



Australia Indonesia Partnership

Kemitraan Australia Indonesia



**Design Summary and Implementation Document
Water and Sanitation Initiative (WSI) – Indonesia**

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GLOSSARY OF TERMS AND ACRONYMS

ADB	Asian Development Bank
AMPL	<i>Air Minum Penyehatan Lingkungan</i> Water and Environmental Sanitation
APBN	<i>Anggaran Pendapatan dan Belanja Negara</i>
AusAID	Australian Agency for International Development
Bappenas	National Development Planning Agency
BI	Bank Indonesia
BPD	Regional Development Bank
CDD	Community-driven Development
CLTS	Community-led Total Sanitation
DAK	Special sector-specific block grant from central to local government
DAU	General block grant from central to local governments
DBH	<i>Dana Bagi Hasil</i> – Revenue Sharing Fund
DGCK	Directorate General Cipta Karya (Ministry of Public Works)
DPRD	Local Legislature (<i>Dewan Perwakilan Rakyat Daerah</i>)
DPU	<i>Departemen Pekerjaan Umum</i>
DSID	Design Summary and Implementation Document
ESP	Environmental Sanitation Program of USAID
FY	Fiscal Year
GoI	Government of Indonesia
GTZ	German Technical Cooperation
Hibah	Water Hibah Grant
IA	Implementing Agency
IDPL	Infrastructure Development Program Loan
IEG	Infrastructure Enhancement Grant(s)
IFGI	Infrastructure for Growth Initiative
IFI	International Financial Institutions
IndII	Indonesia Infrastructure Initiative
JICA	Japan International Cooperation Agency
KDP	Kecamatan Development Program
KfW	German Bank for Reconstruction
LG	Local Government
MDB	Multilateral Development Banks
MDG	Millennium Development Goal(s)
MOF	Ministry of Finance
MPW	Ministry of Public Works
MSMHP	Metropolitan Sanitation Management and Health Project
NPHD	Subsidiary grant agreements
NTT	Nusa Tenggara Timur Province
OBA	Output-based aid
PAMSIMAS	Third Water Supply and Sanitation for Low Income Communities
PDAM	<i>Perusahaan Daerah Air Minum</i> Local government-owned water company
PDPAL	Wastewater Services Company (Banjarmasin)
PEMDA	Local government (<i>pemerintah daerah</i>)
PERPAMSI	Indonesian Water Supply Association
PERPRES	Presidential Regulation
PIM	[Water Hibah] Project Implementation Manual
PNPM	National Program for Community Empowerment

ProAir	A community-based water and sanitation project in Eastern Islands
RNE	Royal Netherlands Embassy
SANIMAS	Community-based Sanitation Program
SDG	Sustainable Development Group
SUSENAS	Indonesia's annual socioeconomic survey
TA	Technical Assistance
TOR	Terms of Reference
UPP	Urban Poverty Program
UWSSWG	Urban Water Supply and Sanitation Working Group
UWSSP	Urban Water Supply and Sanitation Project
WASAP	Water and Sanitation Program
WASPOLA	Water and Sanitation Policy and Action Planning
Wastewater	Sewerage and Sewage treatment
WATSAN	Water and Sanitation
WB	World Bank
WSI	Water and Sanitation Initiative
WSLIC	Water and Sanitation for Low Income Communities
WSS	Water and Sanitation Sector



OVERVIEW

The Water and Sanitation Initiative (WSI)

The Water and Sanitation Initiative (WSI) was announced by the Government of Australia (GoA) in December 2008. Its core objectives are to:

- Expand access to water supply and sanitation services, particularly for the poor, women, and children in schools;
- Make water and sanitation services more sustainable by supporting sector reform and capacity building;
- Improve the health and quality of life of the poor and vulnerable by increasing their understanding of good hygiene practices, as well as by expanding their access to water supply and sanitation services.

The approved funding for WSI is A\$300 million, of which A\$100 million will be channelled through multilateral development agencies and A\$200 million to bilateral country programs, including Indonesia. Bilateral programs are expected to be completed by end-June 2011.

Identification and preparation of the Indonesia WSI program

An AusAID mission in June-July 2008 identified possible components for an Indonesia WSI program. The resultant *Concept Document*, endorsed in December 2008, recommended working with multilateral agencies and other bilateral donors on six main programs / projects:

1. the Metropolitan Sanitation Management and Health Project (MSMHP); (being prepared for ADB loan financing);
2. the Urban Water Supply and Sanitation Project (UWSSP); (to be financed by a World Bank loan);
3. an output-based scheme for incentivising municipal water utilities (PDAMs) to accelerate provision of new connections (design developed by GOI with consultancy assistance managed by the World Bank);
4. an expanded PAMSIMAS rural sanitation, water supply and hygiene program (a GOI-managed program which is already supported by an IDA loan, and previously committed AusAID funding);
5. earmarked support for water and sanitation through the PNPM National Community Empowerment Program (main components are modelled on the World Bank-funded KDP and UPP projects); and
6. an extended rural sanitation and water supply program in Eastern Indonesia (ProAir; managed by GTZ and currently funded by KfW).

The timing and absorptive capacity of these programs / projects were recognised to be uncertain, and the mission accordingly identified 'high' and 'low' case funding scenarios (\$35.4 and \$14.8 million respectively).

A consultant (Mr. J. Coucouvinis) was appointed in February 2009 to prepare a *Design Summary and Implementation Document*, based on a funding ceiling of \$35.5 million. This ceiling was subsequently increased to \$60.5 million in July 2009.

Gol's evolving Water and Sanitation strategy

Gol's current water and sanitation strategy has been shaped in large measure by:

- the 1997/98 economic and political crisis, which caused a sharp increase in poverty and a significant reduction in infrastructure investments, and which contributed to more than 50% of all water utilities (PDAMs) defaulting on their loan repayments to MOF;
- regional autonomy, which assigned responsibility for delivery of water and sanitation services to municipal and district governments.

In the years immediately following the crisis, the highest priority was given to community-driven water and sanitation programs in rural and urban areas which also formed part of Gol's poverty alleviation strategy. These programs are now being continued and consolidated under the PNPM program.

More recently, concerted attention has been focused on enabling PDAMs to finance new investments. The adopted strategy aims at improving governance and ensuring financial sustainability while serving the needs of the poor. Its core elements include:

- improved tariff guidelines, issued by MOHA, which are designed to enable full cost recovery while providing an affordable low tariff for basic needs consumption;
- a voluntary debt restructuring program, established by MOF, which provides for the "write-off" of accrued loan interest arrears and penalties for PDAMs, whose owner PEMDA elects to apply the MOHA tariff guidelines and satisfy other governance requirements;
- a Central Government loan guarantee and interest subsidy program, established by Presidential Regulation, designed to enable soundly managed PDAMs to access loans from State-owned banks and regional development banks (BPDs);

- a proposed output-based grant (Water Hibah Grant) scheme, to be implemented through the improved grants channelling mechanism established by MOF, which is designed to incentivise PDAMs to accelerate new connections.

This strategy has evolved very rapidly over the past year, with most of the key regulations having been issued subsequent to the WSI identification mission.¹

Implementation of these initiatives has already commenced, and GoI is now prioritising development and implementation of a strategy for mobilising much needed investment in urban sanitation. The challenges, however, remain daunting, with only a few cities currently operating piped sewerage systems, and/or competent institutions to plan and manage urban sanitation services. The ongoing community-based sanitation program (SANIMAS), to which GoI contributes through matching grants to Local Governments (LGs), is helping to reduce reliance on self-provided sanitation for small communities, but the governance arrangements are still weak and the program is not amenable to rapid up-scaling. The World Bank and ADB have long shown strong interest to provide support with strategy development and implementation, but with relatively limited success so far.

Positioning the WSI Indonesia program

The DSID document presents a proposed WSI Indonesia program that is designed to optimise the use of WSI funds allocated to Indonesia, while having careful regard to:

- the WSI objectives and AusAID's desire to see at least 30% of funds used for sanitation-related activities;
- GOI's rapidly evolving priorities, strategies, and systems;
- ongoing, committed and prospective water and sanitation sector initiatives supported by other AusAID programs (notably PAMSIMAS, the WASPOLA Facility, and the IndII Facility), and by multilateral and other bilateral agencies;
- the imperative to design and implement the WSI program by June 2011.

The starting point for its preparation was the December 2008 *Concept Document*, which was reviewed in the above context. The key issues and challenges included:

- the sharp increase in the funding allocation during the latter stages of DSID preparation;
- the further slippages in the processing of the MSMHP and UWSSP projects, coupled with continuing uncertainties regarding local government ownership of them;
- the limited opportunities available for supporting physical investments in improved sanitation; and
- the need to carefully mesh and delineate WSI and IndII programs, given that the latter is being implemented within the same time frame, is also amply funded, and has water and sanitation as one of its two priority sectors.

With regard to the latter point, the intent has been to make WSI and IndII programs complementary, with WSI funds being used primarily to support investments that provide access to improved water and sanitation; and IndII funds being used primarily to finance related technical assistance and capacity building services. IndII is also able to provide complementary grant funding for water and sanitation initiatives from its Infrastructure Enhancement Grants (IEG) component.

Proposed WSI program

It is proposed that the expanded WSI funding of \$60.5 million be used to:

- pilot the implementation of the output-based grant scheme (Water Hibah) for incentivising LGs to accelerate provision of new PDAM water connections; the proposed allocation of \$20 million is expected to support delivery of around 60,000 functioning water connections within two years;
- extend the PAMSIMAS improved water and sanitation program which currently covers 4,000 villages; the proposed allocation of \$22.5 million will enable extension to an additional 400 villages, including socialisation and capacity building;
- support efforts to expand piped sewerage services in major cities; the proposed allocation of \$10 million will fund preparation of investment plans for sewerage systems in four cities and construction of 15,000 new connections for the existing Banjarmasin system;
- support further improvements in sector governance; the proposed allocation of \$5 million will fund civil society initiatives aimed at reducing gender and poverty barriers to accessing improved services.

A further \$3 million has been allocated to finance direct program management costs, monitoring and evaluation and verification costs.

¹ The MOF regulations concerning PDAM debt restructuring and procedures for provision of grants to regions were issued in August and November 2008 respectively; the Presidential Regulation on the loan guarantee and subsidy scheme was signed in June 2009; and MPW's detailed proposals for an output-based grants scheme were submitted to Bappenas in April 2009.

In the interests of maximising synergies and management efficiency and minimising coordination problems, it is proposed that the WSI program be managed through the existing IndII structure. This will be accomplished through amendment of the current IndII *Subsidiary Arrangement*.

Proposal Summary

Urban piped water (\$20 million)	Water Hibah: 60,000 households served with piped water 360,000 beneficiaries.
Urban sanitation (\$10 million)	Technical Assistance: Preparation of wastewater investment plans for 4 cities (\$5 million). Banjarmasin Sewerage extension: 15,000 new connections / 90,000 beneficiaries (\$5 million)
Improved rural water (\$12 million)	PAMSIMAS: 550,000 persons with access to improved water services
Improved rural sanitation (\$10.5 million)	PAMSIMAS: +/- 800,000 persons with access to improved sanitation Support with socialisation in new villages.
Sector governance reform (\$5 million)	<i>Civil society component</i>
Program management (\$3 million)	<i>Includes IndII MC incremental costs</i>

GOI is strongly committed to ensuring the success of the pilot Water Hibah program, as evidenced by very close and effective coordination between Bappenas, MPW (DG Cipta Karya), and MOF (DG Debt Management, DG Budget and DG Fiscal Balance). Participation is voluntary and competitive, and there is keen interest on the part of LGs / PDAMs despite stringent eligibility conditions. IndII has already commissioned technical assistance to assist a group of 20 PDAMs to prepare sound business plans and many other PDAMs have already benefitted from similar technical assistance funded by other agencies.

The proposed urban sewerage component has been introduced subsequent to the increase in the WSI Indonesia funding allocation and responds to the strong desire of GoI and GoA to see at least 30% of the available funds being used to support sanitation improvements. The Banjarmasin proposal is considered very promising: the existing treatment plant, part of which was funded by a World Bank loan, has considerable excess capacity and an engineering design for the proposed extension has already been prepared. However, it has not been possible within the time available to review the design or associated implementation plan.

The additional funding for the PAMSIMAS program will be implemented using the already agreed and tested mechanisms and procedures. The main issue concerns the need to disburse WSI funds very quickly, which will necessitate prioritising their use vis-à-vis the proceeds of the World Bank loan. The GOI is fully supportive of this, but further discussions are needed with the World Bank, as the currently proposed PAMSIMAS allocation has been increased following the increase in the total WSI Indonesia allocation.

Related IndII activities

It is intended that the IndII Facility complement and supplement the WSI program by financing related technical assistance and capacity building services. In addition, it is envisaged that IndII could provide additional funding (up to \$10 million) for the pilot Water Hibah program if the take-up matches current projections.

As noted earlier, IndII is already funding technical assistance to 20 PDAMs, a number of which are expected to participate in the pilot Water Hibah program. This will be complemented by technical assistance for the further socialisation of the Water Hibah program; the verification of new water connections; and the benchmarking of PDAM performance. IndII will also support the further preparation of the Banjarmasin component and will fund technical assistance and capacity building in the water and sanitation sector that is not directly related to the currently proposed WSI activities. In particular, it is envisaged that IndII would finance components of the MSMHP and UWSSP projects, if still needed.

Compliance with ODE recommendations

The proposed strategy and program structure are fully aligned with the findings and recommendations of the ODE's *Independent Evaluation of Water Supply and Sanitation Service Delivery in East Timor and Indonesia* (June 2009). In particular, the proposed pilot Water Hibah program will support pioneering sector reforms and contribute to broader governance improvements.

Management arrangements

It is proposed that the implementation of WSI Indonesia program be overseen by the IndII Management Board, which is co-chaired by the Bappenas Deputy for Infrastructure and the AusAID Minister/Counsellor, and that its day-to-day management be handled by an expanded IndII Facility Managing Contractor team. This will require some adjustment to the team structure, including in particular the creation of a new position for Technical Director – Water & Sanitation.

Eliminated components

One component included in the endorsed *Concept Document*, namely the ProAir program, is no longer proposed for AusAID support. The current program is about to finish, KfW does not propose to extend it, and GoI has not shown interest to see AusAID support an extension. While the program has delivered good results, its unit costs are considered to be high.

As noted earlier, the MSMHP and UWSSP projects are no longer proposed to be supported under WSI, in part because of continuing uncertainties regarding timing and ownership, and in part because the requested support is for technical assistance and capacity building services that are considered to fit better with the scope of IndII.

While there have been preliminary discussions concerning a possible “Green UPP” project, there is not currently a suitable mechanism for earmarking WSI funds within the mainstream components. It should be noted in this context that PAMSIMAS is viewed by GoI as forming part of the rural PNPM National Community Empowerment Program (its implementation modalities do not differ significantly from those used for the mainstream components which evolved from the KDP and UPP programs).

Environmental and social safeguards

The physical investments to be supported under the WSI program are small in scale and will not create significant environmental impacts or require land acquisition. The eligibility conditions for the Water Hibah scheme restrict participation to PDAMs which have sufficient water production capacity while the Banjarmasin sewerage proposal will utilize existing treatment plant capacity. The physical works to be supported by WSI will accordingly be limited to installation of small pipes (up to 15cm) along urban roads. PAMSIMAS involves very small scale works in rural communities and appropriate safeguard policies are already in place.

Poverty, Gender and Disability considerations

The proposed investments are designed to provide access to improved water and sanitation for poor neighbourhoods / communities and will be gender positive. In some instances, they will also benefit the disabled and/or their families, although it is not proposed to provide special facilities inside homes.

Sustainability

PAMSIMAS is a continuation of a well-proven program that has been extensively reviewed and assessed to be sustainable. The pilot Water Hibah scheme is explicitly designed to enable the continuing viability of the participating PDAMs, and the stringent eligibility criteria should ensure that WSI supports only those LGs and PDAMs that are strongly committed to this goal. The MOHA tariff guidelines seek to balance commercial viability and affordability by providing for cross-subsidies between customer categories, and the WSI funded grants will apply to all homes connected within poor neighbourhoods / communities. The Banjarmasin sewerage system is corporatised and funded by a levy on water bills. It is recognised to be one of the best managed sewerage systems in Indonesia, and enabling increased utilisation will enhance its sustainability.

Risk management

The main identified risks with the program described relate to the very tight timeframe for its implementation. To manage these, it is proposed to retain some flexibility to adjust funding between individual components. Risks related to safeguard policies and to fiduciary management are relatively minor and will be addressed through careful detailed design and through appropriate supervision, monitoring, verification, and audit procedures.

1. SUMMARY

1.1 Introduction

The proposed WSI for Indonesia supports the Government of Indonesia (GoI) program for development of the water and sanitation sector through a number of potential components including:

- (1) an incentive grant (the **Water Hibah**), for sub-national government investment in water supply to provide 60,000 new water connections in two years;
- (2) the expansion of the current Third Water Supply and Sanitation for Low Income Communities (**PAMSIMAS**) program of 4,000 villages by up to an additional 400 villages, and
- (3) the preparation of **investment plans for sewerage systems** in four cities and the expansion of the existing sewerage system in **Banjarmasin** by 15,000 connections.

A further component of WSI, the Civil Society Program, will be coordinated by the Sustainable Development Group (SDG) in Canberra. The SDG Program will provide funding to Australian not-for-profit organisations as well as non-Australian civil society and not-for-profit organisations to improve access to safe water and basic sanitation and improving governance and planning, and inclusiveness. The Program will focus particularly on sanitation.

The WSI will be implemented between July 2009 and June 2011. It is proposed the WSI be implemented as an extension of the Indonesia Infrastructure Initiative (IndII) facility. IndII will provide technical and administrative resources to manage implementation of water and sanitation activities funded through the WSI. The facility will also provide advice, and monitoring and evaluation for other Australian water and sanitation activities funded through either the World Bank (WB) or IndII.

AusAID (Jakarta Post) will work closely with IndII to: (a) ensure coherence; (b) further develop relations with GoI and other partners; and (c) ensure that the Australian funded suite of water and sanitation activities are programmed, managed and evaluated as a holistic program. This arrangement will not require the need for a separate grant agreement with GoI; it will require rather an amendment of the existing Subsidiary Arrangement under IndII to accommodate the WSI components. Therefore, while this document has been developed to provide programming options for the WSI, it is also aimed at designing an agreed management approach to link all the Australian water and sanitation initiatives in Indonesia.

1.2 Water Hibah

The GoI Water Hibah provides incentives for Local Governments (LG) to invest some reserves into their water companies (PDAMs) and accelerate improvement in service coverage. This is part of a three-pronged initiative by GoI to reform the water sector. The other two components of the GoI initiative are the *debt restructuring program* and the *provision of credit guarantees and interest rate subsidies for Local Government-owned water companies (PDAM) commercial borrowing*. These three initiatives are strongly interlinked and mutually supportive. Other programs of IndII also support the debt restructuring and credit guarantee initiatives, further strengthening the WSI and GoI programs.

The WSI Water Hibah is part of a larger GoI Water Hibah program to provide 1,500,000 new connections to poor households over the five years from 2010 to 2014.

The primary objective of the GoI Water Hibah is to improve water services through greater ownership and commitment by the local government as the most sustainable long-term path for growth in the water sector. The GoI Water Hibah concept derives from the successful application of the small-scale output-based schemes for Jakarta and Surabaya water supplies. This approach is an innovative pilot application of the new on-granting mechanism by MOF under regulation PMK 168/169 2008, that could also be applied to sanitation and other sectors. As such it will pioneer the large-scale application of output-based support for local government services and will stimulate local Government investment in the water utilities as the most sustainable long-term path for growth.

The Water Hibah seeks to put the urban water supply on a sustainable footing by not only requiring LGs to set the average PDAM tariff at a level that covers full costs, but also stipulates that there must be a low tariff that will enable those on low incomes to afford their basic water needs. The cost of supplying water at a tariff which does not cover basic cost is required to be off-set by cross-subsidies from other customers. It is recognised that this will be sustainable only if there are sufficient customers paying a tariff that exceeds the “basic cost”; therefore, the Water Hibah will not focus exclusively on poor neighbourhoods.

The implementation of the WSI Water Hibah will precede the GoI program by one budget cycle and will help set implementation procedures and protocols. It will be implemented by the Ministry of Public Works (MPW), the MOF, and Local Governments (LG). The lead taken by the Water Hibah will assist the GoI with implementation of its larger program and increase technical capacity within GoI implementing agencies to execute the larger program. The WSI Water Hibah will help to achieve this objective by testing the selection of target beneficiaries and the application of the Hibah funds.

1.3 PAMSIMAS

The other two components of the WSI support more established GoI programs. The PAMSIMAS component provides funding for up to an additional 400 villages. It includes gender responsive socialisation, community empowerment and capacity building implemented under the PAMSIMAS’s comprehensive Gender Action Plan. Under the PAMSIMAS component, the GoI is targeting 4,000 villages for the period 2010 to 2014.

1.4 Banjarmasin

The sanitation component supports preparation of sewerage investment plans for four cities and implementation of Banjarmasin’s sewerage expansion program to provide an additional 15,000 sewerage connections. This supports the GoI program to increase the number of cities with sewerage services from eleven to fifteen, and to increase sewerage coverage in those cities to twenty percent of the population.

1.5 WSI challenges and recommendations

The major challenges for the WSI program are achieving 30 percent or more sanitation content, and completing the program within 1½ budget cycles (because the mismatch of the GoI and GoA budget year causes a six-month programming lag in Indonesia compared to the Australian financial year). In addition, the GoI is only now gearing up its sanitation spending, so there is an insufficient amount of prepared programs to absorb the planned 30 percent of WSI funding, nor is there sufficient time to develop new initiatives. However, a scale-up of sanitation, particularly physical works, is a priority for the GoI; IndII could provide technical assistance for developing such a program.

This Design Summary and Implementation Document (DSID) recommends that a A\$20 million allocation be applied to the Water Hibah in recognition of its importance in providing safer and cheaper water to disadvantaged and poorly serviced areas. The potential for broader system change, both in sustainable water supply infrastructure and in more efficient, sustainable public financial management, makes the Water Hibah a priority. However, as the Water Hibah program is still in development, this component of the proposed water and sanitation program will need to be considered a “design and implement” activity. The DSID recommends AusAID commit, in principle, up to A\$20 million for the Water Hibah while at the same time finalising a full design over the next several months. This will maximise this unique opportunity for the GoA to be involved in fundamental change in the sector, but allow a full examination against appropriate quality principles.

A second issue is that, while the Water Hibah has great potential, there is a risk of slower than expected implementation which may require a reallocation of funds. To mitigate, this DSID provides a range of activities flexible enough to absorb increased or decreased levels of funds. For example, while it is proposed that A\$22.5 million be applied to PAMSIMAS, it is possible that additional funds can be usefully directed to PAMSIMAS. Also, there is scope to fund the World Bank Urban Water Supply and Sanitation Project (UWSSP) and the ADB Metropolitan Sanitation Management and

Health Project (MSMHP) under WSI should there be a shortfall of funds, or from the IndII allocation if WSI is fully subscribed.

The potential for IndII resources to be applied to water and sanitation means that over the next two years AusAID can provide an investment well in excess of the A\$60.5 million WSI. Tables 2 and 3 of this DSID document identify the various water and sanitation activities that potentially can be integrated to form an overall water and sanitation program.

Table 1: Summary of WSI Components

Sector Coverage	Water and Sanitation Initiative
Urban Water	Water Hibah \$20 M ² 60,000 households served with piped water 360,000 beneficiaries.
Rural Water	Rural sector via PAMSIMAS Village grants \$12 M Approximately 400 villages with 550,000 pop. receiving water services.
Urban Sanitation	Urban Sewerage \$10 million Technical Assistance for wastewater investment plans for 4 cities \$5 M. Banjarmasin Sewerage extension \$5 M. resulting 15,000 new connections 90,000 beneficiaries.
Rural Sanitation	PAMSIMAS Village grants \$8 M Approximately 400 villages with 800,000 pop. receiving sanitation benefits. PAMSIMAS \$2.5 M. Support with socialisation of the program to new villages.
Urban & Rural WSS	Civil Society Component \$5M
Program Management	WSI Watsan program management \$3M Includes M&E and verification activities for the Hibah.

² Additional \$10 million may be applied from IndII

2. PROPOSED PROGRAM AND RATIONALE FOR AUSAID PARTICIPATION

2.1 Background

The GoA announced the Water and Sanitation Initiative (WSI) in December 2008. The detailed description of the objectives of WSI and the expected outcomes are given in the WSI global initiative documentation. The basic objectives are:

- Expand access to water supply and sanitation services, particularly for the poor, women and children in schools;
- Make water and sanitation services more sustainable by supporting sector reform and capacity building;
- Improve the health and quality of life of the poor and vulnerable by increasing their understanding of good hygiene practices, as well as by expanding their access to water supply and sanitation services; and
- Enhance aid effectiveness and complement other development agencies' programs.

The approved funding allocation is \$300 million, of which \$100 million will be channelled through multilateral and other development partners and \$200 million will be allocated to bilateral country programs, including in Indonesia. The bilateral funds are to be expended during the period 1 July 2009 - 30 June 2011.

AusAID conducted an identification mission³ between 29 June and 11 July 2008 to identify and assess possible components for an Indonesia WSI program that could be implemented within the two-year timeframe⁴. A *Concept Note* was prepared and submitted to a Peer Review⁵ on 5 November 2008. The revised *Concept Document* was endorsed in December 2008. The *Concept Document* recommended working closely with multilateral agencies and other bilateral donors on six main programs / projects:

- the Metropolitan Sanitation Management and Health Project (MSMHP; under preparation for ADB loan financing);
- the Urban Water Supply and Sanitation Project (UWSSP; under preparation for World Bank loan financing);
- a proposed output-based scheme for incentivising municipal water utilities (PDAMs) to accelerate provision of new connections (being developed by GOI, with consultancy assistance managed by the World Bank);
- an expanded PAMSIMAS rural sanitation, water supply and hygiene program (a GOI-managed program which is supported by an IDA loan and previously committed AusAID funding);
- earmarked support for water and sanitation through the PNPM National Community Empowerment Program (managed by GOI and modelled on the World Bank-funded Kecamatan Development Project (KDP) and Urban Poverty Program (UPP) projects; and
- An extended rural sanitation and water supply program in Eastern Indonesia (ProAir; managed by GTZ and currently funded by KfW).

It was recognised that the timing and potential absorptive capacity of these programs / projects were still very uncertain, and 'high' and 'low' case overall funding scenarios (\$35.4 million and \$14.8 million) were accordingly identified.

In line with the decisions taken at the November 2008 Peer Review, a design advisor was appointed in February 2009. It was readily apparent by February that the GoI's goals and policies for the water and sanitation sector were evolving quickly, with the GoI Vice-President having announced in December 2008 a target of providing 10 million new, piped water connections by 2013. Since then, there have been intensified discussions within the GoI on the need to accelerate development and implementation of urban sanitation improvement programs. It was also apparent, however, that preparation of the MSMHP and UWSSP projects was proceeding slowly, thereby raising questions about their ability to

³ Mission Leader Alan Coulthart; other participants: Marcus Howard, Gerard Cheong.

⁴ The mission also explored longer term support options.

⁵ Peer Review minutes in Annex (2).

absorb WSI funding within the specified timeframe. These developments, coupled with the very recent decision to allocate greatly increased WSI funding of \$60.5 million to Indonesia for 2009/10-2010/11, have necessitated a fundamental review of the strategy outlined in the approved *Concept Note*.

2.2 GOI Water and Sanitation Strategy

The enactment of decentralisation and regional autonomy legislation first in 1999⁶ and later in 2004⁷ irrevocably changed the development of the Indonesian water and sanitation sector (WSS). This legislation mandated responsibility for development of the WSS sector to the local government. More specifically, it excluded central government from initiating and implementing projects in water supply and sanitation. This, together with the widespread default on loans by PDAMs and local governments after the monetary crisis, launched GoI on a path of sector reform which has been consistent in its objectives and unwavering in its progress. Clarification about the role and responsibility of the different levels of government is given in Government Regulation PP 38/2007⁸. Although the initial focus of reform initiatives by the Government has been on the water sector, more recent attention is now being given to sanitation.

2.2.1 GOI Strategy for Urban Water Supply development

One impact of the regional autonomy legislation has been a pronounced reduction in new investment for urban water supply infrastructure. This is a result of a number of factors; however most prominent has been the end of central government funding of urban water supply investments, and the reluctance of local governments to invest in their own PDAMs. The outcome has been a greatly reduced growth of the numbers of households served by municipal water supplies. This growth has not kept pace with the increase in urban populations, and consequently the percentage of urban population served by piped water has declined from 39 percent to 31 percent during the last decade.

The overall situation, however, is far from uniform. At one end of the spectrum, a few large and medium cities with more effective local governments and well managed PDAMs are performing well and have been able to substantially expand customer numbers while covering their full costs. At the other, many small district PDAMs have no prospect within the foreseeable future of operating on a sustainable commercial basis. Located between these extremes, are more than half of the 330-plus PDAMs which have defaulted on debt service payments for ADB and World Bank loans on-lent by MOF, and are consequently unable to access new debt finance.

GoI has recognised that different strategies will be needed for different groups of PDAMs, and is focusing initially on those that are already ‘healthy’⁹ or have the potential to quickly become healthy through management reform and financial restructuring. The adopted strategy for this group aims both at promoting PDAM sustainability and accelerating provision of new water connections; the strategy has four main elements:

- (a) Tariff Reform
 - (b) Debt restructuring
 - (c) Central Government Loan Guarantee and Interest Subsidy Scheme
 - (d) Output-based Grant (Water Hibah) Scheme.
- (a) *Tariff Reform:* Minister of Home Affairs (MoHA) Regulation 23/2006 seeks to put urban water supply on a sustainable footing by requiring LGs to set PDAM tariffs at a level that enables full cost recovery. Provision is made for a low tariff designed to enable the poor to

⁶ Law 22 of 1999 on regional autonomy and law 25 of 1999 on fiscal balance.

⁷ Law 33 of 2004 and Law 33 of 2004 revising laws 22 and 25 respectively.

⁸ Government Regulation on the Division of Responsibilities between Government, Provincial government and Local government, PP38/2007.

⁹ GoI PDAM rating system established by the State Audit Agency and Ministry of Public Works based on an index of financial, operational, and administrative indicators. Categories are Healthy, Less Healthy, and Sick.

meet their basic needs, and for the associated cost to be offset by cross-subsidies from other customers.

- (b) *Debt Restructuring*: This voluntary program, established by MOF Regulation PMK120/2008, provides for partial or full write-off of a PDAM's accumulated interested arrears and late payment penalties - in return for the PDAM and the owner PEMDA agreeing to a number of governance conditions. These include: implementation of a full cost recovery tariff; appointment of PDAM senior management based on fit and proper testing; preparation of sound medium-term business plans; and the PEMDA undertaking to backstop repayment of the restructured loan and to authorise MOF to 'intercept' General Block Grant (DAU) or Revenue Sharing Fund (DBH) payments in the event of non-compliance.
- (c) *Central Government Loan Guarantee and Interest Subsidy Scheme*: This scheme is designed to assist PDAMs to secure medium-term investment financing from commercial banks on affordable terms, and is open to PDAMs that have a 'healthy' performance audit rating, or that have secured MOF's approval to participate in the debt restructuring program. Participants in the scheme must also be able to connect new customers quickly, as evidenced by having unutilised water production capacity, and have a 'bankable' medium-term business plan. The scheme has been implemented by Presidential Regulation No.29¹⁰ signed on 23 June 2009. The loan guarantee involves the Central Government guaranteeing 70 percent of the outstanding loan amount, with the PEMDA undertaking to repay 30 percent of the total amount if the guarantee is called. The interest subsidy involves Central Government providing a subsidy of up to 5 percent to bring the loan interest rate down to the Central Bank (BI) reference rate.
- (d) *Output-based Grant (Water Hibah) Scheme*: The proposed Water Hibah aims to give LGs incentives to invest in PDAMs to accelerate connection of new households, and particularly poor households, by providing a fixed lump-sum grant (tentatively Rp. 2 million) for each new connection that has been independently verified to have supplied and billed water for at least three months. The scheme was formally proposed to the National Development Planning Agency, Bappenas, by the Ministry of Public Works in April 2009 and enjoys very strong support within MOF. Funds would come from a special account managed by MOF through the new granting / on-granting mechanism established by MOF PMK 168 and 169 of November 2008. Eligibility conditions will be the same as for the Loan Guarantee and Interest Subsidy Scheme. The initial focus, however, will be on those LGs / PDAMs that have the capacity to pre-finance initial investments in constructing new connections without new borrowings.

The pace at which this strategy has taken shape is remarkable, particularly given the number of central government agencies involved. At the time of the WSI identification mission, the debt restructuring strategy had been defined but little thought had been given to assisting PDAM's to access commercial financing or to the design of an output-based scheme for accelerating new connections. While many details still remain to be fleshed out, the MOF, Bappenas and the MPW have all signalled their strong support for AusAID to proceed as rapidly as possible with piloting the Water Hibah scheme and developing sound governance arrangements.

Attention is now being given to the issue of enabling PDAMs to access affordable long-tenor financing for major investments such as treatment plants and trunk mains. There is keen interest on the part of ADB and the World Bank to provide support in this area.

2.2.2 GOI Rural Water and Sanitation strategy

By comparison with urban WSS, the development of the rural WSS sector has not declined over the past decade. This is largely due to continued funding from external sources which has not been affected by the regional autonomy laws. The GoI rural WSS strategy is centred on the

¹⁰ Provision of Guarantees and Interest Rate Subsidies by Government for commercial borrowing by PDAM for the acceleration of provision of water supply, PP 29/2009.

Community Driven Development approach (CDD) which allows central government to finance rural infrastructure by channelling the development funds directly to community groups. This funding mechanism avoids the constraints of local government financing responsibility for municipal services, and has been justified largely on the basis of national poverty alleviation objectives. The approach started in 1997 with the monetary crisis which gave rise to a number of social safety net programs using the CDD approach. The CDD approach was progressively refined in later generations of individual programs and has been so successful that the Government has established a national poverty alleviation program¹¹ and a Coordinating Ministry to be the umbrella for all of the poverty alleviation programs.

The programs of interest in the Indonesian water supply and sanitation sector are: Water Supply and Sanitation for Low Income Communities (WSLIC) 1, 2, and 3; the KDP; and the UPP. PAMSIMAS is the third generation of WSLIC and the innovative design components of village and district grants have been incorporated into the later generations of UPP. The AusAID-funded Water Supply and Sanitation Policy and Action Planning (WASPOLA) project used the CDD approach as the basis of the rural WSS strategy, which was adopted by GoI. The scaling up of the rural WSS strategy will be done through its application in PAMSIMAS, and is one of the design features of the Waspola Facility, which is the third iteration of WASPOLA.

2.2.3 GOI (evolving) Urban Sanitation strategy

The strategy for the development of the sanitation and wastewater sector is still emerging. One reason for the late development of the sanitation sector has been the historic reliance on self provision of sanitation facilities by individual property owners. The predominant form of sanitation in Indonesia's cities is self-provided septic tanks. This includes most of the commercial and institutional buildings in addition to residential properties.

The LG is responsible under law to provide a service for the safe disposal of sanitary waste. However this has been largely limited to the collection of septic tank waste from individual properties and its disposal to government operated sludge disposal facilities. Private operators also provide this service but are not well regulated. The accepted practice for construction of septic tanks allows seepage into the surrounding groundwater. Many of the private desludging operators commonly discharge the wastes into rivers and drains rather than at approved disposal facilities. Only eleven cities have piped sewerage systems, and in aggregate these serve little over one percent of the Indonesian urban population.

The urban poor rely on publicly provided facilities through LG programs assisted by national government. The Community-Based Sanitation program, SANIMAS is the main vehicle for assistance to the poor. Indonesia is on track to meet its MDG target for urban sanitation with 81.8 percent¹² coverage, however there is low coverage in poor and slum areas. By comparison, sanitation coverage in rural areas is lower at 60% but is on track to meet the MDG. However similar to the urban situation; coverage is disproportionately low among the poor

The Government, through its commitment to the MDGs, has initiated a number of programs that target sanitation improvements for the urban and rural poor. The main programs are: PAMSIMAS; the Urban Poverty Program (UPP); and the Kecamatan Development Program (KDP)¹³. The main vehicle, however, for delivering sanitation to urban poor is the SANIMAS program. The issues and challenges are well understood but for many years were only addressed in a limited way. Nevertheless, in the past two years there has been progress culminating in the *Sanitation Road Map* that targets GoI's three broad sanitation goals: (i) expansion of the number of cities served with sewer systems from eleven to fifteen and increasing the coverage in those cities to twenty percent of the urban population; (ii) achieving 80 percent coverage of the communal sanitation requirements; and (iii) establishing safe septage disposal facilities in all LGs together with regulation of private desludging contractors.

¹¹ PNPM Program Nasional Penanganan Kemiskinan, otherwise also known as NCEP National Community Empowerment program

¹² Report on the Achievement MDG in Indonesia, UNDP, Bappenas 2007

¹³ The latter two programs have now been folded into the Government's broader PNPM program

The *Sanitation Road Map* will be supported by a program to establish *City Sanitation Strategies* in 330 cities and towns.

2.3 Positioning WSI within an expanded AusAID Indonesia WSS program

AusAID has had a long and effective involvement in Indonesia's WSS sector. In recent years, this has centred on the WSLIC (Water Supply and Sanitation for Low Income Communities) / PAMSIMAS (Third Water Supply and Sanitation for Low Income Communities) and WASPOLA (Indonesia Water Supply and Sanitation Policy Formulation and Action Planning) programs. Both of these programs have focused primarily on supporting village level community managed programs, in part due to a lack of traction on the part of GoI in resolving impediments to much needed investment in urban water and sanitation services. WASPOLA is in its third-stage extension, although incorporating a design change enabling it to operate as a facility. The focus of the WASPOLA facility is to respond to GoI requirements for support with policy implementation and development activities in water supply and environmental sanitation. Both WASPOLA Facility and PAMSIMAS are funded under the Infrastructure for Growth Initiative (IFGI) and have committed funding of \$10 million each which will be channelled through respective World Bank trust funds.

IndII has been funded also under the Infrastructure for Growth Initiative (IFGI) and supports the GoI's efforts to tackle urban water supply and sanitation issues and, in particular, to promote the sustainable development of institutionally managed services in the larger cities. The IndII facility commenced operations in mid-2008, and its Management Board (including AusAID Minister-Counsellor and Assistant Minister level GoI membership) has directed that WSS will be one of two priority sectors.¹⁴

The IndII managing contractor is charged with managing imprest account funds totalling around \$40 million; it is envisaged that a significant part of this will be directed to technical assistance services to support: preparation and implementation of near-term investment programs; development of policies, strategies and action plans for longer-term investments; and identification and preparation of a medium-term urban water supply and sanitation activity pipeline for possible future AusAID support.

2.3.1 Alignment with ODE recommendations on WSS assistance in Indonesia

The proposed WSI program and objectives are closely aligned with the findings and recommendations of the ODE evaluation report on WSS assistance in Indonesia¹⁵, namely extension of support for water and sanitation services to rural poor through PAMSIMAS, and greater attention on urban water supply through support to PDAMs and local governments through the Water Hibah program.

Both PAMSIMAS and the Water Hibah are at the forefront of GoI policy initiatives for the reform of water and sanitation service delivery to rural and urban poor communities. While (rural-focus) PAMSIMAS is in its third generation after WSLIC 1&2 and has incorporated an exit strategy, the Water Hibah marks an entry into urban water supply support under decentralisation and regional autonomy foci. The GoI Water Hibah program is scheduled to run for five years and achieve 1,500,000 connections to poor households.

The two main components of WSI are, therefore, at the centre of GoI focus of water and sanitation sector reform and align with the primary recommendations of the ODE findings for the sector.

2.3.2 Constraints on determining the WSI

The WSI funding allocation puts AusAID in a position to play a prominent role in assisting GoI to meet MDG Goal 7 targets by supporting development and implementation of WSS programs in urban as well as rural areas. There are, however, some key constraints on determining the

¹⁴ The other is transport.

¹⁵ Independent Evaluation of Australian Aid to Water Supply and Sanitation Services, Indonesia Draft Country Working Paper, March 2009.

content of WSI and positioning it within the framework of ongoing assistance and overall WSS objectives of AusAID and GoI.

An objective of WSI is to apply at least 30 percent of the funds to sanitation. It will be difficult to deliver this level of support. The difficulty is not so much the level of support, rather the time available to achieve it, resulting from the lack of available GoI sanitation programs. The GoI is spending much less on sanitation compared to water supply, (certainly much less than 30 percent of the water supply budget), and as a consequence there are not enough sanitation programs of the appropriate scale to support intervention at the level required by the WSI.

The mismatch of the GoI and GoA financial years and the lack of an available sanitation program stream means that funds could be spent on preparing programs and studies, but there would be no time to implement them by June 2011. The only significant ongoing GoI sanitation program is SANIMAS which disburses \$15,000 to each participating kelurahan¹⁶ for a counterpart contribution of \$30,000 by local government. The current annual GoI program for SANIMAS is approximately \$2,000,000 to cater for around 130 kelurahan¹⁷. It would be necessary to expand the existing SANIMAS implementation program by 250 percent - or approximately 300 kelurahan - to deliver a \$5,000,000 sanitation component in WSI. By contrast, both the ADB supported MSMHP and the World Bank UWSSP, which were in the original concept paper, have been scaled down, and in the case of MSMHP, the main sanitation components rescheduled.

The GoI has put an emphasis on assistance for the preparation of bankable sewerage projects that can be financed by donors International Financial Institutions (IFIs).

2.3.3 WSI implementation

The program that is proposed below has taken account of the analysis and constraints identified above. There is a focus on several programs which all provide physical investments with clearly identified benefits, and a high probability of being realised within the program timeframe.

The main features of the program include:

- Funding of grants for a large scale Water Hibah program to assist PEMDA reform of PDAMS and accelerate new household water connections;
- Increased funding for the PAMSIMAS to enable water and sanitation coverage of approximately 400 additional villages; and
- Wastewater and urban sewerage expansion in up to five cities, including 15,000 sewerage connections in Banjarmasin city.

It is proposed that the IndII facility be the vehicle for funding the technical services required for the implementation of the Water Hibah pilot program. In particular, it is envisaged that the IndII facility will fund the program's detailed design and independent verification services, together with a gender responsive 'socialisation' program aimed at building public awareness of the scheme amongst women and men, inclusive of the poor and the disabled. It has a further purpose to inform and stimulate other LGs and their PDAMs to participate in the pilot or in a subsequent GoI scheme. Furthermore, IndII has commenced assisting 20 PDAMs to prepare sound business plans that would better enable them to access the Loan Guarantee and Interest Subsidy Scheme and the Water Hibah scheme.

This Design Summary and Implementation Document (DSID) proposes a program that should achieve an identifiable 30 percent sanitation composition, through: the PAMSIMAS component (\$8 million); preparation of investment plans for about four cities leading to bankable sewerage projects (\$5 million); and implementation of a sewerage expansion scheme for 15,000 new connections in Banjarmasin (\$5 million). This last component would require its own granting agreement and imprest account, and would probably be the GoI preferred choice in terms of

¹⁶ A kelurahan is the urban administrative division equivalent to a village i.e. a sub, sub-district.

¹⁷ There are on average of 100 households/kelurahan.

sanitation content. The Banjarmasin sewerage extension has been designed and incorporated into a city approved master plan. It builds on a World Bank-financed wastewater project which has been extended once by the use of city funds. The proposed assistance will accelerate the program for sewerage coverage to Banjarmasin.

Should the Water Hibah demand prove as strong as anticipated, it is possible for additional grant funds to be allocated from the IndII grants component. This additional funding avenue could be as much as an additional \$10 million, and would be sourced from the IndII allocation of up to \$16 million for the component for Infrastructure Enhancement Grants (IEGs). Alternatively, should the Water Hibah uptake be slower than anticipated, it has been agreed that additional funds can be allocated to PAMSIMAS to enable further village water and sanitation connections beyond the 400 villages already proposed.

It is proposed that IndII finance technical assistance and capacity building activities that may be required for the MSMHP and UWSSP projects. The budgets and timing for these two loan projects still remain uncertain; stakeholders are confident that, while the projects are currently behind schedule, they will be implemented. The level of support required for the projects will be below the amount advised to the WSI identification mission, with the anticipated support for MSMHP and UWSSP adjusted to between \$2 and \$4 million.

More generally, IndII is positioned to assist central and sub-national government in developing other strategies and plans for improving urban water supply and sanitation and, based on this, to support the development of a program of AusAID support for 2011/12 and beyond.

2.3.4 Flexibility of WSI component allocations

Of the components identified for the WSI, the PAMSIMAS project has the largest prepared project stream. As such, it serves as a balancing item that may absorb more or less funding depending on the performance of the Water Hibah, and Sanitation components. The PAMSIMAS project has a demand for more than 5,000 villages of which 4,000 are presently covered by the IDA loan, and 400 proposed from WSI. The GoI is actively soliciting funding for the remaining unfunded program.

Table 2: Structure of AusAID assistance to WSS – Indonesia

	Infrastructure for Growth Initiative	Water and Sanitation Initiative	PAMSIMAS Trust Fund	Waspola Facility Trust Fund
	IndII (\$40 M)¹⁸	\$60.5 M¹⁹	\$10 M	\$10 M
Sector	Watsan Components Institution Managed Urban Water supply and Sanitation	<ul style="list-style-type: none"> Mainline initiatives delivering improved water and sanitation services: 	T/a Support & Village grant component (\$10 M)	
Urban Water	<ul style="list-style-type: none"> Technical Assistance to PDAMs for business plans and credit worthiness Water Hibah grants \$10 M 30,000 households, 180,000 beneficiaries. 	Water Hibah \$20 M <ul style="list-style-type: none"> Approximately 60,000 households served with piped water 360,000 beneficiaries. 		
Rural Water		Rural sector via PAMSIMAS Village grants \$12 M <ul style="list-style-type: none"> Approximately 400 villages with 550,000 pop. receiving water services. 	Support to 100 villages for WSS development. 150,000 pop. Receive water services	Supports development of WSS policy initiatives from Gol
Urban Sanitation	Urban Sewerage \$3 million <ul style="list-style-type: none"> MSMHP Capacity Building 	Urban Sewerage \$10 million <ul style="list-style-type: none"> Technical Assistance for wastewater master plans for 4 cities \$5 M Small Investment Grants (Banjarmasin Sewerage extension \$5 M – resulting 15,000 new connections 90,000 beneficiaries) 		Supports implementation of Rural WSS policy developed under Waspola 1&2.
Rural Sanitation		PAMSIMAS Village grants \$8 M Approximately 400 villages with 800,000 pop. receiving sanitation benefits. PAMSIMAS \$2.5 M Support with socialisation of the program to new villages.	Support to 100 villages for WSS development. 200,000 pop. Receive sanitation benefits. Vehicle for scaling up Rural WSS policy under Waspola	Links rural WSS policy with PAMSIMAS implementation.

¹⁸ \$40 million for all infrastructure.

¹⁹ Includes \$3 million for management costs, surveys etc.

Urban and Rural WSS	▪	Civil Society Component \$5M	▪	▪
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2.4 Rationale for proposed WSI Indonesia program

The proposed program for WSI Indonesia comprises three components and is closely aligned with GoI policy for development of the water and sanitation sector. While the main focus is on accelerating urban water supply provision, significant funding will also flow to improving sanitation in rural and urban areas.

Table 3: WSI components in relation to partner programs

WSI Component	GoI and Partner Program	Description
<ul style="list-style-type: none"> Water supply incentive grant (Water Hibah) to approximately 25 selected LGs yielding 60,000 new connections. 	<ul style="list-style-type: none"> National Water Supply incentives grant program for approximately 150-200 LGs. 	<ul style="list-style-type: none"> Output based grant for expansion of water service delivery determined by the increase of working service connections by the PDAM above a pre-project baseline. [Urban]
<ul style="list-style-type: none"> Provide water and sanitation grants to an additional 400 villages under PAMSIMAS. 	<ul style="list-style-type: none"> PAMSIMAS (WSLIC3) water and sanitation program for 4,000 low income communities. 	<ul style="list-style-type: none"> Program based support for 400 communities including limited T/A support to Ministry of Public Works.
<ul style="list-style-type: none"> Investment Plans for four city sewerage systems. Extend sewerage for Banjarmasin by 15,000 connections. 	<ul style="list-style-type: none"> Extend the number of cities with sewerage from eleven to fifteen. Extend the sewerage coverage of fifteen cities to 20 percent. 	<ul style="list-style-type: none"> Preparation of investment plans capable of securing funding from IFIs. Provide grant to Banjarmasin LG to extend existing sewer system by 15,000 connections.

2.4.1 The Water Supply Incentives Grant (Water Hibah)

The water supply incentives grant (Water Hibah) is an initiative to stimulate local government investment in the water sector. It is one component of a comprehensive restructuring of the water sector by the GoI covering tariff setting, credit finance to PDAMs, debt restructuring, and incentives to local governments to invest in water supply.

The design of the Water Hibah was carried out under the World Bank/Dutch Trust Fund Water and Sanitation Program (WASAP). The Water Hibah is an ‘output-based’ grant program. The design draws on successful international experience of similar programs, and on recent incentives programs implemented in Indonesia (Surabaya OBA²⁰, PAMJaya OBA²¹, and the Ministry of Public Works (MPW), PDAM incentives program²²). The GoI has committed to implement the Water Hibah for approximately 200 local governments over the next five-year term 2010-2014, with a target of 1,500,000 new connections.

The Water Hibah program has one important difference, however, to similar international programs: the grant will be provided to the local government after evidence of increased service delivery by the PDAM. The indicator for increased service delivery and also the numerator for the size of the grant is the increase in satisfactory operating service connections. That indicator is measured by the difference between baseline surveys and post-completion verification surveys of the predetermined urban neighbourhoods targeted by the program. The local government and the PDAM are free to apply any measures to facilitate urban poor to connect to the PDAM service. These may include: free connection to poor households during a grace period; a discounted connection fee for poor households; or an option for monthly term payments for the connection either in conjunction or otherwise with a discounted fee. These measures are being applied by some of the more progressive PDAMs.

One of the objectives of the Water Hibah is to motivate the local governments and PDAMs to apply such measures more widely and achieve the connection targets to collect the grant.

The implementation of the WSI Water Hibah will precede the GoI program by one budget cycle and will help to set implementation procedures and protocols. These will be gender

²⁰ Expansion of Water Services to Low Income Areas of Jakarta, World Bank Output Based Aid [P096686]

²¹ Expanding Piped Water Supply to Surabaya's Urban Poor, World Bank Output Based Aid [P105590]

²² MPW support to 19 healthy PDAMs for FY 2009 for implementing new connections.

responsive and socially inclusive where they relate to community participation in the program, and are in line with GoI gender mainstreaming guidelines. The GoI Water Hibah program is more extensive than the WSI program and aims to achieve 1,500,000 new connections during the period 2010 to 2014.

The Water Hibah program has been endorsed in principle by senior management as a key component of AusAID's response to the global financial crisis in Indonesia, noting that AusAID is positioned to support an innovative program that is a very high priority for the GoI and at the same time extend its role beyond only rural community managed initiatives. This scaled-up involvement in the sector could be managed through the existing IndII structure and thereby utilise its additional technical, logistical and financial resources. Further to this, the Advisory Board that directs IndII has determined in principle that water and sanitation (including the Water Hibah) should be one of two sectoral priorities and that a substantial proportion of the IndII budget of \$16 million earmarked for 'Infrastructure Enhancement Grants' could be used to support this incentives program under the Water Hibah.

The proposed WSI component will channel \$20 million using the MOF Regulations PMK168/169 on grants channelling mechanism to approximately 20 LGs, yielding approximately 60,000 new service connections. The Water Hibah will be disbursed to select LGs that apply to participate in the Water Hibah program and meet the eligibility requirements. The Water Hibah has a pro poor focus and the selection of the local governments will be based on the criteria established under the GoI-led partner design of the Water Hibah: (i) sufficient poor households are available to take up the connections; and, (ii) the LG and the PDAM have the budget and technical resources to implement the service expansion within the program time frame. However the Water Hibah will not be applied exclusively to poor households. Under the MOHA tariff setting regulation²³, provision is made for a low tariff designed to enable the poor to meet their basic needs, and for the associated cost to be offset by cross-subsidies from other customers. The provision requires that a family earning the *Provincial Minimum Wage* should be able to obtain its water needs with expenditure not exceeding four percent of income. It is recognised that this will only be sustainable if sufficient customers pay a tariff exceeding the "basic cost", so the Water Hibah will also cover expansion to higher income households.

The selected LGs will enter into subsidiary grant agreements (NPHD) with the MOF that will pledge the provision of a grant based on achievement of a predetermined number of new service connections for water supply. The size of the grant will be determined by the number of working service connections and has been set at a progressive rate of Rp. 2 million per connection (A\$250)²⁴ for the first 1000 connections and Rp. 3 million for the next 4,000 connections (A\$375). A maximum allocation of 10,000 connections for each PDAM has been set as an initial guide. A breakdown of the estimated costs involved is given in Table 4 below.

The LG will pre-finance the associated investments, and the new works will be executed by the PDAM. Baseline surveys and performance audits by independent third parties will verify the incremental connections that qualify for receipt of the grant. The baseline surveys will identify the percentage of female headed households. This figure will be compared with the percentage of female-headed households in subsequent surveys who have taken up a connection. Where it is found that female-headed households are not taking up connections, efforts will be made to identify the reasons for this and address them. The MPW will execute the program on behalf of GoI.

²³ Minister of Home Affairs decree 23/2006 on Allowable Tariffs for PDAMs

²⁴ A new connection is deemed to be working where the customer has received satisfactory water delivery and paid water bills for at least three months.

Table 4: Cost estimate for PDAM system expansion for 5,000 connections

System component	Rp. Billion ^A	
	Low	High
Intake augmentation		2
Transmission main or pumping		3
Treatment augmentation	5	8
Distribution network	10	10
Reticulation piping	14	14
Connection ^B	3	3
Total	32	40
Water Hibah (grant)	14	14
Grant as % of investment cost ^C	44%	35%

Notes:

A. High and low cost estimates refer to the extent of usable existing capacity within the system of the PDAM. A low estimates indicates available spare capacity and minimal requirements for additional system expansion.

B. The connection fee is usually recoverable from the customer. Options on how this is done are discussed elsewhere. These costs indicate that it is possible to fully subsidise the connection to poor households which could constitute up to 60% of the new connections.

C. The level of the grant indicates the level of leverage and extent of the incentive for the LG to support the program through investing in the PDAM.

The MOF will disburse the grant funds upon submission of a certificate by MPW verifying that the conditions precedent for disbursement has been met. AusAID funds will be disbursed through a special account established by MOF in Bank Indonesia (BI). The MOF will submit requests to AusAID for replenishment of the special account together with documentation verifying that the funds have been disbursed in accordance with the conditions of the special account, and the Water Hibah program.

The World Bank WASAP (I) Water Hibah design document developed within the context of the IDPL program loan, has been issued as a separate companion document. The GoI Water Hibah program proposal and budget request are attached in *Annex 1*.

2.4.2 Support to PAMSIMAS - 400 villages for water and sanitation

PAMSIMAS is a national program to empower rural communities and provide them with informed choices for water supply and sanitation. The PAMSIMAS program involves around 4,000 villages and is implemented through four components:

- (i) Community empowerment and local institutional development;
- (ii) Improving hygiene and sanitation behaviour and services;
- (iii) Water supply and peri-urban sanitation infrastructure village grants; and
- (iv) Technical assistance.

PAMSIMAS comes within the GoI PNPM scope of responsibility, which has two pillars: *Rural PNPM* which includes PAMSIMAS and *Urban PNPM*, which includes the Urban Poverty program, UPP. The GoI coordinates the various PNPM programs through the Interministerial Poverty Reduction Committee (TKPK) chaired by the Coordinating Minister for Social Welfare (Menko Kesra). Coordination between PAMSIMAS and other AusAID sectoral wasan activities can be effected either through the WASPOLA Steering Committee and Working Group or through the IndII-WSI Board. The GoI membership of these institutions is also reflected in the TKPK where other cross sectoral issues can be addressed.

The GoA has already committed A\$10 million to PAMSIMAS for technical assistance (component (iv), and village grants to 100 villages. The original PAMSIMAS project design included approximately 70 local governments, but the number was increased to 110 before the loan was approved. Additional funds for training of facilitators and preparation of additional cities/districts were not included in the budget, and there is a need to allocate these additional funds.

The proposed WSI component will provide up to A\$20 million for approximately 400 additional village implementation grants at an average cost of A\$50,000 per village. This will be applied to component (iii) of the PAMSIMAS project. The WSI will also provide A\$2.5 million as additional support for the implementation of component (i), which includes the

community empowerment socialisation and training of village implementation teams and other stakeholders.

The PAMSIMAS program has a *Gender Action Plan* which will be applied in the implementation of these activities and which includes (amongst an extensive range of other actions): gender equality in selection of facilitators; training in gender responsive approaches; and collection of gender disaggregated data. A description of the PAMSIMAS design and project components is given in the World Bank PAD (Project Appraisal Document).

The proposed WSI funding of A\$22.5 million will be channelled through the same World Bank Trust Fund established for the first A\$10 million commitment.

2.4.3 Support for the World Bank UWSSP and ADB MSMHP

NOTE that this component is now being considered for funding under the IndII program. WSI sanitation activities that were identified in the Concept Paper included UWSSP and MSMHP:

- **UWSSP:** These activities involved assistance to PDAMs of Bogor, Muara Enim, and Kapuas for systems and procedures development leading to improved cost recovery, and sanitation mapping for Bogor as well as a feasibility study for sewerage. The PDAM support activities have been consolidated into the other donor support programs, while the IndII has included activities for sewerage system feasibility studies and investment plans for other priority cities.
- **MSMHP:** This activity involved consultant services for project preparation and community level sanitation in slum areas, sewer connections, and capacity building - estimated at \$10.5 million. Because of continuing delays in its preparation and the uncertainty of the sewerage component, support to MSMHP has been reduced to capacity building for local government sanitation agencies at \$3 million. This activity has been moved to the IndII activity list, and is subject to Bank Board approval of the MSMHP loan.

The MSMHP will help to improve the livelihoods and health of the urban population, and will support the GoI's efforts to achieve the related MDG targets. The activity has four sub-components:

- (i) community mobilisation for improved health and hygiene;
- (ii) infrastructure development for sewerage and main drainage;
- (iii) solid waste management; and
- (iv) capacity building, institutional development and project implementation support with consulting services.

The program has been delayed and some components have been rescheduled (sewerage) and others significantly modified (solid waste component). It is proposed that IndII will support Component (iv) of MSMHP with capacity building of LG agencies which are responsible for urban sanitation services. These units will be responsible for implementing the MSMHP project funded by ADB. Efforts will be made to ensure that equal opportunity is given to both women and men and the disabled to participate in capacity building activities within agencies and that project implementation support includes attention to ensuring that government officers are gender aware in their interface with the community and that women and men in the community, including those from minority and disadvantaged groups, are given equal opportunity to engage in activities. The expected cost of this component is AU\$3 million for three cities: Makassar, Yogyakarta, and Medan.

The ADB conducted a fact-finding mission for MSMHP in May 2009. The expected project approval date by ADB Board is early 2010. The component for capacity building could start after negotiation and before Board approval although there is an attendant project risk which is discussed in section 6.3.

2.4.4 WSI Sanitation component

The WSI proposal to support the GoI sanitation program is focused on the expansion of urban sewerage infrastructure. At present the sewerage coverage in Indonesia is limited to eleven

cities²⁵ with varied levels of coverage. Overall, coverage is less than two percent of the urban population. The GoI *Sanitation Road Map* aims to increase the number of cities with sewerage from eleven to fifteen by 2014. It also aims to increase the coverage of the sewerage systems in those cities to 20 percent.

The WSI proposal for support to urban sanitation is to assist with the development of investment plans for four new city sewer systems. The preparation of the investment plans would draw on existing studies and upgrade these to investment proposals capable of meeting IFI requirements for loan preparation. This is estimated to require approximately \$5 million in consulting services.

In addition to the preparation of investment plans, this DSID supports extending the existing Banjarmasin sewer system that was built using a World Bank loan under the Kalimantan Urban Development Project. The local government subsequently expanded the system using their own funds, by constructing additional wastewater treatment plants and limited additional sewerage. The local government established a wastewater services company, PDPAL (only the second in Indonesia after Jakarta) and prepared a master plan and detailed design for the planned expansion of the sewer system in 2010.

The estimated cost is \$9.5 million, comprising \$2.5 million local government expenditure, and \$7 million central and provincial expenditure. The proposed program will provide \$5 million in grants for the expansion with the balance of \$4.5 million contributed by the GoI and local government. WSI funding would include engineering supervision of the activity implementation.

2.5 Links with current GoI initiatives

The Water Hibah is one of three current GoI initiatives aimed at accelerating investment in the water sector and introducing fundamental reforms. The other key components are debt restructuring for PDAMs and local governments, and credit guarantees for commercial borrowing by PDAMs. The Water Hibah is a conditional trigger for the World Bank Third Infrastructure Development Program Loan (IDPL). The GoI Water Hibah has a five-year horizon and a target of 1,500,000 new service connections.

The consultations with GoI and development partners during the DSID preparation confirmed a high level of interest from both ADB and World Bank to participate in the Water Hibah. A number of options for blending grants and MDB loans have been considered as future fund pooling to support the GoI investment target. Other GoI initiatives are closely linked and support the Water Hibah. Since the Water Hibah relies on pre-financing of investments by LG, the credit guarantee and interest rate subsidy for commercial loans to PDAMs will help finance the initial investments, although this is more likely to come into play in the second and subsequent years of the Water Hibah. The commercial borrowing in turn is facilitated by the debt restructuring program which has inbuilt governance criteria. Selective governance criteria of the debt restructuring have been adopted by the Water Hibah design to ensure consistency of approach and an incentive to participate in both programs.

Other donor programs that support debt restructuring include the World Bank WASAP (B) which assists with comprehensive business plans for 14 PDAMs, as a prerequisite for entry into the debt restructuring, and WASAP (I) – a water sector financing study which designed the Water Hibah and examines constraints to local government financing in the water sector. The MPW is implementing a limited PDAM incentive for FY 2009 covering 19 PDAMs with some of features of the Water Hibah but which does not involve local government. It is similar, however, in rewarding PDAMs after confirming evidence of increased water service coverage. A matrix of these LGs and PDAMs in various programs is shown in *Annex 3*.

2.5.1 Linkage of WSI with other AusAID WSS programs

²⁵ Jakarta, Medan, Cirebon, Bandung, Tangerang, Yogyakarta, Surakarta, Balikpapan, Banjarmasin, Denpasar, Prapat

The design of WSI as a vehicle for delivering watsan grant components and limiting it to two main interventions better allows the delivery of supporting technical assistance from IndII and enables overall compact management of both WSI and IndII. It also provides a more coherent structure of AusAID watsan interventions with three main streams: (i) the existing WASPOLA Facility (which focuses on the application of the of water supply, environmental sanitation policy and regulatory instruments by GoI agencies); (ii) the WSI, which focuses on delivering grants to sub-national governments for improvements to urban water supply, and grants to communities for improvements to rural sanitation and water supply; and, (iii) the IndII Facility under the *Infrastructure for Growth Initiative* which gives priority to assistance for infrastructure resulting in an economic return. The focus of the IndII watsan components will be on technical assistance, some of which will directly support the implementation of the WSI components.

The identification, selection, and preparation of these candidate PDAMS to participate in the Water Hibah scheme is a crucial initial step in the process. It is here that the IndII 20 PDAM program and the WSI Hibah form a natural link, providing the supply of potential candidates for the Water Hibah program.

Acceptance of LGs and PDAMS into the Water Hibah program is contingent upon the PDAM meeting criteria of technical and financial operational efficiency to demonstrate sustainability of the improvements achieved under the Hibah program. Typically, this will require a medium-term investment plan (between three and five years), a sustainable tariff structure, and a capable management team. A final requirement is that the PDAM are free of arrears in debt, or have been accepted into the GoI debt restructuring program.

Therefore, the GoI- and AusAID-supported Water Hibah programs fit logically into the downstream end of other activities that support PDAMS with debt restructuring. The Water Hibah is positioned to take advantage of IndII support to prepare 20 PDAMS for debt restructuring - and rewards LG investment in those PDAMS, through the grant. Accordingly, the IndII program to support 20 PDAMS with the development of comprehensive business plans will form an integral part of the overall Water Hibah implementation and provide added value to the outcomes of both programs.

2.6 Linkage to IndII and other AusAID programs

The positioning of WSI as an additional component of IndII (see *Section 4 Implementation Arrangements*) allows increased flexibility for mutual support between the two programs. A significant portion of IndII activities are related to water supply and sanitation, such as the 20 PDAM programs directly supporting the Water Hibah implementation. Others are linked less directly but can be leveraged to enhance program delivery and program effectiveness. The positioning also allows the WSI program to be “confined” to three components with well defined outputs, while supporting technical assistance can be provided through the IndII activities program.

The WSI is well placed to link with and support the upcoming AusAID-funded AIPD (Australia Indonesia Partnership for Decentralisation) and the AIPEG (Australia Indonesia Partnership for Economic Governance) through activities that focus on decentralisation of water supply, strengthening LG service delivery (in sanitation and water), debt restructuring (of PDAMS), and in general the improving in governance of the Watsan sector at both the local and central government level. Decentralised public finance is another area with strong synergies with these two AusAID initiatives, particularly with regards to the use of the hibah as a new mechanism for inter-government transfers to finance infrastructure.

2.7 Linkage to other donor initiatives

PAMSIMAS and the Water Hibah are at the centre of GoI initiatives in rural and urban WSS service delivery and share important links to other donor initiatives. Capacity building is a common objective of these programs. In PAMSIMAS, the capacity building is intensive and directed at community organisations and LG capacity to replicate and implement programs. In the Water Hibah, the capacity building is directed at the PDAMS, especially in the area of implementing system expansion.

The Water Hibah is also linked to other programs supporting GoI initiatives on debt restructuring and financing of water investment. These donor programs have a capacity building focus on improving management of the PDAMs.

The World Bank WASAP (B) program is supporting 14 PDAMs with the preparation of corporate plans for medium-term investment as a criterion for entry into the debt restructuring program and gaining access to the credit support scheme for commercial lending. WASAP (B) will expand by a further 20 PDAMs in the subsequent stage. WASAP (I) is working with nine local governments to identify constraints in the financing of the water sector at the local government level. The USAID Environmental Sanitation Program (ESP) is working with 18 PDAMS, supporting technical and financial capabilities for sustainable development. These PDAMs will be part of a pipeline for grant applications under the AusAID and GoI Water Hibah schemes.

To coordinate these initiatives the GoI has established an *Urban Water Supply Sector Working Group (UWSSWG)*. Members include bilateral and multilateral donors, civil society groups and NGO and local/international financial institutions (IFIs) involved with the urban water supply sector in Indonesia. Representatives from the Ministry of Public Works, Bappenas, Ministry of Finance, Ministry of Home Affairs, Central Agency for Development Audit (BPKP), Supporting Agency for Water Supply System Development (BPP-SPAM), World Bank (WB), ADB, The Royal Netherlands Embassy (RNE), Japan International Cooperation Agency (JICA), AusAID, USAID and the Indonesian Water Supply Association (Perpamsi) will be the initial members of this working group.

2.8 Lessons learned

The proposed WSI program components have different ‘lessons learned’ characteristics. The Water Hibah is a new program, but one which has been in planning and preparation for some time by GoI, and which seeks to address the lessons learned from the past implementation of water sector development by GoI. The key lesson is linked closely to the objective of the Water Hibah, which is to stimulate local government investment in the water utilities as the most sustainable long-term path for growth in water sector infrastructure. This is reinforced by the other GoI initiatives supporting debt restructuring and improved access to commercial credit for PDAMs.

PAMSIMAS is the third-generation implementation of the successful *Water Supply and Sanitation for low Income Communities* activity, and this program has been designed with detailed attention to lessons learned from past cycles of implementation.

2.8.1 Program Ownership and GoI commitment

An important contributing success factor will be the degree of ownership by the government and its commitment to the program. The GoI has embraced the Water Hibah mechanism as part of its three pronged strategy to restructure the water sector. The unprecedented speed and commitment of the GoI to put these initiatives in place reflects very strongly on its commitment and ownership of the reform agenda. The GoI has fully committed to the Water Hibah program as indicated by the MPW proposal for 2010-14 to implement some 1,500,000 new service connections under the Water Hibah. In the case of PAMSIMAS, GoI has also fully adopted the concept of community based development of rural WSS infrastructure and services and has furthermore established a national program for poverty alleviation incorporating PAMSIMAS and other similar urban / rural programs like UPP and KDP.

2.8.2 Implementation through GoI Delivery mechanisms

Closely linked to ownership of the program by GoI is the enhanced sustainability and effectiveness of programs delivered through GoI systems and agencies. The Water Hibah and PAMSIMAS are designed to be implemented as GoI programs. Use of AusAID procedures and facilities will be limited to some core Technical Assistance components for program preparation and management. The rest of the program will be essentially implemented by GoI in line with the implementation of the parent partner components.

2.8.3 Water Hibah

Although the Water Hibah is a new GoI program it is based on a systematic review by GoI of past problems of development of the water sector. A key failing of past development has been the lack of engagement and ownership of the water sector by local government arising from unsustainable investments by central government in PDAMs. The investments over the last 25 years have been largely viewed by local governments as assets of central government and many such assets remain on the asset register of MPW. Now under regional autonomy, the GoI is fully committed to bring into effect the sole responsibility of local government for investment in the water sector.

The Water Hibah addresses sustainability in the water sector by rewarding local governments that promote better performance from their PDAMs. The Water Hibah grants flow directly to the LGs to invest in the PDAMs and not to the PDAMs as had mostly been the case prior to regional autonomy. The primary objective is to mobilise local government capital investment in PDAMs resulting in increased service delivery by the PDAM and more importantly, sustainability of that improvement through clear ownership by the local government and improved management. The Water Hibah concept derives from the successful application of the small scale output based schemes for Jakarta and Surabaya water supply. This approach is an innovative pilot application of the new on-granting mechanism by MOF under regulation PMK 168/169 of 2008, which could also be applied to sanitation and other sectors²⁶. As such it will pioneer the large scale application of output-based support for local government services.

2.8.4 PAMSIMAS

The lessons learned for PAMSIMAS are well documented in the design document. Attention to sustainability of both physical systems as well as village institutions that maintain and operate them is addressed. Recent evaluation of the success for the application of CLTS and hygiene practice at schools is also a feature of the design.

2.9 AusAID objectives in supporting the activities

The AusAID objectives for WSI are to contribute to:

- (i) expanding access to water supply and sanitation services, particularly for the poor, women and children in schools;
- (ii) making water and sanitation services more sustainable by supporting sector reform and capacity building;
- (iii) improving the health and quality of life of the poor and vulnerable by increasing their understanding of good hygiene practices, as well as by expanding their access to water supply and sanitation services; and
- (iv) enhancing aid effectiveness and complement other development agencies' programs.

The objectives of the proposed WSI Indonesia components align directly with the stated objectives of the WSI. An overview of how the proposed WSI components contribute towards achieving WSI and AusAID objectives has been provided earlier in *Table 1*.

2.10 Engagement with development partners

Continued engagement has been established with DPU and World Bank through earlier involvement in the PAMSIMAS preparation, and subsequently with the establishment of the PAMSIMAS Trust Fund to support additional technical assistance and supplementary village grants to approximately 100 villages. The development of the program for the WSI included close consultations with both DPU and the World Bank to define the extent and target locations of the assistance, as well as critical programming aspects to ensure disbursement within the WSI time frame.

Engagement in the Water Hibah has involved a much larger number of stakeholders and GoI implementing departments. Engagement started early with the design of the Water Hibah by the World Bank WASAP(I) program, which led to its appraisal as a key trigger for the third tranche of the World Bank IDPL. GoI stakeholders include the MOF, Bappenas, and DPU. Intensive dialogue led by

²⁶ MOF is also initiating application of the on-granting mechanism to the education and health sectors.

the World Bank has resulted in the submission of the GoI proposal for implementation of the Water Hibah based on the WASAP(I) design. Subsequently, AusAID has taken the lead in the dialogue with GoI partners as the time schedule for the WSI is much more restrictive than the GoI partner program (which is implemented over five years).

The engagement and dialogue on the Water Hibah and other donor programs with linkages to the Hibah has resulted in the establishment of an urban water sector donors' forum chaired by DPU and involving AusAID, World Bank, ADB, USAID, and JICA - to enhance coordination and harmonisation of sector interventions. More formal engagement with GoI has been established through the IndII Board once the WSI was identified as a program to be implemented through IndII under the existing *Subsidiary Arrangement*. Table 5 below illustrates the levels of engagement of development partners

Table 5: Engagement with development partners

	Water Hibah	PAMSIMAS	Wastewater
Partnership			
<i>Primary Partner</i>	World bank	World Bank	GoI
<i>Stakeholders</i>	MPW, MOF, Bappenas, Selected LGs (+/-20)	MPW, Dept. Health, MoHA, Bappenas, Selected districts (+/-10)	MPW, Bappenas, LGs
Delivery			
<i>Delivery Method</i>	On granting via GoI budget	World Bank Trust Fund via GoI budget	On granting via GoI budget.
<i>Agreement type</i>	Revised GoI GoA subsidiary Arrangement	Revised Trust Fund Agreement	Investment Plans by direct consultant contract. Expansion works via subsidiary Grant Agreement with LG.
<i>Design Document</i>	World Bank WASAP (I) Consultant design document.	Existing PAMSIMAS design	GoI design by national consultant.
Resources			
<i>Additional Resources</i>	1 International + 4 national experts		
	Verification Consultant		Design Review
	M&E consultant		Supervision
Timeframe			
Q2 <i>Apr- Jun 2009</i>	- World Bank and GoI (MOF, Bappenas, MPW) complete design of Water Hibah program, 200 LGs and 1,500,000 connections. AusAID collaborates on design. AusAID to leads consultation with GoI and World Bank for AusAID component 20 LG and 68,000. Prepare supporting documentation to World Bank design covering safeguard issues.	- AusAID engagement with World Bank and GoI in planning for implementation of FY 2009/10 and 2010/11 program including integration with IDA funded component. Selection of Districts for AusAID funded component.	- Dialogue with GoI (MPW, Bappenas) and LG. Agree on cost sharing. Agree on implementation arrangements.
	<i>Appraisal Peer Review</i>	<i>Appraisal Peer Review</i>	<i>Appraisal Peer Review</i>
Q3 <i>Jul - Sept 2009</i>	IndII to finalise proposal including implementation manual, and prepare establishment of BI Imprest Account.	Finalise programming and district/village selection. Amend WB Trust Fund	Complete design review including environmental impact assessment and revise cost.
	Revise Subsidiary Arrangement. Seek financial approval FMA9/10		
Q4 <i>Sep-Dec 2009</i>	Urban Water Hibah begins	Socialisation activities begin for 400 villages.	Completion of design review. Revise procurement documents. Engagement of supervision consultants. Tender the construction

2.11 AusAID policy priorities

2.11.1 Gender equality

The World Bank has demonstrated that attention to gender equality in its programs enables better targeting of initiatives and enhances their development effectiveness and sustainability. The AusAID gender policy supports this and establishes gender equality as a key priority.

Under the WSI, much of the community focused activities will be implemented under PAMSIMAS, which is the third iteration of WSLIC 1 and 2. WSLIC experience has pointed to the importance of ensuring gender responsiveness at all levels of the program, from government and consultants employed to the community processes and capacity building levels. In light of these experiences, and lessons learned about the pitfalls of neglecting gender equality in its activities, PAMSIMAS has integrated gender equality measures throughout its planned activities and developed a comprehensive *Gender Action Plan*. The WSI support to PAMSIMAS will incorporate these gender equality measures.

In addition to the PAMSIMAS activities, IndII will support efforts to encourage gender awareness and equality in participation in institutional capacity building activities and in engagement with communities. Data which is collected for monitoring and other purposes will be sex-disaggregated and the baseline surveys and subsequent audit surveys for the Water Hibah program will identify whether women headed households are participating equally in the activity - in order to inform efforts for their improved inclusion.

2.11.2 Disability inclusive approaches:

The challenge for AusAID through the WSI is to integrate disability inclusive approaches into partner-led initiatives. This means that our influence, especially for initiatives currently being implemented, is limited. However due to the positive perceptions of AusAID and its activities, and strategic support, we will optimise opportunities to discuss with partners how AusAID's *Development for All* principles can be integrated into WSI. Some examples follow:

- In discussions with the Indonesian Government on Water Hibah, we will encourage consultation with people with disabilities and disabled people organisations during the entire project cycle, especially the design phase. We will promote this process by including people with disabilities in IndII's socialisation program aimed at building community awareness of the scheme.
- In discussions with the World Bank and Ministry of Public Works, we will highlight areas within PAMSIMAS that could integrate disability inclusive approaches - especially in facilitator training, village consultation processes and monitoring and evaluation.
- As part of its continuing M&E role and responsibilities, IndII will assess whether people with disabilities are participating in community discussions on water and sanitation, and if their needs have been considered in the design and maintenance of water and sanitation facilities.

2.11.3 Environmental safeguards

A review of the environmental risks of implementing the Water Hibah, PAMSIMAS, and the wastewater component using the current AusAID Environmental Management Guideline reveal that only the Banjarmasin sewerage expansion may have any significant environmental risks. However these risks can be mitigated by appropriate measures. A summary of proposed safeguards follows:

- *Water Hibah:* The works constructed under the Water Hibah program will be implemented by the LG PDAMs and in some cases by the LG Dinas Public Works. These implementing agencies are obliged to follow the prevailing GoI requirements for environmental safeguards. One of the criteria for selection of local governments and PDAMs to participate in the Water Hibah program is that they have adequate capacity in the headwork installations so that there is no requirement to implement new intake facilities (the only element of the expansion with any potential significant environmental impact). The

remaining construction activities are limited to expansion of the distribution system which will lay pipe networks in municipal roads. No land acquisition or relocation is anticipated.

- **PAMSIMAS:** The environmental safeguards for PAMSIMAS are well documented in the design document and have been found to be adequate to this stage. There is no proposal to apply any *additional* environmental safeguards to the WSI component. The most significant environmental risk with PAMSIMAS is the possible development of spring sources for community water supplies. In some cases these springs may be in environmental sensitive areas or in areas subject to local native laws (*adat*) which may create conflicts of interest. These aspects have been anticipated in the PAMSIMAS design and have been accommodated in the environmental safeguards.
- **Sewerage Systems:** The wastewater (sewerage systems) program covers investment studies and expansion of the Banjarmasin sewer network. The investment studies will include an initial environmental safeguard assessment as part of the output. The proposed extension of the Banjarmasin sewer system will include a review of potential environmental impacts. For Banjarmasin, these will focus on the treatment capacity of the existing installations, and the appropriate effluent quality for discharge to the city's waterways. This may require a design upgrading of the treatment plants. The design review of the sewer system will focus on: the alignment of the sewer mains; the proposed depth of the sewer mains as a construction safety risk; the location of pumping stations in terms of noise and odour pollution; and the construction schedule in terms of disruption to public activity and traffic flow. The design review will make appropriate recommendations on mitigating measures for environmental issues that are identified with a potential risk.

2.12 Addressing WSI program objectives

The design of the WSI program for Indonesia addresses all of the WSI global objectives. The following Table 6 below gives a breakdown of the components and objectives addressed by each component of WSI.

Table 6: WSI program objectives

WSI component	(i) Expand access to water supply and sanitation services	(ii) Make water and sanitation services more sustainable	(iii) Improve health and quality of life of the poor through good hygiene practs, and impr. access to water & sanitation	(iv) Enhance aid effectiveness and complement other programs
Water Hibah	Strongly supports this objective on a broad national scale. This is a key component of the Gol initiative to achieve 10 million new water supply connections.	Strongly supports this objective on a national scale because it goes to the core of strengthening LG capacity and responsibility for maintaining investment in their water enterprises	Supports this objective through increased access to piped water supply.	Strongly supports this objective by supporting the Gol initiative which will provide a single vehicle for channelling assistance to the WS in a comprehensive and coordinated manner.
PAMSIMAS (additional funding)	Strongly supports this objective through the national coverage targets of PAMSIMAS.	Strongly supports this component. PAMSIMAS has been designed to support sustainability of investments at the community and LG level. There is greater engagement & involvement of the LG than in previous phase of the project	Strongly supports this objective. The PAMSIMAS design has hygiene practice improvement and increased access to sanitation facilities and services as core elements.	Strongly supports this objective. PAMSIMAS has addressed past sustainability issues through specific design modifications.
Urban Sewerage (WSI Option B)	Strongly Supports this objective directly through expanded system coverage for service delivery.	Strongly Supports this objective through support to LG initiatives for system expansion.	Supports this objective directly through increased access to wastewater disposal via sewers reducing land requirements for on-site facilities in poor areas.	Strongly Supports this objective through provision of investment plans suitable for other donor and IFI funding.

3. PROPOSED AUSAID FUNDING AMOUNTS

Table 7: WSI costs

Component	AU\$ Million					Comments
	Indll	WSI				
	08/09	08/09	09/10	10/11	TOT	
Water Hibah Preparation	0.15					Under current Indll funding.
Water Hibah Start up	0.5					Proposed under Indll funding
Water Hibah			8	12	20	To be transferred as Gol grants to LG for approximately 60,000 connections.
PAMSIMAS			8	12	20	Additional support for expanded coverage 400 Villages.
			1.2	1.3	2.5	Support with additional socialization and training T/A
Sewerage			4	1	5	Banjarmasin sewerage extension
			3	2	5	Investment plans 4 cities
Civil Society			2	3	5	
WSI management						Total \$3 million
WSI and Indll Watsan management			0.85	1.05	1.9	
WSI M&E			0.3	0.35	065	
WSI Verification			0.2	025	045	
Total	0.65		24.2	36.3	60.5	

4. IMPLEMENTING ARRANGEMENTS

The need for early deployment of the WSI funds and disbursement over two years commencing July 2009 are a primary consideration in determining the implementation arrangements. The WSI is proposed to be implemented as an additional component under IndII. This implementation arrangement represents the most cost-effective approach to ensure successful start-up of WSI in July 2009. This arrangement will not require the need for a separate grant agreement with GoI, and will require an amendment only of the existing *Subsidiary Agreement* under IndII to accommodate the WSI components. The proposed approach should also serve to maximise front-line delivery and impact of WSI (in terms of new water connections and PAMSIMAS village coverage) and create program and financial synergy by utilising funds from IndII as TA-focused program, to finance directly and indirectly related TA services.

The general fund channelling arrangements are shown in Figure 1 the overall structure for implementation under IndII is shown in Figure 2.

Figure 1: General WSI Fund Flow Arrangement

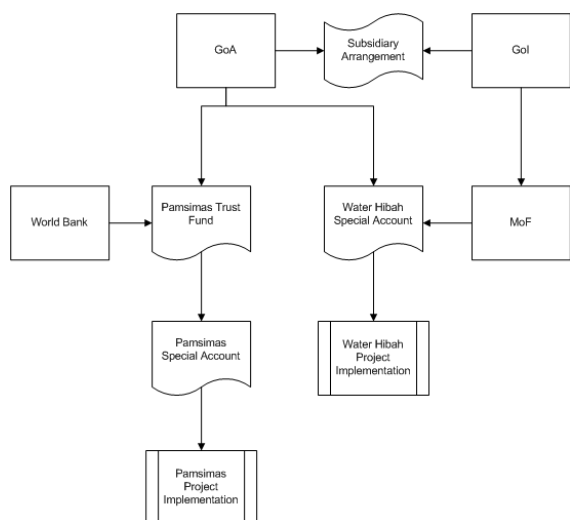
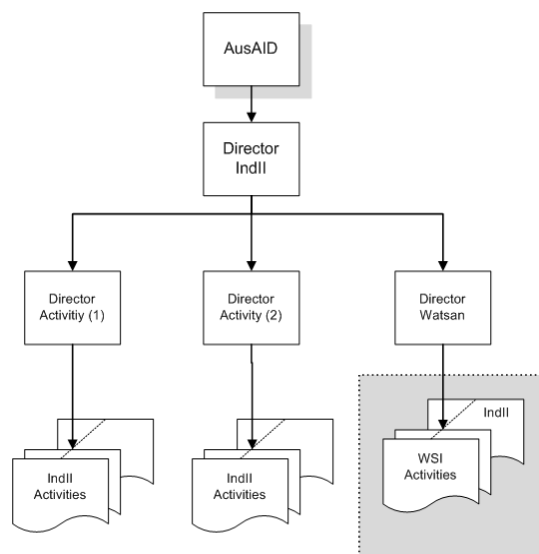


Figure 2: WSI Implementation Structure



4.1 Organisational arrangements for implementation of WSI

The implementation of WSI under IndII will require additional resources proposed as a WSI support team. The WSI support team will comprise an international manager, and two senior national support staff for technical and institutional/financial aspects supported by two to three junior or administrative level staff. .

4.2 Implementation of the Water Hibah

The implementation of the Water Hibah program will be carried out by GoI. The Ministry of Public Works (MPW) will be the Executing Agency responsible for managing the implementation of the Water Hibah - within the prevailing GoI regulations. Coordination of the WSI Hibah program will be through the IndII Board, and a WSI Technical Team established to review the WSI components.

The Water Hibah grant funds will be placed on the national budget and channelled directly to recipient local governments through a special account established by MOF. The GoI national Water Hibah program will follow an identical procedure except that coordination will be through a national coordination committee. In both programs, continuity and uniformity of practice and procedures will result from MPW's involvement as the executing agency.

4.2.1 Preparation for start-up of Hibah

The start-up of the WSI Hibah will precede the GoI national Hibah program which is more rigidly locked into the national budget cycle and GoI planning process. The WSI will start immediately on 1 July 2009. The initial work will still be linked to completing the start-up requirements. These requirements include: revising the *Subsidiary Agreement*; preparing the *Implementation Manual*; establishing the Special account; and initiating the LG/PDAM selection and preparation process. At present, these activities are being undertaken with IndII funding, as part of the overall WSI preparation activity and will join seamlessly with the subsequent Hibah implementation activities.

It is proposed to amend the existing *Subsidiary Agreement* to accommodate channelling WSI funds to GoI. The MOF indicates this is possible through an exchange of letters between the signatories to the *Subsidiary Agreement*. The application of the WSI funds to the Water Hibah

will require its inclusion in the GoI National Budget: APBN. Furthermore, because these funds are a grant it will *not be necessary* to follow the normal procedure for inclusion in the GoI National Budget, which would include approval by Parliament. In the case of grants annotation only of the approved budget by the MOF²⁷ is required.

4.2.2 Specific Water Hibah implementation technical assistance

The implementation of the WSI Water Hibah program will need provision of technical assistance support for baseline surveys to determine the level of water service at entry to the program. It will also require independent verification surveys to determine the extent and quality of additional service connections achieved under the Water Hibah program. A further component is the socialisation of the Water Hibah, including governance aspects, pro-poor focus and minority/gender issues. Upon implementation, the results of the Water Hibah program will be publicised as part of a PDAM (and LG) benchmarking on water supply service delivery. This technical assistance support is currently allocated under the IndII activity program.

4.2.3 Fund Channelling – Water Hibah

The channelling of the Water Hibah funds will require establishment by MOF of a special account in Bank Indonesia. The terms and conditions for operation and replenishment of the special account will safeguard the critical aspects of implementation of the Water Hibah program. The signatory will be a GoI-appointed officer in MOF. The special account will be credited with an initial deposit equivalent to approximately six months' disbursement requirements. Replenishment of the special account will follow rules for reconciliation of expenditure in accordance with the revised *Subsidiary Agreement* and *Water Hibah Implementation Manual*.

4.3 Implementation of PAMSIMAS component

The PAMSIMAS component will be implemented by the GoI with funds being applied through the existing World Bank Trust Fund for PAMSIMAS. (*Figure 3* below illustrates funds flow and process.)

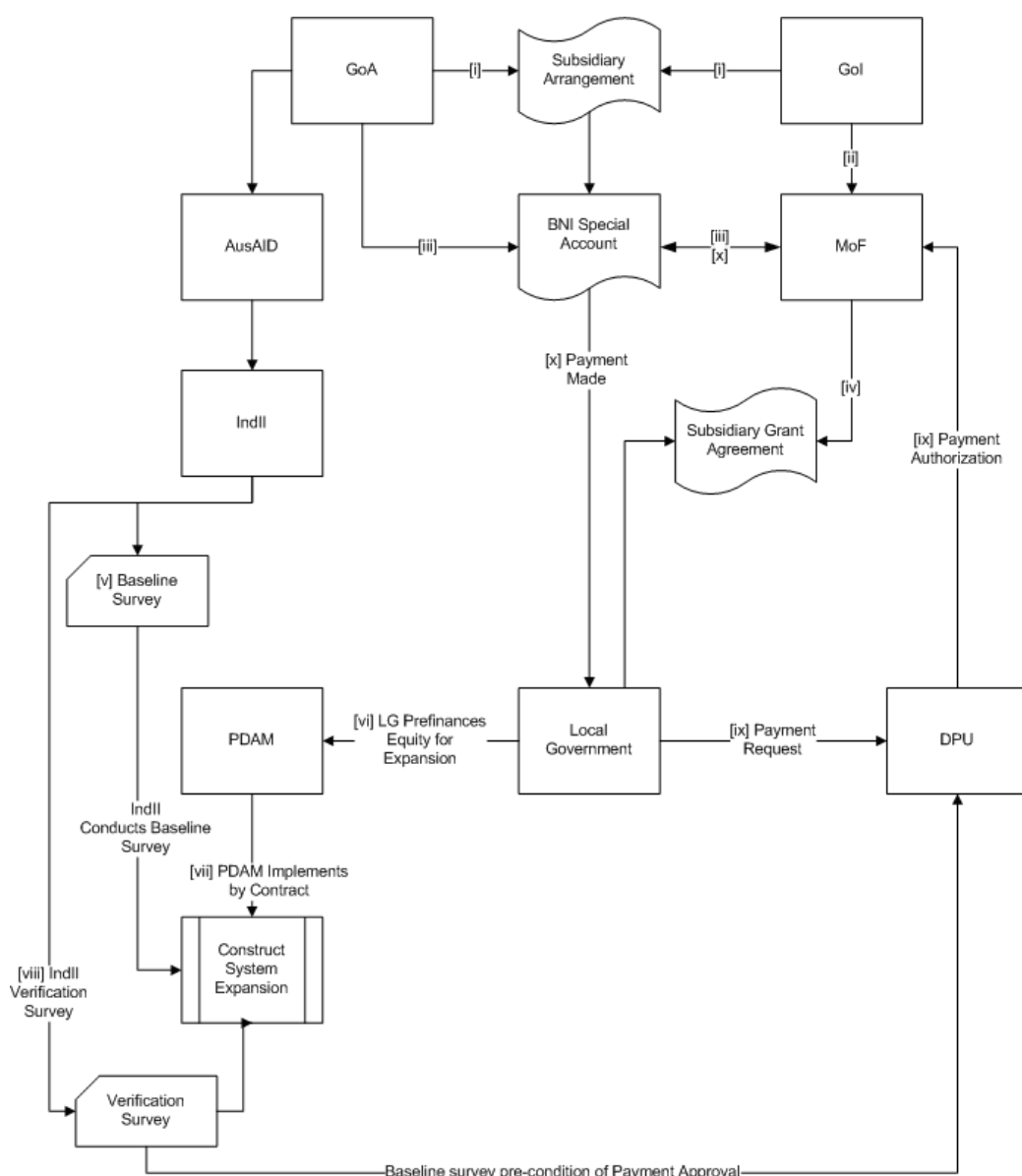
The PAMSIMAS project is a national project implemented directly by community groups. The community groups are supported by MPW-engaged consultants or the provincial government. Village implementation grants are disbursed directly by MPW to local government special accounts which are then transferred to village project accounts. The transfers are carried out in three tranches.

The implementation of the WSI PAMSIMAS component will follow the rules and procedures of the national project except for the disbursement of village grants, which will be transferred directly from the Trust Fund to the village project account. Other technical assistance will be selected by either MPW or the World Bank PAMSIMAS Task Team Leader and paid from the Trust Fund. Oversight and governance of the funds allocated for PAMSIMAS will be the day-to-day responsibility of the World Bank PAMSIMAS Task Team Leader, working in close cooperation with the implementing agency, MPW.

More global oversight on the application of the funds will be subject to joint AusAID and GoI review at the meetings of the IndII Board. The original allocation of AU\$10 million to PAMSIMAS was made under the design of the WASPOLA facility which provided a common facility management structure for both WASPOLA and PAMSIMAS. It is proposed that all of the AusAID funding for PAMSIMAS (the original allocation under Waspola / PAMSIMAS design) *and* the current WSI PAMSIMAS allocation be managed and reported under the WSI umbrella. The selection of the additional 400 villages for PAMSIMAS funding will be done in conjunction with WSI and AusAID consultation.

²⁷ Meeting with Rahmat Waluanto Director General for Loans and Grants, Ministry of Finance.

Figure 3: Fund flow and implementation process for Water Hibah



4.4 Implementation mechanism and flow of funds

The full procedure and process will be included in the *Water Hibah Implementation Manual* and Water Hibah design document. However the features of the proposed mechanism are:

- i) The GoA and GoI will formalise agreement to implement the WSI under an amendment to the IndII *Subsidiary Arrangement*.
- ii) The funds allocated to the PAMSIMAS, Wastewater and Water Hibah components will be on-budget, the PAMSIMAS and Wastewater funds under the MPW budget and the Water Hibah funds on the MOF budget ancillary account.
- iii) The MOF establishes a special account in BNI, appoints an authorised signatory and notifies GoA. After conditions relevant to the effectiveness of the WSI grant are met, the GoA will make an initial deposit to the special account.
- iv) The MOF signs subsidiary grant agreements with selected local governments that specify the amount of the grant committed to the local government, the agreed number of connections, the area to be developed and any other relevant implementation conditions.

- v) IndII conducts baseline surveys for the local governments that have signed subsidiary grant agreements.
- vi) The local government pre-finances the PDAM - wholly or in part - for the expansion program.
- vii) The PDAM implements the programmed expansion through private contractors, and effects new connections.
- viii) Three months after completion of the expansion, IndII conducts a verification survey through an independent agency. The verified new connections will form the basis of the grant.
- ix) The local government submits a request for payment to DPU. The DPU cross-checks the payment request with the verification survey. DPU submits a payment authorisation to MOF supported by the results of the verification survey and copies the authorization to IndII.
- x) The MOF signatory to the special account makes the payment and copies the payment details to IndII. The MOF requests a replenishment of the special account to GoA. IndII verifies that expenditure has met the conditions of the subsidiary arrangement and the rules of the special account and approves the replenishment.
- xi) Upon receipt of verification of expenditure and a quarterly call for funds, AusAID Post will organise payment of the replenishment into the special account.

4.5 Implementation of the sanitation component

The sanitation component covers two distinct activities: sanitation for poor rural and peri-urban communities through PAMSIMAS; and wastewater (sewerage) development for four large cities.

The rural sanitation component will be implemented through the PAMSIMAS project which follows an agreed procedure for community engagement, capacity building, attitude change (“triggering”), after which development funds flow for the implementation of the water supply component. Funds for the rural sanitation component will be channelled through the World Bank Trust Fund which in turn will use the GoI project implementation mechanism to execute the activities.

The second sanitation activity is the urban wastewater component which consists of two distinct sub-components: the first is the completion of investment plans for development of wastewater in four cities to be selected from a list of priority towns including Bandung, Surakarta, Semarang, Makassar, Medan, and Yogyakarta. The second component is the expansion of the existing sewerage system in Banjarmasin which was initially constructed by World Bank funding under the Kalimantan Urban Development Project. The system has subsequently been expanded using LG funding.

At present, the wastewater system of Banjarmasin has excess treatment capacity but the collection sewers have not been extended to supply the treatment plant. The LG has prepared a detailed design for the sewer system as one part of a master plan for the sewerage system for Banjarmasin. Support for the construction of the sewer system would require initial review of the design by independent engineering consultants. This would include a review of possible environmental impacts.

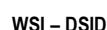
It is not expected that there would be significant environmental impacts in Banjarmasin because the treatment plant is already operating. It may be necessary to recommend higher levels of treatment to reach acceptable effluent quality. Installation of the sewer network is not expected to pose an environmental risk as they will be laid on public easements such as roads, etc. Disruption may occur during construction but this can be mitigated. The overall environmental benefits of the sewerage system in the city which relies on its waterways for transport, and increasingly, recreation and tourism, will outweigh any short term disruption.

4.6 Implementation of MSMHP and UWSSP (under IndII)

The MSMHP and UWSSP programs will be implemented as co-financing projects with ADB and World Bank respectively. Implementation arrangements will follow the prescribed MSMHP and UWSSP design. The capacity building activities will be implemented by the local government. Consultants and/or training activities will be engaged or arranged by AusAID, through WSI. It may be possible to implement the project through a simple cooperation agreement since the activities are

4.7 Implementation schedule

Figure 4: WSI Implementation Schedule



5. MONITORING ARRANGEMENTS

The GoI implementing agencies for the WSI components will be required to monitor and report on the implementation of the activities and on the application and disbursement of AusAID funds channelled through the GoI special account and the PAMSIMAS Trust Fund.

WSI M&E arrangements are aligned to the broader IndII *Monitoring and Evaluation Framework* which has been amended to accommodate the WSI component. The WSI contains its own specific M&E indicators, and results will be aggregated with other IndII activities into the broader program framework. Monthly and six-monthly reports will form the basis for M&E with an activity completion report to be completed at the end of the project. An external review team will be engaged to undertake a mid-term and final review, as required, during the course of the project.

Overall monitoring of the WSI components on behalf of AusAID will be carried out by IndII and reported to the IndII Board at periodic management review meetings. Implementing agencies and other stakeholders involved with the project will be required to submit reports on the implementation of the activities of which the WSI components form a part. In the case of the Water Hibah, the Implementing Agency, MPW, will be required to consolidate quarterly implementation reports which incorporate reports from the participating local governments and PDAMs. The reporting from the Implementing Agency will be a condition precedent for payment of the Grant to local government.

AusAID will also take a strategic role in the project through its participation in the IndII Technical Team and the IndII Board which, respectively, provide technical oversight, and strategic and performance oversight.

Specific inputs will be required by an M&E specialist to assist with the preparation and review of reports and to work alongside the external review teams. This monitoring will focus on the higher project objectives, particularly those of the new components of the Water Hibah and the sewerage implementation.

AusAID will also participate with government and donor partners in monitoring and evaluating PAMSIMAS and other co-funded activities. The proposed design document for the Water Hibah will include a specific risk analysis and monitoring and evaluation plan.

A summary of monitoring outcomes and indicators is provided below/over in *Table 8* .

Table 8: Monitoring outcomes and indicators

Goal	Objectives	Outcomes ¹	Outputs ¹
<p>Improve the living standards of the poor by improving their access to more effective and sustainable water and sanitation services thereby contributing to Gol's achievement of MDG Goal 7.</p>	Water Hibah 1. Expand access to water supply services from PDAMs particularly of the urban poor. 2. Make water systems more sustainable. 3. Enhance aid effectiveness and complement other development agencies' programs	<i>By the end of 2011:</i> 1. additional 400,000 people of whom 50 percent are poor with access to safe drinking water; 2. 65,000 new consumers are paying a cost recovery tariff. 3. additional 200,000 new connections originate from the Gol Water Hibah program. 4. 100 percent of the WSI Water Hibah program delivered through programmatic approaches making use of government systems.	1. 25 PDAMs expand their water infrastructure and service coverage 2. The PDAM has set a full cost recovery tariff and has been approved by LG. 3. The Gol Water Hibah program implements the Hibah Schemes to 50 PDAM/LGs
	PAMSIMAS 1. Expand access to water supply services to the rural poor, women, and children in schools. 2. Make water and sanitation systems more sustainable. 3. Improve the health and quality of life of the poor and vulnerable. 4. Enhance aid effectiveness and complement other development agencies' programs	<i>By the end of 2011:</i> 1. additional 550,000 people of whom 70 percent are poor with access to safe drinking water; 2. additional 800,000 people of whom 70 percent are poor with access to basic sanitation; 3. increase of 50 percent of school children in 250 villages with access to safe water and sanitation in schools; 4. 450,000 additional people served by water service providers that operate on a sustainable basis; 5. 200,000 people including school children demonstrating good hygiene practices especially proper hand-washing. 6. 100 percent of the WSI PAMSIMAS program delivered through programmatic approaches making use of government systems. 7. There additional 2 million water beneficiaries, and 2.2 million sanitation beneficiaries from the Gol program.	1. Community based water services established in 200 villages. 2. 40 Schools provided with well designed and sustainable water and sanitation facilities. 3. 200 Villages are free from open defecation. 4. 200 Community based water services committees fully cover their operational and maintenance (O&M) costs. 5. 250,000 people, including school children provided with education on good hygiene practices 6. 200 community user maintenance groups formed and functioning. 7. 4,000 villages are provided with improved water and sanitation facilities from the Gol program
	Wastewater Provide improved access to sanitation for urban households. Provide more sustainable sanitation services to urban households.	<i>By the end of 2011:</i> 1. An additional 15,000 households, of which 25% are poor, are connected to the Banjarmasin sewerage system. 2. Wastewater investment programs for four cities are accepted for implementation by Gol.	1. PD PAL the sewerage authority for Banjarmasin implements a sewerage expansion and connects additional 15,000 households. 2. The Gol programs and budgets for wastewater investment in four medium sized cities as part of the Gol sewerage expansion plan.

6. RISK AND RISK MANAGEMENT STRATEGIES

6.1 Water Hibah

There are three main risks for the WSI Water Hibah implementation: (i) lack of uptake of the grant scheme by local governments, leading to under disbursement and lack of effectiveness; (ii) sufficient demand but uptake limited by lack of available funds to pre-finance the investment by local government; and (iii) sufficient demand but inability to satisfy it because of the critically short implementation period.

6.1.1 Lack of uptake of the Water Hibah grants

At present, an assessment of the likely uptake of the grant is difficult because only a small sample of LGs have been assessed through the WASAP(I) project. Nevertheless, this limited assessment indicates a uniformly positive interest and intent to participate in the Water Hibah program. A better evaluation will be possible when the socialisation program begins in early FY 2009/10 and the IndII consultants for the 20 PDAM program are mobilised. An initial assessment by the MPW indicates that intrinsic demand is strong from PDAMs and local governments.

A key factor in the uptake is the level of the grant. The WSI Water Hibah grant is progressive; i.e., the first 1000 connections are reimbursed at Rp. 2,000,000 per connection (\$250), while the next 2,000 to 4,000 are reimbursed at Rp. 3,000,000 (\$375) per connection. The scale of the grant compares with Rp 6,000,000 (\$750) average total cost to supply a new connection.

For the WSI program to succeed an estimated 20-25 PDAMs need to participate. Currently, there are 63 candidate PDAMs (20 from IndII, and 43 from WASAP (I) & (B)). This suggests that the demand is reasonably assured, however a lower overall interest will mean longer commitment period and slower start-up. This will need to be countered with more intensive socialisation and preparation activities early in the program. There is a risk that some PDAMs will lag in implementing the program while others will be ahead of schedule. The Subsidiary Grant Agreements will allow for reallocation of portions of unutilised grant.

6.1.2 Limited capacity for pre-financing

The Water Hibah will be implemented as an output-based program. The participants will therefore need to implement a previously agreed water service expansion program measured by an increase in the number of service connections which will then form the basis of the grant. Willingness to participate may be greater than the capacity to pre-finance the initial investment. This may be mitigated by supply chain readiness.

The IndII PDAM support program could have up to 20 PDAMs ready to take up the Water Hibah. Additional support to prepare other PDAMs for entry will come from technical support from IndII and also PDAM programs of other bilateral partners e.g. USAID and the ESP program (28 PDAMs) will also provide a measure of demand. The World Bank WASAP (B) program is working with 15 PDAMs, which could also provide candidates for the Water Hibah program. Supply chain availability will allow the applicant local governments and PDAMs to be screened and their capacity to pre-finance will be conservatively assessed. Only those local governments and PDAMs that can safely pre-finance will be selected to participate.

Finally the new *Presidential Regulation (PerPres)* on commercial lending support will provide access to finance for creditworthy PDAMs to proceed with pre-financing of capital works for new connections.

6.1.3 Limited time to implement the Water Hibah over two years

The difficulty with the WSI project duration of two years is the mismatch between the GoA and GoI financial years. To implement the WSI by following conventional programming procedures, the GoI 2010 budget would need to be revised in August 2009 to accommodate the planned expenditure: this already presents a tight constraint. The programming for GoI 2011

has adequate time but there is only six months to implement the program to fit within the GoA FY 2010/11, although this is mitigated by starting the program early in the current GoI 2009 and making use of PDAM available budgets for program expansion.

The initial selection of PDAMs and local governments will be based on budget funds being available in the remainder of FY 2009 and endorsing those programs that meet the WSI Water Hibah criteria. This will reduce or eliminate the need to plan for implementation in the first six months of GoI FY 2011 (last 6 months of FY 2010/11).

Should the programming not proceed as planned, the mitigating measures will involve reassigning more funds to PAMSIMAS, which has an excess absorption capacity. The original PAMSIMAS program was designed for 5,000 villages and reduced to 4,000 to fit within IDA loan resources. The gap of 1,000 villages is partly covered by the WSI PAMSIMAS component for 400 villages. Therefore, there is spare capacity to implement a further 600 villages from the original design.

6.2 PAMSIMAS

There are no significant risks foreseen with implementation of the PAMSIMAS component. This is the third generation of the WSLIC and programming, and implementation risks have been thoroughly assessed and mitigating measures incorporated in the design of the Partner Program. The GoI Executing Agency has mobilised consultants and implemented the initial training of facilitators and community awareness activities in the first cycle of villages. The implementation of the project will follow annual cycles. The channelling of WSI funds through the World Bank Trust Fund will mitigate programming and budgeting risks.

There is a funding shortfall for approximately 1,000 villages in PAMSIMAS, of which 400 is proposed to be taken up by the WSI. The balance of the unfunded program provides a buffer for absorbing shortfalls in disbursement of other WSI components if required.

PAMSIMAS was assessed by the recent ODE review of the water and sanitation program in Indonesia and was found to have been a successful program. The review was positive with regard to the continuation of AusAID support to the PAMSIMAS program. In addition, the PAMSIMAS proposal was supported at the WSI concept review in November 2008, although the amount of funds has now been significantly increased in response to the increase in Indonesia's WSI allocation.

6.3 MSMHP capacity building

There is some risk that this component may not be implemented as planned. The major risk is failure to reach appraisal and agreement with GoI. If that is the case, the component should not start. As a minimum, particularly given the history of this project, contracting should not commence before negotiations are completed.

Should the project be appraised and approved by the ADB board, there is still a risk that the loan may not be negotiated or that any final loan which is subsequently negotiated has significantly reduced components related to sanitation. This should not significantly affect the WSI component because the benefits derived from the increased capacity of the local government institutions responsible for sanitation services are still achieved, although diminished by their further application to project components.

6.4 Fiduciary risk and anti corruption safeguards

Fiduciary risk for the implementation of PAMSIMAS is covered under the design provisions for PAMSIMAS. Adequate safeguards are provided which incorporate lessons learned from WSLIC 1&2. Anti corruption safeguards from previous WSLIC projects have been strengthened by the introduction of compulsory posting of implementation reports on the PAMSIMAS website. An open mobile telephone text line and the project web site have encouraged self monitoring by the community implementation groups and other project stakeholders. The WSI funds for PAMSIMAS will be channelled through the existing A\$10 million World Bank Trust Fund for PAMSIMAS. The World

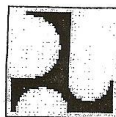
Bank, acting as executing agency, will apply the funds through the GoI project implementation mechanism. This will mean that the WSI PAMSIMAS funds will go on the DPU budget and will be disbursed through the DPU project special account. The WSI funds will be applied to specifically designated districts and villages and their application will be identified separately from the remainder of the PAMSIMAS project.

Fiduciary risk for the Water Hibah is relatively lower than for PAMSIMAS. The Water Hibah will be implemented as an output-based program so that payments will only be made after agreed outputs have been confirmed in the field through independent verification surveys. Risks commonly associated with contracting, and construction programs are largely eliminated through the disbursement of the grant at fixed unit rates for each verified working connection delivered to the project. A key factor in reducing the residual fiduciary risk will be the conduct of the baseline surveys and the subsequent verification surveys. The reliability of the surveys will be further strengthened by the examination of PDAM customer records to cross check the establishment of new connections. The baseline surveys will be conducted by IndII-procured consultants working with NGOs as part of the socialisation process. The verification surveys are proposed to be conducted by an independent third party, possibly supported by WSI funding. The provincial audit agencies working with BPPSPAM are best positioned to do this. They have been collaborating since 2002 to produce audited reports and performance assessments of all PDAMs. These reports and assessments have been accepted by GoI, and by MOF in particular, as the standard for determining the performance and financial health of the PDAMs.

Replenishment of the Water Hibah special account will be subject to acceptable financial reports on the application of the grant. Where there is evidence of payments having been made not in accordance with the provisions of the special account, the subsidiary grant agreement, or the Water Hibah Project *Implementation Manual (PIM)*, replenishment for the amount in question will be withheld until such satisfactory reporting is made available. If funds have been disbursed not in accordance with the provisions of the grant agreement, the PIM, or the special account, the funds in question will be deducted from the allocation made under the relevant subsidiary grant agreement. The MOF will make quarterly financial management reports (FMR) to IndII on the disbursements from the special account and the status of the special account.

There is some fiduciary risk for the implementation of the Banjarmasin wastewater component. At present it is proposed to channel the funding through a special account established in Bank Indonesia with the funding portion from WSI (approximately 50%) being transferred to LG via the GoI grants channel established under PMK 168/69. This will require a subsidiary grant agreement between the local government of Banjarmasin and the MOF. The grant funds will cover the agreed portion of costs incurred during implementation of the works, in this case, fifty percent. The risk lies in securing a transparent and competitive price for the contract of works by the local government. There is a further risk in verification and acceptance of the contractor's work before payment. The verification of contractor's invoices for payment would be the responsibility of the GoI implementing agency under the grant agreement which would be MPW. Mitigation of these risks would be done through the appointment of an engineering oversight consultant to review the design, procurement of goods and services and supervision of the works. The risks may be further mitigated if the grant payments are made retrospective to completion of the works and successful handover to the LG.

Annex 1: Gol proposed Water Hibah



DEPARTEMEN PEKERJAAN UMUM DIREKTORAT JENDERAL CIPTA KARYA

Jalan Pattimura 20 Kebayoran Baru, Jakarta Selatan 12110 Telp/Fax.(021)72796588

No. : AM.01.09-DG/163

Jakarta, 16 April 2009

Lampiran :

Kepada Yth.:

Deputi Bidang Sarana dan Prasarana, Bappenas.
Di Jakarta

Perihal : Usulan Alokasi Dana Hibah untuk Sektor Air Minum

Bersama ini dengan hormat kami sampaikan bahwa dalam rangka meningkatkan cakupan pelayanan air minum, khususnya untuk pelayanan bagi Masyarakat Berpenghasilan Rendah (MBR) diperlukan suatu upaya khusus untuk dapat mendorong terjadinya investasi di bidang air minum dengan memaksimalkan dana yang ada dari masing-masing pemerintah daerah selaku penanggung jawab penyelenggaraan air minum di kabupaten/kota.

Salah satu upaya yang kami rencanakan untuk dapat dilakukan pada tahun anggaran 2010 adalah melalui pemberian hibah insentif kepada para pemerintah daerah yang telah dapat membangun sambungan rumah yang sudah berfungsi minimal 3 bulan sebagai pengganti investasi yang telah dikeluarkan dari dana APBD.

Untuk setiap sambungan yang telah dibangun, Pemda bisa mendapatkan dana hibah insentif dari Pemerintah Pusat sebesar maksimal Rp 2.000.000. Pemda yang dapat memperoleh dana ini disyaratkan untuk membiayai pembangunan sistem secara lengkap untuk dapat menghasilkan pelayanan sesuai ketentuan Departemen PU selaku Pembina teknis bidang air minum.

Diharapkan program ini dapat terlaksana dalam 5 tahun anggaran dengan jumlah cakupan kota sebanyak 150 kota dengan alokasi dana hibah masing-masing kota sebanyak Rp 20 milyar. Total dana yang diperlukan sebesar Rp 3 Trilyun. Dari dana ini diharapkan dapat terbangun tambahan sambungan baru minimal sebanyak 1.500.000 unit.

Sehubungan dengan hal tersebut, bersama ini kami mengusulkan tambahan alokasi dana untuk sektor air minum sebagai dana hibah insentif tersebut di atas yang akan disalurkan melalui mekanisme hibah, sesuai dengan PMK no 168 tahun 2008 (konsep mekanisme penyaluran dana hibah insentif terlampir).

Demikian kami sampaikan, untuk mohon pertimbangan dan persetujuan Saudara guna proses lebih lanjut ke dalam dokumen usulan Rencana Kerja Pemerintah tahun 2010 – 2014. Atas perhatian Saudara kami ucapkan terima kasih.



Tembusan Kepada Yth.:

1. Bapak Menteri Pekerjaan Umum
2. Deputy Bidang Pendanaan, Bappenas
3. Direktur Jenderal Anggaran, Departemen Keuangan
- 4. Direktur Jenderal Perimbangan Keuangan, Dep. Keuangan
5. Direktur Bina Program, Ditjen Cipta Karya, Dep. PU

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Government of Indonesia

Proposed Water Hibah

The Ministry of Public Works (PU)

[draft] 20th April 2009.

I. Introduction

Water Hibah here means the 'Hibah' continuation coming from the State Budget for Fiscal Years 2010-2014. Its mechanism is designed in accordance with PMK 168/2008 on *Regional Hibah* and 169/2008 on *Procedure of Distribution* to the Regional Governments. The Water Hibah's objectives are to provide incentives to Provincial or Local Government [Pemekab/Kota= District/City Government] for them to assume their responsibilities to provide piped water services in their regions and apply good governance. Accordingly, the mechanism of this Water Hibah will require commitments in the form of establishment of government relationship between the Government (through related ministries and agencies) and regional governments with the PDAM as drinking water operator. In accordance with the said PMK 168/2008, the Ministry of Public Works as the agency related to SPAM development shall submit this Hibah application to the MOF and the Bappenas. Furthermore, in accordance with PP 56/2005 concerning Hibah, the MOF shall cooperate with the related ministries in this regard the Ministry of Public Works and Bappenas, to set out a Joint Decree on the criteria and requirements for the regions interested in the Water Hibah. For the implementation of water hibah, a **Government Committee** will be set up comprising the agencies of the related inter-sectoral ministries, and the administering agency will be the related Provincial or Local Governments.

II. Brief Description of Hibah Activities

2.1 Objectives

- (1) To extend the water service coverage, especially to Low Income People (MBR) in a sustainable manner, and
- (2) To provide incentives or stimulus to Provincial or Local Government to use their own funds for investment in the water sector
- (3) To realized improvement of good governance in water supply administration.

2.2 Hibah Requirements for Provincial or Local Government

- (1) The Provincial or Local Government shall first provide the fund for SPAM development
- (2) Evidence of availability of water capacity to be distributed to customers
- (3) PDAM/LG has prepared a water supply plan feasible for the sustainability of the system, giving at least the following aspects:
 - a. The present descriptions of water supply service and management including availability of water production
 - b. The projected demands of water
 - c. Investment plan and financial feasibility analysis
 - d. Funding plan and implementation schedule The Business Plan already approved or has undergone assessment in the debt restructuring process with the Ministry of Finance may also be used for this purpose
- (4) Sufficiency of revenues the operator may expect to pay the operational and maintenance expenses, supported by proper tariff plan
- (5) If required, the Provincial or Local Government shall be obliged to provide subsidy through their Provincial or Local Government Budget to PDAM in order to be able to serve water supply for the low income people.

2.3 Allocation of the 'Hibah' Fund

The Hibah fund may be used to finance water distribution service development for the low income people, including paying the house connections.

2.4 Hibah Granting Principles

- (1) The Provincial or Local Government will receive the Hibah fund after the distribution network installation activities with House Connections have been in services for minimally 3 months, based on the recommendation reports of the *Government Committee*
- (2) The amount of Hibah fund will be determined on the number of house connections already in services
- (3) In relation to item (1) above, the Provincial or Local Government is required to first finance the SPAM development to the house connections

2.5 Amount of the Hibah

The Hibah fund the Government may provide:

- (1) Maximum amount of Rp2 million per House Connection this Hibah will be able to produce and to serve properly.
- (2) The amount of Hibah fund of each district/city will be limited to a maximum amount of Rp20 – 25 billion for a period of 5 years (2010-2014 FYs)
- (3) The Hibah amount will be adjusted to the region's capacity to secure increased/new House Connections.

2.6 Mechanism and Requirements of Hibah Funding

- (1) The Provincial or Local Government that has met the basic requirements as specified in item 2.2 shall submit an application to the Government Committee for the hibah attaching the SPAM Business Plan thereto.
- (2) The Government Committee will review the eligibility of the Provincial or Local Government to receive the Hibah (Criteria for eligibility review will be prepared).
- (3) The Government Committee will recommend to the to the MOF, in this regard, the Directorate General of Financial Equilibrium (DJPK) the Provincial Government or Local Government eligible to receive a hibah
- (4) The MOF, in this regard, the Provincial or Local Government shall draw up the Hibah Agreement in the form of Draft Regional Hibah Agreement (NPHD)
- (5) The Provincial or Local Government shall formulate an annual working plan for the implementation of House Connection installation development work under the multiple year period as agreed in the NPHD.
- (6) After the house connections have been working properly for three months, the Provincial or the Local Government may submit their application for review of the project by the Government Committee and this shall serve as the basis of disbursing the hibah fund.
- (7) The Provincial or Local Government shall submit the application for payment by the authority of water hibah budget use based on the recommendations of the Government Committee.
- (8) The MOF, in this regard, the DJPK will distribute the hibah to the Provincial or Local Government.

2.7 Role of the Government Committee

- (1) To assess the eligibility of the Provincial or Local Government to receive the Hibah fund
- (2) To assess/verify the feasibility for hibah fund disbursement
- (3) To monitor Hibah implementation progress by the Provincial or Local Government, as well as PDAM
- (4) To evaluate the utilization and sustainability of the infrastructures already developed
- (5) To publish hibah program implementation in the mass media.

2.8 Allocation and Sources of Hibah Fund

- (1) The Hibah fund allocation will be adjusted to the capability of the Provincial or Local Government to absorb or complete the proposed work
- (2) Source of Funding: Allocation of the State Budget that come from loans, hibah or genuine rupiah channeled through the Budget Financing and Calculation Section (BAAP) other than the Budget Section of the Sectoral Ministries, and other than the *DAK* Budget.

2.9 Criteria of Low Income People (MBR)

As indicated in the statistical data of village potentials provided by the Central Statistics Agency (BPS).

III Details of the Mechanism

3.1 Application and Approval Process

1. The Provincial or Local Government wishing to receive the Hibah may apply therefore by submitting an application to the Government Committee.
2. The Government Committee will review the proposals based on the criteria for the review.
3. The applicants who satisfy the criteria will be informed that their applications are successful based on the review criteria.
4. The Government Committee will assign an Evaluation Team to the proposed site to verify the report and the assumptions stated in the proposal.
5. If an Applicant's proposal satisfies the criteria, the Evaluation Team will report that the statements and assumptions in the proposal are valid, the Proposal will be approved, and the Applicant will be so informed and the process continued.
6. The proposal that does not meet the criteria, or is found to be inaccurate following the evaluation report, will be informed to the concerned applicant. After a three month period, the applicant may again submit its proposal after due revisions of the aspects found inaccurate in the first proposal.

3.2 Implementation Process

1. The applicants whose proposals meet the criteria will be invited to sign the NPHD with the Minister of Finance, in this regard, the DJPK.
2. The applicants who have signed the NPHD will be given the status of "Hibah Recipient".
3. The Hibah Recipients will be required to prepare the capital expenditures to be made directly by the Provincial or Local Government, or capital stake to PDAM as specified in the NPHD.
4. Specifically for budgeting in the form of capital stake to PDAM, the PDAM will soon procure working contracts with contractors. On the execution of the contract, the PDAM will submit the Work Contract to the Hibah Recipients and the Hibah Recipients will conduct supervision and control over the implementation of the works by PDAM.
5. After the Works are completed and new connections have been working for 3 months, the Hibah Recipient will send an application to the Government Committee requesting to conduct an evaluation of the number of house connections specified in the NPHD.
6. The Government Committee will then assign an Evaluation Team to verify the following:
 - a. The installed house connections for low income people have been working properly for 3 months
 - b. Other aspects of the NPHD have been, or are being, complied with satisfactorily.
7. If the Evaluation Team reports that conditions specified in (a) and (b) above have been satisfied, the Government Committee will endorse the payment as requested. The Hibah Recipient will submit the application for payment attached with accompanying evidences and recommendations or approval by the Evaluation Team to the MOF, in this regard, the DJPK. The DJPK shall after receiving the said payment request from the Hibah Recipient, verify the request with the NPHD and the BAPP accounts. If no discrepancies are found, the DJPK shall order payment made to the Hibah Recipient through the agreed accounts.

3.3 Content of the Proposal

A proposal shall contain:

1. Administrative Aspects:
 - (a) Name of applying Provincial or Local Government and the responsible official
 - (b) Debt servicing status and participation in the debt restructuring program of the Provincial or Local Government applying for this water hibah
 - (c) The fiscal capacity of the applying Provincial or Local Government
 - (d) Debt servicing status and participation in the debt restructuring program of the PDAM of the above Provincial or Local Government.
2. Technical Aspects
 - (a) Existing conditions, functions and locations of the distribution systems (Base Line)
 - (b) Clear and verifiable data showing sufficient water capacity to serve new connections, or explanations on how the required water will be produced.
 - (c) Descriptions of the service area where the SPAM development will be located
 - (d) Conditions of the low income people in the proposed service area
3. Financial Aspects:
 - (a) Plan, cost of each connection to be installed and the associated works.
 - (b) Estimated expenses in 2 years to come to show how the Regional Government will be able to finance the operations, maintenance, and debt servicing. If the project will be managed by PDAM, the past year's Accounting Report of PDAM is to be attached thereto.

3.4 Hibah Agreement (to be completed by the MOF)

The NPHD will not only contain provisions of PMK 168/2008 article 14, but will also contain provisions on:

1. The process for approval and disbursement of funds
2. Procurement process to be observed
3. Submission for audit requirements
4. Commitment to properly apply good governance such as publication of the plan, seeking feedback, community oversight of the work, reporting audited financial statements, and publications.

Annex 2: Concept Peer Review – 5 November 2008

INDONESIA PROGRAM FRAMEWORK - ACCESS TO CLEAN WATER AND SANITATION INITIATIVE (ACWSI)

Concept Peer Review – 5 November 2008

Meeting Notes:

The Concept Peer Review was held by teleconference between Canberra and Jakarta involving the following participants:

Jakarta:

Blair Exell – Chair, Andrew Dollimore, Damien Smith, Christiana Dewi, Melinda Hutapea, Alizar Anwar (independent reviewer), Jim Woodcock (consultant) and Risyana Sukarma (consultant)

Canberra:

Alan Coulthart, Marcus Howard, Anne Joselin, Jennifer Donohoe, Tamsin Bendeler-Cartledge (independent reviewer), Suzanne Murray, Barbara O'Dwyer, Juliet Willets (Water Reference Group)

INTRODUCTION AND OVERVIEW OF PROPOSED INITIATIVE

Chair opened the meeting and explained that the purpose of peer review meeting is to get overall endorsement on the initiative concept to proceed into more detailed design.

The meeting noted the following key points from the presentation on the background and overview the proposed program framework of Indonesia WSI:

- the initiative name has changed from “Access to Clean Water and Sanitation Initiative” (ACWSI) to “Indonesia Water and Sanitation Initiative” (WSI).
- The goals & objective of initiative have been refined taking into accounts inputs from other country programs concept peer reviews and the recent Sanitation and Water Conference in Melbourne. The refined goal is to improve the living standard of the poor by improving their access to more effective and sustainable water supply and sanitation services thereby contributing to achievement of the Millennium Development Goals.
- Achievement of water and sanitation MDG is fundamental input to almost every other goals of MDG including in reducing poverty, improving health and maternal health and in expanding access to education.
- Four main aspects of WSI strategy are: (1) to increase the focus of urban area while maintaining a strong rural program (2) to increase funding for sanitation (3) to build on successful approach and lesson learned including the GoI success in adopting community-driven development approach through KDP and WSLIC (4) to increase engagement and partnership with multilateral development agencies, and broader civil society organisations.
- Identification and selection of activities take into accounts the short lead-time and duration of WSI, the need to demonstrate tangible outputs within the 2 years implementation period and the strong likelihood that Australia will remain engaged in water and sanitation sector beyond this initial 2 years.

OBJECTIVES, OUTCOMES, APPROPRIATENESS AND RISKS

The meeting noted that the following elements of the concept document need more clarity and elaboration:

- Capacity building in the aspect of human resources skill enhancement for water utilities (PDAMs) and local government needs attention to ensure sustainability on program impact.

- Focus on the poor need more explanation as well as how to monitor the outcomes for the poor and non poor. How the program can cover poor urban community that live in shanties and on non title land land needs attention.
- Environmental aspect needs addressing including protection of ground water from pollution and water resource implications.
- Emphasis on health promotion aspect and safe water on the proposed activities needs more elaboration. Greater emphasis on household level water treatment might be a useful additional approach to address the issue of ensuring quality of drinking water.
- The logframe presented in the document is very general and focussed on the actual objective of the whole initiative. More clarity is needed on the added value that AusAID contribute in different activity and how to measure Australian contribution to each activity.
- The concept document does not articulate that there is a big gap in addressing the reality of funding/training of community level facilitators in terms of numbers and skills.
- Analysis on why some activities are being chosen is not clear. One example is why the initiative would provide additional assistance to Eastern Indonesia.
- More sectoral data is required for example sanitation data in Eastern Indonesia to get a little bit deeper on sanitation issue. Gender disaggregated data is missing from the document
- Discussion and analysis on gender aspects is not sufficient. Contradicting information appears on paragraph 42.
- Governance analysis section could be strengthened as well as the various approaches of each partner agency on anti-corruption. The initiative should be mindful of key transaction points where corruption might occur. Further written comments from governance and anti-corruption unit's perspective will be provided.
- Statement of goal/objective needs to be shifted to past tense to reflect what success will look like.
- The initiative has not set the definition of what success will look like, what is AusAID overall goal, the objectives, the outcome. This will determine the M&E to track on what we want, do we know whether we have achieved the objectives.
- There is no discussion in the document on the options/alternative if the proposed Bank funded-activities do not eventuate or significantly delayed.
- It is not clear in the document what AusAID will expect to achieve by investing A\$ 35.2 million and how the proposed activities can hang together to form a coherent program. Lack of coherency on the various activities may pose a risk that the recognition of Australian contributions may be diluted as well as control of funds and directions.

Response from WSI concept design team are noted below:

- Capacity building is an area where AusAID is looking to improve aid effectiveness. Past experience shows that training alone has not brought about institutional reform. Therefore as part of the effectiveness agenda the initiative will aim to improve training activities so that it can contribute to capacity building and institutional strengthening.
- In terms of serving the poor, the initiative is exploring mechanisms including adopting output-based aid (OBA) approach which has proven to be successful in the Phillippines and Cambodia.
- AusAID will be actively participating in the design of proposed activities in order to be able to fill the element gaps in delivery partner's design including the aspects of water quality, health, gender.
- The initiative would provide assistance targeting Eastern Indonesia through collaboration with German aid agency because water and sanitation coverage in NTT is lower compared to other parts of Indonesia and the Pro Air program has been successful.
- Anti-corruption measure will be taken into account.
- Provision of software components in programs supported by the Banks is AusAID's key role and these are the added value for AusAID.

- The initiative is aimed at increasing access of water and sanitation for the poor and each activity will contribute to the 4 objectives outlined in the draft Water, Sanitation and Health strategy which will become online in the near future.
- There are a separate global funding mechanisms under the broader WSI which are not covered in the concept document such as support to WSP or UN agencies and funding through civil society/NGOs.

RECOMMENDATIONS & NEXT STEPS

The meeting agreed that the concept document needs to be refined to take into account inputs/suggestions from peer participants. The following key points should be taken into account during the design stage.

- Better articulation on how the proposed activities can form a coherent program and how AusAID contribution can be measured and recognized.
- The concept document needs to spell that the gender situational analysis and gender strategy will be done as part of the design process. Sufficient resources for doing the gender situational analysis and strategy need to be allocated during the design phase and this should be reflected in the ToR.
- The initiative could look at the approach of PNPM Generasi that is doing similar activities of linking health and education to PNPM. This approach may be useful to address how water and sanitation can be more integrated into PNPM.
- Considerations be made for the options/alternatives in case of Bank projects not happening or being significantly delayed. One option would be providing some funds for IndII for implementation of activities. The other option would be collaborating with NGO to implement activities targeting urban poor or working through ANTARA for implementation of rural water and sanitation activities.
- Consideration be made that the management and oversight of WSI be managed under IndII as an additional component with the additional expert resources contracted to IndII as Lead Advisers, but representing AusAID similar to David Hawes or Hugh Brown. The proposed approach would have an advantage that it brings the water and sanitation component under a Board arrangement highlighting Australian contribution and having a seat at the table.
- Continuing engagement with Ministry of Health and coordination across the ministries need to be pursued.
- Using the AusAID guidelines of Quality Requirement for Partner-led Design as reference for the design of AusAID support to ADB and WB projects.

The meeting agreed for the following next steps:

- Post will work with WSI consultants to revise the concept document to incorporate inputs from participants.
- Post will take the lead on taking forward the design process including:
 - resolving the issue of identifying the best management approach/structure for WSI activities.
 - engaging consultant to participate in ADB fact-finding mission in January 2009.

Annex 3: PDAM Water Sector Programs

	PDAM WATER SECTOR PROGRAMS							
		AusAID		USAID	Wasap B	Wasap I	DGCK	USAID/ESP Notes (ongoing programs, 4/27/09)
		Debt Restructuring & Business Plan	Water Hibah	Financial & Technical Assistance	Debt Restruct- uring & Business Plan	Governance and Finance		
1	ACEH BARAT KABUPATEN			Financial				Plan for Debt, Accounting
2	ACEH BESAR			Financial				Plan for Debt
3	AMBON CITY			Financial & Tech				Investment Plan, Microcredit, Billing/Accounting
4	ASAHAN KABUPATEN							
5	BADUNG CITY							
6	BALIKPAPAN CITY							
7	BANDA ACEH			Technical				customer forum,
8	BANDUNG CITY			Financial & Tech				Debt, Non-Revenue Water, Raw Water
9	BANDUNG KABUPATEN			Technical				staff motivation, institutional (avoid splitting)
10	BANJARMASIN CITY							
11	BANYUMAS KABUPATEN							
12	BANYUWANGI KABUPATEN							
	BEKASI KABUPATEN							
13	BINJAI CITY			Financial & Tech				Debt, Standard Oper Procedures,
14	BLITAR KABUPATEN							
15	BOGOR CITY			Financial				Microcredit, Project Finance
16	BOGOR KABUPATEN			Financial				Microcredit
17	BOJONEGORO KABUPATEN							
18	BOYOLALI - KABUPATEN							
19	BUKIT TINGGI CITY			Technical				completed field activities in 2007
20	CIAMIS - KABUPATEN							
21	CIANJUR KABUPATEN			Technical				completed field activities in 2008
22	CILACAP KABUPATEN							

23	DENPASAR CITY							
24	GOWA KABUPATEN							
25	GRESIK KABUPATEN			Financial & Tech				Debt, Energy Efficiency, GIS, SOP
26	INDRAMAYU KABUPATEN							
27	JAMBI CITY							
28	JAYAPURA KABUPATEN			Financial & Tech				Debt, Billing/Accounting, Investment Plan, NRW
29	JOMBANG KABUPATEN							
30	KAB. KUTAI BARAT							
31	KAMPAR KABUPATEN							
32	KARANGASEM- KABUPATEN							
33	KARAWANG KABUPATEN							
34	KARO KABUPATEN							completed field activities in 2008
35	KEBUMEN KABUPATEN							
36	KEDIRI CITY							
37	KEDIRI KABUPATEN							
38	KENDARI CITY							
39	KLATEN KABUPATEN							
40	KUDUS KABUPATEN							
41	KUNINGAN KABUPATEN							
42	KUPANG CITY							
43	KUTAI KERTANEGARA KABUPATEN							
44	LAHAT KABUPATEN							
45	LANGKAT KABUPATEN			Financial & Tech				Investement Plan, SOP
46	LOMBOK TIMUR KABUPATEN							
47	MAGELANG CITY			Technical				
48	MAGELANG KABUPATEN			Technical				
49	MAKASAR CITY							
50	MALANG CITY			Financial & Tech				Investement Plan, Microcredit, EEfficiency
51	MALANG KABUPATEN			Financial & Tech				Debt, GIS, raw water, investment plan
	MAKASSAR CITY							

52	MANADO KOTA			Technical				completed field activities in 2007
	MATARAM CITY							
53	MEDAN CITY			Financial & Tech				Debt, Microcredit, Water for the Poor, Efficiency
54	NIAS KABUPATEN							
55	PADANG CITY			Technical				completed field activities in 2007
56	PALEMBANG CITY							
57	PAMEKASAN KABUPATEN							
58	PARE PARE CITY							
59	PASURUAN CITY			Financial & Tech				Debt, Feasibility Study
60	PASURUAN KABUPATEN							
61	PEKALONGAN CITY							
62	PEKALONGAN KABUPATEN							
63	PROBOLINGGO KABUPATEN							
64	PURWAKARTA KABUPATEN			Financial				Debt
65	SAMARINDA CITY							
66	SAMPANG KABUPATEN							
	SEMARANG CITY							
67	SIBOLGA CITY			Financial & Tech				Debt, Accounting/Billing, Investment Plan
68	SIDOARJO KABUPATEN			Financial & Tech				Microcredit, Energy Efficiency, Water for the Poor
69	SLEMAN KABUPATEN			Technical				SOPs, NRW
70	SOLOK CITY			Technical				completed field activities in 2007
71	SOLOK KABUPATEN			Technical				completed field activities in 2007
72	SUBANG KABUPATEN			Financial & Tech				Debt, Microcredit, Investment Plan, Raw Water
73	SUKABUMI CITY			Financial & Tech				Debt, Microcredit, Investment Plan, Raw Water
74	SUKABUMI KABUPATEN			Financial & Tech				Microcredit, NRW
75	SUKOHARJO KABUPATEN							
76	SUMEDANG KABUPATEN			Financial				Plan for Debt , raw water,
77	SURABAYA CITY			Financial & Tech				Water for the Poor (MC, OBA, MM),

								EEfficiency
78	SURAKARTA CITY			Financial & Tech				Debt, Investment Plan, Microcredit, Master Meter
79	TANGERANG - KABUPATEN							
80	TARAKAN CITY							
81	TASIKMALAYA CITY							
82	TEGAL CITY							
83	TEMANGGUNG KABUPATEN			Technical				Standard Operating Procedures
84	TULUNG AGUNG KABUPATEN							
85	WARINGIN TIMUR CITY							
86	WONOGIRI KABUPATEN							
87	WONOSOBO KABUPATEN							
88	YOGJAKARTA CITY			Technical				Raw Water

Annex 4: (Outline) Terms of Reference

Technical Director – Water and Sanitation

IndII Facility Management Team Position of Water and Sanitation Program Director Scope of Services

A. Introduction

The Indonesia Infrastructure Initiative (IndII) forms part of the Australia – Indonesia Partnership and is designed to assist the Government of Indonesia's efforts to accelerate infrastructure development. The major part of the allocated funding of circa A\$65 million is being channeled through the IndII Facility, with day-to-day management being handled by SMEC as Managing Contractor. The Facility Management Team is headed by a Facility Director, who is supported by Technical Directors and other technical and administrative staff. Implementation of the facility commenced in July 2008 and is scheduled to be completed by June 2011. The Facility Management Board, Co-Chaired by AusAID and Bappenas, has determined that water and sanitation should be a priority sector for support.

The Government of Australia has since allocated Indonesia A\$60.5 million under its Water & Sanitation Initiative. The activities to be supported by IndII and WSI will be complementary, and will therefore need to be carefully integrated and coordinated. It has accordingly been agreed by GOI and AusAID that WSI will be established through amendment of the IndII Subsidiary Arrangement and managed through adaptation of the management structure adopted for IndII. To accommodate the additional workload, it has further been agreed that the Facility Management Team structure will be expanded through, among others, the creation of a new position of Technical Director – Water and Sanitation.

While IndII will provide management and technical expertise at the activity level, and programmatic advice, the overall strategic management of the WSI and other Australian funded activities will be the responsibility of the Post. The IndII Advisory Board will also provide strategic oversight and direction. IndII will undertake necessary monitoring and evaluation for the watsan activities that will complement and inform the M&E undertaken by the Post.

B. Role

The appointee will have three main roles:

- to guide, assist, and monitor the further design and implementation of the agreed WSI program in accordance with applicable GOI and GOA policies, systems, and guidelines;
- to manage the development and implementation of a complementary IndII technical assistance and grants program designed to enable and ensure timely and effective implementation of the WSI program and to assist GOI in shaping and realizing its broader objectives for improving water supply and sanitation;
- to provide advice to AusAID Indonesia Post as requested on matters relating to the shaping of future AusAID support to the water and sanitation sector.

C. Scope of Tasks and Duties

The Watsan Director will be responsible for the following tasks and duties:

C.1 WSI Program:

- Assist AusAID as needed with drafting and finalizing the amendment of the Subsidiary Arrangement;
- Prepare Design Documents for the Water Hibah and the Banjarmasin Sewerage extension components.
- Establish the activity level M&E framework for watsan components of WSI and IndII and oversee the implementation and reporting of watsan activities.
- Support with the establishment of a special account in BI under an MOF authorized signatory for channeling the WSI LG grants. This will include the water Hibah and wastewater expansion and will include requirements for management of the account, including disbursing, reporting, and replenishment.

C.2 WSI - PAMSIMAS:

The executing Agency for the PAMSIMAS component will be the World Bank Office Jakarta through the execution of the Pamsimas Trust Fund. The component will be implemented by the World Bank using the PAMSIMAS project GoI implementation rules and guidelines agreed to as part of the IDA credit agreement for the project. The Technical Director Waater and Sanitation will coordinate with the World Bank on the implementation and in particular on:

- Assist AusAID with the revision of the Pamsimas WB trust fund agreement;
- Work with World Bank and DGHS to finalize the selection of the additional 400 PAMSIMAS villages and definition of the implementation schedule.
- Work with World Bank and DGHS to engage the socialization and training assistance for the participating villages;
- Oversight the implementation of the socialization program by World Bank and DGHS;
- Oversight the implementation by World Bank and DGHS of the program for 400 villages.

C.3 WSI - Water Hibah Pilot Scheme:

- Finalize the draft Hibah Implementation Manual.
- Mobilize consultants/NGOs for the socialization of the Hibah securing the LG commitment to the Hibah Program;
- Preparation of a template Subsidiary Grant Agreement between MOF and participating LGs;
- Completion of the LG/PDAM selection process and allocation of grant funds for approved water service coverage increases, formalized through a subsidiary grant agreement between LG and MOF;
- Completion of the Base Line survey for the selected PDAM expansion zones;
- Monitor and oversight the implementation of the Water Hibah program, including assessment of the progress with utilization of grant funds. Make recommendations for re-allocation of funds to or from the Water Hibah depending on the performance of the component.

C.4 WSI –Sanitation

C.4.1 Banjarmasin Sewerage Expansion:

- Prepare Terms of Reference and engage consultants to review of the design of the Banjarmasin sewerage system expansion, evaluate the existing wastewater treatment facility and effluent disposal, and incorporate environmental mitigation measures in the design if required.
- Oversight the Subsidiary Grants Agreement between Banjarmasin local government and MOF including the terms of disbursement of the grant for the wastewater expansion.
- Oversight the GoI selection of implementation supervision consultants, and the implementation process;
- Oversight the verification of works expansion, completion and handover, and payment of the grant.

C.4.2 Sanitation Investment Plans

- Prepare Terms of Reference and engage consultants for completion of wastewater investment plans for four cities which will be identified under a separate IndII activity.

C.5 WSI Civil Society Component

- Assist the Post with oversight of the Civil Society component (implementation of the component will be managed by AusAID's Sustainable Development Group in Canberra, with country-specific issues being referred to the Post for review and input).

C.6 IndII and WSI Technical Assistance Services:

- Integrate and coordinate the IndII watsan activities with the WSI program.
- Establish and maintain a portfolio of IndII activities that support WSI and GoI objectives in the watsan sector.
- Coordinate watsan Technical Team meetings and prepare reports to IndII and the Board. Review and assess proposals for new activities to be included under IndII.
- Make recommendations on acceptance of new watsan activities in IndII.
- Engage consultant services to prepare and implement activities as required.

C.6.1 Activities Committed or under consideration include the following:

- Identification of cities and preparation for Sanitation Investment Plans
- Detailed design of greater Makassar solid waste disposal site
- Makassar wastewater treatment plant environmental assessment
- MSMHP Capacity Building for LG Sanitation staff
- UWSSP Sanitation Mapping
- Upgrading Community-based Pipe Water Services with Private Sector Support
- Development of GoI Wastewater Road Map

C.7 IndII Infrastructure Enhancement Grants for Water and Sanitation

The Watsan Director working in partnership with the GoI counterpart agencies will be responsible for the identification, evaluation, recommendation, and implementation of Infrastructure Enhancement grants for water and sanitation projects.

C.8 Liaison and Coordination

The Watsan Director will:

- Maintain close liaison with development partners and GoI on initiatives in the watsan sector.
- Coordinate and share information with development partners on WSI, IndII and other AusAID watsan activities to support harmonization of effort in the sector.
- Advise AusAID on developments in the watsan sector and provide advance planning for future watsan interventions in anticipation of expected initiatives by GoI and development partners.

C.9 Internal management responsibilities:

The Technical Director–Water & Sanitation will be responsible for guiding, overseeing, and ensuring the quality of technical work performed by other personnel (short and long term) engaged by the Facility Management Team to assist with the above tasks.

D. Term of Appointment

The appointment will be for a period of approximately 22 months, commencing on or around September 2009 and ending on 30 June 2011.

E. Reporting

The appointee, as Technical Director – Water & Sanitation, will report to the Facility Director, and will be responsible for the preparation and presentation of such design, progress, monitoring and evaluation reports on the IndII and WSI water and sanitation programs as SMEC is required to produce under the terms of its contract with AusAID.

The appointee, as an Advisor on AusAID's future water and sanitation program development, will communicate directly with AusAID's infrastructure staff as requested.

Annex 5: Draft Water Hibah Implementation Manual
[English Translation in preparation]

Hibah Air Minum bagi
Masyarakat Berpenghasilan Rendah (MBR) Perkotaan

Pedoman Pengelolaan dan Pelaksanaan Proyek

Draft 18 Juli 2009

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Singkatan :

APBN	: Anggaran Pendapatan dan Belanja Negara
APBD	: Anggaran Pendapatan dan Belanja Daerah
BAPP	: Bagian Anggaran Pembiayaan dan Perhitungan
BI	: bank Indonesia
BPS	: Badan Pusat Statistik
BUD	: Bendahara Umum Daerah
DED	: Detailed Engineering Design
DJCK	: Direktorat Jenderal Cipta Karya (Departemen Pekerjaan Umum)
DJPb	: Direktorat jenderal Perbendaharaan (Departemen Keuangan)
DBH	: Daftar Penerima Hibah
DH	: Penerima Hibah
GC	: Government Committee
KPA	: Kuasa Pengguna Anggaran
MBR	: Masyarakat Berpenghasilan Rendah
PA	: Pengguna Anggaran
NPHD	: Naskah Perjanjian Hibah Daerah
PDAM	: Perusahaan daerah Air Minum
PPTK	: Pejabat Pelaksana Teknis Kegiatan
PMK	: Peraturan Menteri Keuangan
PPK	: Pejabat Pembuat Komitmen
SPM	: Surat Perintah Membayar
SKPD	: Satuan Kerja Pemerintah Daerah
RKUD	: Rekening Khusus Keuangan Daerah

Peristilahan

Rumah tangga yang Memenuhi Syarat	Rumah tangga yang memenuhi persyaratan sesuai dengan data statistik potensi desa yang dikeluarkan oleh Biro Pusat Statistik
Skema Perluasan Jaringan	Pemasangan jaringan pipa tersier guna memberi akses ke suplai air bersih ke area yang sebelumnya tidak terlayani.
Sambungan Rumah	Sambungan rumah baru ke rumah-rumah langsung dari jaringan pipa tersier milik PDAM yang berada didepan persil.
Sambungan Rumah dengan pipa tersier	Sambungan rumah baru yang dipasang pada jalur pipa tersier baru yang dibangun sebagai bagian dari suatu Skema Perluasan Jaringan.
Sambungan <i>In-Fill</i>	Sambungan rumah baru yang dipasang pada jalur pipa tersier yang sudah ada didepan persil.
Skema Meter Induk	Suatu skema percobaan (pilot) yang melayani suatu kelompok masyarakat perkotaan informal. PDAM akan menyediakan satu meter induk sebagai satu sambungan resmi, dan masyarakat setempat akan bertanggungjawab atas pekerjaan rancangan, pendanaan, dan pemasangan sistem pendistribusian air tersebut, setelah keluar dari meter induk PDAM.
<i>Hibah untuk Sektor Air Minum</i> / Bantuan Dana Berdasarkan Hasil yang Dicapai	Mekanisme Hibah untuk Sektor Air Minum adalah suatu strategi untuk menggunakan kinerja yang jelas nampak sebagai dasar pemberian subsidi untuk penyediaan layanan-layanan dasar – misalnya air bersih, sanitasi listrik, transportasi, pendidikan dan pelayanan kesehatan – dimana kebijakan yang dijalankan akan menjadi justifikasi bagi pendanaan tersebut. Dana subsidi hanya diberikan jika pengguna (Pemprop atau Pemkab/kota) terbukti kompeten, atau diberikan sebagai pengganti biaya biaya yang dikeluarkan pengguna tersebut. Dua fitur utama dari Mekanisme Hibah yang membedakannya dari bentuk subsidi yang didanai publik lainnya adalah: subsidi ini jelas (eksplisit), dan berdasarkan kinerja yang sudah dicapai.
<i>Pre-financing</i>	Pendanaan lewat subsidi atas sebagian dari biaya pemasangan sambungan rumah dan skema perluasan jaringan (<i>expansion</i>) yang dibayar terlebih dahulu oleh Pemda sampai pembayaran subsidi OBA turun/cair.

1. Gambaran Singkat Kegiatan

1.1 Umum

Hibah Air Minum – yaitu proyek peningkatan akses air minum bagi Masyarakat Berpenghasilan Rendah (MBR) Perkotaan – akan meningkatkan akses penyediaan air minum secara berkesinambungan bagi rumah tangga berpendapatan rendah di perkotaan.

Hibah Air Minum yang dimaksud di sini adalah penerusan hibah yang bersumber dari pendapatan APBN²⁸ untuk tahun anggaran 2010 – 2014. Adapun mekanismenya dirancang sesuai PMK 168/2008 tentang **Hibah Daerah** dan 169/2008 tentang **Tata Cara Penyaluran Hibah Kepada Pemerintah Daerah**. Dalam PMK ini, dana Kegiatan yang dimaksud dikelola melalui Bagian Anggaran Pembiayaan dan Perhitungan (BAPP) di luar bagian anggaran departemen teknis dan anggaran DAK.

Hibah Air Minum ini dimaksudkan sebagai insentif kepada Pemprov atau Pemkab/Kota selaku penanggung jawab pelayanan air minum oleh operator di daerahnya yaitu PDAM melalui tata kelola yang baik. Dalam pelaksanaan hibah air minum Pemerintah akan membentuk Komite Pemerintah (GC) yang terdiri dari Tim Pengarah dan Tim Teknis. Tim Pengarah dan Tim Teknis terdiri dari perwakilan lintaskementerian.

Tugas dari Tim Pengarah adalah menilai kinerja pelaksanaan Hibah Air Minum dan merencanakan program hibah tahun berikutnya. Sedangkan tugas Tim Teknis adalah mengendalikan pelaksanaan kegiatan Hibah Air Minum dan merekomendasikan pembayaran hibah kepada Departemen Keuangan dan menyetujui klaim-klaim pembayaran yang telah diverifikasi oleh Auditor Independen yang ditunjuk, dan dinyatakan telah memenuhi persyaratan.

Pemprov atau Pemkab/Kota bersama PDAM bersangkutan selaku operator akan melaksanakan pekerjaan sambungan rumah baru dan perluasan jaringan pipa distribusi baru, serta akan menerima pembayaran dari Departemen Keuangan sebagai ganti sebagian biaya setelah hasil pekerjaan tersebut diverifikasi oleh Auditor Independen.²⁹ Pemprov atau Pemkab/Kota akan bertanggungjawab untuk menentukan kapan dan di mana sambungan rumah baru dan skema perluasan jaringan yang akan dikerjakan.

1.2 Skema Pelaksanaan

Hibah Air Minum ini akan diberikan dalam tahun anggaran jamak selama 2-4 tahun anggaran. Sepanjang periode tahun jamak kegiatan Hibah Air Minum ini, Pemprov atau Pemkab/Kota akan menyiapkan perencanaan (2-4 tahun) dan melaksanakan dengan pendanaan dari APBD terlebih dahulu dan nantinya berhak mendapatkan penggantian biaya (*reimbursement*) sebagaimana disepakati untuk setiap kemajuan layanan sambungan baru yang dibuat. Layanan sambungan baru antara lain : (i) sambungan rumah langsung pada jaringan perpipaan yang sudah ada di depan persil (*in-fill*), (ii) sambungan rumah dengan penambahan jaringan pipa tersier baru (*expansion*), serta (iii) sambungan dengan meter induk ("*master meter*").

²⁸ Pendapatan APBN yang dimaksud di sini adalah penerimaan domestik (rupiah murni) APBN. Sangat dimungkinkan Dana Hibah Air Minum ini ditambah dari dana-dana berasal dari penerimaan Hibah Luar Negeri.

²⁹ Sistem pembayaran atas penggantian biaya ini sering disebut dengan Output Base Aid (OBA).

Secara khusus kegiatan Hibah Air Minum ini ditujukan untuk rumah tangga Masyarakat Berpenghasilan Rendah (MBR). Yang dimaksud dengan rumah tangga MBR harus sesuai dengan data statistik potensi desa yang diterbitkan oleh Badan Pusat Statistik (BPS). Adapun kriteria-kriteria teknis sambungan adalah sebagai berikut :

- (1) Layanan sambungan rumah tersebut adalah sambungan baru, dan akan dipasang oleh Pemprov atau Pemkab/Kota setelah penandatanganan Naskah Perjanjian Hibah Daerah (NPHD);
- (2) Spesifikasi teknis sambungan rumah yang dibuat harus memenuhi standar mutu yang berlaku di PDAM, sebagaimana contoh pada **Lampiran** dan telah dilaksanakan sesuai dengan persyaratan penjaminan mutu sebagaimana dijelaskan pada **Lampiran**;
- (3) Pada saat aplikasi permintaan pencairan hibah diajukan, sambungan rumah tersebut harus sudah beroperasi dan digunakan; dan
- (4) Sambungan tersebut telah digunakan untuk sekurang-kurangnya selama tiga bulan sebagaimana dibuktikan dengan catatan tagihan bulanan.

Pemenuhan kriteria di atas juga akan dinilai oleh Auditor Independen berdasarkan kualitas yang diminta dan kajian biaya satuan yang dibuat sebelum dilakukan penggantian biaya.

2. Besaran Dana dan Kesiapan

2.1 Besaran Dana Hibah

Sebelum berlangsungnya Kegiatan Hibah Air Minum (selanjutnya disebut Kegiatan), Pemprov atau Pemkab/Kota akan menetapkan di mana kawasan-kawasan MBR dan jenis layanan pekerjaan sambungan rumah akan dilaksanakan. Besarnya dana hibah Air Minum ini tidak boleh melebihi Rp. 2 Juta per sambungan rumah .

2.2 Kesiapan Pemprov atau Pemkab/Kota dan Operator PDAM

Kesiapan Pemprop atau Pemkab/Kota dan PDAM untuk mengikuti kegiatan Hibah Air Minum, yaitu :

a. Pemprov atau Pemkab/Kota

- (1) Pemprov atau Pemkab/Kota menyediakan dana terlebih dahulu untuk membiayai kegiatan Hibah Air Minum ini dan apabila diperlukan juga berkewajiban memberikan subsidi dari APBD Propinsi atau Kab/Kota kepada PDAM untuk dapat memberikan pelayanan air minum kepada MBR
- (2) Pemprop atau Kabupaten/kota tidak mempunyai tunggakan utang dan tunggakan utang PDAM kepada Pemerintah.
- (3) Pemda bersedia menyiapkan perencanaan teknis (DED) dengan tahapan tahun jamak (2-4 tahun) dari kegiatan yang diusulkan PDAM

b. PDAM

- (1) Tersedia kapasitas air untuk didistribusikan kepada pelanggan

-
- (2) Mempunyai rencana bisnis (*Business Plan*) pengelolaan air minum yang layak untuk berlangsungnya sistem dengan melengkapi sedikitnya hal-hal berikut :
- Gambaran pelayanan dan pengelolaan air minum saat ini termasuk ketersediaan produksi air minum
 - Proyeksi kebutuhan air minum
 - Rencana investasi dan analisa kelayakan keuangan
 - Rencana pendanaan dan jadwal pelaksanaan

Dapat pula digunakan *Business Plan* yang telah disetujui atau yang sudah dinilai pada proses restrukturisasi utang oleh Departemen Keuangan.

- (3) Kecukupan pendapatan yang diperoleh untuk membiayai ongkos-ongkos operasi dan pemeliharaan didukung oleh rencana struktur tarif yang layak

3. Sistem Pengelolaan

3.1 Komite Pemerintah / GC (*Government Committee*)

Atas nama Pemerintah, Komite Pemerintah dibentuk untuk mengelola Kegiatan ini yang terdiri dari Tim Pengarah dan Tim Teknis.

- a. Tim Pengarah bertugas untuk :

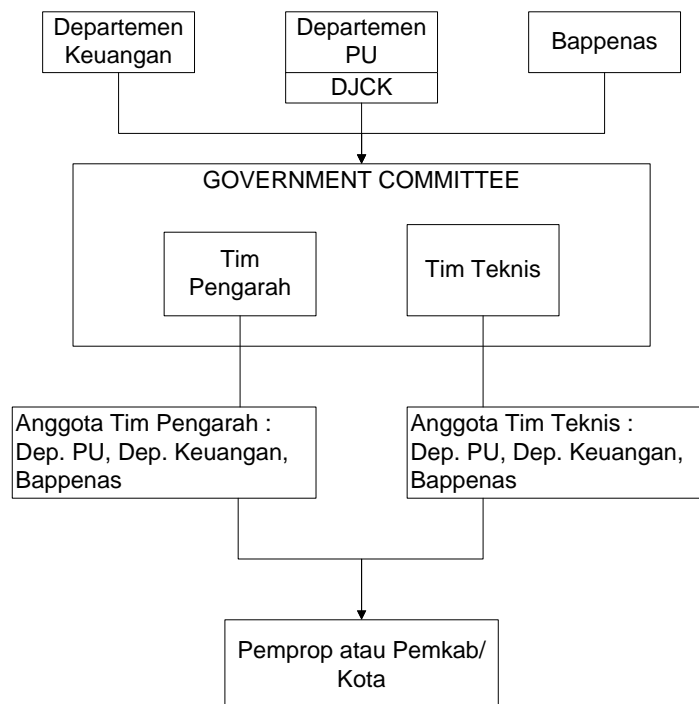
- (1) Mengkoordinasikan pelaksanaan Kegiatan secara keseluruhan;
- (2) Menjalankan review dan evaluasi kinerja pelaksanaan Kegiatan meliputi kebijakan dan strategi penyelenggaraan Hibah Air Minum

- b. Tim Teknis bertugas untuk :

- (1) Menilai kelayakan Pemprop atau Pemkab/Kota untuk mendapatkan dana hibah;
- (2) Melakukan penilaian kelayakan/verifikasi pencairan dana hibah;
- (3) Memonitor progres pelaksanaan hibah yang dilakukan oleh Pemprop atau Pemkab/Kota terhadap PDAM;
- (4) Mengevaluasi pemanfaatan dan keberlanjutan fungsi prasarana yang telah dibangun;
- (5) Mempublikasikan pelaksanaan program hibah dalam media massa.

Struktur organisasi Kegiatan adalah sebagaimana terlihat pada Gambar 1 di bawah ini.

Gambar 1. Struktur Organisasi Kegiatan



3.2 Kegiatan Audit

Satu tim Audit Independen akan dipekerjakan dan akan bertanggung jawab kepada Departemen PU dalam verifikasi pelaksanaan kegiatan program Hibah Air Minum ini, baik dari segi teknis maupun administrasi. Tim Audit akan mendukung tugas Tim Teknis untuk :

- (i) menjalankan tugas verifikasi kesesuaian lokasi;
- (ii) melakukan pemeriksaan di lokasi mengenai kualitas teknis dan fungsional dari sambungan rumah, sebelum pencairan dana hibah;
- (iii) memastikan tidak adanya dampak sosial dan lingkungan yang dilakukan secara acak adanya kegiatan Hibah Air Minum; dan
- (iv) memberikan rekomendasi kelayakan pembayaran dana hibah yang akan dicairkan.

Auditor tidak akan melakukan uji kelayakan/eligibility terhadap Penerima Hibah (PH) kembali pada tahap audit segi teknis. Pemasangan sambungan baru terhadap PH yang terdapat dalam Daftar Penerima Hibah (DPH) yang disetujui oleh Tim Teknis adalah layak untuk dibayar meskipun pada saat permintaan pembayaran telah terjadi perubahan kondisi secara ekonomi, namun kelayakan secara teknis tetap harus dipenuhi.

3.3 Pengadaan konsultan Auditor Independent

Untuk pelaksanaan program hibah air minum akan dilakukan pengadaan konsultan audit independent pada Departemen PU cq. Direktorat Jenderal Cipta Karya dengan mengacu kepada Kepres no 80/2003.

4 Rincian Mekanisme Hibah Air Minum

4.1 Proses Aplikasi dan Persetujuan

Proses aplikasi dan persetujuan untuk mendapatkan Hibah Air Minum adalah sebagai berikut :

- (1) Pemprov atau Pemkab/Kota yang menginginkan hibah dipersilakan mengajukan permohonan dengan menyerahkan proposal kepada Departemen PU cq. Direktur Jenderal Cipta Karya;
- (2) Tim Teknis dari Komite Pemerintah akan menelaah proposal yang diterima untuk dinilai sesuai dengan kriteria penilaian, dan merekomendasikan calon penerima hibah kepada Tim Pengarah untuk penetapan provinsi, kab/kota penerima hibah air minum;
- (3) Pelamar yang memenuhi kriteria akan diberitahu bahwa permohonannya telah memenuhi syarat sesuai dengan kriteria penilaian;
- (4) Proposal yang tidak memenuhi syarat atau ditemukan kekurangan dari hasil evaluasi akan diinformasikan kepada pemohon serta diberikan perihal yang tidak/belum terpenuhi. Sesudah periode 3 bulan, pemohon dapat mengajukan kembali proposalnya setelah memperbaiki kekurangan-kekurangan proposal sebelumnya.

4.2 Proses Pelaksanaan

- (1) Pemohon yang memenuhi syarat sesuai dengan kriteria akan diundang untuk menandatangani NPHD dengan Menteri Keuangan cq Dirjen Perbendaharaan;
- (2) Dalam NPHD ini akan disepakati berbagai hak dan kewajiban antara Pemerintah (Menteri Keuangan cd Dirjen Perbendaharaan) disertai perencanaan kegiatan dan penganggarnya dalam tahun jamak (2-4 tahun).
- (3) Pemohon yang sudah menandatangani NPHD diberikan status "Penerima Hibah";
- (4) Penerima Hibah akan menganggarkan berupa belanja modal yang dikerjakan langsung oleh Pemprov atau Pemkab/Kota ; atau berupa penyertaan modal kepada PDAM sebagaimana disepakati dalam NPHD;
- (5) Khusus untuk penganggaran berupa penyertaan modal kepada PDAM, maka PDAM segera mengadakan kontrak kerja dengan kontraktor. Pada kontrak kerja yang sudah ditandatangani, PDAM akan menyerahkan kontrak kerja kepada Penerima Hibah dan Penerima Hibah akan menjalankan pengawasan dan pengendalian pelaksanaan pekerjaan yang dilaksanakan oleh PDAM;
- (6) Setiap tahapan pekerjaan selesai dan sambungan baru berfungsi baik selama 3 bulan, Penerima Hibah akan mengajukan permintaan penilaian kepada Komisi Pemerintah untuk jumlah SR yang disebutkan dalam NPHD;
- (7) Komite Pemerintah akan meminta Auditor Independen untuk memeriksa apakah :
 - a. Pembangunan SR untuk MBR telah dilaksanakan dan telah berfungsi baik selama 3 bulan,

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- b. Aspek-aspek lainnya dari NPHD yang sudah, atau sedang berjalan, telah sesuai dan berjalan dengan baik;
- (8) Bilamana Auditor Independen melaporkan bahwa kondisi (a) dan (b) di atas sesuai dengan yang diharapkan, Komite Pemerintah akan mengesahkan pembayaran sesuai yang dimohonkan. Lebih lanjut masalah pembayaran atas penggantian biaya akan dirinci selanjutnya.
 - (9) Bilamana Auditor Independen melaporkan bahwa kondisi (a) dan (b) tidak sesuai dengan yang diharapkan, maka pengesahan pembayaran ditunda dan dapat diajukan bersamaan pada periode tahapan berikutnya.

4.3 Cara Pelaksanaan Hibah Air Minum Kepada PDAM

Dalam pelaksanaan Hibah Air Minum di daerah dapat dilaksanakan dalam 2 cara yaitu :

- (i) Melalui Belanja Modal oleh SKPD yang bertanggungjawab untuk sistem penyediaan air minum di daerah. Dalam hal ini SKPD akan melakukan kontrak dengan pihak swasta yang bekerja sama dengan PDAM atau langsung dilaksanakan sendiri oleh PDAM. Selanjutnya asetnya akan diserahkan kepada PDAM dengan mekanisme penyerahan sesuai dengan peraturan yang berlaku, atau
- (ii) Melalui Penyertaan Modal langsung kepada PDAM. Selanjutnya PDAM akan melaksanakan pekerjaan sendiri atau kerja sama dengan pihak swasta.

5. Pembayaran Kegiatan Hibah Air Minum

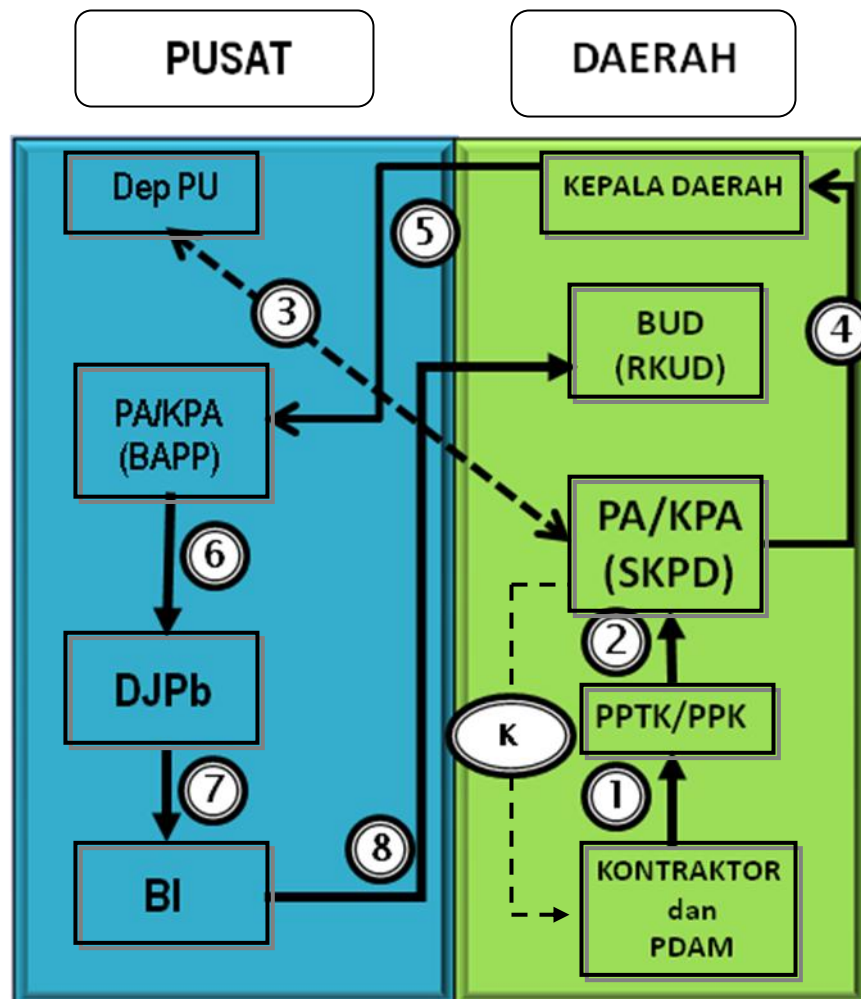
5.1 Proses Pembayaran

Sebagaimana dijelaskan di atas bahwa ada 2 cara dalam cara yaitu : (1) Melalui Belanja Modal, atau (2) Melalui Penyertaan Modal. Dalam diagram di bawah ini cara Belanja Daerah dengan kode (K), sedangkan cara Penyertaan Modal dengan kode (PM). Selanjutnya proses pembayaran Hibah Air Minum yang dapat dilakukan secara periodik ini sebagai berikut :

- a. Melalui Penyertaan Modal
K : SKPD di bidang Air Mnum melakukan pelelangan dan akhirnya kontrak dengan pihak kedua (kontraktor) dan bekerja sama dengan PDAM untuk melaksanakan pekerjaan Jaringan Distribusi (JD) dan Sambungan Rumah (SR). SKPD selanjutnya mengangkat Pejabat Pelaksana Teknis Kegiatan/Pejabat Pembuat komitmen (PPTK/PPK).
 - 1: Kontraktor dan PDAM melaksanakan JD dan SR dan diawasi oleh SKPD bersangkutan. Setiap penyelesaian dilaporkan kepada PPTK/PPK.
 - 2 : PPK (Pejabat Pemegang Komitmen) membawa laporan ke KPA-SKPD (Kuasa Pengguna Anggaran-SKPD) dan KPA meminta verifikasi dan auditing dari Departemen Pekerjaan Umum (Dep PU)

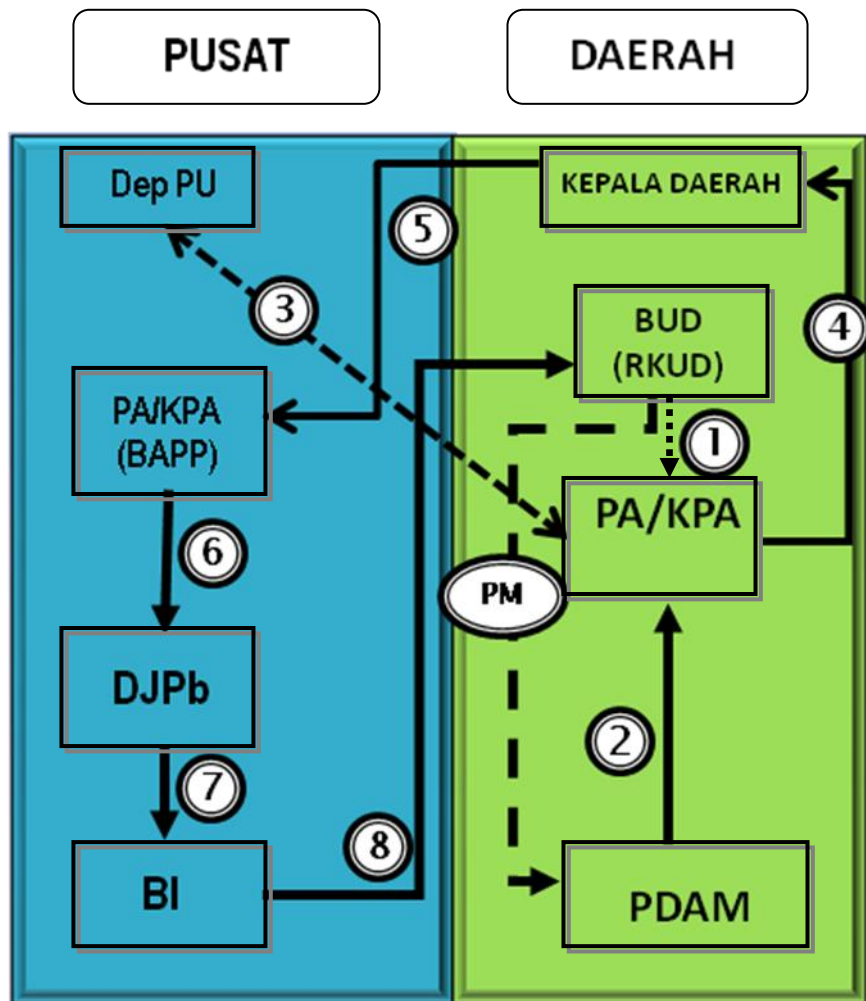
- 3 : Dep PU melalui Auditor yang ditunjuk melakukan verifikasi dan auditing terhadap output/hasil pekerjaan JD dan SR dan menetapkan pengesahan (pemenuhan syarat) atau menolaknya.
- 4 : Apabila disahkan oleh Dep PU, KPA melaporkan kepada Kepala Daerah untuk permohonan SPM (Surat Perintah Membayar) .

Gambar 2 : Proses Pembayaran Skema Belanja Modal (SKPD)



- 5: Kepala daerah memohon SPM kepada KPA-BAPP (Kuasa Pengguna Anggaran – Bagian Anggaran Pembiayaan dan Perhitungan)
- 6: KPA-BAPP meneruskan permintaan SPM kepada Dirjen Perbendaharaan untuk perhitungan dan diadministrasikan
- 7: Dirjen Perbendaharaan memerintahkan BI untuk membayar ke BUD-RKUD (Bendahara Umum Daerah – Rekening Khusus Keuangan Daerah)
- 8: BI mentransfer ke RKUD.

Gambar 3 : Proses Pembayaran Skema Penyertaan Modal



PM : Pemda melakukan Penyertaan Modal (PM) ke PDAM dan selanjutnya PDAM melaksanakan pekerjaan jaringan distribusi (JD) dan sambungan rumah (SR). Penyertaan Modal ini Ikangsung dilaksanakan oleh Bendahara Umum Daerah (BUD).

1 : Sebagai pihak mengeluarkan dana bagi Penyertaan Modal, maka BUD mengangkat Pengguna Anggaran (PA) atau Kuasa Pengguna Anggggran untuk mengawasi pelaksanaan pemanfaatan Penyertaan Modal oleh PDAM,

2 : PDAM (bisa kerja sama dengan kontraktor) melaksanakan JD dan SR dan diawasi oleh KPA bersangkutan. Setiap penyelesaian dilaporkan kepada KPA. KPA meminta verifikasi dan auditing dari Departemen Pekerjaan Umum (Dep PU)

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- 3 : Dep PU melalui Auditor yang ditunjuk melakukan verifikasi dan auditing terhadap output/hasil pekerjaan JD dan SR dan menetapkan pengesahan (pemenuhan syarat) atau menolaknya.
 - 4 : Apabila disahkan oleh Dep PU, KPA melaporkan kepada Kepala Daerah untuk permohonan SPM (Surat Perintah Membayar) .
 - 5 : Kepala daerah memohon SPM kepada KPA-BAPP (Kuasa Pengguna Anggaran – Bagian Anggaran Pembiayaan dan Perhitungan)
 - 6 : KPA-BAPP meneruskan permintaan SPM kepada Dirjen Perbendaharaan untuk perhitungan dan diadministrasikan
 - 7 : Dirjen Perbendaharaan memerintahkan BI untuk membayar ke BUD-RKUD (Bendahara Umum Daerah – Rekening Khusus Keuangan Daerah)
 - 8 : BI mentransfer ke RKUD.

5.2 Dokumen yang Harus Dilampirkan

Setiap permintaan pembayaran harus dilampiri dengan rangkuman mengenai layanan sambungan rumah dan skema-skema lainnya. Rangkuman mengenai **layanan sambungan rumah** (sambungan *in-fill* & perluasan jaringan) harus termasuk:

- (1) Nama, Alamat dan Nomor atau Kode Identifikasi pelanggan/setiap rumah;
- (2) Tanggal surat pemberitahuan ke Auditor; dan
- (3) Tanggal selesainya pekerjaan sambungan rumah.
- (4) Permintaan Pembayaran (invoice) biaya sambungan baru

Selain itu, untuk pekerjaan **sambungan rumah dengan perluasan jaringan** Pemprop atau Pemkab/Kota akan menyimpan:

- (1) Peta keseluruhan dari skema perluasan jaringan yang telah dikerjakan;
- (2) Jumlah keseluruhan pelanggan potensial dan telah tersambung pipa air minum PDAM (per tanggal laporan);
- (3) Jumlah rumah tangga potensial yang memenuhi persyaratan penerima hibah dalam wilayah layanan tersebut;
- (4) Rincian dan rangkuman dari biaya-biaya konstruksi dari skema perluasan jaringan dengan menggunakan biaya satuan yang telah disepakati dalam **Lampiran**;

Untuk **sambungan dengan meter induk** Pemprop atau Pemkab/Kota akan menyimpan:

- (1) Suatu peta keseluruhan dari skema meter induk yang telah dikerjakan beserta wilayah yang dilayani meter tersebut;
- (2) Jumlah total pelanggan potensial dan telah terhubung (per tanggal laporan) yang diterima dari PDAM;

(3) Rincian dan rangkuman dari biaya-biaya konstruksi skema meter induk;

6. Pemantauan dan Evaluasi

6.1 Pemantauan administratif

Sebagian besar dalam Kegiatan ini akan dijalankan oleh Pemprop atau Pemkab/Kota yang memiliki PDAM. Seluruh tanggungjawab untuk urusan administrasi, pemantauan dan evaluasi akan dilaksanakan oleh Tim Teknis khususnya Tim Teknis akan memastikan agar pembayaran hanya dilakukan bagi pengeluaran-pengeluaran yang memenuhi syarat dan disetujui, terkait dengan hasil pekerjaan.

6.2 Pemantauan kinerja

Mengingat model pendanaan hibah semacam ini baru pertama kali akan dilaksanakan di Indonesia, maka pemantauan kinerja yang terus-menerus akan memberikan masukan penting baik untuk pelaksanaan Proyek ini dan masukan yang dapat digunakan dalam mentransfer pendekatan ke situasi yang berbeda. Pemantauan kinerja tersebut akan dilakukan, atas nama Tim Teknis, oleh para Auditor Independen. Draft TOR untuk tugas Auditor Independen diberikan dalam **Lampiran**. Auditor Independen tersebut akan menjalankan tugas pemantauan kinerja Proyek ini dengan cara:

- (1) Kajian kemajuan pekerjaan dan kualitas hasil pekerjaan sesuai skema Hibah Air Minum setiap enam bulan sekali; dan
- (2) Kajian tahunan, setiap akhir tahun, untuk melihat dampak dari Proyek ini

6.3 Umpan Balik

Mengingat sifat Proyek ini masih uji coba/pembelajaran, masukan / umpan balik dari evaluasi yang berjalan harus secepatnya disampaikan kepada pihak yang melaksanakan proyek.. Dengan demikian Komite Pemerintah diharuskan untuk melakukan suatu rapat kajian per enam bulanan yang melibatkan semua pemangku kepentingan dalam Proyek ini. Dalam rapat tersebut, Auditor Independen akan menyampaikan laporan dan temuan mereka. Rapat ini akan difasilitasi sedemikian sehingga memungkinkan para pemangku kepentingan Proyek ini mendiskusikan temuan-temuan dan mencari cara solusi serta alternatif peningkatan kinerja atau mengambil pelajaran positif dari Proyek ini untuk digunakan dalam aspek yang berbeda dari pekerjaan mereka.

Selain pemantauan di atas, pihak Komite Pemerintah akan menjalankan kajian setelah selesai Proyek ini guna mempersiapkan suatu rencana / kemungkinan rencana penerapan mekanisme Hibah Air Minum yang lebih besar untuk sektor air perkotaan di Indonesia.

7. Penutup

Hibah Air Minum yang akan direncanakan ini bersumber dari penerimaan APBN dan diteruskan kepada PDAM melalui pemerintah daerah bersangkutan (pemprov atau pemkab/kota). Bila ada donor Luar Negeri yang tertarik akan program ini bisa ikut serta. Program Hibah Air Minum ini dimaksudkan sebagai insentif bagi pemerintah daerah agar bersedia menambah modal kepada PDAM yang selama ini dirasakan sangat kurang. Dengan mengikuti program Hibah Air Minum ini pemda dicoba untuk memanfaatkan dan seterusnya dapat meneruskan penambahan modal PDAM dari penerimaan APBD sendiri sesuai dengan kebutuhan pelayanan bagi daerah.

Untuk mengikuti program Hibah Air Minum ini harus memenuhi beberapa persyaratan. Namun demikian, persyaratan itu tidaklah sulit apabila dipihak pemda berkomitmen untuk membangun dan mengembangkan layanan air minum.

Salah satu syarat utama mengikuti program Hibah Air Minum ini pemda bersedia membiayai terlebih dahulu kebutuhannya, baru kemudian akan diganti oleh hibah ini setelah ada pemeriksaan terlebih dahulu yang dilakukan oleh Auditor Independen. Ada 2 cara dalam pembiayaannya yaitu : (1) melalui Belanja Modal oleh SKPD yang menangani air minum, atau (2) melalui penyertaan modal langsung kepada PDAM.

Program Hibah Air Minum ini dilaksanakan dalam tahun jamak (2-4 tahun) setelah dilakukan terlebih dahulu Perjanjian Hibah Daerah antara Pemerintah dan pemerintah daerah bersangkutan.