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April 30, 2003

Mr. Thomas Stephens
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RE: Contract No. LAG-I-00-99-00036-00, Task Order 802
UI Project 06967-004, Indonesia Local Government Water Services
Project Year 2 and Quarterly Task Order Progress and Cost Report, January to March 2003

Dear Mr. Stephens:

Please find enclosed the *Project Year 2 and Quarterly Task Order Progress and Cost Report, January to March 2003, Indonesia Local Government Water Services* as required under Section F.12 of the above referenced contract.

Please direct any technical questions to Mr. Bennett Parton, CoP, at bennett@lgws.or.id. Questions of a contractual nature should be addressed to me at (202) 261-5396.

Sincerely,

Maria C. Andrade-Stern

Maria C. Andrade-Stern

Enclosures

cc: James Woodcock (CTO, USAID Indonesia)
Dale Gredler (CTO, USAID Washington)
Shahzia Pirani (Chemonics International)
Bennett Parton (CoP, Chemonics Indonesia)
Edward Mazuroski (UI/Indonesia)
USAID Development Clearinghouse
IAC Chron File
IAC Deliverables File (06967-004)

LOCAL GOVERNMENT WATER SERVICES PROJECT

PROJECT YEAR 3

QUARTERLY TASK ORDER AND COST REPORT No. 10

January - March 2003

Prepared for

Local Government Water Services
U.S. Agency for International Development/Indonesia
Contract No. LAG-I-00-99-00036-00, D.O. No. 802

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April 2003
UI Project 06967-004

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LOCAL GOVERNMENT WATER SERVICES

YEAR – 3

QUARTERLY PERFORMANCE REPORT NO. 10

Contractor(s):	The Urban Institute Chemonics International, Inc.
Contract Number:	OUT-LAG-I-802-99-00036-00
Reporting Period:	January 1 – March 31, 2003
Report Number:	Quarterly Progress Report No. 10

I. CONTRACTOR'S NARRATIVE

1.1 Introduction

The Local Government Water Services (LGWS) Project is providing direct technical assistance and training to 24 Indonesian municipal water utilities (PDAM) over a 36-month period. The aim of the Project is to help these PDAM achieve full cost recovery and expand their services.

The Project may provide remedial financial planning and technical assistance up to 12 additional PDAM per year to improve water service delivery on an as needed basis, and support the institutional capacity development of the Indonesian Association of Water Enterprise Executives (Perpamsi), and its affiliate training institute Yasasan Pendidikan Tirta Dharma (YPTD).

The LGWS Project is designed to promote USAID's Mission Strategy, which includes a specific local government strategic objective entitled, "Decentralized and Participatory Local Government".

The LGWS Project is supporting the Government of Indonesia's efforts to devolve political and fiscal responsibility to its local governments.

Technical assistance for this Project is provided by a consortium lead by the Urban Institute and Chemonics International Inc. as their subcontractor.

This is the ninth Quarterly Performance Report, and covers LGWS' activities for the period - January 1 – March 31, 2003, and is submitted to USAID in compliance with the Contract's expected outputs and deliverables.

II. EXPECTED RESULTS, OUTPUTS & PERFORMANCE

Major accomplishments during this first quarter are described below. Each activity is keyed to the two major tasks and specific sub-tasks identified in the contract and in LGWS' Project Work Plan for Year I. Task A consists of 12 sub-tasks and Task B includes 8 sub-tasks. Both Task A and Task B and their corresponding 20 sub-tasks are discussed in this Report.

2.1 Administrative

Several administrative-related items worth noting for this reporting period are:

- On October 14, 2002 the State Department ordered the departure of all non-emergency expatriate personnel and their families from Indonesia. This order remains in effect. We expect a decision regarding return of expatriate personnel in early April.

- During January 2003 the COP returned to Indonesia under a TDY to meet Bappenas, Perpamsi and other members of the Government's working team to select PDAM for further assistance. The selected PDAM are indicated below. In February 2003 the DCOP returned to Indonesia under a TDY for field visits to PDAM and local governments. His field visits paved the way for assistance to the 7 selected PDAM as defined under the Scope of Work.

- The continuing Ordered Departure is having an effect on the ability of the Project to achieve expected results. Meetings to discuss tariff increases, corporate plans, and financial projections have been delayed pending the return of expatriate advisors. LGWS remains concerned that continuing delays in the return of all expatriate staff will have a material adverse effect on specific tasks and possibly the overall success of the project.

2.2 Task A
Assistance to 20 PDAM to Achieve Full Cost Recovery and Increased Water Connections

2.2.1 Sub-Tasks A1 – A12

A1 Establish Local Government, Community, and PDAM Commitment for Achieving Full Cost Recovery

Starting in October 2002, LGWS visited 15 PDAM with a view toward assessing the capacity of each PDAM to become working partners with LGWS. The 15 PDAM were advised in QPR-9. The assessments undertaken were rapid review audits of each PDAM's technical, financial, management and political operating environment. As the assessment took place we began our analysis of each of these critical factors. The analytical results were presented to Bappenas, Perpamsi and representatives of other Ministries within Indonesia for review. A meeting to establish a consensus on new assistance candidates occurred during February 2003. At this meeting, and based upon recommendations provided by LGWS, seven PDAM were selected for intensive assistance. Immediately following this meeting, our Field Teams

visited and distributed Memorandum of Understanding (MOU) to their respective third Cohort PDAM. These selected PDAM were:

Team A	Team B	Team C
PDAM Kota Surabaya	PDAM Kota Semarang	PDAM Kab Cirebon
PDAM Kota Madiun	PDAM Kab Tasikmalaya	PDAM Kab Sukabumi
PDAM Kab Tuban		

At the end of the quarter, all MOU had either been signed by the President Director of the PDAM and confirmed by the head of local government or its signing was imminent. At this moment, we are awaiting their return delivery. Copies will be submitted to USAID when all MOU are finally received.

EXPECTED OUTPUTS:

1. **Signed Memorandum of Understanding (MOU) with 6 PDAM.**

STATUS:

2. **Seven MOU have been signed and will be collected shortly.**

A2. Select Six Additional Local Governments/PDAM for Targeted Assistance.

At the request of Bappenas we will be assisting 7 PDAM during our final year. Bappenas was concerned that PDAM we have assisted in the past were smaller PDAM and wanted to see how we were able to assist some of the larger PDAM. These would serve as an example that the Full Cost Recovery formula was valid throughout the length and breadth of Indonesia water supply. To that end, PDAM Surabaya and PDAM Semarang represent two of the largest PDAM in the country. In our original analysis presented to Bappenas for selecting intensive assistance candidates, PDAM Semarang was not recommended. Bappenas, however, requested that we add PDAM Semarang but could not agree to drop a deserving PDAM from our list. LGWS reluctantly agreed to assist 7 PDAM provided funds were available for this effort. We also indicated that we would continue to assist our 18-client PDAM.

EXPECTED OUTPUTS:

1. **Select 6 new PDAM.**

STATUS:

1. **Task Completed. Selection increased to 7 at the request of Bappenas.**

A3. Establish Baselines for the Key Indicators.

Baseline indicators have been identified and formatted for the 24 PDAM.

Baseline data for the first and second cohort PDAM was established as January 1, 2000 and January 1, 2001 respectively. We will use January 1, 2002 as the start-date for monitoring purposes for the final 7 PDAM.

Since the last quarter, PDAM Banjar, and PDAM Batang continue to remain at full cost recovery (FCR). Sixteen of our 18-client PDAM show increases in their operating ratios (OR), while only one PDAM has experienced a decline. Baseline indicators for all PDAM are provided in Appendix I. Profit margins have not always kept pace as interest costs and penalties for non-payment of debt have increased losses in some instances.

The increased operating ratios are a reflection of:

- adherence to each PDAM's Corporate Plan,
- continued cost cutting measures , and
- tariff increases.

Two PDAM that had attained FCR have slipped below the FCR threshold. The two PDAM are PDAM Jember (93%) and PDAM Kendari (92%). Higher power and chemical costs have affected both PDAM. PDAM Jember had requested a tariff increase, which was granted with some delay in October 2002. PDAM Kendari has yet to have its request approved by local government. As full year results reflect the delay in instituting tariff increases, results fell below expectations. However, we fully expect that both PDAM will achieve FCR in 2003. LGWS will continue to monitor results and meet local governments to assist these PDAM.

PDAM that we expect to achieve FCR include:

- Pangkalpinang (82%),
- Banjarmasin (93%),
- Samarinda (84%)
- Sukabumi (88%)
- Kapuas (93%)

Very high levels of non-revenue water (NRW) hamper PDAM Pangkalpinang's ability to achieve FCR. In late 2002, PDAM Pangkalpinang instituted a NRW reduction program that is expected to yield significant results, operating efficiencies and higher water sales in 2003. Similarly, PDAM Sukabumi is implementing a similar NRW reduction program. We will report results as we proceed. To date results have been very encouraging.

While we had high hopes for PDAM Belitung, which had substantial increased tariffs in 2002 and better system management, the very severe effects of last dry season has caused major disruptions that have contributed to lower revenues than first anticipated. During the dry season PDAM Belitung was only able to operate their plant two hours a day for a period of more than two months. Saline intrusion in one system forced PDAM to curtail service for a period of several weeks. As a result, their ability to achieve satisfactory results was hampered. We fully expect a return to financial health in 2003 provided weather factors remain in the normal range

PDAM Pacitan, which has seen its operating ratio drop from 85% to less than 47% over the past 10 months, recently received approval for a 50% tariff increase. The tariff increase will go into effect in April 2003. The delay in obtaining the tariff increase is partially a consequence of the replacement of the President Director. Local Government decided, somewhat unwisely, to wait for the replacement and allow him time to review PDAM performance. Once having done that the new President Director requested a tariff increase in line with LGWS' recommendation.

Tariffs had not been increased in almost two years at PDAM Pacitan. With the increased tariff we are projecting that by the end 2003 they will still be at a loss but it will substantially reduce from Rp 568 million in 2002 to Rp 75 million in 2003. Tariffs will increase in stages by 50% in April and a further 50% in June. The projected operating ratio at the end of 2003 is projected to be 86% provided our inflation and electricity increase assumptions remain valid.

PDAM Sawah Lunto and Karang Asam have been a major disappointment. We fully expected and have been promised tariff increases over the past year. At the same time costs particularly power and chemical purchases have surged upward. Our field teams have met repeatedly with PDAM management and local government in an effort to resolve tariff increases. Despite this constant attention, local government has been unwilling to approve these tariff increases. Both PDAM Karang Asam and Sawah Lunto have not increased tariffs in more than two years.

Furthermore, we advised PDAM Karang Asam that they are overpaying electricity costs due in part to PLN errors in assigning the highest tariff category to PDAM. At present PDAM Karang Asam has not requested a reduction in the electricity tariff rate from PLN that they are entitled to.

We plan to offer a more intensive review of each PDAMs performance during 2003. In our next quarterly report we will report the results of that review. We also intend to forward a memorandum to Bappenas and Local Government in an effort to review and resolve any outstanding objections to needed tariff increases.

Rising fuel and power costs coupled with price increases for chemicals and in several cases higher salaries for staff have lowered the OR of 7 PDAM. PDAM Banjar's OR dropped from 114% to 109% while PDAM Pontianak's OR dropped from 97% to 92%. The majority of these declines were however modest and we expect all PDAM to recover with adherence to their Corporate Plans. These higher than expected increases were in excess of our original projections.

One last indicator worth noting is the dramatic reduction in Accounts Receivable Turnover (ARC). When LGWS began, it took on average 235 days to collect funds invoiced for the 12 PDAM. It now averages only 60 days for 18 PDAM. This has had the effect of increasing cash flows.

All baseline data for the full year have been revised and are included as an appendix to this report.

EXPECTED OUTPUT:

1. Baseline data established for 24 PDAM.

STATUS:

1. Task Completed for 24 PDAM.

A4. Help Conduct Customer Satisfaction Surveys and Address Identified Weaknesses.

Execution of this sub-task is currently underway. We are employing the same methodology that we used to successfully complete Customer Satisfaction Surveys (CSS) for the 18-original client PDAM.

In March our Field Teams reviewed the purpose and methodology for each CSS with the 7 remaining PDAM and distributed CSS-related forms and information packets.

Each of these PDAM have recruited their "Numerators" from local Universities and LGWS' Field Teams will then train the Numerators. CSS results shall be reported in the next quarter.

PDAM Surabaya has requested a survey that includes 5,000 respondents. Under normal statistical methods a sample size of approximately 1,300 respondents is sufficient to obtain statistically valid results. Management felt the need to increase the number to be in a position to present a public relations effort aimed at improving both communication and the effectiveness of the survey. The scope and size of the survey is far in excess of any survey that LGWS has ever conducted. We are concerned that the time necessary to conduct the survey and analyze data may cause some delay in our ability to complete the survey in a timely manner.

EXPECTED OUTPUTS:

1. **Schedule and complete Customer Satisfaction Surveys in 6 PDAM.**
2. **Tabulate data and put into a reportable format.**
3. **Assist 18 PDAM to establish and/or upgrade Customer Service Departments.**
4. **Plan to address at least one deficiency in each of the 18 PDAM.**

STATUS:

1. **In progress – Surveys to be completed in 3rd Quarter.**
2. **In progress – Surveys to begin in 3rd Quarter.**
3. **In progress for 18 PDAM. Complete report for third cohort PDAM to be included in Corporate Plans.**
4. **In progress for 18 PDAM and to be completed for 6 PDAM.**

A5. Help Develop and Implement a Public Relations Campaign and Develop Mechanisms for Incorporating Citizen Input into Decision-Making.

Our Public Relations Campaigns (PRC) for our current crop of PDAM will be formulated after completion of their respective CSS'. In the 3rd and 4th Quarters more precise and well-defined PRCs will be introduced.

Public Relation efforts are ongoing at each of the other 18-client PDAM. As reported, many PDAM have initiated community education efforts, sponsored local athletic activities and have had media coverage of their LGWS related activities.

As indicated above PDAM Surabaya is using its CSS as part of their PRC. In essence they are trying to include larger numbers in their survey than normally needed for statistical validity. While this survey would normally be used to achieve statistical validity, PDAM Surabaya is attempting to create an "outreach" approach by meeting and discussing service with greater numbers of customers and non-customers alike.

Progress on this activity will be reported in the next quarterly report.

EXPECTED OUTPUTS:

1. **Public Relations Campaigns designed and completed for 6 PDAM.**
2. **Other mechanisms designed to incorporate consumer in-put developed.**
3. **Local dialogue initiated on financial sustainability and expanded services.**

STATUS:

1. **Results expected in 3rd and 4th Quarters.**
2. **Discussions with PEMDA on financial sustainability, local Consumer Forums, and expanded services are on going.**

A6. Support for More Autonomous PDAM Operations.

LGWS' on going dialog with senior PDAM staff, Badan Pengawas representatives, PEMDA, and DPRD officials has been very successful. These discussions are focused on PDAM finances and operations, the need for greater autonomy, and full cost recovery. All of these meetings include extensive discussions concerning each PDAM's service levels, customer service needs, CSS results, corporate plan initiatives, and recommendations for improving the overall condition of each PDAM.

As mentioned, PDAM that have achieved FCR and those of our other PDAM reflect the success of these dialogs between local government officials, PDAM management and LGWS.

As we begin the final two quarters, each of our client-PDAM will be scheduling intensive discussions with their concerned stakeholders to promote the benefits of their Corporate Plans. LGWS activities will continue to support these efforts. We have already prepared and

executed presentations for PDAMs in Banjarmasin, Pontianak, Pangkal Pinang, Sukabumi, Kapuas and Samarinda.

Our efforts will focus on PEMDA and DPRD officials and will be aimed at garnering support and acceptance of the goals and aspirations of each Corporate Plan. Of particular concern is ensuring that properly detailed incentive structures are introduced to make PDAM officers and staff more accountable and they are encouraged to achieve outstanding performance.

We intend to introduce these same activities for all of the newly selected PDAM, and open dialogs with their respective local government officials in the 3rd quarter. Many of these communities have already opened discussions with LGWS in early January.

We plan, to the extent possible to leverage our efforts with local governments that are receiving assistance from other USAID funded activities.

We are constrained however, by the ordered departure of expatriate personnel. Our program, which was critically time sensitive was delayed when selection of PDAM for assistance did not take place until the arrival of our Chief of Party in February. This delay has caused us to begin our CSS later than anticipated. We are further constrained by the selection of larger PDAM than we had worked with in the past. While the principal of FCR remains the same, the shear size of these PDAM multiplies the problems and complexities that we see in other PDAM.

While we fully expect to complete the Corporate Plans before the end of the project, we may not be able to meet with local governments in the same manner as with other PDAM.

Our LGTS and ALGTS continue their excellent work with Perpamsi and YPTD. During this quarter they developed a training seminar schedule for Year 3.

In addition, our LGTS is developing a Customer Service and Management seminar specifically for new Badan Pengawas members. This effort will result in greater advocacy for PDAM operations, and subsequently greater PDAM autonomy.

Activities under sub-task A8 are also designed and intended to promote coordinated linkages between this task and other tasks vital in achieving PDAM goals of Full Cost Recovery. Please also refer to sub-tasks B4-B8 for specific training related activities.

The field activities of each Field Team for this quarter are reported in the Activity Reports provided in Appendix II.

EXPECTED OUTPUTS:

1. **Schedule regular meetings with the Badan Pengawas and appropriate PEMDA officials of 18 PDAM.**
2. **Identify suitable management concepts and policies new PDAM.**
3. **Review concepts and policies with each of the new PDAM.**
4. **Adoption or incorporation of management concepts and policies by 18 PDAM.**

STATUS:

1. **Task Completed for 18 PDAM - Regular meetings are on going, and scheduled for 7 PDAM.**
2. **To be completed for 7 PDAM - Policies will be incorporated into their Corporate Plans.**
3. **To be completed for 7 PDAM.**
4. **Policies will be incorporated into Corporate Plans for 7 PDAM.**

A7. Support the Adoption of Open and Transparent Accounting Measures.

This sub-task is related to sub-task B2. We intend to coordinate and implement this sub-task using the same methodology that we successfully employed in Years 1-2.

Our Management Information Specialist (MIS) will perform detailed needs assessments of each new PDAM's accounting and billing systems. Our Field Teams will then review each assessment with the respective PDAM Finance Director and senior management.

We will then identify appropriate computer hardware vendors, and procure this equipment in accordance with USAID regulations. We will likely use the same software and software vendor that we used in Year 2.

At the appropriate time, we also plan on providing training for the staff of third cohort PDAM in basic computer operations skills, and accounting software-related training (sub-task B2).

As previously reported, we set-up an LGWS Project Web Site in the 3rd quarter of Year 1. In developing the site, we experienced some unforeseen technical difficulties that have now been resolved.

Our Web Site provides information about LGWS activities; LGWS assisted PDAM and provide links to Perpamsi, USAEP/AID, the Urban Institute, and Chemonics International. The site also provides individual web pages for our client PDAM.

We are hopeful that each PDAM will "post" its financials on its individual web page. This activity will further promote open and transparent accounting procedures, and also support our activities under sub-task A6 – More Autonomous PDAM Operations. The web site will be updated in April.

EXPECTED OUTPUTS:

1. **Procurement of computer components and software for 6 PDAM.**
2. **Installation of computer systems in 6 PDAM.**
3. **Completion of training component for computers in 6 PDAM.**
4. **Establish functional computerized accounting systems in 18 PDAM.**

STATUS:

1. **Computer needs assessment to be scheduled and will be completed by the middle of the second quarter.**
2. **Procurement and installation in 2nd – 3rd quarters.**
3. **Training activities in 3rd – 4th quarters.**
4. **Program components in progress, task completed for 18 PDAM.**

A8. Assist with the Development and Updating of Recovery Plans and Business Plans.

Each LGWS Field Team has successfully assisted our 18-client PDAM in preparing and completing their Corporate Plans. This particular activity was derived in part from the results of sub-tasks A3-A5.

As soon as the CSS results are available we will be scheduling stakeholder and management discussions in support of each Corporate Plan, and monitor Plan implementation. We also plan to schedule a Management Retreat for senior PDAM officials, similar to the Retreat we hosted in Year 1. Please also refer to our activities under sub-tasks A3-A7 in support of this activity.

Our 18 PDAM that we are currently assisting as noted in Appendix I, had 54,904 increased connection coupled with the 5,308 previously reported increased connections at the remaining PDAM we assisted, the total increased connections is 60,212. This means that the total beneficiaries of LGWS are 361,272 citizens of Indonesia receiving water who had not in the past.

We will update our baseline data at the end of the 4th quarter to reflect ¾ year-end 2003 results, and report those results in QPR-#12.

EXPECTED OUTPUTS:

1. **Draft Business and Financial Action Plans completed for 18 PDAM. Work progressing at 7 new PDAM.**
2. **An increase of 700,000 new beneficiaries from the baseline.**

STATUS:

1. **Task Completed for 18 PDAM, work in progress for 7 new PDAM.**
2. **Task Completed for 18 PDAM in process for the 7 new PDAM. Over 360,000 new beneficiaries of LGWS assistance for the first 18 PDAM.**

A9. Identify Options for Sustainable Financing.

Financing for PDAM continues to remain an enormous challenge. To the extent that the banking and business climate remains mired in technical and credit problems funding PDAM lending demands will remain. We have been encouraging most PDAM to fund projects with

their own resources and internally generated cash flows. PDAM Jember is an example of one such PDAM.

During the year PDAM Jember embarked on a project to add needed water supply to their community. The project includes a new treatment plant that will provide an additional 20 l/s of supply. PDAM strongly believes that immediately upon completion of the plant, more than 3,000 new customers will benefit from this additional water supply. PDAM Jember self-funded land acquisition, plant designed and construction of the intake structure. Construction is progressing and being funded through internally generated cash flows. The cost savings from self-design, land acquisition and project supervision make this development extremely attractive. PDAM Jember estimates that the plant costs less than half that of similar plants funded through traditional sources.

Almost all PDAM have been able to fund new connections and distribution system expansion through internal resources. While PDAM Banjar and Banjarmasin were able to make major plant re-fits without external financing. Finally PDAM Batang with the assistance of local government executed a major distribution system expansion.

We understand that the World Bank and ADB are looking at adding funds for infrastructure development. Furthermore, in cities like Manado, private sector firms are seeking to offer partnership arrangements with the PDAM. As these funding activities progress we will continue our dialog and continue to monitor their water supply financing related activities.

EXPECTED OUTPUTS:

1. **Identify funding options for 24 PDAM.**

STATUS:

1. **Task on-going for 18 PDAM and monitoring will continue. Funding options will be reviewed with execution of Corporate Plans for new PDAM.**

A10. Assist Targeted Local Governments/PDAM to Implement Quality Control Procedures.

Each of the 18 original PDAM has identified their anticipated new programs and costs for environmental, maintenance, and water quality improvements and requirements in their respective Corporate Plans and Annual Budgets. Customers identified many of these issues in the completed CSS as major concerns. Examples of common issues include:

- **Testing**: PDAM water quality testing is limited to turbidity and sedimentation tests. Standard tests for bacteria and more routine parameters such as oil & grease, nitrates and selected heavy metals are typically not performed. The frequency of testing is inadequate and constrained by limited budgets. LGWS has recommended routine monthly testing at intakes and randomly at customer taps. LGWS also met with a

GTZ and Perpamsi representative to discuss testing-related activities through Perpamsi. Please also refer to sub-task B4.

- **Water Quality**: PDAM is dependent on spring and river water as a raw water source experience very high seasonal turbidity loads, resulting from uncontrolled run-off. Deforestation and land clearing activities are the most likely causes. Raw sewage is also a major concern, as well as sludge management and sludge disposal. LGWS has suggested creating "buffer zones" in water shed areas to minimize the impact of deforestation and erosion. In Kabupaten Pacitan for example, the PDAM has developed a "security area" up gradient to protect the integrity of its spring sources. The PDAM is also planning to purchase additional land to expand its security area. LGWS is also coordinating these activities through Perpamsi and/or directly with each PDAM. Each PDAM has identified measures to address water quality issues in their respective Corporate Plans.

- **Energy Efficiency & Maintenance**: Energy costs represent a significant portion of PDAM operating budgets, and as a result maintenance budgets have been reduced significantly. LGWS has recommended energy and operation audits, and re-budgeting maintenance costs. LGWS has also suggested that PDAM and PEMDA officials initiate discussions with PLN to resolve a number of administrative and technical issues that impact PDAM costs.

- **Maintenance and Non-Revenue-Water** (NRW): NRW averages approximately 40% for the 18 PDAM. PDAM prepared and are implementing programs designed to reduce NRW to 25% or lower levels. In particular, we are encouraging PDAM to implement household meter replacement and repair programs. These programs are incorporated in their Corporate Plans.

- **Conservation and Customer Outreach**: We have initiated discussions with PDAM and PEMDA concerning the need to incorporate water conservation measures in all aspects of PDAM operations. This issue is also included in the previously mentioned PRC for each PDAM. PDAM Kapuas has introduced the most aggressive conservation program and copies have been made available to Perpamsi for an article and distribution to other PDAM.

Our Field Teams will be undertaking quality reviews at the 7-selected PDAM. We will report progress in future reports.

In addition, our LGTS has programmed these issues into training activities designed in conjunction with Perpamsi and YPTD (please see sub-tasks B4-B5 and B8).

We have also asked USAID to investigate the possibility of another round of volunteers to provide water conservation training from the AWWA's Water for People Program. The results of this activity will be reported as appropriate.

EXPECTED OUTPUTS:

1. **Provide Quality Control Procedures assistance to 18 PDAM.**
2. **Where appropriate, incorporate QCPs into management policies and Business Plans for 18 PDAM.**
3. **Review QCP issues with 6 additional PDAM.**

STATUS:

1. **Task Completed for 18 PDAM and to be scheduled for 7 PDAM.**
2. **Task Completed for 18 PDAM and to be completed for 7 PDAM.**
3. **To be completed after 7 PDAM sign MOU in Year 3.**

A11. Assist up to 12 PDAM Annually.

As a prelude to selection of PDAM for intensive assistance we completed 15 preliminary financial and technical assessments of PDAM listed in Table A11-1. Copies of all Field Reports were submitted to USAID and Perpamsi. As we noted above, 7 PDAM from this list were selected for intensive LGWS assistance.

It should be noted that our field teams were able to complete all 15 reviews, 3 more than originally anticipated within a rather tight time frame. Added to this was the problem of expatriate project managers having been evacuated. Despite these difficulties all field trip reports were completed we before quarter end and an analysis of findings was presented to Bappenas and Perpamsi for their review and agreement.

We would like to note that the 15 PDAM that were reviewed were by and large far further along on the road to full cost recovery than any previous group. While this is a very fortunate development, we believe it reflects the on-going emphasis we have placed on bringing PDAM to financial health. The 15 PDAM however, were undoubtedly eager to join the group of PDAM that would be assisted. It is comforting to note that the consistent approach of LGWS coupled with the training, improved financial management, technical assistance and management focus is a very sought after commodity by most PDAM and their local government partners.

An example of the efforts at attracting our services, the Walikota of Semarang personally called the head of Bappenas to ask for our assistance to his PDAM. We received copies of letters sent to Bappenas, from Tasikmalaya, Kediri and Cirebon requesting LGWS assistance. We are both proud and very pleased that LGWS' efforts and assistance has been accepted by such a wide audience and the services we provide is perceived to have such high value.

Finally, we feel that these achievements are a testimony to the efforts and capabilities of our outstanding staff of Indonesian water professionals whose efforts are the backbone of our project.

EXPECTED OUTPUTS:

1. **Field Trip Reports for PDAM assessed.**

STATUS:

1. **Task Completed - 15 Assessments Performed.**

Table A11-1. PDAM Provided with LGWS Assistance.

Kota Bandung	West Java	141,435	2,561,292
Kab Cirebon	West Java	16,762	663,567
Kota Cirebon	West Java	47,448	297,397
Kab Karawang	West Java	26,834	489,034
Kab Sukabumi	West Java	11,984	2,053,700
Kab Tasikmalaya	West Java	22,156	177,988
[illegible]	[illegible]	[illegible]	[illegible]
Kab Cilacap	Central Java	17,494	216,798
[illegible]	[illegible]	[illegible]	[illegible]
Kota Bukittinggi	West Sumatra	10,405	95,800

A12. Coordinate with the CLEAN Urban Project and the Advisory Committee.

In February, we had 2 meetings with representatives from CLEAN Urban. Unfortunately the ordered departure situation has curtailed our monthly meetings, and we continue our information exchanges via e-mail. We will continue these monthly exchanges and Advisory Committee meetings as a means of promoting specific activities and policies in support of GOI, USAID, and LGWS Project goals.

EXPECTED OUTPUTS:

1. **Six meetings with CLEAN Urban (Perform) and ICMA Project representatives.**
2. **Two meetings with Advisory Committee and submission of semi-annual report.**
3. **Semi-annual report to the Advisory Committee identifying strategic and global issues of concern to all PDAM.**

STATUS:

1. **Monthly meetings will begin as soon as Ordered Departure is lifted.**
2. **To be scheduled.**
3. **To be completed.**

2.3 Task B
Assistance to Water Service Providers to Improve Professionalism, Accountability, and Service Delivery.

2.3.1 Sub-Tasks B1 – B8

B1. Professional Skills of Managerial and Operational Staff of Water Utilities.

LGWS initiated certification efforts with Perpamsi and the Ministry of Labor are complete and on going.

Our LGTS is organizing Year 3 - Executive Level Training Program for managers from the 7 PDAM selected for intensive assistance. For details of these activities and other training related activities please refer to our activities under sub-tasks B6 and B8, which are designed to support this particular sub-task.

EXPECTED OUTPUTS:

1. **Report summarizing professional certification efforts.**
2. **Work plan and training program for establishing professional standards.**

STATUS:

1. **Task Completed.**
2. **Task Completed – Activities on-going.**

B2. Open and Transparent Budgeting and Accounting Practices.

The LGWS "Users Guide" on Accounting & Budgeting was developed in Year 1 and disseminated to the staff of our 18-original client PDAM.

A financial management-training program is scheduled for the second week in April. The training will be a two-week program geared at increasing the knowledge of participants in general accounting, financial analysis, tariff rate setting and project finance.

We will introduce the User's Guide and similar training programs to each of the 6 new LGWS assisted PDAM. Please also refer to related activities under sub-task A7.

EXPECTED OUTPUTS:

1. **Develop a "User's Guide" on Accounting & Budgeting models.**
2. **Schedule a 1-2 day Workshop to disseminate information on User's Guide.**

STATUS:

1. **Task Completed.**
2. **To be scheduled in 3rd and 4th quarters.**

B3. Support for Full Cost Recovery, Service Expansion and PDAM Reforms.

LGWS Project efforts continue to focus on educating PDAM management and staff, and their stakeholders, including PEMDA and DPRD officials, on improving the overall operating performance and the service capabilities at each of our client PDAM.

Our target for the second year was to achieve a 70% improvement in the overall profitability of the first cohort PDAM. We have the results of the full year profitability of each of the 11 PDAM remaining. Those 11 PDAM taken as a whole did not achieve the 70% reduction. They could only achieve 64%. The difference was are result of PDAM Pacitan increasing their loss by over 4 times, PDAM Sawah Lunto increasing their loss by over 5 time and PDAM Karang Asam doubling their loss from the base year. All other PDAM improved their performance dramatically.

In fact had those PDAM losses were equal to losses sustained in their base years overall performance would have improved by over Rp 1.5 billion and the overall operating ratio would have averaged 84%. Unfortunately the political climate in each of these PDAM would not allow for the tariff increases sought by LGWS. While PDAM Pacitan has finally been awarded a substantial increase the other PDAM have not. LGWS will redouble their efforts to meet with local government to rectify this problem. We will report our progress in future reports.

The Seven PDAM chosen in the second cohort have all preformed well beyond expectations except for PDAM Gunung Kidul. With Gunung Kidul included overall losses have been reduced by over 92%. If Gunung Kidul were eliminated in this analysis the 6 remaining PDAM would on average be profitable, thereby achieving full cost recovery two years ahead of schedule.

We will shortly prepare a report for Bappenas regarding PDAM Gunung Kidul. At the time we were requested to work with PDAM Gunung Kidul we agreed we would assist them provisionally and would review their performance after the first year results. From this review it is painfully clear that all targets set for Gunung Kidul have not been reached. We had agreed with Bappenas that if PDAM Gunung Kidul reached the targets set for them then, LGWS would include PDAM Gunung Kidul as a full member of the LGWS assistance program. However, if they did not they would be eliminated from further assistance. We are sad to report that PDAM Gunung Kidul has not complied with our requests nor met our targets.

As we begin the 3rd quarter of Year 3 we intend to increase our efforts at educating PDAM staff, local government and the public by using the same successful approach and methodology as we employed for the 18 PDAM formerly assisted.

Subject to the availability of funding, we plan on hosting several Management Retreats for senior PDAM managers and Mayor(s). Our common retreat theme and individual team

sessions will be used to reinforce the concepts of full cost recovery, service expansion and performance, and other customer service initiatives, in support of the corporate plans.

Please also refer to sub-tasks A4-A9, and B1 and B8 for related activities supporting this sub-task.

EXPECTED OUTPUTS:

1. **Introduce full cost recovery, service expansion & reform strategies for 24 PDAM.**
2. **Average 100% improvement from baseline in P &L Statements for the first Cohort, 70% for the second and 30% for the third**

STATUS:

1. **Task Completed for 18 PDAM– Full Cost Recovery policies incorporated into Corporate Plans.**
2. **Status for the first year just short of target, second cohort already achieved and third cohort in progress.**

B4. Technical Efficiency and Environmental Quality.

Subject to the availability of funding, we are planning to schedule two seminars under this sub-task for Year 3. The first is entitled, "Meeting Consumer Demand – A Review of Planning Needs", and the second is entitled "Water Quality Management", and both are scheduled for the 3rd quarter. A complete summary of proposed LGWS training activities is provided in sub-task B8.

EXPECTED OUTPUTS:

1. One – two individual or regional ½ day – 1-day workshop(s) on a specific issue.

STATUS:

1. Will be presented in Third Quarter 2003.

B5. Development and Dissemination of Best Practices in the Water Sector.

The ordered departure has severely limited and restricted field time devoted to this sub-task. As such we are delaying the reporting on Best Practices until the ordered departure is lifted.

EXPECTED OUTPUT:

1. Develop and disseminate five best practices to PERPAMSI.

STATUS:

Task Completed – Activities to Continue.

B6. Institutional Support for PERPAMSI.

In our previous quarterly reports we discussed the progress our LGTS has achieved in preparing a comprehensive training and work plan for PERPAMSI, and YPTD. This program covers 6 specific training that consist of the following:

- Institutional development,
- Infrastructure development,
- Curriculum development and certification training program development,
- Schedule and implement training in workshop/seminars,
- Coordinate donor programs, and
- Fund raising activities to support the goals and objectives of YPTD.

Our LGTS also assisted Perpamsi staff with developing a Five-Year Business Plan for Perpamsi and YPTD. The Plan has been approved by their respective boards and is being implemented.

Our LGTS' activities under this sub-task are continuing, and are focused on assisting Perpamsi and YPTD. Please also refer to activities discussed in sub-tasks A6-A12, and B1-B8, which also support this particular sub-task.

EXPECTED OUTPUTS:

1. **Review and identification of institutional training needs at YPTD.**
2. **Draft development plan for YPTD.**

STATUS:

1. Task Completed.
2. Task Completed – All Activities Are Being Implemented or Are Programmed.

B7. PDAM Rescue and Recovery Program (PRRP)

The PRRP is being implemented under the guidance of the Ministry of Finance. To date we have not heard of any significant success in implementing the program. LGWS however, remains ready to have discussions with consultants working on this and any other project related to assisting PDAM Management.

Currently, the main thrust of assistance to PDAM is through Department Kimpraswil who is funding a program to encourage regulation of PDAM and a Water Enterprise Reform

Program. We have had several meetings with each of these projects but we have not seen reports or results from those programs.

While the aims of this funding appear laudable there are a number of concerns on the part of PDAM and local governments that central government involvement may cause higher than needed costs to be incurred. LGWS will continue to provide advice as and when requested to analyze costs and benefits.

We have been made to understand that donor funding may be available in the coming year for infrastructure development including Water Supply. While this is welcome news we remain cautious that investments take into account the need to improve management, maximize benefits from all investments and improve the operating efficiency of local staff. In particular, any new investment should demonstrate a payback period consistent with cost of the investment. Furthermore, local governments must be aware of the need to ensure efficient and productive operations to allow for water supply expansion that is both needed and affordable.

EXPECTED OUTPUTS:

1. Meet with PRRP proponents as required.

STATUS:

1. Task completed. Continuing Meetings As Required.

B8. Conduct Training Workshops/Seminars.

As previously mentioned in sub-tasks A7, B2, and B4-B6, our LGTS and ALGTS, and our MIS have designed training programs and schedules for conducting a series of management and technical workshops. The intended target groups consist of:

- PDAM Senior Management,
- PDAM Supervisory Board Members,
- PDAM Mid-level Managers, and
- Operations personnel.

Subject to funding, LGWS is preparing and scheduling 5 training activities. Appendix III provides a detailed schedule of all LGWS, Perpamsi and YPTD training activities.

EXPECTED OUTPUTS:

1. **Schedule one workshop dedicated to key environmental or technical issues.**
2. **Schedule six one-day workshops in the provinces for 25-30 participants.**
3. **Coordinate all training activities through Perpamsi and YPTD.**

STATUS:
1. **In progress, training activities will exceed requirements.**
2. **In progress, training activities will exceed requirements.**
3. **Task Completed – An On-Going Activity. Our LGTS and ALGTS are assigned to Perpamsi and YPTD offices.**

2.4 Field Visits

During this first quarter, our staff made a total of 24 field trips. These included 6 trips to meet with their prospective client PDAM, 7 trips to initiate Customer Satisfaction Surveys, and 3 visits to client PDAM. Appendix II provides the Activity Reports for each visit.

III. LEVEL OF EFFORT AND FINANCIAL REPORT

Baseline Indicators - Dec 2002

Asahan, Kab. (A)	14,350	58%	(1,138)	15,405	84%	(636)	1,055	45%	502	
Belitung, Kab. (A)	3,632	52%	(331)	4,220	76%	(281)	588	46%	50	
Jember, Kab. (A)	18,999	78%	(393)	20,912	93%	280	1,913	19%	673	
Banjarbaru, Kab (A)	9,656	51%	(1,297)	14,927	109%	1,207	5,271	114%	2,504	Full Cost Recovery
Karang Asem, Kab. (B)	12,162	67%	(516)	14,978	71%	(1,018)	2,816	6%	(502)	
Kendari, Kota (B)	12,071	79%	(529)	14,439	92%	(144)	2,368	16%	385	
Pacitan, Kab. (B)	5,986	41%	(364)	6,971	47%	(568)	985	15%	(204)	
Sawah Lunto, Kota (B)	2,351	51%	(189)	2,839	72%	(765)	488	41%	(576)	
Batang, Kab. (C)	8,363	67%	(120)	13,046	108%	320	4,683	61%	440	Full Cost Recovery
Jombang, Kab. (C)	9,172	41%	(1,074)	11,462	67%	(440)	2,290	63%	634	
Hulu S. Tengah, Kab. (C)	4,541	45%	(585)	6,040	70%	(326)	1,499	56%	259	
Lampung Tengah, Kab. (C)										No longer assisted by LGWS
Total / Average	**101,283**	**57%**	**(6,536)**	**125,239**	**81%**	**(2,371)**	**23,956**	**44%**	**4,165**	
Pontianak, Kota (C)	52,849	81%	1,391	57,782	92%	(494)	4,933	14%	(1,885)	
Sukabumi, Kota (C)	19,993	74%	149	21,619	88%	211	1,626	19%	62	
Pangkalpinang, Kota (A)	5,137	48%	(622)	4,709	82%	(253)	(428)	71%	369	
Banjarmasin, Kota (A)	48,856	53%	(10,426)	63,447	93%	4,350	14,591	75%	14,776	
Gunung Kidul, Kab. (B)	25,694	72%	(885)	28,410	67%	(1,889)	2,716	-7%	(1,004)	Additional Assistance
Samarinda, Kota (B)	52,323	68%	(4,243)	58,961	84%	(3,008)	6,638	24%	1,235	
Kapuas, Kab. (B)	11,479	72%	(503)	12,350	93%	(57)	871	29%	446	
Total / Average	**216,331**	**67%**	**(15,139)**	**247,278**	**86%**	**(1,140)**	**30,947**	**32%**	**13,999**	
Sukabumi, Kab. (C)							-	#DIV/0!	-	
Cirebon, Kab. (C)							-	#DIV/0!	-	
							-	#DIV/0!	-	
							-	#DIV/0!	-	
							-	#DIV/0!	-	
							-	#DIV/0!	-	
							-	#DIV/0!	-	
Total / Average	-	**#DIV/0!**	-	-	**#DIV/0!**	-	-	**#DIV/0!**	-	

SUMMARY PLAN OF TRAINING ACTIVITIES 2003

NO	ACTIVITY	PARTICIPANT (Prs)	DAYS	TIME	PLACE	COST ESTIMATE (Rp)
1	Technical	3 prs x 7 PDAM = 21	5	7-11, April	Bandung	110.850.000
2	Accounting & Finance	2 prs x 7 PDAM = 14	10	2-13, June	Jakarta	141.455.000
3	Customer Service (*)	3 prs x 7 PDAM = 21	5	July	Surabaya	110.850.000
4	Accounting & Billing	2 prs x 7 PDAM = 14	5	August	Malang (East Java)	90.380.000
5	Clossing Seminar	50	1	September	Jakarta	102.750.000
	TOTAL					**556.285.000**

Note :

(*) Customer Service Training is Additional Fund

Approved by : **Date :**

Checked by : **Date:**

Prepared by : **Date :**