

**COMBINED PROJECT INFORMATION DOCUMENTS / INTEGRATED
SAFEGUARDS DATA SHEET (PID/ISDS)
CONCEPT STAGE**

Report No.: PIDISDSC15139

Date Prepared/Updated: 23-Nov-2015

I. BASIC INFORMATION

A. Basic Project Data

Country:	Indonesia	Project ID:	P156125
		Parent Project ID (if any):	
Project Name:	National Urban Water Supply Program (P156125)		
Region:	EAST ASIA AND PACIFIC		
Estimated Appraisal Date:	10-Apr-2017	Estimated Board Date:	05-Jul-2017
Practice Area (Lead):	Water	Lending Instrument:	Investment Project Financing
Borrower(s):	Debt Management Office, Ministry of Finance		
Implementing Agency:	DG Cipta Karya - Ministry of Public Works		
Financing (in USD Million)			
Financing Source			Amount
Borrower			547.60
International Bank for Reconstruction and Development			100.00
Financing Gap			0.00
Total Project Cost			647.60
Environmental Category:	B - Partial Assessment		
Concept Review Decision:	Track II - The review did authorize the preparation to continue		
Is this a Repeater project?	No		
Other Decision (as needed):			

B. Introduction and Context

Country Context

1. Country background. Indonesia is the fourth most populous country in the world with 256 million people, spread over a vast 5,150 kilometer equatorial archipelago of 17,000 islands. Geographically there are wide disparities in population distribution and levels of development across the islands. While in absolute terms over half of the total Indonesian population lives on the island of Java (located in the more populous western half of Indonesia), in relative terms the provinces of eastern Indonesia show far higher levels of poverty. The country's official poverty rate halved between 1999 and 2012, falling from 24% to 12%. However, the Gini coefficient, a measure of national consumption inequality, increased from 0.32 in 1999 to 0.41 in 2012, indicating that income distribution has become much more unequal.

2. Urban water access. Indonesia has the second-largest urban population in East Asia after China. The urban population was estimated at 137.4 million people in 2015, an increase of 34 million from 2005. Despite its lower-middle income economy, only a third of the urban population has access to piped water services on premises, lagging significantly behind its regional neighbors like Philippines, Vietnam, Lao PDR and Cambodia with lower GDP per capita. For example, Philippines has similar levels of overall access to improved urban water sources, but has 59% piped to premises as opposed to Indonesia's 33%. Cambodia's GDP per capita is about a third of Indonesia's, yet it can boast 100% access to improved urban water sources, with two thirds of that through piped water on premises. Geographic disparities in urban piped water supply are marked, with the lowest in Bangka Belitung, east of Sumatra (7.5%) and the highest in East Kalimantan (70.8%).

3. Universal access. In the recent 2015-2019 National Medium Term Development Plan (RPJMN) the Government of Indonesia (GoI) has committed to the ambitious target to achieve universal access to water supply and sanitation by 2019. The '100-0-100' program embodies the GoI's plans to achieve 100 percent access to safe water, zero urban slums, and 100 percent access to sanitation facilities across the country. GoI has adopted a different approach for achieving universal access by introducing several national programs as platforms for service delivery to ensure that efforts are coordinated and progress monitoring is simplified. The four key platforms of delivery for water supply are: (i) the Urban Water Supply Program; (ii) the Regional Water Supply Program; (iii) the Platform for Special Areas, including areas of water scarcity, urban slums, fishing villages and border towns; and (iv) the Community-Based Rural Water Supply and Sanitation Program (PAMSIMAS). The Government is developing a further program to increase access for urban sanitation.

4. Access gap. In the 100-0-100 program the GoI has defined the following specific service levels to be met by the end of 2019 for universal access to safe water in urban areas: 60% of the population having access to piped water and 40% to non-piped water, 85% of urban areas receiving at least 100 liters per capita per day and the remaining 15% the basic level of 60 liters per capita per day, and all supplies meeting the 4K standards (Kualitas, Kuantitas, Kontinuitas, Keterjangkauan) for quality, quantity, continuity and affordability. To achieve universal access in all urban areas, it is estimated that 17 million new connections will be needed to service roughly 68 million people, at a cost of US\$ 8.2 billion (IDR 106 trillion). This translates to approximately US\$ 1.6 billion per year or three times the current spending level. In 2013 government expenditure for water supply totaled US\$ 476 million (IDR 7.0 trillion), and was largely sourced from the central government budget. Local governments scarcely contributed 0.3% of sector expenditure.

Sectoral and Institutional Context

5. Decentralization of urban water services. Responsibility for the provision of water services in urban areas shifted from the central government to local government as part of the decentralization process. With water utilities (PDAMs - Perusahaan Daerah Air Minum) now

being owned by local governments, the role of central government shifted from implementation to facilitation of local government investment to meet sector targets. Under the current regulation framework, Central Government can continue to invest in part of the water supply systems i.e. water sources, production works and inter-local government facilities, while local governments are responsible for the rest. However local government funding of urban water infrastructure continues to lag behind funding and coverage targets, and recent investment has not kept pace with population growth and depreciation. Many local governments have not fully accepted the transfer of responsibility for local water services, while others see PDAMs as their main source of locally derived general local government revenue. PDAM budgets are not completely ring-fenced within the local government structure, resulting in diversion of funds for other priority sectors. Local governments are both owners of PDAMs and the regulators of tariffs in urban areas and many have little political appetite for tariff increases.

6. PDAM performance. There are currently 385 PDAMs in Indonesia. Most are very small, with less than 10,000 connections, and only about 35 PDAMs have more than 50,000 connections. The operational performance of PDAMs is generally low with average national non-revenue water estimated at 33% and only 29% of PDAMs were found by MoPW in 2013 to be operating at cost-recovery tariff levels. As a result, most PDAMs are unable to generate sufficient revenue to finance investments by accessing commercial loans, central government financing instruments, or on-lent soft loans from donors. Key capacity constraints faced by PDAMs are: (i) a lack of understanding of commercial operations of water utilities; (ii) a lack of understanding of and commitment to full cost recovery tariffs; (iii) an inability to identify projects and develop project proposals; and (iv) a general lack of technical and operational knowledge.

7. Government and donor programs. To improve sector performance over the past fifteen years, GoI has (i) increased central government spending in the sector from IDR 3.7 billion to IDR 9.6 billion between 2005 and 2013; and (ii) introduced new regulatory frameworks (2009 and 2010) to provide local governments with access to new and large sources of investment funds. New regulations included: (i) PDAM debt restructuring; (ii) a partial guarantee and interest subsidy for loans from commercial banks; (iii) strengthened partnerships with the private sector; and (iv) a guarantee fund mechanism Viability Gap Fund (VGF) for viable public-private partnership schemes. The debt restructuring program led to the financial improvement of a number of PDAMs. Approximately 76 PDAMs have had their debt restructured, and the number of 'healthy' PDAMs has increased from 44 in 2008 to 176 in 2013. In parallel, a number of key donor initiatives, for example USAID's IUWASH program supporting PDAM management improvement, the Bank's OBA program in Surabaya and Jakarta, which was followed by a much larger Australian-supported performance-based Water Hibah Program, introduced and demonstrated the notions of good service performance, output-based financing and local government pre-financing.

8. Sector challenges. Despite significant achievements, sector efforts remain work in progress. Coordination between central and local governments remains weak. Despite good governance guidelines and directions from the central government, central government spending on large infrastructure like water treatment plants is not followed by adequate local government investment in distribution networks and local government commitment to assuring cost recovery tariff levels. Increased sector spending by the central government focused on increasing production capacity has therefore not translated to commensurate additional access, and has led to increasing levels of unused capacity (idle capacity is currently estimated at 37,900 liters/second). Many central government programs remain narrow in scope, and a number of efforts are still at a nascent stage with unproven sustainability. Privatization concerns led to the cancellation of Water Law 7/2004, which is a setback for public-private partnership initiatives in the sector.

9. Risks and opportunities. The universal access targets are a major driving force for investments and the central government is poised to substantially increase sector investment from 2015 to 2019. Current low levels of local government investment in urban water supply and poor performance of PDAMs increases the risk of increased central government spending failing to translate to increased access and improved service levels. On the other hand, a substantial increase in central government spending if accompanied with a more comprehensive sector intervention platform and a stronger mechanism to ensure local government action, presents an opportunity to leverage all sources of funding for continued expansion, deepening of sector programs, and a stronger partnership between central and local governments with more assured performance of obligations by both parties.

10. Urban Sanitation . Local governments have overall responsibility for the provision of urban sanitation services, but the allocation of roles between the various departments and agencies varies greatly from one city to another. Typically sanitation responsibilities tend to be highly fragmented between six to nine offices, and in some cities in as many as sixteen. Public investment in urban sanitation has been limited and most of the sanitation infrastructure in place has been provided by households. The use of waterborne toilets is well established and about three quarters of urban households have a toilet (typically pour-flush), but local government oversight and regulation are weak and very few households dispose of wastewater safely. Many toilets discharge into unsealed tanks (cubluk) or soakpits (tangki septik). Regular hand washing with soap is rare even though soap is available in nearly every home. GoI has recognized the need for increased integration to effectively deal with urban sanitation issues and that the current disaggregated structure will require a more targeted intervention. While NUWAS will be focused on addressing urban water supply issues, the Bank is separately supporting increased access to urban sanitation through an ongoing program of technical assistance, which is expected to lead to a separate urban sanitation operation currently slated for an FY18 delivery.

Relationship to CAS/CPS/CPF

11. The Systematic Country Diagnosis, completed in 2015, recognizes that the Bank's twin goals of eradicating poverty and increasing shared prosperity in Indonesia depends, to a large extent, on closing the country's large infrastructure gap. In spite of substantially increased decentralized public funding for basic services and infrastructure, including water supply and sanitation, the quality of services remains low and unevenly distributed across the country. In response, the draft Country Partnership Framework FY16 – FY20 frames the Bank's support for water supply and sanitation around two key engagement areas that are supported by the project: Engagement Area 1: Infrastructure Platforms at the National Level, and Engagement Area 4: Delivery of Local Services and Infrastructure. Under Engagement Area 1 the Bank has a coordinated response to support the universal access targets as set out in the RPJMN. The Bank's proposed operations pipeline is directly aligned to support to all the key national platforms of delivery to achieve universal access as described in paragraph 3, through five operations in the pipeline: (i) the National Urban Water Supply Program (NUWAS, FY17), (ii) the Regional Water Supply Program (FY18), (iii) the National Slum Upgrading Program (NUSP, FY16), (iv) the Community-Led Water and Sanitation Program (PAMSIMAS III, FY16) and (v) a national urban sanitation project (FY18). The Bank's involvement in all these programs is designed not just to fill the financing gap, but to assist the Ministry of Public Works and Housing in setting up well-designed platforms of delivery which also strengthen the capacity of local government, supported by strong monitoring and evaluation systems. This will be strongly linked to local government implementation under Engagement Area 4.

C. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

12. The proposed Project Development Objective is: To improve access to water supply in selected urban areas by strengthening PDAMs, local governments and central government agencies.

13. The project development objective will be achieved by: (i) improving and increasing access to sustainable piped water services in selected main urban areas by strengthening PDAMs, (ii) improving capacity of local governments and leveraging local government resources towards urban water supply investments, and (iii) improving central government's policy and strategy making, development programming and M&E (including sector oversight) capacity to improve investment targeting and improving the effectiveness of investments.

Key Results (From PCN)

13. The achievement of the project development objective will be measured by the following key indicators:

- People provided with access to improved water supply through piped water connections – urban (of which female – percentage)
- Number of PDAMs with improved performance
- Interactive M&E system established and operational

More detailed indicators and project's contribution to the Sustainable Development Goals will be considered for inclusion in the project during project preparation.

D. Concept Description

14. The project forms an integral part of the National Urban Water Supply Platform, one of the four key platforms of delivery that make up the Government's strategy for achieving universal access to safe water throughout Indonesia. The project will support (a) the establishment, broadening and strengthening of the policies, processes and instruments that make up the platform, (b) the formulation and implementation of central government infrastructure investments, and (c) the improvement of investments, governance and performance management at the local government and PDAM levels. The emphasis will be to establish the comprehensive sector intervention platform and a strong mechanism to ensure local government action as mentioned in Section B. The emphasis will be on targeting specific current challenges to overcome the service delivery bottlenecks by: (i) improving the alignment of central and local government investments by supporting systematic selection of water supply projects, and the development of appropriate project conditions and incentives to encourage both central and local government to perform their project obligations, (ii) improving the quality of local government and PDAM project proposals by supporting local governments and PDAMs to create project preparation capacity, and (iii) increase the local government and PDAM financing for water supply by supporting local governments and PDAMs to access funding sources.

15. Lending instrument: The project is designed as an Investment Project Financing IBRD loan for a five year project implementation period. GoI's objective is to leverage World Bank financing to maintain a strong program delivery platform. Since the project is aligned with the GoI objective to achieve universal access by 2019, and it will establish a firm platform for future investment planning and implementation, a programmatic approach was not required. Program for Results (PforR) was considered because capacity building is an integral feature of this instrument. However, the substantial risks of project implementation, the substantial governance challenges, and the nascent nature of the program deem it premature for the PforR at this stage, and may be considered for future operations.

Component 1: Policy Advisory Support and Instruments (US\$ 50 million)

16. The objective of this component is: (i) to assist the central government to develop policies and instruments to build a more systematic and comprehensive planning, targeting and leveraging mechanism for sector investments; and (ii) improve the effectiveness of investments through targeted technical assistance and capacity building activities. This component will provide technical assistance and capacity building to the central government (especially Directorate General Human Settlements of the MoPWH) to: (a) develop an improved water supply investment framework, including a more detailed mechanism for the mapping, categorization and rating of local governments and PDAMs, (b) develop or refine its eligibility and readiness criteria for investment decisions, (c) develop systematic selection mechanisms, investments and technical assistance programs offered to local governments and PDAMs on a ratings-based principle, (d) develop or refine its rules and criteria for local government and PDAM counterpart contributions, aimed at leveraging local investments as well as assuring the financing of the portions of investments under the responsibility of the local governments and PDAMs, (d) develop or refine its system of incentives and stimulants to better target and leverage local governments and PDAMs towards governance and performance improvements. This component will also support the central government to develop policies and provide guidance to local governments for improving service delivery models, including regional cooperation, collaboration with the private sector, and services to the poor. This component will also provide technical assistance and capacity building programs to local governments and PDAMs for service improvements, water governance and utility reforms, and will include exposure to international practices and innovations in technology, processes and planning to encourage development of 'smart' solutions.

Component 2: Investment for Water Supply Infrastructure (US\$ 200 million)

Component 2a: Investment support to central government

17. This sub-component will support central government's implementation of its improved water supply investment framework. It will support central government investments in selected local governments and PDAMs. The selection of local governments and PDAMs will be based on the selection mechanisms, and types of investments tailored to the ratings-based differentiated investment and incentive programs, developed under Component 1. Investments could include construction of new water treatment plants, rehabilitation, upgrading and optimization of existing treatment plants, expansion and rehabilitation of distribution networks, as well as other optimization works such as non-revenue water reduction, energy efficiency, etc.

Component 2b: Investment support for local governments

18. This sub-component will support local governments and PDAMs to identify, develop and prepare investment projects, and if needed, assist local governments and PDAMs to access necessary funding from the various available funding sources. This may include assisting local governments and PDAMs selected for support under Component 2a to develop, design and prepare project proposals to finance and implement the required local government and PDAM counterpart investments, as well as other investments to complement central government investments under Component 2a. Technical assistance will also be given to support the preparation of appropriate environmental and safeguards arrangements (e.g., addressing wastewater generation), and implementation and operational plans. This sub-component will prioritize local governments where water supply coverage is low and the respective PDAMs display an interest in performance improvement and service expansion in spite of low capacity. Direct project funding of these local government and PDAM investments are not currently envisaged, rather this component is premised on the assumption that local governments and PDAMs will utilize their own budget (including central government transfers) and/or will be able to access available financing products, including existing Central Government-backed financing

programs as described in Section B, local government project financing offered by commercial banks or state-owned finance and investment companies such as PT Sarana Multi Infrastruktur (PT SMI) and a proposed Indonesia Regional Infrastructure Development Fund (RIDF) which is currently under development with Bank support. This assumption will be reviewed during implementation and adjustments will be made if it is found, for example, that potential financiers are reluctant to invest in this segment, or that the implementation of the proposed RIDF is delayed.

Component 3: Program Implementation and Management Support (US\$ 50 million)

19. This component will provide project management services to the implementing agencies and technical implementation support for the program, including the development and utilization of an integrated web-based M&E system to monitor universal access for the Urban Water and Sanitation Program platform. The M&E system will monitor implementation progress and targets.

Lessons Learned

20. The Indonesia Urban Water Supply and Sanitation Project was a US\$20.5 million Specific Investment Loan that closed in December 2014. It was a direct predecessor of NUWAS that focused on capital investment for expansion and rehabilitation of water treatment plants and distribution systems in three towns. The project was rated Moderately Unsatisfactory due to its modest achievements to strengthen the PDAMs to become operationally efficient and financially sustainable. The project yielded the following lessons that drove the design of NUWAS: (i) gains generated through capital investments can only be sustained when accompanied by reforms to improve the financial and operational capacities of the PDAMs; (ii) PDAMs have varying financial and implementation capacities that require different levels and forms of financing and technical support; (iii) even though responsibilities in the provision of water supply services have been decentralized, the central government continues to play an important role in initiating sector reforms, and incentivizing and regulating the performance PDAMs; and (iv) it is important to carefully consider and define the timing, resources, design and arrangements for collaboration with other programs to ensure that intended objectives are met. Key features of NUWAS, such as the focus on capacity building over direct infrastructure investment, categorization of PDAMs and tailored capacity building based on development status, and strengthening of central government capacity together with local government and PDAMs, are directly based on lessons learned from previous implementation experience. In addition the risk of collaboration was recognized and NUWAS has clear activities that directly contribute to its objectives without dependencies on other programs, while at the same time facilitating collaboration with investment partners.

21. The project also benefitted from other ongoing-projects in Indonesia, including the ADB's evaluation on Small Town Water Supply Project Ibu Kota Kecamatan (IKK Water Supply Project), the on-going Australian AID/DFAT and USAID Water Hibah Program, the USAID Indonesia Urban Water Sanitation and Hygiene (IUWASH), and the GPOBA Water Project in Surabaya. The key lessons learned from these programs are:

- Governance is an important element in water supply management, both at the local government and at the PDAM levels. IUWASH recognized that most of the challenges faced in the sector are fundamentally related to governance. Governance includes the integrity of local leaders, local politicians and PDAM managers.
- Output-based financing for water supply is effective, not only in increasing coverage of piped water supply, but also in leveraging substantial financial contribution from local governments. The Water Hibah Phase 1 and 2 program (DFAT/Australian Aid and USAID grant financing support) has contributed to 265,000 additional connections in 151 local governments.

The output-based aid scheme in Surabaya was the first GPOBA in Indonesia, and was completed in 2013 with a “Substantial” rating for institutional development. This success has led to the application of the output-based financing approach by the Government of Indonesia with funding from the Australian Aid/DFAT and USAID for its Water Hibah program.

- While small town (IKK) water supply schemes have greatly contributed to the expansion of service coverage in the country, the design and implementation of new IKK schemes require careful consideration of (i) the institutional capacity of PDAM to manage completed IKK scheme; (ii) the social and financial considerations in setting up water tariffs; (iii) the degree of community participation, where the community in a small town is relatively cohesive in terms of their social relationship; and (iv) alternative water sources when the selection of water sources is complicated by water scarcity and distance.

- Although water supply is a local government responsibility and even though many local governments have accumulated large cash reserves, most are unable to allocate sufficient funds to finance the construction of new large-scale water infrastructure treatment plants and distribution networks. The central government has provided incentives for local government to access various funding sources, including a central government loan passed on to local governments through a Subsidiary Loan Agreement (SLA). However, experience has shown that a major impediment in the SLA mechanism is that it is complicated and cumbersome in its process.

22. Notable international examples that were considered include: (i) the Brazil Federal Water Resources Management Project (PROAGUA) where the project was a tool for the development of technical and institutional capacity in water resources management by allowing in the project design for the fact that the different participating states had very different capacity starting points, and tailoring project interventions to match these differences, while successfully using ‘role model’ states to enhance learning; (ii) Philippines Local Government Unit Guarantee Corporation provides a guarantee mechanism and credit rating services to make it possible for local governments to borrow from commercial banks to finance water projects .

II. SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The locations for infrastructure investments under Component 2a have not been determined but the project will cover urban areas in selected districts and municipalities throughout the country. Specific locations will be identified once participating LGs and/or PDAMs have been selected based on a set of agreed criteria developed during the project preparation. The LGs/PDAMs that are benefitting from Component 2a will also receive facilitation support (under Component 2b) in preparing project proposals that can be used to access financing to invest in their portion of the same water scheme in the same location financed under the Component 2a, as well as TA for them to prepare these projects to good and acceptable safeguards standards per Bank policy.

The construction of new intake, transmission pipelines, water treatment plants (WTPs), reticulation system and new house connections could have potential downstream environmental and social issues which may range from disrupted hydrology balance of water sources (possibly due to increased water demand), land acquisition and auxiliary facilities, unequal water distribution, perceived unfair compensation to the owner(s) of water sources, impacts on cultural resources and other environmental impacts such as water, soil, air, noise pollutions, etc. Previous Bank’s experience in the areas of urban water services in Indonesia has shown that the construction of new systems for water treatment plants usually takes place on privately owned land in which PDAMs acquired the land on the basis of business to business (direct negotiated purchase). Based on previous experience

of Bank project operating with similar types of infrastructure and in similar types of locations, the potential issues related to land acquisition and other collateral environmental impacts are expected to be manageable.

The above potential impacts will be duly assessed and mitigation measures, along with alternative locations/sites, will be developed in conjunction with the Bank's environmental and social safeguards operational policies (e.g. EIAs, EMPs, RAPs, etc.). In the event of new WTP construction, the project will take into account the technical engineering of the facilities in order to minimize unwanted social and environmental impacts stemming from improper disposal of chemicals (water bleaching agents/chlorine), unpleasant odor, noise, sludge management, etc.

B. Borrower's Institutional Capacity for Safeguard Policies

The proposed project will involve stakeholders at multiple levels, including the government (Central Government ministries and local governments), PDAMs, potential service users, affected communities and civil society organizations (NGOs, community groups, etc.). The main technical counterparts (Directorate General Cipta Karya of MoPWH), municipal governments and PDAMs, have acquired some level of experience in the Bank's safeguards policies operations through previous projects such as UWSSP (implemented in FY2010 – FY2015) and other Bank's funded MoPWH projects. However, there is a strategic need to continue strengthening the Borrower's current safeguards capacity to ensure fair benefit sharing and leverage cost efficiency by reducing non-technical risks stemming from adverse social and environmental impacts. The project encourages the appointment of a safeguard focal contact point/counterpart at the CPMU level to lead the coordination of all relevant project safeguard aspects/requirements and management processes (e.g., environmental screening and assessment processes, development of mitigation measures for risks associated with specific social and environmental issues, including safeguards operation manuals, SOPs/ECOPs, as well as the management of safeguards to ensure that safeguards oversight and documentation are mainstreamed in the project implementation). The safeguard focal point/counterpart will work closely with the Bank's task team in addressing safeguards aspects of the project.

Furthermore, since the project envisages the provision of TA to strengthen the capacity of the borrower (MoPWH, LGs and PDAMs), additional capacity building components on environmental and social assessments, which also include proper review and screening of environmental and social impacts, monitoring and supervision as well as management of mitigation measures needs to be incorporated in anticipation of future, possibly larger projects towards the achievement of universal access of safe water in urban areas. A monitoring and evaluation mechanism needs to be utilized and socialized to enhance open access to information and at the same time encourage civic participation in the oversight of their respective LGs/PDAMs.

A Grievance Redress Mechanism (GRM) will be incorporated in the ESMF with the responsible units/individuals being set up/assigned under the Implementing Agencies.

C. Environmental and Social Safeguards Specialists on the Team

Fajar Argo Djati (GSUID)

Sulistiowati Ms. (GSUID)

Virza S. Sasmitawidjaja (GEN2A)

D. POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>This project under component 2 will mainly finance the rehabilitation and/or extension of existing water supply infrastructures (e.g., distribution systems, treated water pumping stations, transmission networks, water intake, pre-treatment and water treatment facilities) and construction of some new water treatment plants (WTPs). The proposed investments would primarily affect localized areas at or around the sites of facilities subject to physical works. Collateral environmental impacts mainly result from activities around construction, rehabilitation and operation of WTPs facilities and their auxiliaries, which could range from construction of new treatment facilities, water intake activity, operations of the WTPs, etc. The potential temporary environmental impacts could be on water pollution and health issues from poor sludge management, water resources scarcity due to increased water intake/demand, impacts and risks associated with leakage and spills of chlorine and other chemicals, dust, noise, vibration of the new WTPs construction activities. On the rehabilitation and expansion of transmission and distribution pipelines, construction activities could also have temporary social impact due to temporary access restrictions and temporary closure of roads and/or traffic disruption, dust, vibration and noise during piping installation works. So the project is unlikely to have significant irreversible adverse environmental impacts that are sensitive, diverse or unprecedented.</p> <p>The disposal of sludge and sediments generated from the treatment process of new WTPs will be conducted in observance to the national requirements.</p> <p>With the considerations above, the EA safeguard documents and provisions applicable to this project are as follows:</p> <p>(i) For investment sub-projects that are identified during the project preparation (primarily under Component 2), the safeguards documents (EIA/EMP/ECOP/SOP) will be prepared (in consultations with sub-project stakeholders including potential service users, local communities/affected people/NGOs, etc.) and cleared by the Bank prior to the project appraisal. These documents will also need to be disclosed locally in Bahasa Indonesia and uploaded to the InfoShop by appraisal . The project will follow the already well-established country system i.e. KepMenLH 5/2012 that clearly outlines the type of required environmental assessment and documentation.</p> <p>(ii) For investment activities that will remain undefined or whose locations cannot be determined during the project preparation, a stand-alone Environmental and Social</p>

		<p>Management Framework (ESMF) document will be prepared by the borrower and cleared by the Bank by appraisal. The ESMF shall include the result of consultations with project stakeholders.</p> <p>Infrastructure investments for new WTPs will be implemented only in eligible participating LGs/PDAMs. The criteria for selecting participating districts will be agreed upon during project preparation. The typical criteria for selection will include several aspects on operation and finance. Operation aspects will include for example Non-revenue water (NRW), idle capacity of production while financial aspect will include for example tariff (whether it is in full-cost recovery rate), billing collection rate, operating ratio. New WTP will be only for PDAMs with no idle production capacity but demand is still high, PDAM should also have adequate capability to manage the additional asset as demonstrated by low NRW, good operating ratio, etc. The size of the new WTPs will be mainly small to medium scale (i.e. less than 200 l/s) and subproject financing will be limited to a maximum US\$ 10 million per LG/PDAM. Furthermore, as sub-projects are identified, the necessary institutional capacity building and associated sub-project preparation activities should be undertaken during project implementation according to the procedures specified in the ESMF .</p> <p>Considering that the project's impact will be site specific, could be managed locally and mostly could be mitigated with appropriate measures, this project is proposed to be a Category B project.</p>
Natural Habitats OP/ BP 4.04	TBD	<p>The project activities are not expected to be implemented in the critical natural habitats, as most of them will take place in the urban areas where the environment already affected by other human activities.</p> <p>However, as the exact sub-projects' locations are not determined yet, it is possible that any sub-projects might affect natural habitat. The ESMF will include screening for impacts on natural habitats and measures to address these impacts, including not financing any subproject that will degrade or convert critical natural habitats. Until such screening is complete the policy is marked as TBD.</p>
Forests OP/BP 4.36	No	<p>The project will not finance activities that would involve significant conversion or degradation of critical forest areas or related critical natural habitats as defined under the policy. There may be cutting of few trees for some of the infrastructure support facilities but the scale is not expected to</p>

		affect forests and forest health or forest-dependent communities. The ESMF will explicitly prescribe avoidance of significant environmental impacts of proposed sub-projects on critical natural forests.
Pest Management OP 4.09	No	The project will not procure any pesticides, nor lead to the use of pesticides due to the nature of project activities.
Physical Cultural Resources OP/BP 4.11	No	It is highly unlikely that the selected sites will have an impact on PCR, however, since the project locations are yet to be defined, hence the likely activities affecting archeological, paleontological, historical, religious, or unique natural values would be identified during the screening process in the ESMF. The chance find procedure and mitigation measures for PCR will be included in the ESMF Standard appropriate clauses regarding the procedures to be followed in the event of chance finds of significant artifacts will be also included in construction contracts.
Indigenous Peoples OP/BP 4.10	TBD	The project does not envisage that project/sub-project activities will take place in areas where IPs are present. Most of the construction of main infrastructure facilities and their auxiliaries, including water intake, treatment plants and distribution under C.2 will mainly take place in urban/peri-urban areas where the possibilities for the presence of culturally distinct communities as per OP 4.10 criteria are remote. However, the presence of IPs will only be identified during the project preparation. If there is an indication that the project operates in areas where IPs are present, an IPPF, which is integral to ESMF, will be prepared. Appropriate measures (i. e. IPP) will be duly taken through free, prior and informed consultations in the event that IPs are present in proposed project/sub-project sites.
Involuntary Resettlement OP/BP 4.12	Yes	Most physical construction activities will be carried out in existing areas owned by LGs/PDAMs. However, relatively small land acquisition outside PDAM or LG owned land may be required for new construction and/or expansion of water supply infrastructure facilities. In the event that land acquisition is foreseen, the borrower prepares a LARPF and once project/sub-project sites have been identified, LARAPs will be developed. Both measures will be made in consultations with affected people. LARPF will be incorporated in the ESMF.
Safety of Dams OP/ BP 4.37	TBD	The project will not finance construction or rehabilitation of existing dams, nor will it rely on the performance of a new dam under construction. However, there might be a possibility that the project may depend upon any dam/reservoir as the water sources for some sub-projects. This shall be identified during project preparation and shall be confirmed prior to

		appraisal. Appropriate mitigation measures related to the OP/BP 4.37 will be incorporated in the ESMF.
Projects on International Waterways OP/BP 7.50	No	Project sites are not expected to affect international waterways. The proposed water supply systems rely on sources that are linked to rivers or springs inside the country. The additional amount of water to be extracted due to project interventions will be in line with the allowable amount and approved by relevant government authority.
Projects in Disputed Areas OP/BP 7.60	No	The project is not located in any known disputed areas as defined under the policy.

E. Safeguard Preparation Plan

1. Tentative target date for preparing the PAD Stage ISDS

29-Jul-2016

2. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the PAD-stage ISDS.

Tentative target date for preparing the PAD Stage ISDS is TBC. ESMF document (including the Grievance Redress Mechanism, LARPF and IPPF) shall be consulted upon and disclosed prior to appraisal.

III. Contact point

World Bank

Contact: Irma Magdalena Setiono
Title: Water & Sanitation Specialist

Contact: Fook Chuan Eng
Title: Lead Water and Sanitation Spec

Borrower/Client/Recipient

Name: Debt Management Office, Ministry of Finance
Contact: Robert Pakpahan
Title: Directorate of Financing and Risk Management
Email: rpakpah@yahoo.com

Implementing Agencies

Name: DG Cipta Karya - Ministry of Public Works
Contact: Andreas Suhono
Title: Mr.
Email: andreas@pu.go.id

IV. For more information contact:

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

V. Approval

Task Team Leader(s):	Name: Irma Magdalena Setiono, Fook Chuan Eng	
<i>Approved By</i>		
Safeguards Advisor:	Name: Peter Leonard (SA)	Date: 24-Nov-2015
Practice Manager/ Manager:	Name: Ousmane Dione (PMGR)	Date: 24-Nov-2015
Country Director:	Name: Rodrigo A. Chaves (CD)	Date: 02-Dec-2015

1 Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.