septage.
- The District of Medan received the highest ranking while the District of Pare Pare wasplaced second. The Districts of Tanjung Balai, Deli Serdang, and Jeneponto received the lowest scores of the 12 districts sampled.

Figure H1: WSSI Pilot: District Rankings (Weighted)



^aTanjung Balai data, from the lowest scoring District, not incorporated into this Figure (cuml'tive score ~16)

APPENDIX H: NATIONAL ROADS CASE SUMMARY

DGH National Road Policy, Planning and Delivery Program (National Roads)⁶³

Box I1: Project Summary Description⁶⁴,⁶⁵,⁶⁶,⁶⁷

Following a request from DGH and a workshop in July 2012, IndII prepared a program for further support to DGH for 2013-2015 in the following related activities (a) Road Sector Policy Development (Activity T208.05); (b) National Road Planning (Activity T209.01); (c) Interim Support for National Road Planning (T209.03); and (d) Improving the Performance of National Road Program Delivery and Improving and Disseminating Technical Standard, Specifications and Manuals (Activities T249.03 and T249.02). An Activity T209.03 started in January 2013, while Activities T 209.01, T208.05 and T 249.03 started between mid-September up to late November 2013. Detailed ToR for Activity T249.02 which focuses predominantly on improved documentation and manual preparation have been developed and will be included as an addendum to Activity T249.03.

The scope of activities supported by IndII TA to the National Road sector is very broad, and complements work with the Ministry of Transport, RPJM, Bappenas, and Road Safety Activities with the Police. Figure I1 referred to subsequently, provides an illustration of how the National activities are grouped under "national roads" and "other transport modes", and sub-nationally against "urban transport" and sub-national roads". The activities commenced at different times and did not all run concurrently. It is, therefore, difficult to assign a simple set of outputs to National Roads Policy, Planning and Delivery, when looking at the lenses of leverage and influence. What the IAT has done is look across a range of relevant activities, sub-sample some representative data and findings, and take a look at high level GoI responses that *de-facto*, integrate the "leverage" and "influence" elements of this broad canvas. Because of the scale, timeline and scope of the Road sector activities, an accurate value for total expenditure against National Roads Policy, Planning and Delivery, has proved elusive and lies in excess of AUD5.5 million (of AUD10 million approved).

Activity T208.05 - National Roads Policy

The activity started early October 2013 and 6 national and international specialist are providing support. The primary focus for the NR policy activity is the *expressway program* and its implications for funding, delivery and institutional capacity. The team has made significant progress in developing close cooperation with Directorate Bipran, Directorate Bintek, BPJT as well as the BP Konstruksi.

A series of workshops have presented information on key topics - Outline Business Case & Expressway Order, Options for BPJT as Expressway Agency (EA), Review of new Land Acquisition Regulatory Framework, Expressway financing models focused on potential role for PBAS/Availability PPPs and Pilot Project for PBAS. In addition an important Fact-Finding Mission (FFM) to Australia was carried out on 5-9 May 2014 on Privately Financed and Performance-Based Project Delivery Models mainly on PBAS. DGH learned how State Governments in Australia have used PBAS since the 1990s. The FFM has broadened DGH's understanding that Public Private Partnership and PBAS can play in a whole-of-life approach to planning and financing needed infrastructure, and the success the PBAS model appears to have had in other countries to introduce performance based contracting and better value for money. The second workshop on the Expressway Agency Internal Structure, Performance Measures and Policy Framework carried out on 12 June 2014 was led by the Director

⁶³ DGH: Directorate General Highways, Ministry of Public Works

⁶⁴ Information/data derived from various sources, including: 2014 IndII Interim Progress report – DGH Program Jan-Jun 2014, 27pp, &

⁶⁵ 2013 February, IndII Activity Proposal, T208.05, Advisory Support for Road Sector Policy, 9pp.

⁶⁶ 2013 July, Indll Activity design Document, T208.05, National Roads Policy, Aug 2013-Feb 2014, 24pp.

⁶⁷ 2014 July, Indll letter Ref (2011/VII/2014) to P Wright, DFAT, & Activity design Doc.requesting extension of T208.05, 30pp.

General of Highway owing to his interest in expressway development. In addition participated in MoF PBAS workshop on 5 June 2014 and presented 'Performance-Based Annuity Schemes: Opportunities in Indonesia's National Roads Program'.

Activity T209.01 - National Road Planning

This activity started mid September 2013 and focuses on the development of improved processes and capacity in DGH for planning and investing in the national road network to support long- and medium-term national development priorities such as connectivity, economic growth and regional distribution of development.

The Activity has been working with DGH's planning directorate, Bipran, to enhance the national road planning process and prepare corridor investment programs which will help deliver a large increase in the road development program over the remaining years of the national long-term development plan. Since the scope of region only Sumatera and Java for baseline survey, the Director of Bipran requested to expand the surveys to Kalimantan and Sulawesi and Bali.

The progress of work until end of June 2014 has included the development of the transport models using CUBE software for Java, Sumatera, Kalimantan and Sulawesi and this work is progressing on schedule to inform the planning process and assist with RENSTRA project identification by October 2014.

The development of an Infrastructure model used to aid the formulation of the road renewal and preservation program for the arterial road network is advancing rapidly. Due to urgent needs, this team has rescheduled its activities to assist in the preparation of Renstra DGH 2015-19 and prepared input for provisional cost estimates and potential project locations throughout Indonesia, by further development of the Infrastructure model and the development of thematic mapping. This program of works is being progressively reviewed with the Balai offices to receive local input.

Activity T209.03 - Interim Support for National Roads Planning

This Interim Activity commenced in early 2013 and overlaps with the proposed services covered by Activity T208.05 (National Road Policy) T209.01 (National Road Planning), T249.02 and T249.03 It provided preparatory and supplementary support during the interim period when several high-priority policy and planning tasks need to be addressed. In addition to drafting the National Long-Term Planning of Road Network Development as policy and strategy of Road Infrastructure 2015-2025 and beyond (JAKSTRA), Strategic shift in funding priority from asset preservation to capacity investment to underpin the coming medium-term strategy (RENSTRA 2015-19), the activity is also assisting the other 3 Activities to make progress smoothly in achieving the outputs. This activity was completed by the end of June 2014.

Activity T249.03 - National Roads Program Delivery

Activity T249.03 has been working with DGH to enhance the programming, budgeting, implementation and monitoring functions for delivering the annual and medium-term expenditure programs.

This activity commenced on 25 November 2013 and is designed to improve the quality and efficiency of program delivery and national road infrastructure asset management in DGH in ways that achieve better value for money, a satisfactory level of service and public accountability for performance, and to work towards a separation between network management functions and those of service delivery.

The current progress of the Activity T 249.03 (until end of June 2014) has included: close cooperation with the Balai 4 and 5 offices to gain a better understanding of the capacity and support requirements at the Balai level for the improvement of their performance, close interaction with Directorate Bintek regarding the new standard for road renewal and expressway, training workshops on the Pavement Design Manual and related road renewal
project to all Balais, preparation of the design for the new the Balai level RAM system and related software, prepared a Geometric Design Manual for Rural roads, and drafted revisions to the PBC contract documents, prepared the plan to carry out data collection and prepare plan to carry out training of pavement manual for all regions.

Activity T249.02 – Support for National Roads Delivery

The Activity will work with the Technical Services Directorate (Bintek) in DGH to extend and upgrade the existing series of technical guides and standards to strengthen the delivery of the expanded works program. The documents, when authorized, will support the regulation of works and services delivered under national funding on the national road network. The selected documents serve either to supplement existing manuals or to update them to current international standards to support delivery of all works to an international standard. This assignment complements the services on Improving National Road Program Delivery (T249.03). The improvement of project quality expected for the upscaled program requires stronger control and regulation to be applied in certain key aspects of project delivery. Besides, the services must also be coordinated with related services under the IndII support to the national road program, i.e. T209.01 - Advisory support for national road planning; T209.01 - Improved planning of national road development and T208.05 - National Roads Policy. The Activity, which should commence in August, will be implemented as an extension to T249.03.

Outcome/Impact:

(T208.05)

- Policy Statement of Expressway development supported by Steering Committee members
- DGH engagement in reviews of organization structures and internal business processes for Expressway delivery
- Private-sector participation and financing in Expressway development

T209.03

To help stimulate a shift in strategic priorities that are needed to achieve Gol's long-term development goals over the next 15 years: a significant shift from road preservation to network development by make substantial improvements in planning capacity, delivery performance and funding allocation.

- RENSTRA policy & planning principles established & procedures agreed
- Legal/institutional proposals agreed
- Symposium agreed
- Proposed approach to performance-based delivery agreed

(T209.01)

• DGH implementing road plans in accordance with improved RENSTRA and MTEF

(T249.03)

- Road standards and design improved
- Regional offices equipped to manage road assets
- Programming, budgeting linked to project design
- Project management and procurement improved
- Public transparency and industry performance improved
- Indicators for output quality and budget efficiency established

(T249.02)

Road standards and design upgraded to international good practice and mandated

- Directives on project management mandated
- Guidance on construction technology mandated
- Open access established to technical standards and records management

Outputs: (*T208.05*)

Policy principles in Expressway development

- Legal and regulatory framework for implementation of Expressway
- Institutional structures for Expressway development and management
- Organisation of DGH functions in Expressway delivery

(T209.03)

- Analysis of critical policy issues
- Briefing Notes for decision-makers
- Planning tasks for RENSTRA
- Proposed symposium
- Lessons from Indonesian PPP experience
- Proposals for performance-based approach

(T209.01)

- Strategy to integrate Expressways and main roads developed with associated indicators
- Road renewal policy developed
- Road work pipeline established and agreed
- Planning and development of Expressway network plan completed
- 20-year development and pipeline program developed for Java, Sumatera, Kalimantan and Bali
- Plans linked to 2015-2019 RENSTRA

(T249.03)

- Annual work programs set objectives in term of budget efficiency and long-term plans
- Clear, accessible plan developed for upgrading the quality of DGH's standards, specifications, guidelines and manuals

(T249.02)

- Standard of road design improved
- Project quality and durability improved
- DGH engineers better informed by applicable technical regulations

Activities: (T208.05, T209.03, T209.01, T249.03 and T 249.02) (for T209.03 – by way of example of typical activities)

- 1. Policy principles and strategies for Expressway delivery Focusses on the overriding principles and strategies that will guide Expressway delivery. Decisions on these principles and strategies will not be confined to DGH but will be agreed among MPW, MoF, CMEA and Bappenas: sign-off by the Steering Committee is needed for satisfactory completion.
- 2. Legal and regulatory framework for Expressway Involves:
 - assessing the suitability of Road Law 38/2004 and other existing laws and regulations in facilitating and guiding implementation of policies, strategies, activities and organizational arrangements of Expressway delivery; and
 - identifying and providing drafting notes for those changes that are necessary.

- **3.** Institutional structures for Expressway management Lays the foundations to the structure of institutions needed to implement and monitor the effectiveness of the Expressway policies and agreed strategies.
- **4. Organization of DGH and BPJT functions -** DGH and BPJT need improvements to their capacity to undertake their responsibilities. This activity involves a needs assessment followed by an outline plan for restructuring.

5.Private sector participation and financing issues - Involves a review of the issues affecting the viability and performance of private sector participation in the Expressway. Also:

- Reviewing overseas trends in VfM, risk allocation and availability/performancebased delivery models
- Exploring under what conditions a move from toll revenues to performance-based payments might be possible as the source of project revenue
- Suggesting a strategy, including pilot project/s, for introducing a life-cycle approach with private financing, bundling of design, financing, construction & maintenance, and payments based on performance.

RESOURCES: e.g. (T209.03) AUD(\$) 0.935 million (latest extension) ; (T209.01) AUD(\$) 3.198M (8/2013 – for 18months).

The activity was originally proposed for IndII support by the Secretary General of the Ministry of Public Works to Bappenas on 25 July 2011(letter No. KJ.01.18-SJ/234). It was approved by the IndII Technical Team (TI) on 21 March 2013 and the Activity Design by DFAT (then AusAID) on 30 July 2013, with a budget of A\$400,000.

Following successful engagement with DGH, a revision of the design to provide for more continuous inputs by the advisors was approved by them on 28 February 2014 and by DFAT on 17 March 2014, with an additional budget of A\$500,000.

This programme and set of activities is part of a nexus of support targeting the transport sector as a whole. Figure I1 below illustrates the array of programmes.

Figure I1: National Roads support activities



Timescale:Start September 2013End June 2015

Gol Counterpart(s): DGH - MPW

Other Stakeholders: Bappenas, MoT and MoF and MCEA

Gol Contribution: MPW budget – please see leverage section below.

Gender & Cross-cutting issues

Gender and disability were to be reflected in the policy and strategy document to be prepared. Appropriate provision was also to be made in other activities to encourage female participation and avoid social discrimination, including gender and disability aspects. In the Renstra 2015-19 of MPW including DGH, the issue of gender has been accommodated.

Environmental Impacts were to be taken into account in pilot projects and expressway investment projects as physical works formed part of the task of activity T249.02 and T249.03.

- Impact of fatal or severe road crash particularly severe on surviving female-headed households, so positive indirect benefits from road safety initiatives.
- PRIM more focussed activity supporting women/gender issues.
- ToR for Local Contracts require positive engouragement for women to apply.

IAT Conclusions: The needs of women and children not considered specifically in national roads policies or design of roads, although are in urban/metropolitan area Public Transport support activities (& including provision for disabled).

Key Challenges

Road infrastructure poses a number of challenges for DGH:

- Road conditions are a critical constraint on economic growth, investment potential and competitiveness compared with ASEAN neighbours,
- Connectivity between economic centres is low 40-60 percent worse than ASEAN neighbours due to low investment in the past decade, making transport costs high and weakening trade competitiveness. The GOI Economic Transformation Master-plan (MP3EI) aims to improve this, but the current MPW strategic plan (RENSTRA) gives low priority to network development, and DGH lacks a long-term investment strategy and the planning tools to prepare effective development plans.
- The current backlog in road development is huge: an additional IDR 300 trillion over the next 15 years, more than double present levels. The expressway program has been delayed by PPP financing and land procurement shortcomings, and the strategy for modernizing the existing network has been ineffective;
- Public resources are sufficient for major improvements to the national road network if used efficiently and effectively, following a six-fold budget increase over seven years to IDR30 trillion/yr, but the increase is straining execution capacity and inefficiencies in program delivery are causing losses estimated at 30% (IDR 10 trillion/yr);
- Current central budgeting reforms to improve institutional performance and accountability warrant support, but deeper reforms are needed to the institutional structure and organizational culture of DGH and BPJT, as well as efforts to improve the quality of construction and engineering services in the private sector.
- MPW and DGH have a limited window for needed reforms. Preparation of the next strategic plan (RENSTRA) for 2015-19 began in January 2013. This provided an opportunity for DGH to make the shift in strategic priorities needed to achieve GOI development goals. Past policy has given priority to road preservation, but the emphasis needs to shift to efficient delivery.
- Investing in network development needs to be the new spending and policy priority for MPW and DGH. If they are to achieve the national connectivity goals, they must modernise the road network into a safe and efficient means for land transport. Over the next 15 years, government funding in the order of IDR 20 trillion per year or 80 percent of the program cost is needed, a 60 percent increase in public funding for national roads. This requires policy changes regarding: (a) the designation of access-controlled expressways as a category of national highways separately from the issue of tolling; (b) the authority for managing and developing the expressway network; (c) more effective methods for combining public and private financing for major projects; and (d) effective implementation of land acquisition.

Leverage Evaluation

Financial/Economic

- National roads delivery: 6 performance-based maintenance contracts under preparation by DGH
- New Renstra 2015-19 now allocating IDR304.30 Trillion (Figure D3) compared with IDR148.419 Trillion for 2010-14 (Figure D2).
- A program of targeting 68 accident black spots budgeted by DGH for 2015; Rp 132.3 billion over 10 provinces.
- Detailed road safety action plans and associated budgets prepared by key ministries.

Other Resources

Other Gol Ministry budgets.

MoF Fiscal Policy advises caution over political risks under decentralisation with respect to road maintenance responsibilities. Enthusiastic over PBCs.

Figure I2: 2010-14 Renstra



Figure I3: 2014-19 Renstra (proposed)



Influence Evaluation National Policy

- Clear Vice Minister MoPW understanding and appreciation for IndII work especially at Policy & Planning (Strategic) level.
- Strategic influence: drafted transport sector background paper for RPJMN; adopted by Bappenas
- Preparing briefing notes for incoming ministers
- Drafted technical background paper for MoT 5 year plan (coordinated by vice minister)
- National roads policy: strategic shift to national development for future growth (DGH to review institutional arrangements to deliver)
- Expressways concept endorsed in RENSTRA (DGH)
- Indll tools becoming indispensable to DGH; new pavement design adopted
- In large part due to IndII inputs, sub-Directorate of Environmental and Road Safety Affairs formed with 4 staff. (IndII funds up to [8?] others in related roles.
- New SoPs for police training in crash investigation and speed control enforcement now being used routinely in office training programme in Serpong.

Sub-National

Subsidiary influence as part of consequences of National Policy implementation.

Enabling Legislation & Regulations

The current Road Law 38/2004 has generally provided a satisfactory foundation for DGH's activities in the roads sector, but its suitability in the light of the new policies and strategies that will govern RENSTRA 2015-2019 and beyond needed review. DGH has resisted previous attempts to revise the Law, arguing that many of the suggested changes are accommodated by other laws or can be accommodated within the powers granted by Law 38/2004 through new subordinate regulations. Even so, the policies and strategies introduced through JAKSTRA and RENSTRA 2015-2019 may still require changes to facilitate financing and delivery. Changes will also be necessary in the laws and regulations governing procurement and PPPs.

LG & Community Action

Not Applicable for National Policy, but may be appropriate for some aspects of Road Safety programmes.

Lessons Learned, Wider Achievements & Recommendations

T209.03

This Activity has been completed.

T208.05

In addition the relationship with the main stakeholders (DGH, BPJT and MPWI, the NR Policy team has strong personal relationship with other related the stakeholders such as IIGF, MoF, Bappenas, MCEA allowing the many policy aspects to be developed in close cooperation with GOI stakeholders. Communication is a key factor to the success of this program in addition to the excellent knowledge and background of the international and national experts who involved in the activities. The team work in an office located next to the Director of Bipran which provides the necessary day to day access.

T209.01

The NR Planning team members have developed a strong relationship with DGH mainly in the Bipran Directorate. Close interaction is very important in using current unpublished DGH data to develop an initial pipeline of prioritised corridors to be included in Renstra 2015-19.. Again, communication is a key factor to the success of this program in addition to the excellent knowledge and background of the international and national experts who are involved in the activities.

T249.03

The NR Delivery team has also experienced in technical matters and has a strong relationship with DGH, Balais and road engineering institute or Pusjatan allowing smooth communications.

T249.02

This Activity has not started yet

The 2012 World Bank public expenditure review and policy note on roads drew extensively on the IndII background work and reached similar conclusions on the priorities for strengthening sector performance and funding allocation.

The AusAID-funded EINRIP project pioneered many aspects of road renewal from an implementation perspective, and a follow-on project will incorporate and apply the road renewal strategy to be developed under this Activity. Lessons could also be gained from the World Bank-financed WINRIP project for road improvement in west Sumatra.