

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: AB7214

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Project Name	Additional Financing to the Third Water Supply and Sanitation for Low Income Communities Project (PAMSIMAS II)
Region	East Asia and Pacific
Country	Indonesia
Sector	Water Supply (34%); Sanitation (33%); Other Social Services (17%); Sub-national government administration (9%); Central government administration (7%)
Lending Instrument	Sector Investment Loan
Project ID	P129486
Parent Project ID	P085375
Borrower(s)	Republic of Indonesia
Implementing Agency	Ministry of Public Works
Environmental Screening Category	B
Date PID Prepared	January 28, 2013
Estimated Date of Appraisal Completion	February 1, 2013
Estimated Date of Board Approval	April 2, 2013
Decision	Project authorized to proceed to negotiations upon agreement on any pending conditions and/or assessments

I. 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.

3. Country Partnership Strategy. The new Country Partnership Strategy (CPS) for Indonesia (CPS December 2012, FY 2013 - 2015) calls for the World Bank Group (WBG) support through a lens that is pro-growth, pro-jobs, pro-poor and pro-environment. The CPS is aligned with the country's Master Plan for "Acceleration and Expansion of Indonesia's Economic Development 2011-2025", which seeks to accelerate development through pro-growth, pro-jobs, pro-poor and pro-green strategy.

4. The original PAMSIMAS project was closely aligned with the previous CPS (2008 – 2012) and PAMSIMAS II 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 II's gender and governance approach will contribute significantly to the Bank's cross cutting engagements.

II. 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. 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. The policy environment today is much more conducive to sector improvements through a CDD approach. First, recognizing that water supply and sanitation improvements are economically productive investments. The Government has included in its Medium Term Plan for Development two targets for increasing vulnerable people's access to safe water and sanitation services among the objectives for poverty reduction. These include the target of reducing by half the proportion of people without access to improved water supply and basic sanitation (Target 10).

11. To capitalize on success of service delivery through CDD projects, the Government established *Program Air Bersih Untuk Rakyat* (Water for All Program) under the Ministry of Public Works. It is one of six new programs introduced in early 2011 under an overarching program of interventions focused on poor and disadvantaged sectors of the population. The overall program (Program Pro Rakyat) is being implemented under the guidance of the Vice President, and the overall management of the Coordinating Minister for the Economy. The Minister of Public Works has direct responsibility for Program Air Bersih Untuk Rakyat but is supported by other relevant Ministers.

12. *Sanitasi Total Berbasis Masyarakat* (STBM) program was developed in accordance with the Ministerial Decree of the Minister of Health, Republic of Indonesia No 852/Menkes/SK/IX/2008, dated September 9, 2008. This program is comprised of five pillars that aim to: (i) End Open Defecation; (ii) promote hand washing with Soap; (iii) address household safe water management; (iv) address household wastewater management; and (v) address solid waste management. This policy espouses strategies that empower Indonesian communities to choose, finance and manage their own services; encourages participation by all communities and, in this regard, promotes gender and poverty-sensitive approaches in engaging and working with beneficiary communities. Equally important, it strongly supports improved community sanitation and hygiene practices.

III. Project Development Objectives

13. The Project Development Objective is: 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 programmatic mainstreaming and scaling-up of a nationwide community-driven approach.

IV. Project Description

14. The proposed additional financing in combination with AusAID grant and government contributions will cover:

- Implementation of community based water supply facilities for 5,000 villages to establish new systems or expand or optimize existing water supply systems in 5000 villages. This is expected to extend water supply coverage to 5.6 million beneficiaries;
- Implementation of STBM through a district wide approach in participating districts including the water supply target villages. This expected to provide sustainable access to improved sanitation to 4 million direct beneficiaries;
- Recruitment and training of consultants for national, provincial, and district levels.
- Recruitment and training of community facilitators;
- Support for community empowerment and local institutional development activities; and
- Strategic planning support for capacity building implementation.

15. The project's development objectives and design remain largely unchanged. Minor changes have been incorporated to better align the project with the two key GoI programs which the project supports as well as to increase the focus on sustained improvements in WSS services. The proposed activities would follow the implementation arrangements that are largely in place, including financial management, disbursement, and safeguards. The proposed activities are grouped in five components, all of which directly support the PAMSIMAS II PDO, as follows:

Component 1: Community Empowerment and Local Institutional Development:

(i) technical advisory services and capacity building for both governmental, non-governmental organizations and communities to support the preparation and implementation of Community Action Plans (CAPs); (ii) training to strengthen inter-agency cooperation at the Province- and District-level and to develop the institutional capacity of the units, teams involved in the implementation of the Project; (iii) capacity building and advocacy activities for local governments and civil society to improve overall WSS delivery.

Component 2: Improving Hygiene and Sanitation Behavior and Services:

(i) technical advisory services and training to support implementation of a phased program of community behavior change (promotion of the community-led total sanitation approach to safe excreta management, hand-washing, etc); (ii) support sanitation and hygiene marketing program designed to generate consumer demand for improved sanitation, facilitate the ability of local markets to respond to this demand, and promote improved hygiene behavior; (iii) support school-based hygiene promotion training and facilitation, and facilitate workshops designed to incorporate and integrate school-based hygiene promotion programs into routine curricula and health education programs; and (iv) strengthen the capacity of the units responsible for environmental health and hygiene promotion in Participating Provinces and Participating Districts to monitor progress in meeting their WSS-MDG Targets, assess performance of their sanitation and hygiene programs and evaluate their impact on hygiene behavior.

Component 3: Water Supply and Public Sanitation Infrastructure and Grants:

Training and advisory services to support, among others: (a) water supply systems for new villages; (b) the scaling up and expansion of existing village water supply systems; and (c) optimization of existing underperforming village water supply systems; (ii) provision of grants to support activities under CAPs; (iii) provision of (District/Village Incentive) DVI Grants to Participating Districts that meet or exceed predetermined project performance criteria based on

the achievement of (a) WSS coverage, (b) contribution to CAP Grants (c) management information system performance, to support complementary activities under CAPs; and (iv) provision of DVI Grants to Participating Villages that meet or exceed predetermined project performance criteria based on component specific objectives of hygiene, community mobilization and contribution, and WSS coverage to support complementary activities in view of the scaling up and expansion of existing community WSS services.

Component 4: Implementation Support and Project Management:

Technical advisory services and training, through the recruitment of Central Management Advisory Consultants (CMAC), to provide support, for the benefit of CPMU, in terms of overall Project management; (ii) technical advisory services and training, to support strategic planning, preparation and quality assurance for training and capacity building services; (iii) technical advisory services and training through Regional Oversight Management (ROMS) teams to support PPMU and DPMU, in terms of day-to-day Project management; (iv) recruitment of Community Facilitation Teams to facilitate community empowerment and institution building at the Village-level; (v) recruitment of independent Project evaluation teams to evaluate Project performance; and (vi) support preparations for a sector-wide program for the WSS sector.

V. Safeguard Policies that apply

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP/GP 4.01)	✘	
Natural Habitats (OP/BP 4.04)		✘
Pest Management (OP 4.09)		✘
Cultural Property (OP/BP 4.11)		✘
Involuntary Resettlement (OP/BP 4.12)		✘
Indigenous Peoples (OP/BP 4.10)	✘	
Forests (OP/BP 4.36)		✘
Safety of Dams (OP/BP 4.37)		✘
Projects in Disputed Areas (OP/BP/GP 7.60) ¹		✘
Projects on International Waterways (OP/BP/GP 7.50)		✘

¹ By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

VI. Financing

<i>Financing (US\$ million)</i>			
Component	Current project	Proposed additional financing	Total
<i>World Bank</i>			
▪ IDA	137.50		137.50
▪ IBRD		99.9	99.90
AusAID	46.40	44.00 ²	90.40
Government of Indonesia	101.10	86.48	187.58
Communities	36.50	30.67	67.17
Total	321.50	261.05	582.55

VII. Contact points

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² Total GoA contribution is AUD49.5 million. The US\$44 million represents funds allocated to recipient executed activities. The remaining funds will support Bank executed activities and trust fund administration fees. Availability of these funds is subject to amendment to the Administration Agreement with Government of Australia (GoA).