

PURSE PROJECT

Private Participation in Urban Services

QUARTERLY PERFORMANCE REPORT No.16

July 1 - September 30, 1997

PURSE Report.: 105.00/97/051

Submitted by
Chemonics International
Jakarta, Indonesia

In association with
Resource Management International
Sheladia Associates
P.T. Resource Development Consultants

October 1997

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

BAPPENAS
DEPARTEMEN DALAM NEGERI

DEPARTEMEN KEUANGAN
DEP. PEKERJAAN UMUM

QUARTERLY PERFORMANCE REPORT No.16

July 1 - September 30, 1997

PURSE Report.: 105.00/97/051

October 1997

Private Participation in Urban Services

QUARTERLY PERFORMANCE REPORT No. 16

July 1 - September 30, 1997

	<u>Page</u>
EXECUTIVE SUMMARY	ii
RINGKASAN EKSEKUTIF	iv
I. CONTRACTOR'S REPORT	1
A. NARRATIVE	1
A.1 Background	1
A.2 Expected Results	1
A.3a Current Core Activities	3
A.3b Current Buy-ins	15
A.3c Current Subcontracting Activities.	15
B. ADMINISTRATIVE INFORMATION	16
B.1 Level of Effort (last three months)	16
B.2 Cumulative Level of Effort	16
B.3 Unused Level of Effort	16
B.4 Expenditures (last three months)	17
B.5 Cumulative Expenditures to Date	17
B.6 Remaining Unexpended Balance	17
II. PROJECT OFFICER'S COMMENTS	18
1. Contractor's Technical Performance	18
2. Contractor's Administrative Performance.	18
3. Contractor's Management	18
4. Reaction to Contractor's Assessment of Performance	18
5. Areas for Contractor Improvement	18
III. CONTRACT OFFICE'S COMMENTS	19
1. Areas of Concern	19
2. Actions to Improve Contractor Performance	19
APPENDIX A - Personnel Schedule	
APPENDIX B - Training & Communications Activities	
APPENDIX C - Issues and Opportunities	

EXECUTIVE SUMMARY

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

This document serves as the Project's sixteenth *Quarterly Performance Report* covering the period July 1 through September 30, 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, as well as a discussion of issues and opportunities currently facing the project.

Important activities and accomplishments during the reporting period include:

- o Approval by the Ministry of Home Affairs of an estimated \$45 million PPP BOT water treatment project for the eastern half of Semarang, a PURSE demonstration project city.
- o Completion and acceptance of Fourth Work Plan, which covers the final phase of the Project, July 1, 1997 through September 30, 1998. The Work Plan was ratified during a Steering Committee Meeting held on July 25, 1997 .
- o Third Pilot Training Program, July 28 through August 5, 1997. Some 37 Local Government and PDAM officials from Bekasi, Tangerang, Padang, Pontianak, Manado, and Maros attended.
- o Fourth Pilot Training Program, September 22-28, 1997. Some 39 Local Government and PDAM officials from Bandar Lampung, Bandung, Bantaeng, Cirebon, Denpasar, Manado, Pekanbaru, and Surakarta, participated.
- o Consulting services focused on projects in Bekasi, Padang, Cirebon, Surabaya (Karang Pilang III), and especially Pontianak, which is pursuing a competitive tender.
- o Continued active participation in the development of the new Government Regulation for PPP, and accompanying Presidential decrees (Keppreses) for establishing the PPP coordinating body and procedures for implementing PPP.
- o 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.

While still an important issue, the Government has demonstrated concrete support for a competitive, transparent procurement process for PPP. This has been evident in the language contained in the new Government Regulation and supporting Keppreses for PPP, and in

communications from Bappenas to those demonstration project cities considering a tender process.

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 Kwartalan Proyek yang Ke Enam Belas yang mencakup periode 1 Juli sampai 30 September 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 indicator menurut USAID mission strategic objectives dan Paket hasil. Lampiran dalam laporan ini memasukkan diagram secara rinci mengenai kegiatan pelatihan dan penggunaan sumber daya manusia, sebagaimana di bicarakan dalam permasalahan dan kesempatan yang saat ini sedang dihadapi oleh proyek.

Kegiatan-kegiatan penting dan pencapaian yang telah dihasilkan selama periode laporan antara lain :

- Telah disetujui oleh Menteri Dalam Negeri proyek pengelolaan air KPS melalui BOT dengan nilai \$45 juta untuk setengah bagian timur Semarang, salah satu kota demo proyek PURSE.
- Penyelesaian dan persetujuan Rencana Kerja tahun ke Empat, yang mencakup phase terakhir dari proyek, 1 Juli 1997 sampai 30 September 1998. Rencana Kerja ini diratifikasi pada Pertemuan Steering Committee PURSE pada tanggal 25 Juli 1997.
- Program Pilot Training yang ke Empat, 22-28 September 1997. Sekitar 39 Pejabat dari Pemerintah Daerah dan PDAM dari Bandar Lampung, Bandung, Bantaeng, Cirebon, Denpasar, Manado, Pekanbaru dan Surakarta turut berpartisipasi.
- Jasa Konsultasi dipusatkan pada proyek-proyek di Bekasi, Padang, Cirebon, Surabaya (Karang Pilang III), dan khususnya Pontianak, yang saat ini sedang menuju ke Tender Kompetitif
- Melanjutkan Partisipasi aktif dalam pengembangan Peraturan Pemerintah yang baru untuk KPS yang menyertai Keputusan Presiden (Keppres) dalam mendirikan badan koordinasi untu KPS dan prosedur pelaksanaan KPS.
- PURSE telah mensponsori Pejabat Tinggi untuk menghadiri "Water Supply and Wastewater Treatment Summit" yang merupakan bagian dari Kongres Pembangunan Ekonomi Dunia Tahunan ke -6 yang diadakan sebelum Pertemuan Tahunan IMF/World Bank di Hong Kong.

Pemerintah telah menunjukkan dukungan yang cukup baik dalam proses pengadaan KPS yang transparan dan kompetitif, ketika hal ini masih menjadi permasalahan yang cukup penting. Ini

telah dijelaskan dalam Peraturan Pemerintah yang baru yang mendukung Keputusan Presiden untuk KPS dan dalam komunikasi dari Bappenas untuk kota-kota demo proyek yang mempertimbangkan proses tender.

I. CONTRACTOR'S REPORT

A. NARRATIVE

A.1 Background

The goals of the PURSE Project are to:

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

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

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

A.2 Expected Results

The PURSE contract calls for several expected outputs:

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

A.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					
<i>PURSE</i>					
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.				
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.				

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.				
Jakarta (PAM Jaya - East)	MOHA Approval granted	Financial Closure	Construction Underway		
Status Reporting Period	MOHA approval not yet granted. Parties working to complete CPs.				
Palu	Firms Prequalified	Proposal Received	MOU Signed	Feasibility Study Underway	Feasibility Study Reviewed
Status Reporting Period	Pre-Quals not done. PPP viability under review..				
<i>IQC TEAM</i>					
Medan	MOHA Approval granted	Financial Closure	Construction Underway		
Status Reporting Period	MOHA approval granted.				
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.				

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.				
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.				
WORK PLAN TASKS					
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.				
Risk Management System	Handbook revised; GOI home chosen; Trng Program developed	90 Handb'ks disseminated; 90 local officials trained			
Status Reporting Period	Revisions completed. Translation editing underway. Trng developed & implemented.				

INDICATORS	Quarter Ending Sept. '97	Quarter Ending Dec. '97	Quarter Ending Mar. '98	Quarter Ending Jun. '98	Quarter Ending Sept. '98
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.				
Draft of PPP Law	Review and comments submitted	Law issued			
Status Reporting Period	On target. PURSE involved in review meetings on PP & Keppreses.				
Negotiation Techniques	TBD	TBD	TBD	TBD	TBD
Status Reporting Period	Awaiting GOI/USAID decision.				
White Paper on Constraints to PPP	TBD	TBD	TBD	TBD	TBD
Status Reporting Period	Awaiting GOI/USAID decision.				
Training & Communications	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.				

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 achieving 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.

(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 completed revision and translation of the FAM User's Manual, and the development of associated training materials.

Progress: As a result of comments from the GOI, and PURSE's own internal "field testing" of the model on actual data from demonstration projects, further refinements and improvements have been made. The Manual is being translated into Bahasa Indonesia and will be disseminated on an unofficial basis until the FAM is institutionalized within the Government.

Next Quarter: The field testing and modifications to the model will be completed, and the translation of the Manual into Bahasa Indonesia finalized. The updated FAM will be formally included in the PURSE in-country training program. The issue of the *institutionalization* of the FAM remains. PURSE has recommended that PUOD take responsibility for the dissemination of the FAM, to be issued as *Guidelines* by DitJen PUOD.

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 the completion of revisions to the Risk Management Handbook, the development of a training program, and the decision on an institutional home within the Government for the Risk Management System.

Progress: PURSE has proposed that an interministerial decree be issued in support of the risk management system and Handbook, but that one particular agency of Government be designated to handle dissemination. Bappenas has indicated that the Handbook is likely to be incorporated under the auspices of the new PPP Center.

Next Quarter: As part of larger process for **identifying institutional homes within the GOI** for PURSE products, it is hoped that by the end of the next quarter the Risk Management System and Handbook will be "legalized" as a recommended process for PPP water projects, and formally adopted by the appropriate agency of Government.

(Task 12.1.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 **\$1.3 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 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.

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 charts on the following two pages depict 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
QUARTERLY PERFORMANCE REPORT
 July 1 - September 30, 1997

VALUE OF 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	<i>END OF PROJECT TOTAL</i>	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.				

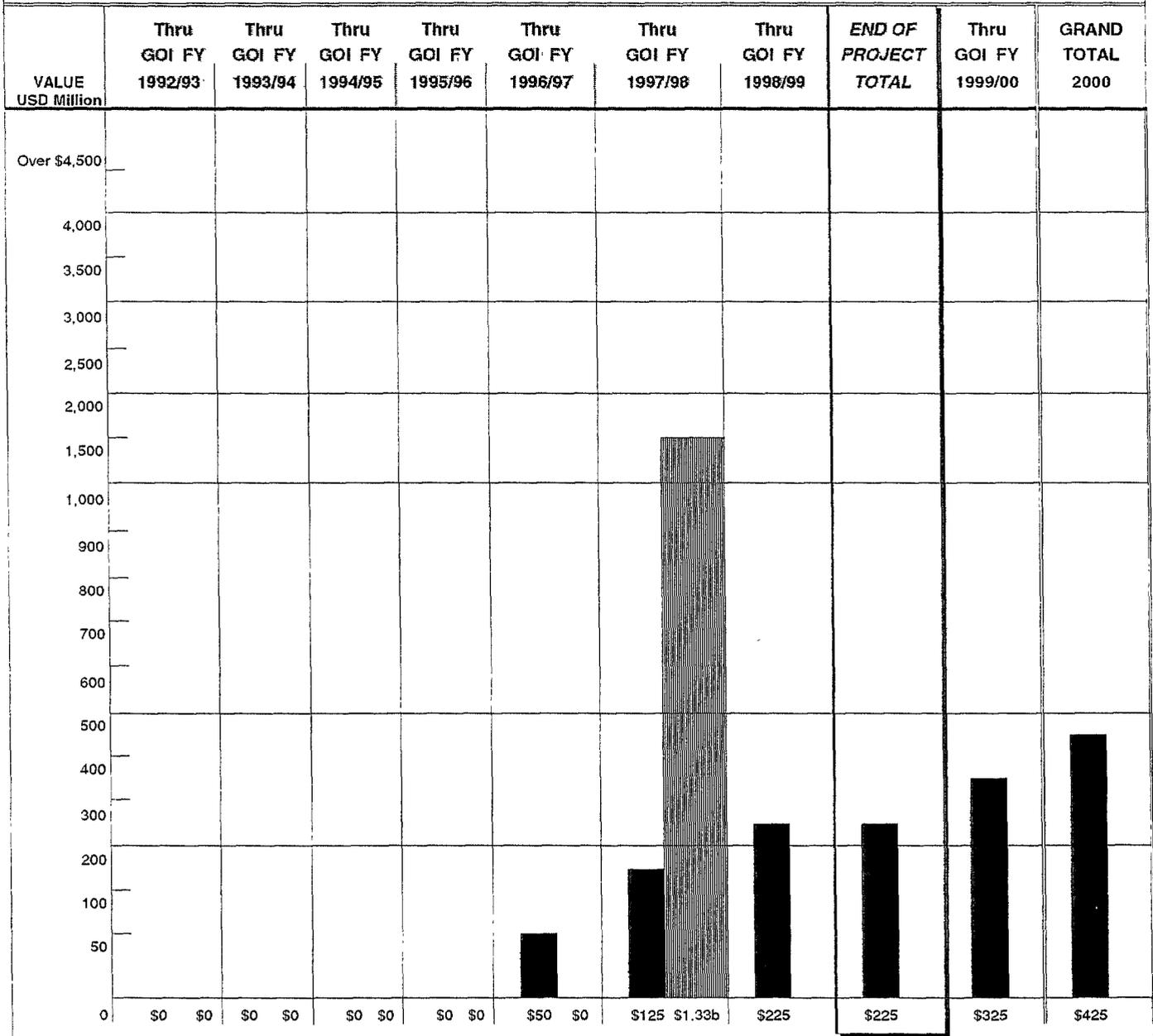
** Per SO4 Estimates
 All Values are Cumulative

57

PURSE PROJECT

VALUE OF DEMONSTRATION PROJECT CONTRACTS SIGNED

Public-Private Partnerships In the Water Sector



* All Values are Cumulative.

Projected Value of Contracts Signed for PURSE Supported Projects per SO4 estimates

Value of Contracts Actually Signed for PURSE Supported Projects

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. 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.

Next Quarter. PURSE will continue to monitor the approval process, and assist the International Finance Corporation, which has taken an equity position with the project, in carrying out its due diligence.

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 the granting of Ministry of Home Affairs approval for the two PPP contracts.

Progress. MOHA approval has not yet been given. The Project is monitoring the progress toward the parties' satisfying the 21 conditions precedent, which need to be met before the contract is effective. According to the contract, the parties have six months (or until November 26, 1997) to meet this requirement. Although PURSE's active role with PAM Jaya is now essentially completed, advisors did attend a meeting on September 3 at PAM Jaya to discuss tariff structuring and insurance issues.

Next Quarter. Approval from the Minister of Home Affairs should be granted by the end of the next quarter, December 1997. PURSE will continue to monitor the contract approval process.

Balikpapan: PDAM Balikpapan was approached by International Water Ltd. (ILW) 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 the signing of an MOU between the PDAM and the private party, International Water Ltd.

Progress. The MOU has not yet been signed and the structure of the PPP project is in some doubt. The Pre-Feasibility Study has been conducted by the private party investor, International Water Limited and Fajar Mas Murni. After reviewing the PFS, the PDAM has requested specific changes and modifications which are currently being made. PURSE has several times requested a copy of the PFS, but has yet to receive one. Unofficial indications are that the private party has concerns about the PDAM's financial condition, and that a BOT take-or-pay type of contract may not be viable without a financial guarantee from the Central Government. Some form of a management contract/concession agreement may be considered. At the same time, the Government has decided to finance a dam improvement at Manggar through a traditional APBN transfer, which reduces the size of the potential PPP project, which may make it less attractive to the private sector.

Next Quarter: Assuming a copy of the PFS is made available to the Project, PURSE will provide a detailed review of the PFS and provide written comments and recommendations. After discussions with the PDAM, a plan of action will be determined, including a determination of the status of Balikpapan as a demonstration project.

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 Pre-Qualification of firm(s) to carry out the project.

Progress. 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: PURSE plans to travel to Palu during the quarter to obtain some more detailed financial and demand information, and to again look at a water-only project. PURSE will then prepare an evaluation report, which will include recommendations for strengthening the management of the PDAM to make it a more attractive partner in the future for the private sector. At the same time, the Project will determine if Palu remains a viable demonstration project city for PURSE.

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 has been involved with the process involving PT. Kendogo Moro on the eastern side. The project involves providing 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 contract negotiations would be underway between the PDAM and private party, PT. Kendogo Moro.

Progress. Contract negotiations were concluded between the parties and the contracts signed. The agreement has been approved by the Minister of Home Affairs with the project value estimated at \$45 million. Although PURSE was not directly involved in the negotiations, PURSE/SSEK had previously completed its legal review of the cooperation agreement documents, and PURSE had submitted its comprehensive report, which also included sections on financial and technical aspects of the project. A number of issues were identified, particularly a general lack of clarity, precision and definition in the documents which could lead to later confusion or misinterpretation by the parties.

In a meeting with Waste Management Indonesia, PURSE was advised that a contract with the PDAM for developing a PPP BOT water treatment plant for the western side of the city had also been concluded and is currently under review for approval by the MOHA.

Next Quarter: With the contract having been signed and approved, PURSE involvement with Semarang is now likely to be concluded.

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 proposal and identify issues and concerns which need to be address.

IR Target. The target for this reporting period was that an MOU would be signed between the parties.

Progress. The MOU had been signed between the parties, but then was transferred by PT. Agumarnusa to include a new private party, The Golden Key Group. PURSE has reviewed the document and noted areas of concern, some of which might be addressed in subsequent agreements. PURSE's review of the proposal, and subsequent meetings with the PDAM and private party also raised several questions, included among them the capability and/or intention of the private party to actually implement the project itself. PURSE has prepared a pre-qualification process for the PDAM to determine the

qualifications of the proposed consortium. PURSE has also prepared an analysis of critical issues which the Project feels must be addressed prior to the signing of the contract. The PDAM has formally committed itself to work with PURSE.

Next Quarter: PURSE plans to visit Surabaya again early in the next quarter, and will work with the PDAM to pre-qualify the private party and plan next steps. If, as suspected, the private party cannot objectively demonstrate its capacity to implement a PPP BOT project of the size and scope proposed, PURSE will work with both parties to improve the qualifications of the private party to allow the project to go forward.

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. While the PDAM is looking to modify the scope of this PPP, 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 an MOU would be signed.

Progress. Although the MOU has not yet been signed, PURSE received at the end of September a copy of the proposal from Puncak Niaga, which consists of a BOT water treatment project in north Padang. The agreement would later expand into a full management and operation concession, with the private party assuming responsibility for all PDAM functions. Some 11,000 new connections are on request, and no service is currently being provided to this area, which includes a new airport development, as well as a growing industrial park. PURSE has discussed this concept with Padang officials, as well as with the interested private party, Puncak Niaga, Bhd. of Malaysia. All seem willing to further pursue the option.

PURSE is conducting an analysis of the long-term debt situation of the PDAM to determine its capacity to support additional projects under a PPP scenario.

Next Quarter: PURSE will review the proposal, and conclude its financial analysis for the PDAM. Weather permitting, a visit will be made to Padang to continue to explore the PPP options, including a more detailed analysis of the demand projections for north Padang, and the financial condition of the PDAM itself. The specific PPP project will need to be defined with both parties.

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 is 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. The target for this reporting period was achieved. During a visit to Pontianak (August 18-21), PURSE advisors found lines of vehicles stretching some two kilometers in front of the PDAM to collect water being treated on site. The situation is far more critical than PURSE had ascertained from earlier visits. A number of alternatives to secure a fresh water source have been explored, including increasing existing pumping and storage capacity at Penapat on the Landak River, and taking the water further upstream and building a long transmission line to bring the water to storage at Penapat, and then on to treatment at the PDAM in Pontianak.

PURSE has detailed the steps involved in the competitive process, and presented this to the PDAM. A meeting in Pontianak on August 18, 1997, the Walikota expressed his support for the competitive tendering process, and support for PURSE's efforts in working with the PDAM. PURSE has also evaluated technical alternatives for addressing Pontianak's urgent water supply situation, and has recommended increasing pumping capacity during periods of no salt water intrusion at the existing Penapat intake site, and storage in the reservoir currently under construction. An additional parallel pipeline of 1.2 meters in diameter is recommended to bring the water from Penapat to the PDAM's treatment facilities in Pontianak. This recommended alternative was presented to PUOD officials on September 11, 1997. A detailed cost analysis of all alternatives, including reverse osmosis, has been conducted, and a presentation prepared for the PDAM to make a final decision to allow the project to go forward.

Work was also begun in structuring the competitive tender process. A detailed tender schedule was prepared, and draft pre-qualification documents developed.

Next Quarter: PURSE will undertake a follow up visit to determine the willingness of the PDAM for operation and maintenance assistance, possibly in the form of a concession. PURSE will also make further preliminary demand determinations, capacity review, and water sourcing options. PURSE will finalize the competitive tender documents, and initiate the pre-qualification process, together with the Cooperation Contract Execution Committee.

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. Assistance of this nature during the reporting period included the following municipalities:

Bekasi. A private sector group has submitted an unsolicited proposal to the PDAM for a 25 year concession to construct and operate 4 water treatment plants, boosted transmissions mains, reservoirs, operate and maintain the facilities, and handle meter reading and bill collection, among other activities. PURSE was requested by Bappenas and PUOD to provide a preliminary review and comments on the Feasibility Study.

PURSE found that the FS could be improved in a number of respects, including better definition of the service area, more accurate demand figures, and clarification of the roles of the private consortium in implementing the project.

Next Quarter: Although still an "unofficial" demonstration project, the status of the Bekasi PPP opportunity could change should PURSE be formally requested to provide assistance.

Cirebon. In response to letter for Bappenas requesting an update of the PDAM's status in putting together a PPP water project and the possible withdrawal of PURSE participation, the PDAM met with PURSE to discuss their situation. The PDAM is now entertaining two projects, including the second phase of a build-rent-transfer (BRT) distribution system to service 5,300 household connections, and a water treatment BOT facility to provide up to 150 litres per second. As both projects are fairly small, PURSE is looking at creative packaging possibilities, including bundling, to make them more attractive to potential investors.

PURSE advisors made two trips to Cirebon in September to further discuss these possible projects and to obtain current financial and technical information. Work on an evaluation report to review and comment on the projects was initiated.

Next Quarter. PURSE will meet with the PDAM director early in the next quarter to discuss alternatives for attracting private investment. 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. PURSE will obtain appropriate direction from the Bappenas project manager.

Tangerang. PURSE met on August 29 with representatives from PT. Anggun Permai Sempurna, a local manufacturer of water valves and metering equipment. PT. Anggun is in discussion with PDAM Kotamadya Tangerang, a fairly new water company, to develop a PPP project for water supply. (PURSE had previously been working the PDAM *Kabupaten* Tangerang.) PT. Anggun discussed with PURSE the appropriate steps to take in putting together an effective, professional organization to carry out the work. PURSE gave PT. Anggun a number of relevant project documents, as well as contact information on experienced and qualified organizations they might approach.

Next Quarter: No further involvement by PURSE is anticipated at this time.

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 September 30, 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						% 1997 Target							
Project Steps (See Below)	Assigned Points \$ Value>>	\$20 mil.		\$45 mil.		\$800 mil.			\$400 mil.						Target	Achieved	%					
1	3	3		3		3		3		3												
2	3	3		3		3		3		3												
3	3	3	Sep-97	3		3		3		3												
4	6	Mar-97		6		6		6		6												
5	5	Jun-97		5		5		5		5												
6	5	Sep-97		5		5		5		5				See								
7	5	Dec-97		5		5		5		5				Next								
8	10	Mar-98		Jan-95	10	Jul-95		10		10							Sheet					
9	2	Jun-98		2		2		2		2												
10	3	Sep-98		3		3		3		3												
11	10			Dec-95	10	Nov-95		10		10												
12	5			Sep-97	5		Mar-96	5		Mar-96	5											
13	30	Dec-98		Dec-97	30	Sep-97	Dec-98	30	Jun-97	Dec-98	30	Jun-97										
14	7	Mar-99		Jun-98			Mar-99			Mar-99												
15	3	Jun-99		Dec-98			Sep-99			Sep-99												
Total Points	100	Plan	9	Act.	Plan	90	Act.	Plan	90	Act.	Plan	90	Act.	Plan	0	Act.	Plan	0	Act.	0	0	0%

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 September 30, 1997

Projects >>>		Palu		Medan		Surabaya		Padang		Pontianak		% 1997 Target							
Perpamsi Reg. No.>>		1941636.B		0210036.B		2350801 B		0310071.B		1330426.B									
Project Steps	Assigned Points	Water Supply (& Power ??)		Lyonnaise des Eaux		Bulk Water KP III		Full Management Concession		Competitive Tender		Target	Achieved	%					
(See Below)	\$ Value>>	\$35 mil.		\$85 mil.		\$100 mil.		\$20 mil.		\$ 50 mil.									
1	3		3		3		3		3		3	27	27	100.00%					
2	3				3		3		3		3	27	24	88.89%					
3	3				3		3	Apr-97	3		3	27	24	88.89%					
4	6				6	Aug-96	6	Mar-96	6	Jun-97	6	48	36	75.00%					
5	5	Sep-97	?		5		5		5		5	40	30	75.00%					
6	5	Dec-97	?		5		5		5	Sep-97	5	40	30	75.00%					
7	5	Mar-98			5		5					40	25	62.50%					
8	10	Jun-98		Sep-96	10	Aug-96	10	Mar-96	10	Mar-96	Sep-97	50	50	100.00%					
9	2	Sep-98			2		2		2		2	12	10	83.33%					
10	3			Dec-96	3		3		3		3	18	15	83.33%					
11	10				10	Mar-97	10	Nov-96	10	Mar-98	10	60	50	83.33%					
12	5			Mar-97	5		5	Jun-97	5	Jun-97	5	30	25	83.33%					
13	30			Sep-97	30	May-97	30	Jun-98	30	Sep-98	30	60	120	200.00%					
14	7			Dec-97				Dec-98				7	0	0.00%					
15	3			Jun-98				Mar-99				0	0	0.00%					
Total Points	100	Plan	3	Act.	Plan	90	Act.	Plan	60	Act.	Plan	0	Act.	Plan	0	Act.	486	466	95.88%

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

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

IR Target: The target for this reporting period was that PURSE would review draft documents and submit comments. This task is on schedule.

Progress: In coordination with the Canadian International Development Agency (CIDA), PURSE has continued to review and provide comments to drafts of this law. Initially envisaged as a Keppres (Presidential Decree) the document has been "upgraded" to a Peraturan Pemerintah (Government Regulation) to give it authority over Keppresses previously issued for individual infrastructure sectors. The PP will be supported by two Keppresses, for procedures and for the establishment of a "coordinating body".

PURSE participated actively throughout the reporting period in further refining the PP and two Keppresses. Advisors were invited to a meeting with Bappenas Deputy III for Infrastructure, Dr. Bambang Bintoro, on July 22, 1997 to discuss the current status of the regulation. PURSE was invited to submit technical comments. PURSE was again contacted in this regard to attend meetings held jointly with TAP4I, CIDA, the Asian Development Bank, and the World Bank on August 26-27, 1997 by Bp. Rusli Djalil (TAP4I) to provide final comments to aspects of a revised version of the draft regulation.

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 Keppresses for the PPP procedures and the coordinating body. The Government hopes to have these laws passed by October 31, 1997.

(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 needs to be made by the Government and USAID to use funds remaining in the PURSE Program for this purpose.

Next Quarter: As appropriate, PURSE may assist in the drafting of a terms of reference for assistance in the negotiation area to be funded through an IQC or other mechanism outside of the institutional contract.

(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: The Government, PURSE believes, needs to demonstrate additional political will to push for the degree of openness and transparency necessary to stimulate private infrastructure investment. A decision needs to be made by the Government and USAID to use funds remaining in the PURSE program for this purpose.

Next Quarter: As appropriate, PURSE may assist in the drafting of a terms of reference for assistance in the White Paper activity, which may be funded through an IQC, or other mechanism outside of the institutional contract.

(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 Pilot training activities No. 3 (37 trained) and No. 4 (39 trained); and the establishment of an institutional home for the PURSE in-country PPP training program.

Progress: With respect to the two projected pilot training programs, PURSE has exceeded its targets for participants trained. The third pilot, held in Jakarta July 26 through August 4, 1997, included some 37 trainees. The fourth pilot program, held September 21-27, 1997, also in Jakarta, included 39 participants.

The institutionalization of the PPP training program is still unclear. 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 fifth training program in November.

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. It is hoped that the proposed activity for developing the White Paper on issues and constraints to PPPs will go forward, and that the high level restricted policy seminar on the issue will also be held.

■ **Local Level Training**

PURSE conducted its second and third Pilot training programs for local government and PDAM officials during the periods July 28 - August 5, and September 22-28, 1997. Each program covered the five modules developed by PURSE for this purpose. Participants in the two programs included representatives from Bandar Lampung, Bandung, Bantaeng, Bekasi, Cirebon, Denpasar, Padang, Pekanbaru, Pontianak, Manado, Maros, Surakarta, and Tangerang, as well as from Directorate General Cipta Karya.

In addition, PURSE conducted, at the request of local officials, one day "orientation" training in Bekasi and Surabaya. In each instance PURSE training and technical advisors were able to mobilize quickly to respond to the training needs expressed.

Next Quarter: The next **pilot training** activities are currently scheduled for November 1997, and February and April 1998, if additional funds are added to the institutional contract.

An invitational travel program to Manila is 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**

PURSE and USAID sponsored the participation by a high level Indonesian delegation at the Water Supply and Wastewater Treatment Summit, held in Hong Kong on September 16-18, 1997 as part of the 6th World Economic Development Congress just prior to the IMF and World Bank's annual meeting. Government participation included Dr. Ir. Bambang Bintoro Soedjito, Deputy for Infrastructure, Bappenas; Dr. Ir. Sujana Royat of Bappenas, Chairman of the PURSE Tim Teknis; and Busrori, SE, Ministry of Finance.

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.

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 short-term local professional staff, particularly in the training area.

Soewito, Suhardiman, Eddymurthy & Kardono. SSEK is a local law firm. They have conducted an extensive review of the existing legal framework for PPP projects in Indonesia, and have analyzed those laws. The SSEK subcontract 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)

Quarterly Performance Report No. 16

July 1 - September 30, 1997

Task No.	UPAP Reference No.	TASK DESCRIPTION	Second Quarter 1997			Third Quarter 1997			Fourth Quarter 1997			ACTIVITY STATUS
			Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
1	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. On-going b. Minor revisions, improvements made c. Initial draft translation completed. Under review/edit. e. Presentations to GOI in March 1997.
2	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 Feb 1997 Undergoing final edit in E d Pilot 3 held Jul 28-Aug 4. Pilot 4 held Sep 22-28.
3	12.1.C	Consulting Services to Demonstration Projects a On-going Services on As-needed Basis 1) DKI Jakarta, PAM JAYA 2) Medan, PDAM Tirtanadi 3) Padang 4) Pontianak 5) Balikpapan, PDAM 6) Cirebon, PDAM 7) Semarang, PDAM 8) Palu, PDAM 9) Surabaya (KP III) 10) Other Projects (Bekasi, Tangerang) b Investigate Potential Demonstration Projects										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 reviewing private party proposal a 4) Actively pursuing tender PFS completed a 5) PFS under review/discussion betw PDAM & private party a 6) Suggested drop, but PDAM pursuing PPP. Evaluating status a 7) Contract signed with private party Est \$45 million. a 8) PDAM fin reviewed Evaluation rpt. underway a 9) New private party PURSE evaluating new situation a.10) PURSE reviewed, commented on proposal Not yet viable b Activities will more focused on projects going competitive.
4	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										Activity reinstated per Chairman Tim Teknis August 7 a PP draft completed Keppreses still under development b Major meeting held Aug. 26-27 PURSE, WB, ADB, CIDA. c PURSE to assist w/ Kepp for Procedures and Coord Body. d Involvement continues. Oct. target date set by GOI.
Legend:				Major Task Showing Overall Duration per 3WP				Intermittent or Ongoing Task				By Others

STATUS - FOURTH WORK PLAN

(July 1997 - September 1998)

Quarterly Performance Report No. 16

July 1 - September 30, 1997

Task No.	UPAP Reference No.	TASK DESCRIPTION	Second Quarter 1997			Third Quarter 1997			Fourth Quarter 1997			ACTIVITY STATUS
			Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
5	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										Subject to Availability of Funds Activity proposed in 4th Work Plan, Not yet formally approved by USAID or Bappenas
6	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										Subject to Availability of Funds Activity proposed in 4th Work Plan, Not yet formally approved by USAID or Bappenas
7	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. "White Paper" seminar possible early 1998. b. Underway b 1) Completed 1st. quarter 1996. New Mat'ls being developed. b 2) 2nd TOT held June 9-11, 1997 b.3) On-going 1 day sessions held in Surabaya and Belasi. b 4) Pilot III held Jul 4 28 - Aug 4, Pilot IV held Sep 22-28. b 8) Discussions with GOI on institutional identification underway. c See Appendix B. d Malaysia Tour successfully held June 22-27, 1997
Legend: Major Task Showing Overall Duration per 3WP Intermittent or Ongoing Task Intensive PURSE Project Activity By Others												

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 21 person months. See the LOE summary chart below.

B2. Cumulative Level of Effort

The contractor's cumulative level of effort through September 30, 1997 is 453.5 person months. See the LOE summary chart below.

B3. Unused Level of Effort

The contractor's unused level of effort through September 30, 1997 is 54 person months. See the summary chart below.

PURSE PROJECT					
QUARTERLY PERFORMANCE REPORT NO. 16					
July 1 - September 30, 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	6	86.7	18.0	
Short-Term	132.0	6	108	24.0	
Total Local PM	236.7	12	194.7	42.0	
TOTAL LOE PM	507.5	18	453.5	54.0	

B4. Expenditures (last three months)

The contractor's expenditures for the three month reporting period were \$ 513,943.24. See the summary budget chart below.

B5. Cumulative Expenditures to Date

The contractor's cumulative expenditures through September 30, 1997 are \$10,324,756.09. See the summary budget chart below.

B6. Remaining Unexpended Balance

The remaining budget balance in the contract is \$ 740,329.91. See the summary budget chart below.

PURSE PROJECT					
QUARTERLY PERFORMANCE REPORT NO. 16					
July 1 - September 30, 1997					
BUDGET SUMMARY					
Category	Contract Budget	Expended Last 3 Mos.	Cumulative Expenditures	Remaining Balance	Percent Expended
Salaries	\$1,952,148	\$77,910.30	\$1,769,647.43	\$182,500.57	90.65%
Fringe Benefits	468,865	18,144.32	405,005.89	63,859.11	86.38%
Overhead	1,297,983	49,917.76	1,214,609.91	83,373.09	93.58%
Travel & Transportation	521,193	3,805.07	446,172.39	75,020.61	85.61%
Allowances	1,361,290	123,935.37	1,382,673.47	(21,383.47)	101.57%
Equip., Vehicles & Frght.	134,063	740.70	126,979.97	7,083.03	94.72%
Training	905,434	53,313.90	809,868.02	95,565.98	89.45%
Subcontracts	2,615,478	47,298.72	2,225,027.40	390,450.60	85.07%
Other Direct Costs	993,057	100,192.47	1,179,624.87	(186,567.87)	118.79%
Gen. & Administrative	289,357	14,257.76	274,514.15	14,842.85	94.87%
TOTAL EST. COST	\$10,538,868	\$489,516.37	\$9,834,123.50	704,744.50	93.31%
Fixed Fee	526,218	24,426.87	490,632.59	35,585.41	93.24%
GRAND TOTAL	\$11,065,086	\$513,943.24	\$10,324,756.09	\$740,329.91	93.31%

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.

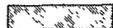
5. Areas for Contractor Improvement

To be completed by the USAID Project Officer.

APPENDICES

PERSONNEL SCHEDULE
PRIVATE PARTICIPATION IN URBAN SERVICES (PURSE) PROJECT
Quarterly Performance Report No. 16
July 1 - September 30, 1997

POSITION / EXPERTISE	NAME	LOCAL OR EXPAT	FIRM	THIRD QUARTER 1997			FOURTH QUARTER 1997		
				JULY 1997	AUGUST 1997	SEPTEMBER 1997	OCTOBER 1997	NOVEMBER 1997	DECEMBER 1997
Long Term Personnel									
Chief of Party/Urban Policy Advisor	William J. Parente	Expat	Chem.						
Municipal Services Specialist	Subiyanto Ismakun	Local	Chem.						
Project Devel /Finance Specialist	Addie Permono	Local	Chem.						
Contracts Advisor/Deputy COP	John I. Strattnet	Expat	Chem.						
Short Term Personnel									
Training Manager	Purwoko Hadi	Local	Red.						
Engineer/Technical Training Spec.	Leila Suryodipuro	Local	Red.						
Engineer/Technical Training Spec.	To be named	Local	tbd						
Demo Proj. IQC Team *									
Demo. Project Finance Specialist	Bennett Parton	Expat	Chem.						
Urban Economist	Benny Djumhana	Local	Chem.						
Environmental Engineer	Terry Dnscoll	Expat	IP3						
Environmental Engineer	Ahmad Rosyid	Local	IP3						
Environmental Engineer - short term	Stephen Jones	Expat	IP3						

Legend:  in Indonesia
 Part-Time or Intermittent

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

APPENDIX A

PURSE

TRAINING & COMMUNICATIONS: ACTIVITIES and OPPORTUNITIES

QUARTERLY PERFORMANCE REPORT NO. 16

July - September 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. Salustra Widya 2. Boediastoeti Ontowirjo	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
3	Observational Tour	PURSE Project/Malaysia	5 central government officials 10 local government-PDAMs 3 PURSE Project consultants	18	June 1997	Completed

APPENDIX B

NO.	DESCRIPTION OF ACTIVITY	ORGANISER/ LOCATION	PARTICIPANT/ AGENCY	NUMBER OF TRAINEES	TIME FRAME	STATUS
<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	Training on Public-Private Partnerships -- Pilot V	PURSE Project	Local Government & PDAM Officials To be Named	40	Nov. 16-22, 1997	Being organized
8	Seminar on "White Paper"	PURSE Project	Top Level GOI & Industry Executives	50	March, 1998	Topic formulation
9	PPP Training (Roll Out I)	PURSE Project	Demo project cities and other potential cities for PPP	40	April, 1998	Planned

NO.	DESCRIPTION OF ACTIVITY	ORGANISER/ LOCATION	PARTICIPANT/ AGENCY	NUMBER OF TRAINEES	TIME FRAME	STATUS
10	PPP Training (Roll Out 2)	PURSE Project	Demo project cities and other potential cities for PPP	40	May, 1998	Planned

APPENDIX C

ISSUES AND OPPORTUNITIES

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

C.1 Increasing Evidence of 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.2 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. 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, with the Bahasa Indonesia version due to be completed early in the next quarter. Field testing of the Financial Analysis Model continued, and the translation of the FAM User's Manual was completed. The review of the translation of the Risk Management Handbook is currently underway and will be completed in the fourth quarter of 1997. The status of the PURSE PPP training program is discussed below.

While it is the stated intention of the Government that these products will be housed in the

new PPP Center, PURSE would urge that thought be given to their interim custody if the PPP Center is not fully staffed and operational by the time the PURSE Project ends in September 1998. This temporary home for PURSE outputs could be the new CLEAN-Urban Project, or even the Urban Management Training Program (see below).

C.3 Institutionalization of Training

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.

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.4 Agreement on the PURSE Fourth Work Plan

PURSE presented the Fourth Work Plan at a Steering Committee Meeting chaired by Bp. Herman Haeruman on July 25, 1997. An overview of the main elements of the Work Plan was presented by Dr. Sujana Royat, chairman of the PURSE Tim Teknis, who also lead a discussion of the alternative uses of funds remaining in the PURSE Program. This meeting was significant for several reasons: it allowed the Government, USAID and PURSE advisory team to reach consensus on the proposed work plan activities and priorities for the remaining 15 months of the Project; and it clearly emphasized the Government's commitment to pushing for more openness, competition and transparency in developing the country's infrastructure through the public-private partnership process.

This last point was underscored by official Bappenas communiques to the PDAM and Walikota of Pontianak, and correspondence with Manado. This degree of political will is critical to a successful PPP program. The initiatives taken by Bappenas, in particular, with respect to supporting competitive processes in Pontianak, and possibly Manado, would be instrumental in establishing Indonesia as a more attractive market for international (as well as domestic) investors in the infrastructure sector. In addition, these two projects represent a welcomed opportunity to test the Project Life Cycle processes developed by PURSE, as well as the Instruksi Menteri Dalam Negeri No. 21 of 1996, for the tendering process.

C.5 Amendments to the PURSE Contract

The Chemonics institutional contract for PURSE was amended by USAID to fully obligate the funding for technical assistance. A further amendment will be executed during the coming quarter to add nearly \$245,000 to support in-country training activities. The amendment will also realign level of effort to reflect changes in staffing patterns,

particularly the extension of the Contracts Advisor through June 1998.

C.6 Coordination with Other Projects/Donors & the Private Sector

Municipal Finance Project. PURSE had a general coordination meeting with MFP on September 12 to discuss the status of the municipal bond issues, and other on-going work being carried out by MFP advisors.

TAP4-I. PURSE has continued to cooperate with this World Bank funded project in reviewing and commenting on the draft PPP law.

World Bank/IFC. Several meetings during the reporting period were held with Bank and IFC officials in Jakarta to review the the IFC's position in the Medan financing, as well as to discuss future areas for cooperation, including interest in the Pontianak competitive tender.

Canadian International Development Agency. CIDA has taken the lead in working on the new PPP law and Keppreses, and in developing the framework for the proposed PPP Center. PURSE has actively supported these efforts by reviewing and commenting on draft documents, and attending meetings whenever invited.

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.

Asian Development Bank. PURSE advisors met with the ADB's private sector officer to discuss the Medan privatization situation, and to interest the Bank in possible competitive tendering opportunities in Pontianak and Manado.

International Water, Ltd. PURSE met with IWL officials in Jakarta to discuss issues concerning Balikpapan and Umbulan Springs (Surabaya) privatizations.

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.

Center for Management Technology. PURSE participated in a conference on PPP water projects in Indonesia, scheduled for July 2-3, 1997. PURSE staff met with CMT conference organizers to review the conference program and recommend appropriate speakers and participants.

PT. Anggun Permai Sempurna. This company is a manufacturer of water meters and valves. They are interested in putting together a group to pursue a PPP relationship with PDAM Katamadya Tangerang.

PT. Agumarnusa. Meetings were held in Surabaya with this local firm to discuss their proposal to pursuing a sole source PPP project in water supply.

C.7 Personnel

The long-term assignment of John Strattnner (contracts advisor and deputy chief of party) was extended through June 30, 1998; and Terence Driscoll (environmental engineer) joined the project on a full time basis in early August 1997 under the Indefinite Quantity Contract (No. OUT-PCE-I-800-96-00006-00).

Laila Suryodipuro (engineering/planning specialist) submitted her resignation from the Project effective October 15, 1997. She will be joining USAID's Office of Urban Environmental Management as a local project officer, and will continue to work with the PURSE Project in her new capacity. PURSE is actively recruiting for a replacement on the Project.

Short-term assignments were initiated or carried out under the Indefinite Quantity Contract (No. OUT-PCE-I-800-96-00006-00) by Stephen Jones (environmental engineer).

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

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

in association with

**Environmental and Management
Program Support (EUP)**
United States Agency for
International Development
Washington, D.C

Cooperative Housing Foundation (CHF)
Ellsworth Associates
Environomics
Federal National Mortgage Association (FANNIE MAE)
Innovative International Development, Inc. (IIDI)
Institute for Public Private Partnerships (IP3)
University of Missouri, Center for Waste Management

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.
