I. Project Context

Country Context

1. Over the past decade, Indonesia has sustained strong economic growth year on year. Despite the global and domestic economic challenges in recent times, such as the 2008-9 global recessions, the current euro sovereign debt crisis, the effects of the Japanese earthquake and tsunami, and the increases in international commodity prices and domestic food prices. Indonesia is on course to maintain its strong growth performance. At the same time Indonesia has transformed this growth into substantial poverty reduction and has already achieved the target MDG of halving the incidence of extreme poverty from 20.6% of its population in 1990 to 5.9% in 2008.

2. Notwithstanding such solid economic performance, Indonesia continues to face significant
challenges in developing its infrastructure for the 21st century and is now at a critical point where its relatively poor levels of infrastructure development are holding back its growth potential and further poverty reduction efforts. For example, Indonesia's quality of infrastructure in general and access to improved water supply and sanitation in particular, continuously rank at the lower end when compared to similar middle income countries in the region.


4. The original PAMSIMAS project was closely aligned with the previous CPS (2008 – 2012) and PAMSIMAS AFII is closely aligned with the current CPS. In particular improved access to water and sanitation and the CDD and the poverty inclusive implementation approach are strongly aligned with the Pro-Poor pillar. Improvement in water and sanitation infrastructure and the strengthening local government in WSS sector management align with the Pro-Growth pillar. PAMSIMAS AFII’s gender and governance approach will contribute significantly to the Bank’s cross cutting engagements.

Sectoral and institutional Context

5. The water supply and sanitation sector in Indonesia presents a key service delivery challenge associated with poverty reduction, although the links are not yet widely recognized. The incidence of typhoid in Indonesia is high given the per capita income of over US$700. Economic losses due to inadequate sanitation alone were estimated at 2.3% of GDP in 2006. Significant damage to the country’s future potential in terms of infant mortality and child malnutrition in low-income areas of Indonesia is associated with inadequate access to safe water and basic sanitation. Additionally, deteriorating quality and quantity of primary water sources has reached critical proportions in the most densely populated islands (e.g. Java and Bali), which are home to the largest numbers of the country’s poor.

6. The lack of access to safe water and sanitation has had severe consequences on public health, the economy, and the environment. Of the four most important causes of under-5 mortality in Indonesia two (diarrhea and typhoid) are fecal borne illnesses directly linked to inadequate water supply, sanitation and hygiene issues.

7. In addition to these health issues, difficult access to improved water supply has meant that poor households, and particularly women and children, have had to spend substantial amounts of time fetching water. They also have had to spend cash to purchase expensive safe drinking water.

8. The Government of Indonesia is committed to achieving the Millennium Development Goals. GoI has explicitly asked the Bank for the proposed loan to help support the Government’s Water for All Program which targets the rural water supply MDGs initially and continued improvement to 85% water supply coverage by 2020 and 100% by 2025.
9. The issue, however, is how to realize such potential benefits in the light of well-known failures of past top-down interventions to improve rural water, sanitation and hygiene behavior. Over the last fifteen years, Indonesia has been experimenting with community-driven development (CDD) projects such as Water Supply and Sanitation for Low Income Communities (WSSLIC) I and II, and the ongoing implementation of PAMSIMAS. Projects modeled on the WSSLIC approach and funded by other donors have been praised for delivering a high economic rate of return and a positive impact on the quality of life of beneficiaries. Beneficiaries have expressed great satisfaction with interventions introduced through CDD projects. Interventions using CDD approaches have also helped strengthen role and responsibilities of local governments in provision of water supply and access to adequate sanitation facilities.

10. In the recent National Medium Term Development Plan (RPJMN) 2015-2019 GoI has committed to an ambitious target of achieving universal access to water supply and sanitation by 2019. Through the ‘100-0-100’ program, the Government aims to achieve 100 percent access to safe water, zero slums, and 100 percent access to sanitation facilities. The Ministry of Public Works and Housing, which is the lead implementing agency for PAMSIMAS, has direct responsibility for the 100-0-100 program. For rural water supply and sanitation, PAMSIMAS is regarded as the most cost-effective platform for scale-up of the Universal Access for Water and Sanitation Program, to reach the ambitious universal access targets. PAMSIMAS is the largest project that has been implemented in the sector with a broad geographic focus and scale, and a targeting mechanism that favors the poor.

II. Proposed Development Objectives

A. Current Project Development Objectives – Parent
To increase the number of under-served and low income rural and peri-urban populations accessing improved and sustained water and sanitation services and practicing improved hygiene behaviors as part of the Borrower's efforts to achieve WSS-MDG Targets, through programmactic mainstreaming and scaling-up of a nationwide community-driven approach.

B. Proposed Project Development Objectives – Additional Financing (AF)
To increase the number of under-served rural and peri-urban populations accessing sustainable water supply and sanitation services

III. Project Description

Component Name
Component 1: Community Empowerment, Local and Village Institutional Development
Comments (optional)
This component will support interventions at local community, district and provincial levels. It will support CDD planning and management of water, sanitation and hygiene improvement programs, build stakeholder commitment and expand the capacity of central, provincial and district government agencies.

Component Name
Component 2: Improving Hygiene and Sanitation Behavior and Services
Comments (optional)
This component will ensure that targeted community households gain access to improved sanitation
facilities of their choice, are using improved WSS infrastructure effectively and are progressively adopting key hygiene practices.

**Component Name**  
Component 3: Water Supply and Public Sanitation Infrastructure  
**Comments (optional)**  
Under this component the project will provide participating communities with a menu of technical options for rural water supply and public sanitation infrastructure.

**Component Name**  
Component 4: District and Village Incentives (DVI)  
**Comments (optional)**  
This component will provide incentives under three grant windows and support to district association

**Component Name**  
Component 5: Implementation Support and Project Management  
**Comments (optional)**  
This component will provide technical implementation support for components 1, 2, 3, and 4 and project management services to the implementing agencies.

### IV. Financing (in USD Million)

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<th>Amount</th>
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<td>Total Bank Financing:</td>
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<td>Financing Gap:</td>
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<td>Total</td>
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</table>

### V. Implementation

{Same as in PAD, 5) A.}

Partnership Arrangements: Not Applicable

Institutional Arrangements.

Institutional arrangements will remain the same: the central executing agency is the Ministry of Public Works and Housing (MPWH). Other central government implementing agencies are the Ministry of Health (MOH) and the Ministry of Home Affairs (MOHA). The Ministry of Village, Disadvantage Areas and Transmigration (MOVDAT) will be included in the institutional structure. MOVDAT will facilitate the Village Fund contribution to the community action plans (CAP) and local institutional development activities. The current project utilizes seven Regional Oversight Management Services (ROMS) teams to support PPMUs and DPMUs for day-to-day project management, technical matters, implementation of community-driven processes, institutional capacity building, social inclusion and environmental safeguards, monitoring of implementation and sustainability of outcomes, and technical and financial reporting at the province, district and village level. To support the scale-up, 18 ROMS teams, will provide support to 33 provinces and 412
districts. At the national level, the project will maintain the Central Management and Advisory Services (CMAC) that is responsible for assisting CPMU to manage the program, and Training Development Services (TDS) to manage capacity building activities.

Association of BPSPAMS. The National Association of BPSPAMS was established by a Ministerial Decree of MPWH in 2012. In PAMSIMAS, there are about 110 district associations and about 4 provincial association. Number of district association will continue to grow as demand from BPSPAMS to form an association is exist in several participating district of PAMSIMAS II (up to 219 districts). Under PAMSIMAS III, the associations of BPSPAMS will be strengthened and incentivized to provide: (i) technical assistance for preventive and corrective maintenance of water supply and sanitation systems operated by BPSPAMS; (ii) facilitation support for major technical maintenance; (iii) training to systems operators; (iv) in cooperation with local health agencies, promotion of health and hygiene education in the communities; (v) improved management competencies in BPSPAMS, and (vi) establishment of partnerships with various stakeholders to facilitate service expansion of BSPAMS, such as village and local governments and private sectors.

Sustainability

The project defines sustainability as the ability to maintain operations, services and benefits over time. The additional financing will address long term system sustainability issues by (i) expanding access though the community driven development approach, which enhances sustainability by creating ownership for service delivery and cost recovery by communities through BPSPAMS; (ii) supporting long term operation and maintenance of water supply systems and permanent adoption of sanitation behaviors by strengthening the local governments to conduct ongoing monitoring and post-construction support to BPSPAMS.

Safeguards

Please refer to ISDS Appraisal Stage

VI. Safeguard Policies (including public consultation)

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Comments (optional)

VII. Contact point
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