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PURSE Project Mid-Term Evaluation

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PURSE PROJECT

MID-TERM EVALUATION

1 Executive Summary

Project Objectives

Goal: The Project's goal as defined in the Project Paper of September 1991 is to increase the stock of infrastructure essential for economic growth and improve access to efficiently delivered services that contribute to an improved urban environment.

Purpose: The Project's purpose is to expand the participation of the private sector in the provision of selected urban services (water, wastewater, and solid waste) on a sustainable basis through direct investment or contracted participation in supply, delivery, or other operational functions.

The objectives of the Project were sound and the need for private sector participation in the delivery of urban public services is now recognized even more clearly, and felt even more strongly, than it was when the Project began.

The Purpose of the Mid-Term Evaluation

The purpose of the present mid-term evaluation is to review the Project's implementation and to recommend measures to improve its performance during the remainder of the Project.

Findings

In Indonesia, the PURSE Project pioneered the concept of public-private partnerships in urban services. Furthermore, it has helped create and support a significant policy shift toward private participation in the provision of urban services in Indonesia — a notable achievement. An enormous groundswell of interest and commitment to the Project's goals has emerged within central and local government and the private sector. While continuing PURSE-related policy reforms, increased emphasis should now be placed on demonstration project activities and training with the goal of increasing the output of practical, operational guidelines and training of direct benefit to local government, local enterprises, and the private sector.

During the first 15 months of the Project, there was a significant turnover in the contractor's staff and difficulties in assuring appropriate team leadership. The adequacy of the contractor's initial response to these problems was also questioned by USAID. As a result, delays in Project start-up were experienced. During this critical period, USAID chose to work closely with the contractor to correct management problems and charter a technical course for the Project. This proved to be a wise course of action. Despite these problems and the complexity and novelty of the Project, PURSE is now positioned for a satisfactory conclusion. Earlier staffing, management, and technical issues have been largely resolved. Useful policy papers, overseas training, and several streams of work have been established that provide a foundation for the remainder of the Project.

Summary — Principal Problem Issues

- Start-up problems caused by:
 - ▶ contractor staffing and management difficulties
 - ▶ Project novelty and complexity
- Early emphasis on studies with limited practical application
- Need for increased emphasis on demonstration projects and in-country training particularly at the local level¹
- Need to achieve a clear consensus among PURSE clients for priorities in the Project
- Need to achieve clear institutional roles and responsibilities for the key central government actors in PURSE, notably the National Development Planning Board (BAPPENAS), the Ministry of Public Works (Cipta Karya), and the Ministries of Home Affairs and Finance.

Summary — Principal Project Strengths

- Very strong and timely Project concept
- Very strong Government of Indonesia (GOI), local government, and private sector commitment to Project concept
- Useful Project support in the initial period of GOI policy reflection and development
- Useful overseas training for senior managers/policy-makers; and a strategy stressing in-country training during the remainder of the Project
- Useful lessons learned from demonstration project exercise
- Valuable and practical outputs associated with the policy framework: legal/regulatory and Project Life Cycle materials; ongoing risk management guidelines
- Progress in achieving coordination with other related technical assistance projects

Recommendations

The Project is likely to be able to achieve a successful outcome if the remaining Project resources are judiciously deployed.

- Formulate a clear, well-focused, joint strategy, work plan, and revised end-of-Project objectives that are consistent with PURSE Project scope and resources. Include an explicit strategy for sustainability after PURSE.
- On the basis of the revised work plan, adjust the level of effort associated with Project tasks along with the staffing and subcontracting required, ensuring that staff skills and experience match the challenging tasks involved in the completion of the Project.
- Shift the PURSE Project's principle implementation focus from central to local government, as legal/regulatory reforms are enacted, by expanding assistance to demonstration projects and by developing an integrated training program focused at the local level.

¹ The evaluation team recommends a change in the Project's approach to demonstration projects: first, it is the stages in the Project's life cycle that should be demonstrated — differing or partial Project inputs might be provided at differing sites; second, it is the quality of demonstrations that is sought, not the quantity.

- Optimize the value of completed and planned PURSE outputs by systematically using them in demonstration projects, replication efforts, and training. Such outputs include:
 - ▶ SSEK's legal/regulatory study
 - ▶ Project Life Cycle Work
 - ▶ Chemical Bank's risk management study
 - ▶ PURSE or FINPRO financial model applications (based on a careful evaluation of both models)

Considerations for Project Management

- Since the Draft Mid-Term Evaluation, excellent progress has been made (in Project Life Cycle discussions) to clarify PURSE-related roles and responsibilities between the Ministries of Public Works and Home Affairs. Continued strengthening of the Project institutional framework is desirable among the key actors (BAPPENAS, Cipta Karya, and Home Affairs).
- Strengthen linkages with related projects. Hold joint work planning sessions between MFP and PURSE; recommend that BAPPENAS establish quarterly coordinating meetings among related projects.
- Require all Project outputs to emphasize specific, results-oriented, practical guidelines, such as how-to manuals, model documents, and case studies suitable for training purposes.
- Adopt facilitating and performance-based management approaches:
 - ▶ For example, "renew" long-term LOE commitments on a quarterly basis.
 - ▶ Set performance benchmarks to improve demonstration project and training components. Resort to subcontracting if appropriate.
- Monitor continually to ensure that private provision of services is cost effective.
- Enhance networking and outreach with local government and the private sector.

Contributing to the Sustainability of PURSE

PURSE has been responsive to sustainability issues. The following highlights activities that PURSE is already pursuing to assure sustainability:

- assistance in the modernization of the legal and regulatory framework (ongoing)
- full operationalization and dissemination of the Project Life Cycle materials (ongoing)
- contributing to a fuller understanding of the issues in and action needed for sound risk management in public-private undertakings (ongoing)
- assistance in the expansion of governmental and/or private sector capacity to provide relevant training at an adequate scale (ongoing)

Additional measures that may improve the Project's sustainability include:

- increasing use of local firms, professionals, and training institutes in Project activities
- increasing consultations with the private sector to determine how best to encourage its participation in planning, initiating, financing, implementing, and managing PURSE-type projects; examining the feasibility of granting geographic/sector concessions to the private brokers for this purpose as part of the Project Life Cycle process

- successful execution of several local demonstration projects; wide dissemination of the findings including guidelines, how-to manuals, model contracts, etc.

Lessons Learned

Experience with the Project to date has yielded a number of lessons important not only for the completion of the Project itself, but also for future efforts to provide technical assistance to promote and support private sector participation in the provision of urban services:

- a heightened realization of the inherent difficulty and complexity of promoting private sector participation in ways that will be advantageous to both the public and private sectors
- the importance of achieving a clear consensus among Project stakeholders regarding the issues and priorities that can be effectively addressed; this should result in a clear vision for the Project, a strategy to achieve that end, and definition of realistic roles and responsibilities
- the importance of having an appropriate institutional framework and leadership for the Project that can resolve conflicts, set priorities, monitor and evaluate, and redirect the program should it prove necessary
- the need for the policy and regulatory work, and other components, to lead to concrete and operational results that are clearly beneficial (for example, the Life Cycle materials)
- the need for demonstration projects to reflect real client needs, to be very competently supported by the consultant team, and to be widely relevant and replicable: the experience gained in them must be disseminated promptly and targeted well and the emphasis should be on quality not quantity
- the need for training to be adapted to local conditions, provided at a relevant scale and on a sustainable basis; plans to incorporate in-country training within the rubric of the Urban Management Training Program represent such an approach

Postscript — Events Subsequent to the Draft Mid-Term Evaluation

- A major milestone was achieved — debate associated with the “Project Life Cycle” resulted in consensus on inter-ministerial roles, the Project approval process, and the Project appraisal process — understandings that had not previously been reached
- The introduction and development of risk management by the PURSE Project in public-private partnerships and increasing interest in public-private partnerships
- Increased emphasis on demonstration project development; since early 1996, seven new demonstration project cities were visited by the PURSE Project team and four of these were recommended to the GOI for Project assistance
- Recent work, including that for PAM Jaya, has demonstrated an important improvement in the practical orientation of PURSE’s outputs and in the degree of engagement with local government. Three technical papers have been prepared by the Project that provide practical guidance on engineering risks, unaccounted-for water loss, and performance targets; another document addresses complex issues in water concession agreements.

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PURSE PROJECT MID-TERM EVALUATION

2 Main Report

2.1 Background²

2.1.1 Economic Reforms

Ironically, the collapse of oil prices in 1982 stimulated Indonesia to institute reforms that have led to unprecedented economic growth, private investment, urban infrastructure demand, and decentralization, the last representing another form of resource mobilization.

Reforms to curtail public spending, devalue, deregulate, and liberalize investment policies, as well as market reforms, have caused accelerated domestic and foreign investment. GDP increased in real terms from about 5.3 percent in 1983–88 to between 6.5 and 7.4 percent since.

Once dependent on agricultural, oil, and gas exports, the economy is diversifying and becoming more urban based. Industry and services representing 62 percent of GDP in 1990 were expected to increase to 74 percent of GDP by the year 2000. Economic growth has meant more jobs, urbanization, and increasing demand for infrastructure services.

2.1.2 Urbanization

In 1994, Indonesian's urban population increased by 3.5 million, due to one of Asia's most rapid urban growth rates (5.4 percent per annum). By the year 2020, more than half the national population will reside in urban places.

Urban growth now accounts for 70 percent of total national population growth. The 25 largest metropolitan areas account for more than 60 percent of the urban population, 10 metropolitan areas have populations exceeding one million, and 31 cities will have populations exceeding one million inhabitants by the year 2018.

2.1.3 Infrastructure Investment

According to the World Bank, between 1995 and 2004, Indonesia is expected to require infrastructure investments on the order of about \$192 billion. Sectoral investment would include: power (43%), telecommunications (12%), transport (32%), and water and sanitation (13%).

When PURSE was conceived, the National Development Planning Agency's (BAPPENAS) "Bluebook" represented the consummate listing of investment projects. This is no longer the case; Indonesia's most recent five-year plan (1994-99) recognizes that more than 70 percent of all investment will be private. As a result, BAPPENAS is considering listing potential "private" investment projects within its Bluebook.

² Drawn from: US/AEP/HG, "Indonesian Water Supply and Waste Treatment Market," 1995.

The current five-year development plan, Repelita VI, calls for 40 percent of all GOI development expenditures to be allocated for infrastructure needs. Yet, despite massive public investments in urban infrastructure in the 1980s, infrastructure service levels have not increased, due to high population growth.

The GOI currently finances approximately 85 percent of all infrastructure investments, almost exclusively through foreign loans. Despite these donor resources, urban services deficits will continue to rise as investment fails to keep pace with demand. The lack of provision of urban infrastructure will lead to production bottlenecks and will inevitably constrain economic growth. Inadequate water supply facilities, wastewater treatment, and solid waste management have substantial environmental health and welfare effects, as well as direct and irreversible environmental damage to water resources. Because of these circumstances, the GOI's Urban Policy Action Plan strongly supports an increased role for the private sector in the financing of and investment in urban services infrastructure projects.

The PURSE Project has focused its efforts on three environmental service sectors: water, wastewater, and solid waste. The following includes a brief overview of service levels and anticipated investment sectors.

Water Supply

For the sector as a whole, water service levels in 1994 were estimated at 72,000 l/sec with 35 million persons served. Fifty percent of the urban population was served, but only 20 percent of households had direct household connections.

Between 1994 and 1999, the GOI has budgeted \$1.38 billion for investment in the water supply sector, primarily in programs to benefit the urban poor, the rural sector, and small urban centers. These investments should increase capacity by 30,000 l/sec and provide 22 million people (of which 16.5 million are in rural areas) with improved water supply. However, the GOI estimates that \$5.5 billion may be required to meet the government goal of 80 percent service coverage in urban areas by the year 2000.

Large and metropolitan urban areas are expected to attract Project financing from bilateral and multilateral donor agencies and from private sources. To meet projected incremental demand in 1999, the 10 largest cities will require a total increased capacity of 45,000 l/sec over and above the central government financed 30,000 l/sec increase in capacity. This, furthermore, does not include two large bulk water supply projects under negotiation in Jatiluhur and Umulan Springs. The cities must also attract financing for more than \$3 billion worth of distribution system improvements and expansions and reduce losses to 25 percent for large and metropolitan cities and 30 percent for medium cities by the end of 1999.

Sanitation

Sanitation has lagged behind water supply investment. Thirty-one percent of the urban population was served by private toilets with septic tanks in 1994, while only 2.4 percent of urban population is served, or will be scheduled to be served, by existing or planned sewerage systems. These systems are generally badly designed and maintained.

Off-site sanitation systems exist only partially in nine cities. Many do not include treatment and sewage is discharged into surface waters. Under the current five-year plan, the GOI has budgeted \$270 million for investment in the sanitation sector. This includes extending and consolidating sewerage facilities in nine major urban areas and supporting on-site systems in small and medium cities and 7,000 villages.

As in the water supply sector, project proponents in those projects not directly funded by central government resources are expected to secure project financing from bilateral and multilateral donor agencies and the private sector.

Solid Waste

About 75 percent of solid waste is collected in major urban centers and generally disposed in open dumps. In general, about 40 percent of urban households have some form of garbage collection and only a small percentage of this finds its way to a final disposal site: 45-50 percent is burned and 10 percent is disposed of in urban waterways. The major impediment to effective solid waste management is the inability of the present system to ensure safe disposal.

Under the current five-year plan, only about \$50 million in investment is planned in the solid waste sector. The GOI estimates that more than \$350 million in investment in this sector will be required before 1999. Many opportunities for private sector participation exist in this sector, including contracted collection and disposal services, as well as investment in landfill and transfer facility management and operation.

2.1.4 Factors Affecting Private Participation in Urban Services

USAID's research suggests that factors contributing to the private participation in the provision of urban services include: a) increasing demand for infrastructure; b) increasingly accessible private and public capital markets; c) improved urban services technology; and d) improved financial analysis and risk assessment. Factors that inhibit private participation in urban services include: a) high borrowing costs and equity requirements; b) the time involved and the complexity of structuring, syndicating, and preparing private projects; c) the unwillingness of lenders to accept limited recourse project finance; and d) more stringent due diligence, monitoring, and reporting requirements. Other factors affecting environmental infrastructure projects include: a) the reluctance of consumers to pay higher fees for service; b) low rates of return on investment; and c) poor financial conditions of many water authorities and municipal governments.

2.1.5 GOI's Commitment to PURSE Objectives

The GOI has made an increasingly firm commitment to supporting private sector investment in infrastructure since the PURSE Project began. Its aim is to enable the government to respond to accelerated demand for infrastructure resulting from economic growth.

A demonstration of this commitment was the issuance of Government Regulation No. 20 in 1994 (PP2). This introduced reductions in restrictions on foreign investment, including opening infrastructure previously closed to foreign investors, as well as eliminating the requirement for the ultimate divestiture of majority foreign control.

Up to 95 percent foreign ownership is permitted in key infrastructure sectors. These capital investments receive a 30-year renewable business license and are protected by Indonesian and international law. The GOI offers a range of incentives and guarantees. These include foreign exchange availability for approved transfers, full or partial exemption from import duty on capital equipment and draw materials, generous depreciation rates, and special tax incentives for investments in designated regions.

Supporting reforms include (Law 5 of 1974) Regulation No. 45 of 1992, which recognizes greater local government roles, Dalam Negeri Regulation No. 4 of 1990, and Kepres 16, which provides guidance to local government for procuring goods and services from the private sector.

2.2 Project Description

2.2.1 Authorization

The Project Paper for PURSE (Project No. 497-0373) was approved and the Project authorized on September 30, 1991. The United States and Indonesian governments signed an agreement authorizing the Project in December 1991. The contract consultants began work in Jakarta in September 1992.

2.2.2 Origin of the Project

USAID's linkage of its technical assistance programs and housing guaranty loans to a policy action plan has proven to be a bold and effective concept. It has helped poise USAID to effectively support GOI's urban policy shifts and development programming.

The Municipal Finance Project (MFP) and PURSE are two complementary initiatives, both of which are closely linked to the Policy Action Plan and MFEI Housing Guaranty.

There have been dramatic policy shifts in Indonesia and Asia since the PURSE Project was conceived: governments throughout East Asia, including Indonesia, have recognized that rapid economic growth cannot be maintained without significant private investment in infrastructure services.

In addition, when PURSE was conceived, the debate over decentralization was very intense. Since then, a policy shift has occurred toward decentralized urban management. One of the principal tenets of the current five-year plan is that local government can best satisfy the needs of their constituents.

Besides an increasing policy emphasis on private investment and decentralization, the current plan calls for better urban environmental quality. These combined policy shifts have coincided with PURSE and MFP implementation. Both Projects have proven to be well-conceived and timely instruments of policy support and development.

2.2.3 Institutional Arrangements

The Project was designed to receive direction from a Steering Committee attached to Deputy V for Regional Affairs. This Deputy also provides oversight over the following functions:

- Interministerial Coordinating Team for Urban Development (TKPP)
- Integrated Urban Infrastructure Development Program

The Project's designers recommended the following Steering Committee or Coordinating Team for Urban Development (actual appointments are indicated with an *):

- *BAPPENAS: Deputy V for Regional Affairs
- *Director General for Regional Finance (PUOD), MOHA
- *Director General for Urban Development (BANGDA), MOHA
- Directorate General of Public Works, MPW
*(Directorate General City and Regional Planning, MPW)
- Head, Center for Strategic Studies, MPW
- TBD, Ministry of Finance
- Secretary, Ex-officio Member
*(Head, Bureau of Socio-Economic and Spatial Development)
- *USAID Project Manager — Ex Officio Member

The Steering Committee was expected to play a key role in the coordination of in-country training, as well as in the selection of appropriate participants for formal overseas training.

The original Project design called for overall technical assistance to be executed under the oversight of the BAPPENAS Deputy V for Regional Affairs and the USAID Project Manager. However, technical advisory services were to assigned to the Ministry of Public Works and Home Affairs.

Deputy V's PURSE duties are to:

- coordinate Steering Committee review and approval of annual work plans;
- provide direction and set priorities for Project implementation — to the PURSE Chief of Party (Senior Urban Services Advisor);
- provide liaison with GOI agencies involved with the Project;
- delegate signatory authority for Project Implementation Letters to GOI officials from MPW and MOHA; and
- coordinate closely with the USAID Project Manager.

BAPPENAS was designated with responsibility for the policy and regulatory component. It was expected to work with the line agencies to identify and overcome constraints to private participation in infrastructure projects through policy and regulatory change.

Pilot Demonstration Project implementation in water, wastewater, and solid waste were set up with both Public Works and Home Affairs as active partners. Public Works was shown as having the primary role for water supply, with Home Affairs having a secondary role. For wastewater and solid waste, Home Affairs was shown as having the primary role, with Cipta Karya in a secondary role.

Demonstration projects and other implementation activities involving local and regional government and regional enterprises were to be managed by members of the TA team in coordination with PUOD and BANGDA in the Ministry of Home Affairs.

PUOD is responsible for guidance of regional enterprises and, with BANGDA, oversees all local government affairs. Guidelines affecting how regional governments or enterprises may conduct business with the private sector must emerge from the Ministry of Home Affairs.

The focus of MOHA in recent years has been on implementing more decentralized local government structure. In this context, local authorities have considerable scope in dealing with pricing, constraints, and other issues of importance to facilitating private participation in urban services provision.

Cipta Karya has wide experience in implementing urban infrastructure programs and is called on by the central government to assist in complex programs such as PAM Jaya.

Modified Institutional Arrangements

The first Steering Committee concluded that PURSE advisors should not be attached to the line ministries. Instead, it was concluded that a separate office should be established where the Project advisors could work together. As the MFP was already providing an advisor to each line agency, there was not a felt need for additional advisor(s) to be located there.

In the first year of the Project, the Ministry of Finance did not actually have a member on the Steering Committee. Presently, the Head of the Agency for Financial and Monetary Analysis sits on the Committee. The following is the composition of the Committee:

- Chair: Deputy V for Regional Affairs, BAPPENAS
- Director General of PUOD, MOHA
- Director General of BANGDA, MOHA
- Directorate General of Human Settlements, MPW
- Head, Agency for Financial and Monetary Analysis, Ministry of Finance
- USAID Project Manager — Ex Officio Member

Early in the Project, a decision was also made to alter the management structure by the creation of a Director-level technical coordinating committee (Tim Teknis), which would meet more often than the Steering Committee, and a lower-level working group (Tim Kerja), which would meet on a weekly basis with the Project team. The following is the composition of these groups.

Technical Coordinating Committee

- Head, Bureau for Urban Development, Human Settlements, and Spatial Planning
- Director, Directorate of Program Development, Directorate General of Human Settlement, MPW
- Director of Urban and Rural Planning, Directorate General of Human Settlements, MPW
- Director of Regional Finance, PUOD, MOHA
- Director of Urban Development, Directorate General of Regional Development (BANGDA), MOHA
- Head, Center for Regional Finance Analysis, MOF

Working Group (subdirectorate heads or staff from)

- Directorate of Regional Finance, PUOD, MOHA
- Bureau of Socio-Economic and Spatial Planning, BAPPENAS
- Budget Analysis, Urban Programs, MOF
- Local Government Finance, MOF
- BTPP, DG Human Settlement, MPW
- Directorate of Program Development, MPW

The working group permits weekly contact with the Project team, but it also results in more layers between the Project team and the Steering Committee. USAID and the GOI should consider merging the technical and working committees to overcome this problem.

2.2.4 Project Components

The PURSE Project design wisely conceived of three interrelated and mutually reinforcing components:

- Policy, Legal, and Regulatory Matters
- Demonstration Project Selection and Development
- Training and Communications

The components are intimately interrelated. The demonstration project sites serve as laboratories for developing approaches to privatizing of urban services. These findings, in turn, support efforts in policy reform at the national level. Finally, training and communications serve to develop institutional capacity to implement policy directives and operational guidelines that have been tested at the demonstration project level.

Policy, Legal, and Regulatory Matters: This component aims to provide GOI officials with recommendations for sensible laws and workable procedures that may enable private participants and local officials to operate with an appropriate balance of autonomy from and oversight by central ministries. This policy work is focused on the establishment of a practical “enabling environment,” capable of attracting private sector financing and investment and facilitating closure of project investment, negotiations, and implementation.

Demonstration Projects: This component is focusing on the identification, appraisal, and procurement of pilot projects for debt and equity finance in PDAMs, using limited recourse financing and investment arrangements. This type of "project finance" limits repayment to financiers and recovery of investment and dividends to the cash flows and assets of the project company itself.

Training and Communications: This component has three main purposes: changing attitudes, conveying information, and improving skills. The component includes overseas training involving both short-term U.S.-based training and long-term degree programs. As the Project progresses, increasing emphasis is to be placed on in-country training to operationalize guidance developed under the Policy component. Practical results are to be sought by including training participants in the procedures for developing projects and analyzing their feasibility, in how to understand and use standard documentation, such as model contracts and negotiation terms, and in how to manage risk and meet environmental standards.

2.2.5 Project Goal, Purpose, and Strategy^{3 4}

Goal: The Project's goal as defined in the Project Paper of September 1991 is to increase the stock of infrastructure essential for economic growth and to improve access to efficiently delivered services that contribute to an improved urban environment.

Purpose: The Project's purpose is to expand the participation of the private sector in the provision of selected urban services (water, wastewater, and solid waste) on a sustainable basis through direct investment or contracted participation in supply, delivery, or other operational functions.

Strategy: The Project strategy is to offer strategic assistance to the GOI and the Indonesian private sector in the establishment of a national consensus regarding:

- legal and regulatory requirements and procedures;
- priority types and acceptable forms of private participation; and
- the technical and financial implications of prototype agreements for public-private partnership.

The evaluation team has concluded that the goal, purpose, and strategy of the Project are still substantially valid. However, based on the experience gained in the Project to date, it is now appropriate to place increasing emphasis on demonstration project elements and in-country

³ See: United States Agency for International Development. *Private Participation in Urban Services: Project Paper*. (Project 497-0373). Jakarta, Indonesia: USAID, September 1991, p. 1.

⁴ Although it is beyond the original intentions and foreseeable resources of the PURSE Project, attention should be given to the question of whether the macroeconomic and financial environment in Indonesia, with high domestic interest rates, stemming largely from a high-risk premium, is a constraint that is inhibiting domestic investment in urban infrastructure. The possibility of providing assistance to Government in analyzing and taking appropriate action on this issue should be explored, as it has far-reaching implications for the Nation's ongoing urban infrastructure program. The role of the RDA should also be reviewed in this context.

training that support initiatives at the local level. It is also appropriate to give even more explicit attention to the legal, social, and environmental implications of prototype agreements.

In addition, the Project should continue to give attention to the task of ensuring that in identifying opportunities for private sector participation there are sound analyses that indicate that private sector participation is likely to result in the services being provided at least as cost effectively as, or more cost effectively than, they can be provided by any other means.

2.3 The Mid-Term Evaluation

2.3.1 Purpose

The purpose of the present mid-term evaluation⁵ is to review the Project's progress in implementation, draw conclusions, and recommend mid-course corrections that might improve Project performance during the remainder of the Project. Specifically, the mid-term evaluation is designed to review Project activities to date in the context of assessing progress toward the Project's planned outputs, purposes, and goal and to determine what changes, if any, are needed to modify the emphasis and direction of efforts for the remainder of the current Project period. Findings are to assist in mid-course corrections of strategy, institutional arrangements, and program elements. Key issues to be addressed are factors inhibiting the achievement of planned targets and an assessment of recommended priorities for future work activities of the technical assistance team.

2.3.2 Progress to Date

PURSE Project designers could not have predicted the enormous groundswell of interest and commitment of the GOI, the local government, and the private sector in PURSE concepts. Without question, PURSE has helped prepare the foundation for policy change and sustainability. Nevertheless, while they have been many qualitative outputs associated with PURSE, quantitative outputs are still lacking or behind schedule.

Planned and actual activities and outputs in the PURSE Project to date are treated in Appendix 3. The Project Paper's Log Frame spelled out an extremely ambitious set of outputs for the Project, which did not prove feasible. As a result, USAID formally amended the Log Frame and introduced a Semi-Annual Portfolio Implementation Review (SAPIR). A comparison between the two is provided in the appendix, along with a report on progress toward annual work plans. The following features of planned and actual activity deserve attention.

The Project design and Project Paper established a centralized approach to PURSE Project development and implementation.⁶ As a result, a large proportion of the Project's outputs have been oriented toward central government and relatively little emphasis has been placed on serving local government and local enterprises directly.⁷ Much has been done to understand the

⁵ See DO#28, IQC No. PCE-1008-I-00-2065-00, PURSE Project Mid-Term Evaluation, September 14, 1995.

⁶ *Project Paper*, p. 10.

⁷ *loc. cit.*

necessary dynamics of private sector involvement in PURSE, but, so far, there has been little operational cooperation with this actor. The Project Paper states that “[f]or implementing demonstration projects, the PURSE Project team will work with the GOI to identify locations at which private sector firms may construct, own, and operate new facilities and to identify opportunities for private firms to improve the operation and maintenance of existing facilities through service contracts. The team, in close coordination with the GOI, will be involved in identifying potential projects; analyzing their technical feasibility and commercial viability; identifying potential contractors/investors; and using lessons learned from the demonstration projects to help the GOI develop new policies, regulations, guidance, and model contracts.”⁸ No clear role for local government (or the private sector) was specified in the selection process, although local government interest was later established as a criterion for demonstration project selection.

The Project’s emphasis on central government is essential given the highly centralized form of government in Indonesia. The PAM Jaya demonstration project, for example, has been largely shaped at the central government level. Nevertheless, the Project should now seek more balance by placing increasing emphasis on local government’s operational requirements. The Project’s work on legal/regulatory reform and the Project Life Cycle when complete will create a more enabling environment for local government and the private sector. This is an encouraging trend.

The number of activities planned within the Project Paper and their technical content clearly has been very ambitious — in retrospect, too ambitious — and delays have been amplified by the unusual staffing and internal management problems the consultant team has faced and delays and difficulties associated with the institutional arrangements for the Project. USAID and the GOI determined that several of the items proposed in the Project Paper were secondary in nature and beyond the scope of Project resources to address in detail. For example, accounting procedures for local government, land use regulations, and watershed management were determined to be ambitious undertakings and not of critical relevance to the focus of PURSE.

The Project Paper emphasizes the point that “[s]ince the demonstration projects will specifically identify and surface policy and institutional shortcomings, training needs, and required technical assistance, it is important that the projects have an early and vigorous start.”⁹ This did not occur due to a slow start-up by the contractor and difficulty in establishing agreed-on selection criteria.

In the initial two years in particular, a large part of the output has been in the form of discussion papers or other reports that have reviewed experience with private sector participation in Indonesia and elsewhere. These papers have discussed relevant topics at length, but have not been translated into concrete conclusions and guidelines for governmental action. Nor have they provided the working tools, training, and advice needed by all levels of government and, in some cases, the private sector to get on with the practical business of negotiating public-private partnerships and proceeding with the development of urgently needed urban infrastructure. This

⁸ *op. cit.*, pp. 2-3.

⁹ *Project Paper*, p. 3.

relative scarcity of practical and operational output from the Project (until recently) has been the most common complaint about the Project, one that is universal with central and local government and the private sector.

Unrealized work plans and outputs has been partly due to staffing problems. According to the consultant team's Annual Progress Report for 1994, it was not until November 1994 that PURSE for the first time achieved a full complement of its originally scheduled staff. By that time, the original staffing did not match current task requirements. The team itself recognizes the need for additional highly qualified Indonesian professionals, additional staff for training, and additional short-term specialists for demonstration projects.¹⁰

Despite these problems, PURSE has significantly contributed to a very favorable evolution in policy and attitude within the Indonesian environment. Considering Indonesia's current macro-economic situation and the current stage of development of its capital markets, a lot of progress has been made. Like elsewhere in Asia, public-private partnerships can be expected to emerge incrementally as governments clarify their roles, lenders and investors mitigate risk, and export credit agencies and donors help chart the way with a first generation of projects.

2.3.3 Issues and Actions

The present evaluation suggests that the following are the principal issues to be addressed for the remainder of the Project. The evaluation team's recommendations are presented in the Executive Summary.

GOI Institutional Arrangements

Issue: The roles and responsibilities of the key actors at the central level (BAPPENAS, MOHA, Cipta Karya, and MOF) need to be better defined. Also, linkages with other GOI PURSE-related initiatives can be improved.

Consideration: The draft mid-term evaluation suggested that the ongoing Project Life Cycle work be used to help clarify roles and responsibilities and to determine where closer Project linkages are required. This major milestone was achieved. Consensus was reached on interministerial roles, the approval, process, and Project appraisal requirements. Further consideration should be given to a stronger role for BAPPENAS in project coordination and policy reform, and further assignment of some operational tasks to MOHA, MPW, and MOF for operational oversight. In addition, a representative from the GOI's procurement reform (e.g., a member of the procurement team) should join the PURSE Project's Steering or Technical Committee.

¹⁰ See: PURSE Project. *Annual Progress Report — 1994*, and *Quarterly Progress Report No. 5, October 1 - December 31, 1994*. Jakarta: PURSE Project, February 1995, pp. 16-17.

Revised Strategy, Work Plan, and Outputs

Issue: There is not yet a well-defined vision for the end of the Project nor a strategy for the judicious use of remaining Project resources.¹¹ Furthermore, there is increased demand for Project support at the local level.

Recommendation: A very clear and consensually validated definition of the issues and priorities of PURSE is needed, along with a sound strategy and work plan through the end of the Project. The evaluation team suggests that a strategic planning/work planning retreat be held that involves all Project stakeholders: the central government, the local government, the private sector, USAID, and the contractor. Consensus must be reached on clear, focused priorities, rather than open-ended requests for assistance.

Recommendation: Shift the PURSE Project's principle implementation focus from central to local government, as legal/regulatory reforms are enacted, by expanding assistance to demonstration projects and by developing an integrated training program focused at the local level.

PURSE Staff Resources

Issue: Existing and proposed staff resources are not yet fully matched with the tasks that need to be given priority during the remainder of the Project.

Recommendation: As specific tasks are defined for the remainder of the Project, greater specialization in the staff mix will be required. Specialized inputs, including the use of new subcontractors, is expected to be required. (See Section 2.3.6(b).)

Operational Emphasis

Issue: A universal observation among central, local, and private sector groups was that the early PURSE studies were insufficiently practical, digestible, and operational. Recent work, including the Project Life Cycle outputs, have the correct degree of operational emphasis. This trend should be encouraged.

Recommendation: Optimize the value of completed and planned PURSE outputs by systematically using them in demonstration projects, replication efforts, and training. Such outputs include:

- SSEK's legal/regulatory study
- Project Life Cycle work
- Chemical Bank's risk management study
- PURSE or FINPRO financial model applications (based on a careful evaluation of both models)

¹¹ This should include at least a rough assessment of the kinds and levels of governmental and private investment needed to deliver urban infrastructure services commensurate with foreseeable needs. There is also a need for a clearer definition of the kinds and quantities of additional skills needed most urgently to enable government (in particular, local government) to participate with the private sector as effectively as possible in the provision of essential urban services.

Consideration: All further Project outputs should be operational in nature and should include abstracts and executive summaries.

Working Relationships

Issue: Several parties have suggested that the Project team's working relationships with the principal clients — the local government, the central government, and the private sector — are not yet as fully developed as they should be.

Consideration: These comments are primarily based on experience early in the Project. Good progress in dealing with this issue has been made in the past 18 months. Consideration should also be given to:

- improving the collaborative and “service” orientation of PURSE Project staff toward PURSE clientele; seconding Project staff to MOHA and Cipta Karya for discrete work plan tasks will further assist in this regard;
- improving the timeliness of responses on deliverables and requests for assistance;
- improving communications, particularly at the local level, by improving the PURSE team's language proficiency and preparation of Project outputs in Bahasa Indonesia; and
- assisting the GOI to bring issues to closure by offering timely, well-prepared recommendations and options for decision-making and priority setting.

2.3.4 Lessons Learned

The principal lessons learned as a result of the experience with the Project to date include:

- a heightened realization of the inherent difficulty and complexity of promoting private sector participation in ways that will be advantageous to both the public and private sector;
- the importance of achieving a clear consensus among Project stakeholders regarding the issues and priorities that can be effectively addressed; this should result in a clear vision for the Project, a strategy to achieve that end, and definition of realistic roles and responsibilities;
- the importance of having an appropriate institutional framework and leadership for the Project that can resolve conflicts, set priorities, monitor and evaluate, and redirect the program should it prove necessary;
- the need for the policy and regulatory work, and other components, to lead to concrete and operational results that are clearly beneficial;
- the need for demonstration projects to reflect real client needs, be very competently supported by the consultant team, and be widely relevant and replicable; the experience gained in them must be disseminated promptly and targeted well; and
- the need for training to be adapted to local conditions, provided at a relevant scale and on a sustainable basis.

2.3.5 Component Considerations

a) The Policy and Regulatory Component

- As already planned, complete and operationalize the very useful work on the review and recommendations for the regulatory framework. The initial work by SSEK is sound and has been well received.
- Coordinate this effort with the new Procurement Committee Chairman's efforts to develop "umbrella" legislation. This will need highly specialized and competent legal and financial skills and a sophisticated understanding of the engineering, environmental, social, and institutional issues involved.¹²
- Continue the ongoing effort to appropriately develop, operationalize, and disseminate the Project Life Cycle work. However, consider whether this should be focused primarily on "bulk water BOT projects" as now proposed, or augmented to deal explicitly with the distinct features of projects in other important subsectors.¹³ In finalizing the "handbook" and model document material, it will be important to include not only annotated outlines of documents, but also a completely drafted example of each document.
- Develop the database and information management system required for policy analysis and the monitoring and guidance of private sector participation in the provision of urban infrastructure.¹⁴
- Review and prioritize (and in many cases delete) other tasks proposed from various sources for the Policy and Regulatory Framework agenda. This is already under consideration as a part of the exercise of preparing the Third Work Plan.

b) Demonstration Projects

Some conceptual reorientation of the demonstration concept has occurred, which the evaluation team endorses. The PURSE Project design fostered a centralized approach to the demonstration projects. As a result, the Project initially took a relatively narrow approach to the identification of potential projects. Later, the Project appropriately recognized that a demand-driven approach would be more effective. As a result, PURSE support was also directed to support emerging public-private partnerships.

¹² The extent to which it will be feasible to assist in developing "comprehensive regulations" needs to be evaluated carefully. Project resources might be best used for fully operational regulations in a few high-priority areas. This will require sophisticated legal and institutional skills and fluency in Bahasa Indonesia. Kepres 16/1994, Kepres 06/1995, and Kepres 24/1995, all concerned with procurement, will be among the decrees and other instruments that will need to be analyzed carefully. It was not possible to analyze them during the mid-term evaluation, but several independent opinions in and outside Government reflect a concern that there may be inconsistencies and other features of these decrees that will have to be addressed in developing "comprehensive procurement regulations."

¹³ Bulk water BOT projects require very sophisticated engineering, legal, and financial skills. The Project Life Cycle work might serve a wider range of city "clients" if it gives comparable attention to smaller, less sophisticated, local government schemes.

¹⁴ The scope of what should be attempted needs to be thought through very carefully. Work in this area would require in-depth activity well beyond the inventory of "private sector resources" that has been initiated in the PURSE Project.

The Project evaluation team suggests that the demonstration of the “stages” in the Project life cycle is an appropriate Project output, in addition to comprehensive demonstration project support. The goal should be to demonstrate the most critical stages in the development of public-private partnerships in water, wastewater, and solid waste projects. It is not necessary that each stage of the Project life cycle be demonstrated in the same location. This will depend on the local need. The evaluation team endorses the PURSE Project criteria for demonstration projects. Such criteria include:

- responsiveness to local government need;
- financial, socioeconomic, and environmental feasibility;
- local “readiness” and capacity;
- private-sector “readiness”;
- PURSE Project capacity and comparative advantage;
- transparency in the selection of private partners; and
- potential for replication.

These criteria will need to be respected as the Project takes on more of a “service” orientation to local government. For the private sector, the issue of transparency is of paramount importance. The Project must remain focused on a clear and achievable agenda.¹⁵

PAM Jaya

The PURSE Project’s role in PAM Jaya needs to be clarified and clearly defined. There are two options: a) provide high-caliber, sophisticated legal and financial support to ongoing negotiations; b) maintain current types and levels of support, but do not support the negotiation process.

Under the first option, the Project would focus support for PAM Jaya on strategic, high-caliber, legal and/or financial advice that could be useful in developing and negotiating the arrangements for the two major “partnership” programs that are now being prepared. Such an approach would require additional skills in the PURSE team and may justify a full-time legal/financial or long-term water system specialist with skills and experience comparable to those available in the two international partners in the two consortia involved in the PAM Jaya program. The PAM Jaya work alone would demand a large part of this specialist’s time, but he or she could also be available for specialized advice and assistance in other demonstration projects involving water supply (for example, Medan and others, which might be undertaken later). As an alternative to providing for a full-time specialist in the core team of the PURSE consultant team, a subcontract could be arranged with a specialized international firm with appropriate resident staff in Jakarta.¹⁶

¹⁵ There is near unanimity in Government that the process of selecting cities for demonstration projects to date has been unsatisfactory (but it must be recognized also that Government has been an important part of that process).

¹⁶ The PAM Jaya case is complex. PURSE could make a very valuable contribution and its help clearly is being sought by PAM Jaya. However, the skills needed to advise and assist competently when the two consortia include two very sophisticated and internationally experienced water system specialist groups — Lyonnaise des Eaux and Thames Water — are beyond those envisaged in earlier staffing plans. PURSE proceeding to advise with its present skills might result

The PURSE Draft Mid-Term Evaluation suggested that ongoing support provided to PAM Jaya should be limited in scope to operational matters. It suggested that, because of risk, PURSE assistance should not specifically involve support to the ongoing negotiations with concessionaries. Since the Draft Evaluation, PURSE's role in PAM Jaya has had a favorably operational orientation and the Project has not been directly involved in supporting negotiations.

Medan

Similarly modest but strategic advice and assistance should continue to be provided to Medan through PUOD, in the hope that this will assist the PDAM to arrive at a partnership arrangement that is, to the extent possible, in the public interest.¹⁷

Mataram

Proceed with support for Mataram, provided it can be shown that this program is likely to be financially feasible and that there is a realistic program for ensuring that the 20-30 percent of the Kotamadya population that is truly low-income can be assured of adequate solid waste management and environmental sanitation. Assist immediately in carrying out the analysis to evaluate this.¹⁸

Tangerang

Withdraw gracefully from further work on Tangerang or proceed only on the conditions that: i) the situation of Tangerang in relation to the future development of Jabotabek water supply and wastewater management is clarified satisfactorily; and ii) there is housing development in the proposed service area that represents a real and sufficient commitment to support shelter and infrastructure that is serving truly low-income households.

Desired end-of-Project status¹⁹

Aim at completing successful support for four to six relevant and replicable demonstration projects (or the equivalent number of completed stages in the Project life cycle) by the end of

in unreasonable and unfair demands on existing staff and PURSE might end up being "used" to produce recommendations to perpetuate a large part of the institutional status quo in PAM Jaya and existing suppliers of services for PAM Jaya. This clearly would not be in the public interest.

¹⁷ In Medan, the water authority and the provincial government have gone ahead with substantial commitments for their own reasons and it may be very difficult for the PURSE team to participate usefully, even through PUOD. Effective participation would require augmenting staff skills with highly competent and experienced specialists in water system engineering, the social and environmental aspects of water system development, system financing, the legal and regulatory aspects of public-private agreements, and contract negotiations.

¹⁸ Evaluation in the field suggests that the local government and the private sector have a real interest in, and need for, PURSE support now and are optimistic about being able to improve solid waste services. However, the need for a careful assessment before proceeding arises from: i) the lack of reliable cost and revenue data; ii) a lack of clarity about the working arrangements that might be entered into; and iii) the need for a more realistic approach to affordability issues in an urban area in which 20-30 percent of the population may be at or below the absolute poverty line.

¹⁹ See Appendix 7 for a recommended end-of-Project status that takes into account progress to date and anticipated opportunities.

the PURSE Project, with thorough evaluation, documentation, and dissemination of information on these. In-country training should be intimately linked to these efforts.

- If appropriate, select demonstration project elements that together offer a full or comprehensive approach to water, wastewater, and solid waste programs (e.g., financing, risk assessments, feasibility studies, model procurement procedures).
- Endeavor to demonstrate all stages in the Project life cycle with appropriate scales, services, and forms of private sector participation. It may not be possible to assist with all aspects of each demonstration project, but rather provide specific inputs into the Project's life cycle. The objective is to develop operational guidelines for each stage that may be replicated in a variety of contexts.

In selecting future demonstration projects, the central concern should be to complete this component of the PURSE Project with a manageable number of high-quality, well-executed projects and project elements that represent a range of project opportunities for private sector participation in cities of various sizes. These projects and elements should be very well documented and evaluated with the experience gained in them widely disseminated through forums, workshops, training, and the publication and circulation of project materials. They should constitute a key part of the contribution of the PURSE Project to ensuring the sustainability and extension of private sector participation in the provision of urban services.

To ensure the relevance and effectiveness of the impact of the demonstration project outputs, the emphasis should be on their quality and widespread relevance, not their quantity or individual size and importance. This should result in a revision of the target set for demonstration projects in the Project Paper (a minimum of five BOT and/or BOO pilot projects and six service contracts).²⁰

c) Training

The PURSE evaluation team heartily supports the Project's intention to integrate training modules on private sector participation into the ongoing Urban Management Training Program (UMTP).²¹ These training activities should be intimately linked with PURSE demonstration project results.

Consideration should be given to linking UMTP with the ongoing activities and responsibilities of Badandiklat in the MOHA. UMTP should not be seen as an activity associated exclusively with the MFP or any other external assistance program. Badandiklat is responsible for regional government training and in the last several years has been making an effort to address the urban management task as a special concern. Other suggested actions include:

²⁰ United States Agency for International Development. *Private Participation in Urban Services: Project Paper*. (Project 497-0373). Jakarta, Indonesia: September 1991, p. 35.

²¹ Based on the discussion with MFP, which presently proposes to implement a module on PPP/PSP late in the overall UMTP, this would require a change in the schedule for the UMTP. Some of the training for public-private collaboration is needed urgently.

- updating the training strategy and program to reflect the priorities to be established in the Third Work Plan;
- augmenting training staff skills as suggested in the later section on staffing — either within the core consultant team or through subcontracts, as suggested later in the section on Project Management;
- via UMTF, giving special attention to training of trainers to enhance the impact of the Project and the sustainability of its benefits.
- ensuring that training materials are tailor-made for Indonesia and prepared and delivered in Bahasa Indonesia; investing the time necessary to prepare first-rate case studies (the time needed for the preparation of materials for a new module may be three months or more);
- involving Indonesian trainers and facilitators in the design and preparation of materials from the beginning; and
- including in the training materials Instructors' manuals and evaluation manuals, as well as substantive materials, to facilitate their use beyond the PURSE Project activities and to enhance the relevance and impact of the Project.

2.3.6 Work Methods, Staffing, Deployment, and Monitoring

a) Working methods

Continue to take special care to provide opportunities for government team members, the private sector, and stakeholders at the local level to express their views on issues and priorities for infrastructure programs that the PURSE Project is considering supporting. Ensure that the relevant government policy-makers, government professional staff, and private sector participants have an opportunity to establish priorities and shape the Project's output in all three of the major components of the Project. Specifically:

- use the Project more fully to provide learning and networking opportunities for government, private-sector participants, and community leaders²²; and
- formulate implementation approaches that recognize the reality of busy schedules for PURSE Steering and Technical Committee Members.

For example, a November 4, 1991 letter from BAPPENAS's Deputy for Regional Affairs vests other members of the Steering Committee (PUOD, BANGDA, Cipta Karya) with the authority to take action on behalf this Project for the GOI. Thus, tasks may be delegated to them for implementation. This could eliminate delays in decision-making.

Seek greater participation from government and the private sector through:

- continuation of collaborative work programming, priority setting, and production of work outputs (especially with Indonesian professionals);

²² There has been only limited government participation in some of the PURSE team's contacts with the private sector. This participation should constitute an excellent opportunity for networking and gaining experience in working with the private sector.

- prioritization of operational outputs for consideration by the GOI²³;
- assistance in the decision-making and coordination process by preparing agendas, options for decision-making, meeting minutes, and use of Bahasa Indonesia as much as possible;
- expanded informal, as well as formal, communication and status reporting;
- preparation of materials in Bahasa Indonesia; increased language fluency among PURSE staff; and
- follow up on the preparation of materials for use by government and/or the private sector and on Project activities.²⁴

b) Staffing

Within budget constraints, strengthen the staff for the remainder of the Project. Staff adjustments should be based on the updated work program that is to be a joint product of the Steering Committee, the consultants, and USAID — the Project stakeholders. Specific staff additions will be dependent on the revised work program. Changes likely to deserve consideration include the following.

- **Short-term strategic planning/program development specialist (PDS)**
This individual will assist in finalizing the Third Work Plan (January 1996 - June 1997) and the basic strategy for the remainder of the Project. This team member is needed right away for a six-week input. He or she should be a senior professional with extensive experience in Indonesia in policy analysis and development planning for urban development. The PDS should also have had extensive experience in urban project strategy formulation, work programming, and project management. He or she should be thoroughly familiar with urban and regional development in Indonesia, the ongoing effort to increase private sector participation in the provision of infrastructure, including urban infrastructure, and the institutions and practices relevant for this. The PDS should have an ability to work effectively with senior government officials at the Steering Committee level, in USAID, and in the consultant team. Language proficiency in Bahasa Indonesia is desirable.
- **Long-term Indonesian specialists**
The PURSE Project is seeking an outstanding Training Manager. A Training Methods and Materials Specialist should also be sought. Such a person is being considered as a short-term resource in the context of the UMTF.
Excluding training, at least two other senior, highly qualified, technically specialized, and highly respected, long-term Indonesian professionals should be hired. They should possess specialties appropriate for the substantive areas of work set forth in the new work plan.
- **Long-term or Intermittent advisor to PAM Jaya**

²³ Some of the earlier PURSE products were not operational and their potential benefits for government and the private sector were unclear. The team now is making a special effort to correct this, as evidenced by work on the Project life cycle and some of the demonstration projects.

²⁴ More sustained follow up and support in the use of materials, and assistance in the utilization of knowledge and skills gained in training, is a necessary part of the kind of support the Project is providing.

Highly qualified and experienced specialist skills in bulk water source and water enterprise development and operations (or legal, finance specialist) — to provide appropriately high-level advice to PAM Jaya and to provide specialized advice and assistance in other demonstration projects involving water supply.

These skills could be provided through a subcontract to an international group in Jakarta with experience in public-private partnerships (e.g., power and toll roads). The service may be intermittent or long-term.

- Highly-qualified short-term specialists

Needed specialists will be identified through the work planning process. For example, legal documentation and provisions for public-private agreements in each urban service area will be required.

- ▶ Finance/banking specialist could also complement available skills in corporate finance.
- ▶ Trainer for contracts negotiation
- ▶ Training materials development (it should not be assumed that satisfactory training materials will be produced “automatically” in the preparation of work outputs)

c) Staff deployment

To provide more visible and effective responsiveness to local government, central government, and private sector needs for advice and assistance, establish priorities for this in the updated work program and have PURSE staff allocated to the offices of these various client groups (or in decentralized locations accessible to them) frequently and for adequate blocks of time (but not full-time).²⁵

This could constitute an “outreach service” provided by the consultant team and would have been beneficial earlier in the Project. It is fundamental to provision of effective support for demonstration projects.

d) Monitoring, evaluation, and corrective action

Continue frequent (at least quarterly) monitoring and evaluation of the Project’s progress. Encourage active participation by government and the private sector, as well as USAID, in the monitoring. Circulate monitoring and evaluation reports in Bahasa Indonesia well in advance of meetings. Highlight issues and items on which decisions are sought. Ensure that evaluations result in prompt corrective action where an evaluation indicates a need for this. Ensure that the fact that an evaluation is taking place is well publicized and that findings are disseminated promptly and discussed with the relevant audiences.

²⁵ Responsiveness to individual agency needs is important, especially for the work at the local level, but there is a risk that full-time and “on call” availability in an agency will result in the team member being co-opted to help in routine work of the agency or tasks serving its interests on an *ad hoc* basis. Because of this, it is essential that work done with individual agencies be an integral part of the overall work program endorsed by the Project’s Steering Committee and that it be less than full-time.

e) Database development

As a priority, assist Government in the development of the databases necessary for effective monitoring and evaluation and guidance of private sector participation in the provision of urban services — it is essential for the GOI to know how and whether progress is being achieved. Provide for decentralized as well as centralized monitoring and evaluation. Link with demonstration projects. (Proceed incrementally, in response to real demand, with systematic evaluations of progress.²⁶)

Include in the ongoing inventory of private sector resources fuller information on the experience and relevance of the entities being recorded in the inventory.²⁷

Consider the feasibility and merits of assisting in the development of the databases needed for more adequate assessments of the need for private sector participation in the provision of urban services.²⁸

2.3.7 Institutional and Management Issues

a) GOI institutional arrangements

As noted earlier, these can be improved by clarifying roles of the line agencies, by delegating prioritized tasks to line agencies, and by heightened management and coordination of the Project. Other improvements could include:

- joint GOI-USAID quarterly review of work plan progress; an agenda should be established that should be maintained subject to changes that are seen to be necessary by the Steering Committee;
- consolidating Tim Teknis and Tim Kerja into one group, under the Steering Committee;
- including Subdit. Perusahaan Daerah (PUOD) or its parent Directorate in the consolidated Tim Teknis/Tim Kerja group;
- upgrading BAPPENAS professional support under the Secretary of Steering Committee — in order to accelerate Project implementation and reduce staff overloads in BAPPENAS;

²⁶ Substantial work on tasks relevant for this (but oriented more to servicing USAID Project reporting needs) was proposed in the *Second Work Plan*. A preliminary report on *Monitoring and Evaluation Indicators* was prepared in January 1995 (scheduled originally for completion 30 November 1994). Follow-up on the recommendations of that report has yet to take place.

²⁷ A report on a *Database for Marketing and Investment Resources* was prepared in May 1995. The data output presented in that report is limited to the names and addresses of private entities, but there is provision in the database design for information on project and other experience. As this work proceeds, it would be useful to include an identification of the kinds of urban infrastructure projects or private sector participation programs for which each entity is likely to be most relevant.

²⁸ This could be an ambitious undertaking and its feasibility needs to be assessed carefully in relation to other PURSE priorities. Plans in other assistance programs for data bases and system development for these purposes need to be assessed. The PURSE team might provide a modest but specific contribution to another ongoing/proposed effort. The importance of better needs assessments and the data bases and information management capacity for this is clear.

- disciplining the management of meetings (follow up on invitations, start on time, draw clear conclusions from each meeting, circulate minutes promptly, follow up on action, etc.); and
- disseminating the Third Work Plan widely once it has been developed and endorsed by the Steering Committee; recipients should include all “client” groups who are to be contributors to and/or beneficiaries of the Project activities.

b) Improve linkages with other projects

Municipal Finance Project (MFP): Linkages between PURSE and MFP have improved recently. However, more opportunities for close coordination should be sought, including monthly meetings, sharing of all reports, joint work planning, joint monitoring of Policy Action Plan performance, and joint support to the UMTF.

BAPPENAS procurement team: Clear links with the “Procurement reform team” housed in BAPPENAS should be established. This exercise is being looked after by BAPPENAS’ Vice Chairman under the overall Chairmanship of the State Minister for the Coordination of Economy and Finance. Linkages might include:

- Procurement Team representation in the Steering Committee for PURSE; and
- Procurement Team representation in the Tim Teknis/Tim Kerja group for PURSE.

PURSE assistance to the Procurement Team might involve preparation of the overall Regulations for Public Private Partnerships that are proposed by the Procurement Team. For this to be feasible PURSE would have to add to the consultant team specialized skills in procurement regulations. This might be achieved by recruitment in the core team or by subcontracting to a firm specialized in this area. Other steps might include:

- collaboration and/or consultation in the preparation of training materials for procurement training, taking advantage of the experience gained already in this area by the Procurement Team²⁹; and
- regular formal meetings with appropriate members of the Procurement Team, plus sustained informal collaboration in tasks in which the two groups can be mutually supportive.

Linkage with TAP4I: The establishment of formal or informal links with the TAP4I team is desirable. TAP4I is concerned with infrastructure programming and procurement, including private participation in the provision of public services. TAP4I has linkages with the Procurement Team that might be used.

²⁹ There was not an opportunity to review the procurement training in depth during the PURSE mid-term evaluation, but the evaluation team was informed that over 20 training modules have been developed for procurement and these include instructors’ manuals as well as basic training materials. This training activity is said to have been very effective and the relevant members of the PURSE team should familiarize themselves with it as soon as possible.

Linkage with ELIPS

c) Collaborative management

Enhance the collaborative work programming effort that is underway to include stakeholders from demonstration project cities and the private sector. During this process, priorities should be re-established along with a realistic work and staffing schedule for the remainder of the Project.

d) USAID

USAID, in cooperation with the GOI and the contractor, has effectively guided the Project to overcome the Project's early staffing difficulties and forge a clear and relevant direction for the Project. USAID's continued leadership in joint work planning and performance monitoring is critical over the remainder of the Project. When schedules and deliverables are assigned, USAID must continue to see that these are adhered to by the contractor and reflect the high quality operational nature desired by the client. The contractor and USAID should agree on clear guidelines for performance. As in the past, LOE commitments should continue to be renewed on a quarterly basis. USAID may need to work with the contractor to make adjustments in LOE depending on the priorities that are set forth in the revised work plan. The evaluation team supports USAID's and the contractor's plan to add more local professionals to the team.

For activities that the contractor has not been able to execute effectively and/or on schedule (for example, training), USAID should encourage subcontracting for these services. Subcontracting might also be necessary for legal and financial support to PAM Jaya should PURSE assistance be sought in the negotiation of this sophisticated public-private partnership.³⁰ A number of firms in Jakarta or the region have experience in shaping large schemes of this nature.

As it has in the past, USAID should continue to screen the contractor as fully as possible from USAID/GOI reporting requirements to enable the contractor to focus on technical outputs and essential liaison with government and the private sector.

Update expenditure reporting to differentiate as fully as possible the impact of the PURSE Project itself and other projects or factors on governmental and private sector contributions to activities consistent with the objectives of the PURSE Project.

e) Contractor

The contractor has now resolved most of the staffing and management problems that plagued the Project in the first two years. Good progress has been made in turning the Project around. For the remainder of the Project, the contractor should:

- help establish a clear vision for the remainder of the Project, with manageable priorities;

³⁰ The total PURSE Project budget remains at a potential US\$20 million. USAID has access to US\$15 million. Approximately US\$11 million has been earmarked potentially for the consultant; within this, approximately US\$9 million has been committed to the Consultant and of this approximately US\$7 million has been spent to date. The amount that could be used to secure appropriate subcontracting therefore is at least US\$2 million (US\$11 million - US\$9 million).

- enhance the quality of staff inputs and operational outputs;
- intensify its “client” service orientation, technical management, monitoring, and evaluation;
- place strong emphasis on training and demonstration project outputs; and
- focus more senior management time on leveraging the Project’s resources — facilitate project development among other actors.

2.3.8 The Sustainability of Effective Private Sector Participation after the PURSE Project Has Been Completed

The unprecedented scope of urbanization in Indonesia and the enormous scale of needed infrastructure investment beckons for an increasingly aggressive GOI strategy and plan of action to attract private investment in the vital sectors of water, wastewater, and solid waste management. A vision is needed along with practical policy and operational reforms that enable public private partnerships to prosper.

More attention in the Project needs to be paid to determining how the provision of local urban infrastructure services might be cost effectively supported at a scale commensurate with foreseeable needs.

Participation at a relevant scale calls for instruments and programs that will attract private investment voluntarily into basic local infrastructure — not only major regional and national projects in fields such as power, transport, and telecommunications, which already are attractive to private investors.

The PURSE Project alone cannot be expected to resolve sustainability issues. Other external assistance projects, such as the MFP, JWSSP, ELIPS, and TAP4I, should contribute in specific ways to assist the GOI achieve an overall plan. Among others, important measures involve updating the legal, regulatory, and fiscal framework for investment, supporting the evolution of the financial system and specialized capital markets, improving procurement systems, and increasing the readiness of the public sector (especially at the local level) to enter into effective partnerships with the private sector.

For instance, while the ELIPS Project focus is on commercial law, its scope includes procurement of services, which relates to PURSE. USAID should encourage the ELIPS and PURSE Projects to collaborate and exchange information as fully as possible.

If requested, the PURSE team should provide information and recommendations to the ELIPS team on the procurement of urban services.

ELIPS, working through the Ministry of Home Affairs, should ensure that local government officials are informed on the Project’s progress and results, particularly as they relate to local government procurement of urban services.

PURSE is already actively engaged in sustainability issues. Nevertheless, attention to sustainability should be an increasingly central concern in the strategy and work programming for

the remaining years of PURSE. The specific contributions of PURSE, many of which are already underway, include:

- assistance in and support for the modernization of the legal and regulatory framework affecting private-sector participation — on which PURSE has already made a sound start;
- full operationalization and dissemination of the Project Life Cycle materials that are being designed to promote and facilitate sound project identification, preparation, financing, construction, operation, monitoring, and evaluation in partnership with the private sector;
- contributing to a fuller understanding of the issues in and action needed for sound risk management in public-private undertakings — including the development of operational guidelines and models for risk management and training in this very sophisticated subject area;
- support for the successful local government execution of widely relevant demonstration projects, careful evaluation and documentation of the experience gained in these projects, well-targeted dissemination of this experience, and competent training based on the demonstration exercises;
- assistance in the expansion of governmental and/or private sector capacity to provide training at an adequate scale to build up governmental capacity (especially local government capacity) for effective public-private partnerships in the provision of essential services; in some regions, especially in Eastern Indonesia (KTI), it will be important also support training to enhance the capacity of a private sector that still is embryonic;
- more extensive use of Indonesian firms and professionals during the remainder of the Project; they will remain in-country after PURSE and should benefit from Project skill transfers;
- use of established GOI institutions, such as Badandiklat, for oversight of the Urban Management Training Program (to include training materials and courses to be developed by PURSE); and
- new concepts involving the private sector's participation need to be considered; for example, multi-year concessions to be competed in the private sector might be awarded on a sectoral and/or geographic basis for the purpose of brokering infrastructure deals between the public and private sectors.

APPENDICES

- Appendix 1 Scope of Work
- Appendix 2 The Project Log Frame
- Appendix 3 Achievements and Shortfalls
- Appendix 4 Evaluation Methods and Procedures
- Appendix 5 List of Persons Met
- Appendix 6 Documents Reviewed
- Appendix 7 Desirable End-of-Project Status

SCOPE OF WORK
PRIVATE PARTICIPATION IN URBAN SERVICES (PURSE) PROJECT
(497-0373)
MID-TERM EVALUATION

ARTICLE I. - ACTIVITY TO BE EVALUATED. The Private Participation in Urban Services (PURSE) Project was authorized in September 1991 with the signing of the Project Paper. The long-term technical assistance contract for the PURSE project was awarded to a consortium led by the Washington, D.C.-based consulting firm, Chemonics International, in December 1992. The project assistance completion date (PACD) is September 30, 1998. Life-of-project grant funding from USAID is authorized for \$15 million, with \$10.029 million currently obligated. Over the life of the project, the Indonesian government will contribute \$3.4 million in cash and kind; \$2 million is expected from the private sector. Therefore total funding is projected at \$20.4 million.

ARTICLE II. - PURPOSE OF THE EVALUATION. The purpose of this evaluation is to review implementation in order to improve performance and to utilize this experience during the remainder of the life of the project. This mid-term evaluation is designed to review project activities to date in the context of assessing progress toward planned outputs, purposes, and goal; to determine what changes, if any, are needed to modify the emphasis and direction of efforts for the remainder of the current project period. Findings will assist in mid-course corrections of strategy, institutional arrangements, and program elements. Key issues to be addressed are factors inhibiting the achievement of planned targets and an assessment of recommended priorities for future work activities of the technical assistance team.

ARTICLE III. - BACKGROUND. Indonesia's urban population is one of the most rapidly growing in Asia. At the current growth rate of 5.4 percent per annum, the urban population will increase to over 90 million by the year 2000, approximately 44 percent of the total. The rapid rate of urban population growth has outstripped the Government of Indonesia's capacity to maintain investments in urban infrastructure at levels necessary to rectify urban service deficiencies and provide for future urban growth. There has been growing recognition among top policy makers that government can no longer afford to continue financing infrastructure investments from central grants and multilateral bank lending. It is now widely accepted that the principal alternatives are decentralization of fiscal authority and urban management responsibility, access to debt financing from the domestic capital market, and expanded private sector participation in urban services.

In response to the need to promote alternative approaches to infrastructure financing and management, the PURSE project is assisting the Government of Indonesia (GOI) to expand the participation of the private sector in the provision of selected urban services. The project purpose is to increase the availability and efficiency of urban infrastructure through the expansion of private sector participation in the provision of selected urban services (water, wastewater, and solid waste management) on a sustainable basis through direct investment or contracted participation in supply, delivery, or other operational functions.

The PURSE Project is divided into three interrelated components. They are (1) Policy, Legal and Regulatory, (2) Demonstration Project Development, and (3) Training and Communications. The PURSE project is innovative among USAID programs as it combines policy reform at the national level with demonstration project development in selected cities. The objective of the policy component is to provide GOI officials with recommendations for sensible laws and workable procedures to enable private participants and local officials to operate with an appropriate balance of autonomy from and oversight by central ministries. The policy work is focusing on establishment of an "enabling framework" needed to attract investment and facilitate closure of project negotiations. Priority policy concerns are agreements on institutional roles and procedures for project approvals, bidding, risk management and alternative financial instruments, such as corporate bonds issues and financial guarantees.

Demonstration project development is focusing on the identification, appraisal, and procurement of pilot projects under limited recourse financing arrangements, that is, recourse is limited to the project company and its assets. The focus on "project finance", the financing of projects dependent on project cash flows for repayment as defined by the contractual relationships with each project, is a new area of interest for USAID as the Agency seeks to promote alternative approaches for financing urban environmental infrastructure by the mobilization of private investment through a variety of public/private partnership arrangements such as BOO/BOT, concessions, and joint ventures. Demonstration projects provide an opportunity to field test preliminary policy recommendations for the development of regulatory and standard operating procedures.

The Training and Communications Component is addressing three dimensions of change: changing attitudes, conveying information, and improving skills. A formal overseas training program, including both short and long term study, is building GOI institutional capacity to make maximum use of the private sector in delivering urban services. U.S.-based short-term courses help to change attitudes and orient GOI officials to the basic concept of public/private partnerships and their benefits and limitations. Long-term degree training has sought to build the human resource capability needed to promote a shift in the role of Government from service delivery to enabling and managing private investment and service contracts. As implementation of the project progresses, increasing emphasis is placed on in-country training to operationalize guidance developed under the policy component. Examples include training participants in procedures for developing projects and analyzing their feasibility, how to use model contracts and negotiate terms, and how to manage risk and meet environmental standards. Public/private forums bring together officials of the GOI and the private sector to identify potential projects, define roles and responsibilities, and review tendering procedures.

ARTICLE IV. - STATEMENT OF WORK.

Task 1: Preparatory Work

Before departure for Indonesia, the evaluation team should familiarize themselves with the literature about the project. The Mission will ensure that this information is available to the team, including:

- a. USAID/Jakarta Mission Order No. 1370.5 "Mission Project Evaluation" dated 11/30/92. The A.I.D. Evaluation Handbook dated April 1987.
- b. The PURSE and Municipal Finance Project (MFP) Project Papers, the PURSE project Semi-Annual Project Implementation Reviews (SAPIRs) prepared by the Mission, and the MFP Final Evaluation (December 1994).
- c. The Workplan for Year One, the Second Work Plan, the Training Plan, quarterly and annual progress reports.
- d. All technical reports prepared by the PURSE team, subcontractors, and short-term advisors.

The evaluation team leader will draft a workplan and submit it to the PURSE project officer within three days of the beginning of the evaluation in Indonesia.

In Washington, DC, team members will meet with representatives of the World Bank to determine the Bank's views on the promotion of private investment in urban infrastructure in Indonesia, specifically in relation to the Bank's future involvement in Indonesia's urban sector during the current five year development plan.

Task 2. Evaluation Analysis:

The primary purpose of monitoring and evaluation is to assist the managers of development projects make well-informed decisions. Government of Indonesia (GOI) and USAID Mission senior management require summary information about the PURSE project's achievements to date, pending issues, and adjustments recommended. The GOI Working Group and USAID project managers need more detailed analysis of achievements, issues, options, priorities, and adjustments recommended for planned activities. The PURSE advisory team needs an independent assessment of the strategy, tactics and program elements being implemented. All USAID evaluations are required to answer questions regarding the relevance, efficiency, effectiveness, impact and sustainability of USAID-assisted development activities. In applying these concepts to the PURSE project, the mid-term evaluation will need to complete the following tasks:

- a. **Background:** Describe the objectives, institutional arrangements and origins of the PURSE project. Present empirical evidence to demonstrate the continuing need for private investment in urban environmental infrastructure in Indonesia.

Note: Information sources on the need for private investment include estimates of water supply and sanitation capital investment needed for the current Repelita VI five-year plan period, and the share of that investment that is likely to be provided by the private sector. Another indication of the continuing relevance of the project is information on the number and value of pending private proposals for water, wastewater, and solid waste projects.

- b. **Progress to Date:** Assess the achievements of the project to date. This will require a review of the activities that have been undertaken within each component of the project (policy, demonstration project and training); and an assessment of the degree of progress achieved towards planned targets. Discuss how host country participation has contributed to project achievements. Given that the project is pilot-testing new financing and implementation arrangements, rather than replicating proven technologies, the evaluation team will need to consider how the potential and actual impact of the project to date can best be articulated and measured.

Note: An analysis of objectives, targets, institutional arrangements and origins will require a review of the PURSE and MFP Project Papers, the MFP I Final Evaluation, the original PURSE Project Logframe and the logframe as revised for the November 1994 SAPIR. An analysis of achievements will require a review of all of the technical reports prepared to date by the PURSE team, subcontractors, and short-term advisors, as well as consultations with the advisory team and GOI counterparts.

- c. **Issues:** Assess the factors that facilitate and constrain achievement of planned targets. Evaluate whether the rationale for the proposed approach is still valid. Identify aspects of strategy being pursued that should be maintained and aspects to be adjusted.

Note: In assessing the rationale for the approach proposed, reference can be made to the Project Paper, workplans, both annual workplans and the life of project guide presented in the workplan for year one, as well as to quarterly and annual progress reports.

- d. **Planned Activities:** Summarize the activities that are planned throughout the life-of-project period and under the current workplan. Assess host country capacity to effectively collaborate in project implementation. Of the proposed activities, determine which should be given the highest priority. Identify options for mid-course corrections of objectives, institutional arrangements, and program elements are needed to improve effectiveness, cost efficiency, and impact. Discuss changes in strategy, tactics or approaches that are recommended to improve the sustainability of project

activities after USAID involvement ends. Identify techniques for strengthening monitoring and measurement of the impact of the project on women and the poor.

- e. **Recommendations:** Summarize findings and conclusions reached regarding the project's achievements to date, factors inhibiting and contributing to success, and recommended priorities among planned activities. (Note: Findings are intended to refer to statements of fact based on empirical evidence. Conclusions are meant to refer to judgements made and inferences drawn as well as lessons learned, if appropriate, providing advice about key factors in designing, managing or evaluating similar activities in different contexts). Summarize mid-course adjustments recommended to improve effectiveness, cost efficiency, impact and sustainability.

ARTICLE V. - METHODS AND PROCEDURES.

- a. **Interviews:** In order to obtain the most current information to undertake this assessment, the team will meet with and interview key GOI officials responsible for PURSE project implementation, including representatives of BAPPENAS, and the Ministries of Finance, Home Affairs and Public Works. Other meetings will be held with representatives of the PURSE team, the World Bank and the Asian Development Bank in Jakarta, the Municipal Finance Project (MFP) and RHUDO/Jakarta staff. The evaluation team will take the lead in setting up appointments for the above interviews, in consultation with RHUDO staff. Assistance in securing appointments will also be provided by USAID and PURSE staff who may also participate in a number of the interviews. Research should include USAID documentation, contractors' reports and files, and any other books, reports, and articles deemed relevant. The GOI, USAID, and the PURSE team will cooperate, to the maximum extent possible, with the evaluation team in providing access to appropriate documents.
- b. **Briefings:** The team will be required to attend briefings at the start of the field assignment with RHUDO personnel and the GOI Working Group and, again in the second or third week of field work, to discuss their preliminary findings and conclusions. The team will also be required to give a final exit briefings for the Mission and GOI representatives. On return to Washington, DC, the team leader will provide a briefing on their findings to the USAID Office of Environment and Urban Programs (G/ENV/UP).

ARTICLE VI. - REPORTING REQUIREMENTS. The team will prepare, in the field, a draft final report which corresponds to the questions in Article IV above, and which corresponds to USAID's required format for evaluation reports. The following sections must be included in the evaluation report prepared by the team:

1. **Executive Summary**
 - Purpose of the PURSE Project
 - Purpose of the mid-term evaluation

- Assessment of the PURSE Project Achievements
 - Summary of evaluation issues
 - Findings and conclusions (including lessons learned if appropriate)
 - Recommendations
2. **Project Identification Data Sheet**
 3. **Table of Contents (with page numbers)**
 4. **Body of the Report**
 - Background
 - Purpose of the PURSE Project
 - Purpose of the mid-term evaluation
 - Progress to date
 - Issues
 - Mid-course corrections to planned activities
 - Recommendations
 5. **Appendices, including:**
 - a copy of the evaluation scope of work
 - the project log frame (as revised in November 1994)
 - a list of documents consulted, and of individuals and agencies contacted;
 - more detailed discussions of technical issues as appropriate.
 - Sections H and J of the standard USAID Evaluation Summary.

Ten copies of the draft final report will be submitted to the PURSE project officer before the evaluation team leaves Indonesia. The final report will be submitted 30 days after receiving Mission comments on the draft report. Both the draft and final reports will be provided on a diskette written in Word Perfect 5.1. Fifteen printed and bound copies of the final report will be provided to the Mission, with copies to the Center for Development Information and Evaluation (CDIE) in accordance with normal USAID/W requirements.

ARTICLE VII. - Evaluation Team Composition and Qualifications. The team should consist of the following three professionals.

Team Leader/Senior Urban Planning and Policy Specialist: The team leader should be a Senior Urban Policy Analyst with at least twenty years experience in urban policy analysis, urban economics and municipal finance, as well as previous experience in policy evaluation. The team leader must have had previous work experience in Indonesia. He or she will provide technical expertise related to the evaluation requirements to determine project relevance, efficiency, effectiveness, impact, and sustainability. The team leader will be responsible for managing the evaluation team and producing all evaluation documentation, including the final report.

Senior Urban Economics Specialist: This person should be a Senior Urban Economics Specialist possessing a broad general knowledge of private participation in urban services to thoroughly understand an overall strategy for encouraging private sector direct investment or contracted participation in supply, delivery, or other operational functions of municipal services. The Urban Economic Specialist should possess more than ten years of experience in infrastructure finance, capital investment programming, and experience with developing countries. Experience in Indonesia in a professional capacity is highly desirable.

Senior Banking Specialist: This specialist must be a senior financial advisor with significant experience in project finance, negotiating loans, underwriting feasibility analyses, analyzing equity funds and/or debt instruments. A broad general knowledge of financial and economic analyses of infrastructure projects and structuring project investments is important. A broad comparative experience, especially in developing countries, is highly desirable.

ARTICLE VIII. - RELATIONSHIP AND RESPONSIBILITIES

The team will work under the technical direction of the PURSE Project Officer, Timothy Alexander, and will consult with a representative of BAPPENAS. All coordination with the GOI will be through the USAID Office for Private Enterprise Development, although the contractor will take the lead in setting appointments with GOI counterparts.

ARTICLE IX. - PERFORMANCE PERIOD

The evaluation will be conducted during the fourth quarter of calendar year 1995 and will be completed within a period of about 120 days, assuming two days of preparatory work in Washington, three-weeks of field work in Indonesia, two-three weeks for the Mission to comment on the draft report, and another 30 day period for submission of the final report upon receipt of Mission comments.

ARTICLE X. - THE EVALUATION TEAM & WORK DAYS ORDERED

The Mission believes that the outputs described in this Scope of Work can be achieved within a total 81 person-days of input, including 15 person-days spent in Washington, D.C. (providing each team member with two working days in advance of the field work and three work days upon receipt of Mission comments to prepare the final report.

<u>Position</u>	<u>Work Days</u>
Senior Urban Planning and Policy Specialist	27 (18 in Indonesia & 4 travel)
Senior Urban Economics Specialist	27 (18 in Indonesia & 4 travel)
Senior Banking Specialist	27 (18 in Indonesia & 4 travel)

Total	81

ARTICLE XI. - AID ILLUSTRATIVE BUDGET

See Attachment A

ARTICLE XII. - SPECIAL PROVISIONS**1. Duty Post**

Jakarta, Indonesia.

2. Language Requirements and Other Required Qualifications

The evaluation team should consist of three people, at least one of whom must be thoroughly familiar with urban issues in Indonesia. A knowledge of Bahasa Indonesia would be useful but is not essential. At least one team member should have prior experience of conducting evaluations of USAID urban programs.

3. Access to Classified Information

Contractor shall not have access to any Government classified material.

4. Logistical Support

The team is responsible for providing its own computer facilities. USAID Mission security regulations preclude the use of the team's computers on the U.S. Embassy compound. The Mission cannot guarantee office space, but will provide it on an as-available basis. The contractor must provide office supplies and equipment for the team. Secretarial services are to be arranged by the contractor.

5. Work Week

A 6-day working week is authorized.

ATTACHMENT B

ILLUSTRATIVE BUDGET
PURSE Project Mid-term Evaluation

I. Compensation

	<u>Burdened Rate</u>	<u>Work Days</u>	<u>Total</u>
Team Leader	\$949	27	25,623
Senior Urban Economics Specialist	\$973	27	26,271
Senior Banking Specialist	\$832	27	22,464
		Subtotal	74,358

II. Transportation/Per diem

International Travel	3 persons x \$3,400		10,200
Per diem in Jakarta	21 days x 3 x \$175		11,025
Ground transportation	18 days x 3 x \$20		1,080
		Subtotal	22,305

III. Other Direct Costs

Report preparation and printing			1,500
Communication/telephone			300
Physical, shots, visas, etc.			200
DBA Insurance			1,200
Contingency			2,137
		Subtotal	5,337

Grand Total 102,000

ATTACHMENT C

TO: Peter Shirk, Contracting Officer

FROM: Jerry Barth, PED

SUBJECT: Request for Issuance of Delivery Order

A. REQUEST

1. I recommend that you negotiate a Delivery Order under Indefinite Quantity Contract (IQC) No. PCE-1008-I-2065-00 with Planning and Development Collaborative International (PADCO) for the services in the attached PIO/T.
2. This is a USAID funded PIO/T. The Mission project manager who will administratively approve contractor voucher requests for payment is Timothy Alexander, Office of Private Enterprise Development, USAID/Jakarta.
3. The required services should start o/a October 1, 1996.
4. The person in this office to be contacted concerning this request is Mr. Timothy Alexander.

B. REQUIRING OFFICER CERTIFICATIONS

I certify that to the best of my knowledge:

1. The required work is not a fragmentation of a known long-term requirement for the services of the recommended contractor.
2. No AID employee or other individual resource, such as experts and consultants or personal services contractors, are available on a timely basis to perform the required work.
3. No AID employee has recommended the use of any individual under a delivery order who was not initially located and identified by the contractor.

C. JUSTIFICATION AND APPROVAL FOR PROCURING ADVISORY AND ASSISTANCE SERVICES' (SEE FAR SUBPART 37.2)

1. Justification

a. Need and Utilization

As initially planned, the Private Participation in Urban Services (PURSE), with a PACD of 09/30/98, was to have its mid-term evaluation in late 1994. Owing to delay in the fielding of the long-term advisory team by Chemonics, it was determined to conduct the mid-term evaluation in late 1995.

b. Review of Prior Work

In the last three years, PADCO has assisted the Mission in the Strategic Plan for Urban Management (June 1992), the Analysis of Options for the Delivery of Training (December 1992) and the Curriculum Development for Gajah Madah University. Their performance has been very satisfactory to the Mission.

c. In-House Capability

Evaluations must by definition be conducted by independent analysts. To do a Mid-Term Evaluation of this type of project we need a Senior Urban Policy Specialist with proven experiences with similar activities. To our knowledge, currently there is nobody that we know of in USAID who has the expertise that we are looking for.

2. Approval

I approve the requested work and the use of persons other than AID direct hire employees in the performance of the work.

BY: _____
TYPED NAME: _____
TITLE: _____
DATE: _____

Appendix 2
The Project Log Frame

PURSE MID-TERM EVALUATION
Progress Against Project Paper and Revised Logframe Targets

Project Paper Logframe (Sept 1991)	Revised Logframe (Nov 1994 SAPIR)	Actual Progress to date (Nov 1995)
<p><u>Goal-level Targets</u></p> <ul style="list-style-type: none"> ■ Evident contribution to the availability of selected urban services (water, waste water and solid waste management). ■ An increase in the total levels of public and private sector investment in selected urban services. <p><u>Purpose-level Targets</u></p> <ul style="list-style-type: none"> ■ Increased private investment in urban service provision in Indonesia 	<ul style="list-style-type: none"> ■ SAME ■ SAME ■ SAME, as measured by value of signed PURSE-supported joint-venture Agreements 	<ul style="list-style-type: none"> ■ No substantial impact yet, many projects nationwide in early stages ■ Potential for PURSE to contribute to this by facilitating closure of project financings and concessions ■ <u>Medan</u> \$60 mil but agreement signed 6/95, partially supported by PURSE. Conditioned approval 8/95. ■ <u>Jakarta</u> \$500+ mil management concessions : MOUs signed 10/95 for 2 concessions, partially supported by PURSE ■ <u>Tangerang</u> \$40 mil BOT: feasibility study TOR 9/95 by PURSE.

Project Paper Logframe (Sept 1991)	Revised Logframe (Nov 1994 SAPIR)	Actual Progress to date (Nov 1995)
<ul style="list-style-type: none"> • An increase in the number of domestic private companies participating in urban services • Public / private projects developed and expanded service delivery and financing options utilized. <p><u>OUTPUT-LEVEL TARGETS</u> <u>Policy Component :</u></p> <ul style="list-style-type: none"> ▪ Decrease for Water, Wastewater and solid Waste Prepared and Issued. 	<ul style="list-style-type: none"> ▪ dropped as indicator (number of firms regarded as to imprecise as it would combine large capital investment projects with standard service contracts) <p>New Indicator :</p> <ul style="list-style-type: none"> • Increased value of service/management Agreements in the selected services provided by the private sector. ▪ dropped as indicator (not readily quantifiable), but PURSE actively promoting diverse forms of private participation. ▪ Regulations and guidelines issued on model contracting procedures and tender documents. 	<ul style="list-style-type: none"> ▪ Number of firms seeking joint venture opportunities increasing, got attributable to PURSE. • <u>Mataram</u> \$250k/year 3 yr solid waste service agreement : MOU signed 3/95, Prefers study. Contract Agreements developed by PURSE 9/95. ▪ Project Paper emphasized BOO/BOT capital investment projects and management or service Agreements. All 3 types being promoted. ▪ Project Life Cycle Guidance (5/95) presents procedures model documents to secure GOI recognition of analyses required (engineering, financial, risk allocation, env. and economic) to evaluate projects and approval process needed. Actively under review by GOI. Retreat underway to facilitate review 11/95.

Project Paper Logframe (Sept 1991)	Revised Logframe (Nov 1994 SAPIR)	Actual Progress to date (Nov 1995)
<ul style="list-style-type: none"> ■ Guidance and Directives for Regional Government Prepared and Issued. ■ Accounting Procedures for Regional Government Prepared and Issued. ■ Guidelines as self financing for Water, Wastewater and Solid Waste (Pricing Policy) Developed and Published. 	<ul style="list-style-type: none"> ■ Regulations, procedures on guidelines that clarify legal authority for local gov't to enter into private investment and service contracts. ■ Dropped as output (supported by USAID Municipal Finance Project) ■ Guidelines issued on procedures for local governments and enterprises to determine financial viability of potential private investment projects using financial modeling. ■ Guidance issued on models and procedures for water enterprises to assess financial viability and for establishing cost recovery and water tariff systems. ■ Guidance issued on models and procedures for municipalities to privatize solid water disposal and collection systems. 	<ul style="list-style-type: none"> ■ SSEK (local attorneys) 1st phase described existing laws and regulations 11/94. 2nd phase assessed weaknesses of legal/regulatory system. Seminar planned 12/95 for Steering Committee to prioritize actions needed. ■ Ministry of Home Affairs issued decree on new accounting procedures 1993. ■ Financial Analysis Model developed (11/94). User Manual drafted (6/95), but not adequate. FINPRO model sporadically in use in Indonesia needs to be more fully evaluated. ■ Study of existing water tariff policy completed (11/94). Terms of Reference under review for new study of Water tariff mechanisms (11/95). Upon suggestion of USAID, ADB is initiating \$600,000 water tariff study to start early 1996. ■ Solid waste management regulations guidelines 3/95. Prototype feasibility study and contract documents Mataram 3/95.

Project Paper Logframe (Sept 1991)	Revised Logframe (Nov 1994 SAPIR)	Actual Progress to date (Nov 1995)
<ul style="list-style-type: none"> ▪ Policy toward licensing for private wells, private intakes, private wastewater and solid waste reviewed evaluated. ▪ Ministerial Guidelines for Regional Governments to regulate land use, water source tapping, wastewater disposal, and solidwaste disposal issued. ▪ Policies on zoning and land use reviewed and evaluated. 	<ul style="list-style-type: none"> ▪ Guidelines issued relating to water resources and watershed management, including policies for licensing of private wells and surface water intakes. ▪ Implementation regulations, guidelines and operating procedures issued for solid waste collection, transfer, and disposal. ▪ Guidelines issued for strengthening wastewater treatment regulations and effluent criteria. ▪ Dropped as output (important but, secondary in significant in promoting private participation in urban services, beyond Scope of PURSE). <p><u>New Output targets :</u></p> <ul style="list-style-type: none"> ▪ Guidance issued on project risk management, i.e. financial guarantees and other risk mitigation measures. 	<ul style="list-style-type: none"> ▪ Watershed management beyond scope of PURSE subject of \$150 mil IBRD loan. Issue of how to promote regulation of wells and intakes important, but secondary in importance, to be investigated as part of ranking of legal/regulation changes recommended by local attorneys. ▪ Solid Waste Management regulations and guidelines developed 3/95, but Ministry of Public Works resisting rigorous performance standards. ▪ Wastewater regulations underway, focusing on higher income real-estate and commercial development. No GOI capacity to promote centralized sewerage. ▪ Listed among weaknesses in legal/regulatory framework requiring GOI Action, unlikely to be given high priority for PURSE. ▪ Chemical Bank (Singapore) signed subcontract 9/95 to develop handbook on risk management. Terms of Reference not sufficiently operational, important to ensure pragmatic product.

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Project Paper Logframe (Sept 1991)	Revised Logframe (Nov 1994 SAPIR)	Actual Progress to date (Nov 1995)
<p>OUTPUT LEVEL TARGETS</p> <p><u>Demonstration Projects :</u></p> <ul style="list-style-type: none"> ▪ 5 BOO/BOTs ▪ 6 Service Agreements <p><u>Training Component :</u></p> <ul style="list-style-type: none"> ▪ Promotional program to include annual public/private forums, c/o local forums, investor marketing database, and information dissemination to help facilities private investment. ▪ In-country training program ▪ Overseas training program <ul style="list-style-type: none"> - 6 long-term degree - US-based short courses and regional tours 	<ul style="list-style-type: none"> ▪ SAME ▪ SAME ▪ SAME ▪ SAME ▪ SAME 	

Appendix 3
Achievements and Shortfalls

WORK PLAN FOR PROJECT
YEAR ONE
(July 1993 - 30 Sept. 1994)

OUTPUTS	STATUS	COMMENTS
<u>Policy, Legal and Regulatory</u>		
Discussion Paper: Preliminary Review and Evaluation of Central Government Policy for PURSE Projects (10/93)	Completed (03/93)	Informative and useful. Needs follow-up to support corrective action.
Report: Legal and Regulatory Review of Private Private [sic] Partnerships & Private Sector Participation (12/93)	Completed (03/93)	Useful start. Has been followed by good work on legal system.
Disc. Paper: Review and Evaluation of GOI Authority to Provide Financial and Performance Guarantees (10/93)	Completed (07/95)	Useful introductory note. Coordinate with MFP in future work in this area.
Disc. Paper: Evaluation of Existing Cost Recovery and Service Delivery Costs for Urban Water Projects (12/93)	Paper on Water Tariff Policy completed (11/94)	Useful introductory study. Limited follow up. Should coordinate future work with MFEI and extensive experience of IBRD, ADB and others.
Disc. Paper: Evaluation of Existing Tariff Policy for Environmental Infrastructure (Yr.2)	Completed	
Survey and Evaluation of Willingness to Pay for Urban Environmental Infrastructure (Yr.2)	Not Undertaken.	Deemed of lower priority.

OUTPUTS	STATUS	COMMENTS
Discussion Paper: Review Existing Local Government Contracting Procedures for Private Sector Procurement (Yr.2)	Completed (03/94)	Useful introductory note. Future work should be coordinated with GOI Procurement Team
Project Report: PURSE Monitoring and Evaluation System (12/93)	Status unclear	See later report on monitoring indicators
<u>Demonstration Projects</u>		
Discussion Paper: Development Preliminary Financial Models Capital Intensive PPP Projects (11/93)	Completed (03/94)	See report: of "Project for Financial Structures and Financial and Performance Guarantees for BOT Projects." for review.
Case studies: A Description of Existing PPP(BOO/BOT) Projects in Indonesia (11/93)	Completed (03/94)	Useful review
Project Report: Analysis of the Important Lessons Learned from Existing PPP Projects (11/93)	Included in report above (03/94)	
Discussion Paper: Develop a Preliminary Inventory and Profile Contracting Opportunities for PPP & PSP (12/93)	Priority given to active projects	Dependent on GOI adoption of Life Cycle Documentation and bidding procedures
Prospectus: Offering Package for BOO or BOT Project (Yr.2)	Priority given to active projects (see above)	Same as above

OUTPUTS	STATUS	COMMENTS
Project Note: The Packaging and Marketing of BOO/BOT Demonstration Projects (Yr.2)	Same as above	Same as above
Publication: Publication of Solicitations for Private Sector Participation in BOO/BOT Projects (Yr.2)	Same as above	Same as above
<u>Training and Communications</u>		
Project Report: PURSE Project Training Program (11/93)	Training Implementation Plan completed (07/93)	Some aspects of strategy sound but major delays in implementation. No clear needs analysis. Not related sufficiently to ongoing programs such as UMTF and not linked to existing GOI institutional apparatus for regional gov. training (e.g., Badandiklat, Dikprops). No strategy for training of trainers.
Preliminary Plan:A Five-Year Overseas Training Program for GOI Employees (End of Project)	Completed July 1993	See Training Implementation Plan
Preliminary Plan: Prepare Preliminary PURSE Module Training Plan for GOI Employees (End of Project)	Completed July 1994	Course module prepared in Bahasa for UMTF

OUTPUTS

STATUS

COMMENTS

Masters Program: Send two
(of 6) GOI employees overseas
for Masters' degree
educational training
(End of Project)

Nine Masters
degree
participants
supported

High priority
of GOI

Forum: Forum I: Public-
Private Forum for Private
Participation Projects
(End of Project)

Completed
(10/94)

Presentation
by D. Rudo, US
Exim-Bank, host
by Purse.

Case Study Training
Materials
(07/94)

Nusa Dua and
Paiton case
study materials
completed
(07/94)

Paiton helpful
on project
finance. Nusa Dua
appears useful.

PROJECT MANAGEMENT

Project
management
problems
severe during
this period.
On Government
side, formal
inclusion of MOF
still had not
occurred and
PUOD still
under-
represented;
thru Sept 94

STAFFING

Staffing
continues to be
a problem.
New Chief of
Party appointed
in third quarter
of 1994.

SECOND WORK PLAN
(Oct.1, 1994 - Dec.31,1995)

OUTPUTS	STATUS	COMMENTS
<u>Policy, Legal and Regulatory</u>		
Report: BOT Risk Management System (09/95)	Starting 11/95	Output in TOR not sufficiently operational; poss. overlap with MFEI work
Handbook: BOT Risk Management System (11/95)	Underway	
Draft Handbook: Tariff Mechanisms for BOO/BOT Water Projects (08/95)	Delayed	At USAID suggestion ADB initiated \$600,000 Water Tariff Study. PURSE focus given to Project Life Cycle and Project Risk Management Guidance.
Note: Historical Infrastructure Bond Financing Mechanisms (04/95)	Completed (07/95)	
Note: Sources of Domestic and International Capital (07/95)	Delayed	Important to ensure practical orientation
Note: Credit/Financial Guarantee Options Issues Paper(08/95)	Completed (07/95)	Important to coordinate with related work in MFP
Note: Corporate Bond Financing Mechanisms (02/95)	Delayed	

OUTPUTS	STATUS	COMMENTS
Note: Market Potential and Investor Attitudes (05/95)	Completed (03/95 and 05/95)	Investor attitudes also presented at Roundtable Conference (02/94). Important to ensure operational orientation
Database for Marketing and Investment Resources (05/95)	Data base established (03/95) Refinements on-going	Need more useful info. on firms' capabilities and experience. Need clear responsibility for updating.
Final Draft Model: Project Life Cycle (11/94)	Draft (05/95) (ongoing)	Potentially very useful. Important to finalize. Coordinate with work of Procurement Team Procurement Team
Report on Existing Laws and Regulations (11/94)	Completed (11/94)	Very useful. Being used as reference by various groups.
Recommendations for New Laws and Regulations (03/95)	Working Draft (10/95)	Potentially very useful.
Draft Regulations, Solid Waste (12/94)	Completed No further work anticipated	

OUTPUTS	STATUS	COMMENTS
Draft Guidelines Solid Waste (12/94)	Draft Landfill Design and Operating Guidelines completed (05/94)	Draft Landfill lines useful and generally reflect reality of local conditions.
Final Guidelines, Solid Waste (03/95)	Completed (02/95)	Now under GOI review.
Inputs for SAPIR and PRISM (11/94)	Delivered	
Paper: Issues and Recommendations for Monitoring and Evaluation Indicators (11/94)	Completed (01/95)	Useful analysis of issues and possibilities. Tracking of pending projects warrants greater priority
<u>Demonstration Projects</u>		
Preliminary Report: Financial Analysis Model (FAM) for PDAM's (11/94)	Completed (11/94)	Technically sound; may be difficult to use locally; FINPRO model sporadically in use in Indon. Needs to be evaluated more systematically
FAM User's Manual (12/94?)	Completed (05/95)	Not a fully developed User's Manual; evaluate FAM and FINPRO before doing additional work on FAM.

OUTPUTS	STATUS	COMMENTS
Develop and Inventory Demonstration Projects; Package and Market Demonstration Projects; Private Sector Solicitation (05/95)	Actual work on Demonstration Projects has departed from Work Plan.	Status of individual projects is reported below. Demos inherently experimental.
Mataram (solid waste)	Pre-feasibility report complete (03/95) Report on service area completed (05/95) Workshop on project held (10/95)	Initial support competent and useful. Before proceeding, need full feasibility analysis (including provision for services for households which are truly low income) and detailing of working arrangements for private sector partic.
Medan (water supply)	MOU and agreement signed without PURSE participation. PUOD has approved subject to conditions proposed by PURSE being met.	Provide specialized support through PUOD.
Tangerang (water supply)	Preliminary discussions held; several major issues outstanding.	Withdraw from this project unless Jabotabek system development issues are resolved and socio-economic issues in proposed service are resolved

OUTPUTS	STATUS	COMMENTS
PAM Jaya	PURSE help requested by Bappenas and Pam Jaya Authorization to clarify SOW requested from BAPPENAS (10/95) TOR for PURSE prepared (08/95) PURSE has prepared TOR for feasibility study of service system (10/95)	Very sophisticated skills needed; PURSE participation should be conditional on obtaining the necessary skills, or limiting the scope of involvement.
<u>Training and Communications</u>		
Technical Memo: Proposed Training 1996/97 (12/94)	Underway. Training proposed for "next several quarters" is shown in Quarterly Progress Report No. 8 (Includes proposal to develop strategic Training Plan.)	Now need very clearly focused training strategy and program, linked to Demonstration Projects, integrated in UMTF. Institutional base such as Babandiklat to be determined.
Undertake overseas seminars or conferences (06/95)	Nine overseas seminars completed (09/95)	
Conduct in country seminars or short courses (12/94)	Eight one-day seminars completed (12/94) One short course offered twice (09&10/95)	These were the first substantial in-country activities. Materials and delivery need major improvement.

OUTPUTS	STATUS	COMMENTS
Hold PPP & BOT Conference (12/94)		
Conduct one-day seminar for Central Gov. (12/94)	Several one-day seminars completed	
Conduct Public Relations Forum (02/95)	Postponed	PURSE preparing GOI speech for Indon. BOT Con- ference (11/95). Also prepared US speech for Infrastructure Forum (08/94)
Support 6 participants in overseas Master's degree programs (3 finish 06/95) (3 finish 12/95)	7 finished 2 in progress	Need to be evaluated
PROJECT MANAGEMENT		Consultant team manage- ment improved. GOI management at Tim Kerja level needs to be improved.
STAFFING		Staffing improved but will need further strengthening

Appendix 4

Evaluation Methods and Procedures

The evaluation took place over a five-week period in the field, preceded by preparation in the consultant's home office and followed by report editing there. The team comprised three members: a Senior Urban Planning and Policy Specialist (Team Leader); a Senior Urban Economics Specialist; and a Senior Banking Specialist. All were experienced professionals who had worked previously in Indonesia.

The evaluation was achieved through an extensive review of documents produced in or related to the PURSE Project and interviews with central government and local government officials associated with PURSE, members of the private sector associated with proposed demonstration projects, members of financial institutions in the private sector, participants in PURSE training activities, members of the Consultant team, staff of multilateral and bilateral assistance agencies familiar with PURSE, and senior staff in related technical assistance projects. A separate Appendix contains a list of the persons met and the documents reviewed.

Three of the four proposed demonstration sites were visited — Mataram, Tangerang, and the PAM Jaya offices in Jakarta. A visit to Medan was planned but was replaced with a meeting in Jakarta with the Director of the Medan PDAM.

Draft conclusions and recommendations were reviewed with the Secretary of the Steering Committee, relevant USAID staff, and the Consultant's Chief of Party, prior to a formal briefing with the Steering Committee and Tim Teknis and a formal briefing with USAID.

The final recommendations reflect as fully as possible the results of the basic evaluation work and the informal and formal briefings. The evaluation team is very appreciative of the efforts made by all concerned to provide materials for the evaluation and make time available for serious discussions of the Project and its impact. The evaluation team alone is responsible for errors of omission or commission and for the views expressed.

Appendix 5
List of Persons Met

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Appendix 6
Documents Reviewed

**PURSE
MID-term Evaluation**

DOCUMENTS REVIEWED

PURSE Work Plans and Progress Reports

1. Williams, Mark. C/Chemonics International. 1993. Work Plan for Project year One, period July 1 - September 30, 1994. (also referred to as the "First Annual Work Plan") [N.B. The document numbering used by Chemonics duplicates this document listing at item number 14 below]
2. Chemonics International. 1993. First Annual Progress Report for 1993, including Quarterly Progress Report no. 1, for the fourth quarter of 1993 (October - December 1993).
3. Chemonics International. 1994. Quarterly Progress Report Review [sic] no. 2, for the first quarter of 1994 (January 1 - March 31, 1994).
4. Chemonics International. 1994. Quarterly Progress Report no. 3, for the second quarter of 1994 (April 1 - June 30, 1994) [N.B. : The document numbering used by Chemonics duplicates this document listing at item number 15 below]
5. Chemonics International. 1994. Quarterly Progress Report no. 4, for the third quarter of 1994 (July 1 - September 30, 1994)

[N.B.: The Annual Progress Report for 1994, including Quarterly Report no. 5, for the fourth quarter of 1994 (October - December 1994) was forwarded to us out of order and is thus numbered document no, 16 (see below)]
6. Chemonics International. Second Annual Work Plan, October 1 - December 31, 1995 (also referred to as the "Second Work Plan")
7. Chemonics International. Quarterly Progress Report no. 6, for the first quarter of 1995 (January 1 - March 31, 1995)

[N.B.: Quarterly Report no. 7, for the second quarter of 1995 (April - June 1995) was forwarded to us out of order and is thus numbered document no. 17 (see below)]

Technical Reports

8. SSEK. 1994. Indonesian Laws and Regulations on Public Private Partnerships and Private Sector Participation in the Sectors of Water Supply, Wasterwater and Solid Waste, November [N.B.: a duplicate of this document was submitted as document number 23 - see below]
9. James Dohrman Associates. 1994. Draft Report on Landfill Design and Operating Guidelines for PURSE, June 1
10. PURSE Project Team. 1994. Case Study Training Materials [Nusa Dua Water Supply Project - Bali and Paiton One Power Project - East Java], July
11. The PURSE Steering Committee, 1994. Special Discussion on Water Tariff Policy in Indonesia. July 16.
12. Municipal Services Advisor. 1994. Review and Discussion of Landfill Design Criteria for Tim Teknis, by the Municipal Services Advisor, PURSE. February 25
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14. [N.B.: The documents forwarded by Chemonics numbered 14 and 15
15. duplicate documents already sent and numbered respectively, number 1, "Work Plan for Project Year One, July 1993" (here numbered 14) and number 4, "Quarterly Progress Report no. 3, for the second quarter of 1994 (April 1 - June 30, 1994)" (here numbered 15). The numbers 14 and 15 are used here to maintain the original document numbering system].
16. Annual Progress report for 1994, including Quarterly Report no. 5, for the fourth quarter of 1994 (October - December 1994). See also note following number 5, above.
17. Quarterly Report Progress Report no. 7 (April - June 1995). See also note following number 5, above.
18. PURSE Report. 1994. Demonstration Project Component : Project Identification. PURSE Project, May.
19. PURSE Report. 1994. Demonstration Project Reports (Summary of Activities, Period May 1 - September 30, 1994 and Proposed Schedule, Period October 1, 1994 - December 31, 1995), PURSE Project. November.
20. PURSE Report. 1995. Database for Marketing and Investment Resources, PURSE Project. May.
21. PURSE Report. 1994. Financial Analysis Model: Preliminary Report, PURSE Project. November.

22. PURSE Report. 1994. Financial Analysis Model : User's Manual for PDAMs, PURSE Project. May.
23. SSEK. 1994. Narrative Description of Indonesian Laws and Regulations, November [N.B.: This document duplicates document number 8]
24. PURSE Report. 1993. Preliminary Review and Evaluation of Central Government Policy, PURSE Project. March.
25. PURSE Report. 1995. Solid Waste Management Regulations: Draft Report, PURSE Project. January
26. PURSE Report. 1993. Description of Existing Private Sector Participation Projects and Public Private Partnership Projects in Indonesia and an Analysis of lessons Learned, PURSE Project. March.
27. PURSE Report. 1995. Monitoring and Evaluation Indicators, PURSE Project. January.
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29. PURSE Report. 1993. Training Implementation Plan, PURSE Project. July
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42. Program Evaluation. 1995. Implementing BOO/BOT Projects. Institute for Public-Private Partnership. July 13 - August 11.
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49. Infrastructure Operations. 1995. Financial Management Model for Indonesian Water Enterprises (PDAMs). User Manual. The World Bank. October 14.
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52. Van Sant, Jerry. 1995. Management Planning for The Issuance of Revenue Bonds by Selected Water Authorities (PDAMs). RTI. May 29.
53. Draft Project Paper Amendment. Municipal Finance Project. June 18.
54. User's Manual. Scope of Work for Short Term Technical Advisor for Preparing Financial Model Work Book.
55. Tirtanadi, PDAM. 1995. Analysis of Financial condition. PURSE Project. November 7.
56. Hall, H. Lindley. 1995. Risk and Their Frequency, Possible Effects and The Allocation between the Two Parties to the Agreement. Technical Issues Paper no. 1. October 4.
57. Chemical Bank. 1995. Development of a Project and Financial Risk Management System for Local Government Evaluating Project and Financial Risk. June 29.
58. Chemonics International. 1995. Identification and Analysis: Credit Support and Financial Guarantee Options. Financing Environmental Infrastructure. PURSE Project. July.
59. SSEK. 1995. Legal Basis for Private Participation. October 30.
60. Chemonics International. Critical Elements of a Legal and Regulatory Framework for Private Sector Participation in Environmental Infrastructure.
61. SSEK. 1995. Analysis of Legal and Regulatory Constraints, Deficiencies and Omissions regarding PPP and PSP Projects in Water Supply, Waste Water and Solid Waste Urban Infrastructure. October.
62. Le Groupe AFH International, Inc. 1995. A Study of Methods of Promoting Private Sector Involvement in Indonesian Water Sector Infrastructure. Draft Final Report. October.
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64. The State Minister of National Development Plan Chairman of The National Planning Board. 1994. The Procedure of Procurement and Cost of Consultancy The State of Minister for the National Development Plan/Chairman of the National Development Planning Board. (KEP 122/KET/1994). Government of Indonesia.
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Appendix 7

Desirable End-of-Project Status

1 Purposes of this Appendix

The principal purposes of this Appendix are:

- to suggest, for the consideration of the Project's Steering Committee and USAID, the key achievements that should be sought at the end of the Project to signify its successful completion; and
- to identify the key actions needed to help ensure this end-of-Project status.

These suggestions are based on the documentary analysis, field investigation, and meetings and interviews held during the mid-term evaluation of the Project. They reflect and synthesize as fully as possible the views expressed by the central, provincial, and local government officials and USAID staff participating in the evaluation, the representatives of the private sector with whom meetings or interviews were held, the views and experience of the Project consultants, and the judgments of the consultant team responsible for the mid-term evaluation.

2 Desirable End-of-Project Status

The following list of achievements, which, in the opinion of the evaluation team, could and should be sought for the end of the Project, are identified below. In the interests of brevity, suggestions for the specific outputs or conditions to be sought are presented in summary form, annotated where it has been judged necessary to clarify the intent of individual proposals. The principal actions needed to help achieve the desired end-of-Project status are presented in the final section of this Appendix.

2.1 Governmental Capacity for Collaboration with the Private Sector

There should have been successful completion of at least one project for the provision of public services with private sector participation in each of the local governments in which demonstration projects have been implemented, plus at least one other local government (whose staff have participated in the workshop, training, and outreach program of PURSE) in each province.

Governmental capacity for successful performance with private sector participation should be evaluated by performance measures appropriate for the delivery of the service(s) involved, including their cost effectiveness and economic and financial viability.

The evidence sought to evaluate sustainability of private sector participation should include: 1) the adoption of sound procurement procedures by the local governments concerned; 2) an improvement in the financial health of the local government as a result of the public-private partnerships undertaken; 3) financial viability for the private partners; 4) publicly declared community support for the partnerships; 5) successfully completed policy seminars, workshops, and training to promote sustainability; and 6) an ongoing program of relevant seminars, workshops, and training.

2.2 Private Sector Participation in the Provision of Urban Services

- (a) There should have been successful completion of an urban service project with private sector participation in each of the localities in which demonstration projects are undertaken through PURSE and at least one other local government area in each province (a local government area from which officials, the private sector, and community representatives have participated in the PURSE training, marketing, and outreach program). This is the same target as one of those proposed for establishing governmental capacity for participation.
- (b) There should be an ongoing program led by the private sector (the Chamber of Commerce, KADIN) for promoting private sector participation in the provision of urban public services.
- (c) At least two independent private banks or other financing institutions should have undertaken and be continuing to undertake financing the provision of urban public services.

2.3 Procedures and Forms of Agreement for Collaboration with the Private Sector

Sound program and project preparation and implementation practices should have been adopted and be in use in the urban areas in which PURSE demonstration have been undertaken and at least one other urban area in each province. (As for other targets, these other urban areas should be ones whose government officials, private sector representatives, and community representatives have participated in PURSE training, marketing, and outreach programs.)

The program and project preparation and implementation practices adopted should incorporate the practices recommended in the Project Life Cycle materials developed in the PURSE Project. They should also include the use of sound models for project economic and financial analysis.

The procurement agreements in use should be consistent with the Government's new procurement practices. They should protect the public interest, provide for reasonable rates of profit for the private sector, promote cost-effectiveness in project preparation and implementation, require competitive bidding, ensure accountability on the part of both the public and private sectors, be transparent, and provide for sound risk management.

Sound procedures should have been established for monitoring and evaluating private sector participation in the provision of urban public services wherever this is occurring.

2.4 The Legal and Regulatory Framework for Private Sector Participation

Appropriate laws and regulations governing private sector participation in the provision of urban public services should have been adopted and in use. These should be consistent with the recommendations developed in the PURSE Project.³³

³³ PURSE may not have been the only project or activity contributing to this, but the adopted laws and regulations should at least be consistent with those recommended by PURSE.

2.5 Demonstration Projects

- (a) Four to six demonstration projects supported by PURSE should have been completed successfully in different localities, with thorough evaluation, documentation, and dissemination of information on these in government, at all levels, and in the private sector and the community.

To have been completed “successfully,” a demonstration project should be: 1) consistent with the Government’s basic priorities for urban services; 2) cost-effective; 3) highly replicable; and 4) sustainable.

As noted in the main text, in selecting demonstration projects the emphasis should be on the quality of their execution and their widespread relevance, rather than their quantity or individual size and importance.

- (b) In-country training should be linked intimately with the demonstration projects. The links might include the use of demonstration projects as case studies in workshops and courses and various forms of “apprenticeship” in the preparation, implementation, and operation of the projects.

2.6 Training

- (a) In addition to the training already completed, in-country training with participation by relevant central government staff, relevant staff in each province, relevant staff from all kotamadya, representatives of the private sector in all kotamadya, and community representatives in all kotamadya, should have been completed successfully.

To have been completed “successfully,” the training program should: 1) have been demonstrably effective in helping to achieve the cost-effective implementation of urban public service projects with private sector participation; 2) have involved the participation of relevant participants from the central government, provincial government, local government, the private sector, and the community; 3) have resulted in clear and effective training materials, which are readily available to all interested parties in Indonesia; 4) have been cost-effective; and 5) have been evaluated positively by both participants and an independent evaluation team or teams.

- (b) There should be an effective ongoing institutionalized training program to promote private sector participation in the provision of urban public services. This should be an integral part of the ongoing Urban Management Training Program (UMTP), not a free-standing “PURSE” training program.

2.7 Relationship to Governmental Policies and Action Plans

- (a) The policies supported by PURSE should be consistent with the Government policies expressed in Repelita VI and the longer-term PJP II.

- (b) The localities selected for PURSE-supported demonstration projects should be localities that have been given high priority for development in the National Spatial Strategy (SNPPTR).
- (c) The activities undertaken in PURSE should have been consistent with and supportive of those established in the Urban Policy Action Plan (UPAP) and the forthcoming Regional Policy Action Plan (REPAP).
- (d) The procurement practices used in and promoted by PURSE should be consistent with those adopted in the Government's basic procurement program.

2.8 Links with Other Programs and Projects

- (a) The PURSE consultants and those participating in the PURSE program should have established effective and complementary working relationships with other relevant programs and projects, including, but not necessarily limited to: 1) the ongoing IUDP; 2) the Inpres Program for the least-developed communities (IDT) in urban areas; 3) the ongoing Municipal Finance Project; 4) the forthcoming Modernization of Urban Management program; and 5) the forthcoming Capacity Building for Human Settlements Infrastructure Management Project.

“Effective and complementary” working relationships should include, but need not be restricted to, regular exchanges of information on program and project purposes and progress, free exchanges of program and project materials, coordinated work programming to help achieve complementarity and avoid undesirable duplication of effort or inconsistency, collaborative project implementation where this is cost-effective.

- (b) The links established through the PURSE Project should have helped demonstrably to achieve effective and sustainable governmental-private and inter-agency working relationships for the provision of urban public services.

3 Key Actions Needed to Help Achieve the Desirable End-of-Project Status

The desirable end-of-project status has been identified in the previous section. The key actions needed to help to achieve this status are summarized below.

- 3.1 Continuing monitoring and guidance by the Steering Committee and USAID
- 3.2 Reinforcement of the Project Secretariat and the activities of the working groups
- 3.3 Strengthening of links with representatives of regional governments (provincial and local) and the private sector
- 3.4 Strengthening of links with related projects
- 3.5 Updating of the “Vision” defining the Project's purposes and priorities

- 3.6 Updating of the Work Program, ensuring that priorities are sound and that the scope of work is manageable with the Project's resources — deleting items from the original scope of work, if necessary, to achieve this
- 3.7 Finalization of staffing for the remainder of the Project to ensure that staff skills and experience are commensurate with the updated Work Program and the challenging task of ensuring the successful completion of the Project
- 3.8 Intensified dissemination of information on the objectives and activities of the Project as the work progresses, together with intensified in-country policy workshops and training to assist in achieving the sustainability of effective private sector participation that is a central objective of the Project

The intensified dissemination of information on the potential of private sector participation, the ways in which it should be arranged and managed, and the ongoing contribution of the PURSE Project to the development of effective public-private partnerships should begin immediately and should take the form of a well-planned and executed PURSE "marketing and outreach" program.