

PURSE PROJECT

Private Participation in Urban Services

ANNUAL PROGRESS REPORT - 1997

and

QUARTERLY PERFORMANCE REPORT No.17

October 1 - December 31, 1997

PURSE Report No 105 00/98/052

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**BAPPENAS
DEPARTEMEN DALAM NEGERI**

**DEPARTEMEN KEUANGAN
DEP PEKERJAAN UMUM**

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EXECUTIVE SUMMARY

The PURSE Project promotes the use of public-private partnerships (PPP) as a methodology for Indonesia's urban environmental infrastructure development through three Project components: Policy, Legal and Regulatory, Demonstration Projects, and, Training and Communications.

This document serves as the Project's *Annual Progress Report for the calendar year 1997*, and as such includes the *seventeenth Quarterly Performance Report* covering the period October 1 through December 31, 1997. It also describes work planned for the coming quarter. Given their importance, an analysis of progress and issues is presented for each demonstration project. Charts and tables measuring progress in achieving PPP are included as monitoring indicators in accordance with the USAID Mission's Strategic Objectives and Results Package. Appendices include detailed charts on training activities and personnel utilization, a discussion of issues and opportunities currently facing the project, and a comprehensive listing of official PURSE products to date.

Accomplishments

By any measure 1997 was a landmark year for the PURSE Project and, even more importantly, for the Government's program to secure private sector investment in the nation's urban infrastructure. These achievements are not only the direct result of contractor efforts, but reflective of continued support from USAID's Office of Environmental Management and a sustained commitment on the part of the Government to accomplish the targets established in Repelita VI for private participation in the country's development. Among the most notable developments during 1997 are:

- This year PURSE-supported PPP projects have resulted in the signing of **five major contracts with an approximate total value of \$1.335 billion**,
- Among the Project's current activities is the development of an **international competitive tender process for a water supply project in Pontianak, West Kalimantan**. This would be the first tendered water project in Indonesia, and could represent a watershed development for public-private cooperation,
- **Manado has also indicated serious interest in securing private investment to expend its water supply system through a competitive process**. PURSE is providing intensive consulting services to help the PDAM identify the optimal project, and then structure the tender.
- With PURSE active participation, the Government has made significant progress on the **development of a multi-sectoral PPP law** and two supporting presidential decrees (Keppreses) which will strongly emphasize the competitive process and help create the environment for increased transparency in procurement. This law is expected to be promulgated in early 1998,

- Progress has been made on the **establishment of a PPP Center** to help facilitate and coordinate the development and implementation of public-private partnerships in all infrastructure sectors,
- The PURSE Project **finalized a number of important "tools" or products**, designed to facilitate PPP project implementation which will be disseminated in English as well as Bahasa Indonesia. These "operational" products include the Project Life Cycle, the Risk Management Handbook, and the Financial Analysis Model User's Manual. These practical products are also the focus of the on-going PURSE in-country PPP training program.
- The Government, through **Bappenas, has committed to provide technical assistance resources beyond the conclusion of the PURSE technical assistance contract** to those PDAMs which enter into a competitive tender process. These additional resources could be accessed through the World Bank-funded TAP4I program, or other donors. This is a significant commitment, as a) it allows PURSE to aggressively pursue PPP opportunities in as many municipalities as possible through the end of the contract, b) PDAMs can choose the competitive option knowing they will have consulting support throughout the process, and, c) it demonstrates the Government's seriousness in encouraging competition.

Work Plan Activities

While these are indeed important accomplishments, a significant amount of work remains to be done if the Project's achievements are to have a lasting effect, and if the Government's infrastructure privatization program is to be sustained. With PURSE concluding its technical assistance activities in September 1998, the remaining months of the current Fourth Work Plan are dedicated to working actively with the Government to a) **get more PPP deals signed**, particularly through the competitive tender process, b) **institutionalize the in-country PPP training program** (including development of additional case studies and the involvement of more private sector speakers), c) **identify institutional homes for PURSE products**, including the Project Life Cycle, Risk Management Handbook, Financial Analysis Model and User's Manual, and the five PPP training program modules.

Important Issues

Major issues continue to confront the Government, and present challenges which require clarity of purpose, persistence, and, in many cases, strong political will to successfully meet them. It is the intention of the PURSE Project to keep these issues squarely in front of Government decision makers, and to continue to provide whatever assistance may be required in addressing them. In the opinion of PURSE, these critical issues include

- **The current financial and economic crisis facing the country is likely to have a dampening effect on infrastructure investment, particularly foreign investment.** Until the rupiah is stabilized, and foreign exchange risk can be reliably assessed, many projects are likely to be postponed.

- An on-going, and seemingly intractable concern is that numerous projects continue to flounder due largely to **blatant political interference and unrealistic expectations for profit** on the part of some investors
- Much progress was made during the second half of 1997 in developing a **new multi-sectoral Government Regulation for public-private partnerships** in infrastructure. Due to be promulgated in early 1998, this new law has many positive aspects, and represents a significant opportunity to promote a fair, open, and transparent competitive process for developing the country's infrastructure

An important issue in this regard, however, will be the **Government's ability and willingness to enforce the new PPP law**. During this period of economic and financial instability, Indonesia's business and government procurement practices are coming under increased scrutiny from both domestic and international quarters. It will be a true test of Government's commitment to protect the integrity of the competitive process.

- The Government needs to better **coordinate its infrastructure funding program so as not to be competing with potential private sector investments**. It is imperative that such funding programs be made known to the private sector, as they will impact on customer base and the revenue stream to the PPP project, and thus ultimately on project design and "bankability". PURSE has seen at least two examples of a lack of full communication at the local level (Padang and Pontianak) which could significantly alter if not delay or cancel planned private investment.
- While somewhat outside of the direct management interest of the Project, PURSE believes that **too many PDAMs lack the management and financial capacity to participate in a PPP project**. The need to drastically improve management and overall accountability of PDAMs, perhaps through an overhaul of the incentive structure, is paramount. With the current devaluation of the rupiah and other financial pressures on Government, the need to attract private capital to fund infrastructure development has never been more obvious. However, financially weak PDAMs will be viewed as high risk partners by the private investors, making it more difficult for them to improve the coverage and quality of piped water service to their communities.
- The stated policy of the Government is to provide no sovereign guarantees in support of PPP infrastructure projects in the water sector. Nevertheless, **with the weak financial condition of most PDAMs, and their resulting lack of credit worthiness, some form of credit enhancement will be needed to attract private investors**, and make projects financially viable. PURSE will work with Government to explore alternative financial support mechanisms which may be appropriate and acceptable to all parties.

- It is critical that operational **PURSE products be given an official institutional home**, and that they be produced and disseminated as soon as possible as Government of Indonesia, and no longer as PURSE, documents or tools. These include the Project Life Cycle, Risk Management Handbook, and Financial Analysis Model (FAM) User's Manual. This formal adoption by Government will ensure their viability and utilization by PDAMs.
- The formal **institutionalization of the PURSE in-country training program** by the end of the technical assistance contract (September 30, 1998) is not yet assured. While the stated intention of Bappenas is to have the training program under the wing of the new PPP Center, it now appears unlikely that the Center will be organized, staffed and operational in time to allow an effective transfer of the training program from PURSE to its new home.

These issues are discussed in greater detail in **Appendix C -- Issues and Opportunities**

Together with USAID and the Government, PURSE has prepared a lean, focused and aggressive final Fourth Work Plan covering the remaining months of the technical assistance to assist in addressing these challenges. Project activities and resources will be devoted primarily to concluding additional PPP deals, emphasizing those following the competitive tender process, and to institutionalizing the tools and training programs developed over the course of the Project. As the Project draws to a close at the end of the third quarter of 1998, PURSE is confident that all parties concerned will review the 69 month Project effort with collective satisfaction in a record of achievement and significant improvement in the country's urban environmental infrastructure and in the quality of life of its people.

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 ini merupakan Laporan Kinerja Tahunan untuk tahun 1997, dan juga laporan kwartalan proyek ke Tujuh Belas yang mencakup periode I Oktober sampai 31 Desember 1997. Laporan ini juga menjelaskan rencana kerja untuk kwartal yang akan datang. Analisa dari kemajuan dan permasalahan disajikan per masing-masing demo proyek berdasarkan tingkat kepentingannya. Gambar dan tabel pengukuran kemajuan dalam pencapaian Kerjasama Pemerintah-Swasta (KPS) dimasukkan ke dalam monitoring indikator menurut USAID mission strategic objectives dan paket hasil. Lampiran dalam laporan ini memasukkan diagram secara rinci mengenai pelatihan dan penggunaan sumber daya manusia, sebagaimana dibicarakan dalam permasalahan dan kesempatan yang saat ini sedang dihadapi oleh proyek, dan daftar hasil kerja PURSE secara menyeluruh sampai saat ini.

Pencapaian

Tahun 1997 merupakan tahun landmark (keberhasilan) bagi PURSE Proyek, dan yang lebih penting lagi, keberhasilan program Pemerintah dalam memastikan investasi pihak swasta pada prasarana perkotaan nasional. Pencapaian ini tidak hanya berdasarkan hasil langsung kepada usaha kontraktor, tapi terlihat pada dukungan lebih lanjut dari USAID dan komitmen dari Pemerintah untuk melaksanakan target yang telah dibuat dalam Repelita VI untuk peran serta swasta dalam pembangunan negara. Diantara pembangunan yang dapat diuraikan selama tahun 1997 antara lain:

- Pada tahun ini proyek PURSE mendukung proyek-proyek KPS yang menghasilkan penanda-tangan lima kontrak dengan nilai total kurang lebih \$1,335 juta
- Diantara kegiatan proyek saat ini salah satunya adalah mengembangkan proses tender internasional untuk proyek penyediaan air bersih di Pontianak, Kalimantan Barat. Proyek ini merupakan proyek pertama yang ditenderkan dalam sektor Air Bersih di Indonesia, dan dapat mewakili pembangunan kerjasama air bersih Pemerintah-Swasta
- Manado juga telah menunjukkan minat secara serius dalam memastikan investasi swasta untuk mengembangkan system air bersih melalui proses persaingan. PURSE saat ini memberikan bantuan konsultasi yang intensif untuk membantu PDAM dalam mengidentifikasi proyek yang optimal, dan kemudian menstrukturkan tender
- Dengan keterlibatan aktif PURSE, Pemerintah telah mencapai kemajuan yang cukup penting dalam **pengembangan peraturan mengenai Kerjasama multi sektoral Pemerintah Swasta** dan 2 (dua) peraturan pendukung keputusan Presiden yang sangat menekankan kepada proses kompetitif dan membantu menciptakan lingkungan yang transparan dalam pengadaan KPS. Peraturan ini diharapkan dalam dikeluarkan pada awal tahun 1998

- Usaha **pendirian Pusat Kerjasama Pemerintah Swasta (PPP Centre)** telah dilakukan untuk memudahkan serta membantu koordinasi pembangunan dan pelaksanaan Kerjasama Pemerintah Swasta dalam semua sektor prasarana
- Proyek PURSE **telah menyelesaikan sejumlah hasil atau "alat"** yang cukup penting, yang dibuat untuk memudahkan pelaksanaan proyek KPS yang akan disebar luaskan dalam Bahasa Inggris dan Bahasa Indonesia Hasil tersebut antara lain Siklus Pengadaan Proyek Kemitraan (Project Life Cycle), Pedoman Pengelolaan Risiko (Risk Management Handbook) dan Buku Petunjuk bagi Pengguna Model Analisa Keuangan (Financial Analysis Model User's Manual) Hasil ini merupakan fokus dari program pelatihan KPS Proyek PURSE dalam negeri
- Pemerintah, melalui Bappenas, telah berkomitmen untuk menyediakan sumber daya bagi bantuan teknis setelah kontrak bantuan teknis PURSE selesai kepada PDAM yang memasuki kedalam proses tender kompetitif Tambahan sumber daya ini dapat melalui Dana Bank Dunia - program TAP4I, atau donor lainnya Berikut ini adalah merupakan komitmen yang sangat penting a) mengizinkan PURSE untuk mendorong secara agresif peluang KPS di berbagai daerah sampai akhir kontrak, b) PDAM dapat memilih pilihan kompetitif dengan mengetahui bahwa mereka akan mempunyai dukungan konsultasi dalam melalui proses tersebut, dan, c) menunjukkan keseriusan Pemerintah dalam memastikan adanya persaingan

Kegiatan Rencana Kerja

Meskipun pencapaian ini sangat membanggakan bagi semua pihak, masih ada tugas-tugas penting yang harus dikerjakan agar pencapaian ini mempunyai dampak yang berkesinambungan, dan jika program Pemerintah dalam penswastanisasi prasarana ini tetap diteruskan Keterlibatan bantuan teknis PURSE berakhir pada Bulan September 1998, untuk sisa bulan-bulan Rencana Kerja ke Empat yang tersedia didedikasikan untuk bekerjasama aktif dengan Pemerintah dalam a) **mencapai penanda-tangan kontrak KPS lebih banyak lagi**, umumnya dengan melalui proses tender kompetitif, b) **melembagakan program pelatihan KPS di dalam negeri** (meliputi pengembangan studi kasus tambahan dan menambah keterlibatan pembicara dari Pihak Swasta), c) **mengidentifikasi pelembagaan hasil PURSE**, yang meliputi Siklus Pengadaan Proyek Kemitraan (Project Life Cycle), Pedoman Pengelolaan Risiko (Risk Management Handbook), dan Buku pedoman bagi pengguna model analisa Keuangan (Financial Analysis Model User's Manual)

Permasalahan Penting

Permasalahan yang cukup besar masih harus dihadapi oleh Pemerintah, dan tantangan saat ini yang membutuhkan tujuan yang jelas, ketekunan, dan dalam beberapa permasalahan, keinginan politik yang kuat untuk mencapai keberhasilan tersebut PURSE bermaksud untuk tetap menyelesaikan bersama para pengambil keputusan, dan melanjutkan bantuan yang diperlukan Ada beberapa permasalahan yang PURSE anggap sangat kritikal meliputi

- Krisis ekonomi dan keuangan yang saat ini sedang dihadapi oleh negara ini sepertinya akan mempunyai dampak dalam investasi prasarana, umumnya investasi asing. Banyak proyek yang akan tertunda, sampai rupiah kembali lagi stabil, dan risiko akan nilai tukar valuta asing dapat dipercaya.
- Rasa khawatir akan kesinambungan dan tak terkendalinya situasi membuat banyak proyek mulai tidak kuat bertahan dan juga adanya campur tangan politik dan harapan yang tidak pasti terhadap profit pada sebagian investor.
- Kemajuan yang telah dicapai selama setengah periode 1997 dalam pengembangan peraturan baru pemerintah multisektoral untuk Kerjasama Pemerintah Swasta dalam prasarana. Sehubungan dengan dikeluarkannya pada awal 1998, peraturan baru ini telah mempunyai aspek positif, dan mewakili kesempatan emas dalam mempromosikan proses persaingan yang adil, terbuka dan transparan dalam pembangunan prasarana negeri.

Permasalahan yang penting dalam masalah ini, adalah kemampuan dan keberanian Pemerintah dalam mengupayakan peraturan baru KPS ini. Selama masa ketidak stabilan dalam bidang ekonomi dan keuangan, pengadaan pemerintah dan bisnis swasta Indonesia sedang menjadi pusat perhatian baik pihak dalam negeri maupun Internasional. Hal ini merupakan suatu ujian bagi Komitmen Pemerintah untuk menjaga integritas bagi proses persaingan ini.

- Pemerintah perlu mengkoordinasikan lebih baik program pendanaan untuk prasarannya sehingga tidak bersaing dengan investasi pihak swasta yang potensial. Penting sekali program pendanaan tersebut diketahui oleh pihak swasta, sebagaimana mereka akan mempengaruhi pelanggan dan pendapatan kepada proyek KPS, dan akhirnya dalam mendesign proyek dan "dapat di bank'kan". PURSE telah melihat sekurang-kurangnya 2 contoh kurangnya komunikasi yang cukup pada tingkat daerah (Padang dan Pontianak) yang mana dapat berubah seandainya tidak tertunda atau dibatalkan rencana investasi swasta.
- Diluar keterlibatan Proyek, PURSE meyakini bahwa ada banyak PDAM yang kekurangan kemampuan dalam manajemen dan keuangan untuk turut serta dalam proyek KPS. Yang paling penting sekali adalah kebutuhan untuk meningkatkan manajemen dan tanggung jawab PDAM secara keseluruhan, mungkin melalui perbaikan struktur insentive. Dengan devaluasi rupiah saat ini dan tekanan keuangan pada Pemerintah, kebutuhan untuk menarik modal dari pihak swasta untuk mendanai pembangunan prasarana bukanlah hal yang mengada-ada. Akan tetapi, kelemahan keuangan PDAM akan dipandang oleh pihak swasta sebagai rekan yang berisiko tinggi, akan menjadikan lebih sulit bagi mereka untuk meningkatkan cakupan pelayanan air pipa kepada pelanggan mereka.
- Kebijakan tertulis dari Pemerintah untuk tidak menyediakan jaminan kekuasaan dalam mendukung proyek prasarana KPS dalam air bersih. Meskipun demikian, dengan kondisi keuangan yang lemah dari sebagian besar PDAM dan mengakibatkan kurangnya kepercayaan kredit, bentuk-bentuk perbaikan kredit akan diperlukan untuk menarik pihak

swasta dan membuat proyek tersebut layak secara keuangan PURSE akan bekerjasama sama dengan Pemerintah untuk mengembangkan mekanisme alternatif dukungan keuangan yang mungkin cocok dan disetujui oleh semua pihak

- Pelaksanaan Pelembagaan produk PURSE kepada insititusi yang berhak adalah sangat kritikal sekali, kemudian mereka akan memperbanyak dan menyebar luaskan dokumen dan "alat" ini secepat mungkin atas nama Pemerintah Indonesia, dan bukan lagi atas nama PURSE
- Pelembagaan secara resmi bagi program pelatihan dalam negeri pada akhir bantuan tehnis (30 September 1998) belum dapat dipastikan Keinginan Bappenas untuk melaksanakan program pelatihan dibawah Pusat KPS yang baru (PPP Centre), berjalan tidak semestinya dimana Pusat KPS akan dikelola, dipekerjakan dan dioperasional tepat waktu agar proses pemindahan berjalan efektif dari PURSE ke institusi yang baru

Permasalahan-permasalahan di atas dibicarakan lebih rinci pada Lampiran C --- Permasalahan dan Kesempatan

Bersama dengan USAID dan Pemerintah, PURSE telah mempersiapkan Rencana Kerja Akhir yang mencakup sisa bulan dari bantuan tehnis untuk membantu dalam menghadapi tantangan ini Kegiatan proyek dan sumber daya akan dipusatkan untuk menyelesaikan tambahan KPS dan menekankan proses tender kompetitif, dan pelembagaan "alat" dan program pelatihan yang dikembangkan oleh PURSE Sebagaimana Proyek telah mendekati penutupan pada akhir kwartal ke tiga tahun ini, PURSE yakin bahwa semua pihak yang terlibat akan meninjau kembali 69 bulan yang telah terlewati dengan kepuasan dalam pencapaian dan peningkatan yang sangat penting dalam prasarana lingkungan perkotaan negara ini dan dalam kualitas hidup masyarakatnya

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 investment 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 2a USAID Mission's Strategic Objective Indicators

PURSE is also being implemented under the **USAID Mission's Strategic Objective No 4**, Improved Urban Environmental Management, and **Intermediate Result 4.2**, wider adoption of improved practices in urban environmental infrastructure provision

SO4 Indicators assigned to the PURSE Project include a) the value of PPP contracts signed for PURSE-supported demonstration projects, and, b) improved efficiency in water utility management. This second indicator is "shared" with the Municipal Finance Project (MFP), and uses reductions in Non-Revenue Water (NRW) as its measurement.

Another measurement that PURSE is using to track progress toward achieving successful contract closures is the progress of PURSE demonstration projects against the steps of the Project Life Cycle.

A table summarizing all indicators and benchmarks for the remaining life of project, included in the Fourth Work Plan (July 1997 - September 1998) is presented on the following pages. Charts and tables detailing value of contracts signed and demonstration project progress against the PLC are included elsewhere in this report.

**PURSE PROJECT
FOURTH WORK PLAN**

SUMMARY OF INDICATORS

INDICATORS	Thru GOI FY 1997/98	Thru GOI FY 1998/99	END OF PROJECT TOTAL	Thru GOI FY 1999/00	GRAND TOTAL 2000
VALUE OF PPP CONTRACTS					
Estimated Value of Contracts Signed for PURSE Supported Projects (per SO4 estimates)	\$125 mill	\$225 mill	\$225 mill	\$325 mill	\$425 mill
Value of Contracts Actually Signed for PURSE Supported Demonstration Projects	\$1 33 bill				
INDICATORS	Quarter Ending Sept '97	Quarter Ending Dec '97	Quarter Ending Mar '98	Quarter Ending Jun. '98	Quarter Ending Sept. '98
DEMO PROJECTS STATUS ON PROJECT LIFE CYCLE					
PURSE					
Balikpapan	MOU Signed	Feasibility Study Underway	Feasibility Study Reviewed	Contract Negotiations Underway	Contract Signed
Status Reporting Period	MOU not yet signed Project definition may change	Private party has withdrawn interest PURSE dropping the project			
Semarang (Kendogo Moro)	Contract Negotiations Underway	Contract Signed	MOHA Approval granted	Financial Closure	Construction Underway
Status Reporting Period	Contracts signed and approved by MOHA \$45 million	Project underway PURSE has requested copy of contract from PUOD			

INDICATORS	Quarter Ending Sept '97	Quarter Ending Dec '97	Quarter Ending Mar '98	Quarter Ending Jun '98	Quarter Ending Sept.'98
Jakarta (PAM Jaya - West)	MOHA Approval granted	Financial Closure	Construction Underway		
Status Reporting Period	MOHA approval not yet granted Parties working to complete CPs	All but 2 of 21 CPs met Financial closure expected 2/98			
Jakarta (PAM Jaya - East)	MOHA Approval granted	Financial Closure	Construction Underway		
Status Reporting Period	MOHA approval not yet granted Parties working to complete CPs	All but 2 of 21 CPs met Financial closure expected 2/98			
Palu	Firms Prequalified	Proposal Received	MOU Signed	Feasibility Study Underway	Feasibility Study Reviewed
Status Reporting Period	Pre-Quals not done PPP viability under review	PURSE preparing final report Withdrawing from Palu			
<i>IQC TEAM</i>					
Medan	MOHA Approval granted	Financial Closure	Construction Underway		
Status Reporting Period	MOHA approval granted	Financial closure reached			
Surabaya (KP III)	MOU Signed	Feasibility Study Underway	Feasibility Study Approved	Negotiations Underway	Contract Signed
Status Reporting Period	MOU signed, then transferred to new private party	Private party proposal inadequate Need qualified partner PURSE may drop			

INDICATORS	Quarter Ending Sept '97	Quarter Ending Dec '97	Quarter Ending Mar '98	Quarter Ending Jun '98	Quarter Ending Sept '98
Padang	MOU Signed	Feasibility Study Underway	Feasibility Study Approved	Negotiations Underway	Contract Signed
Status Reporting Period	MOU not yet signed PURSE reviewing private proposal	Change in demand due to DJCK competing investment threatens PPP			
Pontianak	Pre-Feasibility Study approved	Firms Pre-Qualified	Tender Docs Prepared & Issued	Proposals Evaluated	Feasibility Study Underway
Status Reporting Period	PFS completed Not yet approved	PURSE eval of alternatives completed			
WORK PLAN TASKS					
Develop Options for PPP Water Project Pricing Mechanisms	NOT IN ORIGINAL WORK PLAN	Task reinstated per request of USAID - Nov 10, 1997	ADB Report reviewed, Incorporated into PURSE training and FAM		
Status Reporting Period	n/a	ADB report requested from PUOD			
Further Development of Financial Analysis Model	Revised Handbook translated & Training materials developed	90 local officials trained			
Status Reporting Period	Handbook has been revised & translated Field testing underway Training underway	47 officials trained Field testing continues			

INDICATORS	Quarter Ending Sept '97	Quarter Ending Dec '97	Quarter Ending Mar '98	Quarter Ending Jun '98	Quarter Ending Sept '98
Develop Financial Guarantees & Credit Enhancement Mechanisms	NOT IN ORIGINAL WORK PLAN	Task reinstated per request of USAID - Nov 10, 1997	Paper & seminar on status of credit enhancements		
Status Reporting Period	n/a	Scope of Work prepared Candidates for assignment interviewed			
Consulting to Demonstration Projects	See DEMO PROJECTS section above	See DEMO PROJECTS section above	See DEMO PROJECTS section above	See DEMO PROJECTS section above	See DEMO PROJECTS section above
Status Reporting Period	See Projects above	See Projects above			
Draft of PPP Law	Review and comments submitted	Law issued			
Status Reporting Period	On target PURSE involved in review meetings on PP & Keppreses	Final draft of Law prepared Keppreses near final form			
Negotiation Techniques	TBD	Task deleted per request USAID - Nov 10, 1997			
Status Reporting Period	Awaiting GOI/USAID decision	No action			
White Paper on Constraints to PPP	TBD	Task deleted per request USAID - Nov 10, 1997			
Status Reporting Period	Awaiting GOI/USAID decision	No action			

INDICATORS	Quarter Ending Sept '97	Quarter Ending Dec '97	Quarter Ending Mar '98	Quarter Ending Jun. '98	Quarter Ending Sept '98
Training & Communications Activities	TOT #2 completed --20 trained, Pilot #3 completed -- 30 trained, Pilot #4 completed -- 30 trained	Pilot #5 completed -- 30 trained, Seminar on PPP Implem -- 100 attend	Institutional Home for PPP In-country training prog identified		
Status Reporting Period	On target TOT#2 completed - 25 trained, Pilot #3 completed - 37 trained, Pilot # 4 completed - 39 trained	Pilot # 5 completed - 47 trained, PPP Seminar not held See Work Plan discussion Task no 6 - White Paper			

A 3a Current Core Activities

Under the Fourth Work Plan (see PURSE Report No 106 00/97/046) for the period July 1997 through September 1998, output targets for each reporting period are set for accomplishing work plan tasks according to the Summary of Indicators tables reflecting the *Intermediate Results of the Mission's Strategic Objective No 4 -- Strengthened Urban Environmental Management*. Progress against these IR targets during the quarter is presented below with respect to Fourth Work Plan tasks, which are shown in *italics*.

This report 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 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

Although this task had been earlier dropped from the PURSE work plan, it was decided during the last quarterly progress review meeting with the USAID mission that PURSE should take a more active stance in incorporating work being done by Asian Development Bank-funded consultants in the water tariff area.

Target Obtain a copy of the ADB report, and review it for implications for PURSE.

Progress A copy of the consultant's report has been requested from PUOD, but not yet received by the end of this quarter. PURSE understands that the Ministry of Home Affairs is preparing a ministerial instruction based on the recommendations of the report.

Next Quarter Once received, the report will be reviewed by PURSE for possible inputs to the FAM, the financial training module, and technical assistance to demonstration projects.

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

The Financial Analysis Model (FAM) was developed by PURSE to assist in the evaluation of a PDAM's financial performance, and to determine the impact of a public-private partnership project on the PDAM's cash flow and ability to meet current and projected obligations. The FAM consists of a computer model and accompanying User's Manual, available in Bahasa Indonesia. Instruction in the use of the FAM is included in the PURSE in-country PPP training program.

IR Target The target for this reporting period was to have trained some 90 local Government and PDAM officials in the use of the FAM.

Progress The Project has exceeded this target. With the completion of the Fifth Pilot training program in November 1997, PURSE has now provided formal training in the FAM to some 100 local government and PDAM officials. In addition, PURSE financial analysts

work with PDAM finance directors and staff in utilizing the FAM to project cash flows and other impacts of a PPP project on the PDAM's financial situation

In addition, PURSE completed its translation and production of the FAM User's Manual in Bahasa Indonesia

Next Quarter The FAM will continue to be used in-house on demonstration projects by PURSE financial analysts. The FAM will also be an important part of the curriculum for the remaining two pilot training programs in 1998. PURSE will also continue to providing "on-the-job" training in the FAM to those PDAMs directly involved with the Project as demonstration projects. PURSE will also review the above ADB water tariff report, and make any modifications necessary to the FAM. Once this is completed, the Manual will be finalized and disseminated.

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

The PURSE Risk Management System was prepared under subcontract by Chase Manhattan Bank. It is designed specifically to assist local government and PDAM officials to better understand the unique risk elements of a PPP water project, and to better manage, allocate, and mitigate those risks. The Risk Management Handbook, translated into Bahasa Indonesia, is an integral part of the PURSE PPP in-country training program.

IR Target The target for this reporting period was for PURSE and the Government to have disseminated some 90 copies of the Risk Management System Handbook, and to have trained some 90 local officials in the risk management system.

Progress The Project is a little behind the anticipated schedule for this activity. The revised translation and editing of the Bahasa Indonesia version of the Handbook was completed in late December 1997.

Training With the fifth in-country Pilot training program completed in November, PURSE has now trained over 100 local government and PDAM officials in risk management.

Next Quarter The Risk Management System will be an important part of the curriculum for the remaining two pilot training programs in 1998. PURSE will also continue to providing "on-the-job" training in assessing and managing risk to those PDAMs directly involved with the Project as demonstration projects. Per an agreement with the PURSE Tim Kerja, the Handbook will be published and disseminated as a PURSE product. As part of the larger process of **identifying institutional homes within the GOI** for PURSE products, it is anticipated that the Risk Management System and Handbook will be "legalized" as a recommended process for PPP water projects, and formally adopted by PPP Center to be established sometime in 1998.

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

This task was re-instated by USAID as more urgent due to monetary crisis

Target While no targets were set in the Work Plan for this activity, after discussions with USAID on PURSE's activities for the previous quarter held on November 8, 1997, it was determined that this task should be reinstated and carried out. As such, it was agreed that PURSE, during the current reporting period, would compile and review existing credit enhancement materials, discuss the subject with Bappenas and the Ministry of Finance, coordinate with the MFP project on possibly jointly producing an issues paper on the credit enhancements subject, and submit a proposal to USAID for follow up.

Progress PURSE has initiated the work for this task. A draft issues paper on the subject has been prepared by a PURSE advisor, existing materials on the subject compiled, preliminary discussions were held with Bappenas on alternative credit enhancements, discussions were held with the managers of an IQC team for the new PPP Center, which also has a credit enhancement aspect to their terms of reference, and a draft of a scope of work for this activity was prepared. This draft SOW, which could be carried out by either PURSE or the PPP Center team, was shared with the USAID project officer. PURSE has also to date identified and interviewed two potential candidates to implement the assignment, both of whom are currently resident in Jakarta.

Next Quarter After discussions with Bappenas, and further consideration of candidates, a determination should be made to proceed, and on more exact timing. The idea of a joint issues paper with MOF still needs to be explored.

(Task 12.1 C) Provide on-going consulting services to Demonstration Projects on an as-needed basis

To achieve the successful closure of PPP contracts, PURSE is working actively with a number of municipalities to help them achieve their infrastructure development objectives. PURSE reviews and comments on prefeasibility and feasibility studies, draft contracts and other legal documents, and provides planning and other consulting services throughout the Project Life Cycle process. To date, contracts totalling over **\$1.335 billion in value have been signed** for PPP infrastructure by PURSE-supported demonstration projects.

PURSE has been requested by Bappenas to devote particular attention to those projects which have indicated interest in following a competitive open tender process.

SO4 Targets for Demonstration Projects

Over the remaining months of the Project, PURSE's principal emphasis will continue to be on bringing the additional PPP demonstration projects to successful contract closure. Indicators for measuring the Project's progress in this regard include:

1. **Value of Contracts Signed** The Chemonics PURSE contract calls for the signing of five BOO/BOT-type contracts and six service agreements. The USAID Mission's quantifiable indicator for the Intermediate Result 4.1.3 is an increase in the value of signed PPP contracts. A total \$225 million in signed contracts has been set as the SO4 target for the life of the PURSE Project.

IR Target Through the Government's Fiscal Year 1997/98, the total value of contracts signed by PURSE-supported demonstration projects was projected at \$125 million

Progress With the three earlier signings in Jakarta and Medan valued at \$1.3 billion, and a recent signing in Semarang for \$45 million for a total of four contracts, PURSE has already well-exceeded this target of value of contracts signed. PURSE is continuing to support active demonstration projects with an estimated total contract value of approximately \$225 million

2 Improved Water Utility Management Reduced non-revenue water (NRW) is the measurement being used for Intermediate result 4.2.2

IR Target While no specific targets have been set, NRW figures are estimated on a project-by-project basis. While certainly an important measure of efficiency for all PPP projects, it is particularly relevant to Concession contracts. Build-Operate-Transfer (BOT) type contracts for water treatment plants, for example, do not allow the private sector to assume direct overall responsibility for a PDAM's entire water system and thus provide the financial incentive to reduce water loss and improve general management and efficiency.

Progress In the case of the two PAM Jaya concessions, for example, water loss is expected to be reduced from a current high of 54 percent to 35 percent within the first five years.

As a practical application or tool, PURSE has developed a template for evaluating the capacity of water treatment plants to be "re-rated". That is, often with fairly minor construction or equipment upgrades at relatively low cost, water treatment plants can significantly expand their capacity to produce finished water. Will this will not attack the problem of non-revenue water, it does address the issue of improved utility management. Such a cost effective upgrade can help maximize the efficiency of the plant asset. A PURSE short-term advisor began an assignment in mid-December to investigate the possibilities of re-rating water treatment plants in Pontianak and Manado.

After this field work is completed, any needed modifications to the template can be made. PURSE plans to incorporate the template into the in-country training program for PPP, and make it widely available to PDAMs throughout the country.

3 Progress Against PLC Another quantifiable indicator being used by PURSE (although not officially a SO4 indicator) for measuring progress toward contract closure is progress of PPP/PSP projects through the steps of the Project Life Cycle. The charts at the end of this section of the QPR have been prepared reflecting the status of each active PURSE demonstration project, including those being implemented under the IQC Contract.

The chart on the following page depicts the progress of PURSE-supported demonstration projects in reaching contract closure. Target figures for total value of PPP contracts signed were developed by the USAID Mission as part of its Strategic Objectives indicators exercise based on Government of Indonesia Fiscal Years for the life of the PURSE Project and beyond to the year 2000.

PURSE PROJECT
ANNUAL PROGRESS REPORT 1997
& QUARTERLY PERFORMANCE REPORT No 17
 October 1 - December 31, 1997

VALUE OF PURSE DEMONSTRATION PROJECT CONTRACTS SIGNED

INDICATOR	Thru GOI FY 1992/93	Thru GOI FY 1993/94	Thru GOI FY 1994/95	Thru GOI FY 1995/96	Thru GOI FY 1996/97	Thru GOI FY 1997/98	Thru GOI FY 1998/99	END OF PROJECT TOTAL	Thru GOI FY 1999/00	GRAND TOTAL 2000
Estimated Value of Contracts Signed for PURSE Supported Projects **	n/a	\$0	\$0	\$0	\$50 mill	\$125 mill	\$225 mill	\$225 mill	\$325 mill	\$425 mill
Value of Contracts Actually Signed for PURSE Supported Projects	\$0	\$0	\$0	\$0	\$0	\$1 33 bill				

** Per SO4 Estimates
 All Values are Cumulative

DEMONSTRATION PROJECTS -- STATUS

Medan The Medan PPP is a 25-year concession for a BOT water treatment facility. The project, to be developed in two phases, will provide an additional 3,000 litres of treated water per second, expand existing reservoir facilities, and construct additional transmission mains and pipes.

IR Target The target for this reporting period was the granting of formal approval by the Minister of Home Affairs for the signed deal.

Progress The target has been achieved. PDAM Tirtanadi and Lyonnaise des Eaux of France signed on May 26, 1997 a PPP contract worth \$85 million for the construction and operation of a BOT water treatment facility. The Ministry of Home Affairs has approved the contract. PURSE understands that financial closure has been reached.

Next Quarter Construction is expected to begin early in the new year. PURSE anticipates no further significant action with this demonstration project.

Jakarta (PAM Jaya) The two PAM Jaya PPP projects represent identical contracts for 25 year concessions to assume responsibility for the full management, operation and maintenance, and capital improvement plans for Jakarta's water system. After two years of negotiations, deals were concluded with the private parties totalling approximately \$1.2 billion in value. Major objectives of the PPPs include expanded service and significant reduction in non-revenue water from its current level of 54 percent. PURSE actively supported PAM Jaya in the negotiations process, particularly in the area of financial analysis.

IR Target The target for this reporting period was achieving financial closure for the two PPP contracts.

Progress This target is a bit behind schedule. The parties have now satisfied all but two of the 21 Conditions Precedent required for contract closure. The Ministry of Finance has agreed to reschedule PAM Jaya debt, and has issued some form of guarantee to support the project.

Next Quarter It is anticipated that approval from the Minister of Home Affairs should be granted by the end of the next quarter, and that financial closure should be reached soon thereafter. Transfer of the PAM JAYA operations to the private parties is scheduled for February 1, 1998. PURSE will continue to monitor the process.

Balikpapan PDAM Balikpapan was approached by International Water Ltd (IWL) with an unsolicited expression of interest. With PURSE assistance, a letter of intent was prepared, committing the PDAM to work exclusively with IWL for a defined period which would allow IWL to complete a pre-feasibility study, the acceptance of which by the PDAM would lead to Memorandum of Understanding and, eventually, a signed contract. IWL's PFS has called into question the viability of a BOT contract, as the PDAM's financial condition is weak. A management contract to improve the operational efficiency and finances of the PDAM is under consideration.

IR Target The target for this reporting period was that the Feasibility Study to be carried out by the private party, International Water Ltd , would be underway

Progress PURSE understands that IWL has withdrawn from the project, citing differences with the PDAM as to the type of project required This is consistent with IWL's announced closure of their Jakarta office in January 1998 At the same time, PT Fajar Mas Murni, the local partner, has indicated a lack of interest in pursuing a PPP project at this time, given the current financial crisis facing the country

Next Quarter While PURSE will continue monitor developments in Balikpapan, it appears that the project is dead, and that Balikpapan will receive no further assistance from PURSE

Palu Palu has been pursuing a potential PPP water supply project for some two years The technical structure of the project has been difficult to finalize While there was initial support for a possible joint small scale hydro-water supply project, demand does not appear adequate, and it has been determined that for environmental reasons the joint project cannot go forward Thus a water supply only project must be evaluated

IR Target The target for this reporting period was that an unsolicited proposal would have been received from the private party

Progress This project is well off schedule, and PURSE has recommended dropping Palu as a demonstration project An analysis of the PDAM's financial condition has determined that, without the benefits of a joint small scale hydroelectric project share some of the costs and risks, a water alone PPP project for the PDAM would not be viable PURSE has prepared a report to the PDAM summing up its situation, and making a series of recommendations to further strengthen its capacity to serve as an effective partner with the private sector in the future

This target was not met, due largely to the fact that the anticipated project definition has changed The two week assignment of the US-AEP sponsored consultant concluded in mid-July PURSE has reviewed the consultant's report, which confirmed most of what was already known about the Palu situation and its project options PURSE also concluded its review of the PDAM's financial condition, and has determined that it is fairly weak PURSE now feels that the viability of a PPP project, at least at this time, is doubtful

Next Quarter Other Project commitments, particularly with respect to more active demonstration projects, have prevented PURSE from completing its final evaluation report during the last quarter 1997 PURSE will complete the report during the next reporting period, and obtain concurrence from Bappenas to drop Palu PURSE anticipates no further involvement with the PDAM at this time Local government and PDAM officials would, however, be most welcomed at any of the remaining PURSE in-country pilot training programs

Semarang For the purposes of addressing its water supply needs, Semarang has divided the city into two areas, east and west, and has negotiated separate BOT water treatment PPP contracts PURSE was involved with the process involving PT Kendogo Moro on the eastern side The contract was signed for approximately \$45 million to provide 1,250 litres per second (l/s) of bulk water over a three-stage process The BOT treatment plant is to be

operated by the private party for a period of 25 years. PURSE's consulting assistance was largely limited to a review of the legal documents.

A similar PPP BOT project for the western part of the city has been awarded to Waste Management Indonesia. Although PURSE has had numerous meetings with WMI on their project, it is not considered a demonstration project as PURSE was never requested by the PDAM to review any documents or provide other forms of consulting services.

IR Target The target for this reporting period was that the contract would be signed between the PDAM and private party, PT Kendogo Moro.

Progress This project is ahead of schedule, with contract negotiations were concluded during the previous reporting period and the contract signed and approved by the Ministry of Home Affairs. PURSE formally requested a copy of the contract from the PDAM, in order to evaluate it and determine which, if any, PURSE recommendations were in fact incorporated. This request was declined by the PDAM on the grounds of confidentiality and trust between the two signatory parties. PURSE subsequently requested a copy of the contract from PUOD.

Next Quarter If received, PURSE will conduct a review of the contract. PURSE anticipates that financial closure should be reached next quarter and that any further Project involvement with Semarang is now unlikely.

Surabaya (KP III) Karang Pilang III is one of two major PPP projects currently being pursued in Surabaya (the other being Umbulan Springs). For KP III, the PDAM has received an unsolicited for a BOT water treatment project to produce 4,000 l/s to be constructed in two phases. The PPP agreement will be for a period of 25 years. PURSE was requested by Bappenas and PUOD to conduct a brief review of the private party's (PT Agumar Nusa) proposal and identify issues and concerns which need to be address. PURSE also received a draft contract prepared by Agumar Nusa.

IR Target The target for this reporting period was that a Feasibility Study would be underway.

Progress KPIII is a classic example of a PDAM forced to negotiate with an unqualified, but politically powerful, private sector entity. PURSE found that the proposal submitted by Agumar Nusa to be very weak, and recommended several improvements to strengthen it. Among the numerous deficiencies in the document were a lack of stated qualifications and clearly defined roles of the private party consortium, a seemingly high demand forecast, finished water quality standards for coliforms and organics not addressed, and a very optimistic project completion schedule, among others. PURSE also found that operating costs proposed were too high, based on a comparison of current costs from KPI. In addition, the draft contract as prepared by the private party contains numerous serious omissions. PURSE remains concerned about the quality of cooperation between the parties, and the ability of the project to be financed as proposed.

Next Quarter PURSE plans to visit Surabaya again early in the next quarter, and determine what, if any, further assistance the Project might provide. PURSE believes that the PDAM is in a political quandary, as Agumar Nusa is very well connected, and has demonstrated a lack

of willingness to consider all but the most mundane recommendations for improving their proposal. In that case, PURSE will not be able to provide any real value added to the project development process and may recommend to the Chairman of the Tim Teknis that the Project redirect resources to more cooperative and serious demonstration projects.

Padang PDAM Padang received an unsolicited proposal from a Malaysian investor/developer, Puncak Niaga, Bhd, to operate the city's entire water supply system during a 25 year concession period. PURSE has examined on a preliminary basis a number of water supply alternatives, and has met on several occasions with both private sector and PDAM, as well as with the Walikota, to find areas of common interest.

IR Target The target for this reporting period was that a Feasibility Study by the private party would be underway.

Progress Recent meetings in Padang at the end of the reporting period included discussions with the PDAM, Puncak Niaga, and Kab. Padang Pariaman. During this visit it was learned that a significant change in the customer base for the PPP project has occurred, as Padang Pariaman has obtained funding from DJCK to build new water treatment capacity to service the Ketaping Airport now under construction and the Padang Industrial Park. This fact had not previously been disclosed either to PURSE or to the private party, Puncak Niaga. With the transmission line to serve these high end customers already constructed, the demand and revenue profiles for the PPP project are significantly altered. This could, in fact, "kill" the deal. While there is some possibility that the project could be reconfigured, it would be smaller than initially planned. It is also possible that Puncak Niaga would consider withdrawing its interest in working with Padang in light of this apparent lack of transparency. Pak Sujana, PURSE GOI project manager, met with PDAM Padang during the annual Perpamsi meetings held there to discuss these unwelcomed developments.

Next Quarter Meetings are scheduled at Bappenas early in the next quarter with all pertinent parties, including PURSE, to discuss these issues and to find a way to resuscitate a PPP in Padang.

Pontianak Pontianak is facing a water crisis, precipitated by salt water intrusion from the sea into the river water sources during the dry season, which this year was exacerbated by the drought. Sea water flows up river due to the flat gradient. As a result, the PDAM is not able to continuously pump sufficient volume into its distribution system, and has discontinued piped water service to some 30,000 connections. Of particular significance, however, is the fact that the PDAM and local authorities appear to be seriously interested in pursuing a **competitive tender** option to select a private investor. The financial condition of the PDAM appears to be satisfactory to pursue a PPP project.

IR Target The target for this reporting period was that the Pre-Feasibility Study would be approved by the PDAM.

Progress Due to the severe haze caused by forest fires in Kalimantan in recent months, which precluded the possibility of travel to Pontianak, the schedule for implementing this demonstration project has slipped somewhat.

This project has reached the stage for an approval meeting for the water supply expansion and international competitive tender. However, a recent meeting with the PDAM technical director revealed that PDAM Pontianak is seeking funding to build a dam along the Malaya River as a temporary solution to their continuing water crisis. PURSE is uncertain if this "crash program" is in the best interests of the PDAM due to the time required to construct the dam and very poor water quality of the Malaya. There is also some uncertainty with respect to land acquisition in the reservoir impoundment area. While PURSE has prepared its analysis of project alternatives, including a dam on the Malaya, PURSE is also concerned that such a project could jeopardize the competitive tender. PURSE is also aware that during this period of financial crisis, an alternate, competing project funded by the central government could deter investors.

Next Quarter PURSE continues to refine the competitive tender documents, and will be ready to initiate the pre-qualification process, once the final project design is agreed upon. However, in light of the current monetary crisis facing the country, PURSE is seeking advice on proceeding with this project. Meetings will be held with Bappenas, Cipta Karya and the local authorities early in the next quarter to discuss the likelihood of proceeding with the rubber dam project, and the strategy for proceeding with the PPP.

Cirebon Cirebon, an "on-again, off-again" demonstration project, received additional assistance from PURSE during the fourth quarter 1997. Cirebon was not included as a demonstration project in the Fourth Work Plan. The PDAM is now considering a water treatment BOT facility to provide up to 150 litres per second, and has entered into an MOU with an Australian manufacturer of water treatment package plants - PT Aquatec Maxcon Indonesia.

Progress PURSE advisors made several trips to Cirebon during the reporting period and again met in Jakarta to further discuss the Aquatec project and to obtain current financial and technical information from the PDAM. With the recent drought having had a significant affect on the raw water source originally proposed, PURSE is helping to identify and evaluate potential alternatives, including in Kabupaten Kuningan. Without a clearly identified and reliable water source that can produce a minimum of 150 l/s, the Aquatec project is not viable. Cirebon faces a potentially serious situation in meeting its water supply needs.

Next Quarter PURSE will continue to work with the PDAM director and Aquatec to discuss alternative sources for the raw water supply. PURSE will then complete its preliminary technical and financial review of the current status of the PPP projects, and determine what, if any, future the Project should play in Cirebon. A brief report will be prepared, including recommendations to the PDAM.

Malang Malang is a new demonstration project, and was not included in the PURSE Fourth Work Plan. PDAM Malang has received a proposal and feasibility study on an unsolicited basis from B1water, a British firm. The proposed project is a 25 year concession for the western half of Malang, with investments to be made by B1water for the eastern side as well (which will continue to be managed by the PDAM). An MOU has been signed between the PDAM and B1water.

Progress PURSE met with the Walikota of Malang, the PDAM officials, and B1water throughout the quarter. PURSE has reviewed the feasibility study prepared by B1water, and

found it to be comprehensive and professional. After a more detailed review of the FS, PURSE will prepare its comments in written form, and make a presentation on its findings early in 1998.

Among the areas of concern are the accuracy of B1water's demand forecast, and the quality of water in the 13 surrounding villages to be served by the concessionaire. Currently, the residents of these villages extract groundwater from shallow wells. Without strong incentive, such as poor quality groundwater, these villagers may be reluctant to hookup to PDAM's piped water service, for which they will have to pay Rp 1,200 per m³. Their water is now virtually free. PURSE is also examining the proposed UFW reduction plan as a method of increasing water supply at the lowest marginal cost.

Next Quarter PURSE will make a presentation to PDAM Malang and B1water in January 1998 on its comments on the FS. Assuming that B1water is willing to accommodate the recommendations made by PURSE and the PDAM, PURSE will continue to work with them to structure the project and move toward contract negotiations. An optimistic target signing date has been set for the end of February.

Manado Manado, not included in the Fourth Work Plan, is also a recent addition to the PURSE group of demonstration projects. PDAM Manado is pursuing some form of PPP, likely a BOT water supply project, to serve hotels and commercial establishments along the water front, and possibly housing developments. The Sinar Mas Group, which has significant investments in hotels and other properties in this tourist area, has prepared a Pre-Feasibility Study as has, more recently, Waste Management.

Progress PURSE reviewed the PFS prepared by Sinar Mas, and provided written comments to the PDAM. PURSE was asked by the Walikota to visit Manado on December 11-12, when a presentation on our findings was given. Sinar Mas has no previous experience or capability in developing water supply. Their PFS was very weak and incomplete, and would need to be redone. The PDAM and Walikota asked PURSE to assist Sinar Mas in improving the PFS.

Next Quarter PURSE expects to visit Manado again early in the next quarter. PURSE is likely to urge the PDAM to consider a competitive process, or at least to require that Sinar Mas, should this relationship endure, ally with a capable firm, such as Waste Management.

OTHER PROJECTS

From time to time PURSE is called upon to provide assistance or make some contribution to possible PPP projects in municipalities other than those designated as demonstration projects. This may entail attending a meeting or the simple review of a document, and usually requires a limited use of Project resources over a very short period of time.

During this reporting period no additional cities formally requested or received assistance from PURSE.

Table 1 - INFRASTRUCTURE PROJECTS ~ DIRECT PURSE INVOLVEMENT

Table 1 on the following page 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 objective.

WATER INFRASTRUCTURE PROJECTS

TABLE 1 - DIRECT PURSE INVOLVEMENT

As of December 31 1997

Projects >>>		Balikpapan 1630532 B Expansion & Operation	Semarang 1130351 B Bulk Water Kendogo Moro	PAM JAYA 0920281 B Mgm't Conc West	PAM JAYA 0920281 B Mgm't Conc East	Malang 2350792 B Mgm't Conc West	Manado 2040671 B BOT Sinar Mas	% 1997 Target		
Perpamsi Reg No >>	Assigned Points									
Project Steps (See Below)	\$ Value>>	\$20 mil	\$45 mil	\$800 mil	\$400 mil	\$800 mil	\$5 2 million	Target	Achieved	%
1	3	3	3	3	3	3	3			
2	3	3	3	3	3	3	3			
3	3	3 Sep 97	3	3	3	3	3	Apr 98		
4	6	Mar 97	6	6	6	6	6	May 98		
5	5	Jun 97	5	5	5	5	5			
6	5	Sep 97	5	5	5	5	5		See	
7	5	Dec 97	5	5	5	5	5		Next	
8	10	Mar 98	Jan 95 10 Jul 95	10	10	10	10			Sheet
9	2	Jun 98	2	2	2	2	2	Jun 98		
10	3	Sep 98	3	3	3	3	3	Aug 98		
11	10		Dec 95 10 Nov 95	10	10	10	10	Sep 98		
12	5		Sep 97 5	Mar 96 5	Mar 96 5	5	5	Sep 98		
13	30	Dec 98	Dec 97 30 Sep 97	Dec 98 30 Jun 97	Dec 98 30 Jun 97	30 Jun 97	30 Jun 97	Feb 98	Nov 98	
14	7	Mar 99	Jun 98 7 Dec 97	Mar 99 7 Dec 97	Mar 99 7 Dec 97	7 Dec 97	7 Dec 97			
15	3	Jun 99	Dec 98	Sep 99	Sep 99					
Total Points	100	Plan 9 Act	Plan 97 Act	Plan 97 Act	Plan 97 Act	Plan 60 Act	Plan 0 Act	Plan 0 Act	Plan 0 Act	Act

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 Rec'd or Competitive Tender Documents Issued
- 7 MOU Under Negotiation or Competing Proposals Evaluated
- 8 MOU Signed or Project Competitively Awarded

■ Indicates at which stage PURSE entered project

* Not official estimate

- 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

Source Consultant and Dirjen Cipta Karya

WATER INFRASTRUCTURE PROJECTS
TABLE 1 - DIRECT PURSE INVOLVEMENT

As of December 31 1997

Projects >>>		Palu		Medan		Surabaya		Padang		Pontianak		Cirebon		% 1997 Target								
Perpamsi Reg No >>		1941636 B		0210036 B		2350801 B		0310071 B		1330426 B		1020320 B										
Project Steps		Water Supply (& Power ??)		Bulk Water Lyonnaise des Eaux		Bulk Water KP III		Full Management Concession		Competitive Tender		BOT Aquatec Maxcon										
(See Below)		\$ Value>>		\$35 mil		\$85 mil		\$100 mil		\$ 35 mil		\$8 million		Target	Achieved	%						
1	3		3		3		3		3		3		3	27	27	100 00%						
2	3				3		3		3		3		3	27	24	88 89%						
3	3				3		3	Apr 97	3		3	Sep 97	Apr 98	27	24	88 89%						
4	6				6	Aug 96	6	Mar 96	6	Jun 97	6	Sep 97	May 98	48	36	75 00%						
5	5	Sep 97	?		5		5		5		5	Dec 97		40	30	75 00%						
6	5	Dec 97	?		5		5		5	Sep 97	5	Mar 98		40	30	75 00%						
7	5	Mar 98			5		5					Jun 98		40	25	62 50%						
8	10	Jun 98		Sep 96	10	Aug 96	10	Mar 96	10	Sep 97				50	50	100 00%						
9	2	Sep 98			2		2		2	Dec 97		Sep 98	May 98	12	10	83 33%						
10	3			Dec 96	3		3						Jul 98	18	15	83 33%						
11	10				10	Mar 97	10	Dec 96	10	Nov 96	10	Mar 98	Aug 98	60	50	83 33%						
12	5			Mar 97	5		5	Jun 97	5	Jun 97	5	Jun 98	Sep 98	30	25	83 33%						
13	30			Sep 97	30	May 97	30	Jun 98	30		30	Sep 98	Oct 98	60	120	200 00%						
14	7			Dec 97	7	Dec 97	7	Dec 98	7		7			7	28	400 00%						
15	3			Jun 98	3		3	Mar 99	3		3			0	0	0 00%						
Total Points	100	Plan	3	Act	Plan	97	Act	Plan	60	Act	Plan	25	Act	Plan	9	Act	Plan	6	Act	486	494	101 65%

PROJECT LIFE CYCLE KEY STEPS

█ Indicates at which stage PURSE entered project

* Not official estimate

- | | |
|---|------------------------------------|
| 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 Rec'd or Competitive Tender Documents Issued | 14 Financial Closure Reached |
| 7 MOU Under Negotiation or Competing Proposals Evaluated | 15 Construction Implemented |
| 8 MOU Signed or Project Competitively Awarded | |

Source Consultant and Dirjen Cipta Karya

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

IR Target The target for this reporting period was that the PPP law would be issued

Progress While slightly behind schedule, it would appear that this important new law will be issued very soon. The "definitive English language version" of the Government regulation was completed on December 3, 1997. Final touches are being added to the two supporting Presidential Decrees for procedures and the establishment of a Coordinating Body.

An important element of the new PPP law is the overwhelming emphasis on the competitive process for selecting private sector partners, and for implementing PPP projects.

Next Quarter PURSE will continue to provide support as required to this process, particularly in continuing to review, comment on, and discuss the two supporting Keppres. The law and supporting keppres are now anticipated early in 1998.

(Not in UPAP) Development of PPP negotiation techniques

This task was included in the Fourth Work Plan as a "wish list" item. PURSE has recognized the need for providing some kind of assistance to the PDAMs in negotiating with the private sector, including in the area of managing the negotiation process. If implemented, the task could include the development of a training module, or other form of technical assistance.

IR Target A time frame was tentatively scheduled for beginning November 1997. Specific IR targets for the Work Plan are to be determined.

Progress A decision was made by USAID to drop this activity.

Next Quarter No further action is anticipated for this activity.

(Not in UPAP) Preparation of a White Paper on Issues and Constraints to PPP

This task was included in the Work Plan in response to a request from Dr. Sujana Royat, chairman of the PURSE Tim Teknis. The concept is that a well-researched, frank analysis of the issues and constraints encountered in Indonesia in implementing PPP projects, particularly in the water sector, is necessary. A high level policy seminar to discuss the White Paper and its findings would be included in this task.

IR Target This activity was included in the Fourth Work Plan as a "wish list" task. A time frame was tentatively scheduled for beginning September 1997. Specific IR targets for this task for the Work Plan are to be determined.

Progress USAID has requested PURSE to drop this activity.

Next Quarter No further action for this activity is anticipated.

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

The PURSE training program is one of the most important aspects of the remaining months of the Project. The goals over the final fifteen months are to train as many local government and PDAM officials as possible in the five program modules, continue to add to, refine and improve the material, and institutionalize the training program within the Government.

IR Target Targets for this reporting period included the completion of the Pilot training activity No. 5 (30 trained).

Progress With respect to the projected pilot training program, PURSE has exceeded its target for number of participants trained. The fifth pilot, held in Jakarta November 16-22, 1997, included some 47 trainees.

The institutionalization of the PPP training program is still unclear and is an area of concern to PURSE. Please refer to the more detailed discussion of this concern in Appendix C, *Issues and Opportunities*.

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. PURSE also plans to hold its sixth and seventh (final) training programs in February and April 1998 respectively.

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.

■ **Policy Seminars**

No policy seminars were held during the reporting period.

Next Quarter No formal seminars sponsored by PURSE are planned for the next quarter.

■ **Local Level Training**

PURSE conducted its fifth Pilot training programs for local government and PDAM officials during the period November 16-22, 1997. The program covered the five modules developed by PURSE for this purpose. The 47 participants in the program included representatives from Malang, Tasikmalaya, Karawang, Tegal, Pekalongan, Samarinda, Palembang.

PURSE advisors also contributed to in-house training programs for Direktorat Jenderal Cipta Karya. Advisors gave multiple presentations on the Project Life Cycle and on Negotiation and Risk Management at the DJCK training center in Bekasi throughout the months of November and December 1997.

On December 20, 1997 a PURSE advisor travelled to Bandung to participate in a day-long PPP workshop sponsored by Dinas P U Cipta Karya Tkl, West Java. The advisor discussed international privatization experiences and lessons to be applied to the Indonesian context.

Next Quarter The next **pilot training** activities are currently scheduled for February and April 1998, if additional funds are added to the institutional contract.

An invitational travel program to Manila is still under consideration to allow government officials from both countries to compare the privatizations of the Manila and Jakarta water supply systems.

■ **Public-Private Forums & Conferences**

No PURSE sponsored forums or conferences were held during the reporting period.

Next Quarter No PURSE-sponsored forums or conferences are planned for the next quarter. The private sector is promoting these activities quite actively in Indonesia. In fact, a PURSE advisor is scheduled to participate in an infrastructure conference being planned for February by the Center for Management Technology, a private conference organizer.

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

A 3b Current Buy-ins

Not applicable to this contract.

A 3c Current Subcontracting Activities

PT Resource Development Consultants REDECON is providing the local training manager for the PURSE Project.

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 was amended in early 1997 to broaden the scope of activities for the third phase. SSEK is now participating more widely with PURSE in the legal aspects of the Project, in particular with respect to demonstration projects.

STATUS - FOURTH WORK PLAN

(July 1997 September 1998)

ANNUAL PROGRESS REPORT - 1997

& Quarterly Performance Report No 17

October 1 December 31 1997

Task No	UPAP Reference No	TASK DESCRIPTION	Fourth Quarter 1997			First Quarter 1998			Second Quarter 1998			ACTIVITY STATUS
			Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
1	7 3 A	Develop Options for PPP Water Project Pricing Mechanisms a Review ADB Water Pricing Report b Incorporate relevant aspects of report into PPP Training program c Incorporate relevant aspects into FAM and FAM training										Task re instated per request of USAID Nov 10 1997 a Report requested from PUOD b c Pilot 5 held Nov 17 22 Pilots 6&7 planned early 1998
2	Not in UPAP	Further Development of Financial Analysis Model a Field Test FAM with Demo Project Data b Revise Existing Financial Analysis Model c Revise Translate and Disseminate FAM User s Manual d Conduct Training in the Use of the FAM										Work currently underway a Completed b Completed c Completed e Pilot 5 held Nov 17 22 Pilots 6&7 planned early 1998
3	12 1 A	Prepare Risk Management System a Finalize Content of Risk Management Handbook b Translate and Disseminate Handbook c Provide Training in Risk Management										Activity extended to allow further GOI review and discussion a Completed August 1996 b Translation completed Oct 1997 d Pilot 5 held Nov 17 22 Pilots 6&7 planned early 1998
4	121 B	Develop Financial Guarantee & Credit Enhancement Mech a Assemble materials Coord w/PPP Center Team b Prepare papre on ideas for Credit enhancements c Assist in preparing seminar/conference (option) d Conduct seminar/conference ? (option)										Task re instated per request of USAID Nov 10 1997 a Assembling documents and reports for PP Center Team b c d
5	121 C	Consulting Services to Demonstration Projects a On going Services on As needed Basis 1) DKI Jakarta PAM JAYA 2) Medan PDAM Tirtanadi 3) Padang 4) Pontianak 5) Balikpapan PDAM 6) Cirebon PDAM 7) Semarang PDAM 8) Palu PDAM 9) Surabaya (KP III) 10) Malang 11) Manado										Demo Projects a major PURSE focus for 4th Work P Lan a Consulting Services On Going a 1) 2 signed June 6 1997 for \$1 2 bill PURSE monitoring a 2) Signed May 26 97 for \$85 million PURSE monitoring a 3) PURSE reviewed proposal consulting w/PDAM a 4) Tender PFS completed Pre Quils underway a 5) Private party has withdrawn PURSE may drop as demo a 6) PURSE assisting in proj identification Water source issue a 7) Contract signed with Kendogo Moro Est \$45 million a 8) Eval report & re comm submitted Dropped as demo proj a 9) New private party PURSE evaluating new situation a 10) PURSE reviewed commented on proposal a 11) Real local interest in PPP Private party (Sinar Mas) weak

Legend	<div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> <div style="border: 1px solid black; width: 20px; height: 10px; display: inline-block;"></div> Task Showing Overall Duration per 4th WP</div> <div style="background-color: black; width: 20px; height: 10px; display: inline-block;"></div> Intensive PURSE Project Activity</div>
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STATUS - FOURTH WORK PLAN
(July 1997 September 1998)

ANNUAL PROGRESS REPORT - 1997
& Quarterly Performance Report No 17
October 1 December 31 1997

Task No	UPAP Reference No	TASK DESCRIPTION	Fourth Quarter 1997			First Quarter 1998			Second Quarter 1998			ACTIVITY STATUS
			Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
6	12 1 D	Prepare Academic Draft of Multi Sector PPP Law a Review and Comment on Existing Draft of Law b Meet with GOI Privatization Team to Discuss Comments c Prepare Input to Draft Elucidations d Review and Comment on Final Drafts										PURSE participating in draft document review & comments a PP draft completed Keppreses still under development b Periodic ad hoc On going c PURSE assisting w/ Kepp for Procedures and Coord Body d Involvement continues Early 98 target date set by GOI
7	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										Task deleted from Work Plan per request USAID QPR review meeting Nov 10 1997
8	Not In UPAP	Preparation of White Paper on Issues and Constraints a Research Current Status of PPPs in Indonesia b Preparation of a White Paper c Hold Restricted Seminar on White Paper Findings										Task deleted from Work Plan per request USAID QPR review meeting Nov 10 1997
9	Not In UPAP	Implement Training & Communications Program a Policy Seminars b In country Technical Training 1) Write/Develop New Training Materials 2) Identify/Train Trainers 3) Perform Needs Assessments for Cities 4) Pilot Test Training Materials 5) Provide Training on National Basis (roll out by others) c Overseas Open Enrollment Courses d International Study Tours										a Credit Enhancement seminar early 1998 See above b Underway b 1) Completed 1st quarter 1996 New Mat is being developed b 2) 2nd TOT held June 9 11 97 3rd TOT tentative Feb 98 b 3) On going 1 day sessions held in Surabaya and Bekasi b 4) Pilot V held Nov 17 22 2 more Pilots planned early 98 b 8) Discussions with GOI on institutional home underway c See Appendix B d Manila Study Tour under consideration for early 1998
Legend												
 Task Showing Overall Duration per 4th WP			 Intermittent or Ongoing Task									
 Intensive PURSE Project Activity			 By Others									

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B ADMINISTRATIVE INFORMATION

B1 Level of Effort (last three months)

The contractor's level of effort expended for the reporting period was a total of 14 person months. See the LOE summary chart below.

B2 Cumulative Level of Effort

The contractor's cumulative level of effort through December 31, 1997 is 449.5 person months. See the LOE summary chart below.

B3 Unused Level of Effort

The contractor's unused level of effort through December 31, 1997 is 58 person months. See the summary chart below.

PURSE PROJECT ANNUAL PROGRESS REPORT - 1997 & QUARTERLY PERFORMANCE REPORT NO 17 October 1 - December 31 1997 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	196	7.0	
Short Term	67.8	0	62.8	5.0	
Total Expatriate PM	270.8	6	258.8	12.0	
LOCAL PROFESSIONAL					
Long-Term	104.7	4.5	85.2	19.5	
Short-Term	132.0	3.5	105.5	26.5	
Total Local PM	236.7	8	190.7	46.0	
TOTAL LOE PM	507.5	14	449.5	58.0	

B4 Expenditures (last three months)

The contractor's expenditures for the three month reporting period were \$ 227,953 See the summary budget chart below

B5 Cumulative Expenditures to Date

The contractor's cumulative expenditures through December 31, 1997 are \$ 10,543,651 See the summary budget chart below

B6 Remaining Unexpended Balance

The remaining budget balance in the contract is \$ 521,434 63 See the summary budget chart below

PURSE PROJECT					
ANNUAL PROGRESS REPORT - 1997					
QUARTERLY PERFORMANCE REPORT NO 17					
October 1 December 31 1997					
BUDGET SUMMARY					
Category	Contract Budget	Expended Last 3 Mos	Cumulative Expenditures	Remaining Balance	Percent Expended
Salaries	\$1 952 148	\$74 774 25	\$1 844 421 68	\$107 726 32	94 48%
Fringe Benefits	468 865	19 726 00	424 731 89	44 133 11	90 59%
Overhead	1 297 983	49 749 65	1 264 359 56	33 623 44	97 41%
Travel & Transportation	521 193	6 679 84	450 589 85	70 603 15	86 45%
Allowances	1 361 290	8 572 06	1 391 245 53	(29 955 53)	102 20%
Equip Vehicles & Frght	134 063	292 69	127 272 66	6 790 34	94 93%
Training	905 434	1 372 00	811 240 02	94 193 98	89 60%
Subcontracts	2 615 478	13 543 33	2 238 570 73	376 907 27	85 59%
Other Direct Costs	993 057	36 085 50	1 209 585 37	(216 528 37)	121 80%
Gen & Administrative	289 357	6 323 86	280 598 41	8 758 59	96 97%
TOTAL EST COST	\$10 538 868	\$217 119 18	\$10 042 615 70	496 252 30	95 29%
Fixed Fee	526 218	10 834 25	501 035 67	25 182 33	95 21%
GRAND TOTAL	\$11 065 086	\$227 953 43	\$10 543 651 37	\$521 434 63	95 29%

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PURSE PROJECT

1997 BUDGET EXPENDITURES

LINE ITEMS	Jan 97	Feb 97	Mar 97	Apr '97	May 97	Jun '97	Jul '97	Aug '97	Sep '97	Oct 97	Nov '97	Dec 97	TOTALS
Salaries	40 206 58	28 824 76	22 880 81	23 269 01	23 521 30	28 347 23	26 216 42	26 345 06	25 348 82	27 288 83	22 774 97	24 710 45	\$319 734 24
Fringe	5 457 89	7 324 71	5 909 78	5 915 44	5 849 57	6 172 23	6 134 22	6 120 92	5 889 18	7 078 96	5 929 28	6 717 76	\$74 499 94
Overhead	24 520 57	19 339 64	15 587 58	16 179 04	(1 645 29)	18 221 14	16 724 51	16 950 02	16 243 23	18 149 68	15 046 92	16 553 05	\$191 870 09
Travel & Transport	3 109 33	1 358 92	6 749 39	1 185 53	7 676 75	970 98	820 58	2 348 93	635 56	1 338 45	2 722 90	2 618 49	\$31 535 81
Allowances	2 810 82	20 181 38	3 001 81	5 543 75	3 250 62	10 550 19	31 307 72	64 361 14	28 266 51	5 480 50	(789 01)	3 880 57	\$177 846 00
Other Direct Costs	6 891 94	11 705 46	23 590 88	6 903 57	13 412 06	49 582 21	23 982 98	44 611 44	31 598 05	51 337 18	42 926 37	(58 178 05)	\$248 364 09
Equip Veh & Frght	0 00	110 33	0 00	0 00	471 21	14 18	4 75	735 95	0 00	231 25	4 29	57 15	\$1 629 11
Training	1 190 75	932 00	3 098 00	3 253 64	890 92	27 706 00	44 950 90	7 533 00	830 00	1 372 00	0 00	0 00	\$91 757 21
Subcontracts	7 714 16	0 00	14 556 13	85 107 83	10 858 17	20 564 91	29 396 14	0 00	17 902 58	0 00	8 249 05	5 294 28	\$199 643 25
General & Admin	2 757 06	2 693 32	2 861 23	4 420 73	1 928 55	4 863 87	5 386 15	5 070 19	3 801 42	3 368 31	2 905 94	49 61	\$40 106 38
Fixed Fee	4 723 49	4 614 28	4 901 96	7 573 75	3 304 07	8 332 95	9 227 73	8 686 42	6 512 72	5 770 69	4 978 56	85 00	\$68 711 62
TOTAL	99 382 59	97 084 80	103 137 57	159 352 29	69 517 93	175 325 89	194 152 10	182 763 07	137 028 07	121 415 85	104 749 27	1 788 31	\$1 445 697 74

** Per contract modification No 8

BUDGETED 1997	1 198 980
EXPENDED 1997	1 445 698
DIFFERENCE	(246 718)
BUDGET TOTAL	11,065,086
EXP THRU 12/97	10 543 651
REMAINING	521,435

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

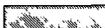
2 Actions to Improve Contractor Performance

To be completed by the USAID Contracting Officer

APPENDICES

PERSONNEL SCHEDULE
PURSE PROJECT
ANNUAL PROGRESS REPORT - 1997
& Quarterly Performance Report No 17
October 1 - December 31, 1997

POSITION / EXPERTISE	NAME	LOCAL OR EXPAT	FIRM	FOURTH QUARTER 1997			FIRST QUARTER 1998		
				OCTOBER 1997	NOVEMBER 1997	DECEMBER 1997	JANUARY 1998	FEBRUARY 1998	MARCH 1998
Long Term Personnel									
Chief of Party/Urban Policy Advisor	William J Parente	Expat	Chem						
Municipal Services Specialist	Subiyanto Ismakun	Local	Chem	■					
Municipal Services Specialist	Agus Heriadi	Local	Chem			■			
Project Devel /Finance Specialist	Addie Permono	Local	Chem	■					
Contracts Advisor/Deputy COP	John J Strattnr	Expat	Chem	■					
Short Term Personnel									
Training Manager	Purwoko Hadi	Local	Red	■					
Engineer/Technical Training Spec	Leila Suryodipuro	Local	Red	■					
Engineer/Technical Training Spec	Margie Tumbelaka	Local	Red			■			
Demo Proj IQC Team *									
Demo Project Finance Specialist	Bennett H Parton	Expat	Chem	■					
Urban Economist	Benny Djumhana	Local	Chem	■					
Environmental Engineer	Terrance P Driscoll	Expat	IP3	■					
Environmental Engineer	Ahmad Rosyid	Local	IP3	■					
Environmental Engineer short term	Gretchen Mikeska	Expat	Chem			■	■		

Legend  in Indonesia
 Part Time or Intermittent

* Under IQC Contract No OUT PCE I 800 96 00006 00
** Tentative Schedule

APPENDIX A

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PURSE

TRAINING & COMMUNICATIONS ACTIVITIES and OPPORTUNITIES

ANNUAL PROGRESS REPORT - 1997

& Quarterly Performance Report No 17

October - December 1997

NO	DESCRIPTION OF ACTIVITY	ORGANISER/ LOCATION	PARTICIPANT/ AGENCY	NUMBER OF TRAINEES	TIME FRAME	STATUS	
OVERSEAS GRADUATE LEVEL TRAINING							
1	Masters Program to be Determined	To be Determined	Candidate to be Identified by GOI	1	To be determined	Candidate to be identified	
2	Masters Program to be Determined	To be Determined	Candidate to be Identified by GOI	1	To be determined	Candidate to be identified	
3	PhD/Planning and Development Studies	University of Southern California, Los Angeles	Bastary Panji Indra/BAPPENAS	1	August 1997 - August 2000	Program is underway	
OVERSEAS TRAINING							
1	International Program on Privatization and Regulatory Reform	Harvard Institute for International Development, Cambridge, MA	1 Salusta Widya/Bappenas 2 Boediastoeti Ontowirjo/Bappenas	2	June 30 - July 25, 1997	Completed	
2	Pelaksanaan Proyek Melalui Pola Kemitraan antara Pemerintah dan Swasta Strategi Efektif dalam Pembangunan	The Institute for Public-Private Partnerships/Washington D C	1 Rudy H Nandar 2 Diah Parahita 3 Sjamsudin Bahri 4 Bambang Widodo	5 Budiono Subambang 6 Windhu Hidranto	6	August 11-22, 1997	Completed

APPENDIX B

NO	DESCRIPTION OF ACTIVITY	ORGANISER/ LOCATION	PARTICIPANT/ AGENCY	NUMBER OF TRAINEES	TIME FRAME	STATUS
3	Observational Tou	PURSE Project/Malaysia	5 central government officials 10 local government-PDAMs 3 PURSE Project consultants	18	June 1997	Completed
<i>IN-COUNTRY TRAINING</i>						
1	Training of Trainers (ToT) II	PURSE Project	Central Government Officials	20	June 9-11, 1997	Completed
2	PPP Water Supply Projects Conference	Center for Management Technology Hotel Shangri La, Jakarta	BAPPENAS Dept of Home Affairs (PUOD) Dept of Home Affairs (BANGDA) Dept of Finance Dept of Public Works (Cipta Karya)	5	July 2-3, 1997	Completed
3	Training on Public-Private Partnerships -- Pilot III	PURSE Project	Local Government & PDAM Officials	38	July 28-Aug 4 1977	Completed
4	PPP (One day seminar)	PDAM Surabaya	Local Governments Officials & Directors PDAM	20	August 18, 1997	Completed
5	Peran serta sektor swasta dalam pengelolaan persampahan	DJCK Bekasi	- Central Government Official - Head of Dinas Kebersihan - JICA	50	Sept 2, 1997	Completed
6	Training on Public-Private Partnerships -- Pilot IV	PURSE Project	Local Government & PDAM Officials	46	Sept 21-28, 1997	Completed
7	Cipta Karya PPP Training	Cipta Karya/Bekasi	Eselon IV - Cipta Karya	40	Nov 12-13, 1997	Completed
8	Training on Public-Private Partnerships -- Pilot V	PURSE Project	Local Government & PDAM Officials	47	Nov 16-22, 1997	Completed
9	Cipta Karya PPP Training	Cipta Karya/Bekasi	Eselon IV - Cipta Karya	40	Nov 26-27, 1997	Completed

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NO	DESCRIPTION OF ACTIVITY	ORGANISER/ LOCATION	PARTICIPANT/ AGENCY	NUMBER OF TRAINEES	TIME FRAME	STATUS
10	Cipta Karya PPP Training	Cipta Karya/Bekasi	Eselon IV - Cipta Karya	40	Dec 9-10, 1997	Completed
11	International Experience in PPP and the Indonesian Context	Cipta Karya/Bandung	Eselon III - Cipta Karya	30	Dec 20, 1997	Completed
12	Manado FAM	PURSE Project	Senior Local Government	15	February 1998	Being organized
13	Training of Trainers (ToT) III	PURSE Project	Central Government Officials To be Named	20	Febr 9-11, 1998	Planned
14	Training on Public Private Partnerships -- Pilot VI	PURSE Project	Local Government & PDAM Officials To be Named	40	Febr 16-21, 1998	Planned
15	Training on Public Private Partnerships -- Pilot VII	PURSE Project	Local Government & PDAM Officials To be Named	40	Apr 20-25, 1998	Planned
16	Study Tour to BOT Center Philippines	PURSE Project/Manila	Central Government Officials	15	April - May 1998	Topic formulation

APPENDIX C

ISSUES AND OPPORTUNITIES

As PURSE enters the final phase of the technical assistance portion of the program, the discussion below concerns critical issues to be addressed to optimize the Project's impact over the long term

C 1 The financial crisis could hamper PPP investment

Although outside the control of the PURSE Project, the current financial and economic crisis facing the country is likely to have a dampening effect on infrastructure investment, particularly foreign investment. Until the rupiah is stabilized, and foreign exchange risk can be reliably assessed, many projects are likely to be postponed. With the Government forced to curtail public spending on infrastructure (and other) projects, the PPP alternative should become more attractive. However, for this to happen Government will likely have to rethink its policy of not providing guarantees (see the discussion on credit enhancements below) to support water projects. Although rupiah denominated

C 2 Continue and Enforce the Commitment to Competition and Transparency

With great satisfaction PURSE has witnessed a marked increase during the reporting period in tangible efforts by the Government to impose greater competition and transparency on the PPP process. This commitment to a more open and transparent process for engaging the private sector in the country's infrastructure development has been demonstrated in the drafts of the new PPP law and Keppreses, and in efforts by Bappenas to lend political support and encouragement to competitive tenders in Pontianak and, perhaps, Manado.

The new Government Regulation and two supporting Presidential Decrees are expected to be enacted during the fourth quarter of 1997. They strongly favor the competitive methodology, and transparency throughout the process of project identification and selection of the private party partner.

PURSE is actively working the PDAM and local government in pursuing such a competitive process in Pontianak, West Kalimantan. Bappenas has written letters to the PDAM and Walikota expressing its strong support for this process, with the full commitment of the PURSE Project's resources to provide the necessary assistance. Bappenas is also in communication with Manado, North Sulawesi, which has indicated interest in following the competitive route as well.

While these recent initiatives are indeed encouraging, it is imperative that the Government remain committed to competition and transparency throughout the PPP process, and that the new laws, once enacted, are vigorously enforced.

C 3 Continue Support to Demonstration Projects After Conclusion of PURSE

Although the PURSE institutional contractor, Chemonics International, is due to conclude its contract at the end of September 1998 the PURSE Team remains committed to continuing to offer the full complement of the Project's technical assistance and training activities to PDAMs and local governments until the very end of the project. This may mean initiating services to assist PDAMs engaged in PPP project development knowing full well that not enough time remains in the contract for the parties to reach a negotiated agreement. Nevertheless, PURSE believes that any assistance provided PDAMs in the PPP process will be of benefit to their efforts. However, several PDAMs, in particular Pontianak which is engaged in a competitive tender process, are concerned that without continued PURSE support throughout the process, the likelihood of a successful PPP agreement with the private sector is significantly diminished. In response to this concern, Bappenas has committed to make consulting resources available beyond September 1998 to any PDAM engaged in a competitive process. These resources could be made available through the TAP4I Project, a bi-lateral donor, or other sources. This commitment is significant as it offers a degree of comfort to those PDAMs embarking on the process of pursuing a PPP project through a competitive process, while at the same time encouraging PURSE to continue aggressively pursuing new clients and demonstration projects.

C 4 Continue Support to the Government's Infrastructure Privatization Agenda

The Government of Indonesia through its five year master planning document, Repelita VI (1994-1998) set ambitious targets for private sector investment in the country's public infrastructure -- some \$18 billion. Repelita VII, currently under preparation, will continue to stress the need for private sector participation in the country's development. In the critical sectors of urban environmental infrastructure (water supply, wastewater treatment, and solid waste management) the PURSE Project has played a leading role in helping the Government foster a "transaction framework" critical to stimulating private investment. With PURSE scheduled to end in September 1998, the Government is particularly concerned about a major void in the availability of expert advisory services in this area.

To that end and at the request of Bappenas, PURSE advisors have been engaged in preliminary discussions with Government and multi-lateral donor agencies to explore the most appropriate structure for such services, and an overall program of assistance which best addresses Indonesia's infrastructure development needs at this time. Discussions have explored scenarios involving loan and equity funds, as well as technical assistance services.

PURSE will continue to work with Government throughout the remaining months of the technical assistance contract to identify ways to build upon and make sustainable the significant accomplishments of the USAID-sponsored activities of the previous six years.

C 5 Reduce Competition Between Public and Private Investment for Infrastructure

The Government needs to better coordinate its infrastructure funding program so as not to be competing with potential private sector investments. It is imperative that such funding programs be made known to the private sector, as they will impact on customer base and the

revenue stream to the PPP project, and thus ultimately on project design and "bankability" This applies both for APBN transfers and SLA (bilateral donor) financing PURSE has seen at least two examples where a lack of full communication at the local level (Padang and Pontianak) may significantly alter, if not delay or cancel, planned private investment PURSE believes that Government should encourage private investment in all cases where it makes both economic and financial sense to do so

Such competition between private and public sector investments is counterproductive for several reasons It "crowds out" potential private investment by using public funds which could be diverted to other, less financially attractive but socially necessary, projects, when not disclosed in a timely manner it can reduce the private investor's confidence and trust in the public sector, it undermines Government's commitment to private infrastructure investment which will cause potential investors to seek opportunities in other countries

C 6 Institutionalizing PURSE Products

The need to secure the institutionalization within Government of PURSE outputs to ensure sustainability of the PPP process remains a top priority of the Project Progress in this area continued to be made by the Project during the reporting period The English language version of the Project Life Cycle was finalized, and the Bahasa Indonesia version also completed and disseminated during the next quarter Field testing of the Financial Analysis Model was completed, and the translation of the FAM User's Manual was finalized and will be ready for dissemination early in the next quarter The translation of the Risk Management Handbook was also completed in the fourth quarter of 1997, and will be disseminated during the first quarter of 1998 These are each significant milestones for the PURSE Project Coincidentally, PURSE has learned that the World Bank in Washington has been made aware of the Risk Management Handbook, and plans to include information about it on their internal web site

More than reports, each of these products is in fact a "tool" developed specifically to assist local government and PDAM officials better identify, develop, and implement PPP projects Each of these tools also receive considerable exposure in the PURSE in-country PPP training program

While PURSE understands that it is the intention of the Government to house these products within the new PPP Center, PURSE would urge that thought be given to an interim solution as the Center is unlikely to come on line much before the PURSE Project ends Without such Government ownership, these tools, critical to the sustainability of the PPP program, are likely to be underutilized and, indeed, neglected This temporary home for PURSE outputs could be the new CLEAN-Urban Project, or even the Urban Management Training Program (see below)

C 7 Institutionalization and Sustainability of the In-country PPP Training Program

Although the PURSE in-country PPP training program is in high gear with two additional pilot programs for local government and PDAM officials conducted during the reporting period, a clear and achievable program for institutionalizing that training before the end of the Project still needs to be better articulated Although it is the stated objective of the

Government to house the PPP training within the new PPP Center, this Center is still in the nascent conceptual stages and it is not clear that it will be fully staffed and operational by the time PURSE ends in September 1998

Certainly, the training materials for the PURSE-developed five module program will remain behind after September 1998, and these should be of great benefit to whatever organization wishes to make use of them, such as the Diklats MOHA and PU. Nevertheless, these materials are designed to be improved, expanded, modified, and in other ways changed as the body of PPP experience in Indonesia continues to grow, and as implementing laws, regulations and methodologies change. Without an institutional custodian of the training program, it will be more difficult to keep the program fresh and current, and to ensure that it responds to the evolving needs of local officials.

This situation has been discussed with the Bappenas project director, Dr. Sujana Royat, and various alternative scenarios for addressing the issue are under consideration. However, this is a concern which needs to be kept in the forefront of thinking as the Government begins to look toward the post-PURSE era. As a part of this process, Pak Sujana gave the go ahead for a third training of trainers (TOT) program, tentatively scheduled for early February 1998.

An alternate, if temporary, solution may be to implement the PPP training through the Urban Management Training Program (UMTP) and the CLEAN Urban Project until such time the PPP Center is able to take it over. However, a similar arrangement was proposed earlier by PURSE, but rejected by the Project's Tim Kerja. This issue needs to be reopened and reconsidered to ensure the degree of transference and sustainability for PPP training desired by all parties.

C 8 Development of Alternative Credit Enhancement Mechanisms

The stated policy of the Government is to provide no sovereign guarantees in support of PPP infrastructure projects in the water sector. Nevertheless, with the weak financial condition of most PDAMs, and their resulting lack of credit worthiness, some form of credit enhancement will be needed to attract private investors, and make projects financially viable.

In order for Indonesia to enjoy the benefits of private sector participation in water supply, PDAMs need to ensure their creditworthiness to private investors. With over 300 PDAMs nationwide, a high degree of tariff subsidization, high staff-to-customer ratios, inefficient operations, and other factors contributing to cash flow uncertainty, the Government must begin exploring alternative ways to positively effect project credit enhancements needed to attract private capital to the water sector. Recently signed contracts in Medan and Jakarta will begin to establish precedents in credit enhancement mechanisms. However, Indonesia must consider what range of incentives can be offered either in terms of tax relief, government support obligations, escrows and others. The challenge now faced is to match incentive mechanisms with real, project-specific need and provide the right amount of credit enhancement to mitigate risks to a level acceptable to a private investor.

C 9 Amendment to the PURSE Contract

PURSE and USAID are currently negotiating a modification to the Chemonics technical assistance contract which will add funds in support of the Project's in-country training.

component and adjust level of effort for long and short-term technical assistance. It is anticipated that this amendment will be completed early in the first quarter of 1998.

C 10 Coordination with Other Projects, Donors & the Private Sector

PT Aquatec Maxcon Indonesia This firm is interested in pursuing a public-private partnership in Cirebon. PURSE met with their representatives to discuss their proposal and review areas of concern, particularly in raw water supply. PURSE also met with the chairman of the firm, visiting from Australia, in Jakarta on November 17.

Asian Development Bank On October 1, 1997 PURSE advisors met with the ADB's Jakarta-based private sector officer to discuss how the Bank might structure a loan, equity, and technical assistance program to continue supporting the Government's infrastructure privatization agenda.

PURSE had a subsequent meeting on November 26 with a Bank officer from Manila to review progress on legal and regulatory issues regarding PPP, and the need for continued consulting assistance to the Government in infrastructure privatization.

Biwater PURSE met with this British water firm on December 10 in Jakarta to discuss their Feasibility Study and proposed schedule for reaching contract closure. Biwater is pursuing an unsolicited project for a partial concession of Malang's water supply and distribution system.

Canadian International Development Agency A PURSE advisor attended a presentation by CIDA consultants at Bappenas on October 6, 1997 concerning the establishment of the PPP Center.

PURSE also met with CIDA-sponsored consultants investigating solid waste management privatization opportunities on November 26.

Compagnie Generale des Eaux CGE is a minority partner in a possible PPP project in Sidoarjo. PURSE has met with their officials to discuss elements of that project.

International Water, Ltd PURSE met with IWL officials in Jakarta to discuss issues concerning the Balikpapan privatizations. IWL has advised PURSE that they are closing their Jakarta office effective December 31, 1997, and that Indonesia business opportunities will be pursued from Singapore.

Jakarta Water Sector Supply Project PURSE continued to participate as requested with JWSSP in the negotiations for the two PAM Jaya concession agreements and reviewing progress being made toward satisfying the contract's conditions precedent.

Municipal Finance Project PURSE and MFP advisors met on November 18 to discuss issues of mutual concern. The projects reviewed on-going training activities and respective financial models, and agreed to collaborate specifically on future efforts to promote credit enhancement alternatives with government. The issue of training program institutionalization and sustainability after both MFP and PURSE conclude technical assistance activities this

summer were also considered

Private Sector Participation in the Transport Sector Project At the request of this ADB-funded project in the Ministry of Communications, and with the concurrence of Bappenas, PURSE presented a three-hour seminar on PPP as it pertains to the water sector, and the Project's experiences as they might pertain to transport. The presentation was attended by some 30 senior officials from the Department of Communications, and their BUMNs. The PURSE advisors, following an introduction of the Project and participating staff, presented a discussion of the Project Life Cycle, Project Feasibility, Contract and Risk Management, and a general discussion of the lessons learned during PURSE's five years of helping to structure PPP projects in Indonesia.

TAP4-I PURSE has continued to cooperate with this World Bank funded project in reviewing and commenting on the draft PPP law and two supporting Presidential Decrees (Keppreses).

C 8 Personnel Actions

The following personnel actions occurred during the last quarter of 1997

Ir. Subiyanto Ismakun, local professional municipal services specialist, resigned from the PURSE Project effective October 15, 1997 to pursue other opportunities.

Ir. Agus Hernadi was hired for the position of local professional municipal services specialist effective December 1, 1997.

Ir. Margie Tumbelaka also joined the Project as a local environmental engineering specialist effective December 1, 1997. Ir. Margie's services are being provided by PURSE subcontractor PT Redecon.

Ms. Gretchen Mikeska, an environmental engineer, initiated a one month short term assignment on December 15, 1997 to assist PDAMs in Pontianak and Manado investigate technical options for increasing the water treatment capacity of their current facilities.

APPENDIX D

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.

43 **Annual Progress Report 1996 & Quarterly Performance Report**
No 13 October 1, - December 31, 1996
PURSE Report No 105 00/96/043, January 1997

The report summarizes activities throughout the calendar year, and the fourth quarter of 1996. Among the more noteworthy events were the signing in July of a ministerial instruction, based

on the PURSE Project Life Cycle, by the Minister of Home Affairs which provides guidance to local governments/enterprises in the development of PPP water projects. PURSE held a highly successful Risk Management Seminar in August, which culminated the work by subcontractor Chase Manhattan Bank in developing a risk management system and handbook. The first of the Project's in-country training-of-trainers programs was also held in August, followed by the first two pilot training programs for local level officials in November. The Government has also initiated the preparation of a PPP Presidential Decree, and has begun formulating a PPP Center. The report also contains a synopsis of the status of the PURSE demonstration projects currently underway. Included as well is a frank discussion of the important issues and the major constraints impeding the successful conclusion of PPP projects in the water supply sector. These include

- o a lack of competition and transparency in the procurement and negotiation process
- o lack of due diligence in investigating projects and pre-qualifying private parties
- o political interference
- o failure to propose bankable projects
- o the delays in institutionalizing systems and procedures for implementing public-private partnership projects

44 **Quarterly Performance Report No 14 January 1, - March 31, 1996**
PURSE Report No 105 00/97/044, June 1997

Important activities and accomplishments during the reporting period include completion of the revised Financial Analysis Model and User's Manual, completion of the BOT and Concession model contracts by PURSE subcontractor White & Case for incorporation into the Project Life Cycle, the addition of resources to PURSE in the form of four advisors fielded through an Indefinite Quantity Contract (IQC) to pursue additional demonstration projects, the process of selecting a third cohort of demonstration project city candidates was begun and evaluation visits were initiated. Cities selected include Surabaya, Sidoarjo, Bandar Lampung, Padang, Surakarta, Manado, and Pontianak, completion of the translation and review of Risk Management Handbook, and dissemination of draft to Tim Kerja for review and comment, and, in-depth technical assistance to project negotiations in Medan was carried out for a PPP water supply project proposed by Lyonnaise des Eaux Dumez. Excellent cooperation among all parties has heightened the probability of a successful closure.

45 **Inception Report for the Environmental and Urban Program Support Indefinite Quantity Contract**
PURSE Report No IQC-DP/97/01 June 1997

In February 1997 USAID Indonesia and the PURSE Project institutional contractor, Chemonics International, signed an Indefinite Quantity Contract (IQC) to provide additional resources from available PURSE program funds to assist in the area of demonstration projects. This document represents the inception report for the PURSE IQC Team. The Team spent the first several weeks of the IQC contract period conducting an in-depth review, on behalf of PDAM Tirtanadi Medan, of a proposed public private partnership BOT project in Medan. PURSE studied demand projects, construction costs, and technical and financial data. A report was issued to the PDAM on June 30, 1997. On May 26, 1997 a contract was signed between

the PDAM and the private investor for \$85 million water treatment facility. In addition, the PURSE IQC Team visited several other cities to evaluate their potential as PURSE demonstration projects. In addition to Medan and Surabaya (where PURSE had also been working earlier), the Team concluded that the cities of Padang and Pontianak were the most viable candidates for PPP projects. This report details the findings in each city, the evaluation criteria used, and the recommendations of the PURSE IQC Team for further participation.

46 Fourth Work Plan July 1997 - September 1998

PURSE Report No 106 00/97/46 July 1997

This document represents the final Work Plan for the technical assistance program for the PURSE Project. The Work Plan activities proposed continue the emphasis of focusing Project resources on achieving successful closure of PPP demonstration projects, and on delivering training to the local level. In addition, PURSE plans to conclude and institutionalize a number of activities and products, including the Project Life Cycle, Risk Management System, Financial Analysis Model, and the in-country PPP training program.

47 Project Life Cycle -- Operations Manual

PURSE Report No 3/12 1 E/97/047 July 1997 (in English and Bahasa Indonesia)

The Project Life Cycle (PLC) provides step-by-step guidance to local government and PDAM officials, as well as to the private sector for implementing a public-private partnership infrastructure project in the water sector. The PLC was developed in close consultation with central Government officials from Bappenas, and the Ministries of Home Affairs, Finance, and Public Works. The PLC divides the PPP project process into six main phases, from Project Identification through Transfer or Renegotiation, and covers both the unsolicited and invitation (tender) methodologies for selecting a private sector partner. Using charts as well as text, the PLC presents a discussion of each aspect of the PPP project implementation process, identifies the documentation required, and the approvals needed to proceed.

48 Project Life Cycle -- Model Documents

PURSE Report No 3/12 1 E/97/048 July 1997 (in English and Bahasa Indonesia)

A companion to the Operations Manual, the PLC Model Documents serve as standards to assist government officials involved in a PPP water sector project prepare their documentation. The Model Documents manual is also divided into the six phases of a PPP project, with most documents presented in three stages, an issues paper, which discusses the purpose of the document, issues it is intended to address, and concerns that the officials should consider in its preparation, an organizational outline of the document, and, the model document itself. In addition to such documents as terms of reference for feasibility studies and model memorandum of understanding, the Manual includes full model concession and BOT contracts prepared by the law firm of White & Case under subcontract to PURSE.

49 **Trip Report -- Invitational Travel to Malaysia**
PURSE Report No 106 12/97/049 July 1997

At the end of June 1997, PURSE organized an invitation travel program for Malaysia for a group of senior Indonesian Government officials. The goal of the program was to share lessons learned by both governments in developing strategies and methodologies needed to successfully conclude PPP water sector deals. Meetings with Malaysian government officials, and site visits to PPP water supply facilities were arranged. In addition, numerous meetings and presentations were given by private sector entities who are currently active in Malaysia and interested in investing in Indonesia.

50 **Quarterly Performance Report No. 15 April 1 - June 30, 1997**
PURSE Report No 105 00/97/050 July 1997

Important activities and accomplishments during the reporting period include the signing of **three major PPP contracts** in Jakarta and Medan totalling \$1.3 billion, a second **Training of Trainers program** was held in Jakarta June 9-11 for 25 Central Government officials, the process of visiting and evaluating a **third cohort of demonstration project city candidates** was begun. The Inception Report for the IQC Team has recommended Medan, Surabaya, Padang and Pontianak as the cities for PURSE assistance, a draft **Fourth Work Plan** for the period July 1, 1997 through September 30, 1998 was submitted to USAID and the GOI. The Work Plan focuses on achieving successful contract closures of demonstration projects, a successful **invitational travel program trip to Malaysia** was organized and conducted by PURSE from June 22 - 27, 1997. Some 20 Government and PDAM officials took part. The group met with numerous Malaysian government and private sector officials in a fruitful change of views and experience on infrastructure privatization.

51 **Quarterly Performance Report No 16 July 1 - September 30, 1997**
PURSE Report No 105 00/97/051 October 1997

Significant activities and accomplishments during the reporting period include PDAM **Semarang signed a BOT water treatment contract** with PT Kendogo Moro for a value of approximately \$45 million, the contract has been approved by the Ministry of Home Affairs, the **Fourth Work Plan** was ratified by the Steering Committee in a meeting held on July 25, 1997, the **Third and Fourth Pilot Training Programs** were held July 28 through August 5, and September 21-27, 1997 respectively. A total of some 70 Local Government and PDAM officials from Bekasi, Tangerang, Padang, Pontianak, Manado, Maros, Bandar Lampung, Bandung, Bantaeng, Cirebon, Denpasar, Manado, Pekanbaru, and Surakarta, attended, **consulting services to Bekasi, Padang, Surabaya (Karang Pilang III), and Pontianak**, which is pursuing a competitive tender, continued active participation in the development of the new Government Regulation for PPP, and accompanying Presidential decrees (Keppreses) for the PPP coordinating body and procedures for implementing PPP, and PURSE-sponsored participation of high-level Government officials at the **Water Supply and Wastewater Treatment Summit**, part of the sixth annual World Economic Development Congress held prior to the IMF/World Bank annual meeting in Hong Kong.

PURSE DEMONSTRATION PROJECT TECHNICAL REPORTS

(these documents may not be available for general dissemination)

1 Medan - Analysis of the Belumai Water Treatment BOT Proposal PURSE Report No IQC-TP/97/001

In February 1997 the PURSE Project was requested by the Ministry of Home Affairs (PUOD) to review and comment on a feasibility study prepared by a private sector investor to build a Build-Own-Transfer (BOT) water treatment facility for the city of Medan. The PURSE analysis and evaluation of the three volume study focused on five specific areas: Demand, Facility Design, Cost, the Financial Condition of the PDAM, and the Treated Water Tariff Structure. In addition to the Project's rigorous analysis of the study, PURSE recommended ideas for shared savings, risk management, and credit enhancement.

2 Semarang - Review of Contract Documents

PURSE, together with local legal subcontractor Soewito, Suhardiman, Eddymurthy & Kardono (SSEK), performed a comprehensive review of contract documents between the PDAM Kotamadya Semarang and a private investor for a BOT water treatment project, PT Tirta Kendogo. The main emphasis of the report is on the legal documents, as financial and technical documents were not made available to PURSE. The report contains general and specific comments on the various contractual agreements concluded among the parties, and presents a series of recommendations for their consideration prior to finalizing the PPP contract.

3 Bekasi - Preliminary Review of Private Sector Participation in Water Supply

In June 1997 the PURSE Project was requested by the Ministry of Home Affairs (PUOD) to review a feasibility study and cooperation agreement for an unsolicited PPP water supply project in Bekasi. The project was being negotiated between the local government (Tingkat II) Kabupaten Bekasi (as owner of the PDAM), and PT Arinusa Tirta Bekasi, a locally-lead private sector company established for the purposes of implementing this 25-year PPP concession project. The PURSE review raised a number of questions concerning the capability of the private party to actually implement the project. PURSE concluded that more work needed to be done with respect to the feasibility study, and that the cooperation agreement lacked several important elements, including a discussion of conditions precedent, establishment of performance standards, and defining *force majeure* risk, among others. In the opinion of the PURSE Project, the parties are not yet ready to proceed to concluding a sound and mutually beneficial PPP contract agreement.

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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 Urban Environmental Management 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
