

PURSE PROJECT
Private Participation in Urban Services

**ANNUAL PROGRESS REPORT &
QUARTERLY PROGRESS REPORT No. 21**

October 1 - December 31, 1998

PURSE Report No.105.00/98/058

Submitted by
Chemonics International
Jakarta, Indonesia

In association with
Resource Management International
Sheladia Associates

February 1999

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United States Agency for International Development

**BAPPENAS
DEPARTEMEN DALAM NEGERI**

**DEPARTEMEN KEUANGAN
DEP. PEKERJAAN UMUM**

A

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	<u>Page</u>
EXECUTIVE SUMMARY	ii
RINGKASAN EKSEKUTIF	iii
I. CONTRACTOR'S REPORT	1
A. NARRATIVE	1
A.1 Background	1
A.2 Expected Results	1
A.2a USAID Mission's Strategic Objective Indicators	2
A.3a Current Core Activities	10
A.3b Current Buy-ins	26
A.3c Current Subcontracting Activities	26
B. ADMINISTRATIVE INFORMATION	27
B.1 Level of Effort (last three months)	27
B.2 Cumulated Level of Effort	27
B.3 Unused Level of Effort	27
B.4 Expenditures (last three months)	29
B.5 Cumulative Expenditures to Date	29
B.6 Remaining Unexpended Balance	29
II. PROJECT OFFICER'S COMMENTS	31
1. Contractor's Technical Performance	31
2. Contractor's Administrative Performance	31
3. Contractor's Management	31
4. Reaction to Contractor's Assessment of Performance	31
5. Areas for Contractor Improvement	31
III. CONTRACT OFFICER'S COMMENTS	32
1. Areas of Concern	32
2. Actions to Improve Contractor Performance	32
APPENDIX A - Personnel Schedule	
APPENDIX B - Training & Communications Activities	
APPENDIX C - Issues and Opportunities	

EXECUTIVE SUMMARY

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

This document serves as the Project's *Twenty-First Quarterly Performance Report* covering the period October 1 through December 31, 1998 as well as the *Annual Progress Report 1998*. 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 PPPs are included as monitoring indicators in accordance with the USAID Mission's Strategic Objectives and Results Package. Appendices to this report include detailed charts on training activities and personnel utilization, and a discussion of issues and opportunities currently facing the Project.

Accomplishments and activities during the reporting period include :

- The ninth pilot training activity, held in Jakarta on October 19-24, 1998. This included some 38 trainees. Participants attended from Pasuruan, Salatiga, Banda Aceh, Surabaya, Madiun, Lombok and Cianjur, as well as Perpamsi, the association of local water utilities.
- The Feasibility Study for the Water Supply Project in Pontianak has been revised and re-issued. A decision on increasing water tariffs is the next step for the competitive tender process to move forward.
- On October 15, 1998, USAID and Chemonics International, Inc., the institutional contractors signed a Modification to the EUP-IQC that created an activity that assists Indonesian PDAMs in financial difficulty. The Modification effectively shifts all PURSE and IQC resources to meeting the needs of this new activity. This activity known as the Water Efficiency Team or WET - 1, provides resources for analyzing financially troubled PDAM, and offering solutions to bring these organizations to financial solvency. During this quarter the WET team issued its inception report which was agreed to and approved by USAID in November 1998. Field visits to Majalengka, Serang, Pandeglang, Tegal and Batang took place during the quarter. WET issued field visit reports for each PDAM with specific recommendations for follow up activities for Majalengka and Batang.

This Quarterly Performance Report and Annual Progress Report are the final ones to be submitted under this contract. The PURSE contract officially concludes on 30 April, 1999. The project has prepared and submitted a draft final report to USAID. The revised final report will be submitted 30 days prior to the project completion date.

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.

Laporan ini merupakan Laporan Kwartalan Kinerja Proyek ke Dua Puluh Satu periode 1 Oktober sampai 30 Desember 1998, berikut Laporan Tahunan periode 1998. 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's 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.

Pencapaian dan Kegiatan :

- Kegiatan Pelatihan ke Sembilan telah diadakan di Jakarta, tanggal 19 - 24 Oktober 1998. Pelatihan ini dihadiri oleh 38 peserta yang berasal dari Pasuruan, Salatiga, Banda Aceh, Surabaya, Madiun, Lombok dan Cianjur, demikian pula dengan Perpamsi, Persatuan Perusahaan Air Minum Seluruh Indonesia.
- Studi Kelayakan untuk proyek air minum di Pontianak telah direvisi dan diterbitkan laporan revisi tersebut. Keputusan untuk menaikkan tarif air di masa mendatang untuk proses lelang terbuka sedang diusahakan.
- Pada tanggal 15 Oktober 1998, USAID dan Chemonics International, Inc., telah menandatangani Modifikasi dari Kontrak EUP-IQC yang memberikan suatu kegiatan dalam membantu PDAM di Indonesia yang mengalami kesulitan keuangan. Modifikasi secara efektif telah memindahkan semua sumber daya PURSE dan IQC untuk dapat memenuhi kebutuhan akan kegiatan baru tersebut. Kegiatan ini diketahui sebagai Tim Efisiensi Air (Water Efficiency Tim) atau WET-1, yang mana akan menyediakan sumber daya untuk menganalisa kesulitan keuangan PDAM, dan memberikan solusi untuk mengatasi masalah keuangan dalam organisasi ini. Selama kwartalan yang akan datang, tim WET menyusun laporan pendahuluannya yang diakui dan disetujui oleh USAID pada bulan November 1998. Kunjungan ke lapangan ke Majalengka, Serang, Pandeglang, Tegal dan Batang dilakukan selama kwartalan. WET menyusun laporan kunjungan ke lapangan untuk masing-masing PDAM dengan memberikan rekomendasi khusus sebagai tindak lanjut kegiatan untuk Majalengka dan Batang.

Laporan Kwartalan Kinerja Proyek dan Laporan Tahunan ini akan diajukan dalam kontrak ini. Kontrak PURSE secara resmi akan berakhir pada bulan April 1999. Proyek telah mempersiapkan dan mengajukan rancangan laporan akhir kepada USAID. Laporan akhir yang telah direvisi akan diselesaikan dan dikirimkan 30 hari kerja sebelum tanggal pengakhiran proyek tersebut.

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 526 person months (279.3 expatriate and 246.7 local); and a contract budget of \$11,308,318.

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 CLEAN Urban Project, 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, extended through December 1998) is presented on the following pages. Charts and tables detailing the value of contracts signed and demonstration project progress against the PLC are included elsewhere in this report.

PURSE PROJECT
FOURTH WORK PLAN (EXTENDED)
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 Dec. '97	Quarter Ending Mar. '98	Quarter Ending Jun. '98	Quarter Ending Sept. '98	Quarter Ending Dec. '98
DEMO PROJECTS: STATUS ON PROJECT LIFE CYCLE					
PURSE					
Balikpapan	Feasibility Study Underway	Feasibility Study Reviewed	Contract Negotiations Underway	Contract Signed	
Status Reporting Period	Private party has withdrawn interest. PURSE dropping the project.	No action			
Semarang (Kendogo Moro)	Contract Signed	MOHA Approval granted	Financial Closure	Construction Underway	
Status Reporting Period	Project underway. PURSE has requested copy of contract from PUOD.	Project underway.			

INDICATORS	Quarter Ending Dec.'97	Quarter Ending Mar.'98	Quarter Ending Jun.'98	Quarter Ending Sept.'98	Quarter Ending Dec.'98
Jakarta (PAM Jaya - West)	Financial Closure	Construction Underway			
Status Reporting Period	All but 2 of 21 CPs met. Financial closure expected 2/98.	Concession officially initiated Feb. 1, 1998			
Jakarta (PAM Jaya - East)	Financial Closure	Construction Underway			
Status Reporting Period	All but 2 of 21 CPs met. Financial closure expected 2/98.	Concession officially initiated Feb. 1, 1998			
Palu	Proposal Received	MOU Signed	Feasibility Study Underway	Feasibility Study Reviewed	
Status Reporting Period	PURSE preparing final report. Withdrawing from Palu.	No action – project dropped			
IQC TEAM					
Medan	Financial Closure	Construction Underway			
Status Reporting Period	Financing requested by private party.	IFC postponed investment due to economic crisis.			

INDICATORS	Quarter Ending Dec.'97	Quarter Ending Mar.'98	Quarter Ending Jun.'98	Quarter Ending Sept.'98	Quarter Ending Dec.'98
Surabaya (KP III)	Feasibility Study Underway	Feasibility Study Approved	Negotiations Underway	Contract Signed	
Status Reporting Period	Private party proposal inadequate. PDAM needs qualified partner. PURSE may drop.	No action			
Padang	Feasibility Study Underway	Feasibility Study Approved	Negotiations Underway	Contract Signed	
Status Reporting Period	Change in demand due to DJCK competing investment threatens PPP.	Original PPP project no longer viable. No new project identified.			
Pontianak	Firms Pre- Qualified	Tender Docs Prepared & Issued	Proposals Evaluated	Feasibility Study Underway	
Status Reporting Period	PURSE eval. of alternatives completed.	Project alternative selected. Draft documents prepared	Feasibility Study Underway	Feasibility Study Issued and Being Reviewed	Feasibility Study Re- issued and Finalized
OTHER DEMONSTRATION PROJECTS					
Cirebon - Not in Original Workplan	Feasibility Study Underway	Feasibility Study Approved	Contract signed	Contract approved	
Status Reporting Period	PURSE eval. of alternatives completed.	Private party & PDAM identifying water source			

INDICATORS	Quarter Ending Dec.'97	Quarter Ending Mar.'98	Quarter Ending Jun. '98	Quarter Ending Sept.'98	Quarter Ending Dec.'98
Malang - Not in Original Workplan		Contract signed	Contract approved	Financial closure	Financial closure
Status Reporting Period		PURSE eval. of alternatives completed.	Contract negotiations underway	Contract negotiations continuing	Contract negotiations continuing
Manado - Not in Original Workplan	Project identification underway.	Pre-Feasibility Study Underway	Firms Pre-Qualified	Pre-Feasibility Study Underway	
Status Reporting Period	PURSE eval. of Sinar Mas proposal completed	PDAM agrees to comp. tender process. Preliminary project id. underway.	PFS Underway, Preliminary Project ID underway	PFS Underway, Preliminary Project ID underway	Feasibility Study Underway
WORK PLAN TASKS					
Develop Options for PPP Water Project Pricing Mechanisms - Not Included in Original Workplan	Task reinstated per request of USAID - Nov. 10, 1997	ADB Report reviewed; incorporated into PURSE training and FAM			
Status Reporting Period	ADB report requested from PUOD.	Report received. Review by PURSE underway.			
Further Development of Financial Analysis Model	90 local officials trained	Task completed	Task completed	Task completed	
Status Reporting Period	47 officials trained. Field testing continues.	PURSE completed BOT FAM field testing. Developing Concession FAM			

INDICATORS	Quarter Ending Dec.'97	Quarter Ending Mar.'98	Quarter Ending Jun. '98	Quarter Ending Sept.'98	Quarter Ending Dec.'98
Develop Financial Guarantees & Credit Enhancement Mechanisms Not in Original Workplan	Task reinstated per request of USAID - Nov. 10, 1997	Paper & seminar on status of credit enhancement			
	Status Reporting Period	Scope of Work prepared. Candidates for assignment interviewed.	Dropped as active PURSE Task. PURSE coordinating with PPP Center activity.		
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.	See Projects above.	See Projects above.
Risk Management System	90 Handbooks disseminated; 90 local officials trained.	Task completed	Task completed	Task completed	
	Status Reporting Period	47 officials trained. Document sent to printers for publication	Document printed in English & Bahasa. Disseminated as PURSE product.		

INDICATORS	Quarter Ending Dec.'97	Quarter Ending Mar.'98	Quarter Ending Jun.'98	Quarter Ending Sept.'98	Quarter Ending Dec.'98
Draft of PPP Law	Law issued	Task completed	Task completed	Task completed	
Status Reporting Period	Final draft of Law prepared. Keppres near final form.	Law issued as Keppres 7/98. Elucidations also prepared & issued. PURSE revising PLC to conform to Keppres.	PURSE revisions complete	PURSE revising English and Indonesian versions to be sent to BAPPENAS	Final English and Indonesian versions sent to BAPPENAS. Task complete.
Negotiation Techniques	Task deleted per request USAID - Nov. 10, 1997	Task dropped			
Status Reporting Period	No action	No action			
White Paper on Constraints to PPP	Task deleted per request USAID - Nov. 10, 1997	Task dropped			
Status Reporting Period	No action	No action			

INDICATORS	Quarter Ending Dec.'97	Quarter Ending Mar.'98	Quarter Ending Jun.'98	Quarter Ending Sept.'98	Quarter Ending Dec.'98
Training & Communications Activities	Pilot #5 completed -- 30 trained; Seminar on PPP Implem. - 100 attend	Pilot #6 completed -- 40 trained; Institutional Home for PPP In- country training prog. identified	Pilot # 7 completed	task completed	
Status Reporting Period	Pilot # 5 completed - 47 trained; PPP Seminar not held. See Work Plan discussion Task no. 6 - White Paper.	Pilot # 6 completed. 43 trained. Perpamsi recommende d as institutional home. PURSE will work with Perpamsi on Pilot #7 training program	Pilot # 7 completed. 47 trained. Perpamsi participated. Pilot # 8 being planned for August.	Pilot #8 completed. 54 trained. Perpamsi participated. Pilot #9 planned for October	Pilot # 9 Completed. 38 trained. Perpamsi participated. Training activities concluded

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 (extended through December 1998), output targets for each reporting period were established 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. Complete the review of the ADB report, and incorporate it appropriately into PURSE training and Financial Analysis Model.

Progress. PURSE has reviewed the report and incorporated those recommendations to be accepted into the FAM, and has reviewed implications for the Financial Analysis module of the in-country training program.

Next Quarter. No further activities planned. Final report to be issued.

(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 completed this task.

Progress: The Project has exceeded this target. With the completion of the Ninth Pilot training program in October 1998, PURSE has now provided formal training in the FAM to some 280 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.

PURSE advisors have also reviewed the ADB water tariff study, and its impact on the FAM. PURSE completed its translation and production of the FAM User's Manual for BOT and Concession projects in Bahasa Indonesia.

Next Quarter: The FAM will continue to be used on demonstration projects by PURSE financial analysts.

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 better understand the unique risk elements of a PPP water project, and to better manage, allocate, and mitigate those risks. The Risk Management Handbook, also 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 this task to have been completed.

Progress: The target for this activity has been achieved. The revised translation and editing of the Bahasa Indonesia version of the Handbook was completed in late December 1997. The Handbook was printed in a two-language book format and disseminated in February 1998.

With the ninth in-country Pilot training program held during the week of October , 19-24, 1998, PURSE has now trained over 250 local government and PDAM officials in risk management.

Next Quarter: 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. In particular Pontianak and Manado will continue to use PURSE risk-management materials. 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 the PPP Center to be established in 1999.

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

This task was re-instated by USAID as being more urgent due to the current 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 would compile and review existing credit enhancement materials, discuss the subject with Bappenas and the Ministry of Finance, co-ordinate 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 advisors met with the PPP Center advisor and reviewed and discussed his presentation on credit enhancement facilities to Bappenas. The PPP Center Advisor has completed the final report dated October 1998. Additional follow-up will be needed and PURSE will assist as appropriate.

Next Quarter. PURSE will continue to co-ordinate with the PPP Center advisor assigned to this task.

(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 pre-feasibility and feasibility studies, draft contracts and other legal documents, and provides planning, contract negotiation support, 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 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. PURSE has exceeded this target. With the two signings in Jakarta (\$1.2 billion), Medan (\$85 million), Semarang for (\$45 million), and Sidoarjo (\$5.2 million) for a total of five contracts valued at \$1.335 billion, PURSE has already well exceeded this target of value of contracts signed. PURSE is continuing to support active demonstration projects, including competitive tenders in Pontianak and Manado, and a negotiation in Malang for a partial concession contract. Estimated at \$85 million, the Malang contract is expected to be signed in early 1999.

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. This target is being met on a selective basis. 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.

The Malang PPP concession agreement will require the investor, Biwater, to reduce NRW from a high of 44 percent to a low of 25 percent in 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. While 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. PURSE completed its report on the re-rating in Pontianak, which identified over \$1 million in savings. A similar study is being included with the Manado Feasibility Study. PURSE is incorporating the template into the in-country training program for PPP, and will 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 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.

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 that construction of the PPP water treatment plant would be underway.

Progress. PURSE understands that the private party, Lyonnaise des Eaux, is unable to securing its financing, due to the current monetary crisis. The contract has been terminated as a result.

Next Quarter. PURSE will have no further role with this project in the future.

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 that the PPP would be underway.

Progress. The target has been achieved. Although the PAM Jaya system was transferred to the private parties on February 1, 1998, PURSE understands that, due to the monetary crisis, the two concessionaires are planning to delay some of their capital expenditures. In addition, the contracts are under review by government as the private sector is said to have possibly defaulted for not having met quality and technical standards, for not having fulfilled escrow deposit requirements, and for failing to pay salaries of PDAM officials seconded to the consortia, among others. Also the fact that former President Suharto directed these contracts to family and friends has further slowed implementation. The two consortia have been restructured with PAM Jaya becoming a full partner in the project and the local interests having sold their shares back to the Foreign partners. The concessions are proceeding with continuing discussion about tariff increases and its impact on the community.

Next Quarter. PURSE will have no further role.

Balikpapan: PDAM Balikpapan was approached by International Water Ltd. (IWL) with an unsolicited expression of interest. IWL completed a pre-feasibility study which called into question the viability of a BOT contract, as the PDAM's financial condition is weak.

IR Target. The target for this reporting period was that contract negotiations would be underway.

Progress. This target has not been achieved. As noted previously, the private party has withdrawn from the project, citing differences with the PDAM as to the type of project required. For the time being, no PPP project is being pursued in Balikpapan.

Next Quarter: PURSE anticipates no further involvement with this project.

Palu: Palu has been pursuing a potential PPP water supply project for some two years. 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 developed.

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

Progress. This target has not been achieved. PURSE has dropped Palu as a demonstration project.

Next Quarter: PURSE anticipates no further involvement with the PDAM at this time.

Semarang: For the purposes of addressing its water supply needs, Semarang divided the city into two areas, east and west, and 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 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 financial closure would have been achieved.

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.

Next Quarter: PURSE anticipates no further involvement with Semarang.

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 contract negotiations would be underway.

Progress. Dr. Sujana Royat, chairman of the PURSE Tim Teknis, has recommended that this project be dropped, as the private party involved is politically well connected, but has not demonstrated capability to implement the project. Subsequently, as the Monetary Crisis has made financing difficult at best the private consortia was given until August to demonstrate their ability to finance. The contract was terminated in August.

Next Quarter: PURSE anticipates no further action on this project.

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 contract negotiations would be underway.

Progress. This target has not been achieved, and the PPP effort remains in doubt. It was learned that a government-financed (DJCK) water project in Kabupaten Padang Pariaman, was in fact competing for the customer base (a new airport and industrial park) needed to make the PPP financially viable. This fact caught all parties, in particular Puncak Niaga, by surprise, and reflected a lack of understanding, if not ill will, at the local level on how a PPP would work. Padang Pariaman had previously indicated its interest and support for the PURSE demonstration project. Meetings at Bappenas which included representatives from the other affected ministries, PURSE and PDAM Padang, an attempt to resuscitate the PPP process in Padang, was noteworthy for the conspicuous absence of Padang Pariaman, which had also been invited.

Next Quarter: PURSE will have no further involvement in Padang.

Pontianak. Pontianak is facing a water crisis, precipitated by saltwater 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 are pursuing a **competitive tender** option to select a private investor. Unfortunately, the Monetary Crisis has taken a toll on the financial condition of Pontianak. Earlier, PURSE had been assured that tariffs would be increased in line with our earlier recommendations. However, as the cost of basic necessities rose and civil unrest increased, the local assembly has decided to delay implementation of necessary tariff increases.

IR Target. The target for this reporting period was that proposals would be under evaluation.

Progress. This target is behind schedule, but the project is continuing to move forward. A meeting in Pontianak with the PDAM director was held on May 7 when PURSE presented alternative project structures, such as BOT and delegated management (concession) to implement the chosen technical scheme. At a subsequent presentation given to the Walikota on June 4, 1998, the proposed "partial concession" structure was determined to be the most viable for Pontianak. PURSE has finalized and issued the Feasibility Study for the Pontianak Water Supply project in July 1998. In the study PURSE recommends immediate increases in tariffs and includes future scheduled tariff increases to ensure that private sector initiatives can be funded. However, as a result of the Monetary Crisis, the PDAM has been unable to win approval for such tariff increases. During the Quarter, PURSE has had numerous meetings with Cipta Karya, the Walikota of Pontianak and Bappenas in an effort to gather support for either some form of central government subsidy, guarantee or other form of credit enhancement to make this project viable. PURSE has substantially completed all tender documentation awaiting some decision of assistance to Pontianak or immediate tariff increases.

PURSE also completed its re-rating analysis of the water treatment plants. (see above.)

Next Quarter: PURSE has re-issued the Feasibility Study and is awaiting a decision on tariff increases to continue the project. Once some decision is made on the Feasibility Study, tariffs pre-qualification and tender documents, the project can be submitted to Bappenas for inclusion on the *List of Infrastructure Development Projects*.

Cirebon. Cirebon, an "on-again, off-again" demonstration project, received additional assistance from PURSE during the fourth quarter 1997. 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.

Target. Cirebon was not included as a demonstration project in the Fourth Work Plan. Subsequent targets established for this project projected a signed contract for this reporting period.

Progress. This target has not been achieved, as a guaranteed source of raw water has not yet been secured. At a meeting PURSE attended at PUOD on February 9, 1998 together with the PDAM and Aquatec it was learned that to date only 50 l/s of the 150 l/s can be assured by the Department of Water Resources. The cooperation between Aquatec and the PDAM is good, and PURSE remains confident that a small BOT project can be achieved.

Next Quarter. PURSE will have no further involvement in this project.

Malang. Malang is a new demonstration project, and was not included in the PURSE Fourth Work Plan. PDAM Malang received a proposal and feasibility study on an unsolicited basis from Biwater, a British firm for a 25 year concession for the western half of the city. Investments would be made by Biwater for the eastern side as well (which will continue to be managed by the PDAM). An MOU has been signed between the PDAM and Biwater which expires on October 24, 1998.

Target. A target established for this reporting period was the approval of the concession contract with Biwater.

Progress. This target has not been achieved, although contract signing was anticipated early in the quarter. While most outstanding issues have been resolved during intensive negotiations prior to the social unrest in Jakarta, the government is reviewing the contract to address certain outstanding issues. While these are being resolved, the change in local government has fostered a review of the need for a private party and a review of alternatives. The estimated value of this project is \$85 million.

Next Quarter. During the quarter PURSE was requested to provide assistance to evaluate the Private Sector project versus funding through donor assistance. PURSE's resources are inadequate to provide this assistance. PDAM Malang has requested assistance through the CLEAN project.

Manado. Manado, again 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, possible a concession for the water supply system, to serve hotels and commercial establishments along the water front, and housing developments. PURSE advisors travelled

to Manado to review demand projections, and to secure an agreement from the PDAM to work with PURSE in pursuing a competitive tender.

Target. PURSE had projected that the Pre-Feasibility Study would be underway during this reporting period.

Progress. This target is slightly behind schedule, largely due to the uncertainty of whether PURSE would be permitted to pursue this project. Having been given a green light, PURSE has completed the demand forecast, and has begun implementing a Feasibility Study. PURSE anticipated completing the Feasibility Study by September 30, 1998. Unfortunately some additional work needs to be completed before the report can be issued (pricing and tariff analysis). Total time to complete is expected to be approximate one month. However, completion may prove to be a problem as work demands arise from the WET project. Work to complete the Feasibility Study may continue but only sporadically.

Next Quarter. PURSE is providing assistance to Manado to complete the Feasibility Study. Completion is anticipated by 30 April 1999.

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.

WATER EFFICIENCY TEAM

In the Fourth Quarter 1998, a contract amendment to the EUP-IQC was signed calling for the development of Technical Assistance for the Water Efficiency Team. This contract amendment re-focused the project initiatives to provide assistance to ailing PDAM throughout Indonesia. By providing technical assistance to these ailing PDAM the team will identify opportunities for improved management, productivity gains, efficiency measures and cost savings that can assist these financially troubled PDAM to a measure of solvency. Significantly all remaining resources of the PURSE Project and IQC are being directed to completing this activity.

During this quarter the WET team issued its inception report which was agreed to and approved by USAID in November 1998. Field visits to Majalengka, Serang, Pandagelan, Tegal and Batang took place during the quarter. WET issued field visit reports with specific recommendations for follow up activities for Majalengka and Batang.

In the first quarter of 1999 WET anticipates field visits to Jepara, Garut, Blora, Tuban, Jember, Pacitan, Gresik, Lamongan and Nganjuk in accordance with the program set forth in the inception report. Further follow-on visits to the selected PDAMs will occur. WET will not re-visit those PDAMs which are solvent and not requiring additional WET assistance. Initial statistics indicate about 50% of all PDAMs from the selected list will require follow-up.

Future WET needs:

WET will work closely with the World Bank and the Asian Development Bank whose complementary programs will likely provide financing for follow-up investment activities. This will involve the following:

1. Secure resources to expand distribution networks and new connections. There is considerable unmet demand for new connections in the visited communities. New connections will generate significant new streams of revenue should the investment capital be available to fund their expansion and installation.
2. Financial and technical training of PDAM officials and managers. Courses and training activities, both formal and on-the-job, in areas such as financial planning, demand analysis, water plant management and financial management for non-financial managers should be developed and presented. Training will upgrade the human resources working within each PDAM, promoting long-term sustainability of future interventions. Such training programs should be formalised and institutionalised housed in PERPAMSI.
3. The WET team envisions it can productively manage future follow-up activities, including supervising cost saving programs, investment programs, ensuring compliance with WB and ADB directives, and co-ordinating donor activities.

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, 1998

Projects >>>		Balikipapan	Semarang	PAM JAYA		PAM JAYA		Malang	Manado	% 1997 Target		
Perpamsi Reg. No.>>		1630532.B	1130351.B	0920281.B		0920281.B		2350792.B	2040671.B	BOT ??		
Project Steps	Assigned Points	Expansion & Operation	Bulk Water Kendogo Moro	Mgm't. Conc. West		Mgm't. Conc. East		Mgm't. Conc. West	Tender ?	%		
(See Below)	\$ Value>>	\$20 mil.	\$45 mil.	\$800 mil.		\$400 mil.		\$85 mil.	\$5.2 million	Target	Achieved	%
1	3	3	3	3	3	3	3	3	3			
2	3	3	3	3	3	3	3	3	3			
3	3	3 Sep-97	3	3	3	3	3	3	Nov-98	0		
4	6	Mar-97	6	6	6	6	6	6	Dec-98			
5	5	Jun-97	5	5	5	5	5	5				
6	5	Sep-97	5	5	5	5	5	5		See		
7	5	Dec-97	5	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	2				
10	3	Sep-98	3	3	3	3	3	3				
11	10		Dec-95	10 Nov-95	10	10	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	Nov-98			
14	7	Mar-99	Jun-98	7 Dec-97	Mar-99	7 Dec-97	Mar-99	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 97 Act.	Plan 97 Act.	Plan 60 Act.	Plan 6 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, 1998

Projects >>>		Palu		Medan		Surabaya		Padang		Pontianak		Cirebon		% 1997 Target								
Perpamsi Reg. No.>>		1941836.B		0210036.B		2350801.B		0310071.B		1330426.B		1020320 B										
Project Steps (See Below)	Assigned Points	Water Supply (& Power ??)		Bulk Water Lyonnaise des Eaux		Bulk Water KP III		Full Management Concession		Competitive Tender		Aquatec Maxcon		Target	Achieved	%						
	\$ Value>>	\$35 mil.		\$85 mil.		\$100 mil.		\$15 mil.		\$ 35 mil.		\$8 million										
1	3		3		3		3		3		3		3	27	36	133.33%						
2	3				3		3		3		3		3	27	33	122.22%						
3	3		0		3		3	Apr-97	3		3	Sep-97	Apr-98	27	27	100.00%						
4	6				6	Aug-96	6	Mar-96	6	Jun-97	6	Sep-97	6	Jan-98	May-98	48	48	100.00%				
5	5	Sep-97	?		5		5		5		5	Dec-97				40	35	87.50%				
6	5	Dec-97	?		5		5		5	Sep-97	5	Mar-98	0		0	40	35	87.50%				
7	5	Mar-98			5		5					Jun-98				40	30	75.00%				
8	10	Jun-98			10	Sep-96	10	Aug-96	10	Mar-96	Sep-97					50	60	120.00%				
9	2	Sep-98			2		2		2	Dec-97		Sep-98	2	Jul-98	May-98	12	14	116.67%				
10	3				3	Dec-96	3		3			3	Oct-98	Jul-98		18	21	116.67%				
11	10				10	Mar-97	10	Nov-96	10	Nov-96	Mar-98			Aug-98		60	60	100.00%				
12	5				5	Mar-97	5	Jun-97	5	Jun-97	Jun-98		Nov-98	Sep-98		30	30	100.00%				
13	30				30	Sep-97	30	May-97	30	Jun-98	Sep-98			Oct-98		60	120	200.00%				
14	7				7	Dec-97	7	Dec-97	7	Dec-98						7	28	400.00%				
15	3				3	Jun-98	3	Mar-99	3							0	0	0.00%				
Total Points	100	Plan	3	Act.	Plan	97	Act.	Plan	60	Act.	Plan	25	Act.	Plan	20	Act.	Plan	6	Act.	486	577	118.72%

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 PURSE Fourth Work Plan projected that work on this task would have been completed.

Progress: The target has been achieved as the new law was issued as a Presidential Decree (Keppres) No. 7 of 1998. PURSE reviewed the impact of the new law on PURSE products, and completed revisions to the Operations and Model Documents manuals of the Project Life Cycle. PURSE also reviewed and provided comments on the "transition period"

Next Quarter: PURSE will continue to provide support as required to this process. The Project also finalized modifications to the Project Life Cycle and other documents as required to conform to the new law.

(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.

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

Next Quarter: No further action is anticipated.

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

This task was developed 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.

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 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 Project's most important elements over the remaining months of the Project. The goals during this final Project phase 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: Target for this reporting period was the completion of Pilot #9, the final PURSE PPP in-country training program.

Progress: This target has been achieved. The ninth pilot, held in Jakarta on October 19-24, 1998, included some 38 trainees. Participants attended from Pasuruan, Salatiga, Banda Aceh, Surabaya, Madiun, Lombok and Cianjur, as well as Perpamsi, the association of local water utilities.

Next Quarter: This activity has concluded and no further training programs are anticipated.

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

As noted above the ninth pilot, held in Jakarta on October 19-24, 1998, included some 38 trainees. This target has been achieved. The ninth pilot, held in Jakarta on October 19-24, 1998, included some 38 trainees. Participants attended from Pasuruan, Salatiga, Banda Aceh, Surabaya, Madiun, Lombok and Cianjur, as well as Perpamsi, the association of local water utilities.

Next Quarter: This activity has concluded and no further training programs are anticipated.

Public-Private Forums & Conferences

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

Next Quarter: PURSE anticipates no activity during the next quarter in this area.

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

STATUS - FOURTH WORK PLAN (EXTENDED)

(July 1997 - December 1998)

ANNUAL PROGRESS REPORT - 1998

& Quarterly Performance Report No. 21

October 1 - December 31, 1998

Task No.	UPAP Reference No.	TASK DESCRIPTION	First Quarter 1998			Second Quarter 1998			Third Quarter 1998			Fourth Quarter 1998			ACTIVITY STATUS
			Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
1	7.3.A	Develop Options for PPP Water Project Pricing Mechanisms													Task re-instated per request of USAID Nov 10, 1997 a Report received from PUOD in January 1998 b Review completed for training & FAM impacts c Pilot 9 held October 19-24, 1998 No Further Activity
		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													
2	Not in UPAP	Further Development of Financial Analysis Model													Work currently underway a Completed b Completed c Finalized e Pilot 9 held October 19-24, 1998 No Further Activity
		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													
3	12.1.A	Prepare Risk Management System													Activity extended to allow further GOI review and discussion a Completed August 1996 b Published December 1997 Disseminated January 1998 d Pilot 9 held October 19-24, 1998 No Further Activity
		a Finalize Content of Risk Management Handbook													
		b Translate and Disseminate Handbook c Provide Training in Risk Management													
4	121.B	Develop Financial Guarantee & Credit Enhancement Mech.													Task re-instated per request of USAID Nov 10, 1997 a Assembling documents and reports for PP Center Team b Meetings held with PPP Center team Jan-Feb 1998 c PURSE coordinating with PPP Center expert d Actively dropped
		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)													
5	12.1.C	Consulting Services to Demonstration Projects													Demo Projects a major PURSE focus for 4th Work Plan a Consulting Services On-Going a 1) 2 contracts for \$1.2 bill Privatization effective Feb 1, '98 a 2) Signed May 26, '97 for \$85 million a 3) PPP Project stopped due to competing DJCK project a 4) Tender PFS completed Documents being prepared a 5) Private party has withdrawn PURSE dropped as demo a 6) PURSE assisting in proj identification Water source issue a 2) Signed May 26, '97 for \$85 million a 8) Eval report & re-comm submitted Dropped as demo proj a 9) New private party PURSE dropped as demo project a 10) Contract negots nearing completion Est value \$85 mill a 11) PDAM & Pemda support tender PFS underway
		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															

Legend: Task Showing Overall Duration per 4th W/P
 Intensive PURSE Project Activity

Intermittent or Ongoing Task
 By Others

24

STATUS - FOURTH WORK PLAN (EXTENDED)

(July 1997 - December 1998)

ANNUAL PROGRESS REPORT - 1998

& Quarterly Performance Report No. 21

October 1 - December 31, 1998

Task No.	UPAP Reference No.	TASK DESCRIPTION	First Quarter 1998			Second Quarter 1998			Third Quarter 1998			Fourth Quarter 1998			ACTIVITY STATUS
			Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
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 Keppres still under development b Periodic, ad hoc On-going c PURSE assisting w/ Kepp for Procedures and Coord Body d Law issued as Keppres on Jan 12, '98 Updating PLC, etc
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 PPP Status seminar dropped b Underway b 1) WTP Rerating Mat's being developed b 2) Finalized b 3) On-going b 4) Pilot 9 held October 19-24, 1998 No Further Activity b 8) Perpamsi candidate as institutional home c None planned See Appendix B d Manila Study Tour dropped

Legend:  Task Showing Overall Duration per 4th WP
 Intensive PURSE Project Activity

 Intermittent or Ongoing Task
 By Others

25

A.3b Current Buy-ins

Not applicable to this contract.

A.3c Current Subcontracting Activities

PT. Resource Development Consultants. REDECON ended their formal association with the PURSE project on December 31, 1998. The local training manager/engineer they had been providing has been hired by Chemonics under the PURSE EUP IQC.

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 3.0 person months. See the LOE summary chart below.

B2. Cumulative Level of Effort

The contractor's cumulative level of effort through December 31, 1998 is 512.5 person months. See the LOE summary chart below.

B3. Unused Level of Effort

The contractor's unused level of effort through December 31, 1998 is 13.5 person months. See the summary chart below.

PURSE PROJECT
ANNUAL PROGRESS REPORT - 1998
& QUARTERLY PERFORMANCE REPORT NO. 21
 October 1 - December 31, 1998

LEVEL OF EFFORT SUMMARY
 (in Person Months)

Category	Contract LOE	Used in Last 3 Mos.	Cumulative LOE	Unused LOE
EXPATRIATE				
Long-Term	215.0	0	215	0.0
Short-Term	64.3	0	62.8	1.5
Total Expatriate PM	279.3	0	277.8	1.5
LOCAL PROFESSIONAL				
Long-Term	108.7	3	111.2	-2.5
Short-Term	138.0	0	123.5	14.5
Total Local PM	246.7	3	234.7	12.0
TOTAL LOE PM	526	3	512.5	13.5

Based on Modification No. 10

B4. Expenditures (last three months)

The contractor's expenditures for the three month reporting period were \$ 66,394. See the summary budget chart below.

B5. Cumulative Expenditures to Date

The contractor's cumulative expenditures through December 31, 1998 are \$ 11,156,191. See the summary budget chart below.

B6. Remaining Unexpended Balance

The remaining budget balance in the contract is \$ 152,127. See the summary budget chart below.

PURSE PROJECT
QUARTERLY PERFORMANCE REPORT NO. 21
 October 1 - December 31, 1998

BUDGET SUMMARY

Category	Contract Budget **	Expended Last 3 Mos.	Cumulative Expenditures	Remaining Balance	Percent Expended
Salaries	\$2,054,232	\$14,177.14	\$2,039,936.37	\$14,295.63	99.30%
Fringe Benefits	494,771	1,839.34	499,122.39	(\$4,351.39)	100.88%
Overhead	1,378,136	5,661.64	1,367,538.55	\$10,597.45	99.23%
Travel & Transportation	547,029	14,568.43	518,740.51	\$28,288.49	94.83%
Allowances	1,453,278	1,999.08	1,416,226.13	\$37,051.87	97.45%
Equip., Vehicles & Frght	136,241	0.00	127,379.28	\$8,861.72	93.50%
Training	850,633	90.00	812,618.68	\$38,014.32	95.53%
Subcontracts	2,277,414	8,655.94	2,270,477.40	\$6,936.60	99.70%
Other Direct Costs	1,302,668	17,155.54	1,300,594.42	\$2,073.58	99.84%
Gen. & Administrative	287,698	2,246.50	277,340.13	\$10,357.87	96.40%
TOTAL EST. COST	\$10,782,100	\$66,394	\$10,629,973.86	\$152,127.14	98.59%
Fixed Fee	526,218	(1,340.61)	526,218.00	\$0.00	100.00%
GRAND TOTAL	\$11,308,318	\$65,053	\$11,156,191	\$152,127.14	98.65%

** per modification No.10

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 1998
& Quarterly Performance Report No. 21
October 1 - December 31, 1998

POSITION / EXPERTISE	NAME	LOCAL OR EXPAT	FIRM	THIRD QUARTER 1998			FOURTH QUARTER 1998		
				JULY 1998	AUGUST 1998	SEPTEMBER 1998	OCTOBER 1998	NOVEMBER 1998	DECEMBER 1998
Long Term Personnel									
Chief of Party/Urban Policy Advisor	William J. Parente	Expat	Chem	■					
Municipal Services Specialist	Agus Hernadi	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.	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	Terence P. Driscoll	Expat	IP3	■	■	■	■	■	■
Environmental Engineer	Ahmad Rosyid	Local	IP3	■	■	■	■	■	■

* Under Modification No. 11 Purwoko Hadi will become a Chemonics International Inc. employee
** Under IQC Contract No. OUT-PCE-I-800-96-00006-00

Legend: ■ in Indonesia
▨ in U.S. (evacuation)

34

CHEMONICS INTERNATIONAL
January 31, 1999

United States Agency for International Development

PURSE

TRAINING & COMMUNICATIONS: ACTIVITIES and OPPORTUNITIES

Annual Progress Report 1998 & Quarterly Performance Report No. 21 October - December 1998

NO.	DESCRIPTION OF ACTIVITY	ORGANISER/ LOCATION	PARTICIPANT/ AGENCY	NUMBER OF TRAINEES	TIME FRAME	STATUS
<i>OVERSEAS GRADUATE LEVEL TRAINING</i>						
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
<i>OVERSEAS TRAINING</i>						
1	Study Tour to BOT Center Philippines	PURSE Project/Manila	Central Government Officials	15	April - May 1998	Cancelled
2	Conference - PSP in Water Supply	USAID/India Poona, India	Bp. W. Sentosa, Dirut, PDAM Malang Bp. Maschut, Deputy Mayor, Malang	2	April 20-23, 1998	Completed

NO.	DESCRIPTION OF ACTIVITY	ORGANISER/ LOCATION	PARTICIPANT/ AGENCY	NUMBER OF TRAINEES	TIME FRAME	STATUS
<i>IN-COUNTRY TRAINING</i>						
1	Cipta Karya PPP Training	Cipta Karya/Bekasi	Eselon IV - Cipta Karya	40	Nov. 12-13, 1997	Completed
2	Training on Public-Private Partnerships -- Pilot V	PURSE Project	Local Government & PDAM Officials	47	Nov. 16-22, 1997	Completed
3	Cipta Karya PPP Training	Cipta Karya/Bekasi	Eselon IV - Cipta Karya	40	Nov. 26-27, 1997	Completed
4	Cipta Karya PPP Training	Cipta Karya/Bekasi	Eselon IV - Cipta Karya	40	Dec. 9-10, 1997	Completed
5	International Experience in PPP and the Indonesian Context.	Cipta Karya Tkl/Bandung	Eselon III - Cipta Karya	30	Dec. 20, 1997	Completed
6	Manado FAM	PURSE Project	Senior Local Government	15	February 1998	Completed
7	Training of Trainers (ToT) III	PURSE Project	Central Government Officials To be Named	20	Feb. 9-11, 1998	Cancelled
8	Training on Public Private Partnerships -- Pilot VI	PURSE Project	Local Government & PDAM Officials	40	Feb. 16-21, 1998	Completed
9	Training on Public Private Partnerships -- Pilot VII	PURSE Project	Local Government & PDAM Officials	50	May 4-9, 1998	Completed
10	Seminar -- Privatization Lessons Learned & Roadmap for Future	PURSE Project/Jakarta	Central Government Officials, Private Sector, Donor Agencies	75	Mid-June 1998	Cancelled
11	Training on Public Private Partnerships -- Pilot VIII	PURSE Project	Local Government & PDAM Officials	54	August 3-8, 1998	Completed
12	ToT FAM & Cipta Karya, Jakarta	PURSE Project	Cipta Karya & PDAM Officials	30	Aug. 18-21, 1998	Completed
13	Cipta Karya Training on FAM	PURSE Project	Cipta Karya Officials	18	Sept. 1-3, 1998	Completed

APPENDIX C

ISSUES AND OPPORTUNITIES

The discussion below concerns critical issues to be addressed and opportunities being exploited to optimize the Project's impact over the longer term.

C.1 The financial/political crisis will hamper PPP investment

PURSE continues to closely monitor the current financial and political crisis in Indonesia and its implications for private investment in urban infrastructure. With the rupiah still hovering near record lows of around the Rp. 7,500 exchange rate, and the recent civil unrest still fresh in everyone's minds, the volatility of the situation is causing many investments to be postponed (Medan, PAM Jaya), while other are moving forward cautiously in the hopes of using largely rupiah denominated loans (Malang). While other Asian economies (Thailand, South Korea, Malaysia) are apparently beginning to rebound from their own crises, prospective investors in Indonesia remain concerned about the continuing political uncertainty and potential for renewed social unrest at the very time that private participation in urban infrastructure is needed more than ever. Although the new government appears to be making some strides toward dismantling the practices of nepotism, collusion and corruption that has disfigured the Indonesian economy and characterized many of its business practices, many potential investors in all sectors, including infrastructure, are adopting a "wait-and-see" attitude, and in particular are awaiting the conclusion of the general elections to be held in June 1999. It should be noted that the Rupiah has strengthened in recent months to from around 14,000 to 8,500 to the dollar. This is a consequence of both remedial action being taken by the Government and a drop in demand for dollars. Dollar demand has dropped principally due to Government loan rescheduling and failure on the part of most corporations to pay overseas debt, thereby creating a defacto debt rescheduling. While many Indonesian corporations have been restructured including asset sales, action to restructure corporate debt may be the one factor that is retarding new investment capital inflows into the country.

C.2 Continue and Enforce the Commitment to Competition and Transparency

A major step forward in this regard was taken with the issuance, on January 12, 1998, of the new Keppres No. 7 of 1998. This Keppres should help to force more openness and competitive tendering in the procurement process. The issue, as is often the case, will be enforcement of the spirit and letter of the Keppres, particularly with regard to politically well-connected Private Parties. Nevertheless, with both Pontianak and Manado committing to follow the competitive process, signs are encouraging.

In fact, PURSE received a copy of a directive (dated June 11, 1998) from the Coordinating Minister for Development Monitoring and State Apparatus that all unexecuted contracts (that is, not yet signed) involving a private sector not selected through open competitive bidding must be halted and re-opened following the tenets of Keppres 7 1998. This is apart of a wider

effort to combat the ills of collusion, corruption and nepotism that have plagued Indonesian business practices for too long. As the Biwater project was competed after a fashion, but not along the stricter lines of this Keppres, it appears that finalization of this contract in its current structure may now be unlikely. However, at the end of the quarter, the city of Malang has agreed to consider offering this project to other investors under the "Swiss Challenge" rules defined in Keppres 7/98. Should other bidders not wish to pursue this project or are unable to offer a substantially better proposal than Biwater would be awarded this agreement.

C.3 No Cost Amendment to Allow PURSE to Continue to Provide Services

At the request of Bappenas and USAID Chemonics prepared a no cost amendment to the institutional contract for PURSE, as well as the IQC contract, to allow the team to continue providing services to the demonstration projects in Pontianak and Manado as well as to provide technical assistance to financially troubled PDAM under the Water Efficiency Team program, implemented with U.S. Asia Environmental Program (USAEP) assistance. This amendment was approved and executed, extending both activities through April 30, 1999.

C.4 Continue Support to Demonstration Projects After the Conclusion of PURSE

PURSE was scheduled to conclude in August 1998 but has been extended through April 1999. Both USAID and Bappenas have recognized that the unique services provided by the Project in fostering privatization need to be continued as long as possible. Based on informal discussions with both governments, PURSE has been asked to look at ways of utilizing any savings in the budget to extend staff and prolong consulting services to selected PDAMs, particularly those engaged in a competitive process, such as Pontianak and Manado. This is especially critical at this time, as the monetary crisis is further reducing Government's ability to finance capital projects. At the end of the quarter, USAID in cooperation with Bappenas, the Ministry of Home Affairs and Perpamsi agreed to provide emergency support for PDAMs experiencing financial difficulties during the current crisis. The support that is to be achieved will strengthen the financial resources of those PDAM with severe cash flow difficulties, thereby making them stronger candidates for private participation.

C.5 Institutionalizing PURSE Products

PURSE products or "tools" which will contribute to the long-term sustainability of the infrastructure privatization process in Indonesia are beginning to be institutionalized. The Project Life Cycle is currently undergoing revisions based on legal structures imposed by the new Keppres 7 of 1998, and will be re-issued as a Government publication. The PURSE Risk Management Handbook was finally printed in a single two-language volume as a PURSE document. It too is due to be re-issued under an official Government cover. The in-country training program, critical to PPP sustainability, will likely now be adopted by Perpamsi, the association of PDAMs. However, a permanent home for the Financial Analysis Model (FAM), testing and revisions of which for both BOT and Concession models were completed during the quarter, remains to be found. PURSE will continue working with the Chairman of the Tim Teknis, Dr. Sujana Royat, to secure the institutionalization of all PURSE products.

C.6 Institutionalization and Sustainability of the In-Country PPP Training Program

Progress continues to be made on this front. A meeting with Perpamsi officials was held on April 1, 1998 at PURSE to discuss the Perpamsi mandate and how they could assume a leadership role in PPP training in Indonesia. While Perpamsi would need some support to be able to handle the administration of the program, they worked closely with PURSE in planning and administering the eighth and ninth PPP Pilot training activities, held August 3-8, and October 19-24, 1998 in Jakarta. A further two training sessions in the Financial Analysis Model were held during August. With the end of the training Pilot activity, Perpamsi must now take the lead role in continuation of the In-Country PPP Training Program.

C.7 Development of Alternative Credit Enhancement Mechanisms

PURSE is coordinating with the PPP Center activity on this important issue. The Project compiled existing reports and other documents for the credit specialist. At the end of the quarter the Chemonics and IP3 team issued a report on credit enhancement recommendations to Bappenas.

C.8 Coordination with Other Projects, Donors & the Private Sector

In addition to on-going and regular meetings with USAID Office of Urban Environmental Management, and PURSE Government counterpart agencies and demonstration project municipal and PDAM officials, Project advisors met with the following entities during the reporting period:

Biwater. PURSE met with this British water firm on several occasions during the quarter in Jakarta as well as in Malang to discuss their Feasibility Study, draft contract agreement, 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.

CLEAN-Urban Project. PURSE staff met on several occasions with Mr. William Kugler, the long-term advisor to Ministry of Home Affairs for CLEAN. The purpose of the meetings was to discuss the upcoming PDAM rescue program and its fit into the PURSE team activities.

Perpamsi. At the instigation of Bappenas PURSE has been working with Perpamsi (the association of PDAMs) to assume administrative and management responsibility for the in-country training program. In addition, PURSE met with Perpamsi to pursue the WET project and define the program and level of assistance.

PPP Center Project. PURSE held frequent *ad hoc* meetings throughout the reporting period with specialists assisting Bappenas on this USAID-funded activity. Subjects of discussion have included the new PPP Keppres issued in January; post contract signing regulatory framework; and credit enhancement options for the Government, among others.

C.8 Personnel Actions

No new personnel actions occurred during the final quarter of Calendar Year 1998:

Mr. Bennett Parton, PURSE Finance Specialist, continued as PURSE and WET-I Chief of Party. Mr. Terrence Driscoll, PURSE Technical Advisor undertook short-term technical assignments, and Mr. Lance Leverenz, Chemonics Project Administrator, provided intermittent administrative assistance.

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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.
