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IDA/R2006-0115/1

June 8, 2006

**Streamlined Procedure
For meeting of
Board: Tuesday, June 27, 2006**

FROM: Vice President and Corporate Secretary

**Indonesia: Third Water Supply and Sanitation for Low Income
Communities (PAMSIMAS) Project**

Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed credit to the Republic of Indonesia for a Third Water Supply and Sanitation for Low Income Communities (PAMSIMAS) Project (IDA/R2006-0115). This project will be taken up at a meeting of the Executive Directors on **Tuesday, June 27, 2006 under the Streamlined Procedure.**

Distribution:

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Report No: 35503-IND

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT
IN THE AMOUNT OF SDR 94.1 MILLION
(US\$137.5 MILLION EQUIVALENT)

TO THE

REPUBLIC OF INDONESIA

FOR A

THIRD WATER SUPPLY AND SANITATION FOR LOW INCOME COMMUNITIES
(PAMSIMAS) PROJECT

June 1, 2006

Human Development Sector Unit
East Asia and Pacific Region

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CURRENCY EQUIVALENTS

Currency Unit = Indonesian Rupiah (IDR)
IDR9,300 = US\$1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ACI	Anti-corruption Committee for Indonesia	PAMSIMAS	Third Water Supply and Sanitation for Low Income Communities
AMDALs	Environmental Impact Assessment	P2D	Village Improvement Project
APBD	District Government Budget	PCSC	Program Coordination and Steering Committee
BAPPENAS	National Planning Agency Board	PDAM	District Water Supply Company
Bappeda/prop	Regional Development Board	POM	Project Operations Manual
Bappeda/kab/kota	District/City Development Board	Pos	Operational Guidelines
BKM	Community Development Group	PP	Government Regulation
BPKP	Financial and Development Supervision Board	PPK	Authorized Budget Signatory
BP	Water users group	PUMK	Advance holder
CAPs	Community Action Plans	Puskesmas	Community Health Center
CDD	Community Driven Development	Pustu	Supporting Community Health Center
CFs	Community Facilitators	PMAC	Provincial Management Advisory Consultant
CFT	Community Facilitator Teams	RWSS	Regional Water Sanitation Sector
CLTS	Community-Led Total Sanitation	SATKER	Task Entity
CMAC	Central Management Advisory Consultants	SOPs	Standard operating procedures
CSOs	Community Organizations	SPM	Payment order
DED	Detailed Engineering Design	SPP	Payment request
DG RD	Directorate General of Regional Development	SPPB	Grant Authorization
DG DCEH	Directorate General for Disease Control and Environmental Health	SUSENAS	National Socio-Economic Survey
DG PSE	Directorate General for Primary and Secondary Education	SWM	Solid Waste Management
DG VCE	Director General of Village and Community Empowerment	TKM	Community Working Team
DG Treasury	Director General of Treasury	TOT	Training of trainers
DGHS	Director General of Human Settlements	UDKP	sub-district level Council of Village Heads
DIPA	Integrated Budget (Recurrent and Investment)	UPC	A Financial Unit of the VIT
DPRD	Regional Parliaments	UPP	Urban Poverty Project
EIA	Environmental Impact Assessment	USD	United States Dollar
FMR	Financial Monitoring Report	VIT	Village Implementation Team
HSP	Hygiene and Sanitation Programs	WASPOLA	Indonesia Water and Sanitation Policy Formulation and Action Planning Project
IDR	Indonesian Rupiah	WQM	Water Quality Monitoring
JMP	Joint Monitoring Program	WSES	Water Supply and Environment Sanitation
KPPN	Government Treasury office	WSH	Water Sanitation and Hygiene
MoF	Ministry of Finance	WSSLIC-1	First Water Supply and Sanitation for Low Income Communities
MoH	Ministry of Health	WSLIC-2	Second Water and Sanitation for Low Income Communities
MoNE	Ministry of National Education		
MoHA	Ministry of Home Affairs		
MPW	Ministry of Public Works		

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INDONESIA
Third Water Supply and Sanitation for Low Income Communities (PAMSIMAS) Project

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Does the project depart from the CAS in content or other significant respects?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the project require any exceptions from Bank policies?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is approval for any policy exception sought from the Board?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the project include any critical risks rated "substantial" or "high"?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the project meet the Regional criteria for readiness for implementation?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Project development objective

To increase the number of low-income rural and peri-urban populations accessing improved water and sanitation facilities and practicing improved hygiene behaviors as part of the Recipient's efforts to achieve WSS-MDGs, through programmatic mainstreaming and scaling-up of a nationwide community-driven approach .

Project description

Component 1 finances community empowerment and local institutional development to mainstream and scale up community-driven approach to water, sanitation, and hygiene (WSH) improvement.

Component 2 supports activities to improve sanitation and hygiene behaviour, encompassing propagation of CLTS, school sanitation, school hygiene programs, and community-wide sanitation and hygiene promotion.

Component 3 provides grants for the preparation and implementation of village water supply, and public sanitation facilities.

Component 4 provides Incentives Grants to villages and districts to sustain and expand the improved services.

Component 5 supports effective and efficient technical support and management of the Project.

Which safeguard policies are triggered, if any?

Environmental Assessment (OP/BP/GP 4.01) and Indigenous Peoples (OD 4.20)

Significant, non-standard conditions: None

Board presentation: None

Credit effectiveness:

- (a) the Project Operations Manual, acceptable to the Association, has been adopted by the Recipient;
- (b) the Recipient has provided written confirmation of the establishment of the PCSC, finalization of the organizational structure of CPMU and appointment of key staff of CPMU;
- (c) the Recipient has issued a letter, in form and substance acceptable to the Association, requiring the Inspectorate General of each implementing agency to conduct internal control reviews under the Project in accordance with its mandate.

Covenants applicable to project implementation: adoption of an agreed POM

STRATEGIC CONTEXT AND RATIONALE

1. Country and sector issues

Over the last three decades Indonesia has had a notable record in poverty reduction, human development and improvements in service delivery. But, notwithstanding its past achievements, the challenges facing Indonesia today remain worrisome and the Government is looking for ways to deal with them more effectively. One of the key concerns relates to water, sanitation, and hygiene.

Water and sanitation (WSS) sector performance: Access to WSS services continues to be low in Indonesia and achieving the WSS MDG targets (see Table 1.1, Annex 1) will require more intensive and effective government support. A 2003 study by United Nations Support Facility for Indonesia Recovery projected that 24 of Indonesia's 32 provinces would fail to reach MDG targets for safe drinking water supply by 2015, if the past trend continues. The National Social and Economic Survey (SUSENAS) data further indicates that, given the slow rate of improvement in the percentage of the population with access to water from "improved sources" from 1994 to 2002 (10 percent in rural areas and 9 per cent in the urban), only about 56 percent of the rural population would gain access to safe water supply by 2015. The trend in population access to improved sanitation in rural areas appears worse, remaining stagnant at around 38 percent since 1985, according to widely used MDG monitoring indicators (see Annex 1).

The lack of access to safe water and sanitation has had severe consequences on public health, the economy and the environment. Of the four most important causes of under-5 mortality in Indonesia two (diarrhea and typhoid) are fecal borne illnesses directly linked to inadequate water supply, sanitation and hygiene issues¹. About 11 percent of Indonesian children have diarrhea in any 2 week period. And using mortality rates from IDHS 2004 and population projections from Bappenas 2000-2025, it is estimated that 320,000 children under five will die in 2006, of which about 33,000 will die from diarrhea and 11,000 from typhoid (Curtis, 2004).

In addition to these health issues, difficult access to improved water supply means that poor households, and particularly women and children, have to spend substantial amounts of time fetching water. They also have to spend cash to purchase expensive safe drinking water. Various studies indicate that the economic losses from inadequate sanitation, poor hygiene practices and lack of access to safe water supply are huge. One estimate puts those losses at over 2.4 percent of GDP in 2002. In turn, the benefits of adequate sanitation, good hygiene practices, and access to safe water supply are clearly large, as detailed in Annex 9.

The issue, however, is how to realize such benefits in the light of mixed results of past top-down interventions to improve rural water, sanitation and hygiene behavior. Over the last fifteen years, Indonesia has been experimenting with community-driven development (CDD) projects such as WSSLIC-1 and WSLIC-2. These and similar projects modeled on the WSLIC approach and funded by other donors have been praised for delivering a high economic rate of return and a positive impact on the quality of life of beneficiaries. Yet, after more than fifteen years, WSLIC coverage remains limited, fundamentally because during this period there was no policy framework in place for community-based water supply and environmental sanitation. In addition, the period was characterized by economic turmoil during the Asian Financial Crisis, unprecedented

¹ Indonesian Ministry of Health, Indonesia Health Profile, 2002

political change, and major shifts towards decentralized government and decentralized budget processes. Given these preoccupations, the national expansion and mainstreaming of promising pilot projects such as WSLIC were not given priority attention. The base of social and political support for a national program based on CDD approach was limited.

WSS investment policy environment: The policy environment today is much more conducive to sector improvements through a CDD approach. First, recognizing that water supply and sanitation improvements are economically productive investments, the Government has recently included for the first time in its Medium Term Plan for Development² targets for increasing poor people's access to safe water and sanitation services among the objectives for poverty reduction. These include the target of reducing by half the proportion of people without access to improved water supply and basic sanitation (Target 10). This means increasing population access to improved water supply from 102 million in 2002 to 180 million by 2015, using SUSENAS data. It also means that in sanitation, the coverage should be increased from 116 million in 2000 to 192 by JMP (Joint Monitoring Program) definitions. The SUSENAS data, which include the JMP definitions of improved sources with the addition that these sources should be ten meters or more away from excrete disposal sites, is used by GoI in defining WSS-MDG targets for water supply. In regard to sanitation, GoI has recognized that SUSENAS data do not provide sufficient information to set MDG rural sanitation targets and, hence, has not used SUSENAS to define rural MDG sanitation targets. The Project has adopted the JMP data for sanitation because it reasonably distinguishes between improved and unimproved sanitation facilities unlike SUSENAS (See Table 1 in Annex 1).

Second, supporting the above Plan, there is now a national policy framework for community-based water supply and environmental sanitation (WSES), which would help in mainstreaming and scaling up CDD water and sanitation projects. This policy espouses strategies that empower Indonesian communities to choose, finance and manage their own services; encourages participation by all communities; and, in this regard, promotes gender- and poverty-sensitive approaches in engaging and working with beneficiary communities. Equally important, it strongly supports improved community sanitation and hygiene practices.

Operationalizing the policy framework and the financial challenge: The implementation of the above policy remains a key issue. The Government has expressed its intention to develop a financial strategy and national action plan for the implementation of the policy with the help of the proposed project. Indonesia needs to at least double current Government investment in the sector to reach WSS-MDGs. To achieve the MDG an additional 155 million people will need to have access to both improved water and sanitation services (see Table 1.1 in Annex 1), at an annual cost of US\$1.5 billion, but the most optimistic estimate of current annual spending is only US\$250 million³, most of which is spent in the urban areas.

Opportune timing of project proposal: There is strong and broad support among the various stakeholders in the Government and the donor community for the proposed project. The Government wants the project to provide the implementation mechanism for its policy framework. Hence, the proposed project will include resources for nationwide advocacy and

² Rencana Pembangunan Jangka Menengah, January 2005

³ The water and sanitation sector has historically received only a small share of the development budget (averaging 2.5 percent of central Government budgets 1994-2002).

coalition-building efforts and alignment of institutional incentives to support the mainstreaming and scaling up of the approach at provincial, district and village levels – involving government and civil society. Indications are that demand from communities and districts already exceeds the capacity of the project to supply. Even with cost-sharing requirements, close to 200 districts have indicated their willingness to participate in this operation.

2. Rationale for Bank involvement

The World Bank is currently an important partner providing external support to the WSS sector, both in terms of operations and policy reform. Bank involvement is justified for two reasons. First, the proposed credit will bring Indonesia closer to the achievement of the MDGs and will support implementation of the Bank's Country Assistance Strategy, particularly with regard to poverty reduction and making services work for the poor. Second, the Bank has valuable global and Indonesian experience with water, sanitation, and hygiene improvements, especially WSLIC and other CDD projects such as KDP and UPP. In view of the Bank's extensive experience and potential value-added, the GoI has explicitly asked the Bank for the preparation of a credit to support the above-mentioned PAMSIMAS program.

3. Higher level objectives to which the Project contributes.

This Project will contribute to raising the quality of life of poor communities through (i) improved health outcomes through the prevention of water and hygiene related diseases; and (ii) increased human development and earnings capacity through better education, nutrition and productivity made possible by the time savings brought about by improved water supply and hygiene practices. The Project through its multi-sectoral CDD approach to WSS MDGs adds value to GoI's efforts to improve human development and reduce poverty.

This Project also contributes to the second objective of the Bank's Indonesia Country Assistance Strategy⁴, "*Making Service Delivery Responsive to the Needs of the Poor*". It does this by (a) targeting investment to poor communities, (b) modeling and building capacity for community driven development, (c) providing safe WSS conditions which will have positive health outcomes for poor communities, (d) reducing water purchase expenditure and (e) saving time that had been used for fetching water.

PROJECT DESCRIPTION

4. Lending instrument

GoI has expressed interest in the consolidation and mainstreaming of the various CDD initiatives in the WSS sector and has asked for a Specific Investment Loan (SIL) type Credit for PAMSIMAS as a bridging step towards an eventual sector-wide program approach to achieve the WSS MDGs. The GoI has chosen a SIL as the preferred lending instrument partly because of a well developed ability to implement this instrument, and positive past experience with the financing of WSLIC and similar CDD projects. But more importantly, a SIL is a good instrument for financing expenditures to build prerequisite capacities and activities for the delivery of specific services like water provision and sanitation.

⁴ Indonesia Country Assistance Strategy FY 2004 – 2007, October, 2003

The SIL is especially appropriate, since the Project calls for “bridging activities” to prepare GoI to undertake a sector wide program designed to scale up the implementation of the current CDD WSS policy framework. In this regard, GoI has agreed to allocate sufficient resources in the project for carrying out such “bridging activities”, notably in the fiduciary and safeguards domain.

5. Project development objective and key indicators

To increase the number of low-income rural and peri-urban populations accessing improved water and sanitation facilities and practicing improved hygiene behaviors as part of the Recipient’s efforts to achieve WSS-MDGs, through programmatic mainstreaming and scaling-up of a nationwide community-driven approach.

It is expected that these outcomes will in turn lead to improved health status (as measured by a reduction in the incidence of water and hygiene related diseases), and enhanced human and economic development brought about by time savings (as measured by increased earnings and improved school attendance and nutritional status of children).

PAMSIMAS is expected to narrow the gap between current levels of access and the MDG target by about a quarter for rural water supply and rural sanitation. The financing gap to achieve the rural WSS MDGs beyond PAMSIMAS is estimated at approximately US\$90 million annually between 2008 and 2015. (See Table 1.1 in Annex 1 for detail).

Project Outcome Indicators	Measurement Instruments	Baseline	Target
Number of additional people with sustainable access to improved water facilities differentiated by socioeconomic status	Sustainability MIS data & household survey	To be established in each project community at start of project intervention therein	6 - 7 million people ¹
Number of additional people with sustainable access to improved sanitation facilities differentiated by socioeconomic status.	Sustainability MIS data & household survey	To be established in each project community at start of project intervention therein	6 - 10 million people ¹
Percentage of target communities free of open defecation	Sustainability MIS data & household survey	To be established at project commencement	80%
Percentage of target communities adopting hand washing programs.	Sustainability MIS data & household survey	To be established at project commencement	80%
Capacity building plan in place, to support the adoption and mainstreaming of the PAMSIMAS approach, and progress towards achieving its objectives.	Capacity building MIS	To be established in each project community at start of project intervention therein	100%
Actual District WSS expenditure as a percentage of the budget needed to achieve MDG goals in project areas.	District Budgets/Plans	To be established at project commencement once the baseline data are available	TBD

6. Project Components

PAMSIMAS will be implemented on a programmatic basis as a central government project providing assistance directly to approximately 5,000 selected villages in districts that meet the project’s targeting and selection criteria. Under this mode of delivery, project funds will go

directly to the participating villages. Participating district governments will be required to contribute 10% (approx. IDR 27.5 million) of the total cost of the community grants, while benefiting communities will be required to contribute at least 20 percent (4 percent cash and 16 percent in-kind) of the total Community Action Plan (CAP) costs, bringing the total allocation per village to IDR 275 million. In addition each participating district government will implement a counterpart (replication) program in an additional number of communities funded through their local budgets and using the PAMSIMAS methodology, with the same level of technical inputs and quality controls. Approximately 500-1000 villages are expected to participate under the “replication” program. Subject to review by the Steering Committee in July 2006, the first year of project implementation includes thirty districts out of the approximately 190 districts that have submitted written commitments to participate in the project in accordance with its rules and guidelines.

The Project Development Objective will be achieved through five components.

Component 1: Community Empowerment and Local Institutional Development (US\$ 8.6 million): This component will support interventions at local community, district and provincial levels. It will support CDD planning and management of water, sanitation and hygiene improvement programs, build stakeholder commitment and expand the capacity of central, provincial and district government agencies. ***Sub-component 1.1*** At the community level, it will coordinate the development of training programs for Community Facilitators to facilitate development of CAP; at the provincial and district levels it will coordinate the development of training programs in health, community development/social inclusion and WSS engineering to support implementation of CDD processes and mentor community facilitators. The sub component also aims to ensure quality community level training and skills transfer to government agencies for mainstreaming CDD approaches into WSS service delivery. ***Sub-component 1.2*** will focus on strengthening program management for project implementing units, project coordination groups, CAP evaluation teams and related programs. This sub-component will further include development of guidelines, manuals and training for these purposes, and integration of critical operations for post-construction management into existing GoI functions. ***Sub-component 1.3*** will support capacity building and advocacy activities for government and civil society to improve overall water and sanitation service delivery, encourage increases or reallocations in overall local government budgets towards CDD WSS efforts, and promote post-construction innovations to enhance the sustainability of PAMSIMAS-supported WSS services over the long-run.

Component 2: Improving Hygiene and Sanitation Behavior and Services (US\$ 24.7 million): This component will ensure that targeted community households gain access to improved sanitation facilities of their choice, are using improved WSS infrastructure effectively and are progressively adopting key hygiene practices. ***Sub-component 2.1*** will support a phased program of Community-Led Total Sanitation (CLTS), commencing with safe excreta management, promotion of hand washing, and later address issues such as water storage, food hygiene, solid waste and wastewater management. ***Sub-component 2.2*** aims to: (i) generate consumer demand for improved sanitation, (ii) facilitate the ability of local markets to respond to that demand, and (iii) promote improved hygiene behavior. Under ***Sub-component 2.3*** beneficiary communities will be eligible for a school sanitation and hygiene improvement grant through the CAP 2 process funded under component 3. Through ***Sub-component 2.4*** the project will support Provincial and District units responsible for Environmental Health and Hygiene promotion by

financing training and initiatives to promote district monitoring of WSS MDG targets. This sub-component will also support health outcome related community audits, program evaluations and periodic oversight reviews of district WSS performance.

Component 3: Water Supply and Public Sanitation Infrastructure (US\$ 181.7 million): Under this component the project will provide participating communities with a menu of technical options for rural water supply and public sanitation infrastructure. The majority of financing is expected to fund the construction of new facilities but the rehabilitation of existing, non-functioning facilities is not excluded. Funding will be through block grants for construction and training to beneficiary communities based on evaluation of the CAP. The community will be fully responsible for operation and maintenance costs. In addition, each participating district government will agree to implement a counterpart (replication) program, fully funded from the local government budget for a number of additional communities, as a condition of entry into the project.

This component will finance 70 percent of the costs for implementation of the physical WSS facilities, school and community hygiene promotion, capacity building for community management, procurement of materials and equipment needed for construction, and development of a construction schedule and labor management plan (including identification of external skilled labor and civil works contractors, if required, to be contracted and supervised by the community). The remaining 30% will be funded by the district budget (10%) and by the participating villages (20%) as a condition of entry into the project. Technical assistance to determine water demand and system options, engineering design options, operational and maintenance training, and water source assessment will be financed under Component 5.2.

Component 4: District and Village Incentives Grants (US\$5.0 million): This component will provide incentives under two grant windows. Under ***Sub-component 4.1 (US\$3.0 million)*** the executing agency will finance grants to Districts. Grants will be awarded through a competitive process employing selection criteria agreed with the Bank. Districts that have demonstrated good practice in their support of CDD WSS and have exceeded implementation targets will be rewarded with incentive grants to further expand and sustain the program in their District. Under ***Sub-component 4.2 (US\$2.0 million)*** the project will finance grants to villages. Grants will be awarded through a competitive process employing selection criteria agreed with the Bank. Villages that have demonstrated good practice and exceeded the hygiene improvement, community mobilization, and WSS access targets identified in their CAP will be eligible for a grant to be used for further improvement of the community environment.

Component 5: Implementation Support and Project Management (US\$ 51.1 million): This component will provide technical implementation support for components 1, 2, 3, and 4 and project management services to the implementing agencies. Support for project implementation will cover (i) technical assistance for sectoral activities in training, capacity building, health, sanitation, and water supply at village, district, provincial and central levels of Government; (ii) project management and implementation oversight and quality control, in particular financial and technical monitoring and reporting of project components; (iii) the evaluation of project outcomes; and, (iv) the progressive transfer of these functions and responsibilities to local agencies. Under ***Sub-component 5.1*** the project will finance, for the duration of the project, a Central Management Advisory Consultant team responsible for technical implementation support, overall project management, monitoring of implementation, support preparations for a

sector-wide program, and financial reporting. This Consultant will also provide oversight and technical guidance to consultants engaged at the provincial and district levels. Under **Sub-component 5.2**, the project will finance 11 service contracts for Provincial and District Management Consultants. The use of locally recruited community facilitators, trained by the project, will produce a pool of district and provincial expertise to meet increased demand for facilitation as a result of scaling up in the WSS sector as well as from other local community driven programs. Under **Sub-component 5.3** the project will finance, for the duration of the project, a service contract for an Independent Impact Evaluation Consultant who will report directly to the Steering Committee. The consultant will evaluate the achievement of project objectives, the quality of project processes and the performance of implementing agencies, including CPMU, PPMUs, and DPMUs.

7. Lessons learned reflected in the project design

A review of lessons learned from earlier WSS projects is held on project file (see Annex 12 for details). Amongst the major lessons which guided the design of this project were the following four key observations:

- **CDD approach works.** The CDD approach to providing villages with water supply works well in comparison to a traditional top-down approach. The former stimulates community ownership, increases the participation of women, poor and other marginalized groups, and has better prospects for sustainability.
- **Economic return is high.** International research has demonstrated that return to investment in improved WSS is consistently high. In Indonesia the estimated rate of return for WSLIC-2 is 35 percent based only on the value of time saved from fetching water and monetary savings from water purchases. The return would be higher if the economic value of its impact on the control of communicable diseases were included.
- **Intersectoral cooperation is critical for sustainability.** Sustainability of WSS facilities and outcomes results from effective functioning (technical) and effective use (social equity and hygiene behavior) of water supply and sanitation systems. The co-operation of technical, health and community development agencies in PAMSIMAS through a multi-disciplinary community approach is designed to enhance communities' ability to make informed technical choices and implement hygiene behavior changes so as to maximize potential health and social-economic benefits. This multi-disciplinary approach will also strengthen local governments' capacity to monitor the technical, social and health impacts of WSS investments, provide appropriate post-construction support and undertake joint advocacy for the expansion of the sector to respond to unmet demand. In PAMSIMAS, each agency will have delegated financial authority for specific components and be represented in the project implementing units and project coordination teams at all levels to increase inter-sectoral cooperation.
- **Scaling up and mainstreaming of WSLIC has been limited.** Despite its successes, WSLIC was not intended to, nor has it, become routinely part of development planning and budget programming of local governments. Mainstreaming would require a national framework; attention to advocacy and the recognition of WSS as a development priority; incentives for local government ownership of the program in project areas; and dissemination of CDD WSS beyond participating districts.

8. Alternatives considered and reasons for rejection

A number of alternatives were considered in designing the project, and details are held on project file (see Annex 12 for details). Three of these rejected alternatives include:

- **A pure repeater project:** After fifteen years of successfully piloting the WSLIC projects in a variety of provinces and districts, a pure repeater project would have little value added compared to other initiatives.
- **Building capacity through government training centers:** Government training institutes have a history of inadequate performance despite huge public investments and they do not have the right incentives to provide timely and effective learning.
- **Use of SWAp and APL.** GoI is keen to pursue a national program to achieve WSS MDGs through a sector-wide approach. But given Indonesia's limited success in implementing APLs to date, GoI does not support the use of SWAp and APLs at this time. GoI believes that building up the capacity of local governments to operationalize the national WSES policy framework through a SIL is not only important to accelerate progress towards the MDGs but is also an essential step toward a credible and sustainable sector-wide approach.

IMPLEMENTATION

9. Partnership Arrangements: Not Applicable

10. Institutional and implementation arrangements

The project will be implemented by the central government through assistance provided directly to the village level but with mechanisms that require district government involvement. The central executing agency will be the Ministry of Public Works. Other implementing agencies of the central government will be the Ministry of Health, Ministry of Home Affairs, and Ministry of Education. The design reflects the intent of the Government to expand the activities of PAMSIMAS to a nationwide multi-sectoral program and creates incentives to achieve this in four major ways: a replication WSS program, Local Government contribution to the CAP, performance incentive grants to expand the program, and coalition building between government and civil society. In addition, PAMSIMAS will collaborate with WASPOLA project and GoI's AMPL (the intersectoral working group on water supply and environmental sanitation) to prepare for a SWAp for the operationalization of GoI's CDD-WSS policy framework by 2009-10 (see Annex 15 for details).

Project Coordination - Central Government: The central Executing Agency will establish a Program Coordination and Steering Committee (PCSC) consisting of Echelon 1 representatives of the implementing agencies, and a PCSC Secretariat/Technical Team consisting of Echelon 2 representatives. The PCSC will be chaired by BAPPENAS. The structure and roles of the PCSC are summarized in the following table:

Agency	Role
BAPPENAS (National Planning Board)	Overall program coordination
DG HS (Human Settlements)	Executing Agency & implementation of Water Supply and Public Sanitation Infrastructure components
DG DCEH (Diseases Control and Environmental Health)	Implementation of Improving Hygiene and Sanitation Behavior and Services components.
DG RD (Regional Development)	Local institutional development and community empowerment.
DG VCE (Village and Community Empowerment)	Village social development and community management
DG PSE (Primary and Secondary Education)	Support implementation of school health and hygiene promotion components
MoF (Ministry of Finance)	Support timely budget release, fund flow and disbursement of credit funds and counterpart budgets

The Technical Team to the PCSC will be chaired by BAPPENAS and will have the same structure and allocation of responsibilities as the PCSC. The role of the Secretariat/Technical Team is to be the initial point of review of all operational aspects of the project requiring central government intervention.

DGHS will establish a Central Project Management Unit (CPMU) to undertake implementation of the project. The Director General of Human Settlements, who is responsible for the CPMU and its budget, will delegate to an Echelon 2 officer authority for project expenditure and to an Echelon 3 officer day to day management of the CPMU. The CPMU will be supported by technical, financial, and administrative experts from within DGHS. The implementing agencies of MoH, MoHA, MoNE and MoF will have full time representatives in the CPMU. The CPMU will be responsible for overall project coordination, day-to-day management, budgeting, financial administration, monitoring, reporting, and contract management of consultants appointed under the project.

Participating provincial and district governments will establish multi-sectoral project management units (PPMU and DPMU respectively) and project coordination teams. A Village Implementation Team (VIT) will be established with elected village representatives. It will set up a project account to receive credit funds authorized by the DGHS.

11. Monitoring and evaluation of outcomes/results

PAMSIMAS will use two complementary approaches which will be both quantitative and qualitative: (a) participatory process and outcomes monitoring (Sustainability Monitoring), and (b) independent impact assessment studies. The key results and outcome indicators and arrangements for results monitoring are explained in Annex 3.

Sustainability Monitoring will be carried out periodically through the community level implementation processes to measure progress towards project outcomes. Information will be made openly available enabling villages to compare their progress with others. MoH plans to scale up this capacity for access monitoring to cover all villages by supplementing PAMSIMAS with its own resources.

Independent assessments for impact will be carried out by an M&E consultant who will conduct baseline, mid-term and final year surveys in a selection of villages, taking advantage of the phased implementation of the project in eligible villages. The evaluation will track changes in a range of outcome indicators such as use of water and sanitation facilities, change in defecation and hand washing behavior, time utilization, income generating activities and a range of nutrition and health indicators (such as diarrhea in past two weeks). The independent impact assessment will be linked to more regular monitoring on social inclusion criteria focusing on project performance in relation to vulnerable groups and women.

12. Sustainability

The Project addresses the issue of sustainability in two dimensions. The first relates to the long-term maintenance and operation of the PAMSIMAS-financed water supply construction and to the permanence of the intended beneficiaries' behavior change. The second is the sustained adoption and propagation of the PAMSIMAS approach among Indonesia's villages and across the country. In terms of long-term maintenance, PAMSIMAS has adopted those design features that the WSLIC experience has found to enhance sustained operations and maintenance by the beneficiary communities. In regard to program expansion, PAMSIMAS is expected to be sustainable for the following reasons. First, PAMSIMAS is now regarded as a high priority national program with a clear government mandate to support the achievement of the MDGs. Second, the Project has allocated adequate resources for advocacy, coalition formation, and capacity building activities to support PAMSIMAS expansion beyond its immediate target areas. Finally, the design of the Project has been structured to provide districts with greater ownership (e.g. responsibility for the staffing and non-salary operational cost of the DPMU) and the incentives to establish their own APBD-funded CDD water, sanitation and hygiene improvement programs.

13. Critical risks and possible controversial aspects

Risks	Risk Mitigation Measures	Risk Rating
Lack of political will of national and local officials to mainstream and finance the scaling up of PAMSIMAS	PAMSIMAS is a high priority national program with a clear mandate to support the achievement of the WSS MDGs. The project has incorporated activities and allocated adequate resources for advocacy and capacity building to support expansion beyond its immediate target areas.	M
Complex institutional arrangements resulting from multi-sectoral nature of the project will make implementation challenging.	The roles and responsibilities of each implementing agency have been clearly defined in POM. Coordination and implementation will be carried out through inter-agency committees and project units supported by multi-disciplinary consultant teams at all levels.	S
District favoritism to well off or politically strong communities	As in WSLIC-2, the selection process will be transparent, using an objective pro-poor formula for village selection.	M
Lack of early attention to issues replication and expansion of the project approach beyond target areas and project life.	The Project promotes greater ownership by districts through graded incentives to establish their own APBD-funded PAMSIMAS-like program (with the LG in the driver seat), encouraging local governments to pay early attention to sustainability issues.	M

Risks	Risk Mitigation Measures	Risk Rating
Manipulation of community project decision-making to exclusion of vulnerable people (e.g. women and the poorest)	The community level process will make poverty targeting and gender equity transparent and verifiable by all stakeholders including community members and will not fund CAPs that do not meet gender equity and poverty targeting criteria.	M
Diversion of funds to uses other than intended	Transparency, accountability and broad community participation, conditions will be monitored and direct channeling of funds to the beneficiaries has been shown to reduce misuse of funds	S
Inadequate local agency capacity and incentives for project management and facilitation.	The Project puts strong emphasis on technical assistance and facilitation to ensure “informed choice” by communities from a range of technically feasible options.	M
Extremely poor communities are incapable of meeting the cash counterpart requirement.	No evidence from WSLIC experience that this is a significant risk. Nevertheless the proposed project will monitor this situation and it will be included in the mid-term impact study.	L
Facilitators and DPMUs do not assess and address local barriers to effective consumer demand for sanitation improvement	The Project supports institutional capacity building in districts to understand and address both demand-side and supply-side challenges for sanitation. At the community level, the adoption of CLTS and other community-wide behavior change strategies has been proven to work in comparable settings.	M
Failure of hygiene/sanitation promotion interventions to effect long-term behavior change	Same above as above	M
Low quality of community implemented sub-projects	Technical assistance to communities, routine monitoring and tranche releases are conditional on quality of implementation.	M
Inconsistent government policy on subsidy for household latrine construction undermining the adoption and scaling up of CLTS	The Project organizes and funds an advocacy program, including policy consensus building at district level, to get commitments from the Bupati to apply a no-subsidy-to-household latrine policy.	S
Overall risk rating		M

14. Credit conditions and covenants

Conditions for Board Presentation: None

Conditions for Credit Effectiveness:

- (a) the Project Operations Manual, acceptable to the Association, has been adopted by the Recipient;
- (b) the Recipient has provided written confirmation of the establishment of the PCSC, finalization of the organizational structure of CPMU and appointment of key staff of CPMU;
- (c) the Recipient has issued a letter, in form and substance acceptable to the Association, requiring the Inspectorate General of each implementing agency to conduct internal control reviews under the Project in accordance with its mandate.

APPRAISAL SUMMARY

15. Economic and financial analyses

The Project is a poverty alleviation project and as such has adopted a pro-poor formula for targeting eligible districts and communities (see Annex 4). Community mapping of poor households to be carried out in relation to water service improvements will enhance the effectiveness of existing social mechanisms for fee exemption and cross-subsidization. The Project, based on WSLIC-2 experience, is expected to have a high economic rate of return (details of the analysis in Annex 9). In the preparation of WSLIC-2, the rate of return was estimated to be about 24 percent. The recent BAPPENAS-ASEM study of actual experience in selected WSLIC-2 communities shows a higher rate of about 35 percent based on time and commercial purchases savings, but excluding health and other benefits. Sensitivity analysis indicates that the Project's rate of return is sensitive to the quality of project management.

Available data indicate that community participation and good quality facilitation are cost-effective financially and economically – and provide an efficient option for achieving WSS MDGs. Well-informed and trained communities can build 50 percent more cheaply than comparable (albeit, simple) water supply systems constructed by contractors. The beneficiary communities also contribute at least 20 percent of the investment cost of their community action plans. They bear the cost of maintaining constructed water systems, while the LGs absorb into the local education and health budgets the cost of replenishing the health materials (small amount), as called for by the Project's entry conditions for district participation. Consequently, the project's recurrent cost implication for government finance is minimal. The project will also impact health outcomes which may be harder to quantify but nevertheless will make important contributions.

16. Technical

The project will adopt technologies and methodologies of proven effectiveness in attaining project objectives. Through a facilitation process of informed choice, communities are enabled to choose systems that are appropriate, technically sound and affordable operationally. With sanitation, the project is innovative in its use of CLTS (successfully piloted by WSLIC and WASPOLA). For both water supply and sanitation, communities are provided with locally appropriate catalogues of technical options and associated costs, advantages and disadvantages of each option.

17. Fiduciary

The financial management capacity of the project implementing agencies has been reviewed in accordance with Bank guidelines. The overall financial management risk is considered 'high', due mainly to (i) substantial inherent risks at both the country level and the project entity level due to a weak control environment overall in the country, although financial management reforms are being gradually progressed; (ii) a large allocation of project funds for implementation by community groups, whose generic capacity for implementation and accountability is weak; (iii) the decentralized nature of the project and wide geographic spread, likely to cover 11 provinces and 70 districts; (iv) the financial management capacity of the possible participating district governments to successfully administer grant funds is not known at

this stage, as these districts will be selected at a later date; (v) a substantial amount of funds managed through a non-contract self-managed mechanism, which have been found to be vulnerable to lapses in financial controls; and, (vi) complex institutional arrangement of the project due to involvement of three Ministries with different roles which needs strong coordination.

We have noted, however, that the committed project implementation team within DGHS at MPW has had prior experience in implementing past Bank-financed projects providing some reassurance that with strict adherence to the proposed action plan, the financial management risks of the project could be substantially mitigated.

An action plan has been designed and agreed with MPW to help mitigate these risks. These include a strengthened internal and external audit of project activities at the central, provincial and district levels, through the MPW's Inspectorate General and BPKP, adoption of fiduciary control procedures for Community Driven Development that have been adapted from other similar Bank projects where these have operated adequately, documentation of detailed financial management procedures in a project manual, training of project staff in these procedures, adoption of interim quarterly financial statements to enable monitoring, and the recruitment of appropriate consultants to assist MPW in project financial management.

This assessment has concluded that after the implementation of the actions stated in the Proposed FM Action Plan in Annex 7, the project will satisfy the Bank's financial management requirements as stipulated in OP/BP 10.02. The project will initially use Statements of Expenditure (SOEs) as the basis of the disbursement.

In regard to procurement, the risk is deemed high due to the following factors: (i) widespread corruption and collusive practices in the country; (ii) possible procurement delays due to the unavailability of budget documents early in the GOI's fiscal year; and (iii) low capacity of the procurement staff. These are all generic risk factors experienced by most projects in Indonesia. The procurement arrangement under this project has considered the above risk factors and has adopted adequate measures to mitigate the above-mentioned risks, as described in Annex 8.

18. Social

Inclusion: With the tendency of elite groups to dominate throughout the project cycle, inclusion of vulnerable groups remains a major challenge for development projects. PAMSIMAS will use tools and apply mechanisms to make participation of marginal and vulnerable groups verifiable, and to guide funding decisions. A Gender Action Plan has been developed (Annex 10) and CFTs will also be accountable for implementing measures to ensure active participation of women in community meetings and decision making. To avoid adverse effects for indigenous people and ensure their benefits, PAMSIMAS will provide guidelines and training for culturally appropriate facilitation and ensure use of local language.

Poverty targeting: Poverty is one of the selection criteria for districts and villages. As the water supplied is distributed throughout the village and enjoyed by all villagers regardless of social status, PAMSIMAS will promote a participatory approach in setting maintenance fee rates to ensure equity. Training of Community Facilitators and community institutions (VITs) will specifically address methods of equitable and sustainable tariff setting (fair tariffs reflecting

differentials in levels of service and consumption by different users), affordability of tariffs by the poor (cross subsidies if required), and adequate coverage of costs of operation, maintenance and future replacement (beyond design life of systems).

Monitoring of social and gender impact: Regular monitoring will be conducted taking advantage of the sustainability monitoring data for social and gender impact indicators. Independent monitoring will involve civil society groups in reviewing PAMSIMAS performance to increase project transparency and accountability.

19. Environment

As a national program, PAMSIMAS is likely to be implemented across Indonesia's highly varied climatic, geological, and ecological zones that may encompass areas where there are significant pressures on water resources and those prone to natural disasters. Environmental risks are likely to be associated primarily with the water supply component and village and district grants component. However no major adverse impacts are expected since the scale of most sub-projects is expected to be small. Furthermore, there are a number of net environmental benefits that are expected to accrue from the environmental sanitation improvements the project will bring (as further detailed in Annex 10).

A senior environmental advisor will be recruited to support development of technical options and guidelines for community based water supply. This guidance will exclude options that are known to lead to significant residual impacts or to place substantial environmental management responsibility on local communities during the operational phase. It will also provide specific conditions for the development of water supply schemes in environmental sensitive areas. The village and district level grants will be screened at district level via a negative list approach, to be revised and finalized by the senior environmental advisor. A program of training, including both general orientation training for PMU staff and other government officials and technical training for field engineers and facilitators, will be provided during the initial stages of the project. Safeguards systems and procedures will be reviewed and revised, as necessary, at a suitable mid-term point.

20. Safeguard policies

Safeguard Policies Triggered by the Project	Yes	No
<u>Environmental Assessment (OP/BP/GP 4.01)</u>	[X]	[]
Natural Habitats (<u>OP/BP 4.04</u>)	[]	[X]
Pest Management (<u>OP 4.09</u>)	[]	[X]
Cultural Property (<u>OPN 11.03</u> , being revised as OP 4.11)	[]	[X]
Involuntary Resettlement (<u>OP/BP 4.12</u>)	[]	[X]
Indigenous Peoples (<u>OD 4.20</u> , being revised as OP 4.10)	[X]	[]
Forests (<u>OP/BP 4.36</u>)	[]	[X]
Safety of Dams (<u>OP/BP 4.37</u>)	[]	[X]
Projects in Disputed Areas (<u>OP/BP/GP 7.60</u>)*	[]	[X]
Projects on International Waterways (<u>OP/BP/GP 7.50</u>)	[]	[X]

The project has been classified Environment Safeguards “Category B” since it is unlikely to lead to significant adverse social and environmental impacts, given a community based approach to the provision of water supply and sanitation. At the same time, there remains the potential for a range of localized impacts to emerge under PAMSIMAS, as observed under the WSLIC-2 projects, for which an appropriate level of mitigation is required as further detailed in Annex 10. Safeguards policies on Environmental Assessment and Indigenous People are triggered by this project.

Indigenous and Vulnerable People: Having a nation-wide scope, PAMSIMAS has the possibility of working in areas where Indigenous People are located, thus triggering OP 4.10 on IP policy. An IP Framework has been developed to ensure application of the appropriate safeguard policies (see Annex 10a). The framework will ensure that Indigenous People participate in decision making throughout project planning, implementation and evaluation, and ensure they benefit equally with non-Indigenous People. The framework will be built into: (a) project manuals, (b) consultant TORs, (c) TORs for impact studies and within M&E systems, (d) training modules for CFTs and other staff and (e) the independent monitoring of the possible impacts by civil society groups.

Land Acquisition and Resettlement: No involuntary resettlement will be undertaken in this project. Therefore OP 4.12 on Involuntary Resettlement is not triggered. Land or asset acquisition will be kept to a minimum and no person will be physically displaced by any sub-project. The community is expected to use existing spaces or voluntarily contributed land. Any project proposal that would acquire productive assets will not be considered and the community requested to find alternative location for the facility (pipe line, well location, etc.). The affected parties should be consulted in a participatory manner. Any grievances will be solved locally, where a local solution cannot be found, the grievance will be submitted to the Bupati (District Head) for judgment.

21. Policy Exceptions and Readiness

The project does not require any exceptions from Bank Policies.

At Negotiations on May 22, 2006 the Project met all Bank and GoI readiness filter requirements, including:

- Draft Project Operations Manual;
- Draft DG of Human Settlements decree which establishes the central level project organizational structure, staffing, and assignment of responsibilities acceptable to the Bank;
- Draft instruction from the Ministry of Public Works to the Inspectorate Directorate General to conduct internal control review of project activities;
- TOR and letter to Auditor (covering interim and annual audit) confirming the audit arrangements;
- Availability of the procurement plan for the first 18 months of implementation; and
- Availability of the draft TOR for the Central Management Advisor.

Annex 1: Country and Sector or Program Background
INDONESIA: THIRD WATER SUPPLY AND SANITATION FOR LOW INCOME
COMMUNITIES (PAMSIMAS) PROJECT

The water supply and sanitation sector in Indonesia presents a key service delivery challenge associated with poverty reduction, although the links are not yet widely recognized⁵. The incidence of typhoid in Indonesia is high given the per capita income of over US\$700. Economic losses due to inadequate sanitation alone were estimated at 2.4% of GDP in 2002. Significant damage to the country's future potential in terms of infant mortality and child malnutrition in low-income areas of Indonesia is greatly associated with inadequate access to safe water and basic sanitation. Additionally, deteriorating quality and quantity of primary water sources has reached critical proportions in the most densely populated islands like Java and Bali - which are home to the largest numbers of the country's poor.

The Government of Indonesia is committed to achieving the Millennium Development Goals, and in order to do so, an estimated 78 million more people will require improved water supply and 73 million improved sanitation services by 2015.

Pace of progress in the sector and remaining challenges

Access to WSS services continues to be low in Indonesia, with a general recognition that achieving the WSS MDG will require more intensive and effective government support. A 2003 study by UNSFIR projected that 24 out of Indonesia's 32 provinces will fail to reach MDG targets for safe drinking water supply by 2015. PAMSIMAS is expected to narrow the gap between current levels of access and the MDG target by one third for rural water supply and by about one fourth for rural sanitation (see following sections)

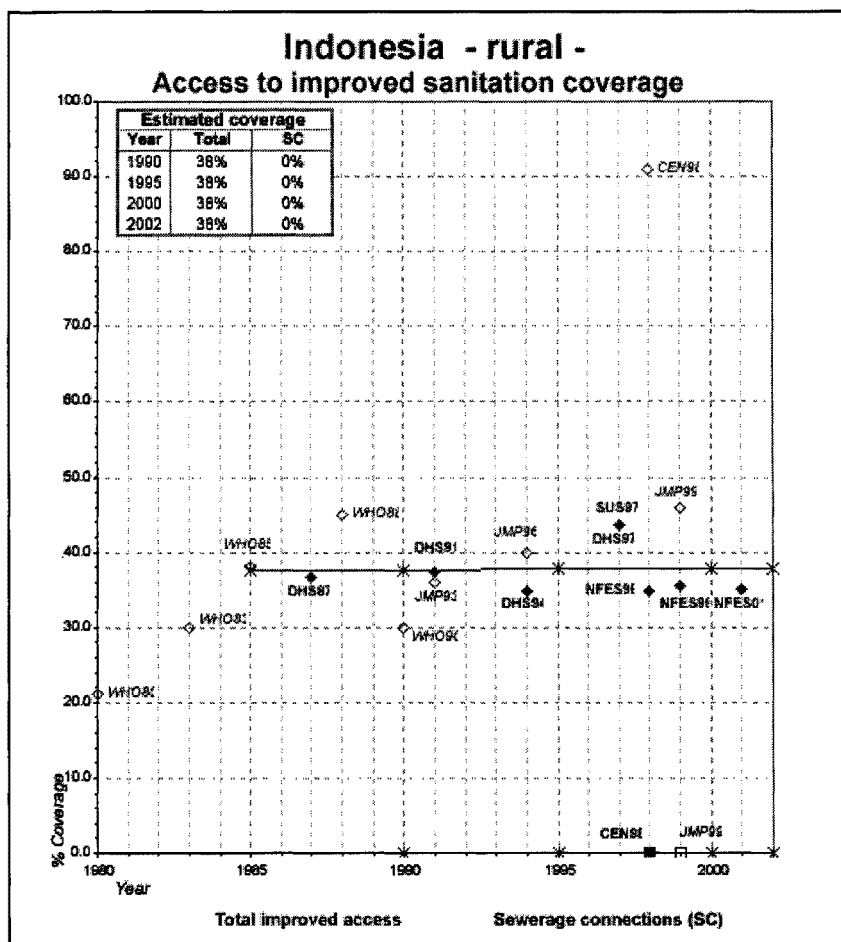
While there are no nationally accepted criteria to define "sustainable access", currently only about 47 percent of the population has access to water from improved sources considered *relatively safe*⁶ (SUSENAS, 2004). That includes 42 percent of the urban and 51 percent of the rural population. In the 8 years from 1994 to 2002, this figure increased by only 10 percent in rural areas and 9 percent in the urban. At this rate, by 2015, only about 56 percent of the rural population can be expected to gain access to safe water supply, when the MDG target for the whole country is 73 percent.

Population access to improved⁷ sanitation in rural areas has remained stagnant at around 38 percent since 1985 according to the Joint Monitoring Program (see Figure 1). The SUSENAS 2004 definitions of sanitation access do not match those of the JMP. However, the data reports access to private sanitation facilities in the country to be 62 percent, (53 percent of rural and 73 percent of urban households), and that only a quarter of the rural household facilities and two thirds of the urban ones are connected to septic tanks. The rest discharge raw sewage directly into rice paddies, ponds, lakes, rivers or the sea. More than 40 percent of rural households use unsanitary open pits or defecate in fields/beaches/water bodies. Urban sanitation is the least well addressed of major policy issues in Indonesia. Poor sanitation in cities and small towns is posing population health hazards through pollution of both ground and surface water sources used by urban populations for a variety of purposes. Disposal and treatment of sewage is available for less than 5% of the population. Top-down delivery systems of the past have led to the poor not gaining appreciable access to safe sanitation services in both urban and rural areas.

The economic crisis of the late 1990s severely curtailed investment in infrastructure. Central government spending on development dropped from US\$14 billion in 1994 to US\$5 billion in 2002, within which the share of infrastructure spending further declined from 57 to 30 percent over the same period. Moreover, poor institutional and regulatory frameworks and rampant corruption in the infrastructure sector, which

were prevalent even before the crisis, continued without serious sector reform efforts by the government until very recently.

Figure 1: Joint Monitoring Program data on rural sanitation coverage



Decentralization in 2001 complicated matters further, by handing over responsibility and control of local infrastructure to autonomous district governments without providing them adequate access to funds or expertise for infrastructure development. More recently, natural disasters of an unprecedented scale such as the December 2004 tsunami and several earthquakes since then have inevitably diverted attention and funds towards emergency relief and reconstruction/rehabilitation efforts, rather than policy and strategy improvements.

The majority of the unserved reside in rural and peri-urban communities. In the near and medium term, most of these dispersed communities will continue to obtain water and sanitation services either through self-provisioning or through community-managed systems, given the high cost of providing direct, utility-managed services in relatively remote areas, and the current limited capacity of most PDAMs. There is growing consensus that external aid and state resources will not suffice. In rural Indonesia achieving the MDGs will hinge largely on empowering poor, unserved communities to make more sustainable choices while improving their services, and supporting their efforts to keep them going. This will require service delivery to be done consistently through empowering, community-demand-driven approaches whereby users choose and co-invest in their services, and are able to hold local governments accountable for the quality and quantity of services delivered and for managing regional water resources in an environmentally sustainable manner.

The following specific challenges and opportunities need to be addressed in scaling up towards WSS-MDG targets with poverty reduction impact:

- **Key role of Local Governments in improving WSS services as integral to economic growth**
Nationwide decentralization starting in 2001 has devolved responsibility and authority for providing water supply and sanitation services to local governments. Local government administrations and local legislative bodies are now testing the limits of their newfound autonomy, and delivering water supply or sanitation services is usually not amongst their highest priorities. Their awareness of the poverty reduction benefits of investing in access to clean water and basic sanitation is still largely non-existent. Their capacities to deliver services cost-effectively, with sustainable results, and to reach the poor with services are also not well developed. The country needs interventions and strategies to bring about local government understanding and buy-in into investing in the water supply and sanitation sector, for both short and long-term economic benefits, including: (i) Short-term benefits from annual savings in terms of reduction in all-too-frequent outbreaks of diarrhea diseases and (ii) Long-term benefits from improved health and therefore productivity of local populations, and protection of the growth and development of infants and children under 5, who are the most vulnerable to water-borne diseases.
- **Under-financing of the WSS sector in general and sanitation and hygiene improvement in particular**
Improving health and productivity through better sanitation and hygiene needs to be recognized as a national priority. The annual social and economic costs of sanitation-related health problems are estimated at US\$4.7 billion, or Rp.100,000 per household per month. The lack of sewerage and solid waste management has caused widespread contamination of surface and groundwater in both rural and urban areas, as well as destroying sensitive ecosystems. Although less than 2 percent of domestic sewage goes into a sewerage system and on-site systems have not been accompanied by investment in collection, treatment and disposal infrastructure, in 2002 the government spent only 1/1000th as much on sanitation as it did on water supply. Since decentralization in the year 2001, local Governments have typically invested less than 2 percent of their annual budgets on water supply, even less on sanitation and almost nothing on improving hygiene practices. The latter continues to be funded by donor funds, if at all carried out. Consequently the poor continue to wash, defecate in, and collect water from highly contaminated rivers or live next to open drains making them sick and unproductive. These practices endanger the health of the entire population, poor as well as the non-poor.

GoI has defined WSS service coverage by urban and rural components. The WSS MDG targets for Indonesia are expressed in their rural and urban components in the following Table. The PAMSIMAS project will provide benefits to 5000 communities with a population of approximately 12.5 million. Of those people about 6.5 million (target: 6 – 7 million beneficiaries) will benefit from the water supply facilities provided by the project. This represents a little over one quarter of the population that needs to be served, if Indonesia is to attain the MDG for rural water supply, based on SUSENAS definitions of safe water which have been adopted by GoI. The SUSENAS definitions for water supply are equivalent to JMP definitions but include as safe water, sources more than 10 meters away from sanitation facilities. It is estimated that proportionately more people will benefit from the Project's sanitation component. About 8 million (target: 6 – 10 million beneficiaries) will benefit from improved sanitation facilities, and good hygiene practices promoted by the Project. This represents approximately one quarter of the population that needs to be served if the country is to attain the rural sanitation MDG, based on JMP definitions of improved sanitation. The SUSENAS definitions do not distinguish between improved and unimproved sanitation facilities, and the GoI has not adopted these definitions for setting rural sanitation MDG targets. In order to achieve the rural WSS MDGs, it is estimated that about \$90 million per year (\$719 million beyond PAMSIMAS

funding) will be needed from 2008 to 2015 as shown in the table below. This suggests that even with PAMSIMAS investment a significant investment gap would remain. This could be closed by a programmatic SWAp that would scale up and mainstream PAMSIMAS initiatives in subsequent operations.

Table 1.1 WSS-MDG Targets, Project Financing and Beneficiaries

		POPULATION 2005			POPULATION 2015			PAMSIMAS Beneficiaries million
		Total	Urban	Rural	Total	Urban	Rural	
		218	100	118	247	137	110	
	JMP							
1	Coverage Sanitation	53%	70%	38%				
2	Coverage Sanitation pop. mil. ¹	116	70	45				
3	Unserved	47%	30%	62%				
4	MDG Target (50% of [line 3]) + line 1				75%	85%	69%	
5	MDG Target Coverage pop. mil. (= 2015 pop * [line 4])				192	116	76	
6	Incremental Coverage for MDG Sanitation = [6]- baseline [2]				77	46	31	8
7	Incremental Investment to achieve MDG US\$ million				\$6,209	\$6,039	\$171	\$44
PAMSIMAS coverage is 26% (8/31) of rural MDG and 10% (8/77) of total MDG								
	SUSENAS							
8	Coverage Water Supply	47%	42%	51%				
9	Coverage Water Supply, pop. mil. ²	102	42	60				
10	Unserved	53%	58%	49%				
11	MDG Target (50% of [line 10]) + line 10				80%	87%	64 %	
12	MDG Target Coverage pop. mil. (= 2015 pop. * [line 11])				180	97	83	
13	Incremental Coverage for MDG WS = [12] – baseline [9]				78	55	23	6.5
14	Incremental Investment to achieve MDG US\$ million				\$6,350	\$5,527	\$823	\$234
PAMSIMAS coverage is 28% (6.5/24) rural MDG and 8% (6.5/78) MDG								
15	Total Financing Gap for Rural WSS MDGs [14] + [7]				\$994			
16	PAMSIMAS investment as % of rural financing gap ([\$275/[15])				28%			
17	Rural financing gap beyond PAMSIMAS [15] - \$275 million				\$719			
18	Average annual rural financing gap 2008-2015 \$ million				\$90			
19	Urban and rural financing annual gap \$ billion				\$1.5			

¹ Based on 2000 data

² Based on 2002 data

Unit Cost Assumptions - \$/Capita	
Urban water	\$100
Urban sanitation (wastewater)	\$130
Rural water	\$36
Rural sanitation	\$5.5

Notes

- a) The analysis has used SUSENAS data for water supply and JMP for sanitation for reasons explained in the main text.
- b) Rural unit costs are based on PAMSIMAS estimates.
- c) PAMSIMAS target beneficiaries: 6-7 million for water supply and 6-10 million for sanitation excluding replication component.

▪ **Water quality and access issues**

Access to adequate quantities of acceptable quality water continues to be a critical issue in many areas. Many people still use untreated water from unprotected dugwells, irrigation canals, unprotected springs and rivers. Due mainly to poor access to improved sanitation most of these sources are seriously polluted, and therefore contribute to high rates of water-borne diseases. In some areas safe water is so scarce that people buy drinking water from private vendors at 15-30 times the usual utility tariff for water.

▪ **Sustainability of rural water supply and sanitation infrastructure**

Rural Indonesia has a long history of community-managed water supply services using naturally occurring springs, rainwater and groundwater sources. However, community capacities to sustain such water systems over long periods have tended to be limited. Past rural water supply and sanitation projects have often not invested sufficiently in building community capacity to plan, implement, operate and maintain services in ways that benefit and satisfy all sections of rural societies, conditions necessary for service sustainability. Rural consumers have not consistently been offered voice and choice in decisions related to establishing and managing services and paying for them. Services have often been provided in a top-down manner by agencies external to the community, using public sector or donor funds and contractors answerable to government agencies rather than to the users of services. This has led to mismatches between what the users want and get, a lack of community ownership of rural water supply and sanitation facilities and unclear responsibilities for maintenance.

Although a new sector policy framework is now available to address these problems, it has yet to be operationalized on a large scale. In addition, emerging experience in recent years with the new generation of community-demand driven projects shows that for long-term sustainability of services, community management alone may not be an adequate arrangement. Newer models of support and responsibility sharing between user communities and local governments or local private sector agencies need to be evolved and tested.

New policy directions

To this end, in 1998 the GoI embarked on an initiative to develop a national policy framework for community-based water supply and environmental sanitation. The policy environment has improved significantly with the establishment of a *Policy Framework for Community-based Water and Environmental Sanitation Development*, in year 2003. However, its implementation strategy is still not well developed, awaiting a national assessment of sector investment needs and a financing strategy to reach the MDGs.

The new sector policy provides a clear route map for sector reform, by:

- Radically changing the policy goals for the sector, from achieving “coverage targets” counted in terms of construction of systems/facilities, to the twin goals of *sustainability* and *effective use* of WSS services;
- Promoting water as a public as well as an economic good;
- Espousing strategies such as empowerment of communities to choose, co-finance, construct and manage and own their WSS services;
- Requiring the use of gender-and poverty-sensitive approaches in working with and empowering user communities to ensure poverty targeting and impact on local poverty;
- Building stakeholders’ understanding at all levels of the multi-dimensional nature of service sustainability;
- Measuring success in terms of sustained population access to services, and effective use of those services, i.e. hygienic and health – promoting use of services by all sections of communities and improved sanitation and hygiene behaviors among various age-sex groups of the population.

Community-based WSES services will continue to serve the massive rural and parts of the peri-urban sector in Indonesia for many years to come. The challenge is to get the new sector policy effectively translated into action at large scale through local governments, thereby also leveraging and pooling an ongoing flow of funds synergistically for sector development, from all sources including the government, private sector, user communities and external support agencies.

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies
INDONESIA: THIRD WATER SUPPLY AND SANITATION FOR LOW INCOME
COMMUNITIES (PAMSIMAS) PROJECT

Over the past few years, a number of Government and externally supported projects have highlighted the essential cross-sector nature of water supply and health issues. Several projects in Indonesia, funded by different donors and agencies, have supported community water supply, sanitation and basic health services. The World Bank has funded the following projects: WSSLIC-1, WSLIC-2, Village Infrastructure Project I and II, Kecamatan Development Project I, II and III, and Urban Poverty Project I and II. Based on the latest World Bank Implementation Supervision Rating (ISR), ratings for these projects was as follows: WSLIC “satisfactory”, Village Infrastructure Project “highly satisfactory” and Kecamatan Development Project “satisfactory”.

Findings of the Post-Construction Economic Impact Analysis Study for CDD programs WSLIC-2, CERD, P2D and P2KP (ASEM Grant) show that, with regard to efficiency and cost saving, the CDD approach (labor-intensive + swadaya) used by the 4 programs (except CERD) has been very cost effective if compared to the estimated contractor costs for building the same water system infrastructure. The impact analysis also showed that funds spent in the WSLIC-2, P2D and CERD villages during project implementation stimulated measurable additional economic activity in the local village economies. In principle, the greater the funds spent by the project in the village, the greater the multiplier effect. In terms of quality of life, the analysis showed that the majority of communities, which build infrastructure projects, felt that the quality of their lives, both now and in the medium term future, had significantly improved due to the benefits (both direct and indirect) that resulted from the projects.

In the past there have been projects for rural and small towns water and sanitation infrastructure improvement, Community-based Water Supply and Sanitation Improvement, and Integrated Community Health Sanitation and Water Project that were funded by OECF, KFW/GTZ, AusAID, CARE, and Yayasan Dian Desa. Most recently, there have been several other competitive grant initiatives: In 2005 the GoI fully funded the Program Kompensasi Pengurangan Subsidi Bahan Bakar Minyak (PKPSBBM). In 2004, the Asian Development Bank (ADB) funded the Community Water Services and Health Projects (CWSHP).

PKPSBBM: The objective of this GoI-funded initiative is to improve the village productivity through a) providing access to the community at the village level; b) to decrease community expenses; c) to improve community participation; and d) to generate community income by involving the community in construction activities. The key indicators of PKPSBBM are the target communities access to the village economic, irrigation and safe water; formulation of Community Organization for Operation and maintenance of infrastructure and appropriate target, on time and good quality.

CWSHP: This project uses the same approach as the World Bank – funded WSLIC-2 project. The overall goal of the project is to raise the health and quality of life of low-income communities in rural and peri-urban areas in Indonesia. The objective of the project is to increase the number of families that have access to safe drinking water and improve sanitation facilities, and practice healthy and hygienic behavior related to waterborne diseases in the project provinces and districts. The project will improve district government capacity to deliver basic water and sanitation services, strengthen communities to take primary responsibility for such services, extend water and sanitation facilities to communities through a demand-driven, community based approach, and increase communities’ awareness and education with regard to appropriate health and hygienic behavior. The CWSH project is being implemented in 4 provinces, involving a total 20 districts, approximately 1000 communities, and an average number of 430 households per community.

Annex 3: Results Framework and Monitoring
INDONESIA: THIRD WATER SUPPLY AND SANITATION FOR LOW INCOME
COMMUNITIES (PAMSIMAS) PROJECT

<i>Project Development Objective</i>	<i>Outcome Indicators</i>	<i>Use of Outcome Indicators</i>
To increase the low-income rural and peri-urban populations using improved water and sanitation facilities and practicing improved hygiene behaviors in the project areas as part of GoI efforts to achieve WSS-MDGs. This will be achieved through programmatic mainstreaming and scaling-up of a nationwide community-driven approach.	<ul style="list-style-type: none"> • Number of additional people with sustainable access to improved water facilities⁸, differentiated by socio-economic status • Number of additional people with sustainable access to improved sanitation facilities⁹, differentiated by socio-economic status. 	<p>Years 1 -2:</p> <ul style="list-style-type: none"> • Setting up baselines of community access to safe water and improved sanitation. <p>Years 3-5:</p> <ul style="list-style-type: none"> • Demonstrating appropriate scaling up of processes and progress towards achieving MDGs.

<i>Intermediate Outcomes</i>	<i>Intermediate Outcome Indicators</i>	<i>Use of Intermediate Outcome Monitoring</i>
Component One: District and provincial governments will have coherent institutional arrangements to support the scaling up of improved water use, sanitation and hygiene behaviors in rural and peri-urban communities.	Component One: <ul style="list-style-type: none"> • Number of villages developing community action plans. • Capacity building plan to support the adoption and mainstreaming of the PAMSIMAS approach, and progress towards achieving its objectives. • Actual Project District WSS expenditure as a percentage of the budget needed to achieve MDG goals. • No of districts that are replicating the PAMSIMAS approach outside targeted communities 	Component One: <ul style="list-style-type: none"> • Identifying areas where institutional capacity building approaches need to be improved or where additional support may be required, e.g. regulations, advocacy, performance incentives and disincentives. • Monitoring levels of participation in PAMSIMAS and scale up trends.
Component 2: Targeted communities have progressively adopted key hygiene practices ¹⁰ .	Component 2: <ul style="list-style-type: none"> • % of target communities free of open defecation. • % of target communities adopting hand washing programs. • % of target schools that have improved water supply and sanitation facilities and hygiene programs. 	Component 2: <ul style="list-style-type: none"> • Monitoring increase in access to and effective use of improved sanitation facilities by targeted population and schools. • Assessing hygiene/ sanitation behavior change
Component 3: Targeted communities gain access to improved rural water supply and communal sanitation services, and use, manage and sustain them effectively.	Component 3: <ul style="list-style-type: none"> • % of villages with improved rural water supply systems that are functioning¹¹ to the satisfaction of the majority of targeted community • % of villages with improved water supply systems that are effectively managed¹² and financed 	Component 3: <ul style="list-style-type: none"> • Monitoring increase in target population's access to safe water • Assessing program impact on poor households • Assessing sustainability of new/improved water supplies
Component 4:	Component 4:	Component 4:

<i>Intermediate Outcomes</i>	<i>Intermediate Outcome Indicators</i>	<i>Use of Intermediate Outcome Monitoring</i>
Local governments exhibit progressively greater commitment towards sustainability and scaling up by implementing complimentary programs of WSS using PAMSIMAS methodology.	<ul style="list-style-type: none"> Number of villages & districts exceeding project performance criteria¹³ and receiving supplementary grants. 	<ul style="list-style-type: none"> Monitoring local government commitment to scaling up WSS service provision beyond project communities Piloting and refining approaches to link WSS effectively with poverty reduction, and improve community capacity to ensure long-term sustainability of services
Component 5: Each DPMU and the CPMU is progressively able to successfully manage and support the program (and its subsequent expansion to remaining districts in Indonesia)	Component 5: <ul style="list-style-type: none"> Project monitoring structure and tools (IMIS, M&E) provides regular information on project implementation quality 	Component 5: <ul style="list-style-type: none"> Confirms progress in providing technical assistance and project management inputs, and their effectiveness. Baseline, mid-term, EOP surveys undertaken to inform management.

Arrangements for Results Monitoring

PAMSIMAS will use two complementary approaches: a) participatory process and outcomes monitoring (Sustainability Monitoring) which will be both quantitative and qualitative, and b) independent studies for impact assessment.

(a) Sustainability Monitoring: Community Facilitator Teams (CFTs) will facilitate participatory assessments in villages involved in PAMSIMAS to establish baseline data and provide a basis for planning service improvements. Participatory assessments will be repeated at several other phases of the project to measure progress towards envisaged outcomes. Data gathered will include access to services for poor and non-poor households, users' satisfaction with the functioning of water services, the quality of planning, management and financing of services by user communities, and the extent of gender and social equity in the receipt of project benefits and burdens. The results of assessments will be presented to and verified with the wider community through mandatory village meetings requiring a quorum of households to be present. CFTs will ensure that data from the community level assessments are entered into the Sustainability Monitoring MIS database maintained by District Project Management Units (DPMUs). At district level data will be used by DPMUs as a management tool for implementing quality control and to monitor progress towards WSS MDG targets.

Capacity for participatory monitoring will be built at district and community level through Component 1 and 2 of the project. Costs of capacity building have been estimated from MoH experience in 34 districts with WSLIC-2. The MoH plans to scale up this capacity to cover all villages for access monitoring by supplementing PAMSIMAS with its own resources and outreach through the Health clinics (Puskesmas, Pustu) and field level staff (Sanitarians, Bidan Desa, Puskesmas doctors).

(b) Impact Evaluation: Independent project evaluation will be carried out by a consultant who will (i) conduct a formal evaluation that includes baseline, mid-term and final year surveys in a selection of villages, and (ii) review data from other sources such as routine project monitoring data and regular household surveys conducted by GoI Susenas and IDHS.

Formal Evaluation: a central question for the project evaluation is the extent to which villages receiving project support achieve better access to water and sanitation facilities, and hygiene behavior change. It will also be important to see if this leads to economic, health and other benefits, though it is expected that a clear relationship may be difficult to establish. These questions are normally answered by comparing project villages with a control group of villages that did not receive project interventions.

Given that project districts and villages are selected purposively (they are both poor and have the scope and a willingness to improve water and sanitation facilities) the selection of control groups from outside the project area would not provide a meaningful comparison. However, a control group of villages could be found within the project by the phased nature of the interventions. The villages receiving support in the first year would be the treatments and the villages in subsequent years would be the controls; project impact could be assessed using a difference in differences design. This design will work best if a large proportion of a village population is likely to benefit from project interventions. It will also be important, that the geographic rollout plan is based on observable, and where possible, quantitative criteria for transparency and ethical reasons as well as for the validity of the evaluation.

The type of information collected during the baseline and at 2-3 year intervals from the same households would include¹⁴:

- *Village level data:* Review of water and sanitation facilities and programs, including schools, water quality, village characteristics (poverty, infrastructure, local government, community organization).
- *Household level data:* Access to and use of water/ sanitation facilities, defecation and hand washing behavior, time utilization, income generating activities, a limited range of nutrition and health indicators (such as diarrhea in past two weeks). Also details of parents education, occupation, household characteristics, child's age sex, weight, height.

These surveys will provide an indication of the level and coverage of water and sanitation activities across the project and provide a quantitative assessment of project outcomes. It will also be informative to also consider the processes by which development objectives are influenced, including (i) the selection of communities to benefit from project support and the decisions made by communities (ii) the extent to which services are expanded into populations that did not previously receive them, (iii) the extent to which communities change behavior, (iv) the potential sustainability of project interventions, (v) the extent to which safeguards policies have been adopted.

Review of Household Survey Data: Trends in some water and sanitation indicators can be compared for project and non-project villages using Indonesia's annual socio-economic household survey. The survey, known locally as Susenas, covers every district in Indonesia and includes basic questions on the drinking water and sanitation facilities that respondents use regularly. On average the sample consists of 40 clusters of 16 households per district or 640 households (of which about 30 clusters are in rural areas). PAMSIMAS is currently targeting an average of 70 villages in each of 70 districts. This represents more than a third of the number of rural villages in a typical district (median number of rural villages in a district is 190). It is likely therefore that a fairly balanced proportion of project and non-project villages will be included in SUSENAS which could serve as a useful cross-check of progress for a limited range of indicators. More detailed questions are asked in the Indonesian Demographic and Health Survey (IDHS), to be undertaken in 2007 and at three year intervals; it may be possible to request additional questions or more intensive sampling in project districts.

Capacity: Project evaluation will require an Impact Evaluation consultant that can undertake the study in a selection of project villages, across all provinces. Some evaluation capacity is available in Indonesia's

universities but there may be considerable advantage in linking with an international institute that has experience in implementing this type of study.

Project Outcome Indicators	Baseline	Target values						Data collection and reporting		
		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Frequency and reports	Data Collection Instruments	Responsibility for data collection
<ul style="list-style-type: none">▪ Number of additional people with sustainable access to improved water facilities, differentiated by socioeconomic status▪ Number of additional people with sustainable access to improved sanitation facilities, differentiated by socioeconomic status.	0	0	5-1mill.	1-2mill.	2-3mill.	3-5 mill.	6-7 mill.	Yearly cumulative reports, based on detailed progress reporting by DPMU.	Sustainability MIS data & household survey	DPMUs reporting to CPMU, based on sustainability MIS data collected from participatory assessments & independent evaluation team.
Component 1: <ul style="list-style-type: none">▪ Number of villages developing community action plans.▪ Capacity building plan to support the adoption and mainstreaming of the PAMSIMAS approach, and progress towards achieving its objectives.▪ Actual Project District WSS expenditure as a percentage of the budget needed to achieve MDG goals.▪ No of districts that are replicating the PAMSIMAS approach outside targeted communities.	0 NA TBD none	0	600	1350 50% 50%	2,550	3,850	5000 100% 100% 70 of 70	Yearly cumulative reports, based on detailed progress reporting by DPMUs.	Project reports & district budget documents	CPMU, from DPMUs.
Component 2: <ul style="list-style-type: none">▪ % of target communities free of open defecation.▪ % of target communities adopting hand washing programs.▪ % of targeted schools that	zero zero 0%		10% 10% 12%	20% 20% 27%	40% 40% 51%	60% 60% 77%	80% 80% 95%	Yearly cumulative reports, based on detailed progress reporting by districts.	Sustainability MIS data & household survey	DPMUs reporting to CPMU, based on sustainability MIS data from participatory assessments &

Project Outcome Indicators	Baseline	Target values						Data collection and reporting		
		Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Frequency and reports	Data Collection Instruments	Responsibility for data collection
have improved sanitation facilities and hygiene programs.								Hygiene behavior evaluation surveys at baseline, Mid-term and EOP	Hygiene evaluation – randomised sample surveys	independent evaluation team. Agency contracted by provincial Health units, at several tracking sites in each project province
Component 3: ▪ % of villages with improved water supply systems that are functioning to the satisfaction of the majority of targeted community ▪ % of villages with improved water supply systems that are effectively managed and financed	N/A	0%	90%	90%	90%	90%	90%	Yearly cumulative reports, deriving from Sustainability Monitoring MIS	Sustainability MIS data & household survey	DPMUs reporting to CPMU, based on sustainability MIS data collected from participatory assessments & independent evaluation team.
	N/A	0%	90%	90%	90%	90%	90%			
Component 4: ▪ Number of villages & districts exceeding project performance criteria and receiving supplementary grants.	0	N/A	N/A	100-200 Villages/ 5 districts	250-500 Villages/ 10 districts	400-800 villages/ 15 districts	500-1000 Villages/ 20 districts	Quarterly reports by DPMUs and annual reviews by provinces	Project reports	CPMU, from DPMUs.
Component 5: ▪ Project monitoring structure and tools (IMIS, M&E) provides regular information on project implementation quality	0	100% districts engaged	100% districts engaged	100% districts engaged	100% districts engaged	100% districts engaged	100% districts engaged	Quarterly reports by DPMUs and Annual reviews by provinces	IMIS, Sustainability Monitoring MIS	DPMU, 6-monthly reviews by CPMU

Annex 4: Detailed Project Description

INDONESIA: THIRD WATER SUPPLY AND SANITATION FOR LOW INCOME COMMUNITIES (PAMSIMAS) PROJECT

Program Development Objective:

To increase the number of low-income rural and peri-urban populations accessing improved water and sanitation facilities and practicing improved hygiene behaviors as part of the Recipient's efforts to achieve WSS-MDGs, through programmatic mainstreaming and scaling-up of a nationwide community-driven approach .

Intermediate Objectives:

1. District and provincial governments will have coherent institutional arrangements to support the scaling up of improved water use, sanitation and hygiene behaviors in rural and peri-urban communities.
2. Targeted communities have progressively adopted key hygiene practices.
3. Targeted communities gain access to improved rural and peri-urban water supply and sanitation services, and use, manage and sustain them effectively.
4. Local governments exhibit progressively greater commitment towards sustainability and scaling up by implementing complimentary programs of WSS using PAMSIMAS methodology.
5. Each DPMU and the CPMU is progressively able to successfully manage and support the program (and its subsequent expansion to remaining districts in Indonesia)

Location: PAMSIMAS is a sequel to two previous projects, WSSLIC-1 and WSLIC-2, and is seen as the vehicle to operationalize and scale up the GoI approach to WSS. PAMSIMAS will be implemented on a programmatic basis as a central government project providing assistance directly to selected villages that meet the project's targeting and selection criteria. Under this mode of delivery, project funds will go directly to the participating villages. Since PAMSIMAS is designed and launched in the post-decentralization era, it is primarily a capacity building initiative for scaling up WSS services to meet MDG targets through Local Governments. PAMSIMAS is also the vehicle to take to a national scale the operationalization of the national sector Policy Framework for Community-based Water Supply and Environmental Sanitation, which was established in 2003.

The location of the project has been constrained to a long list of provinces that meet selection criteria: (i) low human development index, (ii) high level of poverty as indicated by the human poverty index (HDR 2004) and the SUSENAS poverty index, (iii) low coverage of water and sanitation, and (iv) high incidence of diarrhea. Districts from these provinces which also meet the same general criteria and have not yet been covered by WSLIC-2 and CWSHP have been invited to participate. The Government is targeting 5,000 villages and has commenced pre-selection of candidate districts as part of a fast track preparation. The Executing Agency has requested those districts to submit a list of villages that meet the pre-qualification criteria: (i) poverty, (ii) low level of water supply and sanitation facilities, (iii) high incidence of diarrhea, and (iv) not a recipient of similar assistance in the last 2 years. Final confirmation of the participating villages will be on demand responsive criteria and willingness of the communities to contribute to 20 percent (16 percent in-kind and 4 percent in cash) of the project costs to participate in the project. Other factors being equal, districts participating in sector policy implementation pilots under the WASPOLA project will get priority for PAMSIMAS.

Participating districts will be required to contribute 10% of the total CAP amount prepared by each village and provide this prior to funds being released from Central Government. Districts (and Provinces) will also need to provide all local operational costs necessary for project implementation. In addition each participating local government will be required to implement a replication program in an additional

number of communities funded through their local budgets but using the PAMSIMAS methodology and the same level of technical inputs and quality controls. The number of additional communities to be implemented by each district government will depend on the fiscal capacity of the district governments. Districts with weak, moderate and strong fiscal capacity will be required to implement a minimum of 10%, 20%, and 30% of additional communities using the PAMSIMAS CDD approach and methodology. A total of approximately 500-1000 villages are expected to be implemented under the district government replication program.

At the outset of the project the objectives, expected outputs, rules and qualifying and prioritization criteria for selection will be "advertised" to all villages in each participating district through the sub-district development working units and a project "roadshow". The roadshow will be supported by project announcements sent as letters to all village heads and also posted in public places and in public transportation, and announced through radio advertisements. The announcements will request interested villages to submit one-page applications (forms to be included with the announcements) to the District Project Management Unit with a copy to Bappeda Kab./Kota. It is expected that applications in most districts will exceed the amount of funds that will be available. An objective and transparent ranking system will be used to prioritize this "demand responsive" long list of applicants based on the above criteria of poverty, need, health, and previous assistance. To ensure efficient use of CFTs, it may be necessary to geographically cluster villages served within the same implementation year.

Overview of the Project: This project uses Community Block Grants and Technical Assistance/Service Contracts to deliver project activities under five components:

1. Community Empowerment and Local Institutional Development
2. Improving Hygiene and Sanitation Behavior and Services
3. Water Supply and Public Sanitation Infrastructure
4. District and Village Incentives Grants
5. Implementation Support and Project Management

An overview of the relationship between the delivery structure (project Grants and Technical assistance) and the project components is provided in the following table.

Component Structure of PAMSIMAS

Delivery Mode	Component				
	Community Empowerment and Local Institutional Development	Improving Hygiene and Sanitation Behavior and Services	Water Supply and Public Sanitation Infrastructure	District & Village Incentives Grants	Implementation Support and Project Management
Village Grant	Community capacity building	Community hygiene promotion School health activities (hygiene and health promotion, training) Other proposed community health activities	Community and school water supply facilities School sanitation and institutional sanitation facilities in peri-urban areas	Expansion of facilities at district and village	

Delivery Mode	Component				
	Community Empowerment and Local Institutional Development	Improving Hygiene and Sanitation Behavior and Services	Water Supply and Public Sanitation Infrastructure	District & Village Incentives Grants	Implementation Support and Project Management
Implementation support by local government	Institutional capacity assessment and action Outcome sustainability monitoring	MPA-PHAST approaches in community and schools Skills training for participatory hygiene planning and promotion Public awareness campaign Hy-san performance and impact monitoring	Rapid Technical Assessments and MPA PHAST based CAP preparation Detailed engineering design Skills training for construction, financial management, and O&M Implementation monitoring	Skill training for village productivity Implementation monitoring Facilitating access to supplier network	TA for project management units
Implementation support by central government	TA for implementation team	TA for implementation team	TA for implementation team		TA for project management units
Service contract	Provincial Management Advisory Consultants consisting of Community Facilitator teams, district consultants, and provincial consultants	Provincial health promotion advisory Sanitation market, consumer & supplier studies			Impact evaluation Central Management Advisory Consultant

I. Delivery Structure:

Uses of Village Grants: Allocations are grants to villages for activities defined in Community Action Plan (CAP) proposals varying in amount based on the feasible technology options for water supply infrastructure and the water, school sanitation, and hygiene options chosen by the community. The allocation of funds per village is estimated at an average of Rp. 275 million but each proposal will be assessed on technology options selected (see Component 3), and the amount of the grant provided will be based on the estimated cost of the community's CAP proposal. The grants will comprise two parts; one part for water infrastructure (CAP-1) and a second part for improving school sanitation, hygiene behavior change, and strengthening community management (CAP-2).

Developing Water & Sanitation Infrastructure: Block grants can be used to finance water supply and sanitation infrastructure on a cost-sharing basis. Communities will contribute at least 4 per cent in cash and 16 percent in kind to the capital costs of infrastructure improvements. The grant will finance up to 70 percent¹⁵ (inclusive of the 10% District contribution) of capital costs, and the amount of the grant to each village will be based on the estimated system cost as determined by detailed engineering designs included in the CAPs. Communities may choose to use the grants to finance goods and services, including local skilled and unskilled labor at standard government rates. Labor and land will be valued in these same ways when considered a part of the community's in-kind contribution. Participating communities will form new or revitalize existing village implementation teams (VITs) with gender and social inclusion to identify, plan, and execute construction and operation of improved water supply systems in a way that ensures broad representation and equity among all segments of the community, in particular women and the poor (see Community Administration section on following page). Construction of communal sanitation facilities can also be selected by the community for grant-financing on the same cost sharing basis (4% cash, and 16% in-kind contribution).

Improving Hygiene Behavior and Services: These include a program of activities identified through the MPA/PHAST¹⁶ approach to improve community hygiene behavior, school-based health and hygiene activities, and hygiene teaching. Sanitation facilities will be constructed in schools in participating communities where needed. Communities will also finance other hygiene and sanitation-related activities that they select on a cost-sharing basis.

Local Capacity Building: At the outset of project implementation in each district and on an annual basis, the Institutional Capacity Assessments will be undertaken in consultation with key stakeholders from the district and sub-district level to determine training and human resource needs for project implementation. DPMU staff will be trained and supported in using approaches to mainstream sustainability of project benefits, gender, equity, poverty-targeting, and demand-responsive approaches that have been developed and tested in 15 countries under the *Participatory Learning and Action Initiative*. A capacity development action plan will be prepared. All community facilitators will be locally recruited if possible and will receive ongoing training through the project.

Selection of Proposals for Sub-projects:

Proposals and community mobilization process. Community Facilitation Teams (CFTs) will assist selected villages with rapid technical assessments to determine the technically feasible options for water and sanitation infrastructure. CFTs will use the Methodology for Participatory Assessment (MPA) and Participatory Hygiene and Sanitation Transformation (PHAST) to facilitate a process in which communities themselves will analyze the local sanitation and water situation and make informed choices regarding water and sanitation service improvements and hygiene behavior changes. Based on this approach, VITs will prepare two CAPs. CAP-1 (average Rp. 225 million) will focus on community and school water supply and capacity building for project implementation; while CAP-2 (average Rp. 50 million) focuses on community and school hygiene behavior change, school sanitation and strengthening community management with assistance from Community Facilitation Teams.

Both CAPs will be signed by all members of the VIT, and a summary of the details will be publicly posted. CAPs will be approved by the DPMU prior to release of funds. Villages will have up to 12 months to prepare and begin implementation a CAP and deposit their 4 percent cash contribution in a CAP account they will open in a designated bank or P.T. Pos branch office. If these conditions are not met within 12 months the District PMU will have the option to offer the grant funds allocated to that village to another community that has applied for the project.

Implementation agreements: The VIT submits the CAP to the District PMU. It is evaluated by an evaluation team comprising the three sectors and using the evaluation criteria in the POM, and is countersigned by the district management consultant. The signed proposal is attached to an Implementation Agreement that is signed by the group representative (and all group members overleaf) and the DPMU manager. The Implementation Agreement stipulates the terms and conditions of the Grant and constitutes a contract with the community. A copy is provided to each signatory.

Community Administration: A *Village Implementation Team* (VIT) comprising of community (village) representatives elected by interest groups representing men, women, poor, and non-poor elements of the community (created during community mobilization activities) will be established for planning and management of sub-projects. Procedure for the formation of the VIT will be covered in the manuals but will essentially safeguard transparency and provide access to all participants of the community. A VIT leader/chairperson shall be elected. The final VIT formation will be legalized through a decree from the Bupati. A *Financial Unit* (UPC) of the VIT will be formed as a cooperative and notarized, and will be audited yearly by accountants from outside the community. The Provincial/District Management Consultant will check that this is done. The UPC will, on behalf of the VIT, open an account at a nearby bank or P.T. Pos office which will be decided by the villagers. This account shall receive community contribution payments for construction and maintenance, as well as the block grant for implementing the CAPs. The treasurer's term may be one year renewable. Work on behalf of the VIT is voluntary, however, certain work requiring significant time may be compensated accordance with rules agreed by the community (head, treasurer, tariff/debt collector, audits) provided that it is carried out correctly (e.g. the books are in order, tariff collections are complete). These payments would not come from the Community Grant, but would be paid by the community itself to ensure sustainability of the payment arrangements.

Many of these activities require a long-term management role for the VIT and it should be understood that the VIT will transform into the service management organization after construction is completed. WSLIC-2 experience strongly supports continuation of the VIT as the organization for operation and maintenance (O&M) rather than forming a new O&M organization.

Facilitators: The communities will be assisted by *Community Facilitators* who will be employed under the Provincial Management Advisory consultant service contracts. Their responsibilities will include assisting communities with rapid technical assessments of water supply options, facilitating community planning using MPA/PHAST methods, triggering CLTS and providing follow-on facilitation/liaison support to communities as needed, assisting with CAP formulation, on the job training and providing technical assistance directly as needed, e.g. preparing DED in response to community decisions. Community Facilitators would come from the region, and live in the sub-districts or villages they are to assist. They would thus incur low transportation costs and maximize their time in the field. The facilitators will be graduated and then selected based on assessment of their competence after undertaken their training. There will be a Community Facilitators Team (CFT) for every village, comprising one engineering facilitator, one health facilitator, and one community development facilitator. The extent to which CFTs demonstrate gender balance will be a consideration in annual performance reviews of provincial service contracts, and terms of reference for the service contracts will stipulate an equal balance of female and male facilitators. They will be expected to work in a cycle of 5 villages¹⁷ per year over 5 years; that is considered the maximum effective control span. All the facilitators will be trained in the program before they mobilize. In view of WSLIC-2 experience, a plan and resources will have to be in place to offset a percentage of CFTs being lost to other jobs every year.

Technical Assistance Consultants: Technical assistance consultants will be contracted to support the executing and implementing agencies at the central and the district level. The Central Management Advisory Consultant (CMAC) would be responsible for overall project management support, technical support, monitoring of implementation and reporting. The primary counterpart of the CMAC would be

the CPMU with support also provided indirectly to the central implementing agencies. The CMAC would have regional offices at the province to support the coordination and monitoring of activities at the regional (provincial) level.

Provincial Management Advisory Consultant Teams will be responsible for providing support to the participating District Governments and to the DPMU. The Provincial Management Advisory Consultants (PMC) will be located at the province level with staff in each participating district. They will have expertise in community development, health, and WSS engineering as well as financial, project management and administrative resources. They will be the vehicle for hiring the community facilitator teams. The PMAC will have sufficient CFT resources to apply one CFT per 5 villages on average. This allocation will vary depending on local conditions of access, communication and village density. One CFT will be able to work with 5 villages concurrently and will require about one year to prepare and implement the village project. There will be an additional involvement of the CFTs for a further 6 months in each village, to cover O&M activities.

The procurement of consultants will follow the Bank's guidelines for selection of consultants.

Internal controls: A systematic review of the performance of CFTs and DPMCs will be put in place to ensure their integrity. These reviews will be carried out by DPMU and CPMU staff.

Manuals: The GoI will prepare comprehensive technical guidelines describing the range of technically feasible options. This will be made available to District Implementation Teams, Facilitators, and villagers. A Village Operations Manual will provide details on the system and procedures of Village Grants, covering organizations, roles, and responsibilities, CAP processing, funding mechanisms, procurement procedures, book-keeping, and reporting. This manual will be provided to VITs, CFTs, and DPMUs. Manuals in draft form will be available for review during appraisal, and will be finalized before Credit Effectiveness.

Transparency and Safeguards: A transparent and free flow of information is required to raise awareness of rights and responsibilities of stakeholders, and to minimize collusion or malpractice by localities or borrowers. At the start of the project in each participating village a one page circular will be distributed and a poster will be placed in public places such as markets, the outside of the village head's office, public thoroughfares, schools and places of worship through religious organizations, local NGOs, and project staff. The circular will be distributed door to door in poor neighborhoods. The circular will encourage women to participate, and stipulates that women and men shall have equal opportunity to assume leadership roles in the VIT and that project rules require that VITs be gender and socially inclusive. Project procedures and rules will be emphasized during all project implementation. To enhance access to information by the media and civil society, a web site will be constructed. The site will provide access to the project manual (comprising project operating rules, locations, standard forms, book keeping system, and environmental and land acquisition/resettlement guidelines). The site will also provide up to date details on procurement activities and project monitoring information and will be integrated with the Project's PMR management system. The site will be maintained by the central PMU. Detailed consideration needs to be given to infrastructure at the district levels to ensure that this investment is effectively utilized. Adequate provision must be made for government and consultant access to the website in the districts. The information posted for each subproject should include at least the amount of the grant, type of system, activities covered, status of implementation, kind of community participation, and status of any contracting. Project manuals will also be available in the district PMU.

Development of CAPs will be facilitated by community facilitators, who will ensure that women and the poor are given equitable voice in the process by convening separate group meetings with them. These sub-groups would then be represented in village-wide discussions and decision-making meetings.

Discussions of sub-project alternatives would be in the village meeting room or other suitable public venues, at times convenient to both men and women, and to the poorest households in the community. All residents are free to participate in village plenary meetings at specific points of the community planning process. The VIT members will work with CFs to prepare components of the CAP and solicit decisions through village plenary meetings. Voting through open tallying may be required to reach village consensus on final choices.

Within villages all project activities will be described on a large signboard that describes the project components, costs, progress, and date of completion. Publicly posted information will include the name and type of project, its cost, responsibilities, daily salaries, a social map with households classified by well-being categories and overlaid with a system map showing all existing and planned water delivery points, both public and private. The signboard information will be updated monthly with information on disbursements, employment, and percent of completion. A Coordination Committee for Social Programs is being established at district level in some districts. The District PMU will be represented on these bodies and actively participate in their deliberations where they have been formed. Community Facilitators may invite concerned citizens and groups to participate in meetings of this Committee, or to form similar consultative groups at district or sub-district level, to get involved in shaping and assisting community development.

CAP Approval Conditions: Final CAPs that will be submitted will be evaluated and approved if: (i) designs of systems are technically sound and environmentally sustainable; (ii) at least 80 percent of the households or more are being served by the planned systems; (iii) no poor household clusters are excluded; (iv) the financing plan with tariff calculation basis has been made clear; and (v) the proposed management organization with gender and social inclusion is verifiably stated.

Anti Corruption Action Plan: The Executing Agency will prepare and commit to an anti-corruption action plan approved by the Bank. The Executing Agencies may request similar commitments from participating districts.

Complaints: Included in the anti-corruption plan is the requirement for a complaints-handling system. This will be detailed in the Project Operations Manual and will be based on systems operating successfully in similar projects.

Rewards and Sanctions: Districts are encouraged to select and recognize the best performing villages in a public ceremony. However, VITs/villages that do not comply with project rules, or use grants for activities outside their CAP and the project framework will not receive subsequent tranches. DPMU consultants will be subject to periodic audits and review. Contract extensions for consultants will be subject to performance review. To encourage continuous improvement in performance, a system of performance indicators will be established by the Project Secretariat, to increase ownership and feedback and guide behaviors.

Independent Monitoring: The Central PMU will hire through competitive bidding a consultant to conduct impact evaluation at baseline, mid-term and project completion. Local governments will participate in reviewing progress, as can journalists. Mechanisms for self-monitoring by communities will be developed and institutionalized in the project implementing agencies. Monitoring findings, and regular progress report findings, will be published in local newspapers, placed on the project website, and discussed in District Forum meetings.

Audits: Financial and technical (performance) audits will be performed for all government programs by BPKP on an annual and sampling basis of VITs, community facilitators, consultants, and the local bank or P.T. Pos offices handling Village Grants. The various audit levels will coordinate their sampling.

Emphasis will be on due process and due diligence, and on performance indicators as agreed. BPKP audit reports should be complete by March 30 for expenditures incurred during the previous GoI fiscal year (1 January-31 December). The VITs, facilitators, consulting firms, and bank branches must maintain records of their activities for at least 3 years, and make them available to independent reviewers if so requested.

Executing Agency: The Executing Agency for the project will be the Ministry of Public Works. Overall coordination, management, budgeting, and monitoring responsibilities will be with a Project Management Unit in the Ministry of Public Works, under the Directorate General for Human Settlements. The project implementation will involve the Ministry of Public Works, Ministry of Health, and Ministry of Home Affairs.

The CPMU will include staff from these implementing agencies. A coordination committee, chaired by BAPPENAS, will resolve inter-sectoral coordination problems that may arise. The CPMU will be assisted by the CMAC to provide technical implementation support, capacity building, project management, and oversight of the provincial and district level technical assistance service contracts. The CMAC will establish and maintain a computerized information system. This needs detailed consideration, in particular the requirement for a MIS system at different levels need to be considered holistically and specified accordingly. Infrastructure constraints are part of the consideration. The CPMU will also disseminate information to local agencies and train agency facilitators. Selected government facilitators will receive the same training as the consultant facilitators.

Village Grant Funding Process:

Annual budget allocations for subproject grants: Districts will prepare budget proposals in accordance with standard GoI budget planning procedures.¹⁸ As a basis for national budgeting, funds for village block grants will be allocated to districts based on a standard "unit cost" for the water supply and health services to be provided. In the first year of implementation an average cost of Rp. 225 million for water systems and Rp. 50 million for community hygiene and sanitation promotion will be used to determine district budgets. Village grant allocations will be estimated based on a unit cost of IDR 275 million (subject to annual revision to take into account inflation) multiplied by the number of villages that are expected to complete Community Action Plans during the FY. This IDR 275 million includes the 20% community contribution and the 10% District contribution. Districts will submit annual budgets based on these two unit costs multiplied by the number of villages planned for coverage in a given year. Following preparation of detailed engineering designs and Community Action Plans (CAPs), villages will receive the actual amount needed for the proposed project activities after evaluation and approval.

Disbursement of grants for subprojects: An arrangement will be made by MOF to channel funds through the Treasury offices (KPPN) serving each participating district. When constituted, the VIT will open a CAP Account at a P.T. Pos or bank branch office of its choice that is acceptable to KPPN. The VIT Head, the Community Facilitators and the Village Head will provide specimen signatures at the designated bank. Sub-project funding can be withdrawn from the designated bank by the authorized VIT representative by presenting a simple receipt. The designated bank verifies the signatures and the amount and releases funds in cash. The designated bank will provide bank statements showing credits and debits by Community and balance of funds. The VIT will accumulate its 4 percent cash contribution for construction in this account and the district its' 10% contribution. Verification of the community and district contributions combined with an approved CAP and a signed Implementation Agreement will be the trigger for release of the first tranche of the block grant for each village from the district KPPN office to the CAP accounts held by each village. Triggers for the release of tranches will be detailed in the POM. The second and third tranches would be contingent on satisfactory progress, including satisfactory arrangements for O&M are in place, and evidence of the 16% in-kind contribution from the community. The designated bank office can disburse to the group against approved sub-project documentation (agreement or claim amounts) after verification of signatures. It will have a record of credits and debits,

and verify that the latter do not exceed the former; it will also verify that it does not disburse more than was approved for each sub-project (debits should be identified by date and withdrawal). Records shall be made available to monitors and auditors upon request. The designated bank may invest partially any balance and keep interest it may accrue, to compensate for operating costs incurred, but at all times shall have sufficient liquidity to pay claims within the balance amount. Periodically the local bank or P.T. Pos offices managing Village Grants will provide disbursement statements for each CAP Account and send a statement to the DPMU, the PMC, and the district KPPN office.

II. Project Components

COMPONENT 1. Community Empowerment and Local Institutional Development (US\$ 8.6 million)

Objectives

The objectives of this Component are: (i) to enable PAMSIMAS communities to organize, plan, manage and sustain their water, sanitation and hygiene (WSH) improvement programs; (ii) to enhance the capacity of institutions for quality program management and (iii) to build the commitment and capacities of central, provincial and district government agencies to mainstream and scale up PAMSIMAS for replication in and beyond the immediate project target areas.

Component Design

Component 1 will support interventions aimed at support local governments to meet their responsibilities for WSS, using CDD mechanisms tested through WSLIC and now being replicated in WSS programs funded by ADB and CARE. Component 1.3 in particular distinguishes PAMSIMAS from its forerunners by focusing on building capacities for government and non government sectors for post PAMSIMAS replication. Component 1 will help to develop a common understanding of project concepts, improve community capacity to make choices and manage program funds and their WSS systems effectively; increase the quantity and quality of participation by women and the poor and improve governance systems for government and community management groups. This will be a two pronged strategy: firstly, technical assistance, grants, capacity building and incentive funding for improving community capacity to plan, implement and sustain their WSS facilities and supporting hygiene behavior change and secondly, technical assistance, capacity building, advocacy and incentive funding for provincial and district legislatures and governments to develop their own frameworks for implementing the national policy, engage with civil society, improve services for sustaining improved WSS facilities and undertake PAMSIMAS replication beyond the immediate project target areas.

Sub-Component Description:

The component for Community Empowerment and Institutional Capacity Building has the following 3 sub-components (described below):

- Implementation of CDD processes at community level
- Strengthening capacities for program management
- Strengthening capacities for program sustainability, mainstreaming and scaling up

Sub-component 1.1: Implementation of CDD processes at community level

This sub-component builds community capacity for preparing and implementing CAPs, using gender and poverty inclusive participatory approaches, and managing their WSS services. Up to five sets of CAP 1 and 2 will be prepared annually by a trained community facilitator team and a village implementation team with elected male and female representatives. CAP-1 focuses on design and costs of community and school water supply and where applicable peri-urban public sanitation. CAP-2 covers community and school hygiene behavior change activities, school sanitation facilities and post-construction management. CAPs require 2-4 weeks for community assessment and options selection and nine months for implementation, making a cycle of approximately one year. The Community-Led Total Sanitation (CLTS) approach, which does not provide external funding for household latrine construction, will be implemented after preparation of CAP-1 and before construction starts. This will provide some indication of readiness for hygiene promotion activities for CAP-2. High performing communities may qualify for incentive funds under Component 4.

The CAP1 will comprise:

- Detailed engineering designs for water and peri-urban sanitation infrastructure;
- Social map showing existing access of the poor and non-poor households to WSS facilities and the planned improvement in WSS facilities to be funded by the project;
- Budget for planning and construction of all physical works, including a breakdown of community and government contributions;
- Action plan defining work to be done by village labor, contracted work, proposed payment arrangements, and procurement schedule;
- Implementation Agreement (see below).

The CAP2 will include:

- Key behavior changes to be promoted in the community and an action plan for this purpose;
- School Sanitation; and
- Capacity building plans for community management, and community monitoring

The essential features of the community process include facilitation of the Methodology for Participatory Assessments/Participatory Hygiene and Sanitation Transformation (MPA/PHAST) and CLTS by trained community facilitators. Inclusion of women and the poor is assured by this approach, supported by project policy, specific training and monitoring. Communities will contribute 20% of total funds requested (4% cash and 16% in kind), and funds are channeled directly to communities on approval of CAPs. Pre-construction and post-construction training (funded through the CAPs) is given for planning, implementing, managing and evaluating sustainable WSS and hygiene behavior change, and six months of immediate post construction support will be facilitated by sub-district and district personnel (e.g. Sanitarians, Health and PMD). The effectiveness of such support will be assessed and used as a measure of district performance. PAMSIMAS will also develop a strategy for broader post construction support in consultation with the first round of water management groups and local governments in the second year. This will promote greater pooling of resources and information for community management and could

include establishing associations of WSS management groups, annual meetings of such associations with local government and use of maintenance service contracts for groups of villages.

The Project will finance the cost of the following activities under this subcomponent:

- (i) Service contracts for national consultants to review existing documentation from current WSS projects and develop supporting policies, guidelines and manuals for the community process, including: Village selection process, Community Facilitators Manuals; Guidelines for evaluation process and indicators for approval of Community Action Plans; Operational Manual for Community Management Groups; and Manual on Sustainability Monitoring;
- (ii) Service contracts between Central Government and local firms to hire and train community facilitators for water engineering, hygiene and sanitation and community development/social inclusion using standardized materials from PAMSIMAS
- (iii) Service contracts for provincial and district consultants to support implementation of CDD processes, provide ongoing coaching and mentoring for community facilitators, ensure quality community level training and provide skills transfer to government agencies on implementing and monitoring community processes for WSS sustainability.
- (iv) Community training and post-construction activities for sustainable management of WSS services.

Sub-component 1.2: Development of mechanisms and capacities of provincial, district and sub-district institutions for quality program management

This sub-component focuses on strengthening inter-agency cooperation for program management and institutional capacity building for project implementing units and coordination teams, CAP evaluation teams and related program personnel. Coordination and management for capacity building activities will be ensured through allocating specific responsibilities and accountabilities at each level, QA guidelines, regular training reviews and use of an MIS for capacity building. The essential features of this sub-component are:

- 1. Review of existing materials and subsequent development of guidelines and manuals, orientations and training to ensure program administration complies with program rules and procedures.
- 2. An agreed annual capacity building plan to address systemic, institutional and skill gaps for program management, based on an institutional mapping exercise of roles and responsibilities
- 3. Development of guidelines, workshops, generic TORs and master curriculum and training modules, which can be tailored for local needs and training of trainers (TOT) to ensure the quality and relevance of delivery.
- 4. An annual program of workshops, training, exchange visits, skills transfer and website self-based learning including regular training and coaching for community facilitators by district and provincial consultants for continuous improvement of community facilitation
- 5. Two institutional assessments carried out using MPA: performance assessment of district agencies (done annually at the district level) and a policy environment assessment (mid term at provincial level). These inform project development and sub-component 1.3.
- 6. A knowledge management plan developed in the first 6 months by CPMU for ensuring dissemination of lessons learnt and good practice. This would include developing an integrated approach for M&E capacity building using a range of training and self-based learning for project implementers in operationalizing the MIS from the beginning.

The Project will finance the cost of the following activities under this subcomponent:

- (i) Service contracts for international and national capacity building consultants to work closely with central and local government agencies to plan, implement and monitor capacity building activities and provide skills transfers to counterpart staff in project implementing units and related agencies.
- (ii) Service contracts for local service providers to provide training of trainer programs to strengthen the capacity of local NGOs and firms to provide accredited community facilitator training for scaling up at district level and/or supplementing post construction training for communities in PAMSIMAS.

Subcomponent 1.3: Development of mechanisms and capacities of provincial and district institutions for scaling up and mainstreaming community driven WSS

This sub-component will support the development of a local operational framework for planning and financing WSS for progressive increases in local government budgets for WSS and possible re-programming of current WSS expenditures. Consolidation of the existing legal, policy and regulatory framework at local level will be critical for ensuring that the national policy can be fully implemented in ways that are compatible with the wider policy framework. This subcomponent will build local institutional capacity so that government agencies are ready to assume full responsibility for managing and expanding WSS investments as PAMSIMAS support fades out. Activities target district and provincial governments, executive, legislature and civil society organizations to improve sectoral coordination, planning, budgeting, advocacy, training, and monitoring, for program oversight and replication in and beyond PAMSIMAS target areas. WASPOLA's experience in institutionalizing the *Policy Framework for Community-based Water and Environmental Sanitation Development* will inform this sub-component. PAMSIMAS will engage directly with WASPOLA in districts where both are working to ensure dissemination of local level implementation experience to central policy makers. This collaboration will establish a process and mechanisms for understanding current service levels, and the remaining efforts to be done for scaling-up. This in turn will inform the development of a sector wide program (under component 5). The project will also build the capacity of local training providers to meet the anticipated increased demand for community facilitators as part of scaling up CDD approaches. The essential features of this subcomponent are:

1. Advocacy to district leadership (i.e. Bupati and DPRD) on district performance and resourcing for community-based WSS through exchange visits, advocacy packages and promotional activities on achievements of PAMSIMAS (and other participatory WSS programs).
2. A structured review of provincial and district local policies, financing arrangements and legislation in relation to WSS to identify changes to bring these together into a more effective framework for scaling up and replication to other districts.
3. Establishment or strengthening of inter-departmental forums at the provincial and district levels through Bappeda to develop provincial and district plans for expansion of the national program and multi-stakeholder consensus and ownership for change.
4. Development of an agreed institutional capacity building plan for implementation of provincial and district plans and development of delivery mechanisms for such capacity building.
5. Conducting a review to identify and strengthen linkages with other local development strategies for poverty reduction, village development and health improvements to leverage other available resources and programs.
6. Development of provincial action plans and supporting materials to enhance civil society participation in local government planning and service delivery for WSS, including IEC on local economic and social benefits of WSS, multi-stakeholder forums, accountability sessions, supporting coalitions for WSS, skills training in advocacy for civil society groups and media monitoring.
7. Identification and training of local trainers to provide accredited community facilitator training to meet anticipated increased demand and to market their services to local government.
8. Strengthening systems for monitoring MDG progress for water and sanitation which will enable agencies to address shortfalls in service delivery.

The Project will finance the cost of the following activities under this subcomponent:

- (i) Service contracts for national and provincial consultants to work closely with central and local government agencies to plan, implement and monitor the mainstreaming and scaling up of CDD WSS, provide skills transfers to government personnel to carry out key functions post PAMSIMAS
- (ii) Service contracts for local service providers to provide training of trainers programs to strengthen the capacity of local NGOs and firms to provide accredited community facilitator training for scaling up at district level and/or supplementing post construction training for communities in PAMSIMAS.
- (iii) Specific studies to support preparations for a sector wide program.

COMPONENT 2: Improving Hygiene and Sanitation Behaviour and Services (US\$ 24.7 million)

Component Design¹⁹

The approach to improving sanitation and hygiene behaviour and services in PAMSIMAS has two new features: firstly, it is designed on a far larger scale than existing interventions to have a national impact on access to improved sanitation and on hygiene behaviours; secondly, it adopts a more programmatic approach, to be financed and managed by sustainable local institutions for long-term institutional support and effective program performance monitoring.

A social marketing, market strengthening approach is adopted to provide large-scale and cost-effective sanitation and hygiene services. In many countries most progress in increasing access to sanitation has been achieved through private suppliers serving individual households, wherein market forces have been more successful than other approaches in promoting the adoption of sanitary toilets and sustainable changes in hygiene behaviours. However, there are concerns about the ability of the marketing approach to reach the poorest households in remote areas. Participatory approaches such as Community-Led Total Sanitation (CLTS) do reach the poorest rural households, but are relatively difficult to scale-up, and hence likely to be less cost-effective in reaching large, diverse populations. A reasonable solution is to combine both 'sanitation marketing' and 'total sanitation' elements into the component design. CLTS when adapted and applied within a carefully structured and targeted program will effectively reach the poorest households in remote, rural communities. A large-scale sanitation marketing program designed to raise consumer demand for improved sanitation, stimulate the development of local options for sanitation products and services; to facilitate market responses (supply) to the increased demand; and to promote hygiene improvements, will cover the general population including those in peri-urban areas.

The program strategy will include provincial and district sanitation awareness and hygiene promotion campaigns targeted at the market segments identified by the initial consumer research in each province²⁰. This will be a two-pronged strategy, in which the marketing activity will work outwards from the rural centres and main roads, helping to build supply chains and local capacity; meanwhile the 'total sanitation' activity will start in the most remote, unserved, rural communities and work inwards towards the expanding supply chains. It is anticipated that ultimately the coverage and effectiveness of market supply will enable the 'total sanitation' approach to be taken over by a sustainable local market mechanism.

In contrast to water supply development that requires technical knowledge, sanitation and hygiene interventions need to operate at a lower level, and in a different way; working with individual mothers and children; with poor households and neighbourhoods; and with local health and hygiene service providers. Inevitably, sanitation and hygiene promotion require very different skills and institutional arrangements to those needed for water supply development. There is a need to improve and build capacity of local institutions to plan, implement, monitor program performance and measure intervention impact.

Objective:

The component is aimed to support the communities and local institution in preventing water borne and poor sanitation related diseases through:

- a) behaviour changes on key hygienic practices among rural and peri-urban communities, and
- b) improved access to basic sanitation for rural communities.

Sub-Component Description:

The component for Sanitation and Hygiene Improvement is distributed among 4 sub-components:

- Total Sanitation Program
- Sanitation and Hygiene Marketing Program
- School Hygiene and Sanitation Program
- Strengthening Local Sanitation and Hygiene Units

Sub-component 2.1: Total Sanitation Program

The total sanitation program will use a phased approach to community behaviour change aiming at safe excreta management first, and hand washing second, before moving on to other locally relevant environmental sanitation issues such as water storage, food hygiene, solid waste and wastewater management. The CLTS 'ignition process' will be used to trigger community initiatives to stop open defecation, improve household sanitation and safely dispose of child faeces, without any external funds and hardware subsidy. Once the CLTS approach is well established in the community facilitators will initiate preparation of CAP-2 using the PHAST methodology which focuses on a range of priority behaviour changes, starting with hand washing.²¹ If progress is slow then more effort will be given to improving community readiness for hygiene change before preparing CAP 2.

The total sanitation approach avoids imposing external toilet designs, instead encouraging individuals and communities to develop their own sanitation solutions. To guarantee that information and advice on locally appropriate toilets is available, the province will produce and disseminate a regularly updated catalogue of options detailing materials and costs of innovative, homemade designs for low-cost sanitary toilets constructed by households²². The approach will also utilize institutional incentives to drive community wide behaviour change and campaign performance, such as 'clean village' competitions, citizens report cards, student health cards, community health clubs, local benchmarking (comparing community performances within each sub-district or district) and awards to local government bodies and health centres that manage to stop open defecation within their jurisdiction.

Sub-component 2.2: Sanitation & Hygiene Marketing Program

The sanitation and hygiene social marketing program aims to generate consumer demand for improved sanitation and facilitate local markets to respond to this demand as well as promotion of improved hygiene behaviours. This combination of 'sanitation marketing' and 'total sanitation' is expected to result in overall increased coverage as the former approach will be effective for the general population, while the latter will be specifically for poor rural communities. Main activities funded under this program are:

- Province-specific analytical studies of sanitation market potential, consumer preferences and supplier capacity by provinces (with central guidance),
- Facilitation of linkages between rural consumers/clients and providers of sanitation and hygiene services,
- Sanitation awareness and hygiene promotion campaigns by provinces including revitalizing the sanitation clinic program implemented by Puskesmas Sanitarians.

Sanitation market, consumer and supplier research studies will support the province to conduct detailed examinations of local hygiene behaviours, sanitation supply chains, and communication channels for the different target groups in the study area. For the campaigns, the purpose of the studies will be to identify messages, behaviour change triggers and performance indicators for target groups, and critical communication approaches for reaching these groups.²³ The studies will also examine local markets, suppliers and consumers of goods and services for sanitation and hygiene improvement, and establish what people are willing to pay for these products and services. It will also examine consumer perceptions of existing goods and services, consumer preferences, barriers to adoption (why so few poor households invest in sanitation facilities) and alternative spending preferences to recommend practical and locally appropriate solutions to any barriers, gaps or shortcomings in the market.

Study results will be used to design and implement pilots that facilitate establishment of supply chains linking service providers and consumers. Activities may include bringing international experiences, such as from Vietnam, India and Bangladesh, to pilot approaches to develop local product options and capacity to market services for improved sanitation and hygiene. The districts will then develop a range of appealing and affordable sanitation options; use service contracts to train and accredit local masons and suppliers for delivering those service options, promote these products through direct marketing and local advertising; and create links between potential customers and competent service providers. Through this process, it is expected that the local supply chains will be able to deliver affordable, acceptable sanitation goods and services to even the most remote communities, allowing those communities targeted by the 'total sanitation program' to subsequently upgrade and improve their sanitation facilities using market-bought goods and services.

Sanitation awareness and hygiene promotion campaigns will help local governments to create and increase demand for sanitation services; increase public and political support for sanitation improvements; raise awareness of low-cost sanitation products; and promote the adoption of key hygiene behaviours to reduce disease transmission. The strategy and materials for the sanitation awareness and hygiene promotion campaigns will be designed by professional marketing and media specialists, through a consultative process that addresses the issues, opportunities and constraints identified by the research studies. A national communication expert with extensive experience managing large-scale public health and hygiene improvement campaigns will oversee the province and district awareness campaigns²⁴. Wherever appropriate, the provincial campaigns will form partnerships with other sanitation and hygiene promotion initiatives, and incorporate relevant elements of existing initiatives to ensure consistent messages and approaches within the campaign area and target groups. The campaigns should be segmented to address and influence the different priorities, attitudes and behaviours of the target groups identified by the research studies, and allow the use of several funding and implementation models. Specific efforts should be made to examine the different challenges and priorities found in peri-urban communities.

The campaigns will also advocate for greater investment in sanitation and hygiene improvement, targeting local decision-makers, including politicians, administrators, government officials, community leaders, and health service providers, local trend-setters and role models. Visits to communities with successful sanitation and hygiene improvement are powerful tools for overcoming political resistance and generating support for new ideas and approaches. Exposure visits will be supported for opinion makers and decision makers to successful communities. Inter-community exchange visits will also be supported for spreading public awareness and raise motivation for change. The sanitation awareness and hygiene promotion campaigns will also develop promotional materials and strategies for the school program (see following).

Sub-component 2.3: School Hygiene and Sanitation Program

This sub-component includes three main activities:

- School sanitation and hygiene facilities
- School based hygiene promotion

- District workshops on school hygiene and sanitation

School sanitation and hygiene facilities will be part of the community grant for the construction of school sanitation and hygiene facilities in each community. This grant (under Component 3) will be made available under CAP 2 of the community process and provide the community with the option to invest a proportion of the approximately Rp50 million available for CAP-2 in improving school sanitation and hygiene facilities. School toilets will conform to current standards in term of numbers per student, population, dimensions and construction quality. To increase ownership and to avoid ineffective duplication of investments in school facilities, the local government and the community would have to bear additional facility improvement costs if they wish to provide higher service levels than MoNE and MoH standards.

School based hygiene promotion will target school communities including the children, the teachers, the parents and other interest groups. The promotional materials and approaches for school hygiene and sanitation program will be developed under the sanitation and hygiene marketing sub-component (see sub-component 2.2).

District workshops on school hygiene and sanitation will take place in all program areas. Promotional materials and approaches developed under the sanitation and hygiene marketing program will be incorporated into school curricula and health education activities following a series of district workshops on school hygiene and sanitation attended by local primary school teachers, PTA representatives and educational extension staff.

Sub-component 2.4: Strengthening Local Sanitation and Hygiene Units

This sub-component aims to strengthen district level capacities through providing support to province and district units responsible for Environmental Health and Hygiene promotion. This will improve monitoring of district WSS MDG targets and sanitation and hygiene program performance, assessing program impacts, and to more effectively support community programs for hygiene practices improvement. The CF for sanitation and health promotion will be responsible for community level data gathering for the sanitation program.

Monitoring of sanitation performance will focus on monitoring changes in access to services, measuring hygiene behaviour change and other outcomes using easily collectable and verifiable indicators. The JMP definitions of access to improved water supply and sanitation will be adopted as essential outcome indicators, and existing district level access data (e.g. from SUSENAS) will be assessed against those definitions to help Local Governments decide how they will establish baseline data on access. The MoH will lead the process to select and define additional performance indicators including but not limited to sustained improvements in population access to improved water and sanitation services, effective use of sanitation and hygiene services, and adoption of key hygiene practices. Where appropriate, relevant indicators from the WSLIC-2 sustainability and outcome monitoring system will be adopted. The indicators will monitor the performance of the total sanitation program, sanitation and hygiene marketing, and school hygiene and sanitation. The province will be responsible for regular monitoring of program performance, and for benchmarking the performance of facilitator and district teams.

Monitoring of program impact would focus on health improvements through improved hygiene behaviours. As many other reputable studies have consistently demonstrated health benefits from improved water supply, sanitation and hygiene improvements these will not be replicated in PAMSIMAS. Instead, independent evaluations of hygiene behaviour change will be conducted in a few randomly selected areas in each province. These will be conducted before the program begins, and at mid-term and the final year of the project. Additionally, an annual two-week surveillance of the incidence of childhood diarrhoea will be carried out by districts in the targeted communities as well as in a sample of control communities outside project intervention areas. Procedures and protocols for these surveys will follow those established for DHS/SUSENAS and attention to month of data collection will be important in terms of using results to make any meaningful comparisons. These annual surveys will be implemented by the sanitarian community midwife, and through the

network of neighbourhood village monitoring teams established by the total sanitation program. Results will be used in local advocacy and awareness generation campaigns as an annual reminder to both the community and the local health officials of the importance of the behaviour changes, and the impact of these sanitation and hygiene improvements to family health.

Institutional support to community programs will strengthen capacities of province level institutions responsible for environmental health and health promotion for providing technical assistance to districts in implementing Component 2 activities; facilitating cross learning and sharing events; and disseminating program innovations and improvements. The province will also contract independent teams for community audits, program evaluations and periodic reviews.

Main Activities:

Central Level

1. *Total Sanitation Campaign - CLTS: By MoH*
 - Developing Manual for Total Sanitation Campaign for District and Sub-District team; Advocacy for Province/District Stakeholders and/or Informal Leaders; and Sanitation Options
 - Developing Training Manual for District/Sub-district team;
 - Training for Trainers for Provincial Team
 - National Workshops
 - Supervision & Technical Assistance
2. *Sanitation and Hygiene Marketing: By MoH*
 - Developing guidelines and prototypal design for: Provincial Market/Consumer/Supplier Studies; Guidelines for supply chain building based on International experiences (Vietnam, India, Bangladesh); and Provincial sanitation and hygiene demand-generation campaigns
 - Technical Assistance for implementation of Sanitation and Hygiene Marketing in provinces and districts
3. *School Hygiene and Sanitation: By MoH in collaboration with MoNE. This includes* Developing School Hygiene / Health curricula; Developing Manual for Teacher and Children Training; Developing Teacher Manual; and National Workshops.
4. *Strengthening Local Institutional Performance: By MoH with MoHA. This includes* Developing TOR and guidelines for building capacity of Provincial and District Units responsible for Environmental Health and Hygiene Promotion; Developing guidelines for Monitoring program Performance and progress towards local WSS-MDG targets; and Developing Design for Monitoring Impact of Sanitation and Hygiene Intervention.

Province Level:

1. *Total Sanitation Campaign: By Health Office.* This includes Advocacy/orientation with decision makers and opinion makers to explain approach and obtain support for CLTS principles; training for District Team; Developing and replicating Province specific sanitation options; Workshops; and Supervision & Technical Assistance for District Team.
2. *Sanitation and Hygiene Marketing: By Health Office.* This includes Advocacy/orientation with decision makers and opinion makers to explain approach and obtain support for marketing approach; Study of local sanitation market, consumers and supplier for identifying messages and communication methods/media for segmented beneficiaries, and supply chain facilitation; identification of strategies to improve district level local supply chain capacity for improving people's access to sanitation and hygiene improvement services; Developing province & district level promotion design for segmented beneficiaries based on prototypal model and guidelines from national level ; and Supervision and Technical Assistance for districts.

3. *School Hygiene and Sanitation: By Health Office in collaboration with National Education Office.* This includes Training for Trainers for Teacher and Children training; and Provincial Workshops.
4. *Strengthening Local Institutional Performance: By Health Office in collaboration with Bappeda.* This includes Training for District staffs responsible for Environmental health and Hygiene promotion in implementing Performance and Impact Monitoring; Conducting baseline and impact evaluation Study for included districts; and Developing design for supporting Total Sanitation Programs by districts/cities.

District/City Level Health Office:

1. *Total Sanitation Campaign: By Health Office.* This includes Advocacy/orientation with district/city level decision makers and opinion makers to explain approach and obtain support for CLTS principles; Training for Sub-District/Village Team/Social intermediaries; Implementing Village Facilitation process; and Monitoring and Evaluation of Village Implementation.
2. *Sanitation and Hygiene Marketing: By Health Office.* This includes Production of promotion materials;
 - Advocacy/orientation with district/city level decision makers and opinion leaders; District/City public awareness raising and demand creation campaigns for specific target; and Supply chain building activities
3. *School Hygiene and Sanitation: By Health Office in collaboration with National Education Office.* This includes Training for Teacher and Children; District Workshops for inserting curricula; and Awareness campaign for school communities (children, teachers, parents).
4. *Strengthening Local Institutional Performance: By Health Office in collaboration with PMD.* This includes Training for Puskesmas Sanitarian/ Pustu staff / Bidan Desa for sanitation and hygiene program performance monitoring and access monitoring at community level through participatory monitoring (part of Sustainability Monitoring of the MIS); Implementing annual two-week surveillance for water borne diseases (diarrhoea, etc) at selected program/non—program locations; Cross learning and supports for community hygiene and sanitation interventions; and Hygiene Behaviour Change and Sanitation Access Monitoring.

COMPONENT 3: Water Supply and Public Sanitation Infrastructure (US\$ 181.7 million)

Component 3 of the Project will provide communities with infrastructure for water supply at the village and to a lesser extent peri-urban level and public sanitation facilities at the peri-urban level. This will be done in accordance with the national sector policy framework using: (i) community demand-driven investment, (ii) informed choice by the community, (iii) community control of planning, implementation and operation of the facilities, (iv) sharing of construction cost by communities and full community responsibility for financing of operation, and maintenance of the facilities, and (v) consistent use of gender-equity and poverty-targeting approaches to achieve project outputs and outcomes.

Objectives:

- To increase sustainable access to safe water for low income rural communities;
- To increase sustainable access to safe water and sanitation in rural schools; and
- To establish or improve institutional sanitation facilities in poor peri-urban areas.

Communities will be responsible for the whole implementation cycle from planning to construction and O&M of facilities. Benefiting communities will contribute in the form of money and in-kind (labor, local materials, land, etc), amounting to at least 20% of construction costs (4 percent in cash and 16 percent in-kind). They will be technically assisted by CFs throughout the process. The Project will provide a menu of technical options for rural water infrastructure and public sanitation in peri-urban areas to participating communities. The menu will describe the advantages and disadvantages of each option. The Project will provide community facilitators to help communities identify and choose the most appropriate feasible technical option(s). The

CFTs will facilitate informed choice making by whole communities by widely discussing the options and costs with community groups. The results of these extensive discussions will become the basis for preparing CAP 1. Technical assistance and support will be provided from the Project for system design, construction and commissioning and operation. Technical, financial and administrative guidelines and manuals will be prepared. The Project will support the development of equitable institutional organizations within the village and peri-urban areas with public sanitation facilities supported by the project that are best able to manage, operate and maintain the facilities, including setting and collecting appropriate charges as necessary.

The Project will provide financial support for the construction of facilities (and in some cases the rehabilitation of existing, non-functioning facilities). Communities will have direct control over financing of facility design and construction through block grants operated and partially funded by community-led user groups. The block grants will generally be limited to a ceiling of Rp275 million (about US\$29,600) per village. Approximately 50 million of the total village grant will be allocated to CAP 2 activities (see description under sub component 1.1). Requests for larger amounts can be considered if adequate technical and financial justification is provided (for example, from densely-populated villages requiring more extensive water supply facilities). In order to obtain the block grants, the community should prepare a comprehensive water and sanitation development plan and strategy in the form of a community action plan (CAP). To qualify for the grant, CAPs will have to fulfill prescribed conditions related to sustainability and equity in planned outcomes. The project will provide technical assistance to communities in CAP preparation through Community Facilitator Teams.

Planning Assistance and Technical support

The project will finance the following activities under the credit using a demand-responsive approach to the planning, selection of technology and level of service, design and construction: (i) Rapid Technical Assessment (RTA) and Community WSS situation analysis (MPA-PHAST) to determine water demand and system options; (ii) Water system technology choice; (iii) Technical survey and development of the detailed engineering design (DED); (iv) Construction, supervision and quality control; (v) O&M training covering management, technical and financial skills required for system sustainability; and (vi) Water quality monitoring to increase awareness of the community on the impact of safe water supply and good practice for storage and handling of drinking water.

Rapid Technical Assessment and Water System Choice

The outcome of the RTA is a set of WSS system technical options suitable for each village. The objective of RTA is to give a series of system options that are technically feasible in the community, along with sufficient information on what it will take financially, and technically to operate and maintain each option. The outcome of the RTA and MPA-PHAST situation analysis will be publicly presented and discussed in several village meetings whereby the community will make an informed choice regarding the type of system, levels of service, probable tariffs and O&M arrangements that they want and can sustain. The CFs will use "Informed Choice Catalogues" of Water Supply and Sanitation options to discuss possible options with communities. Each province will be able to adapt the existing catalogues to its specific conditions. Additionally, technical details and drawings will be made available to technical CFs in the technical implementation manuals. Possible technology options for PAMSIMAS WS systems are given in Table 1.

Peri-Urban Sanitation

In peri-urban areas of participating districts it is expected that the CAP1 will be directed towards construction of public sanitation facilities. The project will use a similar approach to the preparation of the WS CAP1, relying on Technical Assessment and Sanitation System Choice, using community facilitation materials developed under SANIMAS. Public sanitation facilities may focus on the collection, treatment, and disposal of sanitary wastes from public facilities or groups of households. Collection systems may include open or closed drainage, shallow sewerage, small bore sewerage, or conventional gravity sewers. Treatment systems may include communal septic tanks serving groups of households,

aerobic/anaerobic treatment reactors, facultative/aerobic ponds. Disposal may include options for stream disposal, fish cultivation, sludge treatment/drying, and field application on farms and gardens.

Detailed Engineering Design (DED) and Cost Estimates

PAMSIMAS will use a menu of water supply options (informed choice catalogue) which has been developed in WSLIC-2 and which will be further supplemented with additional tools to help CF develop quick system cost estimates for feasible options based on real data from the Rapid Technical Assessments in each community. Once the community decides on the preferred option, the CFT in cooperation with village implementation team will conduct a technical survey and make various field measurements in order to gather key data required for the DED. The final DED and the final Social Map with all existing and planned water points and all households becomes part of the overall CAP. Detailed steps on how to conduct technical surveys, prepare DEDs, and complete CAPs will be given in the project implementation manuals.

Table 1: Proposed Water Supply Technology Options for PAMSIMAS

Type	Explanation and Assumptions	Coverage Assumptions
I	Gravity Flow Piped Systems	
S	<u>Small scheme</u> . Spring is available, gravity fed flow system, no need for water treatment, service is by public tap or combination public tap / house connections	For one village, and covering between 750-2,500 people
M	<u>Medium scheme</u> . Spring is available, gravity fed flow system, no need for water treatment, service is by public tap or combination public tap / house connections	For two villages, and covering between 1,500 – 4,000 people
L	<u>Large scheme</u> . Spring is available, gravity fed flow system, no need for water treatment, service is by public tap or combination public tap / house connections	For three villages or more covering 2,500 – 10,000 people (perhaps not within PAMSIMAS range)
II	Pumped Piped Systems	
S	<u>Small Scheme</u> . Spring is available, pumping system, no need for water treatment, service is by public tap or combination public tap / house connections	For one village, and covering about 750-2,500 people
M	<u>Medium Scheme</u> . Use available spring, pumping system, no need for water treatment, service is by public tap or combination public tap / house connections	For two villages, and covering about 1,500 – 4,000 people
L	<u>Large Scheme</u> . Spring is available, pumping system, no need for water treatment, service is by public tap or combination public tap / house connections	For three or more villages, covering about 2,500–10,000 people (possibly not within PAMSIMAS range)
Other Types	Non-Piped Systems	
III	Utilization of shallow ground water, shallow dug well, simple lifting devices or simple powered pump.	One well serves 3-5 households. 30–75 wells per village.
IV	Utilizing deep groundwater, deep well, pump with storage, piped distribution system, service through public tap or comb. public taps and house connections	For one village, and covering about 750-2,500 people
V	Utilizing surface water, gravity fed system, treatment/purification, and service by public tap or comb. public tap/house connection	For 1 village and cover app. 750-2500 people
VI	Utilizing surface water, pumping system, treatment /purification, service by public tap or comb. public tap and house connection	For one village, and covering about 750-2,500 people
VII	Rainwater is the only possibility, rain water tank	One rainwater tank for 2-3 households. About 50-100 RWCT per village

Operation, Maintenance and Repair

After construction, the CFT will conduct On-The-Job training on operation and maintenance for the O&M organization, preferably composed of the VIT members and other interested community members on operation and maintenance covering: (i) Regular checking of each component; (ii) Periodic maintenance of some components; and (iii) Repairs and breakdown maintenance. A set of O&M tools will be provided as part of the block grant to VIT, who should be responsible for maintaining the tools.

Implementation of Physical Works

Construction, Supervision and Quality Control

Community readiness to carry out their responsibilities is the trigger for construction. Before the CAP is evaluated by the CAP evaluation team and approved by the DPMU, the VIT opens a bank account, deposit the 4 percent community cash contribution into the account, and submits a formal letter stating its readiness. The interdepartmental CAP Evaluation Committee and the District PMU will verify the technical quality of the CAP and that the conditions for approval are met. DPMU will check the availability of the cash in the bank and the commitment for 16 percent in-kind contributions in the CAP, submit the SPPB block grant, and arrange for its disbursement. Through the CAP1 preparation process, CFTs provide on the job training for VIT members in basic financial management and record keeping, setting water use tariffs and basic calculation skills for constructing the water system based on the agreed design and DED. Once the first tranche of the grant is disbursed, the construction activities begin: (i) Assisted by CFT, VIT will procure materials based on the DED by competitive bids from at least three potential suppliers. The results will be publicized in the community; (ii) Assisted by CFT, the VIT will identify available skilled labor in the respective village to take part in construction; (iii) The VIT with the assistance of CFT will hire a civil works contractor, or contract a nearby service provider to assist the community in construction where necessary; (iv) VIT and the community together, with guidance from CFT, will continuously monitor project progress during construction. The CFT will continue to provide training for the VIT technical team and any other interested community members having and wanting to learn basic construction skills needed to construct the facilities based on the agreed design and DED.

CAP 2 funds will provide for hygiene promotion activities, school toilets, O&M related training including training for bookkeeping, financial planning, tariff reviews and adjustments, accountability and ensuring community payments.

COMPONENT 4: District and Village Incentives Grant (US\$ 5.0 million)

Objectives: This component will provide incentives to participating districts and villages to meet project development objectives, particularly with respect to scaling- up and sustainability. The design of the project encourages the participating districts to commit to and implement a replication program of WSS in a predetermined number of villages using their own funds and applying the same methodology and approach of the Project. The participating districts will identify a minimum number of villages to be implemented by each district over the duration of the project as part of an agreement entered into between the district and the Executing Agency. The main purpose of the replication program is to guide the participating districts to progressively greater commitments towards sustainability and scaling-up of the project. Districts that meet or exceed their counterpart commitment will be eligible for an incentive grant. Similarly villages that have demonstrated above average performance in the implementation of the Project will be eligible for an economic development grant. This component is intended to have limited coverage and will be competitively bid for by the participating districts and villages. It is anticipated that one in 4 districts will qualify for the grant, and that grant will also be awarded to approximately 4 villages per district.

Sub-component 4.1: Incentives Grant to Districts (US\$3.0 million)

The Central Government will finance the cost of incentive grants to a limited number of districts that meet or exceed predetermined project performance criteria. The project performance criteria will be based on the project development objectives and the outcomes of key activities within the project components . The criteria for qualification for these grants will be publicized at the start of the project to all participating districts. A significant component of the project performance criteria will be the extent to which the district has achieved the target of implementing the additional village programs as part of the scaling-up mainstreaming objectives. The funds will be disbursed as a block grant to the qualifying districts adjusted to reflect the size of the program being undertaken in the district. Districts receiving the grant will be required to apply the funds to further scaling up expansion and strengthening the sustainability of the program. A portion of the grant may be applied to proposals that support sanitation supply-demand initiatives as part of component 2 outcomes. A further application of the fund may support activities that strengthen post construction maintenance through risk pooling and other financing mechanisms.

Sub-component 4.2: Incentives Grant to Villages (US\$2.0 million)

The central Government will finance the cost of incentive grants to a limited number of villages that meet or exceed predetermined project performance criteria. The project performance criteria for the villages will be based on the achievement of component specific objectives of hygiene, community mobilization, and WSS coverage:

- The village has above average performance in the implementation of the program (specific performance criteria to be identified and publicized to all participating villages at their entry into the project. See examples in footnote 14 Annex3).
- The village has submitted a proposal for the use of the grant. The proposal should be aimed at increasing the economic productivity of the village.
- Some of the proceeds of the economic output will be committed to the O&M of the facilities provided and for the possible expansion/replacement of the systems, ensuring long-term sustainability of WSS services.

The funds for the village development grant will be disbursed as a block grant. Villages receiving the grant will be required to apply the funds to further scaling up and expansion of the program.

COMPONENT 5: Implementation Support and Project Management (US\$ 51.1 million)

This component will provide technical implementation support and project management to the implementing agencies by integrating the CDD implementation process and project management across components 1, 2, 3, and 4. It will also support preparation for the sector-wide approach (see Annex 17).

Objectives: The objectives of this component are: (i) to provide project management support to the implementation of the project at various levels of government by the participating government agencies; (ii) provide technical support (component 1 and 2) to the implementing agencies for technical, hygiene and sanitation and community development (iii) provide for implementation oversight and quality control; (iv) provide financial and technical monitoring and reporting of project components; and (v) provide monitoring, evaluation (vi) provide widespread dissemination of project progress and outcomes through a PAMSIMAS Website news.

Sub-component 5.1: Central Management Advisory Consultant to the Central Project management Unit

The Project will finance the cost of these consultant services through one consultant services contract with a suitably qualified consultant firm(s). The consultant would be responsible for overall project management support, technical guidance, monitoring of implementation, and technical and financial reporting. The primary counterpart of the CMAC would be the Central Project Management Unit with support also provided to the central implementing agencies. The CMAC will also provide technical advisory support to the implementing agencies and will have expertise in the fields of WSS, health, capacity building, institutional strengthening, and community empowerment. The CMAC will provide oversight and technical guidance to consultants engaged at the provincial and district levels, and would also coordinate sector specific consultant inputs procured under the other components. The CMAC will be responsible for technical manual preparation, dissemination and updating for all components of the project. The assignment of the CMAC contract would be for the duration of the project.

Sub-component 5.2: Provincial Management Advisory Consultants to the PPMUs and DPMUs

The project will finance these consulting services through 5 Provincial consultant services contracts with suitably qualified consultant firms. The consultants will be selected by the CPMU using terms of reference and procedures approved by the Bank. The consultant will have staffing and expertise to support all of the PPMUs and DPMUs established in the respective provinces and will have technical teams at the district level. The PMAC will also hire Community facilitators, using individual service contracts, within each consultant package after a process of CF selection by the PPMUs/PMAC and training by the CMAC (training provided by 3rd party funded under the provincial packet). Lessons learned from WSLIC-2 indicate that the PMAC should have a significant voice in selection of CF as it also has responsibility for their output/outcomes. A total of 900 CFs are expected to be engaged. The PMAC will be responsible for close project management support, monitoring of implementation, and technical and financial reporting at the district level. The PMAC will have capacity building, coordination, and technical support functions at the province for district-based consultant Teams and CF teams. This Component will also finance CF training. The primary counterpart of the PMAC would be the Provincial and District PMUs. The Executing Agency will finance these services after the first two years under the same terms of references.

Sub-component 5.3: Independent Project Evaluation

The project will finance the cost of these consulting services through one consultant services contract with a suitably qualified consultant firm(s). The Executing Agency will select the consultant using the Bank's current guidelines. The Evaluation consultant will be an independent consultant and will report directly to the Steering Committee. The primary role of the consultant will be to evaluate the project performance in achieving project outcomes and project objectives. A part of its brief will be the evaluation of the performance of all implementing agencies including CPMU, PPMUs, and DPMUs.

Annex 5: Project Costs

INDONESIA: THIRD WATER SUPPLY AND SANITATION FOR LOW INCOME COMMUNITIES (PAMSIMAS) PROJECT

Project Cost By Component and/or Activity	Local US \$million	Foreign US \$million	Total US \$million
Community Empowerment and Local Institutional Development	8.0	0.6	8.6
Improving Hygiene and Sanitation Behavior and Services	22.9	1.8	24.7
Water Supply and Public Sanitation Infrastructure	181.7	0.0	181.7
District and Village Incentives Grants	4.2	0.8	5.0
Implementation Support and Project Management	43.2	7.9	51.1
Total Baseline Cost	260.0	11.1	271.1
Physical contingencies	3.8	0.2	4.0
Total Project Costs²⁵	263.8	11.3	275.1

Total Financing Required	263.8	11.3	275.1
Bank Credit	127.0	10.5	137.5
Borrower	136.8	0.8	137.6

Cost Estimate in US\$ millions ²⁶					
	Total	Credit	GoI		Community
			Central	Local	
1 Community Empowerment and Local Institutional Development	8.7	4.2	4.3	0.2	-
2 Improving Hygiene and Sanitation Behavior and Services	25.2	13.4	11.7	0.1	-
3 Water Supply and Public Sanitation Infrastructure	182.7	102.5	1.0	42.7	36.5
4 District and Village Incentives Grants	5.1	-	5.1	-	-
5 Implementation Support and Project Management	52.1	16.1	29.8	6.2	-
6 Unallocated	1.3	1.3	-	-	-
Total	275.1	137.5	51.9	49.2	36.5

Note: 3 Based on 5000 villages at Rp 275 million/village 20% by community.

Annex 6: Implementation Arrangements
INDONESIA: THIRD WATER SUPPLY AND SANITATION FOR LOW INCOME
COMMUNITIES (PAMSIMAS) PROJECT

INSTITUTIONAL ARRANGEMENT

The design of PAMSIMAS is based on WSLIC-2 but reflects the change of EA from Ministry of Health to Department of Public Works. The institutional arrangements conform to the most recent GoI regulations on decentralization and fiscal management and the design further reflects the intent of the GoI to expand the objectives and activities of PAMSIMAS beyond the scope of the project to a nationwide program.

The project will be implemented using a Community Driven Development approach and the project organization structure will provide maximum support to the delivery of services at the community level. The coordination, control, management and monitoring of the project at progressively higher levels of government administration will aim to achieve maximum impact of the project at the village level. The project management structure will consist of four main levels of organization: (i) central; (ii) provincial; (iii) district; and (iv) village/sub-district.

Legislative and Regulatory Framework

The legislative and regulatory framework of the GoI has changed significantly with the enactment of the laws on decentralization and fiscal balance (UU32/2004, 33/2004). These laws mandate the responsibilities of each level of government. Enabling regulations expand on the provisions of the laws. The main legislative and regulatory instruments that will determine the budgeting, fund flow arrangements, and responsibilities for financial management are law 2/2005 on Public Finance, and government regulation 1/2005 expanding on the responsibilities for public finance management. Under the above decentralization legislation, provision of water supply and sanitation is a local government responsibility, however the Water Resources Act 7/2005 and the subsequent government regulation 16/2005 on development of water supply systems (and sanitation) sets out minimum service provisions which must be achieved by local governments. Where these service levels are not achieved, the central government agency responsible is required to intervene. Intervention by the Executing Agency (MPW) in this sector is in accordance with the provisions of regulation 16/2005. The GoI adopted the concept of community driven development for the water supply and sanitation sector to ensure sustainability of initiatives and has formalized this in their 5 year strategic development plan 2004-2009 and regulation No. 7/2004.

Project Coordination - Central Government

At the central government the Executing Agency is the Directorate General of Human Settlements (MPW). The EA will establish a Program Coordination and Steering Committee (PCSC) consisting of Echelon 1 representatives of the implementing agencies, and a PCSC Secretariat /Technical Team consisting of Echelon 2 representatives from the implementing agencies. The allocation of responsibilities of the implementing agencies will conform to the designated role and function of the respective agencies. The PCSC will be chaired by Bappenas with an overall coordinating role. The structure of the PCSC will have the following broad allocation of responsibilities:

Agency	Role
BAPPENAS (National Planning)	Overall Program Coordination
DGHS (Human Settlements)	Executing Agency & implementation of Water Supply and Public Sanitation Infrastructure components
DG DCEH (Diseases Control and Environmental Health)	Implementation of the Improving Hygiene and Sanitation Behavior and Services components.
DG RD (Regional Development)	Local institutional development and community empowerment.
DG CVE (Community and Village Empowerment)	Village social development and community management
DG PSE (Primary and Secondary Education)	Support implementation of school health and hygiene promotion components
MoF (Ministry of Finance)	Support timely budget release, fund flow, disbursement of credit funds and counterpart budgets

Project Coordination Technical Team

The Technical Team to the PCSC will be chaired by Bappenas and will have the same structure and allocation of responsibilities as the PCSC. The role of the Secretariat/Technical Team is to be the initial point of review of all aspects of the project requiring central government intervention. The secretariat reports to the PCSC on those issues that require consensual resolution. The Technical Team is also the primary point of interaction between the Project Management organization and the PCSC.

Central Project Management Unit

The EA will establish a Central Project Management Unit (CPMU) to undertake day to day project management functions of the EA. The head of the CPMU will be an Echelon 3 officer of the EA and will be supported by technical, financial, and administrative experts from within the EA. The implementing agencies of MoHA, MoNE and MoH will also have senior staffs as representatives on the CPMU. These representatives will report to the respective implementing agencies. The CPMU will be responsible for overall project coordination, day-to-day management, budgeting, financial administration, monitoring, and reporting. The CPMU will also contain the delegated representative responsible for contract management of consultants appointed under the project.

Project Coordination - Provincial Level

Each provincial government participating in the project will establish a Provincial Coordinating Committee (PCC) chaired by Bappeda and consisting of representatives from the provincial offices of Public Works, Health, and Education as well as provincial agencies responsible for community development and civil society/NGO representatives. Individual provinces may add other agencies as required. The provincial Public Works office will have the executive functions at the provincial level. Their role is to coordinate and facilitate collaboration among related agencies, monitor progress and outcomes, identify lessons learnt and undertake advocacy to district level decision makers regarding sustainability, scaling up and mainstreaming.

Project Coordination – District Level

Each participating district government will establish a district coordinating committee (DCC) chaired by the district Bappeda office and membership from the district offices Public Works, Health, and Education and district agencies for community development and civil society/NGO representatives. Individual district governments may appoint other agencies as required. If existing groups or committees exist with similar functions, these groups could assume the role of the DCC. The district public Works office will have the executive functions at the district level. Their role is to coordinate and facilitate collaboration

among related agencies, monitor progress and outcomes, identify lessons learnt and undertake advocacy to district level decision makers regarding sustainability, scaling up and mainstreaming.

Provincial and District Project Management Units

The participating provinces and districts will establish Provincial and District Project Management Units respectively, (PPMU and DPMU). These units will be led by an officer from the provincial and district Public Works offices and will have representation from the other technical departments (health, education, and community development) at the respective level of government. The PPMU will also contain the delegated authority for executing the contracts of consultants appointed under the project. Their roles are to manage and monitor the project effectively and ensure quality assurance in all project activities, particularly preparation, approval processes and implementation of Community Action Plans.

CAP Evaluation Team

The participating districts will establish a CAP Evaluation Team that reports to the District Coordination Team which has representatives from the three implementing agencies. If there is an existing group that can undertake this function, this could be included in their work. For transparency purposes, NGOs or civil society representatives should also be invited to participate or observe.

Project Implementation at the Sub-district and Village Level

The project organization structure at the village level is significantly different from the formal structure at the central, provincial and district governments. The key unit at the village level is the Village Implementation Team (VIT). Where previous CDD projects such as UPP have been or are being implemented, the existing Badan Swadaya Masyarakat (BKM) or Tim Kerja Masyarakat (TKM) may be used. Notwithstanding the prior existence of BKM or TKM the village may choose to establish a VIT. Like the BKM and the TKM, the VIT is an elected body of the village. Safeguards for the pre-selection of candidates and election of the VIT membership will be established to ensure that it is true gender and social representation of the village community.

Sub-district Coordination

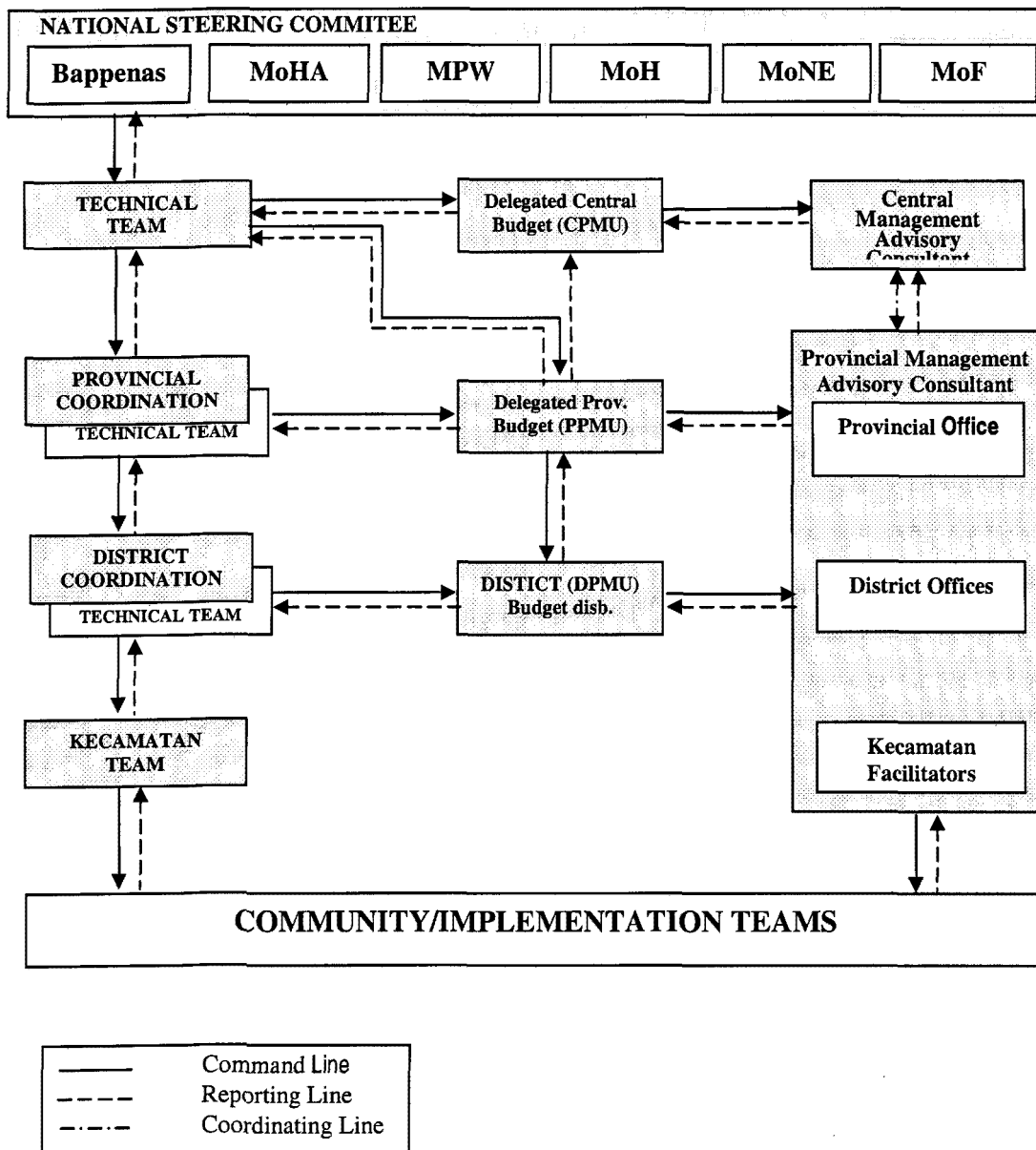
The aspect of coordination at the sub district may become important depending on the number and geographic distribution of the participating villages. The Kecamatan is a convenient way to agglomerate participating villages. The role of the Camat together with the Kaubang and the Sanitarian is to: (i) Help advertise the project objectives, expected outputs, policies, procedures and selection criteria to all Villages under their jurisdiction; (ii) Assist the DPMU conduct the Project Road show and Ownership Workshop to all villages under its jurisdiction; (iii) Support the CFTs access to the community for planning and implementation of subprojects; (iv) Monitor project activities and on-the job training provided to the community by the CFTs and/or the DPMU, and submit periodic monitoring reports to the DPMU. The role of the Puskesmas Sanitarian is: (i) Assist schoolteachers to implement the school health program; (ii) Assist VIT (especially the sanitation and hygiene unit) to continuously conduct HSP.

Community Facilitator Teams

An integral part of the project design at the village level is the provision of community facilitator teams (CFT) consisting of three people with technical, health promotion (hygiene & sanitation), and community development skills. The facilitators will be selected by the PPMU through a process of competitive recruitment based on selection criteria of qualifications, experience, and capability related to attitude and commitment to the tasks. Gender balance of the CF teams will be a requirement.

The CFs will be provided through the Provincial Management Advisory consultants who will have resources in their contracts to cover all CF costs, including the extensive training requirements.

The three member CF teams will cover approximately five villages per year and will wherever possible and practical, live in the project villages. The CFs will be responsible for facilitating all aspects of the community process. This includes the situation analysis using MPA/PHAST, formation of the VIT, CAP preparation, CLTS and hygiene promotion. The overall aim of the community process is to develop and strengthen equitable community institutions to ensure sustainable improvements in water and sanitation facilities and related behaviors.



Annex 7: Financial Management and Disbursement Arrangements
INDONESIA: THIRD WATER SUPPLY AND SANITATION FOR LOW INCOME
COMMUNITIES (PAMSIMAS) PROJECT

A. Executive Summary and Conclusion

The purpose of the project's financial management assessment is to determine whether the financial management system of the implementing agency, Director General of Human Settlement (DGHS), Ministry of Public Works (MPW), Director General of Disease Control & Environment (DGDCEH) of Ministry of Health (MoH), Director General of Village and Community Empowerment and Director General of Regional Development, Ministry of Home Affairs (MoHA) have the capacity to produce timely, relevant and reliable financial information on the project activities and if the accounting system for the project expenditures and underlying internal controls are adequate to meet fiduciary objectives and allow the Bank to monitor compliance with agreed implementation procedures and appraise progress towards its objectives.

The Third Water & Sanitation for Low Income Communities Project (PAMSIMAS) is designed as a Specific Investment Loan (SIL) type Credit with total project expenditure at about \$275 million and implementation over a 7 year period. The Executing Agency for this project will be the Director General of Human Settlement (DGHS), Ministry of Public Works (MPW), Director General of Disease Control & Environment (DGDCEH) of Ministry of Health (MoH), Director General of Village and Community Empowerment (DGVCE) and Director General of Regional Development (DGRD), Ministry of Home Affairs (MoHA). The financial management assessment for the project was carried out in accordance with the guidance issued by the Financial Management Sector Board in November 3, 2005²⁷. For this assessment, we have reviewed the financial management capacity of Director General of Human Settlement (DGHS), Ministry of Public Works (MPW) and Director General Disease Control & Environment Health, Ministry of Health, and Director General of Village and Community Empowerment, MoHA and Director General of Regional Development, MoHA.

The overall risk project is considered 'high'. This risk level is due mainly to (i) Substantial inherent risks at both the country level and the project entity level due to a weak control environment overall in the country, although financial management reforms are being gradually progressed; (ii) a large allocation of project funds for implementation by community groups, whose generic capacity for implementation and accountability is weak; (iii) the decentralized nature of the project and wide geographic spread, likely to cover 11 provinces and 70 districts; (iv) the financial management capacity of the eventual participating district governments to successfully administer grant funds is not known at this stage, as these districts will be selected at a later date; (v) a substantial amount of fund managed through a non-contract self-managed mechanism, which have been found to be vulnerable to lapses in financial controls (vi) complex institutional arrangement of the project due to involvement of two Ministries with different roles which needs strong coordination.

The committed project implementation team within DGHS at MPW; DGDCEH at MoH; DGVCE and DGRD at MoH has had extensive prior experience in implementing past Bank-financed projects. This provides some assurance that with strict adherence to the proposed action plan, the financial management risks of the project could be substantially mitigated.

An action plan has been designed and agreed with them to help mitigate these risks. These include a strengthened internal and external audits of project activities at the central, provincial and district levels, though the MPW, MoHA and MoH's Inspectorate Generals and BPKP, adoption of fiduciary control procedures for Community Driven Development that have been adapted from other similar Bank projects

where these have operated adequately, documentation of detailed financial management procedures in a project manual training of project staff in these procedures, adoption of interim quarterly financial statements to enable monitoring and the recruitment of appropriate consultants to assist MPW, MoHA and MoH in project financial management.

This assessment has concluded that after the implementation of the actions stated in the Proposed FM Action Plan below, the project will satisfy the Bank's financial management requirements as stipulated in OP/BP 10.02. In addition to that, we recommended that the interim un-audited financial report (IFR) be used by the project as the basis of the disbursement since it provides better monitoring of the project implementation.

B. Country Issues

Weaknesses in the country's financial management systems have been well documented. The Country Financial Accountability Assessment (CFAA) completed by the Bank in 2001 concluded that the control environment in Indonesia was weak. The Asian Development Bank (ADB) Country Governance Assessment Report (September 2002) similarly concluded that there was need for reform of the national financial management system following decentralization process in the country.

The Ministry of Finance (MoF) issued a White Paper in 2002, laying out the principles for reform of public financial management in the country. Since then, there has been steady, though slow, progress in implementing these reforms. In particular, the regulatory instruments needed to initiate reforms have been issued, including the State Finance Law no. 17/2003, State Treasury Law no. 1/2004 and the Public Accountability Law no. 15/2004, which provide a legal basis for improvements in the country's public financial management.

Implementation of these new laws and regulations is being gradually progressed. The MoF has been reorganized and the Budget and Treasury functions have been separated into distinct Directorates in line with international good practice. The Government of Indonesia (GoI) budget proposal for 2005 introduced functional and program classifications, with a stronger focus on the outputs and performance of budget entities, and presentation of budgets using the international standard GFS2001 classification. The system of State Treasury Management and Budget Execution is being modernized, with the gradual automation of treasury operations and the introduction (on a pilot basis) of a Treasury Single Account. Concurrent with the introduction of far reaching changes in budgeting procedures, the Ministry of Finance experienced considerable delays in issue of Budget approval documents (DIPA) during 2005. However these teething problems have been substantially overcome, and for the fiscal 2006, DIPAs of most spending agencies have been issued in time in January 2006. New modern accounting standards for Government agencies have been promulgated, though implementation of these standards is likely to pose challenges due to capacity constraints. A set of consolidated financial statements of the Central Government, were prepared on a modified accrual basis for 2004 for the first time and received a disclaimer audit opinion by the Supreme Audit Board (BPK). A similar set of financial statements have also been issued for 2005.

Indonesia has still an ambitious reform agenda to implement. The next phase in fiduciary reforms will focus on streamlining the implementation of recent laws through the issuance of corresponding regulations, including modernization and automation of the Treasury, including full introduction of the Treasury Single Account; and strengthening capacity of the Supreme Audit Board and of the internal audit function in the country. The GoI has committed to the implementation of this reform agenda with the support of the World Bank and other donors, and these have been locked in under the World Bank's GFMRAP project and ADB's State Audit Reform Project.

This situation impacts the financial management arrangements for this project to the extent that this project relies on Government financial management and project implementation systems.

C. Risk Assessment and Mitigation

Risk	Risk Rating	Risk mitigating Measures Incorporated into Project Design	Condition of Negotiations, Board of Effectiveness (Y/N?)
Inherent Risk			
• Country level	S	Continued support to PFM reforms through GFMRAP, in coordination with similar work being done by other donors.	N
• Entity level	H	Strengthen FM capacity by hiring consultants at central and provincial project management units.	Y By effectiveness
• Project level	H	Project Operation Manual (POM) will provide detail financial management procedures as guidance for project staff.	Y, acceptable draft POM by negotiation and full adoption before effectiveness.
Control Risk			
• Budgeting	M	Annual budgets and work plans will be required as – part of POM – see action plan below.	Done
• Accounting	S	Use of government accounting system and credit simplified category – explain in POM	N
• Internal Control	H	The following controls will be detailed further in POM (see action plan below) a) stronger payment validation procedures b) segregation of duties among payment authorization and “commitment maker” functions at central level. c) Project costs to include budget for training IG and to implement internal audits for province and central level. d) Decree to be issued authorizing IG to undertake internal audits. e) Project costs to include budget for BPKP to widen audit coverage area to block grant implementation in villages and districts through interim audits.	Y, acceptable draft POM by negotiation and full adoption before effectiveness Y, by negotiation. Y, by negotiations Y, by Effectiveness. Y, by negotiations
• Funds Flow	H	a) Dedicated bank account at the central bank to channel credit disbursements. The mechanism for fund flows to the district and community has been described in the PAD and will be agreed and reflected in POM. b) DG Treasury shall issue a circular letter to the relevant KPPN Offices providing guidelines and criteria for eligible project expenditures in accordance with the Financing Agreement.	Y, by negotiation Y, Disbursement letter
• Financial Reporting	S	Formats for special purpose financial statements for annual reporting and Quarterly interim un-audited financial statements will be agreed.	Y, by negotiation
• External Auditing	S	Audit arrangements to include appointment of BPKP as Auditor acceptable to the Bank, and to be based on a TOR approved by the Bank; audit reports and audited financial statements will be made available to the public.	Y, By negotiations.

D. Summary of Implementing Arrangements

The project will be implemented by the central government although funds and assistance will be channeled directly to the village level. The central executing agency will be the Ministry of Public Works. Other implementing agencies of the central government will be the Ministry of Health (MoH), Ministry of Home Affairs (MoHA), and Ministry of Education (MoNE). However, none of the project funds will be used to finance project implementation in MoNE. The design reflects the intent of the Government to expand the activities of PAMSIMAS beyond the scope of the project to a nationwide multi-sectoral program, and creates incentives to achieve this.

Project Coordination - Central Government: The central Executing Agency will establish a Program Coordination and Steering Committee (PCSC) consisting of Echelon 1 representatives of the implementing agencies, and a PCSC Secretariat/Technical Team consisting of Echelon 2 representatives. The PCSC will be chaired by BAPPENAS. The structure and roles of the PCSC are summarized in Table 1, below:

The Technical Team to the PCSC will be chaired by BAPPENAS and will have the same structure and allocation of responsibilities as the PCSC. The role of the Secretariat/Technical Team is to be the initial point of review of all operational aspects of the project requiring central government intervention.

DGHS will either establish a specific Satker for the project which will play a role of Central Project Management Unit (CPMU) or appoint its program director within DGHS to be the Satker and undertake implementation of the project. The Satker will have budgetary authority for the project for the project implementation at DGHS. The head of the CPMU will be supported by commitment maker (PPK), treasurer, technical and administrative staff from within DGHS. The verification and payment voucher issuer function will be handled by the finance unit under DG Secretary within DGHS, thereby retaining segregation of functions appropriate for better internal control.

The implementation at DGDCEH, MoH will have similar arrangement. Water and sanitation director within DGDCEH will be appointed as the Satker and undertake implementation of the project. The Satker will have budgetary authority for the project for the project implementation at DGDCEH.

The CPMU will be responsible for overall project coordination, day-to-day management, budgeting, financial administration, monitoring, reporting, and contract management of consultants appointed under the project.

Participating Provincial and District governments will establish Provincial and District project management units, PPMU and DPMU. The heads of the PPMUs and DPMUs will be the head of provincial and district Public Work offices and will be authorized by the minister for Public Works to exercise budgetary authority for the project at their respective level.

The project organization structure at the village level will consist of elected representation of Village Implementation Teams, VITs. These village organizations will establish project accounts to receive credit funds authorized by the DGHS. Coordination of the VITs will be provided by the sub-district coordination team under control of the head for sub-district development and the sanitarian.

DGHS has experience in implementing Bank financed project through Western Java Environmental Management Project (IBRD 4612-IND//IDA 3519-IND, WJEMP) and newly effective loan Urban Sector Development reform project (IBRD 4786-IND, USDRP). The FY 2004 audit report for both WJEMP & WSLIC-2, the audit reports were received on time. Although the auditor has given an unqualified opinion on the financial statements, the auditor's management letter indicated some findings related to weak

verification and monitoring on consultant's works, weak coordination among the project implementing unit.

The project targets implementation in up to 85 districts and to date have already 126 local governments indicated their interest. Financial management assessment has so far been conducted on the central agencies that will be involved in project implementation and financial management, and not the province and district level agencies, since the selection of participating districts and provinces will be done during implementation, based on specified criteria. Any financial management risks arising from this will be mitigated in the following manner:

- a) All the expenditure that will be implemented and spent at district or village levels will be budgeted at the central ministries concerned (MPW and MoH). The financial controls surrounding these expenditures will rely on procedures that have been developed and extensively tested under other CDD projects for many years. These include the mechanism for staggered fund flows to identified community groups, social control mechanisms through public disclosure to communities and block grant accountability procedures. These will be fully documented in the project manual.
- b) Trained community facilitators will be hired under the project to guide and provide oversight to activities in villages.
- c) Socialization of the project has already been conducted to the targeted local governments through a national workshop conducted in Jakarta in March 2006. In the meanwhile, to facilitate financial accounting and reporting, financial management consultants will be embedded into Project Management consultants that are planned to be deployed both at the centre and the participating provinces and districts.

E. Strengths and Weaknesses

Strengths

- a) The prior experience of the Ministry and Directorate in implementing Bank funded projects gives them familiarity with Bank financial management and disbursements procedures and requirements. All audit reports were received in time and most material audit observations raised in earlier project audit reports have been satisfactorily resolved.
- b) The hiring of professional management consulting firms, including financial management specialists, at the centre and in districts, will help support the financial accounting capacity of the project so that reliable financial reporting for the project can be generated.
- c) Mechanisms for transfer of funds as block grants to community groups and accountability systems at village level have been developed and tested in several other Bank projects in Indonesia, and these will be applied here.

Weaknesses

- a) In the previous project of this kind, the project administration, verification and monitoring of consultant's contract were found to be main accountability weaknesses in DGHS. This poses some fiduciary risks for the components managed by them. This aspect will be given particular attention during supervision of the project, and the weak financial management capacities of DGHS finance unit will be supplemented by hiring a financial consultant as part of Central Management Advisory consultants for the project.
- b) MPW has its own internal audit unit (IG). We found that the IG's activities are limited to cover only 30 % of all MPW budget implementation. Currently IG has 70 auditors with economics, management

and technical background, but none of them are accountants. Although all of them have received internal audit training and certification from BPKP, we noted that their work plan does not include risk based internal control assessments and no guidelines for such work are available. Activities to strengthen IG capacity are therefore included in this project.

- c) The wide geographical spread of the project, in as many of 11 provinces and 70 districts will add complexity to project financial management arrangements. Plans to involve these diverse groups of stakeholders in implementation have not been identified to date, including accounting for community and district level contributions in project activities. Preparation of consolidated financial statements on the project will be challenging. The assistance of management consultants will be important to mitigate this risk.
- d) The project will involve block grants to community members, amounting to an estimated US\$ 121 million. However, the eligibility criteria for this type of expenditure and for the target beneficiaries have not yet been finalized.
- e) A substantial amount of fund managed through force account (non contract) mechanism (approximately 11% of the total project cost) implemented at all levels (central, province and district) which was subject to financial controls that were less stringent.

F. Action Plan to mitigate risks

To help mitigate the risks identified, a financial management action plan has been designed in consultation with the project preparation team. A more detailed discussion on these risks is in the Financial Management Assessment Report that has been placed in project files.

Action Plan	Expected Output	Due Date
A. Project Organization and Staffing		
1. Project Management Units and Project Implementing Units are established and staffed.	MPW, MoHA and MoH decrees which sets out the project's organizational structure and staff appointment acceptable to the Bank.	By Effectiveness
2. Appointment of head of public works and health office at the provincial and district levels as KPA (head of working unit).	MPW, MoHA and MoH decrees.	By Effectiveness
3. Project Management Consultants (including embedded FM consultants) at Centre PMU and participating districts / provinces to be selected.	A Request for Proposal (RFP) for Central Management Advisory Consultant has been sent to shortlisted firms.	By Effectiveness
B. Project Operation Manual		
POM to include procedures to be followed by all implementing unit of the project. This should include, inter alia, Part I: (a) all financial management and disbursement procedures for this project, (b) annual budgets and work plans, (c) stronger payment validation procedures, (d) segregation	Final draft <i>POM</i> acceptable to the Bank	Received by Negotiation
	Adoption of a Final POM acceptable to the Bank as evidenced through a Letter of Non-Objection	By Effectiveness

Action Plan	Expected Output	Due Date
of duties among payment authorization and "commitment maker" functions, (e) financial reporting formats, (f) supervision, (g) internal audit arrangements, (h) community oversight arrangements and (i) anti corruption plan. Part II : (a) Community group selection; (b) Proposal for community block grant review process; and (c) Flow of funds, (d) withdrawal and accountability mechanism for community block grant; and (e) Supervision mechanism		
C. Training		
Training for DGHS, MoH, MoHA (including CPMU, PPMU and PIUs) staff who will require the necessary skills to carry out respective duties as described in the <i>POM</i>	<i>POM</i> training	During implementation: the first program after credit effectiveness
D. Internal Audit		
IGs of MPW, MoHA and MoH to conduct internal control reviews of project activities at central and province level on quarterly basis, based on TORs to be acceptable to the Bank, and copies of the report to be made available to the Bank.	Inclusion of the internal audit activities cost in the project cost.	Done by Negotiation
	MPW, MoHA and MoH's decrees/ instructions to conduct internal control reviews of project activities at central and province level on quarterly basis by IGs, and at district level by BPKP.	By Effectiveness
	Copies of internal audit reports to be sent	During
2. Arrangement of the project annual audit in accordance with a specific TOR and by independent auditors acceptable to the Bank.	TOR acceptable to the Bank	Done by Negotiation
	TOR and letter to Auditor (covering interim and annual audit) confirming the audit arrangements	

G. Financial Management Arrangements

The project accounting policies and procedures for this project will substantially follow Government financial management procedures, with strengthened procedures where appropriate. These Government procedures include, for instance, the government Budgeting procedures, accounting standard (PP no. 24, 2005) and government accounting systems (PerMenKeu no. 59/PMK.o6/2005) which have been issued following the issuance of Finance and Treasury Laws. Following are summarized procedures starting from the Budgeting up to the Reporting procedures. All project activities and expenditures will be included in the central Government budgets and administrative and accountability procedures for approving expenditures and disbursing funds to beneficiaries will follow Government procedures. More details of these procedures will be given in the project manual (POM).

Budgeting

From FY 2005, the government has been using a unified budget system which does not differentiate the recurrent budget from the development budget. The budget of the Bank's project will be integrated into the budget of the respective government agency where the project will be implemented, viz., MPW,

MoHA & MoH. Under this arrangement, for auditing purposes, the project budget performance measurement will be combined with the performance of the corresponding budget allocation of the implementing agency.

The project budget proposals are submitted to the DG Budget in June of the year proceeding the budget year. DG Budget allocates budget ceilings in September. MPW, MoH and MoHA then proceeds to prepare CPMU, PPMUs and DPMUs budget in detail. The results of the work are then submitted to DG Budget and the Government's planning agency (BAPPENAS) for clearance by both agencies. The final budget for the project will then be ready for submission to the World Bank as the Annual Work Plan of the project. The budget is presented to the Cabinet (as part of the national budget) in September and after Cabinet approval it is presented to Parliament.

Further detail of the budgeting process will be available in POM.

Expenditure process

a. Self-Managed activities

Based on the assigned budget, CPMU, PPMUs and DPMU would be able to request an advance payment of a maximum of a month's projected cash needs from the government treasury office (KPPN). This advance is maintained on an imprest fund basis and can be used for project activities. The advance should be accounted for to KPPN²⁸ within a month.

b. Supplier/Consultant/Contractor Contracts

Payments to suppliers, consultants and contractors (procured according to the procurement procedures specified in the Financing Agreement) will be made in accordance with the contracts with those entities. The payment will be transferred directly to the respective vendor or consultant or contractor.

Although the payment processes will follow Government procedures, some additional payment validation measures will be prescribed to mitigate fiduciary risks, including stronger accounting evidence, audit trails and procedures to validate contracts and outputs. These will be available in detail in the POM.

Accounting and Record Keeping

MPW, MoH, MoHA finance bureaus, province and district finance units follow the government accounting standard (Government Regulation no. 24, 2005) and government accounting system (MoF Regulation no. 59/PMK.06/2005). Government accounting software is used to record all transactions. Manual back up (general cashbook and its supporting books) are still maintained in both finance bureau/sub unit and KPPN. The system are closed on monthly basis and submitted to MoF on quarterly basis.

KPPN and MPW, MoH, MoHA finance units also maintain a budget realization records card specifically for the project. This card is supported by advance and contract monitoring cards (one card for each contract). These systems ensure that all project expenditure is included in the Government accountability reports and systems.

Simple guidelines for accounting by community group will be available in Village Implementation Manual.

Reporting

Currently the government is implementing GFS classification as the government chart of account (MoF regulation no. 13/PMK.06/2005). The Ministry of Finance Chart of Account does not include codes for funding sources (e.g. donors). As a consequence, the government accounting software could not differentiate the project expenditures with the government expenditures. Therefore, to enable this differentiation project expenditures for budgeting and facilitate report preparation according to component and expenditure categories, the following will need to be included as part of the POM, (i) a harmonization between project component and expenditures category (as per Financing Agreement) with the Government of Indonesia chart of accounts (Mata Anggaran Keluaran- MAK and Tolok Ukur); (ii) CPMU, PPMUs and DPMUs finance units should differentiate all of the project's payment voucher and payment remittance order; (iii) prepare reconciliation of the project records with the project designated bank account (DA).

CPMU needs to work closely with PPMUs and DPMUs in preparing the IFR. The IFR will then be used to ensure that the credit funds are available when expenditures due for payment.

The IFR will include (i) sources and uses of funds (by project activity and by disbursement category); (ii) six months forecast of fund required; (iii) Credit DA activity statement; (iv) disbursement and expenditure status; (v) detail expenditures for contracts subject to prior review (if any); (vi) summary expenditures for others/contracts not subject to prior review; (vii) output monitoring report (unit of output by project activity); and (viii) procurement management report

All reports received from the PPMUs and DPMUs will be compiled by the CPMU in an IFR format acceptable to the Bank and submitted on quarterly basis, within 45 days of the end of the reporting period to the Bank through MoF. The first report will only consist of the planning part covering six months forecast of fund required and procurement plan. The IFR will be used as a basis of disbursement. The quarterly reports will be accumulated annually for annual audit purposes.

Monitoring of the budget for the project will be through IFR²⁹ and the agreed interim audit and supervision schedule. This mechanism would help ensure that the IFR is reliable for monitoring purposes. This mechanism also enables early identification of any problems, especially shortcomings in budget execution processes such as under-spending of budget allocations.

Funds Flow and Disbursement Arrangement

In order to facilitate disbursements from the Credit, a Designated Account (DA) denominated in US dollars will be opened in the Central Bank under the name of MoF. The management of the DA would be under the responsibility DG Treasury, MoF. An initial deposit for the DA will be requested by DG Treasury, MOF based on the first Interim Un-audited Financial Report (IFR) prepared by CPMU (with input from PPMUs and DPMUs). With the fund available in the DA, CPMU, PPMUs and DPMUs's can begin with the project expenditures (through procurement process and project activities).

The CPMU, PPMUs and DPMUs shall be responsible for procurement and activities under CPMU, PPMUs and DPMUs components in accordance with the agreed budgets. When expenditures are due for payment, CPMU, PPMUs and DPMUs initiate the payment process.

The fund transfer mechanism for flow of credit funds to districts was plan to follow Dana Tugas Pembantuan (central budget which implemented by local government) arrangement. This arrangement was chosen because in accordance with Government Regulation no 16/ FY 2005, the provision of water supply for communities especially in peri-urban area is the central government responsibility. With this arrangement the fund will be budgeted at the central government level and the fund flows directly to the

respected technical unit (not through the local government). This method has been in use several other CDD projects in the country. Adaptation of these procedures for this project is being fully detailed in the project Village Implementation Manual (part II of POM).

Further disbursements from the Credit would initially be made to the DA based on the submission of (i) list of payments for contracts subject to prior-review by the Bank along with evidence of expenditures, and (ii) statement of expenditures (SOE) for others. In subsequent years, taking into account the experience in receiving reliable IFRs from the project, the Bank may change this arrangement in consultation with the project for report-based disbursement and thus make further disbursement based on the quarterly consolidated IFR prepared by CPMU, duly approved by DG Treasury, MoF.

All documentation for the expenditures as reported for disbursements would be retained at the implementing units and shall be made available to the auditors for the annual audit and to the Bank and its representative if requested.

DG Treasury shall issue a circular letter to the relevant KPPN Offices providing guidelines and criteria for eligible project expenditures in accordance with the Financing Agreement.

Project Operation Manual (POM)

The POM will document the financial management system and procedures to be followed by CPMU, PPMUs and DPMUs staffs within MPW, MoH and MoHA that are involved in the project to ensure that the project has sound financial management practices. The POM will include:

Part I (Project Management Manual)

Organization structure, job description, budgeting, procurement – with addition of WB procedures if there is differences, record management for finance unit, assets management, flow of fund, payment verification – with additional verification process for Bank finance expenditures. accounting (including use of government chart of account for the project), reporting (IFR format, how to prepare and preparation time line at each level), annual audit arrangement, supervision plan, governance/anti corruption and disclosure requirement (including acceptable mechanism for CSO oversight on procurement, sanction & remedy procedures, audit report publication and complain handling mechanism); monitoring and evaluation mechanism (including training plan and supervision plan) for the project implementation and IG review on PPM compliance and improvement.

Part II (Village Implementation Manual)

(a) Community group selection, (b) proposal for community block grant review process, (c) flow of funds, (d) withdrawal and accountability mechanism for community block grant and (e) supervision mechanism.

The POM will be developed by MPW, MoH, and MoHA and will be approved by the Bank prior to effectiveness.

Internal control: Internal Audit

The project will have strengthened internal audit arrangements, to be conducted by the IG and BPKP at regular quarterly intervals for separate groups of project expenditure.

MPW Inspectorate General already has been assigned responsibility to conduct monitoring of MPW budget realization. We have noted that MPW and MoH's IG has limited capacity to conduct internal audit of the project transactions. We noted that their work plan does not include risk based internal control

reviews, and no guidelines related to this are available. With its limited number of staff, only 30% of their activities are currently audited annually.

Technical assistance to improve IG capacity is being provided through funding allocation from a different projects (EIRTP2 and HWS) under DG Highways in MPW and under National Institute of Human Resource Development & Empowerment in MoH respectively. We recommend that IG work plan includes an internal audit of PAMSIMAS activities and expenditure for activities at the central and province level and recruits accountants to enrich the IG team. Terms of Reference for this will be agreed with the Bank, and will cover a review of internal controls for this group of project expenditure. Reports on audit findings will be submitted to the external project auditors as well as to the Bank for information.

A second and larger group of project expenditure will be incurred at districts and villages, and will include block grants implemented by communities. Internal controls and accountability for the implementation at the district and village level will be reviewed through internal audit arrangement by BPKP. This audit will ensure that at least 10% of participating villages in all participating districts are included in the audit sample. The audit reports should be made available to the Bank upon request.

Specifically for the project, enhanced procedures for verification by internal auditors (both IG and BPKP) should include the following:

1. verification of completeness of the documentation supporting all SPP (including ticket and boarding pass for travel, attendance list for meeting & trainings and third party invoices)
2. assurance that all activities supported by report
3. confirmation made to the third parties performing services to the project
4. random confirmation made to participant of the workshop/training
5. random confirmation made to the beneficiaries, i.e. scholarship recipient.
6. visit to location (if necessary)
7. other type of review (if necessary)

External Audit Arrangement

The project's annual special purpose project financial statements will be audited annually. The annual audit reports and audited financial statements shall be furnished to the Bank not later than six months after the end of the government fiscal year (June 30 of the following year). The audit will be conducted in accordance with the Terms of Reference for audit acceptable to the Bank and agreed at negotiations.

TYPE OF AUDIT REPORT	EXECUTING AGENCY	DUE DATE
Project Financial Statement (a single audit opinion comprising project account and DA/SOE account)	MPW	Six months after the end of the Government fiscal year

Knowing the scattered project implementation, peer review result and the capacities available, it is proposed to accept BPKP as the external auditor for this project.

All audit reports will be made available to the public. The mechanism for public access to the annual audit report of the project is detailed in the POM.

Annex 8: Procurement Arrangements
INDONESIA: THIRD WATER SUPPLY AND SANITATION FOR LOW INCOME
COMMUNITIES (PAMSIMAS) PROJECT

A. General

Procurement for the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Financing Agreement. The various items under different expenditure categories are described in general below. For each contract to be financed by the Financing Agreement, the different procurement methods or consultant selection methods, estimated costs, prior review requirements, and time frame are agreed between the Government of Indonesia (GoI) and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Procurement of Works: N/A

Procurement of Goods: There will be some procurement of water test kits and printing of materials carried out by the Ministry of Public Works and the Ministry of Health at the central level. Contracts are packaged on annual basis, and each package is between USD 65,000 up to USD 132,000. Printing and distribution of printed materials for provinces are clustered into Provincial packages.

Contracts above USD 50,000 will be procured following NCB procedures acceptable to the Bank, while those below USD 50,000 will follow shopping procedures.

The standard NCB bidding documents as well as the standard Request for Quotation (for shopping) acceptable to the Bank will be followed, and included in the Project Operation Manual.

Selection of Consultants: Consultants for the Project includes the following:

1. TA for implementation support: There will be a National CMAC (estimated at US\$ 2.3 million) hired by the Ministry of Public Works (MPW) at the central level, and 11 Provincial Management Advisory Consultants (PMAC –US\$ 2.8 million each) hired at provincial levels.

The main task of the PMAC is to provide management support mostly to the activities at the village levels, as well as building the capacity at the district and provincial governments in supervising the community grant activities. The PMAC contracts would include village facilitator's salaries. The contracts would cover a period of up to 2 years, after which it is expected that local governments will oversee the grant implementation.

The main task of the CMAC is to provide the management support to the MPW at the central level in managing this project, and also to oversee the work of PMAC. The CMAC contracts would cover an initial period of 2 years, with possible extension (subject to satisfactory performance and as needed) up to the end of the Project.³⁰

2. TA for Monitoring and Evaluation: There will be an Independent Project Monitoring and Evaluation Consultant (USD 1.2 million), which will be hired by MPW at the central level, to intermittently evaluate the performance of the project, including one implemented down at the community level.

3. Other TA: Five Training consultants (working at regional levels, covering a number of participating provinces) will be hired by MoHA for two years with phases (i.e. Phase 1 in year 1 and Phase 2 in year

2). These consultants are to train the facilitators, so that the Project will have a pool of qualified facilitators, which can be contracted by PMAC upon completion of the training. The total contract amount per package is USD 382,500 (in year 1) and USD 153,000 (in year 2). MPW will also hire a consultant for MPA Stakeholder policy level assessments for provincial level (USD 15,300). There will be some consultants hired by the Ministry of Health (MoH) to do the marketing study and other studies (less than USD 200,000 per package), and to do the campaign/promotion as part of the public awareness activities (USD 1.4 million). As part of the anti corruption plan, a public notary will also be hired by each procuring unit to assist the project in maintaining confidential documents for the selection of consultants. A consultant firm will be hired to do the baseline survey (USD 408,000) and another one for the technical audit (USD 102,000).

There are also a number of individual consultants hired by MPW for procurement/financial management, and for SWAP preparation.

All selection of consultants (firms) will follow QCBS procedures, except for contracts less than USD 200,000, which CQS will be followed. The Bank standard RFP will be used.

Shortlists of consultants for services estimated to cost less than USD 400,000 equivalent per contract may be composed entirely of qualified national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. Selection of individual consultants will follow Section V of the Consultant Guidelines.

Other – Community Driven Development Activities: About 60% of Bank financing will finance subproject proposals made by communities. These will consist of contracts between the district local governments and the respective communities to deliver measurable outputs and outcomes. Therefore, the rates under the contracts shall be justified and agreed at the time of approval of the community proposals, and the Project will finance the outputs on lump sum basis. The system and procedures that are currently in place in WSLIC-2 project will be adopted and modified as necessary for this Project. To enhance transparency, the list of vendors and their corresponding committed/paid amount will be disclosed in the public domain, at least on the information board and in the public accountability meetings. After signing the contracts, procurement will be managed and executed by communities using forms and procedures specified in the Project Operation Manual – POM. Provincial Management Advisory Consultants will ensure that regular quality assurance and supervision will be enforced. These procedures will be included in the POM and the contracts with each community group.

The detailed procedures for implementation under community participation will be included in the POM.

In 5 years, there will be 5,000 villages receiving the community grants in 11 provinces and 70 districts. Under the community grants, each community group may receive up to a total of Rp. 275 million (US\$ 29,570 equivalent) for the construction of the water supply facilities and other programs, in which at least of Rp 50 million of it would have to be spent for “soft” activities (such as: hygiene/sanitation promotion, training, facilitation, and toilet facilities at schools. In addition, for 20 best performing community groups, there will be (i) an additional of village grants (starting in 3rd year of implementation) for a maximum of IDR 200 million per community group (an equivalent of USD 21,500) for further development of clean water facilities, and (ii) an additional grant provided from the District Grant for a maximum of IDR 200 million per community group.

Individual procurements under this grants executed by communities will be small and widely dispersed. Procurement procedures will therefore consist of special procedures using Community Participation. These procurement procedures are basically adopting the existing ones under WSLIC-2, as summarized below:

a) Community Participation for Works under the sub projects

For the construction of clean water facilities works may be conducted through contributions from communities. This may be in the form of labor and materials, but may also include land. For contribution of labor, communities may choose to include full or partial labor cost in the proposals and/or pay salaries for work done on the project. Construction using a labor-intensive arrangement with community members is subject to the following provisions:

- The architectural plans and engineering designs for the above very small civil works shall be based on Government-approved plans and designs consistent with local technical codes.
- The implementation/subproject agreement covering these works shall include the following: (i) specified lump-sum, fixed price amount based on a written estimate of work to be rendered by identified laborers from the community; (ii) description in reasonable detail, including basic specifications, required completion date, and relevant drawings where applicable.

In areas where the community does not have the capacity to construct works themselves (for example: the construction of deep well, etc), the community may (with MPW prior agreement as established in the subproject implementation agreement) procure small civil work contracts following simplified shopping procedures. These contracts will be contracted under lump-sum, fixed price contracts awarded on the basis of quotations obtained from three qualified contractors in response to a written invitation. The invitation includes basic specifications, required start and completion dates, an agreement format acceptable to the Bank, and relevant drawings. The quotations will be opened in public accountability meetings and read aloud. The award will be made to the contractor who offers the lowest price quotation for the works. No restrictions on participation in the bidding are allowed.

b) Community Participation for Goods under the sub projects

Goods procured under the sub projects include purchase of construction materials, and goods/equipment for the community public awareness and capacity building activities, as agreed in the subproject implementation agreement. Goods shall be procured through comparison of prices from at least three reputable local suppliers using forms as found in the Project manuals. The quotations will be opened in public accountability meetings and read aloud. The award will be made to the supplier who offers the lowest price quotation. For subprojects located in remote areas where it is not economical to obtain prices from suppliers located far from project sites, less than three quotations is acceptable, as is direct contracting. The group proposing the subproject, however, needs to justify these methods, and verifications by project staff must be placed on record.

Goods valued at less than Rp.15 million each (US\$ 1,612 equivalent) may be purchased from local suppliers/stores after conducting a price comparison ‘survey’ by visiting at least three local suppliers. A price comparison of less than three is acceptable whenever there is a lack of alternative suppliers. The price survey shall be conducted by two members of the community who are trusted by the community as having the required independence and integrity.

Subprojects may also include the purchase of goods provided/installed by the community or other community groups (acting as “suppliers”). These shall have reasonable rates as compared to prices of similar goods obtained from other stores nearby. The recipient of the community grant shall provide acceptable technical specifications to the “suppliers” and allow adequate time for delivery and installation.

B. Assessment of the agency’s capacity to implement procurement

The Executing Agency (EA) for this Project (also serves as the CPMU) is the Ministry of Public Works (MPW) through the Directorate General of Human Settlement (DGHS) and Directorate of Planning. In addition to executing a component of the Project, DGHS is responsible for the overall coordination of the Project, including providing implementation support assistance to other implementing agencies to ensure a smooth implementation of the Project. DGHS shall consolidate the Quarterly Procurement Report for the Project, which will be part of the Financial Monitoring Report. The district governments shall be expected to administer and supervise/monitor the block grants to communities. Proposals for the block grants will be submitted and implemented by community groups at the village levels, following procedures that have been established under WSLIC-2.

The procurement risk is **HIGH**, with the following identified risks:

1. **Corruption and Collusive Practices:** This has been a nation wide issue, which normally involved both bidders/consultants and the government officials. The general procurement environment is weak. Based on this initial assessment, the corruption mapping areas and the proposed risk mitigation are included in Annex 13. Non independence of the procurement committee contributes a lot to the collusive and corrupt practices.
2. **Procurement Delays:** The main source of procurement delay is the late availability of the budget, which would normally be available no sooner than early March each FY. This leaves the implementation for that particular FY for only 9 months effectively. Under the existing national regulation, this could also contribute to the interruption of services during the period which budget is not available. Another source of delay is the late initiation of the procurement process or long evaluation process, especially in hiring consultants.
3. **Low quality of consultants employed by projects:** This is mostly due to non independent judgment of the officials involved in making decision of procurement actions. The Project Managers (or the equivalent position) and the members of the tender/evaluation committee occasionally do not make their independent judgment, although they are authorized to do so by the Keppres 80/2003. They are influenced by other parties, such as: higher level officials (e.g. their bosses) or by external parties (e.g. bidders/consultants). This normally contributes to the significant delay of procurement processing, low quality of the successful bidders/consultants, and to the low quality of delivery of required services/assignments.
4. **Low capacity of DGHS and DG DCEH in carrying out the selection of large value of consultant contracts & low capacity of district/provincial governments in supervising implementation under community contracts:** Although both DGHS and DG DCEH have the experience in the selection of consultants following Bank Guidelines, however, it is very likely that the capacity is not sustained. The capacity of provincial and district governments to carry out procurement (both for consultants and goods/services) is even worse³¹.

The risk mitigation actions include the following:

Enhanced Capacity:

- a. A CMAC and 5 Provincial Management Advisory Consultants (PMAC) will be hired to assist the central, provincial, and district governments. Facilitators will be part of PMAC's contracts, and they will be assisting and upgrading the capacity of community in carrying out simple procurement.
- b. The qualification of members of procurement committee is established as follows:
 - General: At least 75% of members are familiar with Keppres 80/2003 as demonstrated by their involvement in the procurement of at least three contract packages in the last two years. Experience on NCB acceptable to the Bank and on procurement under Bank financed projects is an advantage.
 - For the committee for the selection of consultants, the chairman and 50% of other members have satisfactory prior experience in dealing with the competitive selection of consultants following

Bank Guidelines (i.e. selection methods other than CQS and SSS) for at least two contract packages in the last three years.

- At least one member is familiar with the GoI budgeting and payment systems, and can play a role for facilitating the closure of issues related to these matters, including, if necessary, obtaining clarification from other relevant agencies such as KPPN offices/MOF, BAPPENAS, and auditors.
- At least 60% of members are experts on the technical matters, who have the knowledge on the goods/services being acquired (for the selection of consultants, these people are ones who have the integrity and expertise on the areas of: technical expertise for services being contracted), or in the case of procurement of goods, who have the knowledge on the substance of the technical specification. More detailed guidance on this will be defined in the Project Operation Manual.
- Whenever necessary, with a prior agreement with the Bank, procurement consultants (either as individual consultants or firms) will be hired as part of the procurement committee.

Enhanced Disclosure:

- a. Regardless of the locations of implementing agencies or contracting agencies, all opportunities for procurement under this Project (including its procurement plan and the Request for Expression of Interests) will at least be advertised on www.pu.go.id website. For contracts requiring advertisement on dg Market and a national newspaper, this will become another mandatory advertisement.
- b. Upon completion of a procurement process, the implementing agencies (regardless of their locations) is required to publicize in public domain (at least on www.pu.go.id website) information related to the summary of evaluation report, the name of contractor/consultant (long list, shortlist, and the awardees whichever applicable), the description of services, and the amount of contract.
- c. The respective implementing agencies will publicize the complaint handling database for the Project and the result of the performance of contractors/consultants, as well as sanctions on poor performance/corrupt/fraudulent practices.
- d. For activities carried out by communities, the list of vendors and their corresponding committed/paid amount will be disclosed in the public domain, at least on the community information board and in the public accountability meetings.
- e. For contracts under QCBS (consultants) and NCB (for goods), the respective implementing agencies will inform at least an observer of a procurement process, who is a representative of civil society, and allow this party to attend the public opening of price/bid proposals.
- f. All bidders/consultants which intend to participate in any of the procurement packages under this Project, are required to disclose information upfront if any of their members of board of directors/commissionaires/partners and their immediate family members are immediate family of: (i) members of the respective procurement committee; as well as (ii) Echelon I – IV of the respective implementing agencies. Note that members of the respective procurement committee are also required to disclose if their immediate family members are part of board of directors/commissionaires/partners of bidders/consultants.
- g. In the case of community grants, the Community Groups are required to disclose information upfront if any of their representatives or their immediate family members are immediate family of: (i) members of the evaluation committee at the local government levels, (ii) the board of directors and commissionaires of the relevant management consultants, or (iii) Echelon I – IV of the respective local governments. Note that members of the evaluation committee at the local government levels are also required to disclose if their immediate family members are part of the representatives of the community groups.

Enhanced Control:

- a. The project procurement plan and all bidding documents/RFP for first year implementation will be available by project effectiveness.

- b. An Evaluation Consultant (firm) will be employed to independently evaluate the performance of the community grant.
- c. A Project Operation Manual Part I (for the overall project) and Part II (for Village Implementation Manual) will be developed to streamline applicable procurement procedures for the Project. These documents will be based on the one applicable under WSLIC-2, with modifications as necessary.
- d. All cases related to wrongdoings, including corrupt/fraudulent practices will be reported and channeled through the government's system, and the EA will ensure follow up. Simultaneously, corruption cases will be reported and channeled through the existing system at the Bank.

Mitigation of Collusive Practices for the Selection of Consultants

- a. The POM will explicitly require that the procurement committee conduct a due diligent check on the information submitted by the Consultants being proposed to be included in the shortlist. At a minimum, this should include the verification of consultants' past experience by contacting previous employers. These actions must be recorded on file.
- b. The Technical Evaluation Report must be completed in 4 weeks, and the proposal for the award of contract and the draft contract must be made available within 4 weeks after completion of the Technical Evaluation Report or after getting the no objection from the Bank on the Technical Evaluation Report (whichever is later). The Financing Agreement will provide an explicitly specific clause that the Bank may declare misprocurement if this is not complied with.
- c. All CVs of the procurement committee must be provided on file to justify that the members of procurement committee are qualified. The Financing Agreement will provide an explicitly specific clause that the Bank may declare misprocurement if it is not satisfactory with the qualification of the procurement committee.
- d. At least a sworn public notary will be invited to officially witness the opening of technical and financial proposals, and certify the Minutes of Opening of technical/financial proposals. The public notary will also keep in a safe place one copy of the technical proposals submitted by each consultant (once they are open), the whole copy of the financial proposals (before they are open), and one copy of the financial proposals submitted by each consultant (once they are open).

The following action plan has also been agreed to foster the project implementation:

No.	Actions	Due Date	Responsible Unit
1.	DGHS/DGDCEH/DGVCE/DGRD Decrees which sets out the project's organizational structure and staff (including the procurement officer) appointment acceptable to the Bank.	By Credit Effectiveness (final)	DGHS, DGDCEH, DGVCE, DGRD
2.	CMAC and PMAC are hired	3 months after Credit Effectiveness	DGHS
3.	A Project Management Manual (Part I) and a Village Implementation Manual (Part II) will be developed to streamline all agreed procurement procedures and reporting under this Project	Final Project Management Manual (Part I) acceptable to the Bank as evidenced through a Letter of Non-Objection By Credit Effectiveness Final Village Implementation Manual (Part II) By Delivery of Facilitator Training (Final Village Implementation	DGHS

No.	Actions	Due Date	Responsible Unit
		Manual)	
5.	Adoption of the Anti Corruption Action Plan	Draft By Credit Negotiation Final By Credit Effectiveness	DGHS

The prior review thresholds for this Project will be established in the Procurement Plan.

C. Procurement Plan

The Borrower, at appraisal, developed a Procurement Plan for the project implementation which provides the basis for the procurement methods. This plan has been agreed between the Borrower and the Project Team on 21 April 2006 and is available at <http://203.130.233.183/dok/pamsimas/index.html>. It will also be available in the Project's database and in the Bank's external website. The procurement plan will be updated in agreement with the Project Team annually or as required to reflect actual project implementation needs and improvements in institutional capacity.

D. Frequency of Procurement Supervision

In addition to prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agencies has recommended annual supervision missions to visit the field to carry out post review of procurement actions.

E. Details of the Procurement Arrangements Involving International Competition

1. Goods, Works, and Non Consulting Services

- (a) List of contract packages to be procured following ICB: NONE
- (b) All contracts for goods estimated to cost USD 100,000 or more shall be subject to prior review by the Bank.

2. Consulting Services

- (a) List of consulting assignments with short-list of international firms.

Ref. No.	Description of Assignment	Estimated Cost	Selection Method	Review by Bank (Prior / Post)	Expected Proposals Submission Date
1	2	3	4	5	6
Sub-Component 5.1: Central Project Management					
3	Central Management Advisory Consultant to the Central Project Management	2,315,400	QCBS	Prior	Jan-07
18.	Consultant for audio visual development for health promotion program	1,428,000	QCBS	Prior	July-08
Sub-Component 5.2: Provincial and District Management					
19.	Prov and districts adv. Ma-nagement Cons. to PPMU and DPMUs (PMAC A)	2,856,000	QCBS	Prior	Jan-07
20.	Prov and districts adv. Ma-nagement Cons. to PPMU and DPMUs (PMAC B)	2,856,000	QCBS	Prior	Jan-07
21.	Prov and districts adv. Ma-nagement Cons. to PPMU and DPMUs (PMAC C)	2,856,000	QCBS	Prior	Jan-07
22.	Prov and districts adv. Ma-nagement Cons. to PPMU and DPMUs (PMAC D)	2,856,000	QCBS	Prior	Jan-07
23.	Prov and districts adv. Ma-nagement Cons. to PPMU and DPMUs (PMAC E)	2,856,000	QCBS	Prior	Jan-07
24.	Prov and districts adv. Ma-nagement Cons. to PPMU and DPMUs (PMAC F)	2,856,000	QCBS	Prior	Jan-07
25.	Prov and districts adv. Ma-nagement Cons. to PPMU and DPMUs (PMAC G)	2,856,000	QCBS	Prior	Jan-07
26.	Prov and districts adv. Ma-nagement Cons. to PPMU and DPMUs (PMAC H)	2,856,000	QCBS	Prior	Jan-07
27.	Prov and districts adv. Ma-nagement Cons. to PPMU and DPMUs (PMAC I)	2,856,000	QCBS	Prior	Jan-07
28.	Prov and districts adv. Ma-nagement Cons. to PPMU and DPMUs (PMAC J)	2,856,000	QCBS	Prior	Jan-07
29.	Prov and districts adv. Ma-nagement Cons. to PPMU and DPMUs (PMAC K)	2,856,000	QCBS	Prior	Jan-07
Sub-Component 5.3: Independent Ptoject Monitoring and Evaluation					
30.	Baseline Survey	408,000	QCBS	Prior	Jan-07
31.	Independent Project M & E Impact	1,224,000	QCBS	Prior	Jan-07

(b) Consultancy services estimated to cost above USD 100,000 will be subject to prior review by the Bank.

(c) Short lists composed entirely of national consultants: Short lists of consultants for services estimated to cost less than USD 400,000 equivalent per contract may be composed entirely of qualified national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Annex 9: Economic and Financial Analysis

INDONESIA: THIRD WATER SUPPLY AND SANITATION FOR LOW INCOME COMMUNITIES (PAMSIMAS) PROJECT

This annex examines whether it makes economic sense to invest in PAMSIMAS. To answer this question, two previously-conducted economic analyses of the WSLIC-2 were reviewed – the WSLIC-2 PAD (2000) of the cost and benefit of investing in water, sanitation and hygiene (WSH) improvements based on the CDD approach; and the Bappenas-ASEM CDD Study (2006). Since PAMSIMAS is essentially about mainstreaming and scaling up WSLIC-2 and appropriately adapting it to current realities and lessons learned from it and other CDD projects (as for example KDP and UPP), the review below is intended to determine whether the conclusions of these analyses remain valid today for assessing the economics of PAMSIMAS, or whether they need to be adjusted.

A. WSLIC-2 Economic Analysis. The WSLIC-2 project was expected to generate benefits in the form of improved health status, greater productivity and consumer satisfaction derived from the increased availability and proximity of water, and improved health from greater quantity use of water and improved hygiene behavior. The project was also expected to provide one-time benefits to communities from an injection of funds and temporary employment during project implementation.

WSLIC-2 was expected to improve health status through reductions in diarrhea and other environmental and sanitation related diseases. The project would also improve productivity through: (a) reduced time of household member in caring for sick children; (b) reduced time lost from morbidity; and (c) reduced time carrying water from the source. In addition to productivity gains, project households would benefit directly from the greater convenience and quantity of water. The value that households place on more convenient water sources would be revealed by the maintenance charges and community contributions for construction of past systems.

A quantitative analysis of these benefits net of costs revealed that the project would generate an internal rate of return (IRR) of about 24 percent. This estimate was based on conservative assumptions regarding the value of time saved from sick children or lost to productive work directly from illness, the avoided cost of health care, the value of death prevented, the value of time spent getting water, and the consumption value of water.

Risks and sensitivity analysis revealed that the IRR was sensitive to the project risks identified by the study (see Table 1 below); nevertheless, it remained above the prevailing real rate of interest. These risks, which PAMSIMAS also faces, include: (i) manipulation of project decision making and financing by elite and local authorities impeding the choice of project areas that are most in need of WSH improvements; (ii) low technical quality of systems, low facility maintenance and use; and (iii) poor management, lack of local commitment and delayed government funding. The sensitivity of WSLIC-2 to these risks was analyzed by examining the response of project benefits for a range of the parameters representing project effects.

Table 1: WSLIC-2: Sensitivity to Selected Values of Economic Analysis		
Parameter	Range of Values	Result Range of IRR (percent)
Number of villages in project	1000 - 3000	9 - 35
WSS coverage per system in project (proportion)	17 - 30	17 - 30
Prop. reduction in diarrhea with WSH system	0.10 - 0.35	13 - 28
Discount rate (real) for private HH rural benefits	0.10 - 0.03	18 - 29
Value of death avoided (\$)	0 - 25000	9 - 31

With regard to fiscal sustainability, the study found that fiscal cost was small and sustainable. The cost of sustaining the completed systems is borne by the community through maintenance charge collection for system use and averages about two percent of average household income for rural areas in the project provinces. This amount was judged to be sustainable, provided the community was motivated and well organized.

Finally, a poverty assessment of the benefit incidence of the project by income group showed that it is highly redistributive towards low income groups. The analysis showed that project benefits are much more equitably distributed than all health services and the general distribution of income in Indonesia. This is an important finding for a poverty targeted project. In this regard, it is noteworthy that the redistribution effect could be greatly diminished by elite capture of the project benefits and the importance of broad community participation in the development of the project systems.

B. The Bappenas-ASEM CDD Study (2006). This recently completed study examined the experience of four CDD projects (WSLIC-2, KDP, UPP/P2KP, and CERD), calculated their rates of return, and analyzed sampled beneficiaries' assessment of the technical/management quality of project implementation and its impact on their quality of life.

The study confirms the conclusion of the 2000 WSLIC PAD economic analysis with regard to the rate of return of the WSLIC-2 project. The WSLIC case study shows that the economic IRR for a sample of 35 WSLIC subprojects implemented in rural villages is quite high at about 34.5 percent. The IRR of each subprojects ranges from a low of less than 12 percent (one village) to a high of over 50 percent (7 villages). The Bappenas-ASEM analysis indicated that estimated IRR is higher than that of the WSLIC-2 PAD even though the former did not include any of the expected health benefits from WSLIC-2 and reflected the economic value of savings of time and commercial water purchases. This observation is important since the WSLIC-2 PAD's calculation showed that health benefits (reduction in health care and opportunity costs due to prevention of water and hygiene related diseases) accounted for about 60 percent of the project's total benefits

In terms of quality of life indicators (as perceived by beneficiary households), the Bappenas-ASEM survey of 35 villages indicated that of the 35 WSLIC subprojects sampled, 24 or 69 percent were perceived to have a high impact, while 31 percent (11 subprojects) were rated as having "adequate" impact.

The Bappenas-ASEM study also found that the WSLIC approach was highly cost-effective. The project achieved an average saving in construction cost of about 50 percent compared to local government contractors. Moreover, the technical and management quality of all the subprojects were rated either as "good" or "sufficiently good". Combined with the positive findings from the regular WSLIC-2 supervision missions and the recent Mid-Term Review, those perception data are reassuring, given the sensitivity of the rate of return to technical and management risks highlighted by the WSLIC-2 PAD.

C. The validity of the WSLIC-2 analyses for PAMSIMAS

In general, the conclusions of the WSLIC-2 economic analyses remain valid today for CDD WSS projects like PAMSIMAS. In sum:

- The technical and management risk is manageable;
- Fiscal sustainability is feasible; and
- The benefits of the project are pro-poor.

Arguably, the rate of return to PAMSIMAS would likely be high and robust.

Annex 10: Safeguard Policy Issues

INDONESIA: THIRD WATER SUPPLY AND SANITATION FOR LOW INCOME COMMUNITIES (PAMSIMAS) PROJECT

1. INTRODUCTION

The overall objective of the project is to support the development of a sustainable nationwide program to improve water access, sanitation, and hygiene through the mainstreaming and scaling up of the WSLIC (Water Supply and Sanitation for Low Income Communities) model. The project objectives are to:

- facilitate sustained expansion of people's access to improved water supply and sanitation at a sufficiently rapid rate to make the Water, Sanitation and Hygiene - Millennium Development Goals achievable;
- promote widespread adoption of recommended hygiene practices to reduce transmission of waterborne diseases, promote healthier lives and protect the environment;
- establish a coherent institutional arrangement for the financing and implementation of water, sanitation and hygiene improvements involving Central Government, District Governments and the communities; and
- develop ways by which poor villages with proven capacity for community action (as evidenced by the success of their water, sanitation and hygiene project) can broaden that capacity and enable them to grow their village economy, leading to more water, sanitation and hygiene improvements in the long run.

2. OBJECTIVES OF THE SAFEGUARDS FRAMEWORK

The social and environmental management framework provides general policies and guidelines to serve the following objectives:

- Protect human health;
- Prevent or compensate any loss of livelihood;
- Prevent environmental degradation as a result of either individual investments or their cumulative effects;
- Enhance positive environmental outcomes;
- Avoid or minimize adverse environmental, economic and social impacts.

Implementation of these guidelines is built in to the project oversight structures, guidelines and tools, as well as the terms of reference for the Central Project Management Unit, District Management Units and technical and community facilitators. The main safeguard policies triggered are given in the following table.

SAFEGUARD POLICIES

	Yes	No
<u>Environmental Assessment (OP/BP/GP 4.01)</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<u>Natural Habitats (OP/BP 4.04)</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<u>Pest Management (OP 4.09)</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<u>Cultural Property (draft OP 4.11 - OPN 11.03-)</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<u>Involuntary Resettlement (OP/BP 4.12)</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<u>Indigenous Peoples (OD 4.20)</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<u>Forests (OP/BP 4.36)</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<u>Safety of Dams (OP/BP 4.37)</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<u>Projects in Disputed Areas (OP/BP/GP 7.60)*</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<u>Projects on International Waterways (OP/BP/GP 7.50)</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

The project has been classified Category B given that it is unlikely to lead to significant adverse social and environmental impacts, given a community based approach to the provision of water supply and sanitation. At the same time, there remains the potential for a range of localized impacts to emerge under PAMSIMAS, as observed under the WSLIC-2 projects, for which an appropriate level of mitigation is required, as further detailed below. World Bank Environmental Assessment and Indigenous People's safeguards policies are triggered.

3. SOCIAL AND ENVIRONMENTAL SCREENING

3.1 Environmental

The PAMSIMAS Project will support a national program and immediately add coverage up to a maximum of 5,000 villages across 21 provinces. From the physical environmental perspective, therefore, the physical development components of the project are likely to be implemented across the length and breadth of Indonesia's highly varied climatic, geological, agricultural and ecological zones. This will likely encompass zones where there is already significant pressure on water resources, as well as areas that are prone to natural disasters. Some may be in fragile locations potentially susceptible to damage to their physical and biotic environments.

Indonesia's environmental review procedures are broadly acceptable to the Bank and will form the framework for PAMSIMAS's approach to environmental management. New developments are screened as follows:

- AMDALs (environmental impact assessment) are required for large projects in the following areas: marine/freshwater conservation areas, peat areas, water catchment areas surrounding lakes and reservoirs, areas surrounding springs, scientific areas, areas susceptible to natural hazards, coastal mangrove areas, coastal edges, forest protected areas, and cultural reserves. No sub-projects will be allowed in national parks, forest parks, or nature tourism parks. Villages in protected areas will be screened out during the project short listing process. [Ref. KEP-MENLH/17/2001 *Concerning the Types of Businesses of Activities Required to Complete an Environmental Impact Assessment* defines large water and sanitation systems for metropolitan areas only. For PAMSIMAS development of a water source with a yield greater than 500 liters/sec. or single water systems with a service area greater than 1,500 Ha. will require an EIA. It is extremely unlikely that any sub-project will approach this magnitude].
- UKL-UPLs are required for smaller projects leading to more localized environmental impacts, although the scale of most PAMSIMAS sub-projects (which are community based) ordinarily will not be so large as to require a UKL-UPL. For PAMSIMAS development of water source with a yield between 100 and 500 liters/sec., or single system with service areas between 250 and 1,500 Ha. will require and UKL-UPL]. However, where projects are proposed in and around sensitive sites such as protected areas or watershed protection zones, a UKL/UPL may be required.
- Standard operating procedures (SOPs) for environmental management are applied to all other types of activities. It is likely that most of the proposed PAMSIMAS sub-projects will fall into this category, both in relation to the community water supply and village development grants components.

Environmental risks are likely to be associated primarily with the community water supply component (Component 3) and, to a lesser extent, the district and village development grants (Component 4). The water supply component will provide grants for communities to plan, build and manage water supply

systems based on a menu of possible technical options. However, since the scale of most sub-projects is expected to be small, no major adverse impacts are expected. In addition, the finalized list of technical options will not include options that are known to lead to significant residual environmental impacts or to place a substantial environmental management responsibility on local communities during the operational phase. For example, part of the process of site selection for water supply schemes will include water quality testing to ensure that potential sources meet GoI 'clean water' standards³².

Net environmental benefits are expected to accrue from the environmental sanitation improvements the project will bring. The types of positive and negative environmental impacts that may be associated with the project interventions include:

Positive Impacts

- Improved water quantity and quality delivered to customers, with consequent positive impact upon community health;
- Greater coverage (coupled with increased use) of improved latrines, resulting in a reduction in defecation in filed and streams, thereby improving both soil and water quality and reducing water-borne disease vectors;
- Improved drainage by reducing the incidence of broken and leaky pipes, and by installation of proper wastewater drainage around water points;
- Improved grey water, black water, and solid waste management – *although experience under WSSLIC-1 and WSLIC-2 indicates that inappropriate SWM practices continue to be a problem in participating communities, leading to pollution of water sources;*
- Communities trained in the use of simple technologies for community-based water quality monitoring; and
- Improved community awareness of health and environmental issues (which are ultimately components of the same goals), etc.

Negative Impacts

- Provision of greatly increased quantities of water generates wastewater (both clean overflow water and grey water) management more problematic;
- Increased competition over access to/use of water resources;
- Broader coverage of water distribution points increases the need for and cost of monitoring the condition of expanded facilities;
- Poorly design or improperly built or located sanitation facilities can result in cross contamination between latrines and shallow water tables, adversely impacting water quality in shallow wells.

Standard Operating Procedures for environmental management defined in the Project Technical Guidelines which lay out design specifications, construction procedures, and operation and maintenance procedures for rural water and sanitation systems will be sufficient to manage most environmental concerns, provided that guidelines are followed and supervision corrects implementation mistakes promptly.

Prior to approval by the District PMUs, community water supply projects will be screened by the Cipta Karia Kabupaten Engineering Adviser to ensure that no higher order environmental review (AMDAL/UKL) is required, in consultation with local Bapedaldas. The screening thresholds listed above will be used to determine AMDAL/UKL-UPL requirement. Secondary screening will be carried out to establish whether a particular project is likely to be within or adjacent to a sensitive area. Sensitive areas are defined as follows under this framework:

- a. National park
- b. Forest park
- c. Wildlife reserve
- d. Protected flora area
- e. Conservation forest
- f. Watershed protection forest
- g. National cultural preserve
- h. Traditional/religious buildings
- i. Marine reserves
- j. Coastline and dune systems
- k. Mangrove and wetland areas
- l. Steep slopes (>40%)

Any projects which are likely to impact on environmentally sensitive areas will apply special conditions for siting, design and O&M of water supply schemes, to be detailed in the Project Technical Manual. All screening results will be documented by the DPMUs for collation at the CPMU level on a six monthly basis. Any sub-projects requiring AMDAL/UKL will be immediately reported by the DPMU to the CPMU and WBOJ.

The district and village development grants component will provide financial incentives to approximately 25% of participating of districts/villages to scale up and enhance the sustainability of water supply, sanitation and hygiene assistance provided. The grants will not exceed USD 10,000 for the village level and USD 50,000 for the district level. They will not be used for income generating activities that might lead to significant negative environmental consequences (agro-processing, other household based processing activities). As with most such initiatives, the use of a list of activities that will not be eligible for support on environmental grounds (negative list) is normally found to be the most efficient way of addressing any residual environmental safeguard issues. No sub-projects with the following characteristics will be supported under PAMSIMAS:

- Pesticides, ozone-depleting substances, tobacco or tobacco products;
- Asbestos containing materials;
- Sub-projects producing liquid or gaseous effluents and emissions, with the exception of normal sanitation needs for individual households;
- Hazardous materials and wastes, including use, production, storage or generation of hazardous wastes;
- Sub-projects or activities with the potential for significant conversion or degradation of critical forest areas or related critical natural habitats (as defined in OP 4.36 on Forests);
- Mining or excavation of live coral.

DPMUs will be responsible for ensuring that the negative list approach is applied, and that revisions are made to the list, as necessary, with support from the CPMU environment adviser. As a pilot activity, this component will be subjected to rigorous monitoring and evaluation, including an assessment of residual environmental and social impacts.

3.2 Social

a. The Inclusion of vulnerable/disadvantaged people

The key social issue is the exclusion of vulnerable/disadvantage people, such as women, the poorest, ethnic minority and indigenous people (if they are present) either on the selection of the participating villages or on the community decision making process.

The selection process of participating villages. On one hand, the project already determined pre-qualification criteria for participating villages which are, among other things, the number of low income households and the low level of water supply and sanitation facilities. On the other hand, the project also requires for participating communities to contribute to 20% (16% in kind and 4% in cash) of the project cost to participate in the project. The criterion of willing and capable communities for providing such contribution might risk excluding a number of disadvantaged communities (including IP communities if they are present) from project participation.

Information dissemination for villages to participate in the project sometimes does not reach remote areas where most of the vulnerable communities usually live. Even if it reached them, communities often have problems in understanding the application process due to complicated form to fill or too sophisticated language used. There should be some mechanism in the selection process that will give vulnerable and disadvantaged communities the same level of playing field and understanding.

Community decision making process related to project beneficiaries and sustainable pro-poor service delivery. Demand-driven project requires a high participation level of community members, including the vulnerable groups. Elite domination is the most common problem in such projects, while vulnerable and disadvantaged groups often could not make their voice heard. At the end, there's a risk that the project's benefit will skew to the better off and sustainable pro-poor service delivery will not be achieved.

WSLIC-2 experience shows that although the project is satisfactory in terms of increasing water service delivery to the participating villages and that the poor households have indeed benefited from the project, sustainable pro-poor service delivery, however, is not something that automatically comes with the increase of delivery. As example: In Maesan (one participating village of WSLIC-2 project) the richer HHs could buy electrical water pumps and install pipes directly from the well to their house. Poor HHs can not do so. The problem of access to water will emerge when the water level decreases during dry season. During this time, the poor's access to water will be lower than richer households. In some of the villages visited, the BP applied flat price for all users regardless to their social economic condition, and therefore provide no cross-subsidy to poor households.

The participation quality of the poor and women throughout the project cycle is another major concern. Women are still largely involved in the soft non-technical part of the project and the water committees continue to be dominated by male villagers. WSLIC-2 project experience shows that election of Community Working Team (TKMs) and Management Body of water users (BPs) have often been conducted in a gender-insensitive way. Women are often excluded from decision making groups, while women in most low income communities are actually the primary household water and sanitation managers. Therefore their involvement in the project's activities is important for sustainability reasons.

Low participation of women and the poor is connected to the capacity of facilitator to provide room for vulnerable people to participate. Facilitator are often poorly trained and do not have sufficient experience to conduct a gender and poor-sensitive participatory process.

b. Land acquisition and/or resettlement

The construction of water and sanitation infrastructure may in some cases involve minor land acquisition. If the project needs only a small piece of land for water supply infrastructure, a community is expected to use existing public spaces, or voluntarily contribute land needed by the project in exchange for the community's benefits from the project. Related to land donation, the issue needs to be raised are: 1) domination of the land donor, who is usually a rich person, to the facility built and 2) coercion process in order to acquire land.

c. Indigenous People

PAMSIMAS does not target IP specifically, but seeing IP as part of vulnerable people in general. Indigenous people, as part of vulnerable groups, can easily be adversely affected by development projects because of their special characteristics and because they are economically marginalized. As community driven projects, PAMSIMAS should not negatively affect IP, but some conditions may cause them to be left out from the project. Most of IP occupy subordinate positions within local social structure. Some tribes rejected any modern systems, some have deeply hierarchical village structure, and their unique identities may exclude them from development planning process and benefit of the project. Special actions should be taken to ensure that IP's voices are heard, not only the elite of IP, and that they are included in decision making process. Their specific characteristics should not exclude them from getting project benefit equally as the non-IP. Therefore the project should be adaptive for specific condition in where IPs are present.

KDP experience in Baduy tribe (West Java) is a good example for highly adaptive practice. Baduy tribe has rule to reject outside development projects. In Baduy the project did not enter until it was approached by traditional leaders and agreed that the project would build health facility in border of customary area.

4. PROPOSED MITIGATION AND MONITORING MEASURES

The MPW is the executing agency responsible for overall implementation of the environmental and social safeguards framework. The MPW is also the lead implementing agency, with components also to be implemented by the MoHA and MoH. A Central Project Management Unit will be established within MPW at the national level, with a network of corresponding District PMUs.

Consulting services to the Central Project Management Unit under MPW will be recruited to provide the additional capacity necessary to implement the framework. This will include one senior environmental specialist and one senior social safeguards specialist. The DPMUs will be responsible for raising safeguard awareness for a large number of communities. The technical facilitators will also be trained to implement the framework. Further details of the proposed program of training is provided below and further summarized in section 7.0.

A detailed technical manual will be developed by the project providing environmental procedures for site selection (including water quality testing), construction and operation and maintenance of community water supply schemes, including special conditions for environmentally sensitive areas. This will be supported by the development and integration of standard operating procedures for environmental management into the detailed designs for water supply schemes.

4.1 Environmental

For component 3, mitigation will apply an SOP approach tailored specifically to water supply projects and attached to the menu of possible types of project that the community chooses from. These will be developed by the CPMU environmental specialist in advance. Eleven basic project types have been developed by the project ranging from simple shallow well schemes, to gravity fed schemes, to pumped supply and treatment systems. For each system generic siting, construction and O&M type impacts will be identified, and mitigation and monitoring options provided.

Implementation of these SOPs will require a program of training both for the community and technical facilitators, and for the communities themselves. The project will design and deliver an environmental module within the formal training for facilitators to address environmental sustainability issues associated with community based provision of water and sanitation. The training will take into account the variations in environmental conditions than exist from one region to another. It will provide a focus on broader community awareness measures on environmental management to be delivered by the facilitators. The training module will be developed and delivered by a suitable trainer drawn from appropriate national or regional training institutions, with oversight and guidance provided by the CPMU environment specialist.

The district and village incentive grants under component 4 will apply a negative list approach, as detailed above. Sufficient resources will be built into the project's monitoring budget to allow for an adequate sampling/spot checking approach to monitoring the actual environmental impacts of the grants and to amend screening procedures as necessary.

General orientation training on implementation of the safeguards framework including screening, environmental review and monitoring procedures will be required for all concerned CG and DG staff of the MPW and other implementing agencies, including MoHA, the MoH, as well as Kabupaten environmental authorities (Bapedaldas). One of the outputs of the training will be an agreed clause on environmental sustainability to be included within the proposed CG/DG Partnership Agreements on improving water, sanitation and hygiene practices.

Field based environmental monitoring will be responsibility of MPW via the District PMUs, focusing on construction and operational phases of the community water supply projects. The Project Operational Manual will include a field based monitoring protocol to assist the process, to be developed by the CPMU environmental specialist. DPMU staff and facilitators will be provided training in application of the protocol. Completed protocols will be collated by the DPMU and summarized in bi-annual reports as an input to routine supervision missions. The CPMU will develop a appropriate framework for environmental monitoring and report to be agreed with the World Bank within the first 6 months of credit effectiveness.

A mid-term environmental review to assess the scale and direction (+ve/-ve) of emerging impacts will be carried out with specific focus on: uptake on the water supply and sanitation activities; and performance of the incentive grants. The results of the review will determine whether adjustments to the project's safeguards approach are required, potentially including screening, technical design issues, and monitoring and reporting.

4.2 Social

1. Inclusion of vulnerable groups in all project cycles

The project should ensure that vulnerable groups have the same chances of inclusion in all project cycles and in project benefits as others who are better off.

Sub-project selection

There should be some mechanisms in the processes for sub-project selection that would ensure that inclusion will happen.

- The selection of participating village is based on criteria already determined. CPMU will be responsible to ensure that the criteria will be used across all provinces and district.
- For very poor villages, which could not afford a 20% contribution, there should be a special arrangement. That should be described in the project manuals.
- The project should ensure that information dissemination should reach all villages in each participating district and the communities are aware of the program. Application forms for and the announcement of the project should be made in simple form by using simple language that is easily understood by people, including vulnerable communities and is announced through any possible means to ensure that vulnerable communities know about the project (in public transportation, in public spaces, radio advertisement, etc.)

Community decision making process

The project will apply the following approaches to address the above mentioned risks:

- a. Inclusion of the vulnerable group concept in project implementation, which will be operationalized and detailed in the project manuals (in the Term of Reference and manual for facilitators and community group decision making process/consultation meetings). District consultant, community facilitators and other project staff will be trained in application of the concept. Special opportunity or events should be created to ensure a fair community decision making process between the elite and the vulnerable population. Promote greater participation and transparency in planning and decision making process at village level.
- b. A pro-poor system should be created to ensure that the project's benefit will reach the vulnerable groups, such as cross subsidy system for water maintenance or water cost. CFT should facilitate community to create a pro-poor system so that poor households have equal access to water. A participatory social mapping could be used to determine cross subsidy among communities member. The social mapping process should identify all community households as *well-off*, *poor* and *in-between* as has already been pioneered by WSLIC-2 in Indonesia and widely institutionalized. The participatory planning and M&E purposes. This could be continued in PAMSIMAS. The social mapping process should be free from elite domination. The Participatory Social mapping could be used for ensuring equitable access to the water facilities (deciding locations for water facilities so that all have convenient access, planning how people will share the burdens and benefits from the new systems fairly (task divisions for operation and maintenance, agreeing on tariff differentials to reflect differences in levels of service and consumption chosen by users), and for assessing progress of sub-projects. All stakeholders, including community members of all social and economic categories, project facilitators and implementers can use such transparency tools to plan and implement sub-projects as well as for measuring outcomes.
- c. Selection of project consultants needs to consider gender balancing, including the adoption, if needed, of gender affirmative action to create a gender sensitive project.
- d. CFTs play a critical role in building up awareness of gender equality within the community and in facilitating gender-sensitive processes. CFT should be able to play a role in encouraging women to play a bigger role in decision-making as women are primary managers of household water. A basic gender training followed up by on the job training and mentoring system need to be given to CFTs to build up their gender-sensitive facilitation skills (see Annex 10a for more detail). Thereafter performance incentives should be applied for gender-and-poverty-sensitive CFT performance, and vice-versa, so that CFs become more accountable for gender and social equity in outcomes at community level.
- e. Mid term social review to assess the scale and direction of emerging impact with a specific focus on: vulnerable people participation in all project cycle and village team; proportion of poor people

benefits from the project, and special treatment for poor people in regard to user fee and any other contribution. A social impact evaluation related to the key issues above need to be conducted at the end of the project. The mid review will be based both on field information supplemented by a review analysis of MIS returns, for example representation of women in community groups supporting the project.

2. Land acquisition and resettlement

No involuntary resettlement will be undertaken in this project. Land or asset acquisition will be kept to a minimum. Any project proposal that would acquire productive assets (building, land, productive plant, etc.) will not be considered and the community should get alternative location for the sanitation facility (pipe line, well location, etc.). As the project generally needs only small piece of land for water supply infrastructure, a community is expected to use existing public spaces, or voluntarily contribute land needed by the project in exchange for the community's benefits from the project. For land contribution, the following principles will be applied:

- The affected parties are not poor people.
- The affected parties have been informed clearly about the project and want to donate land without any pressure. They also have right to reject contributing their asset for the project.
- Affected land owners/customary users will be consulted through village meeting.
- The location of facilities built should be agreed by the community to avoid donor's domination of the facilities.
- Community Action Plans will include signed voluntary consent forms from the affected parties
- If the asset owners reject to contribute their asset for the project and there is no alternative location for the facility, the compensation will be provided at local market cost for affected assets prior to project approval. Credit fund can not be used for compensation.
- Any grievances not resolved locally will be submitted to the Bupati (district head) for disposition.

3. Indigenous People

Since the project has a nation wide scope and there is a possibility of entering location where IP is present, a framework to ensure that IP are included in decision making process and they get equal benefit are prepared (see Annex 10b), in accordance with OP 4.10. This brief framework will be detailed and be operationalized in various projects manual whose purpose is to ensure that project activities provide culturally appropriate benefits through informed participation. CFTs and other project staffs will be trained in the application of these manuals. Beside framework already developed, some principles need to be taken by the project are:

- Involvement of NGO or any person whose expertise in IP and who are familiar working with them to get useful way for effective participation of IP.
- Direct consultation with the IP about their opinion of the project, including their right to reject or involve, and to get their specific needs in terms of water facilities and sanitation behavior.
- Adaptive approach for menu of technical option to cover specific system belongs to IP that may be not in the project list.
- Improvement of information's quality through better facilitation and local language material.
- Monitoring and feedback mechanism need to be sought from PAMSIMAS operating in where IP are exist to determine most effective way of ensuring the full participation of IP's in the project.

5. PUBLIC CONSULTATION

The approach taken under the project is community based, and builds on two successful phases of provision of community based water supply and sanitation under WSLIC-2. Component 1 on community empowerment and local institutional development supports implementation of CDD approaches to planning, implementation and post construction management of water, sanitation and hygiene programs. Specifically it supports villages within preparation of Community Action Plans based on informed choices on community water supply and hygiene behavior.

The project approach highlights disclosure and increased awareness among low income communities. It will help to make district level planning and implementation more open and transparent in the water and sanitation sector and to strengthen the capacity of poor villages in participating in these processes. The main elements of the safeguards approach being taken under PAMSIMAS have been developed by the Ministry of Public Works and discussed with regional representatives on 7 April 2006. This environmental and social framework has been disclosed locally in Indonesian language via the Ministry of Public Works national website. The PAD has been made available to the public through the Bank's Project Information Centers in Jakarta and Washington.

6. INSTITUTIONAL CAPACITY

The project executing agency and lead implementing agency is the MPW. This Ministry generally has higher capacity to implement environmental safeguards than other line Ministry. However, the Directorate General with responsibility for water and sanitation (Cipta Karya) is relatively weak on safeguards as compared to other DGs within the Ministry, notably the Directorate General of Regional Infrastructure. On this basis, an enhanced program of orientation and training on safeguards for DG Cipta Karya will be required during the initial stages of the project, both at CG and DG levels. It is important that this training is set within the context of the proposed Partnership Agreements to be evolved as a basis for roll out of PAMSIMAS.

7. STAFFING PLAN AND SCHEDULE

This environmental and social safeguards framework will be implemented under the overall guidance of the Ministry of Public Works. The key elements of the framework are detailed in the following table, including an indicative cost element to be reflected in the Project Implementing Plan.

Item	Needs	Indicative budget
Senior Environmental and Social Specialists	Supporting the Central PMU (developing detailed safeguards procedures, delivery of training, oversight of screening and monitoring) and liaising with DPMU teams	24 man-months, 12 months permanent during year 1.
Development of environmental Standard Operating Procedures for water supply projects	SOPs to be developed for 11 basic community water supply schemes, including special conditions for siting, construction and O&M in sensitive areas. Measures to be reflected in the Project Technical Manual.	To be developed by the Senior Environmental Specialist
General safeguards orientation training	Screening, environmental and social review and monitoring for central and district government, PMUs	5-6 regionally organized training events (2-3 days) covering all participating districts
Specialist social and	Social and environmental module to	4-6 week consulting assignment to develop

Item	Needs	Indicative budget
environmental training for facilitators and Kabupaten engineering advisers	be incorporated into facilitator training, and delivered by CPMU environmental adviser	an appropriate module. 6-8 training events (2-3 days) for facilitators
Specialist environmental training for Kabupaten engineering advisers	Specific module on environmental screening and monitoring to be delivered for Kabupaten engineering advisers	4-5 training events (2-3 days) for Kabupaten engineering advisers, to cover all 21 provinces
Design and role out of awareness raising program for local communities	Focus on siting and design issues, water supply impacts and mitigation measures	To be carried out by facilitators via group meetings, supplemented via appropriate media such as commissioning a local theatre group to be disseminated via DVD.
Integration of environmental clauses into CG/DG Partnership Agreements	Supporting weak existing capacity for environmental management within MPW Cipta Karya	To be incorporated into general safeguards orientation training, based on advice from CPMU environmental specialist.
Mid term and final environmental and social review	Review to apply a sampling/spot checking approach, with a focus on more fragile locations, and/or areas with IPs. MIS information to be used as a basis for the review	To be incorporated into ToRs for social and environmental safeguards consultants.
Independent monitoring on social inclusion	Sampling approach focusing on how vulnerable and marginalized individuals and groups have been involved in project decision making processes. Social safeguards specialists will finalise detailed ToRs and methods for this task.	12 man-months social specialists (including travel and accommodation) – potentially starting from year 2, four person week field visits to selected provinces to be carried every 3 months by a competent regionally-based organization (NGO, University).

Annex 10a
Gender Action Plan for PAMSIMAS

	Activities	Measures
1	Policy and guidelines	<ul style="list-style-type: none"> • Include a gender mainstreaming policy into Juknis covering measures identified below. • Include operational guidelines for gender mainstreaming into Juklak and disseminate to all project management teams • Develop a user friendly brochure and poster to explain gender policy and guidelines in simple terms and disseminate to all government stakeholders • TORS for consultants state they must comply with the gender policy
2	Selection of consultants	<ul style="list-style-type: none"> • Requirement that contractors should actively seek women for positions and demonstrate their efforts to do so as part of their tender proposal. • Require gender balance among provincial and district technical consultant teams (minimum 30% female or male)
3	Selection of community facilitators	<ul style="list-style-type: none"> • PPMU to include a statement in advertisements that women are actively encouraged to apply and make efforts to ensure applications from women • At least one community facilitator per team must be a women or man • 50% gender balance within sub-disciplines of community facilitators (i.e. technical, community development, health) is required
4	Orientations	<ul style="list-style-type: none"> • Provide orientation on the gender policy and guidelines to project implementing units, project coordination teams and consultants at all levels so they understand their responsibilities for gender mainstreaming
5	Capacity building for technical consultants and community facilitators	<ul style="list-style-type: none"> • Provide training for central, provincial and district consultants and community facilitators so they can adopt a gender mainstreaming approach within their areas and provide skills transfer to GoI staff and other personnel • Identify local gender specialists (eg women's NGOs) who can assist with coaching facilitators and planning community participation strategies • Training evaluations will include assessment of gender equity content • Provide measures to give public recognition/reward to community facilitators who perform well in encouraging village women to participate
6	Training service providers	<ul style="list-style-type: none"> • Requirement that all training teams must have a minimum of 30% female or male trainers. • All training programs assessed by the national or provincial CD/Social Inclusion consultants on gender equity content prior to delivery
7	Community processes	<ul style="list-style-type: none"> • Community facilitators to implement measures including advocacy to village heads, working with women leaders and women's groups from the start of the community process to encourage participation and when necessary, conducting separate men and women's focus groups • Community facilitators to encourage women to stand for election in the village implementation team and village WSS management group and consider ways of achieving gender balance (eg men and women vote separately for male and female representatives) • District consultants to monitor gender balance of women and men (from poor and better off groups) during community planning and implementation activities and address any gaps as they arise • No CAP can be approved if the Village Implementation Team that prepared it is all -male and predominantly from the elite class of households., and without clear evidence that a substantial number of women and men have participated in the decision making process and have agreed with the CAP proposals.
8	Community Capacity Building	<ul style="list-style-type: none"> • Provide leadership training for women villagers, including bidan desa and health cadres • Emphasize gender and social equity requirements of the project for VITs

	Activities	Measures
		<p>and CAPs in project socialization and community capacity building.</p> <ul style="list-style-type: none"> • Emphasize gender and social equity requirements of the project for VITs and CAPs in project socialization and community capacity building.
9	Socio-economic incentive funds	<ul style="list-style-type: none"> • Undertake a gender analysis in developing the operations of this fund to assess likely costs/benefits for women and men. • Include performance in promoting gender equity in PAMSIMAS sub-project as an evaluation criteria for both institutional and community grants • Encourage women's meeting (e.g. through existing women's groups) in participating villages to collect ideas for the village proposal.
10	Mainstreaming and scaling up CDD approach for WSS	<ul style="list-style-type: none"> • Incorporate gender mainstreaming principles into strategy development for mainstreaming and scaling up CDD WSS • Build capacity of NGOs or organizations or individuals for gender training to increase local resources available for scaling up • Include gender data and analysis into advocacy kits and advocacy activities to decision makers to increase their awareness of importance of gender in WSS
11	Monitoring and evaluation	<ul style="list-style-type: none"> • National/provincial CD/Social Inclusion consultants regularly conduct field visits and review progress in gender mainstreaming and mentor facilitators • Ensure formats for Monev collect gender disaggregated data for participation in program training and community activities and this data is inputted to MIS • Ensure that sustainability monitoring involves participation of women and men and that gender disaggregated data is collected and recorded. Besides monitoring project outcomes, this should be used also for performance evaluation of project implementers and managers. • Central level CD/Social Inclusion consultant to conduct a regular gender analysis of sustainability monitoring data and provide report to CPMU • Contractors include progress with gender outcomes in quarterly reports • PMR to include a report on progress in gender participation and outcomes <p>World Bank will include a gender specialist in each supervision mission</p>
12	Knowledge management	<ul style="list-style-type: none"> • Collect community stories on achievements in gender equity and disseminated through Website and newsletters and other forums • Conduct mid-term in-depth gender review using third party assessors and develop an action plan in response to the review recommendations • Community facilitators be encouraged to develop local facilitator forums that meets regularly with personnel from other projects in the district (eg KDP, UPP2, ILGR) and with NGOs

Annex 10b
Framework for Treatment of Indigenous or Isolated Vulnerable People

Objectives:

1. The design of this project is structured to ensure the participation and inclusion of various groups within communities in local level decision making over resource allocation. However, the project recognizes that Indigenous Peoples from a particular group that merits a different approach and specific support. Therefore, in accordance with OD 4.20 (OP.4.10), the following framework for addressing indigenous people will be adopted for the project.
2. The Objective of this framework are to:
 - (i) Ensure that indigenous peoples participate in and benefit from the project;
 - (ii) Avoid or minimize potentially adverse effects of the project on indigenous people

Definition:

3. "Isolated vulnerable peoples" is the term used officially by the Indonesian Government to describe groups that have the characteristics of "indigenous peoples" as used in OP 4.10. This document will hereafter use the term "isolated vulnerable people".
4. For the purposes of this project, isolated vulnerable peoples are defined as those that present varying degrees of the following characteristics:
 - (i) a close attachment to ancestral territories and to the natural resources in these areas;
 - (ii) self-identification and identification by others as members of a distinct cultural group;
 - (iii) an indigenous language different from the common regional language (e.g. Javanese);
 - (iv) the presence of customary social and political institutions; and
 - (v) primarily subsistence-oriented production.

Framework

1. The IVP will be the beneficiaries of the project/sub project and no projects/subprojects with adverse impact to the IVP will be approved.
2. Isolated vulnerable peoples are not prevalent in all the project sites -- they are likely to be found in particular districts of particular provinces. The following steps will be taken to ensure that, where isolated vulnerable groups do exist, the project caters to their specific needs.
 - (i) During the facilitator training, facilitators will be trained in the identification of isolated vulnerable peoples. Through the participatory planning process, facilitators will identify the presence and numbers of isolated vulnerable groups in the community and report this to the PPMU/DPMU.
 - (ii) For the areas where isolated vulnerable groups are identified, PPMU/DPMUs will organize an orientation training for relevant facilitators in how to work with isolated vulnerable groups in a useful way to identify mechanisms for effective participation, and address specific challenges in working with such groups, for example, how to deal with groups that may be in conflict with the larger community, etc.
 - (iii) Since facilitators will be hired locally to the extent possible, they are expected to be familiar with such groups.
 - (iv) Opportunity for the IVP to be consulted independently, out of the non-IVP group
 - (v) Where the isolated vulnerable group speaks a language different from Bahasa Indonesia, relevant brochures and documents will be translated in the appropriate language.

3. These steps will be aimed at ensuring that isolated vulnerable peoples participate fully in the project, are aware of their rights and responsibilities, and are able to voice their needs during the participatory planning process.

Monitoring and Grievance Procedures

1. Where isolated vulnerable peoples are identified, the CFTs will be required to report on their participation in the project. The DPMU will be responsible for monitoring the treatment of isolated vulnerable people in the project.
2. The project has a complaint system that allows community members to raise issues or complaints at various levels- at the community level (through the VIU), at the district level (through the DPMU), and at the national level. Where isolated vulnerable people are concerned, the facilitators will ensure that grievance redress mechanisms are developed in culturally appropriate ways in close collaboration with the relevant group.
3. Project evaluation studies will include monitoring and evaluation of the impact of the project on isolated vulnerable people.
4. The IVP-NGO will be part of the monitoring team and involve in facilitating the participatory planning process in the program.

Annex 11: Project Preparation and Supervision
INDONESIA: THIRD WATER SUPPLY AND SANITATION FOR LOW INCOME
COMMUNITIES (PAMSIMAS) PROJECT

	Planned	Actual
PCN review	02/14/2005	02/14/2005
Initial PID to PIC	03/01/2006	03/10/2006
Initial ISDS to PIC	03/01/2006	03/10/2006
Appraisal	04/25/2006	04/27/2006
Negotiations	05/15/2006	05/18/2006
Board/RVP approval	06/27/2006	
Planned date of effectiveness	09/30/2006	
Planned date of mid-term review	09/30/2009	
Planned closing date	12/31/2013	

Key institutions responsible for preparation of the project:

1. Directorate General of Human Settlements, Ministry of Public Works, Indonesia;
2. Directorate General of Disease Control and Environmental Health, Ministry of Health, Indonesia;
3. Directorate General of Village and Community Empowerment, and Directorate General of Regional Development, Ministry of Home Affairs, Indonesia;
4. Infrastructure Affairs, National Development Planning Agency, Ministry of National Development Planning, Indonesia.

Bank staff and consultants who worked on the project included:

Name	Title	Unit
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Yogana Prasta	Sr. Disbursement Officer	EACIF
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Novira Asra	Financial Management Specialist	EAPCO
Evodia Iswandi	Consultant (Project Coordination)	EASHD
Titie Hadiyati	Consultant (Costing)	EASHD
Susan Wong	Sr. Social Development Specialist	EASSD
Richard Cibulskis	Consultant (Monitoring & Evaluation)	EASSD
Farida Zaituni	Operations Analyst for Environment Safeguards	EASEN
Chitrawati Buchori	Social Development Specialist	EASSD
Fransisca Melia Setiawati	Consultant (Social Safeguards)	EASES
Steven Charles Burgess	Sr. Social Development Specialist	EASES
Kundhavi Kaderisan	Portfolio Manager	EACIF
Junxue Chu	Senior Finance Officer	LOAG1
Raj Soopramanien	Legal Counsel	LEGEA
Christina Sukmawati	Program Assistant	EACIF

Bank funds expended to date on project preparation:

1. Bank resources: USD237,000
2. Trust funds: -
3. Total: USD237,000

Estimated Approval and Supervision costs:

1. Remaining costs to approval: USD63,000
2. Estimated annual supervision cost: USD65,000

Annex 12: Building on Lessons learned from WSLIC

INDONESIA: THIRD WATER SUPPLY AND SANITATION FOR LOW INCOME COMMUNITIES (PAMSIMAS) PROJECT

This background note provides readers a better sense of the lessons from the WSSLIC-1 and WSLIC-2 experience and how the PAMSIMAS project will build on them, laying out in detail the design commonalities and differences between them.

A. Lessons learned from WSLIC

The WSLIC projects have successfully supported a total of about 2,854 communities in 35 districts. Generally, the beneficiary communities have satisfactorily completed their subprojects satisfactorily. Hence, the ICR for WSSLIC-1 has rated it “satisfactory” and the mid-term review for WSLIC-2 also rated its implementation performance “satisfactory”.

High economic return. WSLIC-2 has recently been evaluated by a Bappenas-ASEM study along with four other CDD projects. In summary, the study found that these CDD projects in general have high economic rates of return. In regard to WSLIC-2, the estimated rate of return from a sample of 35 beneficiary communities is about 35 percent, including only the value of time saved from fetching water and monetary savings from water purchases. The returns would be higher, if the economic value of its impact on the control of communicable diseases were included.

Notable impact and high demand. The study also found that the WSLIC beneficiaries gave it highly satisfactory rating both in terms of their perception of its impact on their quality of life and of its technical/management quality. This finding is consistent with field observations during supervision missions that the project is highly popular and reaches its intended beneficiaries with little leakage. Remarkably, the WSLIC program is characterized by excess demand for project participation despite the cost-sharing requirement.

CDD approach works. The most fundamental lesson from the experience of WSLIC, which has been a pioneer in CDD projects, shows that the CDD approach to providing villages with water supply works well, especially in comparison with the traditional top-down approach. In the past, top-down rural water supply projects were not sustainable. With WSLIC assistance, communities have been able to organize, plan, build, operate, and maintain their own water supply with better and more promising results. The WSLIC experience reveals that:

- Explicit poverty inclusive processes are necessary if poor families are to benefit
- Requiring cost-sharing helps to ensure that appropriate and affordable water supply schemes are chosen and that they would be willing to collect needed fees for operations and maintenance.
- Community participation lowers the financial and economic costs of building village water systems as result of community contributions, reduced “financial leakage”, and added greater efficiency.
- Good facilitation helps villages organize themselves and make informed choices.

Sanitation interventions need more work. The sanitation component of WSLIC has not worked as well as expected. The building of household latrines using project funds and the provision of a revolving fund for the purpose was not effective. WSLIC-2, however, has provided important lessons on how the sanitation issue might be addressed. Among these is the potential of the Community-Led Total Sanitation (CLTS). This is a new approach tried in WSLIC-2 and other projects -- one that appears to have led, even without much external subsidy, to dramatic results in triggering reductions in open defecation and other improvements in hygiene behavior. The CLTS is a process of educational/communication activities to

facilitate community appreciation of sanitation problems and consequences and develop ways to address the problems and measure the results.

Moreover, building school latrines and strengthening hygiene education in schools (including supplying them with soap) have been found to be effective interventions that impact not only the students' hygiene behavior but also the attitudes of their parents, who feel pressured to build a proper latrine at home and adopt sanitary disposal practices.

Limitations to mainstreaming and scaling up. Despite its success, WSLIC was not designed to be mainstreamed into the development planning and budget programming of the local governments. Its propagation has been slow and is confined to a limited number of provinces and districts. One reason is the lack of ownership by the district governments. Another reason is the lack of a national framework for propagation of the WSLIC concept, which has which has confined WSLIC to the scope of a "project". To achieve the MDGs for water and sanitation, there is a need to develop a national strategy and program for mainstreaming and scaling up WSLIC practices – through an approach that respects the new assignment of responsibilities between the central and District Governments under the current decentralization law but at the same time leverages their comparative advantage where their responsibilities overlap. A second reason has been the lack of a national policy in the past on rural WSS. PAMSIMAS will benefit from the parallel implementation of WASPOLA which will operationalise the national Community-based water supply and sanitation policy with local governments during the PAMSIMAS implementation. PAMSIMA is designed to be consistent with WASPOLA policy objectives particularly on scaling-up and mainstreaming.

B. Features in common with WSLIC-2

The proposed project would roll out a similar but modified WSLIC approach to other communities. The following core features of the WSLIC model would be applied in the PAMSIMAS Partnership:

- Provision of flexible grants to eligible communities to finance their water supply (WS) proposals;
- Use by the communities of the above grants as they see fit -- that is, in their choice of water system, size and total investment cost, construction inputs, location, etc.;
- Release of the grants to their beneficiary communities conditional on:
 - Organization of the community's WS association;
 - Development of their own WS improvement plan (Community Action Plan or CAP), including the management of its construction and post-construction activities;
 - Evidence of participation of local citizens in the planning and implementation of their water system; and
 - Sharing of the construction cost: 4% in cash and 16 percent in kind (community labor) contributions [there is a limit to the grant amount, above which construction costs will have to be shouldered by the community];
- Emphasis on the principle that the community should choose only the water supply schemes whose maintenance they can afford without government subsidy;
- Beneficiaries' commitment to a user fee policy and support for a WS organization that would operate and sustain the new water supply--and collect fees set at a level sufficient to generate resources for the maintenance and sustainability of their improved water supply;
- Release and transfer of the first tranche of the grant (30%) to the community's account to initiate implementation, once its CAP has been approved [by the District Project Management Unit or DPMU] and availability of the required counterpart contributions from the community has been certified by the community's bank;
- Transfer of the rest of the grant to the community's account in accordance with work completed [second tranche = 50% based on performance) and final payment (20%) after certification of satisfactory completion of the WS construction [the DPMU's technical consultant certifies]

- Provision of the following to beneficiary communities to help them make informed choices:
 - a catalogue of alternative water supply schemes, their corresponding costs, and other information; and
 - assistance by the Community Facilitation Team (CFT) to train the communities on how to organize and meet project requirements (e.g. putting together its CAP, following environmental, sanitation, and other guidelines)
- Funding of school toilets, and selected activities to strengthen hygiene education; Soap and other cleaning materials will not be funded from the project credit. Local schools and communities will ensure that these supplies are provided; and
- Selection of beneficiary communities by the DPMU in accordance with agreed targeting formula and procedures.

C. Differences between WSLIC-2 and PAMSIMAS

Based on the above-mentioned lessons as well as the demands of mainstreaming and scaling up, the PAMSIMAS is adapting the WSLIC model and would include new features into the proposed project as follows:

- The community grant and revolving credit for financing building of household toilets would be dropped, since this was not effective in changing hygiene behavior;
- PAMSIMAS will test 'supply chain building for sanitation' linked to 'demand stimulation', an approach that has been successfully demonstrated in other South and East Asian countries (Vietnam, Bangladesh, India).
- Targeting guidelines would be based on WSLIC-2 and DPMUs and consultants will be specifically trained in delivering what it is in the guidelines to better reflect priority target groups (poor, minorities, and gender specific groupings).
- PAMSIMAS would include some poor peri-urban communities for institutional sanitation intervention, unlike WSLIC-2, which includes only the rural villages.
- The Provincial Governments will have a greater role in the hiring and financing of the CFTs through funds provide by the CG. The CFTs will be trained in accordance with agreed PAMSIMAS guidelines, based on WSLIC-2 experience and certified by provincial certification boards to be organized by the CG and the provincial governments.
- PAMSIMAS includes the provision of incentive grants to participating district governments and communities. The fund will be provided jointly by CG budget and credit funds. The incentives grants funded through the CG budget will reward district governments that apply PAMSIMAS principles to expand their program beyond credit funded project communities. The credit funded component will be awarded to those communities that have successfully implemented their program. Use of the grants would be restricted to activities that further scale-up the project at the district level and further improve environmental sanitation at the community level.
- Most importantly, the proposed project would support a "national program" in contrast to WSSLIC-1 and WSLIC-2, which were designed as "projects" and confined to a fixed set of provinces and districts. Specifically, PAMSIMAS would support:
 - Activities for the development of a national action plan for WSS and the consolidation of what in the past have been fragmented approaches into what will become ultimately a sector wide program (SWAp) as described in Annex 17.
 - A replication program through which participating districts would agree to implement a minimum number of CDD programs using their own funds in addition to the PAMSIMAS funded program. Good performance in implementing the counterpart program would be an important criterion in the award of the district economic incentives grant.
 - A sustained nationwide advocacy, social mobilization and communications program to promote the PAMSIMAS program.

D. Building local government ownership

The PAMSIMAS program is designed to strengthen the Provincial and DGs' ownership by making them directly responsible for the implementation and oversight of the program using provincial and district funds for management and oversight activities of the provincial and district PMUs. This would require that the Provincial and DGs be responsible for the selection of beneficiary communities, approval of community proposals and grants, facilitation of community activities, and certifications for tranche releases. The use of Provincial and DGs budgets to fully finance their own activities necessary to support the implementation of the project will be demonstrated in a commitment letter from the local legislative assemblies confirming commitment to budget support.

Similarly to WSLIC-2, DGs will be required to provide a percentage of the total community CAP (in PAMSIMAS this is to be 10%) and also commit to a matching village program based on their fiscal capacity.

E. Ensuring maintenance, replacement investments, and sustainability

The PAMSIMAS rules and processes are specifically aimed at ensuring sustainability. In addition to the initiatives to strengthen DGs' ownership, a key lesson learned from WSLIC-2 is the clear evidence that CDD programs have a greater likelihood of remaining operational and being used after implementation than facilities provided by the traditional project approach. The following are the proposed, mutually reinforcing features of PAMSIMAS to improve sustainability:

- choice of more appropriate and affordable WS system (in terms of maintenance) through the use of a CDD approach, TA from facilitators, and cost-sharing;
- organizing the communities and empowering them to plan, manage, operate and collect user fees sufficient to maintain, repair and replace their chosen WS system; and
- ensuring that the beneficiaries of the grant are serious about keeping their system operational by requiring a 4% cash and 16 percent in-kind/labor contribution (this is a kind of self-selection mechanism which increases the chances that the WS grant will be given only to communities that are willing to pay for the operations and maintenance costs).
- Practical training to increase community capacity to sustain their WSS facilities and hygiene behavior changes.

Institutional responsibilities at the village level after the completion of the project implementation has been a key issue for long term service sustainability. WSLIC-2 experience strongly suggests that the capacities built in VITs be capitalized upon for sustained operation and maintenance. PAMSIMAS will focus on clarifying roles and responsibilities of post construction, incorporating continuation of VIT members in O&M organization and helping village O&M bodies with local government and/or private sector agencies for long-term support arrangement, e.g. maintenance service contracts for groups of villages—paid for by user communities through water fees, links with PDAMs for maintenance, etc.

Annex 13: Anti Corruption Action Plan
INDONESIA: THIRD WATER SUPPLY AND SANITATION FOR LOW INCOME
COMMUNITIES (PAMSIMAS) PROJECT

The following text highlights some of the measures to be taken, based on the six key elements that have been identified by the Bank's Anti-corruption Committee for Indonesia (ACI) as being crucial to preventing corruption at the project level, namely:

1. Enhanced disclosure provision and transparency
2. Mitigation of collusion risks
3. Mitigation of forgery and fraud risks
4. Civil society oversight
5. Complaints handling system
6. Clear definition of sanctions and remedies

The Borrower and the Bank have agreed that the framework and actions outlined below shall be implemented under the PAMSIMAS in order to reduce the possibility of corruption, collusion and nepotism.

This Anti-Corruption Action Plan (ACAP) is heavily based on experience gained from previous projects, including WSSLIC-1 and WSLIC-2. A matrix outlining this experience is given in Attachment A. Based on this experience the ACAP focuses mainly on those aspects of the project related to larger contracts (e.g. Technical Assistance) and high risk aspects of the “soft” investments such as training, workshops and campaigns which together constitute about 30% of the total project value. Previous experience in WSLIC-2 and other CDD-related projects strongly suggests that the community-managed 70% of the investment is a lower risk in terms of corruption and also needs fewer anti-corruption measures. For the village level the keys to good governance are transparency, high quality facilitation and community-based management that is held accountable to the community and to the project.

All of the salient features of the project Anti-Corruption Action Plan will be fully integrated into the project budget. Key areas of the project that support the over-arching anti-corruption effort include project management, monitoring and evaluation, independent auditing, disclosure and raising awareness. A matrix of detailed interventions has been prepared as an integral part of this plan and is given in Attachment B. Details of aspects related to disclosure are given in Attachment C. It should be noted that items in Attachment B and C are mainly clauses that have become standard in ACAPs over the past two years: they represent standard “good governance” measures and are not crafted specifically for any perceived additional risks in PAMSIMAS.

This ACAP refers to Project Manuals which include the PAMSIMAS Project Operation Manuals (POMs) which together will define required procedures for all aspects of the management of the project, including detailed guidelines and provisions for each of the anti-corruption actions outlined below.

Changes and revisions may be made to this action plan during the term of the project with the agreement of both parties. Annual joint reviews will be made to review the effectiveness of the ACAP.

Detailed explanation of each of the measures outlined above are shown below.

a. Enhanced Disclosure Provision and Transparency

Undue secrecy can foster corruption. Some correspondence and documents, such as periodic Aide Memoires between the Bank and the Borrower are considered 'confidential' unless both parties should agree otherwise, but most of the other key project documents should be made available to the public in order to reduce corruption risks.

Public documents related to the project will be made available on a website dedicated to the project. The Implementing Agency will ensure that the website includes updated information on project activities, including: for each project location (province): nature of any contracts or grants awarded (estimated cost, scope of works, provider details); current estimate of the progress of implementation (e.g. estimate of completion as a percentage of works to be carried out); concise information from other project related activities such as training, workshops, etc.; up-to-date information concerning any problems, complaints and remedial actions. The website will specifically provide information of forthcoming events that are open to the public in each location. Access to this website must be unrestricted, without limitations such as membership.

At the community level the project will disseminate information through an extensive range of media such as posters, circulars, signboards and meetings. Information dissemination at the district and province levels will ensure that related government and civil society groups are informed of the project and encouraged to support it.

Salient materials, including the ACAP and any revisions thereto, will be translated into bahasa Indonesia and provided in hardcopy to interested civil society groups at all levels. The ACAP in English and Indonesian versions will also be posted on the project website through a link on the main webpage.

Disclosure of information will be supervised mainly through (a) checking the frequency and comprehensiveness of website updates and, (b) checking the distribution of materials to and within communities on a sample basis, particularly in relation to end-users.

b. Mitigation of Collusion Risks

Collusion has been identified as a serious source of corruption problems in Indonesia, particularly in relation to procurement. For PAMSIMAS, the prime concern in relation to collusion will be the consultancy contracts, as there are no centrally managed civil works or goods contracts. The procurement process will be detailed in the Project Manuals and further guidance may be provided from WBOJ procurement section whenever necessary.

Efforts to reduce elite capture at all levels, including at the community level, will be built into the program, with the special attention to the process of channeling the block grants and include multiple channels for complaint (see complaint handling below) and strict auditing of accounts. Participatory Transparency tools and mechanisms described in Annex 4 will provide public oversight by all community members of the collective decision making process, and will safeguard compliance of sub-project implementation with collective community decisions made during planning.

It is particularly important that bidding committees within the government system be fully trusted in terms of competence and integrity. If there are instances where the bidding committee has not reported a violation that later results in a re-bid, then the committee will be automatically disbanded and a new one formed with a new membership. If the project unit concerned lacks appropriate personnel to form a new

committee then either the national CPMU will carry out the tender on the behalf of the project unit or the package will be dropped from the list.

Mitigation of collusion risks will be supervised mainly through (a) tracking key data related to procurement (e.g. unit costs, schedules, etc.) and (b) periodic analysis of all bids that have suffered from collusion with an aim to identifying weaknesses in the system.

c. Mitigation of Fraud and Forgery Risks

The project will establish and follow procedures to maintain proper filing of project documents including those related to procurement, *inter alia* correspondence, advertisements, bidding documents, evaluation reports, contract award and final contract documents.

Rigorous payment validation procedures will be specified, and linked to the M&E system. The Project Manuals will detail agreed procedures that are in addition to normal government accounting practices (such as the need to provide boarding passes when claiming travel by air). For trainings, workshops and other activities alike, enhanced accounting evidence will be sought before payments are authorized. This requirement will include signed lists of all those who attended funded training events with names and addresses. Similar activities have tended to be highly vulnerable to fraud in the past and so these additional measures are deemed prudent. Provider invoices will be required to be formal invoices on letterheads with clear documentary trails and tax registration numbers; for goods procured transportation documents such as bills of lading for imports will also be required.

Mitigation of forgery and fraud risks will be supervised mainly through (a) reviewing the findings of strong technical and financial audits, to be held during (interim audits) and after (post audits) each year for a significant sample and (b) encouraging third party observation, with a possible focus on “soft” investments such as training, workshops and campaigns.

d. Civil Society Oversight

The Government has been successfully implementing previous rounds of the WSLIC series of projects and has engaged civil society through many related forums and networks.

To help ensure that information is widely disseminated, and to encourage civil society oversight, **Public Accountability Meetings** will be held in each participating district at the beginning and at the end of each work cycle. The first of these will occur before procurement takes place, so that **civil society observers of the procurement processes** (etc.) can be selected in a transparent manner. The second round of public accountability meetings will occur when each work package has been completed in the field. Each meeting must be properly organized in accordance to standards that will be laid down in the Project Manuals. The agenda for the meeting will be widely distributed at least two weeks beforehand to interested civil society groups, such as the local NGO/CSO forum and Universities. At these meetings the project consultants and staff will give a detailed presentation concerning the scope, cost and progress of the project within the province and sufficient opportunity will be given for attendees to pose questions directly to the project management. These meetings will be open to all adults from the general public, without exception. Though these meetings may be hosted by the local level government, at least one central level staff and consultant will attend as a key resource person. Attendance lists and minutes will be forwarded to the CPMU. This level of evidence is considered necessary because “soft components” such as workshops and training have proven particularly vulnerable to corruption in other projects.

Voluntary observers to procurement. To ensure broader participation in the procurement process under this project especially of the consultancy services, voluntary attendance of at least two non-government observers from respected civil society institutions (NGO forum, university, end user groups, etc.) will be

strongly encouraged. Clear processes and criteria for the selection of observers will be established with the agreement of the World Bank and detailed in the Project Manuals, which will also include details of the related training/briefing processes. Selection and briefing processes must obtain direct assistance from the CPMU team. All observers to the procurement process will sign the integrity pact (laid down by Keppres 80/2003) and may be subject to severe legal sanctions according to national civil law if they are found trying to influence the process in favor of a particular supplier/provider. Observers will be asked to complete concise short, simple report forms at each stage of the process. These forms will be sent direct to the CPMU. Reports, to be reviewed by the CPMU will be sent in from the province concerning the selection and training of observers. These province selection/training reports must be accepted by the CPMU before procurement can proceed.

Voluntary observers to implementation. The integral complaint handling system of this project will allow any group to send early warning messages to the CPMU if they see problems occurring during implementation. To help ensure a broader coverage, Community Organizations (CSOs) will be invited by the government to send selected observers on periodic supervision/site visits. The public accountability meetings detailed above will further encourage local groups to provide inputs to the project on a routine basis.

It is recognized that projects can only encourage, and not order any voluntary, non-project observers to assist in project monitoring processes. In PAMSIMAS this encouragement may include: advice to civil society groups on how to select observers; briefing/training for potential observers; monitoring of compliance by the CPMU on lower implementation units and sanctions on such units for non-compliance. Recent experience indicates that local government should not proactively select observers as this can seriously undermine the credibility of the exercise.

Civil society oversight will be supervised mainly through (a) reviewing the attendance of civil society groups in Public Accountability Meetings and (b) reviewing the reported inclusion of CSOs in project activities, particularly their roles in monitoring procurement.

e. Complaints Handling System

Working closely with the office of the Inspectorate General, the project will build an appropriate complaint handling system such that information regarding incoming complaints, referrals and status of complaint handling can be tracked through the project MIS. The Monitoring and Evaluation TORs will reflect the Technical Assistance needs related to establishing and maintaining this system.

The complaints handling system will be supervised mainly through (a) periodic review of statistics based on problem typology, severity and location, and (b) field level checks to ensure that problems are being reported and acted upon.

f. Clear Definition of Sanctions and Remedies

The agencies responsible for project implementation will ensure adequate internal supervision on all project activities. These agencies will establish remedial actions and sanctions for cases of fraud and corruption that are reported and for which evidence is found. This will include sanctions to staff and providers proven to be involved in such cases. One section of the Project Manuals will be devoted to a clear description of such sanctions. Funds for the review of cases, case management and tracking will be included in the project budget.

In all procurement contracts, proof of fraud, corruption, collusion or coercive practices will result in termination of the relevant contract, possibly with additional penalties imposed (such as fines, blacklisting, etc.) in accordance with Bank and Government regulations.

Disbursement of funds to any level of the project may be suspended in cases where there appear to be significant problems, especially if the local government has not taken appropriate actions to rectify the problems in their area. Any entity that is found to have misused funds, or not effectively carried out key elements of the anti-corruption plan, may be excluded from subsequent funding. Information regarding such cases, where lessons are learnt and funds are retrieved, will be widely disseminated.

The system of sanctions and remedies will be supervised mainly through (a) periodic review of the sanctions that have been enforced by the project based on typology, severity and location, and (b) periodic review of sanctions enforced by agencies external to the project such as the police, attorney general and Corruption Eradication Commission.

Attachment A: Experience from WSSLIC-1/WSLIC-2 and PAMSIMAS design.

	WSSLIC-1	WSLIC-2	PAMSIMAS
Loan/Credit amounts	US\$ 80 m	US\$ 77.4 m	US\$ 137.5 m
Executing agency	MoH (DG DCEH) and Bappenas	MoH (DG DCEH)	MPW (DG CK)
Implementing agency	MPW (DG CK), MoH (DG DCEH), MoHA (DG PMD)	MoH with TA from MPW (DG CK) , MoHA (DG PMD and Bangda)	MPW, MoH (DG DCEH), MoHA (DG VCE, DG RD)
Time period	10/25/93 - 11/30/99	08/15/00 - 07/31/09	09/01/06 - 12/30/13
Components	<p>1) direct Infrastructure development (water US\$60 m and sanitation US\$16m)</p> <p>2) Institutional Dev. and Building (Hygiene sanitation US\$7m, Training and Community/Inst CB US\$20.4, TA US\$10.2, and project Mgm US\$9.1m).</p>	<p>1) Community & Local CB - service contracts for facilitation, training, etc - US\$27m</p> <p>2) Improving health behavior and Service - health education, direct service to reduce water borne disease, school based health promotion, etc. - US\$11.5m</p> <p>3) developing water Infrastructure to provide water supply to rural pop, TA facilitation etc. - US\$38.3m</p> <p>4) project Mgm - US\$0.6m</p>	<p>1) Community Empowerment and Local Institutional Development - US\$4.2m</p> <p>2) Improving Hygiene and Sanitation Behavior and Services - US\$13.4m</p> <p>3) Water Supply and Public Sanitation Infrastructure - US\$ 102.5m</p> <p>4) District and Village Incentives Grants – (GoI)</p> <p>5) Implementation Support and Project Management - US\$16.1m</p>
Locations (e.g. which provinces and total number of districts/desas)	6 prov, 38 districts, 1,999 villages	8 prov, 35 districts, 2,854 communities	Estimated in 11 provinces 70 districts, 5,000 villages
Main corruption/ governance problems and how they were solved	WSSLIC-1 channeled funds through several sector budgets, and left contracting for civil works and facilitation to local technical agencies (dinas). There were very substantial problems found in these decentralized contractual arrangements, resulting in some very poorly constructed civil works in places and other oddities, such as a proliferation of ghosts (phantom facilitators) in others.	Far fewer problems than WSSLIC-1. Some communities mismanaged savings from "unannounced discounts". There was an instance of outright theft. There was also some "cheating" on training organized through a tender at the district level. WSLIC-2 channels funds directly to communities for civil works (CDD) program, moving corruption risks to the lowest level.	If the facilitation of the project is of high quality then the level of corruption risks in village level grants should be low. Care is needed in procurement of consultants and facilitators, particularly in relating to preventing collusive bids. Contract management also needs special attention. Based on experience from other programs, the main risks are expected to be in the "soft" investments such as training, workshops, campaigns, etc. Special efforts will be needed to monitor/ supervise these inputs to ensure that they are not abused.

	WSSLIC-1	WSLIC-2	PAMSIMAS
		<p>Publicly posting project financial and contract information, strengthened participatory planning by all parts of the community to reduce elite capture, and strengthened Bank supervision through more frequent visits to more villages with smaller teams, less advance notice.</p> <p>At the central level, community facilitation contracts are managed in relatively large provincial "packets", which can be cumbersome but are more easily monitored.</p> <p>Consultant performance monitoring mechanism has been introduced.</p> <p>Enhanced training for facilitators.</p> <p>Transparently set fee scales for facilitators.</p>	

Attachment B: Fiduciary risk and mitigation matrix for PAMSIMAS.

Corruption Mapping Area and risk level	Opportunity for Corruption	Mitigation Action
Preparation of specifications/selection criteria in the Bidding Documents (MEDIUM RISK)	Guidelines are not properly followed resulting in a low standard of procurement	Guidelines for preparation of specifications/selection criteria in the Bidding Documents, or Request for Proposal will be prepared to ensure compliance with Bank guidelines. This will include suggestions to conduct simple surveys on available products in the market and the alternative of hiring consultants for procurement of complex goods, equipments, works or services to define the specification or Terms of Reference.
Advertisement (HIGH RISK)	<ul style="list-style-type: none"> - Improper advertisement: i.e. introduction of requirements that limit competition, incomplete information, the use of newspapers with limited circulation etc. - Fictitious advertisement 	<ul style="list-style-type: none"> - Establish standard forms of advertisement for the project agreed with the Bank in the Project Manuals - Require an advertisement on government website for easy reference for interested consultants, in addition to the normal advertisement requirements as mandated in the Guidelines - Establish criteria on minimum requirements for newspapers to be used, and guidelines on disclosing information on procurement packages in the Project Manual - Copy of the original newspaper to be kept for audit purpose
Preparation of owner's estimate (HIGH RISK)	<ul style="list-style-type: none"> - Inclusion of mark-ups in estimates and the owner estimate information is leaked to contractors/consultants to ensure mark up price are inserted into the quotations/proposals - Collusion among actors for the personal enrichment; shared profit among actors - Lack of standard cost/base information makes it difficult to determine reasonableness of original estimate and owner estimate 	<ul style="list-style-type: none"> - Guidelines to prepare owner estimates for consultancy contracts will be defined in the Project Manuals. This will include the requirement to provide a detailed breakdown of estimates, suggestions to conduct simple market price surveys, and maintaining a data base of survey results and previous purchases, which will be accessible to all Implementing Units. - Publication of the procurement plan, which will include the contract estimates. - Publication of contracted amount.
Capacity of the Procurement Committee (HIGH RISK)	Non independent judgment of the evaluation process. The decisions tend to bias towards bidders/ consultants as "instructed" by the higher level officials or other parties.	<ul style="list-style-type: none"> - Three experts will be hired as part of members of procurement committee - Invitation to independent (voluntary) civil society groups to be observers of a procurement process

Corruption Mapping Area and risk level	Opportunity for Corruption	Mitigation Action
		<ul style="list-style-type: none"> - An individual procurement consultant will be hired to assist the procurement committee. The report of the procurement consultant will be part of the decisions of the procurement committee - The CVs of the procurement committee must be provided on file to justify that the members of the procurement committee are qualified. The Financing Agreement will provide an explicit clause that the Bank may declare mis-procurement if the qualification of the procurement committee is not satisfactory
Preparation of RFP (MEDIUM RISK)	- Criteria are made to suit certain consultants only.	- Establish clear guidance on criteria preparation in the Project Manual;
Shortlisting (HIGH RISK)	<ul style="list-style-type: none"> - Manipulation of information on the shortlisted firms or individuals to favor certain firms or individuals to be included in the shortlist - Pressures from higher levels to include certain firms in the shortlist that a lot of times lead to non-qualified firms in the shortlist 	<ul style="list-style-type: none"> - Require a narrative justification for each shortlisted firm/individual. Guidelines on preparing these justifications will be prepared and included in the Project Manuals. - Require that during the shortlisting process, the procurement committee is responsible for conducting due diligence check on the information submitted by the Consultants being proposed to be included in the shortlist
Pre-bid meetings (MEDIUM RISK)	If pre-bid meetings for procurement of simple goods and small works are to be conducted some bidders may be disadvantaged	It will not be compulsory for bidders to attend pre-bid meetings. The specifications shall be defined clearly in the bidding documents. Clarifications can be sought through written correspondence and replies will be sent to all bidders/shortlist firms. Appropriate guidelines providing for this will be prepared by the CPMU and included in the Project Manuals.
Opening of technical and financial proposals (HIGH RISK)	- Manipulation of Minutes of proposal opening records	<ul style="list-style-type: none"> - Public openings for ICB, NCB, QCBS and QBS, in accordance with Bank guidelines, processes will be attended by the Procurement Officer, Treasurer and representatives of the Internal Auditor. Independent (civil society) observers will be encouraged to attend. Procurement at the community level will adhere to the principle of competitiveness, fairness in a fully transparent way in order to provide the community the best service to their needs - Minutes of proposal opening must be sent to the Bank for information within 2 weeks for all prior review cases.

Corruption Mapping Area and risk level	Opportunity for Corruption	Mitigation Action
Keeping the technical and financial proposals in a safe place for confidentiality purpose (HIGH RISK)	- Collusion between Consultants and the procurement committee to modify the technical and/or financial proposal which have previously been submitted and open	A sworn public notary will be invited to officially witness the opening of technical and financial proposals, and certify the Minutes of Opening of technical/financial proposals. The public notary will also keep in a safe place one copy of the technical proposals submitted by each consultant (once they are open), the whole copy of the financial proposals (before they are open), and one copy of the financial proposals submitted by each consultant (once they are open).
Evaluation of proposals (HIGH RISK)	Delays in evaluating technical and/or financial proposals that would allow some "bargain" practices	<ul style="list-style-type: none"> - The executing agency will provide guidelines and training on how to conduct clarifications and negotiations which are in line with the Bank guidelines. The guidelines will be incorporated into the Project Manuals. - The Technical Evaluation Report must be completed in 4 weeks, and the proposal for the award of contract and the draft contract must be made available within 4 weeks after completion of the Technical Evaluation Report or after getting the no objection from the Bank (whichever is later). The Financing Agreement will provide an explicitly specific clause that the Bank may declare mis-procurement if this is not complied with. - An Evaluation Report must be submitted to the Bank within 6 weeks of the bid or proposal submission. Failure to do so will be deemed to be a "failure of due diligence". Timely and appropriate action, acceptable to the Bank, will be required to remedy the situation.
Extension of bid validity (HIGH RISK)	Extending bid validity can increase the risk of the process being abused	Request for extension of bid validity for 8 weeks (or more) beyond the original validity, will require prior approval from the Bank. Unless strongly justified, such approval will not be given and may be subject to mis-procurement
Award of Contract (MEDIUM RISK)	<ul style="list-style-type: none"> - The committee may call the prospective winner and negotiate the contract amount - Collusion and nepotism in awarding the contract 	<ul style="list-style-type: none"> - No negotiation of unit rates for competitive selection - Mandatory disclosure of contract awards
Reputation of the bidders/consultants (HIGH RISK)	- Bidders/consultants may be in a conflict of interest situation, and/or involved in corrupt/fraudulent practices in the past	- As part of their submitted proposals, bidders/consultants are required to sign a legal statement declaring that they are not in a conflict of interest situation, and/or involved in corrupt/fraudulent practices in the past that otherwise they will be discarded and legal actions from government will be pursued.

Corruption Mapping Area and risk level	Opportunity for Corruption	Mitigation Action
		<ul style="list-style-type: none"> - All bidders/consultants which intend to participate in any of the procurement packages under this Project, are required to disclose information upfront if any of their members of board of directors/commissionaires and their immediate family members are immediate family of: (i) members of the respective procurement committee as well as (ii) Echelon I – IV of the government departments/ ministries associated with the project.
Quality of delivered products/services (MEDIUM RISK)	<ul style="list-style-type: none"> - The delivered products/services are of lower quality than the ones specified in the TOR, and the officials may take kickback through the difference - Intentional low quality of supervision of contracts, and kickback from the contractors/suppliers/ consultants 	<ul style="list-style-type: none"> - Form a qualified, independent committee to review and assess the performance of the contractors/suppliers/ consultants - Ensure that the performance of facilitators is routinely evaluated - Enhanced complaint handling mechanism - Enforce reward and punishment system as defined in Keppres 80/2003
Submission of price proposals (MEDIUM RISK)	Mark up prices for kickbacks	<ul style="list-style-type: none"> - Public disclosure of the contract award, at least the name of suppliers with their prices - The procurement plan has been designed in such a way that only relatively few small contract packages under shopping, and the rest of purchases of goods will be channeled through community grants
Reputation of the suppliers (HIGH RISK)	Suppliers may be in a conflict of interest situation, and/or involved in corrupt/fraudulent practices in the past	<ul style="list-style-type: none"> - As part of their submitted proposals, suppliers are required to sign a legal statement declaring that they are not in a conflict of interest situation, and/or involved in corrupt/fraudulent practices in the past that otherwise they will be discarded and legal actions from government will be pursued. - All suppliers which intend to participate in any of the procurement packages under this Project, are required to disclose information upfront if any of their members of board of directors/commissionaires and their immediate family members are immediate family of: (i) members of the respective procurement committee as well as (ii) Echelon I – IV of the government departments/ ministries associated with the project.

Corruption Mapping Area and risk level	Opportunity for Corruption	Mitigation Action
<p>Purchase of goods/equipment/materials by community (HIGH RISK)</p>	<ul style="list-style-type: none"> - Pressures from the government officials for purchases of goods/materials/equipment to limited suppliers only - Kickbacks to government officials 	<ul style="list-style-type: none"> - Disclosure of sub project budget which will be implemented by community - On the project design, the works to be accomplished by community are more output based ones. Therefore, the community grant will also serve as contracts between local governments with the community groups to deliver certain outputs (e.g. community level water supply and sanitation facilities) - For every received material/equipment, the procurement team must request and document the original receipt as well as make sure these materials/equipment is the same as in the contract/agreement. - For materials supplied by the villager(s), the price should not include PPN (VAT). For materials supplied by contractors/ suppliers, it is assumed that the price is already covers VAT, and it is the responsibility of the contractors to pay the tax, not the villagers. - A description of goods/equipment such as type, quality, volume/quantity, delivery place and schedule, packaging and delivery condition, should be posted on the information board. - A contract is required in hiring a civil works contractor or a nearby service provider. The committee must collect some information regarding skills or work performance of contractors or service providers to avoid spending a lot of money for less productive results.
<p>Reputation of the Community Groups receiving the grants (HIGH RISK)</p>	<ul style="list-style-type: none"> - Community Groups may be in a conflict of interest situation, and/or involved in corrupt/fraudulent practices in the past 	<ul style="list-style-type: none"> - As part of their submitted proposals, community groups are required to sign a legal statement declaring that they are not in a conflict of interest situation, and/or involved in corrupt/fraudulent practices in the past that otherwise they will be discarded and legal actions from government will be pursued. This statement will be made public in a village meeting. - The Community Groups are required to disclose information upfront if any of their representatives or their immediate family members are immediate family of: (i) members of the evaluation committee at the local government levels, (ii) the board of directors and commissionaires of the relevant management consultants, or (iii) Echelon I – IV of the respective local governments.

Corruption Mapping Area and risk level	Opportunity for Corruption	Mitigation Action
Technical design as a menu of technical options (MEDIUM RISK)	<ul style="list-style-type: none"> - Delay in making a technical design would benefit the consultant. - The budget estimation (RAB) for construction may high due to lack of consultant performance or incomplete survey; will be effected to the total cost of construction especially community contribution - Insufficient technical oversight by district engineering consultant/DPMU or non independent review by process monitoring consultant (PMC) may increase total cost or bad design with high probability of system failure 	<ul style="list-style-type: none"> - The procurement plan with details should be binding in the Financing Agreement and will set as the basis for any procurement actions. - The Evaluation team for community action plans is responsible for checking the costs of proposal under PAMSIMAS design. District consultants will also check costings of designs prior to evaluation
Execution of sub projects under community grants (MEDIUM RISK)	Community Groups do not have the adequate capacity and resources to carry out the required activities/works under the Community Grants, which may lead to poor performance or poor quality of products	<ul style="list-style-type: none"> - Provincial Management Advisory Consultants are employed to assist communities - The Community facilitator team will assess the CGs capacity and the required trainings. This needs approval from district consultants and oversight by PMC.
Procurement Planning (HIGH RISK)	Risk of kickback, and budget markup	Disclosure of Procurement Plan in public domain
Overall Procurement (HIGH RISK)	Risk of kickback, collusive practices to "award" the contract to "preferred" bidders, and lower quality of products/services	<ul style="list-style-type: none"> - Enhanced disclosure, complaint handling, and sanctions as defined in Keppres 80/2003. - Enhanced capacity for the officials involved in procurement decision, including hiring of consultants - Enhanced the control system (internal and external) including involvement of civil society in the procurement decision actions - Development of Project Manuals

Corruption Mapping Area and risk level	Opportunity for Corruption	Mitigation Action
<p>Appointment of project implementing unit (<i>Satker</i>) and staff (commitment maker, treasurer, advance holder, remittance/<i>SPM</i> issuer) at district levels is not based on their functional mandates and qualification. There are two potential reasons for such appointment: (i) The project is considered as less priority compared to others; (ii) Favoritism.</p> <p>(HIGH RISK)</p>	<p>Insufficient capacity and transparency may potentially lead to collusive practices.</p>	<p>The Project Manual shall include: (i) criteria for selection and performance indicators for project manager, treasurer, planning staff, procurement staff, and financial staff; (ii) requirement to conduct annual performance appraisal based on the criteria; (iii) Require the CPMU to conduct sufficient training on the Project Manual for all of the project staff</p>
<p>Recruitment process for CFs, PMUs, etc</p> <p>(HIGH RISK).</p>	<p>Risk of collusive practices to recruit “preferred” consultants.</p> <p>Risk of un-sufficient capacity of PMU staff</p>	<ul style="list-style-type: none"> - Enhanced disclosure, complaint handling, and sanction as defined in Keppres 80/2003. - Supervision by Bank and GoI will be supplemented by independent monitoring by civil society. - The result of selected consultants must be NOL-ed by the Bank to avoid ‘black list’ of consultants from other Bank-projects - Training to be provided by the project on project management and treasury. - Regular evaluation on consultant performance (rewards for consultants who have best performance should be considered). - All personnel selections will be through the implementation of fully fair, objective and transparent mechanisms in accordance with Bank Guidelines. The selection committee will be required to show their commitment to manifest fair, objective and transparent selection process and avoid any misuse of authority and discretion in the selection in the aim to obtain personal, family, groups and/or other interests by signing an integrity pact in accordance with the relevant government procurement regulations (Keppres 80/2003). Criteria for selections are constructed based on meritocracy principle that only the most qualified people are recruited - Community Facilitators will be selected based on their performance after they follow a pre-service training

Corruption Mapping Area and risk level	Opportunity for Corruption	Mitigation Action
<p>Recruitment process for CFs, PMUs, etc (HIGH RISK).</p>	<p>Risk of collusive practices to recruit “preferred” consultants. Risk of un-sufficient capacity of PMU staff</p>	<ul style="list-style-type: none"> - Enhanced disclosure, complaint handling, and sanction as defined in Keppres 80/2003. - Supervision by Bank and GoI will be supplemented by independent monitoring by civil society. - The result of selected consultants must be NOL-ed by the Bank to avoid ‘black list’ of consultants from other Bank-projects - Training to be provided by the project on project management and treasury. - Regular evaluation on consultant performance (rewards for consultants who have best performance should be considered). - All personnel selections will be through the implementation of fully fair, objective and transparent mechanisms in accordance with Bank Guidelines. The selection committee will be required to show their commitment to manifest fair, objective and transparent selection process and avoid any misuse of authority and discretion in the selection in the aim to obtain personal, family, groups and/or other interests by signing an integrity pact in accordance with the relevant government procurement regulations (Keppres 80/2003). Criteria for selections are constructed based on meritocracy principle that only the most qualified people are recruited - Community Facilitators will be selected based on their performance after they follow a pre-service training
<p>Publication of audit report (LOW RISK)</p>	<p>Risk that information on the progress and result of project implementation (including misuse, collusive and nepotism practice if any) may not be available.</p>	<ul style="list-style-type: none"> - The Executing Agency and Implementing Agency shall conduct annual audits by third parties, which will include review of procurement and implementation results (end - use checks, quality and quantity of acquired goods, works or services, verification of payments, price comparison between contract price and market price, etc.). <p>Make audit report and all formal responses of the government publicly available promptly after receipt of final report prepared in accordance with the Financing Agreement.</p>
<p>Publication of audit report (LOW RISK)</p>	<p>Risk that information on the progress and result of project implementation (including misuse, collusive and nepotism practice if any) may not be available.</p>	<ul style="list-style-type: none"> - The Executing Agency and Implementing Agency shall conduct annual audits by third parties, which will include review of procurement and implementation results (end - use checks, quality and quantity of acquired goods, works or services, verification of payments, price comparison between contract price and market price, etc.).

Corruption Mapping Area and risk level	Opportunity for Corruption	Mitigation Action
Sub-project accountability mechanisms (MEDIUM RISK)	Lack of experience among DPIUs may result in misuse of funds.	Make use of project's oversight and supervision provisions to minimize risks.
Selection of participating villages (HIGH RISK)	Lack of transparency and unfair process. Conflicts of interest.	Avoid conflicts of interest by providing guidelines for selection criteria of participating groups that will benefit from PAMSIMAS (see Project Manual)
Appointment of team managing block grant funds at the community level (HIGH RISK)	Appointment of unqualified candidates is not based on capacity and community consensus but on the closeness of relationship between the candidate and the village elites.	<ul style="list-style-type: none"> - Establish agreed criteria mechanism criteria for selection of the team managing block grant funds; - Disseminate the criteria publicly and hold annual performance appraisal. - Names of candidates need to be announced at least a week before pooling
Limited dissemination of information related to the project. (LOW RISK)	Information is limited to implementing units.	<ul style="list-style-type: none"> - Disseminate the project's objectives, and its rules and regulations through meetings and workshops at district level - Ensure that other PAMSIMAS-related offices know what their respective roles and responsibilities are and how to hold each other accountable for their agendas.
Dissemination of information (MEDIUM RISK)	Information kept by certain group	<ul style="list-style-type: none"> - Any information related to project must be disseminated widely to community and other parties to control and monitor program performance and intervention impact. - Facilitators must ensure that poor, remote sub-villages, women groups. (etc.) obtain similar information to others - Enhancing complaint handling mechanism and sanction for those who keeps the information.
Selection of project locations (village) (HIGH RISK)	A negotiation may be done in selecting village between the executing agency and district representatives	<ul style="list-style-type: none"> - The selected villages must be really based on the poverty, water and sanitation demand come from community. - Enhancing complaint handling mechanism - Tighten Bank supervision
Consultant training (MEDIUM RISK)	Poorly conducted, not conducted according to the timetable	To invite CSO representative to participate in the training & report the training quality
Salary payment of consultants (CFT) (MEDIUM RISK)	Delay in salary payment for consultant may effect to the performance of project such as misused the fund, budget markup.	<ul style="list-style-type: none"> - Enhanced complaint handling and sanction for the late payment. - Consultant performance rating mechanism applied by firm should be reviewed and approved by the Bank?

Corruption Mapping Area and risk level	Opportunity for Corruption	Mitigation Action
		<ul style="list-style-type: none"> - The executing agency (with help from the Bank) will prepare SOP for consultant.
Payment (HIGH RISK)	Fictitious report/supporting documents on, for example, travel expenditures and workshop / training expenditures.	<ul style="list-style-type: none"> - Provide guidelines (as part of the Project Manual) for monitoring claims of expenditures supported by relevant documentation, including reports on activities, evidence of participation, ticket, receipts, etc (see Project Manual). - Compare price reports in different locations giving due attention to actual variations caused by problems of access, scope of activities, etc. - Because of limited capacity, internal audits by the Inspectorate General will require Technical Assistance support. This will be based on terms of reference to be agreed with the Bank before negotiations, and will include, <i>inter alia</i>, an assessment of the project implementing agency's internal control arrangements and an assertion that all project disbursements have been for expenditures that were eligible for financing. The results of these reviews will be reported to the Bank and the external auditors.
Filing (MEDIUM RISK)	Project documents (such as procurement, financial, contract, audit, implementation reports, physical and financial back-up data, incoming and outgoing letters, and quality control testing documents) are intentionally not made available to cover up corruption practices.	<ul style="list-style-type: none"> - Establish clear guidelines in the Project Manual on procurement and financial filing and remedies if not maintained, including, as necessary, suspension of payments and replacement of personnel. - Establish guidelines on disclosing information on contracts that have been awarded. - Establish a proper project data and filing system
Complaint handling (MEDIUM RISK)	Complaints are not handled appropriately.	Establish a detailed complaints-handling mechanism, including tracking of complaints and measures for monitoring the effectiveness of its application. This includes posting announcement and brief description about the block grants in public spaces such as <i>balai desa</i> , mosque, etc.
Flow of funds (MEDIUM RISK)	Kick backs to government officials and village elites either contractors and beneficiary communities	Define transparent criteria for payment of grant tranches (from the DPMU to the community in the Project Manual. This will be regularly reviewed by the Facilitators and randomly by the M&E team.
Community training (MEDIUM RISK)	The participant of training may only benefit certain group without involving the poor.	Ensuring community training reaches as many as possible participants from different groups and by combining gender balance in order to avoid nepotism.

Corruption Mapping Area and risk level	Opportunity for Corruption	Mitigation Action
Village government (MEDIUM RISK)	The involvement of village government in every stage of the process may risk the interventions.	<ul style="list-style-type: none"> - Village implementation team regularly provides reports to community on progress and expenditures - Public notice board is set up in the village for project related information - Ensuring information transparency and proper dissemination of information to avoid attempted nepotism and collusion. - Enhancing complaint handling. - At the village level, quarterly reviews will be carried out by the communities themselves, with assistance from facilitators as required. The village level records/accounts will be subject to audit on a sample basis and as required for troubleshooting.
Fund channeling and disbursement (HIGH RISK)	<ul style="list-style-type: none"> - Risk to the delay of project implementation - The fund may be disbursed all at once to village. - Risk of improper/incomplete financial documentation 	<ul style="list-style-type: none"> - Simplify process fund channeling. - The executing agency will provide the SOP for fund channeling and disbursement - Guidelines for submission of complete documentation required for requests for payments to the Treasury Office of the Ministry of Finance will be prepared and documented in the Project Manuals. This is a necessary step because standard government practices are in need of strengthening in order to reduce corruption risks. - Disbursement of Fund must be transparent – using information board - The disbursement in village based on the need in every stage of implementation, after the CF and VIT submitting the required budget estimation. - Monitoring by community, - The project will contract independent team as auditor to make sure the money is accounted for. - Financial Management Support (FMS) staff in CPMU and PPMU to monitor and audit the financial matters. - A team to give training on book keeping and project management. - Enhancing complaint handling, and sanction for those who disbursed the fund not following the regulation. - Village Accountability meeting will be conducted and should be attended by all villagers.

Corruption Mapping Area and risk level	Opportunity for Corruption	Mitigation Action
Development of an institutional organization in the village to do O&M (MEDIUM RISK)	<ul style="list-style-type: none"> - Capacity of O&M team in managing, operating and maintaining the sub-project as well as deciding the tariff for O&M. - Risk of collusive practice 	<ul style="list-style-type: none"> - Capacity building for O&M provided by consultants/ executing agency. - Ensuring there is mechanism for transparency.
Selecting Village Implementation Team (VIT) (HIGH RISK)	<ul style="list-style-type: none"> - Risk of nepotism - Capacity of VIT - The meeting doesn't include the poor, remote subvillages' reps and women group - Direct selection rather than election of representatives. 	<ul style="list-style-type: none"> - VIT must be selected through village meeting attended by all villagers. Member of VIT should have responsibility in doing project implementation. - Training for VIT must be provided by the executing agency. - PMC should review, monitor and approve the selection process
Commitment letter regarding the contribution in cash which is 4% of total construction cost (MEDIUM RISK)	<ul style="list-style-type: none"> - Risk of fraud - Risk that local elites loan community the "contribution" thus undermining the process. 	The commitment letter must be known and signed by community including the marginalized group.

Technical and financial reviews to supplement the measures above, may be performed by agencies involved in the project or by the Bank as and when deemed necessary to strengthen the project monitoring or supervision.

Attachment C: Enhanced Disclosure of Information in PAMSIMAS.

The following notes provide examples of how PAMSIMAS will reduce the risk of corruption through enhanced disclosure.

In close consultation with the Bank, the Implementing Agency will establish a mechanism whereby the media and civil society groups can become involved in monitoring the progress of the project (see also Civil Society Oversight, below). This mechanism will be detailed in the Project Manuals and will include regular sharing of information with the media. Copies of press cuttings (etc.) will be sent to the CPMU for discussion and filing.

Other actions related to the release of public PAMSIMAS documents are described in the matrix.

Release of public PAMSIMAS documents will include the following, inter alia:

- a The Executing and Implementing Agencies will, and the World Bank may, make publicly available, promptly after completion of a mid-term review of the project, carried out in accordance with the Financing Agreement, the mid-term review report and the aide-memoire prepared for this purpose.
- b The Executing and Implementing Agencies will, and the World Bank may, make publicly available promptly after receipt, all final audit reports (financial or otherwise, and including qualified audit reports) prepared in accordance with the Financing Agreement and all formal responses of the government in relation to such reports.
- c The Executing and Implementing Agencies will, and the World Bank may, further:
 - Make publicly available promptly after finalization all annual procurement plans and schedules, including all updates thereto;
 - Make available to any member of the public, promptly upon request, all bidding documents and requests for proposal issued in accordance with the procurement provisions of the Financing Agreement, subject to payment of a reasonable fee to cover the cost of printing and delivery. In the case of bidding documents from interested bidders and request for proposals from interested bidders, the relevant documents will only be made available after notification of award to the successful firm. Each such document will continue to be made available until a year after completion of the contract entered into for the goods, works or services in question;
 - Make available to any member of the public promptly upon request all shortlists of consultants and, in cases of pre-qualification, lists of pre -qualified suppliers.
 - Disclose to all bidders and parties submitting proposals for specific contracts, promptly after the notification of award to the successful bidders, the summary of the evaluation of all bids and proposals for such proposed contracts. Information in these summaries will be limited to a list of bidders, all bid prices and financial proposals as read out at public openings for bids and financial proposals, bids and proposals declared non - responsive (together with reasons for such an assessment), the name of winning bidder and the contract price. Such summaries will be made available to the public, promptly upon request;
 - Make publicly available and publish widely contract award information for all contracts, promptly after such award; and

- Make available, promptly upon request by any person or company, a list of all contracts awarded in the three months preceding the date of such request in respect of a project, including the name of the provider/supplier/consultant, the contract amount, the number of bidders/proposals, the procurement method followed and the purpose of the contract.
- Make available the project management manual to the public
- Provide, make available, ensure an easy access for the public to obtain the Indonesian version of the project's anti-corruption plan;
- Make publicly available and review of the consolidated project Annual Works Program (AWP) and shall be approved by the Bank.

Most of the documentation above should be placed in full on the project website as well as in hardcopy. Some of the documentation will also be summarized in order to provide better access to key information. Full details on how each of the above will be made available by the Executing and Implementing agencies will be contained in the Project Manuals.

Simple, short, standardized formats will be prepared to ensure annual reporting of progress to national level and local level NGOs and media. Data from these reports will also be published each month on the public internet website by the CPMU. Salient information concerning contracts, implementation progress, and project related workshops and other activities will be included in these reports. The site will also include basic data related to the number, type and status of complaints for each province and kabupaten.

A summary of project information and progress, including problems and solutions, will be included in FMRs (Financial Management Report) and presented to civil society (e.g. NGO) forums in hardcopy at the national and provincial levels. FMRs are due annually and will also be placed on the project website.

Annex 14: Documents in the Project File
INDONESIA: THIRD WATER SUPPLY AND SANITATION FOR LOW INCOME
COMMUNITIES (PAMSIMAS) PROJECT

- ASEM-TF-Bappenas Republic of Indonesia, 2005. Post Construction Economic Impact Analysis Study for CDD Programs: WSLIC-2, CERD, P2D, P2KP
- Asian Development Bank. 1998. Strengthening of urban waste management policies and strategies quoted
- Badan Pusat Statistik, Republic of Indonesia, 2004. Welfare Statistics 2004. National Socio-Economic Survey.
- Bappenas, MoH, MoHA and MoF, 2003. National Policy for Development Community Based Water and Environmental Sanitation (AMPL)
- Bartlett, Ian .1999. Background Paper for Economic Analysis of WSLIC-2
- Community Led Total Sanitation Manual
- Curtis, V. 2004 . Hand-washing, hygiene and health: proposals for strengthening WSLIC-2s health component and a national hand-wash campaign
- Government Regulation, 2005. Peraturan Pemerintah No. 16 Tahun 2005 tentang Pengembangan Sistem Penyediaan Air Minum
- Laws, 2004. Undang undang RI no. 7 tahun 2004 tentang Sumber Daya Air
- Laws, 2005. Undang undang RI no. 32 Tahun 2004 tentang Pemerintahan Daerah
- Ministry of Health, RI and Asian Development Bank , 2004. Final Report Project Preparation Technical Assistance for Community Water Services and Health Project.
- Ministry of Health, Republic of Indonesia. 2001. Rencana Strategi Nasional
- Ministry of Public Work Republic of Indonesia. 2005. Petunjuk Teknis Sektor Air Bersih Program Kompensasi Pengurangan Subsidi Bahan Bakar Minyak Bidang Infrastruktur Perdesaan.
- Ministry of Public Work Republic of Indonesia. 2005. Pedoman Umum Sektor Air Bersih Program Kompensasi Pengurangan Subsidi Bahan Bakar Minyak Bidang Infrastruktur Perdesaan.
- Ministry of Public Work Republic of Indonesia. 2005. Pedoman Pelaksanaan Sektor Air Bersih Program Kompensasi Pengurangan Subsidi Bahan Bakar Minyak Bidang Infrastruktur Perdesaan.
- Ministry of Public Work Republic of Indonesia. 2005. Rencana Strategis dan Program Jangka Menengah PU-Cipta Karya.
- Ministry of Public Work Republic of Indonesia. 2005. Renstra Departemen Pekerjaan Umum 2005-2009

Ministry of Public Work Republic of Indonesia. 2006. Penyelenggaraan Sistem Penyediaan Air Minum 2005.

National Policy of Community Based Water Supply and Environmental Sanitation, 2003.

Participatory Hygiene and Sanitation Transformation Manual

Republic of Indonesia, 2003. Indonesia Country Report prepared for Kyoto Global Water Summit, 2003

Robinson, Andy. 2006. Improving Hygiene & Sanitation Behavior and Services, Technical Guidance for Proposed National Program for Community Water Supply and Sanitation Services Project .

The WHO-Unicef Joint Monitoring Program 1990-2002 is a global initiative to report the status of water supply and sanitation services and to support country efforts to monitor the sector performance.

The World Bank. 2004. Indonesia: averting an infrastructure crisis – a framework for policy and action

Water and Sanitation Program, IRC International water and Sanitation centre and The World Bank. Sustainability Planning and Monitoring in Community Water Supply and Sanitation. A Guide on the Methodology for Participatory Assessment (MPA) for Community-Driven Development Programs.

W&S Economic Review, Issue number 15 (Water Help Desk) January, 2000

WSLIC-2 Implementation Manual

**Annex 15: Collaboration with WASPOLA
to prepare for a Sector Wide Approach (SWAp) to
Community-based Water Supply and Sanitation in Indonesia**

**INDONESIA: THIRD WATER SUPPLY AND SANITATION FOR LOW INCOME
COMMUNITIES (PAMSIMAS) PROJECT**

Programmatic and sector-wide approaches (SWAp) have attracted the interest of the Government of Indonesia since these will be necessary to achieve the MDGs for water supply and sanitation. For PAMSIMAS however GoI chose not to use a SWAp due to (i) GoI's lack of experience with SWAp, (ii) the absence of a national program to operationalize Community-based WSS agreed to by the government stakeholders and donor community, and (iii) the need to first establish the practical conditions for its successful implementation. Instead, recognizing the need to lay the groundwork for a SWAp, the GoI has expressed interest in the consolidation and mainstreaming of the various CDD initiatives in the WSS sector through a Specific Investment Loan (SIL) type Credit for PAMSIMAS, while simultaneously initiating "bridging activities" to enable GoI to prepare for a sector wide program. Such a program would operationalize the community-based WSES policy framework at scale and establish fiduciary measures and safeguards necessary to carry out a sector wide approach (SWAp) to achieving WSS MDGs.

WASPOLA is a partnership project (GoI/AusAID/World Bank/WSP) which has set up a working mechanism of an inter-Ministerial GoI Working Group (Pokja AMPL) on water supply and sanitation.

This Annex describes a Plan of Action for preparing a sector-wide programme by the year 2010 which is based on cooperation between WASPOLA/AMPL and PAMSIMAS for specific outputs and activities. This requires formalizing an arrangement between WASPOLA/AMPL and PAMSIMAS that will lead to further strengthening of the national policy framework and maximizing the learning opportunities resulting from its implementation and mainstreaming.

1. Policy and Strategic Harmonization

Policy leadership for the sector is provided by the National Development Planning Agency (BAPPENAS). In 2003, it formulated a National *Policy for Community-based Water Supply and Environmental Sanitation* (WSES) using a participatory process involving the six different ministries which share roles and responsibilities in the WSS sector. The policy was prepared under the first Indonesia Water and Sanitation Policy Formulation and Action Planning Project (WASPOLA 1, 1998-2003) supported by AusAID (Australian Agency for International Development) and the World Bank's WSP-EAP (Water and Sanitation Program for East Asia and the Pacific). WASPOLA is now engaged in developing a framework to operationalise this policy through the use of community demand-driven approaches, decentralized planning, and implementation and management by the community. It is also working with district level local governments and non-government stakeholders to adopt a community driven approach by modifying local regulations, budget allocations and institutional mechanisms and strengthening local capacity.

By 2008 when WASPOLA 2 comes to an end, more than 40 districts will have engaged in this process of operationalising policy reform. After 2008 GoI's Pokja AMPL will continue to extend this policy reform process so that it reaches over four hundred districts nationwide. While the national policy for community-based WSES is currently the guiding document for all sector stakeholders including government agencies, donors, NGOs and communities themselves in implementing WSES at the community level, much still remains to be done about translating the policy objectives and principles into a National Action Plan. Scaling up policy reform requires linking WASPOLA work with large

investment projects which have the required capacity, funding and leverage to take changes to scale. Already the WSLIC-2³³ Project (2004-08) has implemented the national policy for WSES in 7 provinces as well as helping to develop the policy framework for institutionally-managed WSES services. PAMSIMAS will extend the operationalization of the *Policy Framework for Community-based Water Supply and Environmental Sanitation* to 15 more provinces. It will be implemented as a central government project providing assistance directly to villages that meet certain targeting and selection criteria. Local governments will participate in institutionalizing the CDD-WSS approach with a sharing of overall costs of WSS service delivery. Since PAMSIMAS is designed and launched in the post-decentralization era, it is designed also as a capacity building initiative aimed at local governments. WASPOLA/AMPL can capitalize on PAMSIMAS as a vehicle for harmonizing policy and strategic initiatives. It is pushing for legalization of the policy at the highest level e.g. through a Presidential Decree. Using this decree and drawing upon the findings of the Donor Harmonization Study under way during 2005-06 with AusAID funding and other planned activities (see below) WASPOLA/AMPL will develop a National Action Plan for implementing a sector wide approach by June 2007 which should enable the implementation of a SWAp by the year 2009-10.

2. Sharing of Data/Monitoring and evaluation.

PAMSIMAS will set up systems and mechanisms in 15 provinces to establish baselines for monitoring access to improved water supply and sanitation, and hygiene practice improvements in schools and project communities. PAMSIMAS will cooperate with WASPOLA/AMPL to support the expansion of these systems to districts beyond those selected for the project. WASPOLA/AMPL will contribute to this effort through a capacity building pilot initiative in selected districts for MDG progress monitoring, during 2006-08.

The cooperation of the project team will be sought to enable WASPOLA/AMPL access to data on PAMSIMAS progress and other project records. Similarly PAMSIMAS will receive data and reporting from WASPOLA/AMPL to maintain the two-way flow of information and dialogue. A common, harmonized approach to data collection, monitoring and evaluation should be developed by WASPOLA³⁴ and adopted by PAMSIMAS as the first step to developing a harmonized sector- wide methodology to track the effectiveness Policy implementation and the achievement of WSES goals.

WASPOLA already has a MoU with the WSLIC-2 Project, under which there is a sharing of information and data. The MoU also allows for WASPOLA staff to undertake periodic monitoring field visits to WSLIC-2 sites. A similar monitoring and data sharing arrangement will be established between WASPOLA and PAMSIMAS.

3. Joint Preparation Activities

A number of joint preparation activities are envisaged between WASPOLA/ AMPL and PAMSIMAS. These can be formalized through a Memorandum of Understanding if so desired, between the relevant Executing agencies (BAPPENAS and Min. of Public Works). The working arrangements and areas of cooperation between WASPOLA/AMPL and PAMSIMAS are identified as follows:

- a) WASPOLA/AMPL Representation on PAMSIMAS Project Steering Committee
The Executing Agency for PAMSIMAS will be the Ministry of Public Works. Other implementing agencies of the central government will be the Ministry of Health, Ministry of Home Affairs, and Ministry of Education. The central Executing Agency will establish a Program Coordination and Steering Committee (PCSC) consisting of representatives of the implementing agencies, and a PCSC Secretariat/Technical Team consisting of Echelon 2 representatives. The PCSC will be chaired by BAPPENAS. It is proposed that one seat on the PCSC Secretariat/Technical Team be reserved for WASPOLA/AMPL. This will ensure their active participation in PAMSIMAS decision- making and

will promote sector-wide harmonization of approaches which will ultimately facilitate the identification of best practices, streamlining of procedures, simplifications for the end-users, etc.

- b) Promotion of PAMSIMAS and WASPOLA activities for scaling up.
Sector reform and advocacy strategies of WASPOLA/AMPL should encompass participation in launching and implementation of PAMSIMAS as the logical scaling up mechanism to operationalize the national sector policy framework. In this regard the agendas of WASPOLA and PAMSIMAS should become much more closely aligned.
- c) Regular Consultation and Information Sharing
PAMSIMAS and WASPOLA/AMPL should meet on a regular basis to maintain a policy and learning dialogue, and the sharing of information and ideas. This will be encouraged through formal and informal processes. Activities and outputs of both programs in developing the sector-wide program will be promoted through their respective newsletters and websites.
- d) Joint Outputs and Deliverables
PAMSIMAS will make available national consultants funded by the credit and international expertise funded through grants to collaborate with WASPOLA/AMPL in delivering the outputs and activities described below, which will directly contribute to preparing a SWAp for CDD-WSS in Indonesia by the year 2009-10:
 - Gather and disseminate global evidence, research and knowledge on best practice to guide the development of a sector wide program approach for decentralized community driven water and sanitation service delivery to meet MDG targets. **By June 2007**
 - Participate in WASPOLA's preparation and implementation of an information and communications strategy to effectively market the Community-based WSES policy to local governments, local lawmakers and civil society. This should include setting up institutional mechanisms in PAMSIMAS for the sharing of sector information, including planning data, between stakeholders in the sector. -- **By June 2007.**
 - Review and identify ways in which sector policies could be utilized to re-align existing projects with a sector wide programme approach - **By June 2007.**
 - Build on the WASPOLA policy implementation experience in 42 districts to map existing local administrative apparatus within PAMSIMAS provinces including budgeting, planning, horizontal coordination, capacity building and community participation for accountability. - Identify ways to align the roles, relationships, powers and functions of institutions in the WSS sector to align institutional arrangements with tasks and functions to be delivered. – **By September 2007**
 - Recommend studies and strategy papers that would be required for further development of a sector wide program and develop TORs as appropriate – **By October 2007.**
 - Build on existing WASPOLA studies, map existing local government regulations within PAMSIMAS provinces that impact on the delivery of rural water and sanitation and identify areas for revision or new regulations, as well as mechanisms for strengthening and improving the process of development and promulgation of local laws and regulations.- **By November 2007**
 - Prepare an issues paper and recommendations on the needs of local governments to: (i) expand delivery of affordable quality local WSS services for poor communities; (ii) build local capacity for scaling up and mainstreaming CDD-WSS delivery; and (iii) support improvements to make the WSS sector more efficient, equitable, and sustainable in line with locally set MDG targets; iv) improve local governance systems including piloting new and participatory patterns of interaction between the legislative and executive branches and between these and civil society and v) improve local government monitoring and evaluation systems for MDG monitoring.-**By December 2007**
 - Participate in the *WSES Sector Financing Review* being undertaken in WASPOLA to assess

existing local government fiduciary arrangements, identify the potential and barriers for financing expansion of WSS investments and thus identify the financing gap in the country to reach the national WSS- MDG targets. PAMSIMAS will use the results to develop modalities for funding and investment strategies for development of a sector wide program. PAMSIMAS provinces and districts will be assisted to set district level MDG targets and the development of local government plans for achieving the MDGs locally.- **By June 2008**

Annex 16: Statement of Loans and Credits

INDONESIA: THIRD WATER SUPPLY AND SANITATION FOR LOW INCOME COMMUNITIES (PAMSIMAS) PROJECT

Project ID	FY	Purpose	Original Amount in US\$ Millions				Cancel.	Undisb.	Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF			Orig.	Frm. Rev'd
P097535	2006	Community Recovery Through the KDP	0.00	0.00	64.70	0.00	0.00	51.20	0.00	0.00
P071296	2005	ID-USDRP	45.00	0.00	0.00	0.00	0.00	45.00	0.29	0.00
P076174	2005	ID-Initiatives for Local Govern. Reform	14.50	15.00	0.00	0.00	0.00	28.65	0.00	0.00
P078070	2005	Support for Poor and Disadvantaged Areas	69.00	35.00	0.00	0.00	0.00	102.12	0.00	0.00
P084583	2005	ID-UPP3	67.30	71.40	0.00	0.00	0.00	134.27	-0.34	0.00
P085133	2005	Govt Finl Mgt & Revenue Admin Project	55.00	5.00	0.00	0.00	0.00	56.31	0.64	0.00
P085374	2005	ID-HIGHER EDUCATION	50.00	30.00	0.00	0.00	0.00	78.29	0.00	0.00
P092019	2005	Kecamatan Development Project 3B	80.00	80.00	0.00	0.00	0.00	156.11	52.11	0.00
P095883	2005	ID Reconstruction of Aceh Land Admin Pro	0.00	0.00	25.00	0.00	0.00	25.50	0.00	0.00
P074290	2004	ID-E. IND REG TRANSPT 2	200.00	0.00	0.00	0.00	1.00	173.00	29.67	0.00
P071318	2004	ID - Coral Reef Rehab and Management II	0.00	0.00	0.00	7.50	0.00	7.02	0.43	0.00
P071316	2004	ID - Coral Reef Rehab and Mgmt Prog II	33.20	23.00	0.00	0.00	0.17	51.00	0.36	0.00
P064728	2004	ID-LAND MANAGEMENT & POLICY DEVT PROJECT	32.80	32.80	0.00	0.00	0.16	59.38	6.46	0.00
P059931	2003	ID-Water Resources & Irr.Sector Mgt Prog	45.00	25.00	0.00	0.00	0.00	69.95	33.16	0.00
P063913	2003	ID-Java-Bali Pwr Sector & Strength	141.00	0.00	0.00	0.00	0.00	136.84	88.09	0.00
P079156	2003	ID Third Kecamatan Development Project	204.30	45.50	0.00	0.00	0.00	74.20	33.78	0.00
P076271	2003	ID-PPITA	17.10	0.00	0.00	0.00	0.00	13.14	10.23	0.00
P073772	2003	ID-Health Workforce & Services (PHP 3)	31.10	74.50	0.00	0.00	0.00	97.00	42.12	0.00
P040578	2002	ID-EAST. IND. REGIONAL TRANSPT	200.00	0.00	0.00	0.00	0.00	41.30	39.64	0.00
P072852	2002	ID-UPP2	29.50	70.50	0.00	0.00	0.00	77.15	37.33	0.00
P073970	2002	ID-GLOBAL DEV LEARNING (LIL)	2.66	0.00	0.00	0.00	0.00	1.68	1.68	0.00
P049539	2001	ID-PROVINCIAL HEALTH II	63.20	40.00	0.00	0.00	0.00	80.23	67.81	0.00
P040528	2001	ID-W. JAVA ENVMT MGMT	11.70	5.75	0.00	0.00	0.00	7.68	6.81	1.72
P073025	2001	ID-SECOND KECAMATAN DEVELOPMENT PROJECT	208.90	111.30	0.00	0.00	0.00	61.60	46.97	0.00
P068949	2001	ID-LIBRARY DEVELOPMENT PROJECT - LIL	0.00	4.15	0.00	0.00	0.00	0.56	0.00	0.00
P068051	2001	ID-GEF-W. JAVA ENVT MGMT	0.00	0.00	0.00	2.54	0.00	2.05	10.00	2.12
P059477	2000	ID-WSLIC II	0.00	77.40	0.00	0.00	0.00	43.65	34.00	0.00
P049545	2000	ID-PROVINCIAL HEALTH I	0.00	38.00	0.00	0.00	0.00	18.63	16.24	4.38
P040196	1999	ID-SUMATRA BASIC EDUCUATION	54.50	20.10	0.00	0.00	0.00	0.35	0.99	0.00
P041895	1999	ID-SULAWESI BASIC EDUC.	47.90	15.93	0.00	0.00	0.00	11.09	11.85	0.00
P036049	1999	ID-EARLY CHILD DEVELOPMENT	21.50	0.00	0.00	0.00	10.65	1.33	11.99	11.99
P040061	1998	ID - BENGKULU REGIONAL DEVELOPMENT	20.50	0.00	0.00	0.00	5.00	4.63	9.63	4.63
P003993	1998	ID-SUMATRA REG'L RDS	234.00	0.00	0.00	0.00	50.00	7.08	57.08	1.40
Total:			1,979.66	820.33	89.70	10.04	66.98	1,717.99	649.02	26.24

INDONESIA
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
2004	BonaVista School	1.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00
2003	Buana Bank	0.00	12.16	0.00	0.00	0.00	12.16	0.00	0.00
2006	Buana Bank	5.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1999	ITCF	40.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	LYON-MLF-Ibis	2.01	0.00	0.00	2.01	2.01	0.00	0.00	2.01
2004	Medan NP School	1.75	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2002	P.T. Gawi	11.50	0.00	0.00	4.07	5.35	0.00	0.00	4.07
1989	PT Agro Muko	0.00	2.20	0.00	0.00	0.00	2.20	0.00	0.00
1997	PT Alumindo	4.78	0.00	0.00	0.00	4.78	0.00	0.00	0.00
1989	PT Astra	0.00	0.20	0.00	0.00	0.00	0.20	0.00	0.00
1994	PT Astra	0.00	0.19	0.00	0.00	0.00	0.19	0.00	0.00
2003	PT Astra	0.00	0.12	0.00	0.00	0.00	0.12	0.00	0.00
	PT Astra Otopart	0.00	0.70	0.00	0.00	0.00	0.70	0.00	0.00
2005	PT Astra Otopart	24.00	0.00	0.00	0.00	24.00	0.00	0.00	0.00
2005	PT Austindo N...	15.06	0.00	0.00	0.00	1.96	0.00	0.00	0.00
2000	PT Bank NISP	0.00	2.85	2.86	0.00	0.00	2.85	2.83	0.00
2002	PT Bank NISP	0.00	2.04	0.00	0.00	0.00	2.04	0.00	0.00
2004	PT Bank NISP	35.00	0.00	0.00	0.00	35.00	0.00	0.00	0.00
1997	PT Berlian	0.00	3.35	0.00	0.00	0.00	0.00	0.00	0.00
1993	PT Bina Danatama	0.07	0.00	0.00	0.00	0.07	0.00	0.00	0.00
1996	PT Bina Danatama	0.00	0.00	3.62	6.73	0.00	0.00	3.62	6.73
2004	PT Ecogreen	30.00	0.00	0.00	0.00	30.00	0.00	0.00	0.00
2005	PT Ecogreen	25.00	0.00	0.00	0.00	15.00	0.00	0.00	0.00
	PT Grahawita	0.00	0.00	5.00	0.00	0.00	0.00	5.00	0.00
1991	PT Indo-Rama	0.00	3.82	0.00	0.00	0.00	3.82	0.00	0.00
1995	PT Indo-Rama	0.00	1.57	0.00	0.00	0.00	1.57	0.00	0.00
1999	PT Indo-Rama	0.00	0.81	0.00	0.00	0.00	0.81	0.00	0.00
2001	PT Indo-Rama	20.00	0.00	0.00	0.00	0.33	0.00	0.00	0.00
2003	PT Indo-Rama	5.00	0.00	0.00	0.00	4.88	0.00	0.00	0.00
2004	PT Indo-Rama	48.00	0.00	0.00	0.00	14.00	0.00	0.00	0.00
1992	PT KIA Keramik	0.23	0.00	0.00	2.00	0.23	0.00	0.00	2.00
1996	PT KIA Keramik	1.65	0.00	0.00	53.49	1.65	0.00	0.00	53.49
1995	PT KIA Serpih	4.50	0.00	0.00	49.50	4.50	0.00	0.00	49.50
1997	PT Kalimantan	11.25	0.00	0.00	0.00	11.25	0.00	0.00	0.00
	PT Makro	0.00	2.61	0.00	0.00	0.00	2.61	0.00	0.00
2000	PT Makro	0.00	1.25	0.00	0.00	0.00	0.79	0.00	0.00
1998	PT Megaplast	4.38	2.50	0.00	0.00	4.38	2.50	0.00	0.00
1993	PT Nusantara	0.00	0.00	10.16	7.90	0.00	0.00	10.16	7.90
2004	PT Prakars (PAS)	35.00	0.00	0.00	9.02	35.00	0.00	0.00	9.02
1997	PT Sayap	2.50	0.00	0.00	0.00	2.50	0.00	0.00	0.00
2001	PT Sigma	0.00	1.09	0.00	0.00	0.00	1.09	0.00	0.00

FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
1995	PT Viscose	9.38	0.00	0.00	2.92	9.38	0.00	0.00	2.92
2004	PT Viscose	9.50	0.00	0.00	0.00	5.00	0.00	0.00	0.00
1997	PT Wings	2.17	0.00	0.00	0.00	2.17	0.00	0.00	0.00
2003	SMM	3.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2001	Sunson	11.62	0.00	0.00	7.35	11.62	0.00	0.00	7.35
2005	WOM	0.00	20.00	0.00	0.00	0.00	19.93	0.00	0.00
2004	Wilmar	20.00	0.00	0.00	0.00	20.00	0.00	0.00	0.00
Total portfolio:		383.35	57.46	21.64	144.99	246.06	53.58	21.61	144.99

FY Approval	Company	Approvals Pending Commitment			
		Loan	Equity	Quasi	Partic.
Total pending commitment:		0.00	0.00	0.00	0.00

Annex 17: Country at a Glance

INDONESIA: THIRD WATER SUPPLY AND SANITATION FOR LOW INCOME COMMUNITIES (PAMSIMAS) PROJECT

POVERTY and SOCIAL		Indonesia	East Asia & Pacific	Lower-middle-income
2004				
Population, mid-year (millions)		217.6	1,870	2,430
GNI per capita (Atlas method, US\$)		1,140	1,280	1,580
GNI (Atlas method, US\$ billions)		248.0	2,389	3,847
Average annual growth, 1998-04				
Population (%)		1.3	0.9	1.0
Labor force (%)		2.2	1.1	0.7
Most recent estimate (latest year available, 1998-04)				
Poverty (% of population below national poverty line)		27
Urban population (% of total population)		47	41	49
Life expectancy at birth (years)		67	70	70
Infant mortality (per 1000 live births)		31	32	33
Child malnutrition (% of children under 5)		27	16	11
Access to an improved water source (% of population)		78	78	81
Literacy (% of population age 15+)		88	90	90
Gross primary enrollment (% of school-age population)		112	113	114
Male		113	113	115
Female		111	112	113

Development diamond*

Life expectancy

GNI per capita

Gross primary enrollment

Access to improved water source

Indonesia

Lower-middle-income group

KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1984	1994	2003	2004	
GDP (US\$ billions)	87.6	176.9	238.5	257.6	
Gross capital formation/GDP	26.8	31.1	17.6	22.8	
Exports of goods and services/GDP	25.6	26.5	30.7	30.9	
Gross domestic savings/GDP	30.3	32.2	25.2	26.7	
Gross national savings/GDP	24.7	29.9	22.0	23.8	
Current account balance/GDP	-2.1	-1.6	3.0	1.2	
Interest payments/GDP	2.4	2.4	1.4	1.5	
Total debt/GDP	36.6	61.0	56.6	54.1	
Total debt service/exports	21.8	30.7	29.0	34.0	
Present value of debt/GDP	57.4	..	
Present value of debt/exports	25.0	..	
	1984-94	1994-04	2003	2004	2004-08
(average annual growth)					
GDP	7.3	2.0	4.9	5.1	6.2
GDP per capita	5.5	0.7	3.5	3.7	4.7

Economic ratios*

Trade

Domestic savings

Capital formation

Indebtedness

Indonesia

Lower-middle-income group

STRUCTURE of the ECONOMY				
	1984	1994	2003	2004
(% of GDP)				
Agriculture	22.7	17.3	15.9	15.4
Industry	39.1	40.6	43.6	43.7
Manufacturing	14.6	23.3	28.8	28.3
Services	38.2	42.1	40.5	40.9
Household final consumption expenditure	59.5	59.7	66.8	65.1
General gov't final consumption expenditure	10.1	8.1	8.0	8.2
Imports of goods and services	22.1	25.4	23.0	26.9
	1984-94	1994-04	2003	2004
(average annual growth)				
Agriculture	3.6	2.3	4.3	4.1
Industry	9.3	2.3	4.0	3.9
Manufacturing	11.2	3.4	5.3	6.2
Services	7.5	1.7	6.2	7.0
Household final consumption expenditure	5.4	3.7	4.5	4.3
General gov't final consumption expenditure	5.0	2.3	10.0	1.9
Gross capital formation	10.8	-4.6	-4.6	30.6
Imports of goods and services	6.6	-0.5	2.7	24.9

Growth of capital and GDP (%)

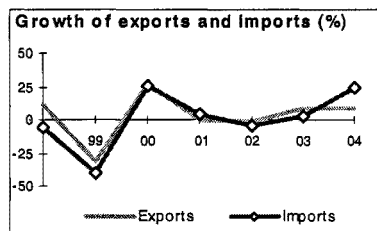
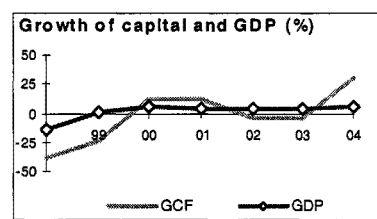
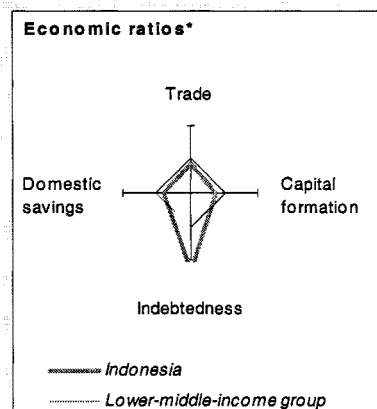
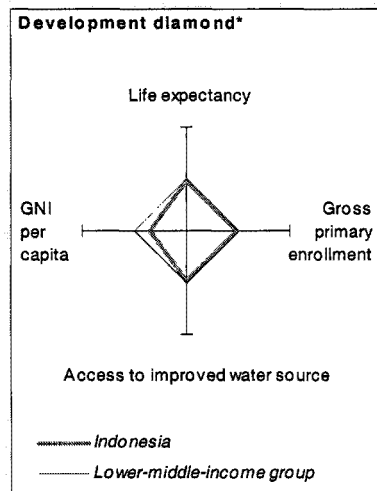
GCF

GDP

Growth of exports and imports (%)

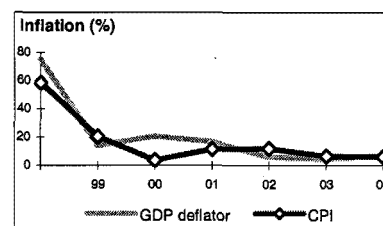
Exports

Imports



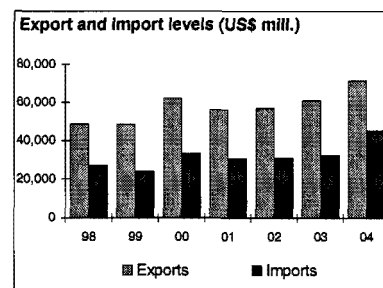
PRICES and GOVERNMENT FINANCE

	1984	1994	2003	2004
Domestic prices (% change)				
Consumer prices	10.3	8.6	6.6	6.3
Implicit GDP deflator	8.0	7.8	4.7	7.1
Government finance (% of GDP, includes current grants)				
Current revenue	16.5	16.9	16.7	17.4
Current budget balance	11.1	8.4	7.5	7.3
Overall surplus/deficit	1.4	1.0	-1.7	-1.0



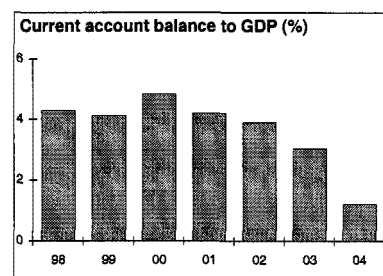
TRADE

	1984	1994	2003	2004
(US\$ millions)				
Total exports (fob)	20,754	40,053	61,058	71,585
Fuel	..	9,694	13,700	15,803
Rubber	..	2,879	2,737	2,845
Manufactures	..	17,020	19,660	22,063
Total imports (cif)	13,882	31,983	32,551	45,425
Food	..	1,897	3,121	3,786
Fuel and energy	..	2,425	7,664	11,797
Capital goods	..	13,450	7,100	12,175
Export price index (2000=100)	..	22	97	101
Import price index (2000=100)	..	24	103	109
Terms of trade (2000=100)	..	93	93	93



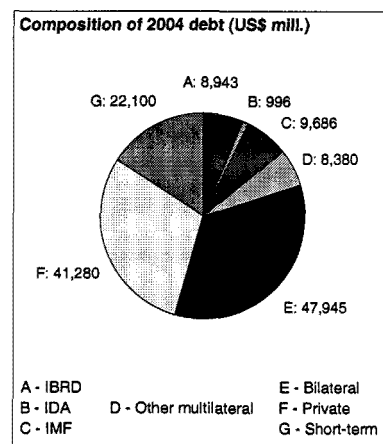
BALANCE of PAYMENTS

	1984	1994	2003	2004
(US\$ millions)				
Exports of goods and services	21,324	45,020	68,295	89,783
Imports of goods and services	19,286	43,738	55,629	79,116
Resource balance	2,038	1,282	12,666	10,667
Net income	-4,061	-4,693	-6,123	-8,704
Net current transfers	167	619	709	1,139
Current account balance	-1,856	-2,792	7,252	3,103
Financing items (net)	2,837	3,576	-2,995	-3,079
Changes in net reserves	-981	-784	-4,257	-24
Memo:				
Reserves including gold (US\$ millions)	5,720	13,200	36,170	36,194
Conversion rate (DEC, local/US\$)	1,025.9	2,160.8	8,577.1	8,938.9



EXTERNAL DEBT and RESOURCE FLOWS

	1984	1994	2003	2004
(US\$ millions)				
Total debt outstanding and disbursed	32,026	107,824	134,898	139,330
IBRD	2,364	12,008	9,779	8,943
IDA	812	776	880	996
Total debt service	4,846	14,267	18,453	31,505
IBRD	303	2,156	2,003	1,938
IDA	11	26	33	35
Composition of net resource flows				
Official grants	21	22	55	28
Official creditors	1,372	1,635	-891	-2,715
Private creditors	1,202	1,964	-4,218	-1,868
Foreign direct investment (net inflows)	222	2,109	-597	1,023
Portfolio equity (net inflows)	0	1,900	1,130	2,043
World Bank program				
Commitments	987	1,538	584	682
Disbursements	827	1,187	408	659
Principal repayments	105	1,259	1,294	1,390
Net flows	722	-73	-886	-731
Interest payments	209	923	742	583
Net transfers	513	-995	-1,628	-1,314



Annex 18: Maps

**INDONESIA: THIRD WATER SUPPLY AND SANITATION FOR LOW INCOME
COMMUNITIES (PAMSIMAS) PROJECT**

Map No. INS34633

INDONESIA THIRD WATER SUPPLY AND SANITATION FOR LOW INCOME COMMUNITIES PROJECT

- CANDIDATE PROVINCES
- SELECTED CITIES AND TOWNS
- PROVINCE CAPITALS
- NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- PROVINCE BOUNDARIES
- INTERNATIONAL BOUNDARIES

