

PURSE PROJECT

Private Participation in Urban Services

ANNUAL PROGRESS REPORT - 1996

and

QUARTERLY PERFORMANCE REPORT No.13

October 1 - December 31, 1996

PURSE Report No.105.00/96/043

January 1997

Submitted by
Chemonics International
Jakarta, Indonesia

In association with
Resource Management International
Sheladia Associates

P.T. Resource Development Consultants

Under Contract No. AID 497-0373-C-00-3030-00
United States Agency for International Development

BAPPENAS
DEPARTEMEN DALAM NEGERI

DEPARTEMEN KEUANGAN
DEP. PEKERJAAN UMUM

FD-ABT-665

ANNUAL PROGRESS REPORT - 1996

and

QUARTERLY PERFORMANCE REPORT No.13

October 1 - December 31, 1996

PURSE Report No.105.00/96/043

Private Participation in Urban Services

**ANNUAL PROGRESS REPORT 1996
& QUARTERLY PERFORMANCE REPORT No. 13
October 1 - December 31, 1996**

	<u>Page</u>
EXECUTIVE SUMMARY	ii
RINGKASAN EKSEKUTIF	v
I. CONTRACTOR'S REPORT	1
A. NARRATIVE	1
A.1 Background	1
A.2 Expected Results	1
A.3a Current Core Activities	1
A.3b Current Buy-ins	17
A.3c Current Subcontracting Activities	17
B. ADMINISTRATIVE INFORMATION	18
B.1 Level of Effort (last three months)	18
B.2 Cumulative Level of Effort	18
B.3 Unused Level of Effort	18
B.4 Expenditures (last three months)	19
B.5 Cumulative Expenditures to Date	19
B.6 Remaining Unexpended Balance	19
II. PROJECT OFFICER'S COMMENTS	20
1. Contractor's Technical Performance	20
2. Contractor's Administrative Performance	20
3. Contractor's Management	20
4. Reaction to Contractor's Assessment of Performance	20
5. Areas for Contractor Improvement	20
III. CONTRACT OFFICE'S COMMENTS	
1. Areas of Concern	21
2. Actions to Improve Contractor Performance	21
APPENDIX A - Personnel Schedule	
APPENDIX B - Training & Communications Activities	
APPENDIX C - Issues and Opportunities	
APPENDIX D - Annual Property Inventory Report	
APPENDIX E - Synopsis of Project Documents	

EXECUTIVE SUMMARY

The PURSE Project promotes the option of public-private partnerships for infrastructure development through three Project components: Policy, Legal and Regulatory; Demonstration Projects; and, Training and Communications.

This Annual Progress Report contains a summary of PURSE activities and progress for the calendar year 1996, and also serves as the Project's thirteenth *Quarterly Performance Report* covering the period October 1 through December 31, 1996. In addition, it describes work planned for the coming quarter. Given their importance to PURSE, an in-depth analysis of progress and issues is presented for each demonstration project, including charts and tables measuring the country's progress in achieving PPP. Appendices to this document include detailed charts providing information on training activities, personnel utilization, a discussion of issues and opportunities currently facing the project, and a fixed assets/inventory report. A synopsis of PURSE official reports and publications to date is also included.

The year 1996 witnessed exciting progress and the increasingly positive impact of the PURSE Project on Indonesia's infrastructure privatization program, and also the continued stated commitment of Government in pursuing the public-private partnership (PPP) option for providing infrastructure services. The seriousness with which Government continues to develop and improve the framework for the PPP alternative was demonstrated by, among other events, the signing of an instruction by the Minister of Home Affairs which outlined a process for implementing PPP water projects. Also, the Ministry of Public Works has identified some 48 cities as potential candidates for PPP projects and has begun, with PURSE supervision, preparing pre-feasibility studies to identify specific projects. Government officials participated actively in relevant conferences and seminars throughout the year -- both in Jakarta and Singapore. Initiatives within Government to prepare a PPP law and form a PPP Center both gathered momentum during the second half of the year and may become realities in 1997. PURSE has been an important participant or catalyst in all of these activities.

Given Government's increased interest in openness and transparency, and the growing number of cities examining the PPP alternative and requesting PURSE assistance, continuing the Project's emphasis on demonstration projects is critical to solidifying this commitment and to making public-private partnerships a truly viable option for urban infrastructure investment. Some of this has been addressed by an agreement between USAID and the Government to fund additional resources for PURSE through an Indefinite Quantity Contract (IQC) mechanism. The IQC will allow PURSE to add at least four additional demonstration project cities to those receiving direct Project assistance.

Nevertheless, progress in negotiating and implementing actual PPP projects has not kept pace. Potential water projects in Jakarta, Semarang, and Surabaya, among others, have either stalled, or appear to be rushing to some kind of conclusion without proper due diligence in pre-qualifying private parties or analysis, particularly with respect to cost issues impacting on tariff. While these and all of PURSE's demonstration projects are discussed in more detail in

this report, the **constraints** commonly faced by PPP water projects in general can be reduced to the issues of:

- o **lack of competition and transparency;**
- o **pre-qualification procedures not followed;**
- o **failure to propose bankable projects;**
- o **and the delays encountered in institutionalizing systems, procedures and other tools (many developed by PURSE) to assist in the PPP implementation process.**
- o **politically connected individuals and organizations whose required participation in projects generally only adds cost.**

Indicative of this last constraint is the wry new definition of PPP -- *politically powerful persons*. PURSE is seeing increasing evidence of one or more "ppp's" using their strong political connections to enter a water project deal, often bringing nothing of substance to the project other than additional cost. While the consortia involved in these projects are often technically capable and experienced, and might under ordinary circumstances be prequalified, the fact that all of the PPP water projects to date have been unsolicited has made the negotiation process less transparent, and proposed tariffs more costly than necessary.

These are problems and constraints that are within the management interest of the Government of Indonesia, and that must be remedied in the very near term if the substantial progress cited above in developing the framework for PPP projects is not to be jeopardized. Otherwise, PPP projects in urban infrastructure, while contracts may be signed, are likely to result in **deals that are less optimal** than might have been achieved through an open competitive process, placing a more onerous cost burden on the consumer at the retail level.

With respect to **PURSE demonstration projects**, only **Balikpapan**, although still in the early stages of the Project Life Cycle in completing a Pre-Feasibility Study, appears to be progressing smoothly. The two **PAM Jaya** concession negotiations, although close to closure have stalled over the financing of operation and maintenance costs, and investment plans, details of which the private sector is unwilling to share. **Medan** has been significantly delayed as a result, in part, of the lack of due diligence by the PDAM. There the private party proved unable to raise the financing required to fund the project. Serious questions about adequate demand have been raised in both **Cirebon** and **Palu**, which may undermine the interest of a private party investor. PPP projects in these two cities are some way off at this stage.

In **Surabaya**, negotiations have begun with two different water supply projects competing for limited demand. Issues concerning distribution capacity, retail tariff rates and the appropriateness of selecting the Umbulan Project over Karang Pilang III have yet to be answered.

Although two build-operate-transfer (BOT) projects are being developed in **Semarang**, the PDAM has been slow to share information on the negotiation process with PURSE, raising some concerns about their commitment to an open, transparent PPP negotiation.

Highlights of some of PURSE's other contribution to the Government's infrastructure privatization efforts during 1996 are summarized below.

PURSE and the Government made major progress on improving the transaction framework for PPP. The Project continued its work on **institutionalizing the Project Life Cycle (PLC)** for PPP water projects. An important milestone was accomplished with the issuance on July 22, 1996 by the Minister of Home Affairs of a **ministerial instruction** based on the PLC to provide authority and guidance to local governments and enterprises developing water projects with the private sector. Model documents for the PLC are being finalized with assistance from PURSE subcontractor **White & Case**, and discussions are continuing with Government for identifying an institutional "home" for the PLC.

The Project's work on the development of the **Risk Management System** was highlighted by a very successful restricted policy seminar held on August 26, 1996. In addition to PURSE subcontractor **Chase Manhattan Bank**, other presenters included representatives of Standard & Poor's Corp. and Asia Limited, as well as senior Government officials. The seminar was attended by some 70 invited members of the private and public sector. The **Risk Management Handbook** has been translated into Bahasa Indonesia, and is currently undergoing final expert review by PURSE staff prior to dissemination. As with other PURSE-generated products that will eventually become Government documents, the appropriate institutional home within Government still needs to be identified by the Steering Committee.

Following a successful two day Training of Trainers (TOT) program held in August, the PURSE **in-country training program** held its first two **pilot training programs** oriented toward local government and PDAM officials November 11-20 and November 18-27. Some 33 officials, from Cirebon, Semarang, Donggala/Palu, Balikpapan/Kalimantan Timur, Jawa Timur, Sidoarjo, and North Sumatera participated. Excellent feedback on the program and materials, which are being incorporated into the training was received from the participants. Throughout the year, PURSE has been working with Government to identify the proper institutional "home" for PPP training.

With direction from the Chairman of the Tim Teknis, Dr. Ir. Sujana Royat, PURSE provided input to the on-going development of a **PPP law** or presidential decree. Advisors reviewed work that had been done to date by GOI and World Bank officials, and suggested some reorganization of the text, as well as additional clauses and other substantive changes.

PURSE began the process of identifying key **monitoring indicators** to track the progress of PPP urban environmental infrastructure projects in the country. A number of new data sources were uncovered, and analysis of the data begun. The resulting indicators will feed into the Government's Urban Policy Action Plan monitoring report due out early next year.

As noted above, important issues facing the Project include the need to address the lack of transparency and competition in the PPP process; and for finding institutional "homes" within the GOI for such PURSE products as the PLC, risk management handbook and the training program, among others. These are discussed in greater detail in the body of this report, and in Appendix C -- Issues and Opportunities.

RINGKASAN EKSEKUTIF

Proyek PURSE bertujuan mengembangkan penyediaan prasarana melalui Kemitraan Pemerintah-Swasta (KPS) melalui tiga komponen proyek: Kebijakan; Hukum dan Peraturan; Proyek Percontohan (*Demonstration Projects*); dan Pelatihan dan Komunikasi.

Laporan Kemajuan Tahunan ini berisi ringkasan kegiatan dan kemajuan PURSE selama tahun kalender 1996, dan juga berfungsi sebagai *Laporan Kuartalan* meliputi periode 1 Oktober sampai 31 Desember 1996. Laporan ini juga menjelaskan pekerjaan yang akan dilakukan dalam kuartal selanjutnya. Karena pentingnya rencana pekerjaan tersebut, maka telah dilakukan suatu analisis mendalam dari kemajuan dan permasalahan yang dihadapi masing-masing Proyek Percontohan, termasuk bagan dan tabel yang mengukur kemajuan KPS di Indonesia. Dalam lampiran terdapat bagan yang memberikan informasi akan kegiatan pelatihan, alokasi sumber daya manusia, diskusi akan permasalahan dan peluang yang dihadapi proyek, dan laporan *fixed assets/inventory*. Juga terdapat ringkasan laporan resmi dan publikasi yang diterbitkan proyek PURSE.

Dalam tahun 1996 terlihat kemajuan yang menggembirakan dan dampak positif PURSE pada program KPS Pemerintah yang semakin meningkat. Komitmen Pemerintah dalam menyediakan prasana melalui KPS juga terus dinyatakan. Keseriusan Pemerintah dalam mengembangkan dan memperbaiki kerangka pengembangan KPS terlihat melalui, antara lain penandatanganan suatu Instruksi Menteri Dalam Negeri yang memberikan garis besar proses pengembangan proyek KPS. Selain itu, Menteri Pekerjaan Umum telah mengidentifikasi 48 kota yang mempunyai potensi untuk dikembangkan sebagai proyek KPS. Dari beberapa kota tersebut, dengan bantuan PURSE, sedang dipersiapkan Studi Kelayakan Pendahuluan untuk mengidentifikasi proyek-proyek KPS yang spesifik. Pejabat Pemerintah telah berpartisipasi secara aktif pada konferensi dan seminar yang berhubungan dengan KPS dalam tahun ini--baik di Jakarta maupun Singapura. Inisiatif di kalangan Kepemerintahan untuk menyiapkan Peraturan Perundangan KPS dan pembentukan Pusat KPS (*PPP Center*) terus meningkat menjelang akhir tahun dan mungkin dapat terealisasi di tahun 1997. PURSE telah menjadi peserta penting atau katalis dalam semua kegiatan ini.

Karena Pemerintah terus berminat untuk meningkatkan iklim keterbukaan dan transparansi dalam pengembangan KPS, dan meningkatnya jumlah kota yang sedang mempertimbangkan KPS dan telah meminta bantuan PURSE, maka dilanjutkannya fokus proyek PURSE pada proyek percontohan terasa semakin menjadi kebutuhan untuk memantapkan komitmen Pemerintah tersebut dan untuk menjadikan Kemitraan Pemerintah-Swasta sebagai pilihan yang benar-benar laik untuk investasi dalam prasarana perkotaan. Sebagian dari kebutuhan ini akan dipenuhi melalui kesepakatan antara USAID dan Pemerintah dimana akan diberikan dana tambahan kepada PURSE melalui mekanisme *Indefinite Quantity Contract (IQC)*. Melalui IQC ini maka PURSE akan dapat menambahkan paling sedikit empat kota lagi untuk dijadikan sebagai Proyek Percontohan.

Namun demikian, kemajuan dalam negosiasi dan implementasi KPS pada proyek-proyek sebenarnya di lapangan tidak mencapai kemajuan yang setara. Calon proyek KPS di Jakarta, Semarang, Surabaya, dan beberapa kota lain, telah tertunda, atau terburu-buru menuju

penandatanganan tanpa melakukan analisis yang seksama dalam pre-kualifikasi mitra swasta ataupun analisis biaya dan dampaknya pada tarif. Permasalahan semacam ini maupun permasalahan lain yang dihadapi proyek percontohan PURSE dibahas lebih rinci dalam laporan ini. Dari pengalaman di atas, dapat disimpulkan beberapa kendala yang sering dihadapi proyek KPS dalam sektor air bersih sebagai berikut:

- o kurangnya kompetisi dan keterbukaan;
- o prosedur pra-kualifikasi yang tidak diikuti;
- o ketidakmampuan untuk mempersiapkan proyek yang dapat diterima pihak bank;
- o hambatan dalam melembagakan sistem, prosedur, dan perangkat lain (yang banyak diantaranya disusun oleh PURSE) yang dibutuhkan untuk mengimplementasikan proses KPS.
- o keikutsertaan individu dan organisasi yang mempunyai hubungan dengan kekuatan politik dalam proyek yang secara umum hanya menambah biaya.

Ilustrasi dari adanya kendala yang terakhir di atas adalah 'diplestkannya' definisi resmi dari PPP dalam artian *Public Private Partnerships* menjadi *Politically Powerful Persons*. PURSE semakin banyak menyaksikan golongan PPP menggunakan koneksi politik untuk ikut serta dalam suatu proyek air bersih tanpa banyak memberikan kontribusi ke proyek selain biaya tambahan. Walaupun konsorsiumnya sendiri sering secara teknis mampu dan berpengalaman, dan pada situasi biasa dapat lolos proses prakualifikasi, digunakannya proses penunjukkan langsung (*unsolicited process*) pada semua proyek air bersih sejauh ini telah menyebabkan proses negosiasi kurang transparan dan tarif yang diusulkan lebih mahal dari yang seharusnya.

Permasalahan dan kendala di atas merupakan permasalahan dan kendala yang dapat diatasi oleh Pemerintah, dan perlu diperbaiki dalam waktu dekat agar kemajuan besar yang telah dicapai dalam pengembangan kerangka KPS sebagaimana dijelaskan di atas, tidak berkurang artinya. Kalau tidak, proyek KSP dalam prasarana perkotaan, walaupun mungkin ada kontrak yang ditandatangani, akan menghasilkan proyek yang kurang optimum bila dibandingkan dengan proyek yang dikembangkan melalui proses kompetisi, dan akan membebankan biaya yang tidak perlu pada masyarakat.

Untuk **Proyek Percontohan PURSE**, hanya **Balikpapan**, walaupun masih dalam tahap awal Siklus Pengadaan Proyek Kemitraan yaitu dalam penyelesaian Studi Kelayakan Pendahuluan, yang sepertinya maju tanpa hambatan. Negosiasi dua konsesi untuk **PAM Jaya**, walaupun sudah mendekati penandatanganan, masih tertunda karena belum tercapainya kesepakatan atas biaya operasi dan pemeliharaan dan rencana investasi dimana mitra swasta belum bersedia memberikan perincian perhitungannya. Kemajuan di **Medan** telah tertunda, sebagian karena pihak PDAM yang tidak memeriksa dengan seksama kemampuan mitra swasta untuk membiayai proyek. Di **Palu** dan **Cirebon**, ketidakpastian akan adanya permintaan air mungkin akan mengurangi minat swasta. Proyek KPS di kedua kota ini masih pada tahap awal.

Di **Surabaya**, telah dimulai negosiasi untuk dua proyek dimana keduanya mendasari kelayakan proyek pada permintaan air yang terbatas. Permasalahan mengenai kapasitas distribusi, tarif ke masyarakat, dan pemilihan proyek Umbulan dan bukannya Karang Pilang III adalah beberapa hal yang masih perlu diselesaikan.

Walaupun ada dua proyek BOT (*Build-Operate-Transfer*) yang sedang dikembangkan di Semarang, pihak PDAM kurang terbuka dalam membagi informasi yang dibutuhkan dengan PURSE, sehingga timbul pertanyaan akan komitmen mereka terhadap negosiasi KPS yang terbuka dan transparan.

Beberapa kontribusi penting PURSE dalam usaha pengembangan KPS oleh Pemerintah selama tahun 1996 diringkas di bawah ini:

PURSE bersama dengan Pemerintah telah mencapai kemajuan yang berarti dalam memperbaiki kerangka transaksi KPS. Proyek PURSE masih meneruskan kegiatan **melembagakan Siklus Pengadaan Proyek Kemitraan (SPPK/PLC)** untuk proyek KPS di sektor air bersih. Suatu kemajuan penting telah dicapai dengan diterbitkannya pada tanggal 22 Juli 1996 **Instruksi Menteri Dalam Negeri** yang didasarkan atas SPPK untuk memberikan wewenang dan pengarahan kepada Pemerintah Daerah dan PDAM yang sedang mengembangkan proyek air bersih dengan proses KPS. Model dokumen kontrak SPPK sedang diselesaikan oleh subkontraktor PURSE, yaitu **White & Case**. Pembicaraan dengan Pemerintah untuk mengidentifikasi Departemen mana yang tepat untuk bertanggung jawab atas pelebagaan SPPK masih terus berlangsung.

Dalam rangka salah satu tugas Proyek PURSE untuk mengembangkan **Sistem Pengelolaan Risiko**, maka telah diselenggarakan seminar kebijakan terbatas pada tanggal 26 Agustus 1996. Selain dari subkontraktor PURSE, **Chase Manhattan Bank**, penyaji lain meliputi perwakilan dari Standard & Poor Corp. dan Asia Limited, dan juga pejabat tinggi Pemerintah. Seminar ini dihadiri oleh 70 peserta dari Pemerintah dan swasta. Buku Pedoman Pengelolaan Risiko juga telah selesai diterjemahkan ke dalam Bahasa Indonesia dan sedang diperiksa oleh staf PURSE sebelum disebarluaskan lebih lanjut. Seperti juga hasil proyek PURSE yang lain yang akan menjadi milik Pemerintah, Departemen yang akan bertanggung jawab melembagakan dokumen ini juga masih perlu diidentifikasi oleh Panitia Pengarah PURSE.

Setelah penyelenggaraan Training of Trainer (TOT) yang berhasil pada bulan Agustus, PURSE menyelenggarakan **program pelatihan pilot** sebagai bagian dari **program pelatihan dalam negeri** yang ditargetkan untuk aparat Pemerintah Daerah dan PDAM pada tanggal 11-20 November dan 18-27 November. Peserta berjumlah 33 orang dan datang dari Cirebon, Semarang, Donggala/Palu, Balikpapan/Kalimantan Timur, Jawa Timur, Sidoarjo, dan Sumatera Utara. Dari pilot pelatihan tersebut, didapat masukan yang sangat baik dari peserta untuk program dan materi pelatihan. Selama tahun 1996, PURSE bersama dengan Pemerintah berusaha mengidentifikasi Departemen yang tepat untuk melembagakan materi pelatihan ini.

Dengan pengarahan dari Ketua Tim Teknis PURSE, Dr. Ir. Sujana Rojat, PURSE memberikan masukan kepada proses pengembangan peraturan perundangan atau Keppres KPS yang sedang disusun. Penasehat di Proyek PURSE memberikan masukan pada konsep yang telah disusun oleh Pemerintah dan Bank Dunia dan mengusulkan beberapa perubahan pada organisasi dokumen, selain juga ayat-ayat tambahan dan perubahan lain yang penting.

PURSE telah memulai proses identifikasi indikator pemantauan (*monitoring indicators*) utama untuk mengikuti perkembangan KPS di prasarana lingkungan perkotaan. Beberapa sumber data baru telah ditemukan dan analisis data telah dimulai. Hasil pemantauan indikator ini akan

menjadi masukan bagi laporan pemantauan Urban Policy Action Plan Pemerintah yang akan diterbitkan awal tahun depan.

Seperti telah disebutkan di atas, permasalahan penting yang dihadapi PURSE meliputi: perlunya permasalahan yang timbul karena kurangnya transparansi dan kompetisi dalam proses KPS untuk segera diatasi; perlunya diidentifikasi Departemen pemerintah yang akan akan bertanggung jawab atas pelebagaan produk PURSE seperti Siklus Pengadaan Proyek Kemitraan (SPPK), Pedoman Pengelolaan Risiko, dan materi pelatihan. Hal-hal ini dibahas secara lebih rinci dalam laporan ini, dan pada Apendiks C--Permasalahan dan Perluang.

I. CONTRACTOR'S REPORT

A. NARRATIVE

A.1 Background

The goals of the PURSE Project are to:

- assist in creating a policy and legal framework that is conducive to private sector involvement in the provision of urban services.
- identify alternative funding mechanisms for infrastructure which will conserve limited Government fiscal resources.
- improve efficiency and cost effectiveness of municipal service delivery systems.

Progress toward these goals is achieved by efforts expended under three interrelated and mutually supportive project components: 1) Policy, Legal and Regulatory Component; 2) Demonstration Projects Component; and, 3) Training and Communications Component.

To reach these goals, the contractor has a Level of Effort Contract totalling 507.5 person months (270.8 expatriate and 236 local); and a contract budget of \$11,065,086.

A.2 Expected Results

The PURSE contract calls for several expected outputs:

- establishment of a legal and regulatory framework enabling and encouraging private sector participation in the production and financing of urban services.
- guidance issued to set pricing policy for urban services and encourage greater degree of self-financing.
- GOI regulations that control indiscriminate access to and negative impacts on water resources and land.
- public-private pilot projects that adapt, test, and demonstrate technologies for improved urban service delivery and create models for institutional, contractual, and financial arrangements in support of sustainable private participation.
- training and communications program that expands public and private sector awareness of institutional, contractual and financial mechanisms that support private sector participation in urban services.

A.3a Current Core Activities

Under the Third Work Plan (see PURSE Report No. 106.00/96/034) for the period January 1996 through June 1997, output targets are set for achieving work plan tasks. Progress achieved during the quarter is presented below with respect to Third Work Plan tasks

shown in *italics*. This quarterly performance report narrative is also organized to show the intermediate term goals (**in bold font**) of the BAPPENAS Urban Policy Action Plan (UPAP) being supported by the PURSE project.

UPAP 5.3 Strengthen the planning and management of urban infrastructure service delivery.

(Task 5.3.F) Develop draft regulations for the Wastewater Sector.

Target: An outline of proposed wastewater regulations was planned to be completed by end-April 1996, following a review of existing regulations and a discussion of issues with the Ministry of Public Works. Draft regulations were scheduled for completion by end-October 1996.

Progress: To date, PURSE has prepared an issues paper on the wastewater sector, and prepared an outline of regulations.

This activity had been stalled largely due to Government's focus on other priorities. Although PURSE also sponsored a workshop held on October 10-11 by Directorate Jenderal Cipta Karya which was attended by 20 Government employees who discussed issues and constraints facing the sector, the momentum for the development of regulations has not been sustained. PURSE has continued to raise the issue with DJCK officials, and assure them of the Project's continued interest in assisting in this area. However, further action with the wastewater regulations is currently not within the Project's manageable control.

Next Quarter: PURSE will continue to remain available to assist in the development of the wastewater regulations, once Government makes them a more immediate priority. A formal decision on the regulations should be taken by the Tim Teknis. If DJCK cannot commit to moving this process forward; this task should be officially dropped from the Third Work Plan.

(Task 5.3.G) Update and improve regulations concerning developers' responsibility to construct and maintain environmental infrastructure.

Target: Proposed revisions to developer regulations were scheduled for mid-June 1996.

Progress: Based on discussions with the USAID Mission and the consultant conducting the annual assessment of the Government's progress toward the UPAP objectives, it was agreed that formulation of developer regulations are beyond the scope and resources of PURSE, and that the task should be deleted from the Work Plan.

Nevertheless, PURSE has continued to participate in meetings and seminars on this subject where it was felt that the Project's experience and perspective could offer constructive insights in dealing with developer issues. On October 31, 1996, Ir. Syarief Puradimadja participated in a seminar in Semarang concerning issues and management of new town development.

Ir. Puradimadja also participated in a Bangda-sponsored conference on November 6, 1996 concerning the development of and "New Towns and the Role of Local Government".

Next Quarter: PURSE proposes that developer's regulations be officially deleted from the Third Work Plan.

(Not in UPAP) Develop a system for the collection and analysis of monitoring indicators to track the level of investment and on-going projects in urban environmental infrastructure.

Target: This six-month activity was originally scheduled to begin in mid-April and conclude by end-September 1996.

Progress: PURSE conducted a detailed review of existing data sources and considerable information unearthed, some new to PURSE. Sources included Perpamsi, PUOD, the World Bank UNDP sponsored Water Supply Sector Project, Central Bureau of Statistics, Investment Board, and TAP4I. This research enabled PURSE to identify some 42 projects at various stages of PPP implementation. The Project developed a tracking system which measures each PPP water project against the major steps of the Project Life Cycle. Using a weighted measure assigned to each step, individual projects can be measured and "scored" against a perfect score of 100, achievable only when a deal has been consummated and financing secured. The PURSE system tracks those demonstration projects with which PURSE is involved, projects with which PURSE has had some limited involvement, and also PPP water projects that have received no direct contribution from PURSE.

Next Quarter: The tables and an analysis will be prepared by PURSE early in the next quarter. This information will be used to contribute to the Urban Policy Action Plan monitoring report, to be prepared by the Ministry of Finance at the beginning of 1997. PURSE will also discuss with Tim Kerja ways to find an institutional home for the monitoring system within Government.

UPAP 7.3 Improve infrastructure and service pricing mechanisms which introduce economic incentives to enhance urban environmental quality.

(Task 7.3.A) Develop options for PPP water project pricing mechanisms.

Target: This work plan activity is scheduled to begin within the Fourth Quarter 1996 reporting period.

Progress: PURSE delayed this task to coordinate with an ADB water tariff team, which arrived in Jakarta in the latter part of 1996.

Next Quarter: PURSE proposes to coordinate with and support the efforts of the ADB team in its tariff work, and to leverage their work to further the objectives of PURSE. However, PURSE feels that further work on this task by the project would be

largely duplicative, and recommends that it be deleted from the Third Work Plan.

(Not in UPAP) Further development of the Financial Analysis Model.

Target: The Third Work Plan calls for the FinPro analysis to be completed in mid-July; and the User's Manual to be finished in mid-August 1996.

Progress: Ms. Deborah Leffert, from RMI's Washington office, is finalizing the FAM spreadsheets and the User's Manual, which will also feed into the PURSE training program. When completed and reviewed by counterparts, this manual will be translated into Bahasa Indonesia. Finally, a comparative analysis of FAM with the World Bank's FinPro financial model was completed.

Next Quarter: Ms. Leffert is scheduled to return to Indonesia after Idul Fitri 1997 to give demonstrations of the FAM, and training based on the User's Manual. It is anticipated that the work on this assignment will be completed in early March 1997. This will include a revised model, and an improved User's Manual which will be translated into Bahasa Indonesia once comments are received from the Government. A training program based on the Manual will also be incorporated into the PURSE in-country training program.

UPAP 12.1 Expand private sector participation in the provision of urban environmental infrastructure and services.

(Task 12.1.A) Prepare a Risk Management System

Target: The Third Work Plan calls for the risk management report and handbook to have been completed in April and May 1996 respectively, and the seminar to have been held in May 1996.

Progress: These target dates slipped somewhat, principally to allow sufficient time for interim Government briefings, and to obtain comments on drafts to the report and handbook.

With the completion of the English version of the Risk Management Handbook, and the successful Project-sponsored risk seminar held in August 1996, PURSE subcontractor Chase Manhattan Bank completed their scope of work. The Project has since translated the Handbook into Bahasa Indonesia, and is currently conducting a final in-house review and edit of the translation, with particular attention to terminology and accuracy of concepts.

Next Quarter: Early in the first quarter 1997 the PURSE in-house review of the translated Handbook will be completed, and copies will be disseminated to the Tim Kerja for their review and comment. It is anticipated that the document will be finalized as a PURSE draft before the end of the next quarter, and that will be incorporated into the Project's in-country training program.

As part of larger process for identifying institutional homes within the GOI for PURSE

products, it is hoped that by the end of the next quarter the Risk Management System and Handbook will be "legalized" as a recommended process for PPP water projects, and formally adopted by the appropriate agency of Government.

(Task 12.1.B) Develop financial guarantee and credit enhancement mechanisms.

Target: No activity on this Work Plan task was scheduled during 1996. This activity was originally scheduled for the first quarter of 1997.

Progress: PURSE has deferred action on this task in order to concentrate on more immediate priorities. The issues of credit support are being addressed on a case-by-case basis with demonstration projects.

Next Quarter: Due to the shift in implementation emphasis from the theoretical or academic to the more practical, it was considered by USAID and the Government to de-emphasize this task while placing greater attention and resources on demonstration projects and training.

As a result, PURSE recommends that this task be officially dropped from the Third Work Plan.

(Task 12.1.C) Continue assistance to three (3) demonstration projects programmed for assistance under the Second Work Plan. Conduct screening process to select four to six (4-6) additional candidate projects for assistance to be initiated under the Third Work plan.

Target: The PURSE contracts calls for the implementation of five BOO/BOT (PPP) contracts and six service contracts by the Program Agreement Completion Date (PACD) of September 30, 1998..

Progress: To date, PURSE has facilitated the signing of one service contract (Mataram), and is currently participating actively in the development of seven demonstration projects. Five demonstration projects were targeted for assistance from mid-1994 to end-1995, of these, one was completed (Mataram), two are still active and nearing completion (West and East Jakarta), while two are currently on hold (Medan and Tangerang). Of seven additional projects investigated from December 1995 to March 1996, four were recommended by the PURSE team for further assistance: Semarang-\$45 million, Balikpapan-\$15 million, Cirebon-\$10 million, and Palu-\$35 million (all estimated project costs for water supply investments).

Of the five original demonstration projects, only the two concession projects for Jakarta, currently under negotiation, remain viable. The others have stalled for a number of reasons: inability of the private party to secure financing (Medan); lack of pre-qualified private party (Mataram); lack of definition of roles and responsibilities between the PDAM and private investor (Tangerang); lack of transparent negotiations (PAM Jaya).

The second round demonstration projects, identified some ten months ago, have also been

slow to get underway. Poor pre-feasibility work by the private party, and uncertain demand (Cirebon); possible inadequate demand for water and failure to examine all project alternatives (Palu); uncertainty over the integration of private investment with proposed World Bank loans (Semarang) have all stalled projects which seemed promising earlier in the year. Only Balikpapan, which signed a letter of intent with International Water Limited, seems to be on track. A Pre-Feasibility Study is currently being conducted by IWL, and the parties appear to be following the guidelines laid out by the Instruction 21/96 of the Minister of Home Affairs.

Inadequate planning, failure to pre-qualify potential investors/developers, and the propensity not to follow clear, proscribed, transparent competitive procedures are some of the major reasons for Government's inability to move these projects along satisfactorily.

In Palu (and other cities), consultants funded by DJCK to carry out pre-feasibility studies for potential PPP projects were not given the resources to study the alternative of a joint small scale hydroelectric-water project, although this alternative is clearly favored by both the PLAM and the Governor of Central Sulawesi.

With respect to the proposed third cohort of demonstration projects, PURSE has already been involved in Surabaya and has held preliminary meetings with PDAM Sidoarjo. In Surabaya, competing proposals have been put forward -- one to develop Umbulan Springs; the other to develop Karang Pilang III. Recently, political pressure has begun to be exerted for the PDAM to purchase water from Umbulan, although it appears to be more expensive, and a number of technical/cost issues have yet to be resolved.

The status of each of the "first round" and "second round" demonstration projects is summarized below, and constraints to PPP project development in Indonesia are discussed in more detail in **Appendix C - Issues and Opportunities**.

Next Steps for Demonstration Projects.

The remaining 21 months of the PURSE Project will continue to place considerable emphasis on PPP demonstration projects. In order to optimize PURSE technical assistance efforts to bring these projects to closure we believe it is important that the Project, USAID and the Government address the following issues.

1. **Contract Targets.** The Chemonics PURSE contract calls for the signing of five BOO/BOT-type contracts and six service agreements. We believe it is generally agreed among all parties that the actual negotiation and signing of public-private partnership agreements is outside of the management control of PURSE, and that therefore such targets established for the contractor may be unrealistic.

Nevertheless, it is important to be able to measure the Project's impact in furthering the Government's privatization program. Other quantifiable indicators for measuring progress in achieving contract closure, such as progress of PPP/PSP projects through the steps of the Project Life Cycle, might be considered.

2. **Review of Stalled PPP Projects.** As noted above in the Executive Summary and elsewhere in this report, a number of the PPP demonstration projects with which PURSE

has been engaged appear stalled either in negotiations or at other points in the Project Life Cycle process. PURSE believes that a thorough review of the status of each of the current demonstration projects is warranted to determine the cause of lack of progress, and if a remedy is within the management control or interest of PURSE. Project resources might be better directed toward new demonstration projects offering a greater likelihood of achieving success.

3. **Determining Effective Selection Criteria for New Demonstration Projects.** As many as four new demonstration projects to be added to the Project. It is important that PURSE, together with our Government counterparts, establish clear criteria to evaluate candidate projects so that Project resources will be devoted to those projects/cities offering the clearest opportunities for successfully concluding deals.

Criteria may include the amount of preparatory work already done in identifying a suitable project, the commitment of the local government administration and PDAM to the PPP process, willingness to share information and include PURSE as an active partner in the project development process, among others.

Should the decision be made to replace some of the stalled demonstration projects in PURSE's current portfolio, more than four new projects may be added to the Project.

4. **Adding Resources to the Demonstration Project Effort.** The decision to inject additional resources into PURSE through an Indefinite Quantity Contract mechanism will enable the Project to service an even greater number of demonstration projects, which will in turn increase the possibility of fostering successful deals.

Negotiations to finalized the IQC contract should be concluded as soon as possible so that the new advisors can join PURSE early in the next quarter.

In order to maximize the time available under the IQC, PURSE hopes that candidate demonstration projects cities, and the selection criteria, can be agreed upon prior to the fielding of the four IQC team members.

REVIEW OF THE STATUS OF FIRST ROUND DEMONSTRATION PROJECTS

Medan: BAPPENAS requested that PURSE draft a letter to Medan stating that should Medan require additional consulting services from the Project, that this request be done in writing to BAPPENAS. Further PURSE assistance to Medan's water supply project is effectively on hold until such time.

Mataram: After the three month pilot/trial period, the Dinas Kebersihan has determined not to go forward with the one year management contract due to non-performance by the private party. The DKK has been advised by the Chairman of the Tim Teknis that any further assistance from PURSE will only be provided if they agree to follow the Project Life Cycle and carry out a competitive tender. The Tim Kerja, together with PURSE advisors, is considering a visit to Mataram in the first quarter 1997 to discuss the situation with local government and DKK officials.

Jakarta (PAM Jaya): Negotiations for the two 25 year concession agreements appear to be stalled. The PAM Jaya working group for financial issues is reviewing again the private parties' Operation and Maintenance costs, and their overall investment plans. Technical targets are again up for possible reconsideration, which will further delay concluding the deal. Because the private parties have not been willing to share the details of their O&M costs, it has been difficult to negotiate substantial reductions. As currently proposed, the O&M costs are triple the current costs incurred by PAM Jaya. If these were to be accepted as proposed, retail tariff rates could double.

The private parties have sent draft Cooperation Agreements to PAM Jaya which are being reviewed by the legal team. No new target date has been set for signing the Agreement.

PURSE continues to be available to provide assistance, mostly in the financial area, to the working groups formed to support PAM Jaya in their negotiations. However, as the Jakarta Water Sector Supply Project (JWSSP) has finally been staffed up, the need now for PURSE continual assistance is somewhat lessened. As was the intention when Project assistance was first requested, PURSE made a valuable and much appreciated contributions to the negotiating process during the many months that JWSSP was non-functioning.

Cooperation between JWSSP and PURSE is excellent. JWSSP readily shares information and documents, and keeps PURSE abreast of negotiation developments.

Next Quarter: PURSE will continue be available on an as-needed basis to support the PAM Jaya negotiating process until the Cooperation Agreement has been signed.

Tangerang: Per instructions from the chairman of the Tim Teknis, PURSE has "frozen" technical assistance activities to Tangerang until such time that issues surrounding the PDAM's incorporation into the PAM-Jaya privatization concession and others are resolved.

REVIEW OF THE STATUS OF SECOND ROUND DEMONSTRATION PROJECTS

Balikpapan: The Pre-Feasibility Study being conducted by the private party investor, International Water Limited and Fajar Mas Murni, is currently underway with a draft PFS anticipated for the end of January. At this time, there are no major implementation issues in evidence. Both the PDAM and the private party appear to be following the Project Life Cycle (and Instruksi Menteri Dalam Negeri No. 21/96) for the unsolicited process. Cooperation between them appears to be good, and the commitment of the PDAM to PPP looks strong.

The PDAM has also been very cooperative with PURSE. They have readily shared information, and the PDAM and private investor alike have accepted PURSE as an active partner in their PPP project process.

Next Quarter: PURSE will assist the PDAM in monitoring the implementation of the PFS and will assist the PDAM in a detailed review once it is completed. The Project will also continue to liaise with the parallel PFS work being carried out by the Cipta Karya consultants. A visit to Balikpapan is planned by PURSE advisors in the first quarter 1997.

Cirebon: PURSE has continued its discussions with PDAM Kabupaten Cirebon concerning their proposed projects. An issue concerning the financial viability of the projects has been identified, and preliminary discussions were held about complementary investments by Government to offset some of the cost to the private sector. Pre-Feasibility work being carried out by consultants under Cipta Karya has indicated that demand projections in the areas of Cirebon Utara and Kapetakan were too optimistic, and that PPPs in those areas are likely not viable, although the Weru area does appear a stronger candidate for private investment. Nevertheless, the reduced size of a project only to serve Weru may be insufficient to attract private sector participation.

Next Quarter: PURSE will continue to coordinate with the DJCK consultants, and will assist the PDAM in a detailed review of their PFS draft, presently scheduled to be completed by the end of March 1997. A visit to Cirebon is scheduled for February, after Idul Fitri.

Palu: As it was not included in their scope of work, DJCK consultants carrying out a Pre-Feasibility Study are not including the joint water supply - small scale hydroelectric project option in their analysis. This is a project option in which officials in Palu, including the Governor of Central Sulawesi, remain very interested. The environmental impact study (AMDAL) has been completed and approved at the central Government level, but has yet to be approved locally.

Several private developers with experience in jointly developing water supply and small scale hydro, including Bechtel and Malcolm Pirnie, both of the U.S., have expressed interest in exploring such a project. The DJCK consultants's work when completed, coupled with an existing PFS done by the national electric company PLN, would be valuable.

One concern is that, should the PDAM not move quickly to study the joint project option, PLN is likely to proceed with the hydroelectric project on its own, and the opportunity to develop the project together, and the economic and cost benefits which could accrue, would be lost. PURSE is recommending that no project be allowed to go forward without the joint small scale hydro alternative being examined, even if the PDAM must expend its own resources to study this option.

Interestingly, the PDAM has often indicated its interest in pursuing the invitation, or competitive tender, process for PPP. They have in fact received several draft MOU's from interested private parties seeking an exclusive commitment, but, supported by PURSE, have not signed any of them.

Next Quarter: PURSE will continue its coordination with the DJCK consultants, and will review their PFS outputs together with the PDAM. The PFS is scheduled for completion at the end of March 1997.

PURSE will also work with the PDAM to develop a terms of reference for a PFS to study the possible joint project, should the PDAM remain interested in pursuing this option. A visit to Palu is scheduled for after Ramadan.

Semarang: Semarang remains a difficult demonstration project for PURSE. The PDAM

has very slow in sharing information with the Project, reluctant to accept offers of specific assistance, and unenthusiastic about PURSE advisors' interest in visiting Semarang to discuss their two PPP projects. Illustrative of this is the fact that as of the end of this reporting period, the PDAM has yet to invite PURSE to assist in the evaluation of a BOT scheme proposal submitted in December 1996 by Waste Management Indonesia. Information on the PDAM's overall financial situation requested several months ago by PURSE has also not been forthcoming.

As a result PURSE is being forced to conclude that the PDAM Semarang is not truly interested in a transparent PPP process, and that the Project's participation is not welcomed.

Nevertheless, PURSE is also coordinating closely with a team of consultants engaged by Directorate General Cipta Karya for the purposes of conducting a pre-feasibility study in support of the Kabupaten Semarang PDAM.

Next Quarter: PURSE believes that a reassessment of Semarang's status as a demonstration project needs to be made together with the Tim Kerja and Tim Teknis. Should the Project's offer to assist with the analysis of the WMI proposal not be accepted during the first quarter 1997, active offers of assistance should be reconsidered, although PURSE should remain available to participate if requested. Project resources could be put to better use should Semarang not evidence stronger interest and cooperation.

THIRD ROUND DEMONSTRATION PROJECTS

PURSE anticipates inaugurating a third cohort of up to four additional demonstration projects early in the first quarter 1997. This group of projects will be tied to the additional resources being provided the Project through the Indefinite Quantity Contract (IQC) vehicle.

The Project's participating Government agencies, particularly Cipta Karya and PUOD, have each been asked to put forward a short list of cities they believe are likely candidates for a PPP project. One of the cities is almost certain to be Surabaya, to which PURSE has already begun providing some assistance. Sidoarjo, Serang, Bandar Lampung, and Bandung have also been mentioned, among others.

An early activity in the next quarter will be to develop a **list of criteria**, together with PURSE counterparts for evaluating potential new demonstration projects. In addition to demonstrated **commitment to the PPP alternative (if appropriate)**, important criteria should include the PDAM's **willingness to share information with and include PURSE as an active partner** in the process, a **commitment to the invitation process**, and the **perceived likelihood of success** of the project under consideration.

Surabaya. The Surabaya PDAM is a well managed PDAM, currently serving over 2 million customers. In order to expand its coverage of piped water, currently at 66 percent of the area population, the PDAM needs to develop both new sources of raw water production, and increase its distribution system. During the fourth quarter 1996, PURSE

began providing assistance to the PDAM in its review and analysis of two competing proposals from international consortia to develop alternative water sources to meet this need -- Umbulan Springs and Karang Pilang III.

Umbulan is a proposed 25 year concession to develop and sell 2,200 m³ of water. The project would largely consist of a 60 kilometer transmission pipeline from the source to the linkup with the PADB's distribution system. Ideally, the project would serve the communities of Pasaruan, Gresik and Sidoarjo, as well as Surabaya. The estimated project cost of \$229 million would be largely financed offshore. The projected tariff escalates to Rp. 888 per m³ by 1999.

Karang Pilang III, which would draw water from a canal in Surabaya, is a proposed 30 year concession to produce 4,000 m³ in two stages. With rupiah based financing projected at Rp. 310 billion, the proposed 1997 tariff of Rp. 605 would be stepped down to Rp. 350 after ten years.

The issues with both projects, particularly Umbulan, are complex. Details regarding rights of way, timely availability of distribution systems in Gresik and Sidoarjo, project staffing, and others need to be clarified. Quality of water from the Kali Surabaya is also of concern.

Next Quarter. PURSE will continue to provide active assistance to the PDAM Surabaya in evaluating the two proposals. Although a politically powerful party is a member of the Umbulan consortium, and a decision to choose that project could be taken on a less than objective basis, PURSE intends to provide the PDAM with fair and balanced advice regarding both projects.

Sidoarjo. A "bedroom community" of Surabaya, Sidoarjo has also requested PURSE assistance in looking at PPP options. PURSE advisors, when already working in Surabaya, have paid several "unofficial" visits to the PDAM to discuss their concerns.

Next Quarter. PURSE assistance to Sidoarjo will continue only with direction from the Tim Teknis, and after their situation is carefully evaluated by the PURSE IQC Team.

In each of the following three tables, the detailed procedures of the Project Life Cycle have been reduced to 15 major steps. Each step has been assigned a point value based on a combination of its relative importance and its comparative difficulty in accomplishing. With the points assigned to the 15 major steps totaling 100, progress made along these steps is somewhat of a percentage indicator of how far the project in question has progressed toward achieving a signed agreement.

Table 1 - INFRASTRUCTURE PROJECTS ~ DIRECT PURSE INVOLVEMENT

Table 1 presents the approximate location of each active PURSE demonstration project along the scale of the 15 major PLC steps. These are projects in which PURSE advisors are actively engaged in providing the PDAM and local government with advice, analysis, negotiation position, document review and/or overall general assistance toward achieving their PPP project.

Table 2 - INFRASTRUCTURE PROJECTS ~ INDIRECT PURSE INVOLVEMENT

Table 2 presents the status of projects in which PURSE has been asked by the Government of Indonesia for consulting assistance and has provided review of documents, professional advice or opinions, and financial analysis, but have not, as yet, become official demonstration projects under the PURSE program. These projects, depending on where they are in the process and the needs of Government, may or may not become PURSE demonstration projects in the coming months.

Table 3 - OTHER WATER PROJECTS ~ SECTOR WIDE

Table 3 is simply a compilation of the status of projects that have either had no PURSE involvement or no longer have PURSE involvement because of technical or procedural problems with either the process or prospective private sector investors. Information in this table comes from a variety of sources, is not official and has not been confirmed. The data is provided for information only and is indicative of the level of activity nationwide in public private partnerships in Water Supply.

INFRASTRUCTURE PROJECTS
TABLE 1 - DIRECT PURSE INVOLVEMENT

As of December 31, 1996

Projects >>>		96/97	95/96	95/96	94/95	94/95	95/96	96/97	% 1996 Target (project to date)			% 1997 Target (project to date)		
Perpamsi Reg. No.>>		Balikpapan	Semarang	Semarang	PAM JAYA	PAM JAYA	Cirebon	Palu						
Project Steps (See Below)	Assigned Points \$ Value>>	Expansion & Operation	Bulk Water Kendogo Moro	Bulk Water WMI	Mgm't. Conc. West	Mgm't. Conc. East	Water Distribution	Water Supply & Power	Target	Achieve	%	Target	Achieve	%
		\$45 mil.	\$45 mil.	\$45 mil.	\$900 mil.	\$400 mil.	\$8.6 mil	\$35 mil.						
1	3	3	3	3	3	3	3	3	21	21	100%	21	21	100%
2	3	3	3	3	3	3	3	3	21	21	100%	21	21	100%
3	3		3	3	3	3	3		21	15	71%	21	15	71%
4	6		6	6	6	6			36	24	67%	42	24	57%
5	5		5	5	5	5			25	20	80%	35	20	57%
6	5		5	5	5	5			20	20	100%	35	20	57%
7	5		5		5	5			20	15	75%	35	15	43%
8	10		10		10	10			40	30	75%	70	30	43%
9	2		2		2	2			8	6	75%	14	6	43%
10	3				3	3			9	6	67%	18	6	33%
11	10				10	10			30	20	67%	60	20	33%
12	5				5	5			20	10	50%	30	10	33%
13	30								60	0	0%	150	0	0%
14	7								14	0	0%	36	0	0%
15	3								6	0	0%	15	0	0%
Total Points	100	6	42	25	60	60	9	6	330	208	63%	582	208	36%

PROJECT LIFE CYCLE KEY STEPS:

1. Project Identified by Government or Private Party.
2. Prefeasibility Study(PFS) under way.
3. PFS Interim Report or Optimal Project Identified.
4. Prefeasibility Study Approved.
5. Firm(s) prequalified.
6. Unsolicited Proposal/Competitive Tender Documents Issued.
7. MOU Under Negotiation/Competing Proposals Evaluated.
8. MOU Signed/Project Competitively Awardec.

■ indicates at which point PURSE entered process.

9. Feasibility Study(FS) Under Way.
10. Feasibility Study Reviewed.
11. Feasibility Study Approved.
12. Contract Negotiations Under Way.
13. Contract Signed
14. Financial Closure Reached.
15. Construction Implemented.

INFRASTRUCTURE PROJECTS
TABLE 2 - INDIRECT PURSE INVOLVEMENT

As of December 31, 1996

Projects >>>		95/96	95/96	95/96	96/97	96/97	96/97	96/97	96/97	% 1996 Target			% 1997 Target		
Perpamsi Reg. No.>>		Bengkalis 0411111.B	Surabaya 2350801.B	Surabaya PDAB Jatim	Pekan Baru 0410106.B	B. Lampung 0820246.B	Kb Semar'g 1131352.B	Sidoarjo 2351799.B	U. Pandang 1740566.B						
Project Steps (See Below)	Assigned Points \$ Value>>	Expansion & Operation	Karang Pifang III	Umbulan MCU			Ungaran								
		\$65 mil.	\$100 mil.	\$ 225 mil.	\$ 50 mil *	\$ 50 mil. *	\$ 50 mil. *	\$ 50 mil. *	\$ 50 mil. *	Target	Achieve	%	Target	Achieve	%
1	3	3	3	3	3	3	3	3	3						
2	3	3	3	3	3	3	3	3	3						
3	3	3	3	3	3	3	3	3	3						
4	6	6	6	6											
5	5	5	5	5											
6	5	5	5	5											
7	5	5	5	5											
8	10	10	10	10											
9	2	2	2	2											
10	3	3	3	3											
11	10	10		10											
12	5	5													
13	30														
14	7														
15	3														
Total Points	100	60	45	55	9	9	9	9	9	0	0	#DIV/0!	0	0	#DIV/0!

* Not official estimate.

█ indicates at which point PURSE entered the process.

PROJECT LIFE CYCLE KEY STEPS:

- | | |
|--|--------------------------------------|
| 1. Project Identified by Government or Private Party. | 9. Feasibility Study(FS) Under Way. |
| 2. Prefeasibility Study(PFS) under way. | 10. Feasibility Study Reviewed. |
| 3. PFS Interim Report or Optimal Project Identified. | 11. Feasibility Study Approved. |
| 4. Prefeasibility Study Approved. | 12. Contract Negotiations Under Way. |
| 5. Firm(s) prequalified. | 13. Contract Signed |
| 6. Unsolicited Proposal/Competitive Tender Documents Issued. | 14. Financial Closure Reached. |
| 7. MOU Under Negotiation/Competing Proposals Evaluated. | 15. Construction Implemented. |
| 8. MOU Signed/Project Competitively Awarded. | |

INFRASTRUCTURE PROJECTS
TABLE 3 - OTHER WATER PROJECTS ~ SECTOR WIDE

		94/95	94/95	95/96	As of December 31, 1996		95/96	96/97	95/96	95/96	95/96
Projects >>>		Lhoksemauwe	Medan	Padang	Jambi	Batam	Palembang	Kabupaten	Serang	Serang	Serang
Perpamsi Reg. No.>>		0110006.B	0210036.B	0310071 B	0510141.B	0410114.B	0620176.B	Lampung	Timur	Utara	Barat
Project Steps	Assigned Points	Bulk Water	Bulk Water	Hsg. Estate Water	E & W BOT	Mgm't. Contract	Supply & Dist.	Selatan	1021327.B	1021327.B	1021327.B
(See Below)	\$ Value>>	\$75 mil.	\$67 mil.	\$11 mil.	\$ 50 mil. *	\$ 50 mil. *	\$ 1 mil.	\$ 50 mil. *	\$ 9 mil.	\$ 50 mil. *	\$ 17 mil.
1	3	X	X	X	X	X	X	X	X	X	X
2	3			X					X		
3	3	X		X					X		
4	6	X							X		
5	5										
6	5	X				X	X	X	X	X	X
7	5	X			X	X	X	X	X	X	X
8	10	X	X		X	X		X	X	X	X
9	2	X	X		X			X			
10	3	X						X			
11	10	X						X			
12	5					X				X	X
13	30					X				X	
14	7					X				X	
15	3					X	X			X	
Total Points	100										

Source: Ditjen Cipta Karya

* Not official estimate.

PROJECT LIFE CYCLE KEY STEPS:

1. Project Identified by Government or Private Party.
2. Prefeasibility Study(PFS) under way.
3. PFS Interim Report or Optimal Project Identified.
4. Prefeasibility Study Approved.
5. Firm(s) prequalified.
6. Unsolicited Proposal/Competitive Tender Documents Issued.
7. MOU Under Negotiation/Competing Proposals Evaluated.
8. MOU Signed/Project Competitively Awarded.

9. Feasibility Study(FS) Under Way.
10. Feasibility Study Reviewed.
11. Feasibility Study Approved.
12. Contract Negotiations Under Way.
13. Contract Signed
14. Financial Closure Reached.
15. Construction Implemented.

INFRASTRUCTURE PROJECTS
TABLE 3 - OTHER WATER PROJECTS ~ SECTOR WIDE

As of December 31, 1996

		96/97	95/96	94/95	95/96	96/97	95/96	94/95	95/96		
Projects >>>		Indramayu 1021323.B	Kabupaten Cirebon 1021321.B	Kodya Bandung 1021326.B Mgmt. TA	Kabupaten Bandung 1021327.B	Kabupaten Subang 1021329.B	Karawang 1021330.B BOT	Bekasi 1021337.B	Tangerang 1021338.B	Kabupaten Bogor 1021329.B	
Project Steps	Assigned Points										
(See Below)	\$ Value>>	\$ 13 mil.	\$ 10 mil.	\$ 50 mil. *	\$ 50 mil. *	\$ 50 mil. *	\$ 1.3 mil.	\$ 33 mil.	\$ 50 mil. *	\$ 50 mil. *	
1	3	X	X	X	X	X	X	X	X	Unclear	
2	3			X			X				
3	3			X							
4	6										
5	5										
6	5			X				X			
7	5			X			X	X	X		
8	10		X								
9	2		X	X				X			
10	3			X							
11	10										
12	5	X	X	X							
13	30	X									
14	7	X									
15	3	X									
Total Points	100										

* Not official estimate.

Source: Ditjen Cipta Karya

PROJECT LIFE CYCLE KEY STEPS:

* Not official estimate.

1. Project Identified by Government or Private Party.
2. Prefeasibility Study(PFS) under way.
3. PFS Interim Report or Optimal Project Identified.
4. Prefeasibility Study Approved.
5. Firm(s) prequalified.
6. Unsolicited Proposal/Competitive Tender Documents Issued.
7. MOU Under Negotiation/Competing Proposals Evaluated.
8. MOU Signed/Project Competitively Awarded.

9. Feasibility Study(FS) Under Way.
10. Feasibility Study Reviewed.
11. Feasibility Study Approved.
12. Contract Negotiations Under Way.
13. Contract Signed
14. Financial Closure Reached.
15. Construction Implemented.

INFRASTRUCTURE PROJECTS
TABLE 3 - OTHER WATER PROJECTS ~ SECTOR WIDE

As of December 31, 1996

Projects >>>		95/96	96/97	95/96	95/96	96/97	96/97	94/95	95/96	95/96	95/96
Perpamsi Reg. No.>>		Bontang Transmission & Distr. Industry	Pacitan 2351788.B	Kodya Malang 2350792.B	Kabupaten Malang 2351806.B	Banyu- wangi 2351791.B	Kabupaten Mojokerto 2351786.B Ind. Est.	Badung dan Denpasar 2451816.B	Tabanan 2451817.B Supply & Dist.	Kabupaten Pontianak 1331429.B	Kodya Pontianak 1330426.B
Project Steps (See Below)	Assigned Points \$ Value>>	\$ 160 mil.	\$ 1 mil.	\$ 1 mil.	\$ 50 mil. *	\$.25 mil.	\$ 1.7 mil.	\$ 13 mil.	\$ 3 mil.	\$.2 mil.	\$ 50 mil. *
1	3	X	X	X	X	X	X	X	X	X	X
2	3	X							X	X	
3	3	X									
4	6	X									
5	5	X									
6	5	X	X	X	X	X					
7	5	X				X			X		
8	10	X				X		X	X	X	X
9	2	X									
10	3										
11	10										
12	5		X	X	X	X		X			
13	30		X	X	X	X		X			
14	7		X	X	X	X		X			
15	3		X	X	X	X		X			
Total Points	100										

* Not official estimate.

Source: Ditjen Cipta Karya

PROJECT LIFE CYCLE KEY STEPS:

* Not official estimate.

1. Project Identified by Government or Private Party.
2. Prefeasibility Study(PFS) under way.
3. PFS Interim Report or Optimal Project Identified.
4. Prefeasibility Study Approved.
5. Firm(s) prequalified.
6. Unsolicited Proposal/Competitive Tender Documents Issued.
7. MOU Under Negotiation/Competing Proposals Evaluated.
8. MOU Signed/Project Competitively Awarded.

9. Feasibility Study(FS) Under Way.
10. Feasibility Study Reviewed.
11. Feasibility Study Approved.
12. Contract Negotiations Under Way.
13. Contract Signed
14. Financial Closure Reached.
15. Construction Implemented.

(Task 12.1.D) Prepare an academic draft for a multi-sectoral PPP law

Target: This activity was scheduled to be carried out during the reporting period, and finalized by August 1996.

Progress: Although PURSE originally expected to play a significant role in assisting Government in this area, the Project's involvement has been intermittent and reactive. We have been asked to review and comment on various draft documents relating to a multi-sectoral PPP Keppres, but have not been asked to participate actively in the development of the drafts themselves.

As Project involvement in the PPP Keppres has been less consistent than anticipated, PURSE prepared an amendment to the third phase of activities of our legal subcontractor, SSEK. Under the revised subcontract, SSEK's scope of work was expanded to include their participation with demonstration projects. Additional activities may include, but not be limited to, review of draft joint venture agreements, contracts and memoranda of understanding, providing legal opinions on risk allocations, participation in meetings with PDAM and Government officials, and presentations on legal issues pertaining to PPP projects.

Next Quarter: With the establishment of a formal "privatization team" within Government to develop the PPP Keppres, PURSE will continue to provide support as required to this process. The Project believes that we can make a real contribution to this effort, and would like to be included if Government agrees that our participation would be appropriate. Furthermore, the restructured SSEK subcontract does not preclude their involvement as well, should it be requested.

(Task 12.1.E) Further development and institutionalization of the Project Life Cycle

Target: Translation of the PLC into Bahasa Indonesia by end-June 1996; development of sample contract documents by end-June 1996; incorporation of the management concession form of public-private partnership as part of the guidance by end-July, and development of training materials for a comprehensive curriculum in support of public/private partnerships to include a module on the "Project Life Cycle" guidance by end-July 1996.

Progress: All targets were achieved with the exception of finalizing the sample contract documents by the end of June. These documents, being prepared by PURSE subcontractor White & Case, include a BOT Contract and a Concession Agreement. They should be finalized by the first quarter 1997.

This work was delayed somewhat by a decision, taken jointly with PURSE, to review the Buenos Aires, Argentina water concession contract, recently available. This agreement is widely hailed as a model contract which PURSE and White & Case wanted to review closely before finalizing the PLC documents.

The PURSE Steering Committee recognized the need for the PLC to be completed and intergrated with training. Dr. Ir. Herman Haeruman, chairman of the PURSE Steering

Committee, has instructed each of the Government agencies participating with PURSE to review the translated version of the PLC model documents and to provide their final comments for incorporation.

Next Quarter: The work being carried out by White & Case should be concluded during the next quarter. The model contracts for BOT and Concession agreements will be finalized, together with the accompanying Definitions and Outline sections. These agreements will be translated into Bahasa Indonesia, and will be submitted to the Government for their review and adoption.

Although the Ministry of Home Affairs issued its Ministerial Instruction (No. 21/96) which is based on the PLC in July 1996, consensus has yet to be reached on the final institutional home for the PLC. It is hoped that this decision will be taken early in the new year.

(Not in UPAP) Development of PPP negotiation techniques

Target: No activities for this Work Plan task were scheduled for 1996. Originally slated for early in the first quarter 1997.

Progress: Due to intensive Project implementation activities and other priorities during the reporting period, adequate time was not devoted to further develop the scope of work for this activity and to identify consultants

PURSE has begun the conceptualization of terms of reference for a short term assignment to develop a program in negotiation techniques.

Next Quarter: PURSE proposes delaying this activity until the first or second quarter of 1997 to allow for the scope of work to be reviewed and commented on by Government. Candidates or organizations for carrying out the assignment will be identified, and a program for how best to deliver this specialized activity as a part of the PURSE in-country training program.

(Not in UPAP) Implement training and communication program designed for demonstration project cities and local government and enterprise officials.

Target: Policy seminars scheduled for April and December 1996; Training materials development completed by end of May 1996; Training of trainers to be completed by the end of June 1996. Pilot training programs to be held in August 1996.

Progress: PURSE continued to implement an active training and communications program that included both in-country and overseas elements. Although many of the target dates for training activities slipped somewhat, the PURSE training effort is rolling into high gear, lead by the in-country training program which is predominantly designed for local government and enterprise officials. The **institutionalization of the training** is also an important activity to achieve the desired sustainability of PPP development in Indonesia.

Training materials development was completed in June 1996.

One **policy seminar**, on risk management, was held in August 1996.

The **Training-of-Trainers (TOT)** program was held in August 1996.

Two **pilot training** programs were conducted during November 1996.

See the summary training chart provided as Appendix B of this report for details on other overseas training activities. In-country training activities are summarized below:

Next Quarter. It is critical that the Government reach consensus on the appropriate institutional home for the PURSE training program and materials as soon as possible. Please refer to the more detailed discussion of this concern in Appendix C, *Issues and Opportunities*.

■ **Policy Seminars**

Next Quarter: No formal seminars sponsored by PURSE are planned.

■ **Local Level Training**

The first two PURSE in-country **pilot training** was held in the Puncak in November 11-20, and November 18-27, 1996. Some 33 government and PDAM participants, representing local governments and PDAMs from throughout Indonesia, took part. The training represented the first comprehensive delivery of the PURSE four module in-country program.

A team of three -- Ir. Suryodipuro (PURSE), Dr. Djajadi (Public Works) and Dr. Emron (Bappenas) -- spent three days in Malaysia investigating the possibilities of organizing an **observational/study tour** for Indonesian government officials. The group met with Malaysians representing the Economic Planning Unit, Selangor State Government, the Water Supply Branch of the Ministry of Public Works, and also with the private sector. The Malaysians stand ready to share their infrastructure privatization experiences with their Indonesian counterparts when and if the trip is planned.

Next Quarter: Based on comments and input received from the participants of the training, some revisions to the training materials and modifications to the organization of the program itself will be made by PURSE.

A second **Training of Trainers (TOT)** (for the West region of Indonesia) is tentatively scheduled for May 1997, with subsequent TOTs for the Central region and Eastern region scheduled for August and October 1997 respectively.

The next **pilot training** for local government/PDAM officials is currently scheduled for July 1997.

After making a presentation to the Tim Kerja, a decision on whether or not the **observational tour to Malaysia** would be beneficial needs to be taken and the trip planned.

■ **Public-Private Forums & Conferences**

PURSE advisors have been requested to comment on and provide input to a conference being prepared for later in 1997 on Commercial and Joint Venture Considerations for Infrastructure in Indonesia. The event is being proposed by a private conference organizer, the Center for Management Technology in Singapore.

PURSE has also been requested by Euro Congress International and World Congress International to provide comment and guidance on their respective high level, specialized roundtable discussions on Private Sector Participation in Water Projects in Indonesia and the Philippines. Euro Congress' seminar was held in Singapore in December 1996. The World Congress seminar is scheduled for April 1997 in San Francisco.

Next Quarter: No PURSE-sponsored forums or conferences are planned for the next quarter. The private sector is handling this quite well at the moment.

For a comprehensive overview of all PURSE Project training activities during 1996, please see Appendix B in this volume.

Table - PURSE PROJECT ~ COMPONENT IMPLEMENTATION STATUS REPORT

The table on the following page depicts the status of completion of all PURSE work plan activities.

It would be difficult, if not impossible, to set exact, quantitative measurements of the relative weights of the major tasks being undertaken through the three components of the PURSE Project. However, recognizing the importance of the accomplishments of the more qualitative components of PURSE, the table below represents the relative accomplishment of major PURSE tasks as determined by Project Management. Together with the more quantitative approach for measuring demonstration project accomplishment shown in the three tables above, this table produces an indicator of project accomplishment relative to the total scope of work and the goals and objectives of the PURSE Project, including demonstration projects.

PURSE PROJECT
COMPONENT IMPLEMENTATION STATUS REPORT
as of December 31, 1996

Project Component	Approx. Percent Weight	Estimated Percent Complete	Activity Percent Complete	Component Percent Complete
1. Policy, Legal & Regulatory	40.00%		35.70%	89.25%
a. Draft Regulations for SWM, WS & WWT	6.00%	90.00%	5.40%	13.50%
b. Financial Analysis Model	6.00%	85.00%	5.10%	12.75%
c. Risk Management System & Handbook	10.00%	85.00%	8.50%	21.25%
d. Legal Framework Analysis	8.00%	90.00%	7.20%	18.00%
e. Project Life Cycle	10.00%	95.00%	9.50%	23.75%
2. Demonstration Projects	30.00%		10.32%	34.40%
a. Balikpapan	5.00%	6.00%	0.30%	1.00%
b. Semarang(2)	6.00%	34.00%	2.04%	6.80%
c. PAM JAYA(2)	10.00%	60.00%	6.00%	20.00%
d. Cirebon	4.00%	9.00%	0.36%	1.20%
e. Palu	2.00%	6.00%	0.12%	0.40%
f. Mataram	3.00%	50.00%	1.50%	5.00%
3. Training & Communications	30.00%		22.08%	73.60%
a. Overseas Short Course Training	6.00%	98.00%	5.88%	19.60%
b. Long Term Academic Degree Programs	4.00%	100.00%	4.00%	13.33%
c. Policy & Technical Seminars	4.00%	75.00%	3.00%	10.00%
d. International Study/Observation Tours	4.00%	50.00%	2.00%	6.67%
e. Development of PPP Training Materials	6.00%	95.00%	5.70%	19.00%
f. Execution of PPP Pilot Training Programs	4.00%	30.00%	1.20%	4.00%
g. Institutionalization of PPP Training Programs	2.00%	15.00%	0.30%	1.00%
Percent of Project Complete			68.10%	

A.3b Current Buy-ins

Not applicable to this contract.

A.3c Current Subcontracting Activities

PT. Resource Development Consultants. REDECON is providing short-term local professional staff, particularly in the training area.

Soewito, Suhardiman, Eddymurthy & Kardono. SSEK is a local law firm. They have conducted an extensive review of the existing legal framework for PPP projects in Indonesia, and have analyzed those laws. The SSEK subcontract has recently been amended to broaden the scope of activities for the third phase. SSEK will now participate more widely with PURSE in the legal aspects of the Project, in particular with respect to demonstration projects.

White & Case. White & Case is an international law firm assisting PURSE in the development of model documents for concession agreements and BOT contracts.

STATUS - THIRD WORK PLAN

January 1996 - June 1997

ANNUAL PROGRESS REPORT 1996

Quarterly Performance Report No. 13 (October - December 1996)

Task No.	UPAP Reference No.	TASK DESCRIPTION	Third Quarter 1996			Fourth Quarter 1996			First Quarter 1997			ACTIVITY STATUS
			Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
1.	5.3.F	Draft Regulations for Wastewater Sector a. Review Existing Wastewater Regulations b. Identify & Discuss Significant Issues c. Outline Regulations d. Review with Government of Indonesia e. Revise Outline f. Develop Final Draft of PURSE Input to Regulations										a. Review conducted during first quarter. b. Issues paper submitted to Cipta Karya first quarter. c. Delayed. Awaiting feedback and discussion on issues.
2.	5.3.G	Improve Regulations on Developer's Responsibilities a. Review Existing Regulations b. Analyze Additional Requirements to Regulations c. Prepare Draft Revisions as Necessary d. Circulate for Review and Comments e. Prepare Final Draft of Regulations										Based upon UPAP review in May 1996, it has been agreed by USAID and PURSE that this task is beyond the scope of the Project. It has thus been deleted from this Work Plan.
3.	Not in UPAP	Development of a Monitoring Indicators System a. Review Current PPP Project Reporting System b. Determine Monitoring Information Required c. Design Easy to Use Reporting Forms d. Develop Computer Database for Reports e. Disseminate Monitoring Forms (PUOD) f. Train in Use of System										Activity Underway a. Activity initiated August 1996 b. Information sources identified c. Charts and tables developed December 1996 d. e. f.
4.	7.3.A	Development of PPP Water Pricing Mechanisms a. Develop Pricing Options b. Prepare Operational Handbook c. Prepare & Deliver Water Pricing Seminar d. Provide Training in Pricing Mechanisms & Theory										Activity scheduled to begin 4th Quarter. a. Coordinating with ADB pricing study b. PURSE recommends deleting from Work Plan c. d.
5.	Not in UPAP	Further Development of Financial Analysis Model a. Compare FAM with FinPro b. Update Existing Financial Analysis Model c. Development of Draft Work Book/User Manual d. Development of Training Materials e. Training in the Use of the FAM/FinPro										Work currently underway. a. Completed November 1996. b. Initiated 7/96, continued 9/96. Complete late Jan. '97. c. Anticipated completion late February 1997 d. Anticipated during 1st Quarter 1997 e. Anticipated during 1st Quarter 1997
Legend:			Major Task Showing Overall Duration per 3WP			Intermittent or Ongoing Task						Intermittent or Ongoing Task
			33% Major Task Showing Partial Completion			By Others						By Others

STATUS - THIRD WORK PLAN

January 1996 - June 1997

ANNUAL PROGRESS REPORT 1996
Quarterly Performance Report No. 13 (October - December 1996)

Task No.	UPAP Reference No.	TASK DESCRIPTION	Third Quarter 1996			Fourth Quarter 1996			First Quarter 1997			ACTIVITY STATUS
			Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
6.	12.1.A	Prepare Risk Management System a. Complete Risk Management Report b. Complete Risk Management Handbook c. Hold Risk Management Seminar d. Provide Training in Risk Management										Activity extended to allow further GOI review and discussion. a. Completed mid-August b. Draft handbook under review by GOI c. Successful seminar held August 26. 70 attendees. d. Develop materials for PURSE training program 1st Qtr. '97.
7.	12.1.B	Develop Financial Guarantee & Credit Enhancement Mechanisms a. Review Existing GOI Policies b. Prepare Report on Alternative Mechanisms c. Conduct Seminar for Senior GOI Officials										Activity scheduled for 1st Quarter 1997. PURSE recommends deleting from Work Plan
8.	12.1.C	Consulting Services to Demonstration Projects a. On-going Services on As-needed Basis 1) DKI Jakarta, PAM JAYA 2) Medan, PDAM Tirtanadi 3) Tangerang, PDAM/Bumi Serpong Damai 4) Mataram, Dinas Kebersihan 5) Balikpapan, PDAM 6) Cirebon, PDAM 7) Semarang, PDAM 8) Palu, PDAM 9) Other Projects b. Investigate Potential Demonstration Projects										a. Consulting Services On-Going a.1) PURSE reviewing negotiating terms in finance area. a.2) Activity suspended per Tim Teknis - May 21 a.3) Activity suspended per Tim Teknis - May 21 a.4) City cancelled contract. TA may be renewed. a.5) PURSE prepared draft TOR for PFS. Under review. a.6) Coordinating with DJCK PFS work. a.7) Coordinating with DJCK PFS work. a.8) Coordinating with DJCK PFS work. a.9) Assistance to Surabaya begun Nov. 96. b. Other projects as proposed by GOI 1st Qtr. '97.
9.	12.1.D	Prepare Academic Draft of Multi-Sector PPP Law a. Determine PPP Law Work Developed to Date b. Develop Plan for Joint Cooperation(GOI, TAP4I, SSEK, etc.) c. Prepare Input to Draft for Review/Comment d. Finalize PURSE/SSEK Input into New PPP Law										Activity reinstated per Chairman Tim Teknis August 7. a. Initial reviews and meetings with GOI held in April/May. b. Meetings with TAP4I to define PURSE role. c. Comments, revisions to draft provided Aug. 14. d. PURSE involvement intermittent only.
10.	12.1.E	Further Development of Project Life Cycle a. Complete development of Sample Contract Doc'ts. b. Translation of PLC & Doc'ts into Bahasa Indonesia c. Review with Demonstration Projects d. Legalization of the PLC (assist w/Minist'l Decree) e. Prepare PLC for other PPP Models f. Coordinate PLC Input to Training Program										a. Concession & BOT models finalized by end Jan. '97. b. Completed end of May '96. Contracts by Feb. '97. c. On-going. d. MOHA Instruction 4/22/96. PLC needs institutional home. e. Activity suggested for TAP4I assistance to PUOD. f. Completed in June 1996.
Legend: Major Task Showing Overall Duration per 3WP Intermittent or Ongoing Task 33% Major Task Showing Partial Completion By Others												

25

STATUS - THIRD WORK PLAN

January 1996 - June 1997

ANNUAL PROGRESS REPORT 1996

Quarterly Performance Report No. 13 (October - December 1996)

Task No.	UPAP Reference No.	TASK DESCRIPTION	Third Quarter 1996			Fourth Quarter 1996			First Quarter 1997			ACTIVITY STATUS
			Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
11.	Not In UPAP	Development of PPP Negotiation Techniques a. Theory, Methods, & Strategy of Negotiation b. Design of Individual Negotiating Programs c. Seminar and Case Studies d. Provide Training in Negotiation Techniques										Delayed to 4th Quarter 1996 to allow GOI input into SOW. a. PURSE recommends deleting from Work Plan. b. c. d.
12.	Not In UPAP	Implement Training & Communications Program a. Policy Seminars b. In-country Technical Training 1) Prepare SOW for PPP Training Material Devel. 2) Mobilize Team to Develop Materials 3) Collect/Assimilate Resource Materials 4) Write/Develop Training Materials 5) Identify/Train Trainers 6) Perform Needs Assessment for Cities 7) Pilot Test of Training Modules 8) Provide Training on National Basis ("roll out" by others) c. Overseas Open Enrollment Courses d. International Study Tours										a. Risk Management Seminar held Aug. 26, 1996 b. Underway b.1) Completed first quarter 1996. b.2) Completed second quarter 1996. b.3) Completed second quarter 1996. b.4) Completed end August 1996 b.5) 1st TOT held Aug 21-22, 1996. 2nd TOT scheduled 2/97. b.6) On-going with demonstration project cities. b.7) 1st Pilot training held Nov. '96. 2nd scheduled Mar. '97. b.8) Discussions with GOI on institutional identification underway c. See Appendix B. d. Malaysia Tour prep trip held 11/96. Under discussion.
Legend: Major Task Showing Overall Duration per 3WP Major Task Showing Partial Completion Intermittent or Ongoing Task By Others												

B. ADMINISTRATIVE INFORMATION

1. Level of Effort (last three months)

The contractor's level of effort expended for the reporting period was a total of 23.5 person months. See the LOE summary chart below.

2. Cumulative Level of Effort

The contractor's cumulative level of effort through December 31, 1996 is 313.15 person months. See the LOE summary chart below.

3. Unused Level of Effort

The contractor's unused level of effort through December 31, 1996 is 194.4 person months. See the summary chart below.

PURSE PROJECT					
ANNUAL PROGRESS REPORT 1996 & QUARTERLY PERFORMANCE REPORT NO. 13 October 1 - December 31, 1996					
LEVEL OF EFFORT SUMMARY (in Person Months)					
Category	Contract LOE	Used in Last 3 Mos.	Cumulative LOE	Unused LOE	
EXPATRIATE					
Long-Term	203.0	6	117.9	85.1	
Short-Term	67.8	2.5	60.05	7.8	
Total Expatriate PM	270.8	8.5	177.95	92.9	
LOCAL PROFESSIONAL					
Long-Term	104.7	6	68.7	36.0	
Short-Term	132.0	9	66.5	65.5	
Total Local PM	236.7	15	135.2	101.5	
TOTAL LOE PM	507.5	23.5	313.15	194.4	

4. **Expenditures (last three months)**

The contractor's expenditures for the three month reporting period were \$478,028.18. See the summary budget chart below.

5. **Cumulative Expenditures to Date**

The contractor's cumulative expenditures through December 31, 1996 are \$ 9,107,848.59. See the summary budget chart below.

6. **Remaining Unexpended Balance**

The remaining budget balance in the contract is \$ 1,957,237.41. See the summary budget chart below.

A summary of the Project's expenditures for the year 1996 is on the following page.

PURSE PROJECT ANNUAL PROGRESS REPORT 1996 & QUARTERLY PERFORMANCE REPORT NO. 13 October 1 - December 31, 1996					
BUDGET SUMMARY					
Category	Contract Budget	Expended Last 3 Mos.	Cumulative Expenditures	Remaining Balance	Percent Expended
Salaries	\$1,952,148	\$98,319.08	\$1,524,687.44	\$427,460.56	78.10%
Fringe Benefits	468,865	18,621.20	350,231.95	118,633.05	74.70%
Overhead	1,297,983	66,965.12	1,072,489.47	225,493.53	82.63%
Travel & Transportation	521,193	23,719.02	421,561.13	99,631.87	80.88%
Allowances	1,361,290	32,917.74	1,213,796.79	147,493.21	89.17%
Equip., Vehicles & Frght.	134,063	9,267.93	125,643.55	8,419.45	93.72%
Training	905,434	2,522.00	719,482.81	185,951.19	79.46%
Subcontracts	2,615,478	103,314.95	2,038,927.48	576,550.52	77.96%
Other Direct Costs	993,057	86,399.84	967,346.28	25,710.72	97.41%
Gen. & Administrative	289,357	13,261.41	240,800.93	48,556.07	83.22%
TOTAL EST. COST	\$10,538,868	\$455,308.29	\$8,674,968	1,863,900.17	82.31%
Fixed Fee	526,218	22,719.89	432,880.76	93,337.24	82.26%
GRAND TOTAL	\$11,065,086	\$478,028.18	\$9,107,848.59	\$1,957,237.41	82.31%

PURSE PROJECT

1996 BUDGET EXPENDITURES

LINE ITEMS	Jan.'96	Feb.'96	Mar.'96	Apr.'96	May '96	Jun.'96	Jul.'96	Aug.'96	Sep.'96	Oct.'96	Nov.'96	Dec.'96	Totals
Salaries	31,455.58	40,245.91	35,895.22	36,390.67	38,749.28	33,583.51	44,941.02	39,794.12	35,767.47	33,460.74	34,214.10	30,644.24	435,141.86
Fringe	9,853.26	9,367.38	9,348.60	9,602.67	7,827.35	5,773.20	6,269.48	5,812.04	5,041.88	6,046.55	5,915.33	6,659.32	87,517.06
Overhead	22,176.88	25,403.42	24,427.74	25,639.97	27,814.67	22,921.92	29,995.46	26,896.18	23,812.35	22,661.98	22,638.77	21,664.37	296,053.71
Travel & Transportation	2,902.55	2,288.13	5,481.33	1,845.89	4,540.84	3,681.98	15,852.11	4,456.46	4,656.51	12,606.99	2,864.53	8,247.50	69,424.82
Allowances	5,998.58	2,751.28	5,824.14	5,972.96	6,825.23	5,035.52	20,957.18	6,419.55	35,856.54	8,207.72	17,208.27	7,501.75	128,558.72
Other Direct Costs	6,431.21	9,106.33	16,660.27	6,336.37	30,154.94	27,685.31	7,039.54	17,015.50	24,770.38	12,893.07	41,235.90	32,270.87	231,599.69
Equip, Vehicles & Frght	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	538.18	8,729.75	0.00	9,267.93
Training	1,926.00	8,212.75	1,926.00	9,688.50	3,775.43	66,004.50	12,623.01	6,304.00	(766.11)	(5,125.00)	2,375.00	5,272.00	112,216.08
Subcontracts	30,531.17	30,375.40	50,935.77	28,596.30	70,014.96	29,793.21	27,760.14	165,118.50	70,591.77	17,790.68	62,868.54	22,655.73	607,032.17
General & Admin.	3,137.96	3,602.57	4,248.69	3,498.87	5,691.08	5,834.37	4,963.14	8,154.49	5,991.92	3,272.43	5,941.51	4,047.47	58,384.50
Fixed Fee	5,720.66	6,567.66	7,737.39	5,661.68	9,750.15	9,995.64	8,503.01	13,970.54	10,265.56	5,606.43	10,179.19	6,934.27	100,892.18
TOTAL	120,133.85	137,920.83	162,485.15	133,233.88	205,143.93	210,309.16	178,904.09	293,941.38	215,988.27	117,959.77	214,170.89	145,897.52	2,136,088.72

BUDGETED 1996	2,352,799
EXPENDED 1996	2,136,089
DIFFERENCE	216,710
PURSE BUDGET TOTAL	11,065,086
EXPENDED THRU 12/96	9,107,849
REMAINING TOTAL	1,957,237

II. PROJECT OFFICER'S COMMENTS

1. Contractor's Technical Performance

To be completed by the USAID Project Officer.

2. Contractor's Administrative Performance

To be completed by the USAID Project Officer.

3. Contractor's Management

To be completed by the USAID Project Officer.

4. Reaction to Contractor's Assessment of Performance

To be completed by the USAID Project Officer.

5. Areas for Contractor Improvement

To be completed by the USAID Project Officer.

III. CONTRACT OFFICE'S COMMENTS

1. Areas of Concern

To be completed by the USAID Contracting Officer.

2. Actions to Improve Contractor Performance

To be completed by the USAID Contracting Officer.

APPENDICES

PERSONNEL SCHEDULE
PRIVATE PARTICIPATION IN URBAN SERVICES (PURSE) PROJECT
ANNUAL PROGRESS REPORT 1996
& Quarterly Performance Report No. 13
October 1 - December 31, 1996

POSITION / EXPERTISE	NAME	LOCAL OR EXPAT	FIRM	FOURTH QUARTER 1996			FIRST QUARTER 1997		
				OCTOBER 1996	NOVEMBER 1996	DECEMBER 1996	JANUARY 1997	FEBRUARY 1997	MARCH 1997
Long Term Personnel									
Chief of Party/Urban Policy Advisor	William J. Parente	Expat	Chem.	[Shaded]			[Shaded]		
Municipal Services Specialist	Syarif Puradmadja	Local	Chem.	[Shaded]			[Shaded]		
Project Devel / Finance Specialist	Addie Permono	Local	Chem.	[Shaded]			[Shaded]		
Contracts Advisor/Deputy COP	John J. Strattner	Expat	Chem.	[Shaded]			[Shaded]		
Short Term Personnel									
Training Manager	Purwoko Hadi	Local	Red.	[Shaded]			[Shaded]		
Engineer/Technical Training Spec.	Leila Suyodipuro	Local	Red.	[Shaded]			[Shaded]		
Training Administrator	Yanita Himawati	Local	Red.	[Shaded]			[Shaded]		
Demo. Project Finance Specialist	Bennett Parton **	Expat	Chem.	[Shaded]			[Shaded]		
Financial Analyst	D. Leffert	Expat	RMI	[Shaded]			[Shaded]		
Civil/Sanitary Engineer	Richard Jones **	Expat	Chem.	[Shaded]			[Shaded]		
** Not Continuous Time				Legend: [Solid Box] in Indonesia [Hatched Box] outside Indonesia					

APPENDIX A

TRAINING & COMMUNICATIONS ACTIVITIES
PRIVATE PARTICIPATION IN URBAN SERVICES (PURSE) PROJECT

ANNUAL PROGRESS REPORT 1996
QUARTERLY PERFORMANCE REPORT NO. 13
October 1 - December 31, 1996

NO.	DESCRIPTION OF ACTIVITY	ORGANISER/ LOCATION	PARTICIPANT/ AGENCY	NUMBER OF TRAINEES	TIME FRAME	STATUS
OVERSEAS GRADUATE LEVEL TRAINING						
1	Master/Public Policy & Administration	University of Wisconsin/Madison, WI	Basah Hernowo/BAPPENAS	1	Sep 1994 - Jun 1996	Completed
2	Master/City Planning	Massachusetts Institute of Technology/ U.S.A.	Montty Giriana/BAPPENAS	1	Sep 1994 - Jun 1996	Completed
3	PhD/City and Regional Planning	The Ohio State University/Columbus, OH	Rudy S. Prawiradinata/BAPPENAS <i>*HAC insurance only</i>	1	Sep 1996 - Aug 1997	Approved
4	PhD/Urban Planning	Rutgers University/New Brunswick, NJ	Anak Agung Gde Agung/ITB <i>*HAC insurance only</i>	1	Sep 1996 - Sep 1998	Approved
5	PhD/City and Regional Planning	University of Pennsylvania	Iskandar Saleh/Dept. of Public Works <i>*HAC insurance only</i>	1	Jan - May 1997	Approved
OVERSEAS TRAINING						
1	New Techniques in Project Finance and Negotiation	Center for Financial Engineering in Development/Washington, D.C.	Ir. Leroy Samy Uguy/BAPPENAS	1	May 6-17, 1996	Completed
2	International Real Estate Conference/AREUEA 1996	University of Connecticut/Orlando, FL	Basah Hernowo/BAPPENAS	1	May 23-25, 1996	Completed
3	Strategic Public-Sector Negotiations	John F. Kennedy, School of Government, Harvard University/Cambridge, MA	Ir. H. Sjarifuddin Akil/Ministry of Public Work Ir. Ahmad Syarif Puradimadja/PURSE Project	2	May 28 - Jun 1, 1996	Completed

APPENDIX B

NO.	DESCRIPTION OF ACTIVITY	ORGANISER/ LOCATION	PARTICIPANT/ AGENCY	NUMBER OF TRAINEES	TIME FRAME	STATUS
4	Pelaksanaan Proyek Melalui Pola Kemitraan antara Pemerintah dan Swasta: Strategi Efektif dalam Pembangunan	The Institute for Public-Private Partnerships/Washington D.C.	Ir. Triyuni Soemartono/PDAM Cirebon Drs. Idrus Arfah/BAPPEDA Mataram Drs. Parlindungan Siregar/PDAM Tirtanadi Medan Ir. Edi Effendi Tedjakusuma/BAPPENAS Drs. Saifudin/Dept. of Public Works Ir. Ahmad Kamil, Msi./Dept. of Home Affairs Drs. Andradjati/Dept. of Foreign Affairs	7	Jun 24 - Jul 12 , 1996	Completed
5	Regulation of Utilities & Monopolies: Effective Models for Promoting Competition and Consumer Protection in Transforming Economies	The Institute for Public-Private Partnerships/Washington, D.C.	Ir. Laila Suryodipuro/PURSE Project	1	Dec 2-13, 1996	Completed
6	Observational Tour	PURSE Project/Malaysia	10 central government officials 3 PURSE Project consultants	13	End of Feb 1997	Under consideration
IN-COUNTRY TRAINING						
1	Training of Trainers (ToT) I	PURSE Project/ Ibis Tamarin Jakarta	Ir. Bambang Panudju, MPhil./BAPPENAS Ir. Salusra Widya, MA/BAPPENAS Ir. Bastary P. Indra/BAPPENAS Pramono B. Soebroto, SE, MA/BAPPENAS Dr. Sussongko Suhardjo/Dept. of Home Affairs Ir. Haryo Sasongko, MSc./Dept. of Home Affairs S. Hasudungan Tambunan, SE/Dept. of Home Affairs Ir. Gutheng Prabowo, MCP/Dept. of Home Affairs Drs. Busrori, MSoc., Sc./Dept. of Finance Drs. Baharuddin, MSc./Dept. of Finance Drs. Arlen T. Pakpahan, MSc./Dept. of Finance Destry Damayanti, SE, MSc./Dept. of Finance Ir. Bambang S.P., MPA/Dept. of Public Works Ir. Rina A. Indriani, MURP/Dept. of Public Works Ir. Evie Wibowo Iman/Perum Perumnas	15	Aug 21-22, 1996	Completed
2	Seminar on Risk Management Policy	PURSE Project/Grand Hyatt Jakarta	Approx. 80 invited participants consist of government officials and private sectors managers	+ 80	Aug 26, 1996	Completed

NO.	DESCRIPTION OF ACTIVITY	ORGANISER/ LOCATION	PARTICIPANT/ AGENCY	NUMBER OF TRAINEES	TIME FRAME	STATUS
3	PPP Water Supply Projects Conference	Center for Management Technology/Hotel Mandarin, Jakarta	Ir. Bastary P. Indra/BAPPENAS Ir. Haryo Sasongko, MSc./Dept. of Home Affairs S. Hasudungan Tambunan, SE/Dept. of Home Affairs Destry Damayanti, SE, MSc./Dept. of Finance Ir. Rina A. Indriani, MURP/Dept. of Public Works	5	Aug 28-29, 1996	Completed
4	Training on Public-Private Partnerships Pilot I	PURSE Project/Gunung Hijau Resor, Cipanas	Sekwilda Tingkat II Cirebon Drs. H. Djoko Marsito/Pemda Kodya Cirebon Drs. H. Edi Djunaedi/Pemda Kodya Cirebon Rohedi Y. Koesworo, SE/Bappeda Kodya Cirebon Ir. Marshal Hutagalung/Bappeda Sumatera Utara Ir. Salman Siregar, MSi./Bappeda Sumatera Utara Ir. Sri Sularmi Suhud/PDAM Kodya Cirebon Drs. H. Moenir Shamsudin/PDAM Kodya Cirebon Ade Sudarsono, BSc./PDAM Kodya Cirebon Ir. Carolina Hapsorini/PDAM Kodya Cirebon Ir. Urip Adrijatno/PDAM Kodya Cirebon Drs. Moh. Asikin M./PDAM Kodya Cirebon Kambali/PDAM Kabupaten Sidoarjo Sulkan/PDAM Kabupaten Sidoarjo I Made Astawa, SE/PDAM Kabupaten Sidoarjo Dra. Ac. Diana Murtriyanti/PDAM Kodya Semarang Ir. Atiek Sitawati/PDAM Kodya Semarang Noor Haryadi, SE/PDAM Kodya Semarang	18	Nov 11-18, 1996	Completed

NO.	DESCRIPTION OF ACTIVITY	ORGANISER/ LOCATION	PARTICIPANT/ AGENCY	NUMBER OF TRAINEES	TIME FRAME	STATUS
5	Training on Public-Private Partnerships Pilot II	PURSE Project/Summit Panghegar, Puncak	Drs. Saman Kadarisman/Pemda Kodya Semarang Drs. Bambang Supriyadi/BKPMD Prop. Jawa Timur Ir. Bambang Sutono/Pemda Kodya Sidoarjo Drs. A. Syahfur Hakim/BKPMD Kalimantan Timur Tjutjup S./Walikotamadya Balikpapan Thamrin Datupalinge/Pemda Kabupaten Donggala Wahyu D. Djanggola, SE/Dipenda Kab. Donggala Ir. Loegiono, Dipl. HE/PDAM Kodya Sidoarjo Ibramsyah, BE/PDAM Kodya Balikpapan Marianto, BCKN/PDAM Kodya Balikpapan M. Sudirman, B.Ac./PDAM Kodya Balikpapan Ir. Dewi Sulastri/PDAM Kodya Balikpapan Ir. Ilham Majid/PDAM Kabupaten Donggala Nurindah Agus, SE/PDAM Kabupaten Donggala Ir. S. Arief/PDAM Kodya Bandung	15	Nov 18-26, 1996	Completed
6	Training of Trainers (ToT) II	PURSE Project/Jakarta	Central government officials	20	Early Jan 1997	Being organized
7	Training on Public-Private Partnerships Pilot III	PURSE Project/Denpasar, Bali	Local and central government officials	30	March 1997	Being organized

APPENDIX C

ISSUES AND OPPORTUNITIES

A number of issues and opportunities have presented themselves during the reporting period which may affect Project implementation over the next quarter and beyond.

C.1 Lack of Competition and Transparency are Constraining the PPP Process

Over the course of the past year the Government has made significant strides in further refining and improving the policy and legal framework for attracting private investment to fund public infrastructure projects through public-private partnerships. A ministerial instruction (Number 21/96) was issued by MOHA providing guidance on water project development; work was begun on the the writing of a PPP Keppres; the development of a PPP Center has been initiated; numerous conferences on the subject were sponsored; training in PPP development at the local government and enterprise level has been supported. All of these, among others, are necessary and important steps to be taken in creating the environment for PPP projects to occur, and lend weight to Central Government's public pronouncements that it is actively seeking to encourage and facilitate the PPP process in Indonesia. Despite all of these constructive efforts, public private partnerships for urban infrastructure in Indonesia have not made the strides anticipated during 1996. Why not?

As discussed above in the Executive Summary and throughout section A.3 Current Core Activities, PURSE believes that the implementation of public-private partnerships in the urban environmental infrastructure sector is being seriously constrained by **a) failure to insist on a competitive procurement process**, which; **b) promotes a lack of transparency**, and inevitably results in; **c) high project costs**, which in turn leads to **d) unbankable projects**. (A fifth possible constraint, lack of institutionalized "tools" for assisting local government and PDAMs in the PPP process, is discussed below under subsection C.2)

PURSE has yet to promote a PPP water project using a competitive process. Although Palu, a PURSE demonstration project, has indicated interest in going this route, there are several technical issues, including sufficient demand, which may preclude the interest of a private investor in this city. In every case with the exception of Balikpapan, where the private investor and the PDAM appear to be following the Project Life Cycle process for unsolicited proposals, negotiations between the parties are stalled at some point in the process. The issues almost inevitably involve price, and the unwillingness of the private party to share with the PDAM the details of its investment plan or other cost factors which determine tariff. The lack of a transparent negotiating process is certain to result in a project cost which is higher than necessary, and a proposed tariff burden on the consumer. At least it will certainly cause that perception.

Without the benefit of competition, the PDAM is not able to know what is a good fair price, and what is not. There is no basis for comparison. Because the projects have not been competitively tendered, and the pressures on the PDAM and local governments to expand water service are intense, the PDAM cannot terminate discussions with the proposer and turn to another (pre-qualified) party to negotiate.

Project definitions and the private parties proposing to implement them have also been weak. Medan is a classic example. Due to a lack of thorough due diligence into the qualifications of the proposed private party, the PDAM Tirtanadi spent considerable time and resources negotiating a project which, in the end, the private party did not have the resources to finance. The result is a serious delay in the timetable to bring on line expanded clean water services.

Recommendations. Several efforts are urgently needed to be made concurrently by PURSE, USAID, and the Government to improve this situation. Among the **next steps** that should be considered are:

a. The Government, at the very highest levels, should declare that water in particular, as a social commodity and essential for life and health, is off limits to political interference and profiteering. Interference from politically connected individuals and companies whose only objective in participating in a PPP project is to extract exorbitant profits while offering neither equity nor any other contribution should not be tolerated.

b. The Government can best be accomplished by placing far greater emphasis on the competitive process. Consideration might be given to an incentive system for competitively tendered projects, including complementary investment and credit support where needed. These "benefits" might be denied PPP projects resulting from unsolicited proposals.

c. USAID, PURSE and the Government should agree to revise the current PURSE Third Work Plan to optimize project resources to focus on specific high profile efforts with a high likelihood of success. This would include a review of all demonstration projects within PURSE's current portfolio to evaluate whether continued Project involvement will facilitate closure of a PPP deal, or whether other/new demonstration projects should be pursued.

PURSE's current demonstration projects could be categorized as follows:

<u>Progressing well:</u>	Balikpapan
<u>Stalled negotiations:</u>	PAM Jaya (2) Semarang (PT. Kendogo Moro) Semarang (Waste Management)
<u>Stalled proj. identification:</u>	Cerebon Palu
<u>Possible political interference:</u>	Surabaya

d. Bring to closure the Government's institutionalization of PURSE products and in-country training program (discussed in more detail below).

e. USAID and PURSE should consider bringing to Indonesia for an extended period a world-recognized PPP expert to conduct an in-depth objective analysis of PPP in the country. This expert would look at lessons learned to date, and the current status of projects under development or consideration. He/she would interview private sector investors and government officials at both the central and local level. His/her report would identify *real* issues and constraints to PPP, and make recommendations for moving the process forward. The expert's report work would culminate in a very high level, restricted seminar to which a limited number of Government officials and private sector individuals would have the opportunity for a frank exchange of views and opinions.

f. When a deal does get signed, PURSE should do an in-depth analysis of the project development and negotiation process, and develop a "lessons learned" report which would feed into the PURSE in-country training program, and on-going consulting activities.

C.2 Institutionalizing PURSE Products

This is also a critical issue that merits the full attention of PURSE and our Government counterparts, and should be one of the highest Project priorities over the next few months.

A number of the products being developed by the PURSE Project will become official Government of Indonesia documents. These include the Project Life Cycle, the Risk Management Handbook, the Financial Analysis Model, and the In-country Training Program, among possibly others. To facilitate the process of their "legalization", and to ensure their sustainability and continued development and improvement, it is important that each of these products/documents become "owned" by the appropriate agency within Government. Without such ownership, these products will suffer from inattention and lack of commitment, and their full potential to serve the PPP process in Indonesia will not be realized.

The final decision on the institutional homes for PURSE documents must be made by the GOI and is outside the management interest of the PURSE Project.

Recommendation: PURSE will bring this issue to the attention of the Tim Kerja early in the next quarter. Based on guidance from the Tim Kerja, PURSE will make preliminary recommendations for consideration by the Tim Teknis.

C.3 Institutionalization of Training

PURSE has been exploring options for institutionalizing the Project's training program. A key element of the revised PURSE Training Strategy is to "roll out" the in-country training for PPP projects on a nationwide basis. Such a roll out is beyond the resources and capacity of the PURSE Project alone, but critical to ensuring that cities interested in pursuing PPP projects have a better understanding of the issues involved and methodologies to follow.

To respond to this need, the PURSE training manager and other advisors met throughout the year with numerous training organizations and universities to identify a "home" for the PURSE in-country training program. Among these were the ministry Diklats of Home

Affairs and Public Works, Pancasila University and the University of Indonesia, and the Urban Management Training Program. The Chairman of the Tim Teknis has suggested that perhaps the PPP Center, still under formulation, would be the appropriate venue for materials development and "legalization", while the diklats and other organizations could be the vehicles for training delivery. This is an important issue which merits careful consideration by PURSE and a decision by our Government counterparts in the coming months.

Recommendation. PURSE proposes to discuss this issue further with the Tim Kerja early in the first quarter 1997. A possible interim measure under consideration is the transference of the administration/delivery of the PURSE in-country training program modules to the Urban Management Training Program.

C.4 Amendment to the SSEK Subcontract

The Third Phase of the SSEK subcontract has been revised to permit this local law firm to participate more widely with PURSE in areas of legal concern to the Project. In particular, SSEK will now be able to work with the Project on demonstration projects to assist with: review of PPP project documents, such as joint venture agreements, memoranda of understanding, and draft contracts; provide evaluations of proposed risk allocations; participate in meetings; and, make presentations to local government and PDAM officials, among other related activities.

SSEK will remain available to assist with the development of the PPP Keppres, should PURSE be called upon to do so.

C.5 Third Work Plan

The PURSE Steering Committee has requested a review of the Third Work Plan (currently half way through an 18 month plan period) and to make appropriate modifications. While PURSE feels that most of the activities currently underway or projected are worthwhile, the Project welcomes the opportunity of more flexibility that a "rolling" work plan offers.

Recommendation. A working meeting should be held with USAID and the Tim Kerja to review the Third Work Plan and implementation status. Tasks which are now viewed as a lesser priority for the Project should be officially dropped from the Plan. At the same time priority activities for the Project for the remaining 20 months of the project should also be considered, and an outline for the Fourth Work Plan (July 1, 1997 - September 30, 1998) prepared.

C.6 Additional Resources for PURSE

During the course of the year, PURSE has been experiencing an increasing number of requests for assistance from local governments and PDAMs interested in exploring the PPP option for their infrastructure development. Unfortunately, resource constraints have limited PURSE to offering only general review and advice -- not the more in-depth consulting services provided to officially designated demonstration project cities.

With the assistance of the USAID Project Officer Timothy Alexander, and the Chairman of

the Tim Teknis, Dr. Ir. Sujana Royat, a solution to this dilemma has been found. Through a USAID contracting vehicle called an Indefinite Quantity Contract (IQC) additional resources in the form of four local and expatriate engineers and financial analysts are expected to join the PURSE Team in early 1997.

Although provided under a separate contract vehicle held by Chemonics (with the Institute for Public Private Partnerships as a subcontractor), the four advisors will be fully integrated into the PURSE Team, and will follow PURSE's management structure.

C.7 New Demonstration Project Cities

With the additional project resources being acquired through the IQC, PURSE expects to provide technical assistance services to at least four additional demonstration project cities. Included among these will be Surabaya, which is analyzing two large water supply project options. Three other demonstration project cities will be identified in the next quarter.

Recommendation. The Government, through the office of the Chairman of the Tim Teknis, should prepare a list as soon as possible of 6-8 potential demonstration project cities for the PURSE IQC Team to visit. Criteria by which the projects/cities would be evaluated should also be developed and agreed upon.

C.8 Coordination with Other Projects/Donors and the Private Sector

Municipal Finance Project: Several meetings were held with the MFP Project to coordinate work being carried out by PURSE on the Financial Analysis Model, FinPro, and the development of PURSE monitoring indicators for PPP projects.

Urban Management Training Program: PURSE continued to coordinate with UMTF on training issues of mutual interest. Principal among these was the institutionalization of the PURSE training program.

TAP4-I: The close relationship between TAP4-I and PURSE continued to be nurtured during the reporting period. PURSE worked closely with TAP4-I staff and PMU manager Ir. Rusli Djalil on terms of reference to provide TAP4-I funded consultants to PUOD, and to provide comments and revisions to the draft PPP Keppres, as well as other issues of mutual concern.

Jakarta Water Sector Supply Project: Long dormant, JWSSP has during the past quarter been restaffed and is again actively providing assistance to PAM Jaya in their negotiations with the two proposed concessionaires. Although this fact, by design, has lessened somewhat PURSE's own involvement with the PAM Jaya privatization process, cooperation between the two Projects is excellent. Documents and information are routinely shared, and PURSE is kept current on the details of the negotiation process.

World Bank: PURSE continued to coordinate with World Bank staff, particularly with respect to issues concerning the Project Life Cycle, model contract documents, and the PPP Keppres. PURSE also coordinates with the TKPP PMU Director, Ir. Bambang Penuju on the SSUDP Project, which impacts Semarang.

Asian Development Bank: PURSE coordinated and provided briefings and appropriate documents to ADB-sponsored efforts for the Urban Management Institutional Development Project in Bogor and Palembang (BOPAL), and for the Capacity Building for Human Settlement Management Project, based in Jakarta. PURSE also provided materials to assist the Ministry of Communication's Transport Sector PPP Project under the firm Gibb Asia.

Japan International Cooperation Agency: PURSE advisors met on numerous occasions with JICA officials to coordinate activities and share documents and information.

French AID: Copies of the Project Life Cycle and other PURSE products were made available to representatives of Euro Asia Partners, Ltd. This group is carrying out a 6 month study in Cipta Karya financed by French AID on ability to pay for privatized water projects.

PURSE meets on a regular basis with members of the private sector looking to learn more about the Government's PPP initiatives. During the year 1996, PURSE met with, among others:

- o Waste Management Indonesia
- o Klohn-Crippen Consultants
- o Worely Consultants
- o International Water Limited
- o Sinclair Knight Merz
- o Malcolm Pirnie
- o Energy Works
- o Intergen
- o GKW Consult
- o Hickling Indonesia
- o ACTEW Investments
- o IWACO Bv.
- o PT Tera Buana Manggala Jaya
- o Gibb Asia
- o PT Deserco
- o Coudert Brothers
- o CMPS & F Group
- o IPCO International
- o Louis Berger International
- o Puncak Niaga(M) Sdn. Bhd.

C.9 Personnel

Short-term assignments were initiated or carried out during the quarter by Bennett Parton (identification of financial constraints and issues with respect to demonstration projects); Deborah Leffert (the Financial Analysis Model); Richard Jones (technical engineering support to demonstration projects and developing monitoring indicators for PPP projects).

APPENDIX D

PURSE

Private Participation in Urban Services

PROPERTY INVENTORY VERIFICATIONS

Calendar Year 1996

Value of Non-Expendable Government Property Inventory: \$175,750.82

Average Age of Property by Category

Office Equipment	42 months
Computers & Related Equipment	42 months
Vehicles	36 months
Office Furniture	40 months
Staff Appliances	40 months

I hereby attest that,

- 1) Physical inventories are taken not less frequently than annually;
- 2) That accountability records maintained on Government property in our possession are in agreement with such inventories; and
- 3) The total of the detailed accountability records maintained agrees with the property value shown above and on page 10 of the attached Inventory form, and that the estimated average age of each category of property is as cited above.

Signed:

William J. Parente
Chief of Party

Date

Last Update : 12/18/96

PURSE Commodity Procurement Inventory

DESCRIPTION	NUMBER	SPECIFICATIONS	INTENDED USE	SOURCE	ORIGIN	COST	PURCHASED	BATCH #
Office Equipment								
Typewriter Panasonic KX-R305	1	Daisy wheel printing 10 characters/second Max paper width: 12" Multiple pitch (10, 12) On line correction memory	For completion of forms & typing labels	Indonesia	Japan	\$181.59	11/3/93	0021/93
Facsimile machine Panafax-UF300	1	Desktop transceiver Digital modem speed Plain paper inkjet printer 12 second transmission speed Error correction mode Auto document feeded Transmission verification stamp A4, Legal papers Auto dialer/redialer Mem/transmission/retransmission Programs keys	To conduct business communications with USAID, GOI & other PURSE contacts	Indonesia	Japan	\$2,147.68	5/10/93	0102/93
Key Telephone Panasonic Super/A512	1 system 12 extensio	Intercom speech path Auto speed dial/redial Handfree intercom Cabling method Battery backup time	To conduct business communications with USAID, GOI & other PURSE contacts	Indonesia	Japan	\$3,465.29	5/3/93	0101/93
Key Telephone	1 set	Key Telephone A-824 (6-6), with : 1 Main unit, 1 battery, 6 pcs Telph & conctr 2 pcs cold card and LC card and installment charges	To conduct business	Indonesia	Japan	\$2,776.23	06/26/95	0772/95

Last Update : 12/18/96

PURSE Commodity Procurement Inventory

DESCRIPTION	NUMBER	SPECIFICATIONS	INTENDED USE	SOURCE	ORIGIN	COST	PURCHASED	BATCH #
Filing Cabinets	4	4 drawer file cabinets	To store project files	Indonesia	Indonesia	\$1,500.00	5/25/93	0123/93
Yamanaka	4	2 drawer file cabinets	To store project files	Indonesia	Indonesia	\$260.62	5/25/93	0123/93
Filing Cabinets Alba	7	4 drawer file cabinets	To store project files	Indonesia	Indonesia	\$1,024.31	07/24/95	848/95
	1	3 drawer file cabinets	To store project files	Indonesia	Indonesia	\$119.32	07/24/95	848/95
Stapler MAX Model 1217 L	1	All size staples	To bind project reports	Indonesia	Indonesia	\$87.60	10/03/94	0247/94
Refrigerator Mitsubishi MR-132	1	Single door, top rack, freezer. 50 watts power consumption	To keep medicines & refreshments	Indonesia	Japan	\$329.00	5/12/93	0107/93
Coffea Maker National NC 641E	1	Completed with mixer bottle	To crush/mix coffea	Indonesia	Indonesia	\$106.18	5/12/93	0107/93
Vacuum Cleaner Rowenta RU-05	1	Flexible hose w/ suction regulator 19 litre barrel Carpet and floor nozzle upholstery nozzle, exhause air 800 watts power consumption	Office carpet cleaning	Indonesia	Germany	\$598.00	5/12/93	0107/93
Binding Machine IBICO , PB -21	1	Paper hole punch 22 hole punch 22 slot binding capability	Report Preparation & Binding	Indonesia	Germany	\$400.00	08/16/93	0291/93

Last Update : 12/18/96

PURSE Commodity Procurement Inventory

DESCRIPTION	NUMBER	SPECIFICATIONS	INTENDED USE	SOURCE	ORIGIN	COST	PURCHASED	BATCH #
Computers and Related Equipment								
Computer Kronus Legend		Processor 486DX/33 200 MB removeable Harddisk 256 cache memory 8 MB RAM 1.44 MB floppy drive Super VGA monitor Six-16 bit and two 8-bit ISA slots 200 watts power supply 101 keys keyboard MS DOS 5.0 original Mouse - 400 dpi with 3 button	For accounting & budget preparation	Indonesia	USA/ Indonesia	\$2,897.08	8/31/93	0109/93
Computers	1	Processor 486DX/33 Model 210 2 x 1.44 MB FDD Monitor 14 SBM MS DOS 5.0 Original Mouse Pad	Preparation of project reports, manuals and other documents.	Indonesia	USA/ Indonesia	\$1,625.17	10/31/94	0269/94
Computers	4	Processor 80486DX/50 8 MB RAM 200 MB Harddisk (removeable) 101 keys keyboard Mouse Super VGA monitor (1024x768) 1 serial; 1 parallel, 1 mouse Modem(for emails) & keyboard ports 1.44 MB floppy disk drive 3 1/2" 512 KB VGA card Cache memory	Preparation of project reports, manuals and other documents.	Indonesia	USA/ Indonesia	\$10,400.00	8/31/93	0385/93

Last Update : 12/18/96

PURSE Commodity Procurement Inventory

DESCRIPTION	NUMBER	SPECIFICATIONS	INTENDED USE	SOURCE	ORIGIN	COST	PURCHASED	BATCH #
Computers	4	Processor 80486DX/33 4 MB RAM (2 comp. extended to 8MB) 100 MB Harddisk (2 comp. add 210 MB) 101 keys keyboard Mouse Super VGA monitor (1024x768) 1 serial; 1 parallel, 1 mouse Modem(for emails) & keyboard ports 1.44 MB floppy disk drive 3 1/2" 512 KB VGA card Cache memory	Preparation of project reports, manuals and other documents.	Indonesia	USA/ Indonesia	\$7,700.00	8/31/93	0385/93
Computers	2	Processor 80486DX/33 4 MB RAM & 8 MB RAM 100 MB & 300 MB Harddisk 101 keys keyboard Super VGA monitor (1024x768) 1 serial; 1 parallel, 1 mouse Modem(for emails) & keyboard ports Mouse 1.44 MB floppy disk drive 3 1/2" 1.22 MB floppy disk drive 5 1/2" 512 KB VGA card Cache memory	Preparation of project reports, manuals and other documents.	Indonesia	USA/ Indonesia	\$4,000.00 Japan	8/31/93	0385/93
Computers	1	Processor 80486DX/33 8 MB RAM 210 MB Harddisk (removeable) 101 keys keyboard Super VGA monitor (1024x768) 1 serial; 1 parallel, 1 mouse Modem(for emails) & keyboard ports 420dpi high resolution 3-button mouse Dual 1.44 MB floppy disk drive 3 1/2" 256KB external /8K Internal cache Upgradeable Processors MS-DOS 5.0	Preparation of project reports, manuals and other documents.	Indonesia	USA/ Indonesia	\$2,033.27	8/19/94	0150/94

Last Update : 12/18/96

PURSE Commodity Procurement Inventory

DESCRIPTION	NUMBER	SPECIFICATIONS	INTENDED USE	SOURCE	ORIGIN	COST	PURCHASED	BATCH #
Everex NoteBook Computer	2	Processor 80386 4 MB RAM 82 MB Harddisk 84 key Keyboard 1,4 MB Floppy Disk VGA Monitor	Preparation of Project docs.	USA	USA	\$4,606.00		
Dell NoteBook Computer	1	Dell Latitude 450 MCX 8 MB RAM, 1 MB VRAM 3.5" FDD, 340 MB HDD 2 X NIMH Batteries, Adaptor Carrying Case Dos 6.3, Windows for workgroup	Preparation of Project Report	Indonesia	USA	\$3,968.62	12/01/94	0346/94
Texas Ins. Note Book Travelmate 6030	1	CPU Pentium 133Mhz 16MB Ram Memory 12.1" TFT Color Active Matrix 1.35GB Hard Disk- 1.44 MB Floppy Drive 6x Speed CD Rom - 16 Bit Sound Card Carrying Case	Demo Project Work Facility	USA	USA	\$4,545.45	11/12/96	1847/96
Printer Hewlet Packard LaserJet 4	1	Eight page/min laser print engine 600 dpi printing resolution 45 internal scalable fonts 2MB memory (extended to 4MB) 4 SIMM slots/Macintosh PS interface Multipurpose paper tray (A4, Letter) PCL 5 printer language	For professional printing of computer documents	Indonesia	USA	\$1,800.00	02/17/93	0007/93

Last Update : 12/18/96

PURSE Commodity Procurement Inventory

DESCRIPTION	NUMBER	SPECIFICATIONS	INTENDED USE	SOURCE	ORIGIN	COST	PURCHASED	BATCH #
Printer Hewlet Packard PaintJet XL300	1	8 MB Memory Board Jet Direct LJ 4Plus	For professional printing of computer documents, graphics, presentations	Indonesia	USA	\$3,578.25	09/08/94	0136/94
Printer Hewlet Packard Laser Jet 4V	1	Interchangeable paper cassette 600 dpi printing resolution 4MB memory (extended to 68MB) 4 SIMM slots/Macintosh PS interface 35 scalable intellifont typefaces	For professional printing of computer documents, graphics, presentations	Indonesia	USA	\$2,160.22	08/02/95	887/95
Projection Panel ASK Campus Type 300	1	Laser Pointer MP 1800 Carrying Case	Presentation of FAM	Indonesia	USA	\$3,246.75	11/12/96	1811/96
Screen Overhead	1	3M Size 70*	For Presentation	Indonesia	USA	\$190.62	09/15/94	0166/94
Vehicles								
Toyota Kijang Utility Vehicles	2	Utility 4 wheel drive Central door lock, power windows Full A/C, Radio/tape, digital clock Safety belts Radial tyres	For transportation of PURSE team staff to meetings with GOI, USAID and private firms.	Indonesia	Japan/ Indonesia	\$26,000.00	12/28/93	

Last Update : 12/18/96

PURSE Commodity Procurement Inventory

DESCRIPTION	NUMBER	SPECIFICATIONS	INTENDED USE	SOURCE	ORIGIN	COST	PURCHASED	BATCH #
Office Furniture								
Haradiran Associates	1	Director's Sungkai wood desk (200x174x74cm) - 1	Office Use	Indonesia	Indonesia	\$9,878.00		0106/93
	1	Sungkai wood credenza (3.40m long)						
	4	Advisor's Sungkai wood desk (180x90x74cm)						
	1	Sungkai wood credenza (2.40m long)						
	1	Advisor Sungkai wood desk (160x80x74cm)						
	1	Sungkai wood credenza (2m long)						
	1	Sungkai wood conference table						
Haradiran Associates	8	Laminated staff desks	Office Use	Indonesia	Indonesia	\$13,882.00	06/09/95	
	2	Laminated staff credenzas					08/16/95	
	5	Advisors chairs						
	10	Visitors chairs						
	12	Conference chairs						
	12	Staff chairs						
	1	White board cabinet						
	4	Reception chairs						
	1	Sofa + chair set (COP office)						
Studio D-23	1	Bookshelves (built-in)	Office Use	Indonesia	Indonesia	\$8,183.49		
	1	Storage shelves						
	2	Credenza						
	2	Working desk						
	2	Side desk						
	1	Working chair						
	1	Guest chair						
	3	Bookshelves (built-in)						

Last Update : 12/18/96

PURSE Commodity Procurement Inventory

DESCRIPTION	NUMBER	SPECIFICATIONS	INTENDED USE	SOURCE	ORIGIN	COST	PURCHASED	BATCH #
Haradiran Associates	6	Working desks with side desk	Office Use	Indonesia	Indonesia	\$26,329.84		0780/95
	1	Wooden filing cabinet , 2 drawers						0883/95
	2	Book case(full height), big size						0901/95
	2	Book case(full height), medium size						
	12	Meeting chair,staff chair,guest chair @4						
	2	Guest chair and Table (Reception Room)						
	1	White board						
Total Office Equipment						\$167,006.80		
Staff Housing Move-In/Furniture Allowance								
Converter Filoshima	2	1000 volt AC/DC 110/220	Home Use (CMW)	Indonesia		\$170.00		
Lamps	-	-	Home Use (CMW)	Indonesia		\$136.26		
Vacum Cleaner	1	Completed with dush brush	Home Use (CMW)	Indonesia		\$175.00		
Dryer - Candy	1	C 57R	Home Use (CMW)	Indonesia		\$495.62	10/21/94	0256/94
Washer - Modena	1	FL 605	Home Use (CMW)	Indonesia		\$576.30	10/19/94	0249/94
Converter	1	1500 volt AC/DC 110/220	Home Use (JJS)	Indonesia	Japan	\$125.00		
Converter	1	1000 volt AC/DC 110/220	Home Use (JJS)	Indonesia	Japan	\$85.00		
Fan	2	-	Home Use (JJS)	Indonesia		\$125.00		
Lamp	2	-	Home Use (JJS)	Indonesia	Indonesia	\$450.00		
Washer - Modena	1	FL 605	Home Use (JJS)	Indonesia	Indonesia	\$576.30	10/19/94	0249/94
Dryer - General El.	1	DOG - 7280	Home Use (JJS)	Indonesia	Indonesia	\$714.62	10/19/94	0249/94
Gas Bottle	1	12 Kgs	Home Use (JJS)	Indonesia	Indonesia	\$82.99	10/19/94	0252/94
Washer/Dryer	1	-	Home Use (WJP)	Indonesia		\$1,300.00	08/28/94	
Refrigerator	1	-	Home Use (WJP)	Indonesia		\$661.93	08/28/93	

Last Update : 12/18/96

PURSE Commodity Procurement Inventory

DESCRIPTION	NUMBER	SPECIFICATIONS	INTENDED USE	SOURCE	ORIGIN	COST	PURCHASED	BATCH #
Converter	1	1500 volt AC/DC 110/220	Home Use (MC)	Indonesia	Japan	\$125.00		
Converter	1	1000 volt AC/DC 110/220	Home Use (MC)	Indonesia	Japan	\$85.00		
Washer/Dryer	1	-	Home Use (MC)	Indonesia		\$1,300.00	08/28/93	
Refrigerator	1	-	Home Use (MC)	Indonesia		\$600.00	08/28/93	
Fan	2	-	Home Use (MC)	Indonesia		\$125.00		
Lamp	-	-	Home Use (MC)	Indonesia	Indonesia	\$250.00		
Converter	-	1500 volt AC/DC 110/220	Home Use (UEA)	Indonesia	Japan	\$125.00		
Converter	-	1000 volt AC/DC 110/220	Home Use (UEA)	Indonesia	Japan	\$85.00		
Fans	-	-	Home Use (UEA)	Indonesia		\$125.00		
Lamps	-	-	Home Use (UEA)	Indonesia	Indonesia	\$250.00		
Total Household Furnishing						\$8,744.02		
TOTAL TO DATE #)						\$175,750.82		

APPENDIX E

PURSE

Private Participation in Urban Services

Synopsis of Project Documents

1. **Training Implementation Plan**

PURSE Report No. 103.00/93/001, July 1993

As required by the technical assistance contracts, this Training Plan laid out projected training activities for the first year, as well as the entire life of project. The plan discusses project training goals for in-country programs, overseas short courses and observational/study tours, and longer-term formal academic degree programs in United States.

2. **Work Plan for Project Year One**

PURSE Report No. 104.00/93/002, July 1993

This first year project work plan details implementation activities for the period August 1993-1994. It also lays out the "Life of Project Guideline", which serve as an overview of project goals. The Work Plan activities are organized according to the three project components - Policy, Legal and Regulatory, Demonstration projects, and Training and Communications. In addition to timeline charts suggesting duration of each activity and the assignment of implementation responsibilities among the PURSE advisor, the Work Plan contains detailed narrative descriptions of each projected task.

3. **Preliminary Review and Evaluation of Central Government Policy**

PURSE Report No. 101.02.1/93/003, March 1994

The purpose of this study is to outline existing Government policies and policy deficiencies which impact on the process of facilitating private participation in urban services projects. It highlights areas and issues requiring more detailed policy guidance. The report concludes that macro level policy expressing the Government's commitment to pursuing the PPP/PSP option for infrastructure development are already embodied in current legislation, and that the private sector has already begun to recognize the opportunities offered under current policies. However, the report notes that more detailed and explicit policies in support of the existing general policies are now needed to facilitate implementation of more complex projects.

4. **Baseline Review of Existing Legal and Regulatory Issues for Public Private Partnership and Private Sector Participation Projects**

PURSE Report No. 101.02.1/93/004, March 1994

In order to begin the process of assessing the current legal and regulatory framework private participation in public infrastructure projects, PURSE undertook an initial baseline review of those issues most relevant to project implementation. The report's purpose was to assist the Government by providing an overview of what new laws and/or amendments to existing legislation may be required to facilitate public-private partnerships in the three PURSE technical sectors. The report includes a background description of Indonesian governmental structure, and a discussion of the most critical laws, regulations and statutes affecting PURSE. One of the outcomes of the work in preparing this document was a recommendation to hire a local law firm to conduct a more in-depth review of the legal framework (see PURSE Report 101.01/94/016, described below).

5. **Project Financial Structures and Financial & Performance Guarantees for Build, Own and Transfer Projects**

PURSE Report No. 102.02/93/005, March 1994

This report provides Government officials with a comprehensive explanation of project financing structures and project performance and financial risks that are an integral part of all public-private partnership business transactions. The report describes and outlines a "typical" BOT project structure; outlines and defines performance risk and guarantees; discusses financial obligations of both government and business in a BOT transaction; analyzes loan repayment risk issues, and other risks; and, how the Government might develop a risk diversification strategy. Finally, the report lists a series of recommendations for the Government's consideration, including the development of capital market financing instruments (revenue bonds for water and wastewater projects).

6. **Description of Existing Private Sector Participation Projects and Public Private Partnership Projects in Indonesia - An Analysis of the Lessons Learned**

PURSE Report No. 102.04.1/93/006, March 1994

This report presents and assesses case studies of fifteen infrastructure transactions in the water, wastewater, solid waste, power and highway sectors, mainly in Indonesia. It summarizes the key lessons learned from several private sector participation and public-private partnership transactions completed to date, and recommends specific actions to the Government of Indonesia for use in future such projects. The recommendations focus on specific technical actions that are achievable in the near term.

7. **First Annual Progress Report and Quarterly Progress Report No. 1**
PURSE Report No. 106.00/93/007, January 1994

The document summarizes the first year of PURSE Project activities. It details the five major programmatic areas on which the project focused, including: Financial and Performance Guarantee Study; Case Studies for Public-Private Partnerships; Preliminary Inventory and Profile of Potential Demonstration Projects; Legal and Regulatory and Policy Review, and; Study of Alternative Financial and Organizational Models.

8. **PURSE Roundtable Discussion Papers**
PURSE Report No. 303.5/94/008, February 1994

PURSE's first "Public-Private Forum" on the topic of private sector involvement in the development and financing of public infrastructure projects in Indonesia included presentations by many highly regarded experts from throughout Southeast Asia as well as Indonesia. The Forum was a day-long event held in Jakarta, attended by representatives of the private sector community, officials from the Government of Indonesia, and the international donor community. This document is compendium of papers presented by the speakers at the Forum.

9. **Quarterly Progress Report No. 2**
PURSE Report No. 105.00/94/09, April 1994

Covering the period January-March 1994, this report summarizes PURSE activities for the period, and addressed specific implementation issues affecting the project at this time. Accomplishments during the period include the initiation of several activities in the development of a policy, legal and regulatory framework, such as the identification of a local law firm to study the existing legal framework, the first stages of the preparation for environmental regulations in water and solid waste. Also during this period a successful public-private forum on private participation in infrastructure investment was held in Jakarta, sponsored by PURSE.

10. **Project Identification**
PURSE Report No. 102.03.2/94/010, May 1994

The purpose of this report is to provide an update on the status of the identification of PURSE demonstration projects. It summarizes activities through May 1994, and proposes a series of actions to be taken by PURSE and the Government through the end of the calendar year 1995. The report reviews the screening criteria, indicators and process used by the PURSE Tim Kerja in identifying viable demonstration sites, and proposes schedules for site visitation and project identification and verification.

11. **Quarterly Progress Report No. 3**
PURSE Report No. 105.00/94/011, July 1994

This report covers implementation progress for the period April-June 1994. Among the noteworthy development during this period are the selection, together with PURSE Government counterparts, of eight cities as sites for potential demonstration projects; short course training programs in the U.S. included negotiation techniques, analysis and negotiations of BOO/BOT projects, and investment appraisal and management. Short-term technical assistance activities include initial work on landfill standards and regulations, a discussion paper on wastewater issues, and the initiation of a study of the country's water tariff policy.

12. **Case Study Training Material: Paiton Power Project, East Java and Nusa Dua Water Supply Project, Bali**
PURSE Report No. 102.04.2/94/012, July 1994

As part of an orientation program on BOO/BOT projects for PURSE counterparts, two case studies were prepared on actual projects in Indonesia. Using available data and information on projects with which the participants were familiar, the case studies brought alive the financing, structuring, and other concerns of each of the parties involved in developing these projects: the lenders, the government, and the private parties. Through the use of background readings, handouts, overhead transparencies and discussions, the basic concepts, issues, terminology, benefits and risks of these types of projects are conveyed in meaningful detail.

13. **Quarterly Progress Report No. 4**
PURSE Report No. 105.00/94/013, October 1994

The progress report for the period August-October 1994 highlights many of the changes which affected the PURSE Project, as well as considerable accomplishments during the period. A new chief of party and expatriate municipal services advisors joined the team. Technical work continued on the legal and regulatory review, development of the financial analysis model, solid waste regulations and standards, and the evaluation of potential demonstration projects. Short term assignment occurred in the areas of the project development cycle, standardized bidding procedures, among others. In addition, considerable work was done, on the development of priority activities and tasks of the PURSE second work plan.

14. **Private-Public Partnerships in Infrastructure Development: The U.S. Experience**
PURSE Report No. 101.09/94/014, October 1994

Prepared for the World Infrastructure Forum, held in Jakarta, by Dr. Dennis Rondinelli, a recognized U.S. expert in decentralization and issues affecting infrastructure development worldwide, this paper served as the basis for the remarks by the Forum's official U.S. representative, Ms. Diane Rudo, vice president for project finance, U.S. Ex-Im Bank.

15. **Second Work Plan**

PURSE Report No. 106.00/94/015, October 1994

The second PURSE work plan covers a fifteen month period from October 1994 - December 1995. This work plan includes a brief overview of the continuing relevance of the Life of Project Guide, and a synopsis of the accomplishments during the first project year. While the format largely follows that of the first project work plan, the document uses new graphics to provide clearer charts and tables, and includes a comprehensive discussion of individual workplan tasks. It also recognizes appropriately Component One of the Project (Policy, Legal and Regulatory) into four coherent subgroupings: Financial Instrument and Guarantees, Contract Management Procedures and Guidelines, Legal & Regulatory Framework, and Monitoring and Evaluation Indicator System.

16. **Narrative Description - Indonesian Laws and Regulations on Public Private Partnerships and Private Sector Participation in the Sectors of Water Supply, Waste Water and Solid Waste**

PURSE Report No. 101.01/94/016, November 1994

As the first step in its scope of work under subcontract to PURSE, the Indonesian law firm of Soewito, Suhardiman, Eddymurthy & Kardono (SSEK) completed a detailed review of the body of law affecting private participation (domestic and foreign) in infrastructure projects in the three PURSE technical sectors. This document provides a comprehensive synopsis of all laws, decrees (presidential, ministerial) and regulations which may encourage or constrain the private sector. It offers some background on PPP/PSP projects to date in the country, and deals specifically with each PURSE sector individually. This report will be followed by a detailed analysis of the omissions and deficiencies in the legal framework, leading to possible recommendations for amended or additional legislation.

17. **Demonstration Projects Report**

PURSE Report No. 101.04/94/017, November 1994

This report provides a comprehensive overview of the selection and identification of potential demonstration project sites, and the subsequent field surveys to these sites to ascertain the viability of specific demonstration projects. Following a detailed selection process and methodology, the PURSE Tim Teknis authorized PURSE to continue to investigate four potential demonstration projects in the water/wastewater sectors (Medan, Lhokseumawe, Surabaya, Balikpapan) and four in the solid waste sector (Medan, Tangerang, Ujung Pandang, Mataram). After a presentation by PURSE at the MAKSI conference in Solo in July 1994, PURSE advisors, together with Government counterparts visited each of these potential project sites to meet with local authorities and to evaluate jointly the individual projects. This document provides a summary of the projects, the issues each presents to the PURSE project, and the conclusion of the group as to the merits of the project, and recommendation as to whether the project should be pursued as a PURSE demonstration project at this time. Project selection criteria and rating sheets are included as annexes to this report.

18. **Water Tariff Policy in Indonesia**

PURSE Report No. 101.05.1/94/018, November 1994

This study focuses on the Government policies followed by local water authorities (PDAMs) to establish water tariffs. Its purpose is to clarify the process through which tariffs are set, in the hopes of reducing uncertainty about tariffs and operating revenues to facilitate private sector investment interest in water projects in Indonesia. The report examines the rate setting process, including the use of "harga pokok" to ensure social equity in water pricing. It provides a pricing policy case study, using the available data of a single PDAM to understand how Government policy is actually implemented. Finally, the report offers a series of conclusions and recommended on broad and specific tariff policy issues for both the Government and PURSE considerations.

19. **Financial Analysis Model (Preliminary Report)**

PURSE Report No. 102.01.1/94/019, November 1994

The purpose of this document is to assist the PURSE project and the management of local water authorities (PDAMs) ascertain the financial condition of the PDAMs, and to determine the preliminary financial feasibility of potential demonstration projects from the perspective of both Government and potential investors. The model, which will conform to current Departemen Dalam Negeri accounting standards, consists of three interrelated modules: financial results module, tariffs module, and project pre-feasibility module. The report discusses the preliminary information outputs of each module, and their presentation formats.

20. **Solid Waste Management Regulation (Draft)**

PURSE Report No. 101.02.2/95/020, January 1995

Prepared for Ministry of Public Works, this document proposes regulations for the collection, transportation, processing, and disposal of solid wastes. It is presented according to the format for Government regulations, and contains nine chapters. These chapters include General Provision, Goals and Objectives, Rights, Responsibilities and Authorities, Requirements to Plan for Solid Waste Management, Collection and Handling of Solid Waste, Facility Permit Provisions, Location Standards for Facilities, Design Standards and Transition Provisions.

21. **Monitoring and Evaluation Indicators**

PURSE Report No. ID. 108.5/95/021, January 1995

This document proposes means by which the Government, and USAID, might measure progress in involving the private sector in the provision of urban infrastructure services. It identifies quantifiable measures, based on existing data and information. Among the indicators for capital intensive projects is the amount of realized investment, and the value of services provided or the physical capacity provided per year. Contextual indicators would include the percent of urban population served by the infrastructure. The report discusses the value of each type of measure, and suggests ways in which the relevant information could be collected.

22. **Annual Progress Report - 1994**
Quarterly Progress Report No. 5 : October 1 - December 31, 1994
PURSE Report No. 105.00/95/022, February 1995

This document serves as both PURSE's annual report for the calendar year 1994, and the Quarterly Progress Report for the fourth quarter of the year. The report summarizes the status of PURSE activities to date by project component, and includes activities projected for the next quarter as well. It reviews of all personnel actions taken during the year, and contains a summary of short-term technical assistance. It also identifies specific issues and opportunities facing PURSE, including the need for additional local professional and support staff, as well as office space and facilities, to effectively carry out the Project's activities. Annexes include a report on the project's financial status, and a synopsis of PURSE publications to date.

23. **Quarterly Progress Report No. 6: January 1 - March 31, 1995**
PURSE Report No. 105.05.00/95/023, April 1995

The Quarterly Progress Report summarizes project activities during the reporting period, and projects implementation activities for the succeeding quarter. Highlights of the quarter include: work begun on the analysis of existing laws and regulations, being carried out by PURSE subcontractor SSEK; continued development and refinement of the Project Life Cycle; acceptance by an inter-ministerial committee of draft solid waste regulations; pre-feasibility work completed for a solid waste management project in Mataram; continuing financial pre-feasibility and consulting to the PDAMs in Medan and Tangerang for bulk water supply projects; and the completion of an investment and marketing data management system.

24. **Financial Analysis Model : User's Manual for PDAMs**
PURSE Report No. 102.01.1/95/024, May 1995

This manual is a companion document to the Financial Analysis Model: Preliminary Report, (Report No. 102.01.1/94/019), and serves as an operating manual for users of the Model. The User's Manual contains descriptions of each of the twenty-two spreadsheet formats for summary tables and supporting tables. The Model will permit users to evaluate the financial condition of PDAMs, and assess the financial feasibility of potential projects from government and private investor perspectives.

25. **Database for Marketing and Investment Resources**
PURSE Project Report No. 2.04.10/95/025, May 1995

This database is designed to inventory companies, associations and other organizations, that are potential participants in Public Private Partnership infrastructure projects in Indonesia. Including both foreign and domestic firms, the database will organize and maintain information on potential investors, builders or operators of projects, and on the projects themselves. This document introduces the purpose, organization and content of the database, and serves as a user's manual for its operation. The 1,250 entries listed at the time of publication is included.

26. **Solid Waste Collection Pre-Feasibility Study: City of Mataram**
PURSE Report No. 2.04.2B/95/026, March 1995

The city of Mataram, on Lombok, is one of the original PURSE demonstration project cities. In undertaking to privatize the solid waste management services in several areas of the city, and to extend service into more informal areas, Mataram requested assistance from PURSE to evaluate its current solid waste collection system, and, if justified, develop a system for the contracting out of a portion of these services to the private sector. The pre-feasibility study also provides recommendations regarding methods to improve the delivery of expanded solid waste services that will continue to be performed by the City.

27. **Identifikasi Wilayah Pelayanan Penanganan Sampah Kota Mataram
(Identification of Service Area for Solid Waste Management in Mataram City)**
PURSE Report No. 2.04.2B/95/027, May 1995

As a part of the Solid Waste Collection Pre-Feasibility Study (see report synopsis number 26 above), PURSE advisers assisted the city of Mataram in further defining the geographical area of the city to be served by the private sector solid waste management contractor and that part by the Dinas Kebersihan. As this is a technical document of benefit only to the city officials, it has been produced only in Bahasa Indonesia.

28. **The History of Financing Infrastructure in America: Practical Implications
for Indonesia**
PURSE Report No. I.A. 1.09.1/95/028, July 1995

This paper examines the experience in the United States of financing infrastructure development, particularly the canal and transcontinental railway systems, using bonds. It looks at the implications of government guarantees on the success of projects, and draws meaningful parallels with many issues currently faced by the Government of Indonesia in looking to the private sector to augment the financing of infrastructure.

29. **Quarterly Progress Report No. 7: April 1 - June 30, 1995**
PURSE Report No. 105.00/95/029, July 1995

The Seventh PURSE Quarterly Progress Report summarizes project activities during the reporting period, and project implementation activities for the following quarter. Highlights of the quarter's activities include: meetings of the PURSE Steering Committee and Tim Teknis; dissemination of a working draft and presentation of the Project Life Cycle; preparation of a pre-feasibility study for the Dinas Kebersihan Mataram; identification of a second cohort of 10 potential demonstration project cities; preparation and presentation by SSEK of a working draft of the Analysis of Omissions and Constraints in the Legal Framework; and, selection and negotiation of two subcontracts with local consulting firms. The report also summarizes training activities and the utilization of short-term technical assistance.

30. **Financing Environmental Infrastructure -- Identification and Analysis:
Credit Support and Financial Guarantee Options**
PURSE Report No. I.A.1.09.3/95/030, July 1995

This paper presents an overview of project risk issues and the role and types of credit support from the Government of Indonesia that may be required by lenders to finance infrastructure projects. Risk allocation between the public and private sectors is discussed, and examples of risk and credit support considerations, such as those faced in the Umbalan Springs water supply project, are reviewed. The paper concludes with a synopsis of the major risk concerns to both public and private sectors, and introduces the risk management study proposed by PURSE for the latter part of 1995.

31. **Quarterly Progress Report No. 8: July 1 - September 30, 1995**
PURSE Report No. 105.00/95/031, October 1995

This Progress Report summarizes activities during the three month reporting period. Significant accomplishments included, among others: the completion of a draft report on the Analysis of Constraints, Deficiencies and Omissions in the legal framework pertaining to private infrastructure investment; the initiation of the risk management system study; papers submitted on infrastructure financing and credit support mechanisms; feasibility study terms of reference for the water project in Tangerang; on-going technical assistance to privatization efforts with the Jakarta water utility, Pam Jaya; assistance to the management services contract for solid waste in Mataram, and; several overseas and in-country training programs for both central and local level officials.

32. **Analysis of Legal and Regulatory Constraints, Deficiencies and
Omissions in Indonesia Regarding PPP & PSP Projects in Water
Supply, Waste Water and Solid Waste Urban Infrastructure**
PURSE Report No. I.C.1.02.1.2/95/032, December 1995

Prepared by PURSE subcontractor legal consultants, Soewito, Suhardiman, Eddymurthy & Kardono (SSEK), this report represents an analysis based on the Narrative Description of the legal framework affecting private participation in the PURSE technical sectors (see PURSE report 017). The Analysis identifies ten priority areas which Government should address to improve the legal and regulatory environment for PPP projects, and recommends five specific actions to be taken to address those of particular concern. These include: the preparation and adoption of clear protocols and procedures for project approvals and implementation; clarification of applicable tax treatment for PPPs, including VAT, import duties and withholding taxes on offshore payments; the drafting of a PPP law or regulation to clear up ambiguities; issuing implementing guidelines for Ministry of Public Works Regulation 49 of 1990 toward the development of a fully integrated Water Users Rights System, and; review by the Ministry of Finance of restrictions affecting financing of PPP projects, and those related to approvals and funding for offshore financing and foreign invested projects.

33. **Annual Progress Report 1995, and Quarterly Progress Report No. 9:
October 1 - December 31, 1995**

PURSE Report No. 105.00/96/033, January 1996

This report summarizes the project activities for the calendar year 1995, and provides more specific detail for the last quarter. PURSE witnessed expanded activity during the year, as Government interest and support for public-private infrastructure projects increased. Of particular significance, PURSE became actively involved with the privatization of the Jakarta water system (PAM Jaya) and, together with Government, identified a second cohort of potential demonstration projects to be examined. Among other important project activities: PURSE concluded an in-depth revision of the Project's training program; completed the analysis of the existing legal framework for PPP projects; and initiated a risk management study. Also, USAID sponsored a mid-term evaluation of the PURSE Project by an independent contractor. Their results supported many of the on-going Project initiatives and offered constructive recommendations to strengthen PURSE technical assistance and training efforts.

34. **Third Work Plan: January 1996 - June 1997**

PURSE Report No. 106.00/96/034, March 1996

The PURSE Third Work Plan is based on a number of the mid-term evaluation recommendations and charts Project activities for an 18 month period. The Work Plan shifts implementation emphasis from the central to local levels, and details a strategy for better integrating the three original Project Components, in particular to make work with the demonstration projects and training more mutually supportive. As an example, a comprehensive in-country training program is being developed for local government/enterprise officials, and will be initially focused on PURSE demonstration projects. The Work Plan also lays out a system for the more pro-active management of demonstration projects, and, by emphasizing a focus on fewer and more critical activities, seeks to optimize the use of project resources.

35. **Quarterly Progress Report No. 10: January 1, - March 31, 1996**

PURSE Report No. 105.00/9/035, April 1996

Accomplishments during the period include the approval of the Project Life Cycle by the PURSE Tim Teknis; the identification and initiation of new demonstration projects in Palu, Semarang, Balikpapan, and Cirebon; and the completion of the PURSE Third Work Plan. Activity during the quarter continued on the development of the risk management system, and on the development of the curricula and materials for the PURSE in-country training program. The presentation format for the report ties Project activities to the goals and objectives of the Urban Policy Action Plan (UPAP) developed by BAPPENAS and supported by USAID.

36. **Quarterly Performance Report No. 11: April 1, - June 30, 1996**
PURSE Report No. 105.00/9/036, August 1996

Highlights during the reporting period include the completion of the translation of the Project Life Cycle into Bahasa Indonesia, as well as numerous meetings with Government counterparts to "legalize" the document. A presentation of the draft Risk Management System and handbook was given to the Government by Chase Manhattan Bank. Work continued on the development of the in-country training program and materials. A team of local training experts was engaged to carry out this activity. On-going consulting services were provided to PURSE demonstration projects, with field visits to Semarang, Palu, Balikpapan, as well as with PAM Jaya. PURSE assisted the PDAM Balikpapan with the preparation of a letter of intent to a private party to initiate the development of a pre-feasibility study.

37-41. **Technical Issues Papers**

PURSE Report Nos. 12.1.C\96\037-041 (TIP1-5), August 1996

This single volume contains the first five of what PURSE intends to be an on-going series of discussions of technical issues related to public-private partnership infrastructure development in Indonesia. These five papers cover such topics as *Risk; Non-Revenue Water; Establishing Technical Targets; Selling Raw Water Between Companies;* and, *Transfer of Treated Water*. The papers are available in both English and Bahasa Indonesia.

42. **Quarterly Performance Report No. 12: July 1, - September 30, 1996**
PURSE Report No. 105.00/9/042, December 1996

The report highlights Project activities and accomplishments during the three-month reporting period. The Ministry of Home Affairs issued a ministerial decree (number 22 of 1996) based on the PURSE Project Life Cycle for water projects. The decree provides guidance to local government and local enterprise officials in developing water projects with private sector investors. PURSE sponsored a high level risk management seminar on August 26 which culminated the work in developing a risk management system for PPP water projects in Indonesia by PURSE subcontractor Chase Manhattan Bank. PURSE also conducted a training-of-trainers (TOT) program with Government officials as part of the Project's in-country training program. The Project provided comments and recommended changes to a draft of the Presidential Decree for Public-Private Partnerships being prepared by Bappenas. Work was begun in the development of a system to identify key monitoring indicators to track Government progress in developing PPP infrastructure projects. The indicators will contribute to the Government's Urban Policy Action Plan (UPAP) report due out in the first quarter 1997.

Chemonics International, Inc.
1133 20th Street, NW, Suite 600
Washington, DC 20036 USA
Tel: (202) 955-3300
Fax: (202) 955-3400

in association with

Resource Management International, Inc.
3100 Zinfandel Drive; Suite 600
Sacramento, CA 95670 USA

The PURSE Project Office
Wisma Kodel, 8th Floor
Jl. H.R. Rasuna Said, Kav. B4
Jakarta 12920 INDONESIA
Tel: (62-21) 522-1461
Fax: (62-21) 522-1460
Email: Chemonic@rad.net.id

Sheladia Associates, Inc
15825 Shady Grove Road; Suite 100
Rockville, MD 20850 USA

P.T. Resource Development Consultants
Gedung Patra, 1st Floor
Jl. Jend. Gatot Subroto No.32-34, Jakarta 12950

Prasetio, Utomo & Co.
Chase Plaza 6th, 8th, 11th Floors
Jl. Jend Sudirman Kav. 21, Jakarta 12920

THE PURSE PROJECT

In December 1991 the U.S. and Indonesian governments signed an agreement to encourage private investment in the provision of public water supply, wastewater treatment and solid waste management services in urban areas throughout the archipelago. In recognizing that its capacity to finance the needed projects is severely strained, and that insufficient urban infrastructure will adversely affect public health and welfare and inhibit future economic growth, the Government has been looking increasingly to the private sector to participate in the provision of these essential services.

PURSE is working with USAID/Indonesia's Office of Private Enterprise Development and several agencies of the Government of Indonesia through a combination of technical assistance and capacity building interventions to:

- develop policy consensus and a legal framework that clarifies current rules and formulates new or revised regulations pertaining to private investment in all aspects of municipal infrastructure development and/or provision of urban services,
- demonstrate the technical and contractual feasibility of various forms of Public-Private Partnerships through demonstration projects, and
- transfer knowledge and expertise to public sector officials in relevant technical, financial and managerial aspects of environmental infrastructure.

For more information on the PURSE Project, please contact Chemonics International or the PURSE Project at the addresses listed above.
