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Evaluatie rapport P3SW

Geachte heer Hoogsteen,

Hierbij stuur ik u het eindrapport van de evaluatie van het drinkwater programma voor Indonesië uitgevoerd door Waterleidingmaatschappij Drenthe en Water Fondsholland (P3SW).

We zetten ons in om de lessen die geleerd kunnen worden uit dit programma toe te passen in onze eigen programma's en die van onze partners. Daarom hebben wij de bevindingen verspreid aan alle direct betrokkenen en een aantal sectorpartijen, zowel in Nederland als in Indonesië.

Ik dank u voor uw inzet tijdens de uitvoering van dit programma en vertrouw erop dat WMD en haar partners de lessen uit het P3SW programma zoveel mogelijk zullen meenemen in huidige en toekomstige activiteiten.

Hoogachtend,

Kitty van der Heijden
Kitty van der Heijden
Ambassadeur duurzame ontwikkeling
Directeur Directie Klimaat, Energie, Milieu en Water

Euv. nr: 2013 5790

Final Evaluation of the P3SW Public Private Partnership

Pilot Programme for Pekanbaru and East Indonesia

Executive Summary (Bahasa Indonesia)

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Final – February 2013

Ringkasan Eksekutif

Latar belakang

P3SW adalah sebuah PPP (Public Private Partnership atau Kemitraan Pemerintah - Swasta) di sektor air yang telah dibentuk pada tahun 2002, dan merupakan prakarsa dari berbagai mitra Belanda untuk melaksanakan proyek proyek perintis PPP dalam sektor air di negara-negara berkembang. Program ini ditujukan untuk meneliti bagaimana kerja sama antara prakarsa publik dan swasta di negeri Belanda dapat secara berhasil menyumbang pada konsolidasi, peningkatan dan perluasan prasarana air bagi penduduk perkotaan yang berkembang cepat di kawasan negara-negara berkembang. Pada akhirnya dua buah proyek uji coba dipilih, keduanya berlokasi di Indonesia. Satu proyek dilaksanakan di kota Pekanbaru (ibukota provinsi Riau, Sumatra) bersama dengan Water Fund Holland (WFH), sebuah usaha patungan yang terdiri dari lima perusahaan air Belanda, yang ditujukan bagi investasi dan operasi infrastruktur air di negara-negara berkembang) sebagai pelaksana proyek. Proyek kedua dilaksanakan di beberapa kota di Indonesia Kawasan Timur (Sulawesi Utara, Maluku, Papua) oleh Waterleidingmaatschappij Drenthe (WMD) sebagai pelaksana.

Pelaksanaan proyek dimulai secara resmi pada tahun 2005 dan ditetapkan untuk selesai pada bulan Desember 2010. Namun demikian, karena berbagai alasan komponen Pekanbaru dihentikan menjelang akhir 2009, sementara komponen Indonesia Kawasan Timur diperpanjang sampai dengan akhir tahun 2011; dengan demikian komponen kedua ini dapat memetik manfaat dari tambahan hibah yang diberikan oleh Kedutaan Besar Belanda di Indonesia. Anggaran awal dari program ini berjumlah €23.5M (€7M untuk Pekanbaru, €16.5M untuk Indonesia Timur) dimana €16.1M diantaranya bersumber dari dana publik.

Bagi DGIS (Direktorat Umum untuk Kerjasama Internasional), tujuan utama dari evaluasi final ini adalah untuk menyediakan sebuah pembelajaran yang kelak dapat digunakan bagi pengembangan lebih lanjut dari pola pendekatan PPP di sektor air, yang merupakan salah satu sektor andalan dalam kerjasama pembangunan Belanda. Perusahaan-perusahaan air Belanda berharap hasil evaluasi ini dapat menghasilkan temuan-temuan bermanfaat guna melengkapi proses refleksi internal mereka, dan mendukung keterlibatan mereka lebih lanjut dalam sektor air di Indonesia.

Tugas khusus dari tim evaluasi antara lain adalah penilaian dan perhitungan kuantitatif dari hasil yang dicapai, penilaian atas kemungkinan keberlanjutan dari program, identifikasi dari risiko-risiko utama dan faktor-faktor keberhasilan dalam hubungannya dengan pola pendekatan PPP yang dipilih, dan perumusan rekomendasi. Evaluasi terutama ditujukan pada perkembangan-perkembangan dari program terhitung sejak Januari 2009 (setelah evaluasi jangka menengah/mid-term review dilaksanakan), termasuk periode setelah penutupan resmi dari kedua komponen proyek. Pendekatan evaluasi yang diambil memiliki dua sisi – pada satu sisi melihat kinerja masa lalu, dan pada sisi lainnya melihat kedepan untuk merefleksikan kondisi-kondisi optimal guna mencapai dampak yang terbesar – sedemikian sehingga dapat mencakup baik sisi akuntabilitas maupun sisi fokus pembelajaran dari evaluasi ini. Kunjungan ke lapangan meliputi semua lokasi utama program dan dilaksanakan secara interaktif guna memfasilitasi pertukaran pendapat dengan

semua pemandu kepentingan pada tingkat lokal. Banyak perhatian telah diberikan pada proses triangulasi informasi sedemikian agar dapat mencapai pemahaman yang akurat dan berimbang tentang perspektif dan kepentingan yang berbeda-beda dari para mitra program dan pemangku kepentingan lainnya.

Konteks Program

Sebagai proyek uji-coba, P3SW telah dapat memanfaatkan iklim kebijakan yang menguntungkan yang disertai dorongan prakarsa yang kuat dari pihak Belanda. Namun demikian hal ini tidak mencegah berlalunya waktu yang cukup panjang (dari 2002 sampai 2005) sebelum program ini dapat terlahir. Perusahaan-perusahaan air Belanda yang terpilih tidak saja menghadapi berbagai tantangan selama persiapan program, namun ternyata menentukan format kelembagaan yang memadai untuk suatu prakarsa PPP juga sulit karena adanya berbagai kendala legal dan prosedural di negeri Belanda. Akhirnya ditentukanlah sebuah bentuk program yang kompleks dimana RWS (Rijkswaterstaat, sebuah badan pelaksana dari Kementerian Transportasi dan Pengelolaan Air Negeri Belanda) ditunjuk sebagai pimpinan pelaksanaannya, sedangkan DGIS terutama berperan sebagai penyandang dana. Belakangan menjadi jelas bahwa bentuk program ini tidak disertai mekanisme mekanisme yang memadai guna memastikan pengendalian dan pemikiran strategis dan, secara lebih luas, bahwa resiko-resiko serta tantangan-tantangan dalam rangka koordinasi dan pengawasan proyek uji-coba yang rumit ini ternyata tidak dipahami secara memadai. Pada tahapan-tahapan lanjut barulah DGIS mulai terlibat agak lebih dekat dengan program ini. Fokus di awal yang kuat pada masalah-masalah pengaturan internal di sisi Belanda, juga berarti bahwa hanya sedikit perhatian yang telah diberikan kepada pembentukan mekanisme program kemitraan (Belanda-Indonesia), yang pada gilirannya menyiratkan bahwa keterlibatan pihak yang berwenang dari sisi Indonesia (paling tidak pada tingkat nasional) tetap terbatas sepanjang pelaksanaan program.

Indonesia telah menentukan sasaran-sasaran yang tinggi bagi pembangunan sektor air bersih, antara lain termasuk akses kepada air PAM untuk 60 juta penduduk lagi antara tahun 2004 dan 2015. Arahan kebijakan pemerintah merencanakan peningkatan dalam jangkauan/liputan dan mutu air bersih melalui dukungan kepada perusahaan-perusahaan air minum daerah (PDAM), optimalisasi pendanaan di sektor air dengan cara meningkatkan peran sektor swasta, dan pembangunan suatu kerangka kerja kelembagaan dan aturan melalui penerapan pendekatan pemerintahan yang baik (good governance) pada tingkat perusahaan-perusahaan air.

Sementara berbagai prakarsa penting telah dilakukan guna memperbaharui kerangka hukum pada sektor ini, masih banyak wilayah-wilayah yang tertinggal yang menciptakan beberapa ketidakpastian dan menjadi penghambat bagi para pelaku swasta untuk turut terlibat. Hal ini juga yang menjelaskan mengapa prakarsa PPP di sektor air sejauh ini tetap saja relatif sedikit jumlahnya. Kerangka kerja legal juga memberikan otonomi yang menjangkau jauh bagi kabupaten dan kota di beberapa bidang penting, termasuk bidang penyediaan air bersih yang umumnya ditangani oleh perusahaan-perusahaan PDAM yang terutama dimiliki dan dioperasikan dibawah kewenangan bupati atau walikota. Kebanyakan dari PDAM ini berukuran kecil dan di masa lalu memiliki prestasi yang kurang memuaskan, namun – secara umum – lambat laun meningkat selama beberapa tahun terakhir. Dukungan

dari lembaga lembaga nasional telah disediakan, namun sejauh ini hanya secara sangat parsial menyentuh kebutuhan lokal bidang kelembagaan, teknis dan keuangan. Berbeda dari apa yang terjadi di banyak negara berkembang lainnya, para pelanggan disini sampai hari ini nyaris tidak memainkan peran sebagai pemangku kepentingan berdasarkan haknya. Hal ini dapat dijelaskan dengan adanya kelimpahan air yang relatif besar dan akses air yang relatif murah di sebagian besar wilayah Indonesia, serta kurangnya tradisi aksi dan tuntutan kolektif dalam kasus gagalnya penyediaan air bersih untuk umum.

Kajian terhadap Komponen Pekanbaru

PPP Pekanbaru memiliki bentuk yang rumit yang kemudian harus dicangkokkan pada sebuah PPP (atau lebih tepatnya sebuah Perjanjian Kerjasama Operasional antara Pemerintah Kota/Pemkot dan PDAMnya, dengan pihak KTDP – sebuah perusahaan Indonesia) dimana KTDP lah yang merupakan mitra WFH yang sesungguhnya. Ciri utama kemitraan ini, setidaknya pada masa awal, adalah sebuah kontrak tipe REOT (Rehabilitate – Operate – Transfer) untuk pemasokan air secara curah kepada KTDP yang memiliki perjanjian dengan pihak Pemkot setempat. Berkurangnya NRW (Non Revenue Water) dalam jumlah besar, perbaikan dalam kinerja staf dan peningkatan dalam kapasitas jaringan pipa dan sambungan rumah tangga merupakan sasaran penting lainnya.

Setelah sebuah awal yang cepat dan menjanjikan yang melibatkan investasi jumlah besar oleh WFH, program ini mulai menghadapi kesulitan kesulitan yang meningkat. Pertama-tama, bentuk kelembagaan yang rumit mempunyai arti bahwa WFH hanya memiliki kendali langsung yang terbatas atas proses perubahan yang diinginkan, dan bahwa tanggungjawab yang jelas atas komponen komponen spesifik dari matarantai pasokan air tidak dapat ditentukan. Masalah keuangan KTDP juga memaksa program ini untuk meninjau ulang sasaran sasaran awalnya agar program dapat tetap berjalan. Selanjutnya, resistensi untuk berubah pada tingkat PDAM yang didukung kalangan politik, merupakan kesulitan besar lainnya. Semakin lama menjadi semakin jelas bahwa bahwa PDAM tidak berkeinginan untuk memperbaiki tata kelola ataupun kinerjanya, karena hal ini akan berarti melepaskan hak hak istimewa yang secara diam-diam telah diperolehnya selama ini. Ini menyiratkan bahwa masukan masukan WFH yang pada hakekatnya bernilai tinggi, pada akhirnya hanya memberikan hasil yang terbatas.

WFH dan KTDP telah melakukan berbagai upaya untuk menyelesaikan perbedaan perbedaan mendasar terkait pengelolaan dan pengarahan kemitraan ini, namun tanpa hasil. Pihak otoritas politis setempat semakin lama semakin menyuarakan ketidakpuasan mereka atas kinerja yang rendah dari kemitraan ini. Kebuntuan ini membawa kepada pengurangan rencana investasi yang substansial, yang tanpa bisa dihindari berdampak pada kinerja layanan. Meskipun telah diadakan beberapa kali upaya mediasi, antara lain oleh pihak BPPSPAM, pemerintah kota Pekanbaru pada akhirnya memutuskan untuk menghentikan kerjasama, pada saat mana WFH dan KTDP secara de facto sebenarnya juga sudah tidak berharap untuk dapat memperbaiki keadaan. Keputusan ini merupakan tanda dimulainya sebuah sengketa hukum berkenaan dengan pembayaran kembali investasi kepada KTDP, yang belum diputuskan pada saat kunjungan lapangan dari tim evaluasi (Juni 2012).

Penghentian dari program ini sebelum waktunya, berakibat bahwa kurang dari separuh anggaran awal (namun 63 % dari anggaran DGIS) saja yang terserap, sedangkan KTDP tidak berhasil merealisasikan sesuatu apapun dari rencana kontribusinya (dimana perlu dicatat bahwa KTDP telah membiayai investasi investasi pada periode 2003 – 2005). Tidaklah mengherankan jika mobilisasi Bantuan Teknis (Technical Assistance/TA) guna mengelola program menjadi lebih banyak daripada yang direncanakan, dan hanya 32% belanja investasi yang terrealisasikan, sebagian besar disebabkan oleh sikap hati-hati mitra Belanda begitu masalah masalah serius mulai muncul. Karena alasan alasan yang nyata ini maka target target program yang berkenaan dengan peningkatan akses kepada air bersih serta sambungan baru dan penurunan NRW sama sekali tidak dapat dicapai . Sebuah peninjauan pada saat proyek berakhir bahkan mengungkapkan masalah besar pada mutu air yang di distribusikan, yang antara lain merupakan ancaman bagi kesehatan umum.

Kunjungan tim evaluasi ke Pekanbaru lebih dari tiga tahun setelah program benar-benar dihentikan, mengungkapkan kemerosotan lebih jauh dari keadaan : penurunan jangkauan distribusi, berlanjutnya masalah serius pada mutu air (keasaman), dan NRW yang meningkat. Banyak diantara perbaikan perbaikan teknis yang dibawakan oleh program ini ternyata tidak dapat berkelanjutan disebabkan oleh gagalnya O & M (Operations & Maintenance). Secara keseluruhan PDAM nampaknya telah kehilangan segala kredibilitasnya, bahkan diantara kaum elit politik. Sebenarnya kegagalan dari PPP nampak sejalan dengan pengalaman sebelumnya dalam kerjasama serupa dengan mitra luar , dan sebagian besar disebabkan oleh penolakan PDAM dan Pemkot selama bertahun-tahun terhadap perubahan perubahan penting dalam kelembagaan yang dapat mengganggu kepentingan kepentingan mereka. Sementara itu penduduk kota telah belajar untuk mencari solusi solusi lain , diantaranya solusi yang mempunyai potensi untuk berdampak negatif terhadap lingkungan (seperti sumur bor dangkal). Penyediaan air minum kebanyakan dipenuhi oleh sektor swasta. Bagian dari masyarakat yang berpendapatan lebih rendah merupakan korban utama dari kegagalan layanan publik, namun tidak terlihat adanya aksi kolektif yang terorganisir guna melobby demi perbaikan.

Kajian terhadap komponen Indonesia Kawasan Timur

Pada awalnya WMD berencana untuk melibatkan diri dengan sepuluh pemkot beserta PDAMnya masing masing, melalui sebuah perjanjian kerjasama model konsesi membentuk Usaha-usaha Patungan (Joint Venture Companies atau JVCs) yang didirikan melalui anak anak perusahaan WMD setempat. Pada akhirnya JVC tersebut hanya didirikan di empat kota (Manado, Sorong, Biak, Merauke), dimana tiga diantaranya berada di Papua, salah satu wilayah Indonesia yang paling tertinggal pembangunannya. Pendekatan WMD ini didasarkan pada pengalamannya di kota Ambon, dimana sebuah JVC telah didirikan di tahun '90an . Periode kemitraan yang ditentukan pada awalnya adalah 15 tahun, yang dengan demikian secara substansial berjangka waktu lebih lama daripada program P3SW. Sepanjang jangka waktu berjalannya program ini, WMD telah berusaha untuk membentuk perusahaan perusahaan air minum setempat yang bersifat otonom dan berkelanjutan, yang akan memastikan adanya produksi serta distribusi air minum berbasis "cost recovery". Target target program meliputi perbaikan air minum untuk 600.000 penduduk, 91.500 buah sambungan rumah yang baru, pengurangan NRW secara substansial antara lain melalui rehabilitasi jaringan distribusi, dan pengembangan kapasitas

keampilan dan pengelolaan lokal. Sebuah proyek susulan yang telah diajukan dan disetujui oleh Kedutaan Besar Kerajaan Belanda di Jakarta, dimaksudkan guna mempercepat proses perubahan teknis dan organisasi, dan realisasi dari kurang lebih 45.000 sambungan baru tambahan.

Kajian ini menemukan bahwa mutu infrastruktur bervariasi, dengan O&M kurang memadai yang dalam banyak kasus membatasi dampak investasi. Juga dicatat beberapa ketidaksepahaman antara para mitra mengenai prioritas investasi. Ditemukan beberapa perbaikan penting pada wilayah administrasi dan keuangan yang antara lain memperbaiki kemungkinan untuk memerangi kecurangan dan korupsi ; namun demikian biaya untuk melakukan perbaikan ini dianggap terlalu tinggi (sebagian disebabkan oleh penggunaan perangkat lunak yang mahal, yang pemanfaatannya oleh mitra lokal dirasakan sebagai dipaksakan oleh WMD). Pengeluaran program melebihi ketentuan awal anggaran, dimana WMD memobilisasi dana tambahan guna menutup kesenjangan yang terjadi itu. Tingginya biaya persiapan pada tahap awal tidak diimbangi dengan hasil yang meyakinkan, karena berbagai asumsi awal penting bersifat teknis dan kelembagaan, belakangan ternyata tidak tepat. Sebuah komponen besar TA (Technical Assistance) dalam berbagai jenis pengeluaran (investasi, dukungan organisasi, ...) telah dimobilisasi terutama dari dalam lingkungan "keluarga" WMD. Kajian ini telah merekam pendapat-pendapat yang beragam mengenai mutu dan kesesuaian TA ini ; khususnya yang sangat dipertanyakan adalah mutu TA yang disediakan oleh Inowa, sebuah perusahaan lokal milik kelompok WMD.

Sifat dari program PPP ini dan khususnya perkembangannya dari awal sampai dengan saat ini, telah berdampak besar pada pelaksanaan dan kinerja program. Karena pada saat dimulainya program keempat PDAM tersebut berkinerja buruk dan/atau memiliki rekam jejak yang meragukan, sejak tahap awal WMD telah mengambil langkah-langkah pencegahan guna melindungi kepentingannya. Perjanjian Kerjasama (Cooperation Agreements/Cas) meliputi posisi mayoritas (51%) bagi WMD, dan juga mengandung ketentuan-ketentuan lebih jauh untuk mengamankan otonomi operasional JVCs terhadap intervensi eksternal (politis), dimana biasanya perusahaan-perusahaan negara/daerah seperti PDAM sering dikendalikan oleh kaum elit politik dan lebih banyak digunakan untuk kepentingan para elit tersebut ketimbang untuk kepentingan umum. Dalam hal ini WMD bermaksud untuk mengambil sebuah pendekatan bertahap sepanjang masa 15 tahun, dimana WMD bertujuan untuk memegang kendali penuh pada tahap pertama (4 – 5 tahun), yang dimaksudkan terutama untuk merehabilitasi infrastruktur dan memperkuat kapasitas lokal. Tahap ini kemudian dimaksudkan agar menjadi dasar kinerja operasional yang lebih baik guna memungkinkan JVCs dalam tahap berikutnya menarik kredit-kredit investasi yang tersedia di pasar tanpa dukungan eksternal.

Meskipun bentuk kerjasama ini telah memungkinkan WMD untuk secara cepat terlibat dalam sebuah proses transformasi berjangkauan jauh bagi perusahaan-perusahaan yang kurang sehat, yang pada awalnya mendapat sambutan baik pada tingkat lokal, namun hubungan antara para mitra segera mulai memburuk. Kendali operasional WMD yang berlanjut membawa pada kurangnya rasa kepemilikan dan rasa ketidakberdayaan pada sisi lokal. Walaupun struktur dan prosedur tata kelola telah diuraikan dengan baik di atas kertas, dalam praktek ternyata tidak berfungsi secara baik. Wakil-wakil dari mitra lokal sering tidak

termotivasi, atau kurang mampu untuk mengemban tanggungjawabnya dan mengartikulasikan pandangan serta prioritas lokal dengan sesungguhnya. Dengan demikian, peran WMD yang menonjol menyebabkan pemerintah setempat mulai melepaskan diri dari tanggungjawab mereka di sektor air. Baru pada tahun 2011 WMD mengumumkan sebuah pergeseran pola pendekatan dari 'mengendalikan' menjadi 'memfasilitasi', namun pada saat kajian ini dilakukan pergeseran pola ini dalam praktiknya belum membawa banyak perubahan.

Kurangnya kejelasan terkait dengan modalitas implementasi utama berdampak negatif lebih lanjut terhadap kemitraan. Pada tahun-tahun awal, suatu pembahasan panjang tentang pengalihan aset-aset kepada perusahaan-perusahaan JVC yang baru dibentuk (diingini oleh WMD namun ditentang oleh otoritas lokal) telah menghabiskan banyak energi dan mengeruhkan hubungan kedua belah pihak. Juga terdapat kekurangjelasan mengenai sifat dukungan yang diberikan WMD (semula dianggap sebagai hibah pembangunan oleh para mitra lokal, namun oleh WMD selalu dipandang sebagai sebuah pinjaman), kemudian juga mengenai syarat-syarat pinjaman yang sering kali telah ditetapkan secara formal jauh setelah dana-dana pinjaman tersebut secara efektif telah dibelanjakan. Tambahan lagi, pinjaman-pinjaman sampai dengan tahun 2009 dicairkan langsung melalui anak-anak perusahaan WMD, tanpa pengawasan dari mitra lokal.

Sejalan dengan prinsip pemulihan biaya sepenuhnya (full cost recovery), WMD menghendaki agar dana-dana program dikonversikan ke dalam bentuk pinjaman yang akan menjadi bagian dari suatu dana bergulir. Walaupun prinsip full cost recovery ini adalah suatu prinsip yang layak (dan juga merupakan bagian dari kebijakan pemerintah Indonesia), penerapannya pada tahap-tahap awal program adalah terlalu dini. Memang, perusahaan-perusahaan JVC yang baru ini dibangun atas perusahaan-perusahaan PDAM yang kurang sehat, yang pada tahun-tahun awalnya memerlukan hibah untuk bisa mencapai tingkat kinerja yang memadai, sebelum mereka benar-benar dapat mengambil pinjaman. Konsekuensi dari kebijakan WMD ini adalah bahwa perusahaan-perusahaan JVC tersebut secara cepat mengakumulasi hutang dalam jumlah besar yang membawa peningkatan rasa tidak nyaman di pihak lokal, terlebih lagi karena hutang-hutang ini tidak diimbangi oleh perbaikan-perbaikan kinerja yang berarti. Pada akhirnya (yaitu setelah, tetapi bukan sebagai akibat dari kunjungan tim evaluasi ini) WMD memutuskan untuk secara drastis mengkaji ulang syarat-syarat perjanjian pinjaman dan mengkonversikan sebagian dari pinjaman menjadi hibah. Elemen penting terakhir yang berdampak negatif terhadap hubungan antar para mitra adalah bahwa para pemangku kepentingan lokal juga merasa bahwa mereka hanya mempunyai sedikit pengaruh atas pengambilan keputusan menyangkut TA (kapan dan jenis TA mana yang dibutuhkan, untuk tujuan apa, dalam kondisi bagaimana dst.), dan bahwa kerangka acuan yang jelas, kalau memang ada, tidak disampaikan pada tingkat lokal.

Andaikatapun target-target awal yang terlalu berambisi tidak ikut dipertimbangkan, program ini hanya mampu mewujudkan kemajuan yang sedang-sedang saja jika dilihat dari sumber daya yang telah dikerahkan. Peningkatan netto dalam sambungan rumah aktif dan jumlah penduduk dengan akses kepada air masih tetap terbatas. Namun demikian, sepanjang empat tahun terakhir telah dicapai sedikit penurunan dalam tingkat NRW dalam dua dari empat lokasi program; tarif air telah ditingkatkan yang pada prinsipnya memungkinkan pergerakan ke arah full cost recovery. Pada tiga lokasi telah dicatat

peningkatan besar dalam jumlah penjualan air, walaupun hal ini diimbangi oleh peningkatan tunggakan pembayaran pada dua lokasi. Isu keterlibatan pelanggan pada umumnya masih tetap tidak tersentuh, namun setidaknya-tidaknya tidak merupakan fokus utama pada permulaan program. Seluruh perusahaan lokal tetap sangat tergantung pada WMD untuk pendanaan tambahan ; tidak ada pendanaan sejenis yang dapat dipikat dari sumber sumber lain, walaupun kesempatan untuk itu tersedia.

Pada saat evaluasi ini dilakukan, kondisi kondisi dasar teknis, finansial dan kelembagaan yang diperlukan guna memastikan kelanjutan penyediaan air pada saat dukungan eksternal ditarik, belum terpenuhi. Nampaknya diperlukan investasi tambahan untuk perbaikan lebih lanjut dari kinerja teknis dan non-teknis. Agar membuat investasi ini lebih efektif, nampaknya sangat diperlukan perubahan perubahan lebih lanjut dalam kultur perusahaan perusahaan, praktek praktek O&M dan dalam dinamika kemitraan. Tanpa mengabaikan komitmen WMD pada jangka waktu kemitraan yang lebih panjang (15 tahun), kemajuan yang dicapai tetap saja terlalu sederhana untuk dapat mengkonfirmasi kelayakan pola pendekatan bertahap ini.

Sebuah tinjauan yang rinci atas indikator kinerja finansial selanjutnya mengungkapkan bahwa walaupun terdapat beberapa kemajuan, semua perusahaan tetap masih lemah dan rentan secara keuangan. Juga sama pentingnya, keterkaitan JVC dengan lembaga lembaga dan prakarsa prakarsa tingkat nasional masih tetap tidak berkembang, hal mana menghalangi mereka untuk berhubungan dengan program program yang ditujukan bagi perbaikan kinerja perusahaan perusahaan air minum pada tingkat lokal. Pada umumnya hubungan dengan pemerintah kota dan kabupaten tidak buruk, namun mengalami kekurangan substansi dalam bentuk komitmen nyata terhadap apa yang pada dasarnya merupakan kewajiban layanan publik. Kurangnya komitmen bahkan minat dari para pejabat politik ini juga diperparah oleh kurangnya tekanan sosial dari penduduk lokal.

Rangkuman analisis P3SW

Melihat keanekaragaman dalam konteks dan pola pendekatannya, proyek proyek P3SW yang sedang ditinjau ini memberikan seperangkat pengalaman yang beragam darimana dapat ditarik pelajaran pelajaran yang bisa memberi informasi bagaimana DGIS dan RNE (Kedutaan Besar Kerajaan Belanda) dapat mendukung perbaikan perbaikan dalam akses kepada air melalui PPP baik di Indonesia maupun di tempat lain. Pelajaran pelajaran yang merangkum dapat ditarik dari satu ataupun kedua proyek, sekitar tema tema akuntabilitas, pengembangan kapasitas, proses kemitraan dan pengaturan pengaturan kontrak dan pendanaan. Namun sebelum melihat secara lebih meluas, rangkuman konteks didalam mana kemitraan kemitraan ini dibentuk perlu ditinjau ulang.

Pada masa proyek proyek P3SW ini sedang di kembangkan, terdapat tekanan yang signifikan dari dalam DGIS untuk mencarikan peran aktif bagi perusahaan perusahaan air Belanda guna mendukung target target kementerian sekitar Millenium Development Goals (MDGs). Dalam hal ini hasilnya adalah seperangkat hubungan kontraktual yang didorong melalui sebuah proses kompetisi di dalam negeri Belanda, ketimbang di tingkat kota ataupun nasional di Indonesia. Sebagaimana telah didokumentasikan dengan baik, bekerja secara internasional di kota kota dengan tanggung jawab yang telah terdesentralisasi guna

memastikan tersedianya layanan, pengelolaan dan ketrampilan lokal yang beragam, cost recovery yang rendah, intervensi politik yang tinggi dan sangat sedikitnya peraturan peraturan praktis, terbukti sangat sulit.

Sementara mereka diperbolehkan untuk terlibat dalam pola pola PPP melalui proses tender dan pengadaan, pemerintah kota dan kabupaten di Indonesia (sering dengan kemampuan yang sangat terbatas) umumnya dibiarkan sendiri untuk mengembangkan, menandatangani dan melaksanakan proyek kemitraan dengan perusahaan swasta. Baik pemerintah pusat maupun propinsi nampaknya tidak banyak memiliki pengaruh atas apa yang terjadi pada tingkat lokal kota.

Mengenai akuntabilitas, dalam prakteknya di Indonesia hanya sedikit sarana yang secara efektif bisa menuntut mereka yang memiliki kewenangan untuk bertanggungjawab (demikian juga dalam kenyataan, tidak terdapat kemampuan yang bisa diandalkan untuk memastikan para pelanggan membayar tagihan mereka). Tantangan untuk menciptakan sebuah pendekatan yang berpusat pada pelanggan telah didokumentasikan di sepanjang laporan dari kedua kasus P3SW ini. Memperbaiki citra perusahaan perusahaan air, meningkatkan kemampuan mereka untuk tanggap terhadap pelanggan, dan fokus pada kemauan pelanggan untuk membayar dapat menciptakan mekanisme akuntabilitas yang tidak dapat diabaikan begitu saja.

Bahkan sudah semenjak pertengahan 2000-an praktek terbaik yang muncul menyarankan bahwa kerangka kerja peraturan bertumpu pada target target maupun peran dan tanggungjawab yang realistis, jelas dan telah dinegosiasikan dengan baik. Sehubungan dengan target target P3SW, walau layak secara teknis, namun secara realistis jauh melampaui apa yang dapat dicapai, disertai tantangan tantangan yang sebagian besar datang dari faktor faktor kelembagaan dan kontekstual yang mungkin telah diremehkan pada saat proyek dimulai.

Kedua upaya PPP P3SW ini sebagian besar beroperasi dalam sebuah kehampaan peraturan, tanpa regulator yang ditugaskan secara resmi untuk menangani PPP di luar ibu kota. Dengan adanya pergerakan kearah desentralisasi yang lebih besar, maka baik BPPPSPAM maupun Kementerian Pekerjaan Umum tidak memiliki otoritas atau bahkan kapasitas untuk mengawasi kemajuan proyek ataupun terlibat secara resmi tanpa adanya permintaan dari pihak Pemkot. Diluar sedikit fungsi regulasi yang dijalankan oleh Rijkswaterstaat, nampaknya tidak ada mekanisme yang jelas untuk meminta para pihak mempertanggungjawabkan tugas masing masing. Masyarakat sipil sebagian besar tinggal diam dan hanya ada sedikit tekanan relatif dari negeri Belanda, kecuali dari pihak Kedutaan Besar Belanda yang melihat potensi terjadinya dampak negatif pada hubungan bilateral yang disebabkan oleh proyek proyek yang kurang berhasil. Pejabat pemerintah setempat nampaknya mempunyai hambatan kepentingan pribadi, politis dan hambatan lainnya untuk melakukan pengawasan layaknya selaku salah satu pihak pemegang kontrak.

Dalam melihat kebelakang, nampaknya PPP ini nyatanya semula dirancang lebih di sekitar hubungan antara para pihak di Belanda ketimbang antara pihak pemerintah kota dan kabupaten dengan pihak Belanda yang dikontrak. Jadi, sejak awal hubungan hubungan dengan pihak Indonesia diserahkan kepada perusahaan perusahaan air Belanda, dan

nampaknya mitra mitra lokal ternyata sangat kurang dalam usaha untuk menuntut kepemilikan atas dokumen dokumen yang mengatur kemitraan. Kurangnya penanaman atau sosialisasi proyek dan akseptasi yang sesungguhnya terhadap proyek pada tingkat lokal merupakan tantangan. Kekurangmampuan mitra lokal untuk menyiratkan suatu pendekatan kemitraan berdasarkan integritas merupakan penyebab utama para mitra Belanda menghindar untuk menyerahkan tanggung jawab yang lebih besar lagi. Banyak PDAM memiliki reputasi buruk dan rekam jejak dengan sejarah politisasi, penggelapan, korupsi dan ketidakmampuan.

Persoalan lainnya adalah perhatian atau tekanan pada masalah pengembalian pinjaman dan pada masalah dana bergulir kembali ke lembaga lembaga Belanda. Karena dana dana ini belakangan dikonversikan dari sebuah hibah menjadi sebuah pinjaman yang masuk ke dalam suatu dana bergulir, dan kemudian diinvestasikan kembali dalam sektor air di Indonesia, muncul pertanyaan mengenai pada saat manakah sebenarnya dana tersebut tidak lagi dihubungkan dengan pemerintah Belanda. Pada dasarnya, pengembalian pinjaman telah menjadi tolak ukur utama keberhasilan program program uji coba ini dan dengan demikian merupakan sarana utama bagi akuntabilitas. Baik pemerintah Belanda maupun mitra mitra Indonesia tidak memiliki suara untuk menentukan bagaimana dana tersebut pada akhirnya dimanfaatkan ataupun apa yang terjadi dengan dana itu setelah pengembaliannya.

Peran dan tanggungjawab (berdasarkan kapasitas dan keahlian) nampaknya tidak didefinisikan secara jelas oleh para mitra sejak awal. Keahlian asal lokal untuk memenuhi elemen teknis kurang di upayakan di setiap kotamadya (walaupun sesuai peraturan tender tender diselenggarakan di Pekanbaru). Demikian juga kerangka acuan bagi Inowa atau subkontraktor lainnya nampaknya tidak disepakati bersama melalui suatu proses dengan akuntabilitas yang jelas demi kinerja. (Di Pekanbaru TOR untuk jasa jasa yang diberikan oleh para konsultan/kontraktor seharusnya terlebih dahulu disepakati oleh para pihak yang berkepentingan, termasuk PDAM)

Pada akhirnya hanya dalam sedikit kasus saja nampak bahwa ada seseorang dari pihak PDAM atau pemerintah kotya/kabupaten yang benar benar berpegang pada visi, cita cita dan azas dari keseluruhan proyek kemitraan ini. Model manapun yang digunakan, perlu pemisahan yang jelas antara kebijakan dan pelaksanaan, sebuah tujuan yang pasti dan sangat dibutuhkan dari WMD di Kawasan Timur Indonesia.

Rangkuman pelajaran dan rekomendasi

Dalam konteks dukungan Belanda kepada PPP, mungkin terdapat kebutuhan untuk pertimbangan yang lebih luas mengenai kebijakan DGIS. Bekerjasama dengan PDAM yang sehat kelihatannya tidak akan membuahkan jenis pengentasan kemiskinan yang diharapkan dari bantuan pembangunan Belanda. Sementara kontrak kontrak yang hanya fokus pada produksi jelas lebih menarik bagi kebanyakan operator internasional, tidaklah jelas bagaimana cara terbaik untuk memastikan bahwa kontrak kontrak seperti itu mempunyai dampak yang lebih langsung pada pemberian layanan bagi kaum miskin. Bekerjasama dengan PDAM yang berkapasitas rendah terbukti sangat menantang karena berbagai alasan yang telah diuraikan di atas. Jika "PDAM kurang sehat" yang menjadi fokus utama, maka

sebuah pendekatan yang ditahap dengan jelas dan dimulai dengan kontrak kontrak jasa atau pengelolaan berjangka lebih pendek akan memungkinkan mitra mitra Belanda untuk secara lebih memadai mengkaji kebutuhan, kondisi infrastruktur, dan konteks politis dan keuangan didalam mana PDAM tersebut beroperasi, lalu kemudian menyesuaikan kembali program dukungan ini sementara hubungan kemitraan berkembang. Hal ini juga akan menumbuhkan sebuah pendekatan yang lebih bersifat "belajar dari melakukan", sesuatu hal yang - bisa dimengerti – menjadi hilang di tengah tantangan tantangan yang dihadapi dalam pelaksanaan sehari hari.

Guna memungkinkan investasi yang tepat dalam ekspansi dan rehabilitasi dapat berlanjut, para penyandang dana harus meminta kepastian dari para pihak dalam kontrak (baik pemerintah maupun para operator pada tingkat lokal) bahwa pemisahan asset akan menciptakan jarak yang cukup antara kepentingan politis dan kepentingan kota/kabupaten dalam penggunaan perusahaan air sebagai "sapi perahan". Rencana usaha yang jelas harus dikembangkan berdasarkan kajian kelembagaan yang komprehensif (i.e. tidak hanya menyangkut faktor teknis dan keuangan, namun juga aspek aspek sosial, politik dan lingkungan). Selain teknis dan keuangan, mungkin ketrampilan lain juga dibutuhkan untuk melakukan analisis tetapi juga untuk menegosiasikan kontrak pada tingkat lokal maupun menetapkan (dan meninjau ulang) target target yang realistis.

Analisis ekonomi politis seperti itu menyarankan bahwa komitmen yang sungguh sungguh dari pihak kotamadya/kabupaten melalui dukungan walikota/bupati adalah sangat penting guna memastikan keberhasilan usaha ini. Upaya upaya harus diarahkan tidak hanya kepada "pemecahan persoalan pada tingkat sarana/prasarana" tetapi juga kepada usaha mendidik kalangan penguasa politis (dari lintas partai politik) tentang apa yang dibutuhkan untuk menjalankan perusahaan air minum secara berhasil. Mengembangkan fokus pada pelanggan yang menghasilkan permintaan bagi sarana air minum dan dengan demikian membentuk mekanisme akuntabilitas, juga penting dan dalam kenyataannya bisa menghasilkan komitmen kelembagaan dan politis lokal. Karena itu proyek proyek PPP yang terstruktur kokoh harus mendukung kapasitas tidak hanya pada level teknis, namun juga di seluruh sisi permintaan, bekerja baik melalui jalan pendek maupun jalan panjang menuju akuntabilitas (masing masing melalui penyedia layanan dan pejabat publik).

Mengenai pengembangan kapasitas, jika pengaturan pendanaan ditujukan kepada atau mendukung kepada kontrak kontrak business to business (B2B), kiranya perlu ditempatkan sebuah mekanisme peninjauan dan dukungan yang didefinisikan secara bersama oleh Belanda dan Indonesia, untuk memastikan bahwa pembangunan kapasitas pemerintahan lokal menjadi komponen yang jelas dari kontrak. Untuk tujuan ini, maka TA harus dibingkai lebih sebagai bagian dari proses perbaikan organisasi yang lebih luas ketimbang sebagai sebuah rangkaian pemecahan masalah satu per satu yang terus menerus. Pengalaman pengalaman di tempat lain telah dirancang sedemikian rupa sehingga insentif insentif terkait TA yang semula melalui tenaga ahli internasional, secara sengaja dan strategis menurun. Proses penunjukan/merekrut dan kemudian pengelolaan para penyedia TA harus transparan dengan kerangka acuan, pengawasan dan jaminan mutu yang disepakati bersama. Dimana tersedia, para mitra harus mempertimbangkan preferensi yang transparan terhadap penyedia TA lokal, dengan memperhatikan kompensasi kompensasi dalam perbandingan mutu terhadap biaya, waktu, kapasitas dll.

Sebuah rencana usaha yang dirancang bersama merupakan kegiatan utama membangun kemitraan dan dokumen akuntabilitas utama bagi para mitra. Sekali lagi, dengan lebih luasnya kalangan pemangku kepentingan yang terinformasi dan terlibat, hal ini akan menciptakan keadaan dimana setiap orang mengetahui apa yang harus dilakukan, kapan, berapa biayanya, apa saja resikonya dst. Selama proses berlangsung, sangat penting untuk menciptakan dukungan kepemilikan dan politis yang yang diperlukan. Menariknya, sebuah praktek yang muncul di Indonesia berupa proses perencanaan inklusif, memperlihatkan bagaimana masyarakat sipil ikut terlibat dalam penentuan apa saja yang merupakan prioritas. Proses proses tersebut tidaklah sederhana. Sebuah kumpulan pengalaman dan keahlian yang muncul di berbagai negara dapat menginformasikan bagaimana cara terbaik untuk menyelenggarakan kegiatan yang melibatkan banyak pemangku kepentingan. **Karena itu, tahapan tahapan pendanaan harus didasarkan pada rencana rencana usaha yang luas kepemilikannya dan disetujui (dimutakhirkan) secara berkala.**

Mengenai kemitraan, praktek terbaik sekarang adalah untuk fokus pada berinvestasi dalam pengembangan kemitraan, tetapi juga untuk mencoba memandang lebih secara lebih luas guna melihat badan badan mana saja diluar kemitraan yang sebenarnya dapat diajak serta untuk membantu meningkatkan peluang keberhasilan. Di banyak negara, organisasi organisasi kemasyarakatan telah ikut dilibatkan untuk membantu mengatasi beberapa hambatan tersebut, membantu dalam menegaskan kembali fokus kepada pelanggan dengan cara menjadi bagian dari model penyediaan layanan. Dalam keadaan seperti itu, para NGO dan LSM (CSO) mendukung penyedia layanan untuk menjangkau ke dalam komunitas komunitas miskin melalui cara memobilisasi komunitas tersebut, mendidik pelanggan tentang bagaimana sebenarnya layanan publik tersebut bekerja, mendukung pengembangan sebuah peran pemantauan dan pengawasan dst. **Proposal proyek harus dikaji berdasarkan seberapa baik permintaan akan layanan itu dipahami, dan rencana apa saja yang dimiliki para mitra untuk secara potensial meningkatkan permintaan melalui pemanfaatan NGO dan LSM.** Dalam kasus kasus P3SW air tidak pernah merupakan prioritas dalam agenda politik, dan masyarakat lokal tidak begitu menyatu dalam membuat tuntutan pada para penyedia layanan.

Sebuah tinjauan yang lebih luas juga termasuk upaya untuk berhubungan dengan prakarsa dan peluang lainnya (seperti yang sekarang sedang dikembangkan pada tingkat nasional di Indonesia). Pendanaan dari luar negeri seharusnya bersifat strategis, yaitu melengkapi apa yang tersedia atau yang dapat secara relatif mudah diakses di tingkat lokal. Dalam kata lain, PPP seharusnya tidak bersifat eksklusif namun terbuka bagi aktor lainnya (tidak hanya mitra swasta dan pemerintah daerah).

Secara umum, upaya upaya untuk secara bersama-sama mengembangkan prioritas dan memecahkan masalah, upaya upaya untuk memahami resiko masing masing dan perhatian pada O&M dari kemitraan itu sendiri adalah sangat penting dalam membuat usaha ini berhasil. **Proposal proposal harus secara tegas dan jelas menyatakan pendekatan terhadap pembangunan kemitraan dan pemeliharaan adalah pendekatan bersama (joint), dan mekanisme peninjauan ulang harus fokus tidak hanya pada pencapaian teknis dari kemitraan ini, namun juga pada keadaan/kondisi kemitraan itu sendiri.**

Dalam hal kontrak, sekali lagi, harus dilakukan penahapan dimulai dengan pengaturan kelembagaan yang lebih sederhana yang merupakan kontrak kontrak jasa dan pengelolaan yang beresiko lebih rendah, kemudian bergerak ke arah kontrak kontrak sewa dan konsesi. Sebuah kontrak pengelolaan adalah opsi yang memberikan resiko paling sedikit dan jalan yang terbaik untuk memulihkan suatu organisasi yang gagal, melalui sebuah proses perbaikan organisasi komprehensif yang didukung oleh para mitra.

Semenjak awal opsi kepemilikan seharusnya tidak menjadi pertimbangan. Sebuah tantangan awal yang utama dalam salah satu kasus hubungan P3SW adalah masalah kepemilikan saham JVC. Sementara bisa dimengerti mengapa opsi ini lebih disukai oleh pihak operator Belanda, hal ini telah menciptakan dan menumbuhkan suasana ketidakpercayaan diantara para mitra. Dalam hal tercapainya sebuah Perjanjian Usaha Bersama yang lebih luas, sebuah perjanjian sewa aset (sebagaimana yang ada dalam berbagai kontrak di Kawasan Indonesia Timur) , merupakan pendekatan yang masuk akal.

Pendekatan pendekatan bertahap yang dimulai dengan pengaturan pengaturan yang lebih sederhana, yang kemudian berkembang ke dalam bentuk kemitraan yang lebih kompleks, juga harus diterjemahkan ke dalam pengaturan pendanaan yang sesuai. Dalam tahap awal hibah harus digunakan sebagai dana untuk memulai (start-up), khususnya dalam kasus kasus perusahaan air yang 'kurang sehat' yang harus menjadi fokus utama bagi DGIS. Persyaratan pengaturan pendanaan dapat berubah menjadi perjanjian pinjaman pada tahap tahap lebih lanjut ketika perusahaan secara kelembagaan dan keuangan menjadi lebih mampu untuk hidup mandiri. Para mitra dapat memobilisasi modal pinjaman yang dibutuhkan pada pasar lokal atau internasional, atau melalui skema pendanaan yang sudah ada di dalam negeri (banyak terdapat di Indonesia), dan DGIS harus mempertimbangkan untuk membuat suatu mekanisme untuk menjamin pinjaman pinjaman yang diberikan kepada perusahaan perusahaan air yang sedang dalam masa transisi dari 'kurang sehat' menjadi 'sehat'.

Sebagai sebuah aturan, dana publik seharusnya tidak digunakan untuk tujuan pemberian pinjaman, karena khususnya di Indonesia, nampaknya banyak tersedia sumber pendanaan yang bisa diakses. Namun demikian, dalam hal DGIS akan mengizinkan pendanaan yang diberikannya digunakan oleh para mitra swasta untuk tujuan memberi pinjaman, perlu ditentukan mekanisme yang jelas yang mendefinisikan antara lain kepemilikan dari dana dana tersebut dan cara bagaimana DGIS akan dilibatkan dalam penggunaannya lebih lanjut.

Berbagai pelajaran telah diperoleh dari studi dan evaluasi kasus kasus P3SW yang kemudian menghasilkan beberapa pertimbangan bagi dukungan DGIS terhadap PPP secara lebih umum. Beberapa diantara aspek aspek ini menimbulkan aspek prosedural bagi DGIS sekitar dana dana penjamin, bagaimana cara untuk tetap terlibat dalam pemanfaatannya, baik untuk alasan Pemantauan dan Evaluasi, maupun juga untuk alasan belajar yang akan menggariskan kegiatan kegiatan masa depan. Pelajaran ini juga membawa isu isu sekitar kriteria untuk dukungan, dan apakah apa yang diharapkan dari sektor swasta dalam hal target target MDG bisa dicapai tanpa memberi perhatian yang memadai kepada faktor faktor kontekstual yang jauh melampaui masalah keuangan dan teknis. Pada akhirnya kasus kasus P3SW juga mengangkat isu apakah DGIS harus memberikan dukungan kepada perusahaan perusahaan layanan publik yang sehat, atau berinvestasi untuk memperbaiki

keadaan perusahaan perusahaan layanan publik yang kurang sehat yang melibatkan biaya dan tantangan yang mungkin tidak terhindarkan.

Final Evaluation of the P3SW Public Private Partnership

Pilot Programme for Pekanbaru and East Indonesia

Main report

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Final – January 2013

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Abbreviations and acronyms

BAPPENAS	<i>Badan Perencanaan Pembangunan Nasional</i> (National Development Planning Agency)
B2B	Business to Business
BOT	Build, Operate, Transfer
BPKP	<i>Badan Pengawasan Keuangan dan Pembangunan</i> (Finance and Development Supervisory Agency)
BPPSPAM	<i>Badan Pendukung Pengembangan Sistem Penyediaan Air Minum</i> (National Agency for Water System Development)
BRP	Block Renovation Program
CA	Cooperation Agreement
DGIS	Directorate General for International Cooperation (The Netherlands)
GIS	Geographical Information System
IDR	Indonesian Rupiah (1€= 11,600 IDR mid 2012)
IFI	International Finance Institutions
JOA	Joint Operations Agreement
JVC	Joint Venture Company
KTDP	Karsa Tirta Dharma Pangada (Indonesian company that cooperated with WFH in Pekanbaru)
l/s	litre per second
MDG	Millennium Development Goals
MIS	Management Information System
MPW	Ministry of Public Works (Indonesia)
O&M	Operations and Maintenance
P3SW	Public Private Partnership Program
PDAM	<i>Perusahaan Daerah Air Minum</i> (Local drinking water company)
PPP	Public Private Partnership
PUP	Public Utility Partnership
PWN	Waterleidingbedrijf Noord-Holland (Water Company of North Holland)
REOT	Rehabilitate, Expand, Operate, Transfer
RNE	Royal Netherlands' Embassy (also used her to refer to the additional funding by the Embassy for the East-Indonesia component of the P3SW)
RWS	Rijkswaterstaat (Department of Water Management, Ministry of Transport and Water Management)
SWOI	Stichting Waterproject Oost-Indonesië (East Indonesia Water Projects Foundation)
TA	Technical Assistance
TAD	Tirta Drenthe (Subsidiary of WMD)
TID	Tirta Inti Drenthe (subsidiary of Indowater/WMD)
TOR	Terms of Reference
V&W	Verkeer & Waterstaat (Ministry of Transport and Water Management)
WFH	Water Fund Holland
WFI	Water Fund Indonesia
WMD	NV Watermaatschappij Drenthe
WTP	Water Treatment Plant

Executive summary

Background

The P3SW is a Public Private Partnership (PPP) in the water sector that was established in 2002. The programme was an initiative of various Dutch partners to implement PPP pilot projects in the water sector in developing countries. It was aimed at investigating how partnerships between public and private initiatives in the Netherlands could successfully contribute to the consolidation, upgrade and expansion of water infrastructure for rapidly expanding urban populations in the South. Eventually two pilot projects were selected, both situated in Indonesia. One project was to be carried out in the city of Pekanbaru (the capital of Riau Province, Sumatra) with Water Fund Holland (WFH, a joint venture company comprised of five Dutch water companies, geared towards investments and operations of water infrastructure in developing countries) as project implementer. The second project was to be implemented in several cities in East Indonesia (North Sulawesi, Moluccas, Papua) by Waterleidingmaatschappij Drenthe (WMD).

Programme implementation started formally in 2005 and was set to end in December 2010. However, for various reasons the Pekanbaru component was terminated towards the end of 2009, whereas the East Indonesia component was extended until the end of 2011 and thereby was able to benefit from an additional grant from the Dutch Embassy in Indonesia. The initial programme budget amounted to €23.5M (€7M for Pekanbaru, €16.5M for East-Indonesia) of which €16.1M was public funds.

For DGIS, the main aim of this final evaluation was to provide learning that could be used to further develop new PPP approaches in the water sector, one of the key sectors of Dutch development cooperation. The water companies hoped the evaluation would generate useful findings to complement their internal reflection processes and support their further involvement in the Indonesian water sector.

The specific tasks of the evaluation team included the assessment and quantification of the results achieved, assessment of the sustainability of the programme, the identification of key risk and success factors in relation to the chosen PPP approaches and the formulation of recommendations. The evaluation mainly addressed programme developments from January 2009 onwards (i.e. after the mid-term review), including the period beyond the formal closure of both project components. A two-tiered approach was adopted – looking back at past performance and looking forward to reflect on optimal conditions for greatest impact – so as to address both the accountability and learning focus of the evaluation. Site visits covered all major programme locations and were conducted in an interactive way to facilitate exchange with local stakeholders. Much attention was given to triangulating information so as to come to an accurate and balanced understanding of the different perspectives and interests of the programme partners and other stakeholders.

Programme context

As a pilot programme, P3SW was able to benefit from a strongly supply-driven and favourable policy environment, however this did not prevent programme inception from taking a considerable length of time (from 2002 till 2005). Not only did the selected Dutch water companies face various challenges during programme preparation, defining an adequate institutional format for a PPP initiative also proved difficult because of legal and procedural constraints in the Netherlands. Eventually a complex programme setup was defined in which RWS (Rijkswaterstaat, an implementing agency of the Ministry of Transport and Water Management) was put in charge of implementation, whereas DGIS acted mainly as funder. It later became clear that this setup was not accompanied by adequate mechanisms to ensure strategic steering and reflection and, more broadly, that the risks and challenges of the coordination and monitoring of this complex pilot programme were not sufficiently understood. Only in later programme stages did DGIS become somewhat more closely involved with the programme. The strong initial focus on Dutch internal arrangements also meant that little attention was paid to the setup of joint (Dutch-Indonesian) programme mechanisms, which implied that the involvement of Indonesian authorities, at least at the national level, remained limited throughout programme implementation.

Indonesia has defined ambitious targets for the development of its drinking water sector, which include access to piped water for an additional 60 million people between 2004 and 2015. The Government's policy directions plan an increase in coverage and quality of drinking water via support to local drinking water companies, an optimization of the sector's funding by increasing the role of the private sector and the development of an institutional and regulatory framework via the application of a good governance approach at the level of the water utilities.

While important initiatives have been undertaken to modernize sector legislation, there remain many grey areas, creating some uncertainty and serving as a disincentive for private actors to get involved, which explains why, so far, there are still relatively few PPP initiatives in the water sector. The legal framework also provides far-reaching autonomy for districts and municipalities in a number of important areas, including the provision of drinking water, which is mainly taken on by local water companies (PDAMs) that are primarily owned by and operate under the authority of the district head or mayor. Most of these PDAMs are small and performed badly in the past, but – overall – have slowly improved over the last years. Support from national institutions is foreseen but so far has only very partially addressed local institutional, technical and financial needs. Unlike in many other developing countries, customers to date have hardly played a role as stakeholders in their own right, which can be explained by the relative abundance of and relatively cheap access to water in most parts of Indonesia and by the lack of a tradition of collective action and claims in cases where public water supply is failing.

Assessment of the Pekanbaru component

The Pekanbaru PPP had a complex setup which had to be grafted onto an existing PPP – more specifically, a Joint Operations Agreement between the City and its PDAM and

KTDP, the latter being WFH's actual partner. The main feature of the partnership was, at least initially, a REOT (Rehabilitate – Operate – Transfer) type contract for bulk water supply to KTDP, who had an agreement with the local government. The substantial reduction of Non-Revenue Water (NRW), improvement in staff performance and increase in the capacity of piped networks and household connections were other important targets.

After a quick and promising start, involving substantial investments, the programme began to face increasing difficulties. First of all, the complex institutional setup meant that WFH had only a limited direct control over the desired change process, and that no clear responsibilities for specific components of the water supply chain could be delineated. KTDP's financial problems also forced the programme to review its initial targets to keep it afloat. Furthermore, resistance to change at the level of the politically backed PDAM was another major difficulty. It became increasingly clear that the PDAM did not want to improve its governance or performance, as this would have implied giving up the prerogatives it had tacitly acquired over time. This implied that the intrinsically high quality of WFH's inputs eventually produced only limited effect.

WFH and KTDP made various attempts to sort out the fundamental differences in how to co-manage and direct the partnership, but to no effect. From their side, local political authorities increasingly voiced their dissatisfaction with the under-performance of the partnership. The stalemate led to a substantial reduction in the investment plans, which inevitably further affected service delivery performance. Despite several mediation efforts, among others by BPPSPAM (the National Agency for Water System Development), the Pekanbaru government eventually decided to discontinue the cooperation, at which point WFH and KTDP had also de facto given up hope of redressing the situation. This decision signalled the start of a legal dispute related to the repayment of investments to KTDP that was not yet settled at the time of the field visit of the evaluation (June 2012).

The premature closure of this programme component meant that less than half of the initial budget (but 63% of the DGIS budget) had been spent, whereas KTDP had been unable to bring any of its planned contribution. Not surprisingly, more Technical Assistance (TA) than expected had to be mobilised to manage the programme and only 32% of the investment expenditure was realised, largely because of the prudent attitude of the Dutch partner once serious difficulties had started to emerge. For obvious reasons, programme targets related to increased access to water, new connections and decreased NRW could not be achieved at all. A review at the end of the project even revealed great problems with the quality of the water distributed, which, among other things, constituted a danger to public health.

The evaluation's visit to Pekanbaru, more than three years after actual closure of the programme, revealed a further deterioration of the situation: decreased coverage, persistent serious problems with the water quality (acidity) and increased NRW. Many of the technical improvements brought by the programme had proven unsustainable because of failed Operations and Maintenance (O&M). Overall, the PDAM seemed to have lost all credibility, even among the political elite. The failure of the PPP proved however to be in line with earlier similar cooperation experiences with external partners and was largely attributed to the decades-long PDAM and city opposition to

major institutional changes that would endanger their interests. The city population had in the meantime learned to look for other solutions, some with potentially negative environmental consequences (such as shallow boreholes). Drinking water provision is largely met via the private sector. The poorer sections of society in particular are the major victims of the failing public services, but no organised collective action to lobby for improvements has been observed.

Assessment of the East Indonesia component

WMD initially planned to engage in a concession type of cooperation agreement with ten local governments and PDAMs via the creation of local Joint Venture Companies (JVCs) to be established via local WMD subsidiaries. Eventually JVCs were only set up in four cities (Manado, Sorong, Biak, Merauke), of which three were located in Papua, one of Indonesia's least developed areas. WMD's approach was based on its cooperation experience in Ambon city, where a JVC had already been set up in the nineties. The anticipated duration of the partnerships was 15 years, i.e. substantially longer than the P3SW programme. During the actual lifespan of the programme, WMD endeavoured to establish autonomous, sustainable local water companies that would ensure the production and distribution of drinking water on a cost-recovery basis. Programme targets included improved drinking water for an additional 600,000 people, 91,500 new connections, a substantial decrease in NRW via (among other initiatives) the rehabilitation of distribution networks, and the development of local skills and management capacities. An additional project submitted to and approved by the Dutch Embassy in Jakarta was meant to speed up the technical and organisational change process and the realisation of about 45,000 extra connections.

The evaluation found the quality of infrastructure works to be varied, with insufficient O&M in many cases limiting the effects of investments. Some disagreements among partners with regard to investment priorities were also noted. Important improvements were found in the areas of administration and finance that, among other successes, improved the possibilities for combating fraud and corruption; the cost of these improvements was however considered high (in part because of the use of expensive software that local partners felt had been imposed by WMD). Programme spending has been above initial budget provisions, with WMD mobilising extra funds to cover the gap. The high preparation costs in the initial stages were not matched by convincing results, as important initial technical and institutional assumptions proved later to be incorrect. A huge Technical Assistance (TA) component in all types of expenditure (investments, organisational support, ...) was mainly mobilised from within the WMD 'family'. Mixed opinions were recorded on the quality and appropriateness of this TA; in particular the quality of TA provided via Inowa, a local company belonging to the WMD group, was very much questioned.

The nature of the PPPs and particularly the way these have unfolded over time has impacted to a major degree on programme implementation and performance. As at the start of the program the four PDAMs were badly functioning and/or had a dubious track record, WMD from the early stages took precautions to safeguard its interests. The Cooperation Agreements (CAs) included a majority position (51%) for WMD and also contained further provisions to secure the JVCs' operational autonomy against external

(political) interference, given that state-owned companies such as the PDAMs are often controlled by the political elites and used for their, rather than the public's interests. In this regard, WMD intended to adopt a phased approach spread over 15 years in which it aimed to be in full control during the first phase (4-5 years), which was intended mainly to rehabilitate the infrastructure and strengthen local capacities. This phase was then intended to constitute the basis for better operational performance allowing the JVCs, in a next phase, to attract investment loans on the market without external support.

While this setup allowed WMD to engage quickly in a far-reaching transformation process for ailing local companies, which was initially welcomed at the local level, relations among the partners quickly started to deteriorate. WMD's continued operational control led to a lack of local ownership and feelings of disempowerment. While governance structures and procedures were elaborated well on paper, they were not functioning well in practice. Representatives of the local partners were often not motivated or capable of truly assuming their responsibilities and articulating local views and priorities. As such, WMD's prominent role caused local authorities to start to disengage from their responsibilities in the water sector. Only by 2011 did WMD announce a shift from a 'controlling' to a 'facilitating' approach, but by the time of the evaluation this modification had not yet brought much change in practice.

Lack of clarity related to key implementation modalities further impacted negatively on the partnership. In the early years, a long-lasting discussion on the transfer of assets to the newly created JVCs (desired by WMD, but opposed by local authorities) drained a lot of energy and soured relations. There was also a lack of clarity on the nature of WMD support (initially considered a development grant by local partners, always seen as a loan by WMD) and subsequently the terms of the loan arrangements, which were often only formalised long after the loaned funds had effectively been spent. In addition, loans up to 2009 were disbursed directly via WMD's subsidiaries without the local partner exercising any oversight.

In line with full cost recovery principles, WMD wanted programme funds to be converted into loans that would become part of a revolving fund. While this full cost recovery principle is appropriate in itself (and also part of Indonesian policy), its application in the early programme stages was premature. Indeed, the newly created JVCs were built onto ailing PDAMs that in their early years were in need of grants to reach an adequate performance level before they could actually take on loans. The consequence of WMD's policy was that the JVCs quickly accumulated substantial debts, leading to increased local discomfort, the more because these debts were not matched by significant performance improvements. WMD eventually (i.e. after, but not as a result of, the evaluation's visit) decided to drastically review the terms of the loan agreements and to convert part of the loans into grants. A last important element souring partner relations was that local stakeholders also felt they had little influence over decision making with regard to TA (when is which type of TA needed, for what purpose, under which conditions, etc.) and that clear terms of reference, if they existed, were not shared at the local level.

Even when allowance is made for the initial over-ambitious targets, the programme has only realised very modest progress in view of the resources mobilised. Net increases in active house connections and numbers of people with access to water have remained

limited. However, over the last four years, a modest decrease in NRW has been achieved in two of the four programme locations; water tariffs have increased, allowing in principle a move towards full cost recovery. Three locations have noted substantial increases in water sold, although this has been countered by increases in outstanding customer debts in two locations. The issue of customer involvement has remained largely unaddressed, but in any case was not a major focus at the start of the programme. All local companies remain highly dependent on WMD for additional funding; no such funding has been attracted from other sources, although opportunities to do so exist.

At the time of this evaluation, the basic technical, financial and institutional conditions have not yet been fulfilled to ensure continuity of water supply once external support is withdrawn. Additional investments seem necessary to further improve both technical and non-technical performance. To make these investments effective, further changes in the companies' culture, O&M practices and in partnership dynamics seem to be vital. Even in view of WMD's commitment to a longer-term partnership (15 years), progress has remained too modest to as yet confirm the viability of their phased approach.

A detailed look at financial performance indicators has further revealed that despite some progress all companies are still financially weak and vulnerable. Equally important, linkages of the JVCs with national-level institutions and initiatives have remained underdeveloped, preventing them from liaising with programmes aimed at improving performance of local water companies. Relations with local governments are not bad in most locations but lack substance in terms of tangible commitments to what is in essence a public duty. This lack of commitment and even interest by the local political class is compounded by lack of social pressure from the local population.

Overarching P3SW analysis

The P3SW projects under review provide a rich set of experiences from which to draw lessons that can inform how DGIS and RNE can support improvements in access to water supply through PPP arrangements both in Indonesia and elsewhere given their mix of context and approach. Overarching lessons can be drawn from one or both projects around the themes of accountability, capacity building, partnership process and contracting and funding arrangements. Before looking more broadly though, the overarching context in which these partnerships were formed needs to be revisited.

At the time these P3SW projects were being developed, there was significant pressure from within DGIS to seek an active role for Dutch water companies to support ministerial targets around the Millennium Development Goals. The result in this case was a set of contractual relationships that were driven through a competitive process from the Netherlands rather than at the municipal level or national level. As has been well documented, working internationally in municipalities with decentralised responsibility to ensure service delivery, mixed local management and technical skills, low cost recovery, insufficient tariff rates, high political interference and little hands-on regulation proves incredibly difficult.

While they are allowed to engage in PPPs through a tender and procurement process, local governments in Indonesia, often with very limited capacity, are generally left to

their own devices to develop, sign and implement a partnership project with a private firm. Neither central nor provincial government appear to have much influence over what happens at the local level.

In terms of accountability, in practice, in Indonesia, few channels effectively hold any of those in authority to account (nor, in fact, is there a reliable ability to hold customers to account to ensure that they pay their bills). The challenge of creating a customer-centred approach is documented throughout this report from both P3SW cases. Improving the image of the companies, enhancing the ability to respond to customers, and focusing on willingness to pay would create accountability mechanisms that cannot so easily be ignored.

Emerging best practice even back in the mid-2000s suggested that regulatory frameworks relied on realistic, clearly defined and well-negotiated targets as well as roles and responsibilities. With regard to P3SW targets, whilst technically feasible, these were well beyond what could realistically be achieved, with challenges largely coming from institutional and contextual factors that might have been underestimated at the start of the project.

Both P3SW PPP efforts largely operated in a regulatory vacuum, with no formally assigned regulator for PPPs outside the capital. Given moves towards greater decentralisation, neither BPPSPAM nor the Ministry of Public Works has the authority or indeed capacity to monitor progress or get officially involved without a request from the municipality. Beyond a minor regulatory function played by Rijkswaterstaat, there appears to have been no clear mechanism to hold the different parties to account. Civil society has remained largely silent, and there is little relative pressure from the Netherlands, except for the Embassy, which sees the potential damage of less successful projects on bilateral relations. Local government authorities appear to have had their own vested interests with political and other barriers to exercising oversight as the contracting party.

In hindsight, it appears that the PPP was in fact originally designed more around the relationship between the Dutch parties than between a local municipality and a Dutch contracted party. Thus from the start, the Indonesian relationships were left to the Dutch water utilities, and the local partners seem to have claimed very little ownership over the framing documents of the partnership. The lack of local embedding and "true" acceptance of the projects has been a challenge. Local partners' inability to convey an integrity-based approach to the partnership is a key cause for Dutch partners to avoid handing over more responsibility. Many PDAM had a poor reputation and track record with a history of politics, fraud, corruption and incompetence.

Another issue was the emphasis on the loan repayments and the revolving funds back to Dutch institutions. As the funds were subsequently converted from a grant into a loan that goes into a revolving fund and is reinvested in the water sector in Indonesia, there is some question as to at what point the money stops being linked to the Dutch Government. In essence, the repayment of the loans had become the ultimate proxy for the success of the pilot programs and thereby the main channel for accountability. Neither the Dutch Government nor Indonesian counterparts have much of a say on how the funds are ultimately spent or what happens to the funds after repayment.

In terms of roles and responsibilities (based on capacity and expertise), these had seemingly not been clearly defined by the partners up front. Localized expertise was not sought for the technical elements within each municipality (although some tenders were issued in Pekanbaru). Also, terms of reference for Inowa or other sub-contractors do not seem to have been agreed through a process with clear accountability for performance.

Ultimately in few cases does it appear that there was someone from the side of the PDAM or municipality who actually held the vision, goals and rationale of the entire partnership project. Whichever the model used, it seems there needs to be clear separation between policy and implementation, a definite and much needed goal of WMD in East Indonesia.

Overarching lessons and recommendations

Within the context of Dutch support to PPPs, there may be a need for some greater deliberation about DGIS policy. Working with healthy PDAMs seems unlikely to yield the kinds of poverty alleviation targets expected of Dutch development assistance. While contracts that only focus on production are obviously attractive for many international operators, how best to ensure that such contracts have a more immediate impact on the delivery of services for the poor is not obvious. Working with PDAMs that have low capacity proves incredibly challenging for a host of reasons outlined above. If “unhealthy PDAMs” are the primary focus, **a clearly staged approach starting with shorter term service or management contracts would allow Dutch partners to more adequately assess the need, the state of the infrastructure, and the political and financial context in which the PDAM is operating and then readjust the programme of support as the relationship progressed.** This would also foster a more “learning by doing” approach that somewhat understandably went missing in and amongst the challenges of everyday implementation.

To allow for proper and ongoing investment in expansion and rehabilitation, **funders should seek reassurance from contracting parties (both local government and operators) that financial ringfencing will create a sufficient distance between political and municipal interests in using the water company as a “cash cow”.** Clear business plans should be developed based on comprehensive institutional assessments (i.e. not only technical and financial factors but also social, political and environmental aspects). Other skills beyond the technical and financial may be required to help conduct the analysis but also to negotiate the contract at the local level as well as set (and revisit) realistic targets.

Such political economy analysis suggests that genuine municipal commitment via the mayors’ support is absolutely critical to ensuring the success of such arrangements. **Efforts should be aimed not only at “fixing the problems with the utility” but also at educating the political ruling class (from across political parties) as to what is involved in successfully running a water utility.** Ensuring a customer focus that generates demand on the utility and thereby frames accountability mechanisms is also

critical and may in fact lead to local institutional and political commitment. **Solidly structured PPPs should thereby support capacity not only at the technical level but also across the demand side, working through both the short and long routes to accountability** (through the provider and public authorities respectively).

With regard to capacity building, if funding arrangements are aimed at or supportive of business to business (B2B) contracts, **a jointly defined Dutch-Indonesian review and support mechanism needs to be put in place to ensure that local government capacity building becomes an unequivocal component of the contract.** Towards this end, technical assistance should be framed as part of a broader organizational reform process rather than as an ongoing series of one-off problem solving. Experiences elsewhere have been designed in such a way that incentives around technical assistance initially through international experts have been purposely and strategically declining. The process for designating / recruiting and then managing technical assistance providers should be transparent with jointly agreed ToRs, oversight and quality assurance. Where available, a transparent preference for local providers of technical assistance should be weighed up by the partners, looking at any trade-offs in quality vis-à-vis costs, timing, capacity, etc.

A jointly designed business plan provides the key partnership building activity and the primary accountability document for partners. Again with wider local stakeholders informed and involved, this creates a situation in which everyone knows what to do, when to do it, how much it will cost, what the risks are, etc. Creating the necessary ownership and political support during the process is critical. Interestingly, an emerging practice of inclusive planning processes in Indonesia is seeing civil society engaged in determining what the priorities are. Not simple processes, an emerging body of experience and expertise in a range of countries can inform how best to conduct such multi-stakeholder exercises. **Funding tranches should then be based on widely owned and approved (updated) business plans.**

With regard to partnerships, best practice is now to both focus on investing in partnership building but also to take a wider view, to see which entities outside of the partnership could actually be brought in to help improve the chances of success. In many countries, civil society organizations have been brought in to help overcome some of these barriers, helping to reassert the focus on the consumer by becoming part of the delivery model. In such instances, NGOs and Civil Society Organizations (CSOs) are supporting utilities to reach into poor communities through mobilizing communities, educating consumers on how utilities work, supporting a monitoring and oversight role, etc. **Proposals should be assessed based on how well demand for the service is understood and what plans the partners have for enhancing demand potentially through the use of NGOs and CSOs.** In the P3SW cases, water has not been high on the political agenda and local communities are not very cohesive in making demands on providers.

A wider view would also include **liaising with other initiatives and opportunities** (like those now developed at the national level in Indonesia). Funding from abroad should be strategic, i.e. complement what is locally available or be relatively easy to access. The PPP should, in other words, not be exclusive but open to other actors (not only the private partner and the local government).

In general, efforts at jointly developing priorities and solving problems, efforts to understand each other's risks and an emphasis on the Operations and Maintenance of the partnership itself are absolutely critical in making these arrangements work.

Proposals should explicitly state the joint approach to partnership building and maintenance, and review mechanisms should focus not only on the technical accomplishments of the partnership but also the state of the partnership as well.

In terms of contracts, again these should be staged starting with simpler institutional arrangements that represent lower-risk service and management contracts and then moving towards lease and concession contracts. A management contract is the option that provides the least risk and the best way to turn around a failed organisation through a partner-supported organisational comprehensive reform process.

Ownership options from the outset should not be a consideration. A key challenge in the early stages of one of the P3SW relationships has been the ownership share of the Joint Venture Company. While it is understood why this was the preferred option for the Dutch operator, it created and fostered an atmosphere of distrust amongst the partners. In the event that a more substantial Joint Venture Agreement is reached, a lease arrangement of the assets (as exists in the various East Indonesia contracts) is a logical approach.

Staged approaches starting with simpler arrangements that later develop into more complex partnerships should also be translated into adapted funding arrangements. In the early stages grants should be used as start-up funds, in particular in the case of 'unhealthy' water utilities that should be a primary focus for DGIS. The terms of the funding arrangement can change into a loan agreement in later stages as the water utility becomes institutionally and financially more viable. Partners can mobilize the necessary loan capital on the local or international markets or via existing financing schemes in the country (of which there are many in Indonesia) and DGIS should consider setting up a guarantee mechanism to cover loans issued to water utilities that are in a transition from 'unhealthy' to 'healthy'.

Public funds should not, as a rule, be used for loan purposes as many accessible funding sources seem to exist, particularly in Indonesia. In case DGIS would nevertheless allow its funding to be used by private partners for loan purposes, a clear mechanism needs to be determined that defines among other elements the ownership of these funds and the way DGIS will be associated to its further use.

A wide range of lessons have been derived from the study and evaluation of the P3SW cases which raise a number of considerations for DGIS support to PPPs more generally. Some of these aspects raise procedural aspects for DGIS around the potential for guaranty funds, how best to stay engaged with the spending both for Monitoring and Evaluation, but also for learning that shapes future activities. They also raise issues around the criteria for support and whether what is expected of the private sector in terms of the MDG targets can be delivered without sufficient attention being paid to contextual factors that are well beyond financial and technical. Finally the P3SW cases also raise the issue of whether DGIS should be supporting utilities with potential or investing to turn around unhealthy utilities with the inevitable costs and challenges that this may involve.

I. INTRODUCTORY PART

1. Introduction

1.1 Programme background and main characteristics

P3SW is the Dutch acronym for a public private partnership (PPP) programme in the water sector that was established in 2002. The programme was an initiative of various Dutch partners to implement PPP pilot projects in the water sector in developing countries. It was aimed at investigating how partnerships between public and private initiatives in the Netherlands could successfully contribute to the consolidation, upgrading and expansion of water infrastructure for rapidly expanding urban populations in the South.

After a call for tenders conducted in the form of a 'beauty contest' in 2003 ultimately two pilot projects were selected, both situated in Indonesia. One project was to be carried out in the city of Pekanbaru (the capital of Riau province, Sumatra) with Water Fund Holland (WFH, a joint venture company of 5 Dutch water companies geared towards investments and operations of water infrastructure in developing countries) as project implementer. The second project was to be in several cities in East Indonesia (North Sulawesi, Moluccas, Papua), implemented by Waterleidingmaatschappij Drenthe (WMD). Both projects were conceived along the same format of cooperation between the Dutch Government and one or more Dutch water supply companies. The latter are publicly owned companies that operate on the basis of business principles, but in terms of ownership are associated with the public sector, as by law water supply is a public affair in the Netherlands. These companies are however, within the limits of Dutch legislation, entitled to operate abroad as private companies.

PPP and private sector participation in the water sector in Indonesia started in the mid nineties, but the 1997-98 financial and economic crisis in South East Asia constituted a serious setback as many private water service operators got into serious financial problems. The thorough institutional and political reforms, such as increased regional autonomy, that started with the end of the Suharto era (1998) have strongly influenced the institutional, political and legal setting of the water sector. In addition, several important laws have been issued prior to the start of the programme and during its implementation. At the start of the programme, the sector in general and the PPP framework for public utilities in particular were (and actually still are) marked by both a lack of institutional and legal clarity and capacity.¹

The key characteristics of the P3SW-supported projects can be summarised as follows:

- Programme implementation started formally in May 2005² and was set to end in December 2010. For various reasons the Pekanbaru component was terminated towards the end of 2009. The Dutch Embassy in Jakarta provided an additional

¹ See chapter 2 for more details on the Indonesian and Dutch context of the program.

² ... but WMD already in 2004 signed cooperation agreements in Sorong and Biak

grant to support the WMD component implemented in East Indonesia. While this grant has to be formally distinguished from the P3SW program, in operational terms it has been closely linked to it; the implementation of this additional project lasted until November 2011;

- The initial total P3SW budget for both projects amounted to €23.5M³ (€7M for Pekanbaru, €16,5M for East-Indonesia), composed of public funds (€16.1M), private funds (€5.4M in contributions from the Dutch water companies) and a €2M loan from a Dutch bank for the East Indonesia component; later on, the Dutch bank disengaged from the project to a major degree, at which time WMD together with the SWOI foundation secured an additional funding of €1.5M to compensate for the bank's withdrawal;
- Both projects were to be implemented along a 'not for profit, not for loss' and full cost recovery approach and to include the creation of a revolving fund that would be resourced through the repayment of loans provided by the Dutch parties; these funds would then be used for further support to local companies⁴;
- Both pilot projects have engaged, using different models, with local city and district administrations that own the local drinking water companies (PDAM);
- The main feature of the Pekanbaru project has been, at least initially, a BOT-type contract for bulk water supply to a local private partner (KTDP) that had a joint operation agreement with the local government for the upgrading and expansion of the local water company; for several reasons, the cooperation between the partners was terminated in late 2009;
- In East Indonesia, WMD initially planned to engage in a concession type of cooperation agreement with ten local governments and PDAM, creating a joint venture company; eventually such agreements were set up in only four towns under the P3SW (a further programme in Ambon had been initiated earlier, independently of P3SW); the originally anticipated duration of the partnerships was 15 years.

A mid-term review was conducted in late 2008 - early 2009 to review whether the P3SW objectives could be achieved and to define the programme adjustments needed to reach the objectives. While the MTR concluded that the programme had the potential to bring about structural benefits to the ailing local water enterprises and poorly served consumer communities, its main conclusions were to a major extent rather critical of both pilots, suggesting that:

- Planning and initial targets were in both cases overly optimistic and based on shallow initial analyses that had been unable to adequately depict the technical, institutional and legal constraints; the MTR estimated that the initial objectives could not be attained within the planned project period and recommended that the initial pilot phases of the programme be extended;
- The local cooperation mechanisms and corresponding contractual arrangements were considered too complicated, not transparent enough and rather a burden in view of optimising operational efficiency;

³ Including the €3.5M grant via the Royal Netherlands' Embassy.

⁴ For WMD, the 'not for profit' notion also implied that the costs which the Dutch partners incur have to be recovered. This means no extra profits and no revaluation of market values upon termination of the partnership. Reward afterwards are possible provided a good result is achieved, but not during the process.

- Substantial parts of the budget had been used for overheads and (expensive) international consultancy support;
- The MTR team was not convinced of the feasibility of the WMD model and its ability to eventually lead to autonomous local companies;
- The overall management and monitoring setup was too weak to allow a strategic steering of this institutionally complex pilot project.

The staff of the Embassy of the Netherlands in Jakarta (RNE) agreed with the main findings and conclusions of the MTR and as a result engaged in carefully monitoring the potential impact on RNE relationships with Indonesian agencies. WMD felt that the report did not fully take into account their vision, approach and significant efforts to make the project work, and the difficult circumstances in which the project had to be implemented.

1.2 Evaluation rationale and purpose

The initial agreement between the Dutch public entities involved in the programme allowed for one or more evaluations of this pilot program. While the MTR had already provided a comprehensive assessment of the program, all key stakeholders agreed for different reasons on the necessity to also conduct an end-evaluation.

From DGIS' and also the RNE's perspective, the evaluation is considered important, as it is aimed at providing learning that would be used to further support the development of new approaches to PPPs in the water sector. Indeed, forming new alliances with business, civil society organisations, knowledge institutions and others is at the heart of the modernisation of development cooperation at the Dutch Ministry of Foreign Affairs. This is also the case in the water sector, which constitutes one of the key sectors for development cooperation of the Netherlands. Improved access to safe drinking water and sanitation is one of the three focal domains in that sector and an area where cooperation with public and private parties is considered key to optimising the existing knowledge and expertise in the sector. A PPP facility (€150M over five years) has recently been set up to promote PPPs in the water sector and is meant to encourage interaction between companies, NGOs, knowledge institutions and local actors.

The Dutch water companies that have been involved in the programme are also interested in the evaluation, in particular in its capacity to generate useful findings and identify lessons learned that can complement the internal reflection processes within the companies and support their involvement in the development of the Indonesian water sector.

The purpose of the evaluation as described in the terms of reference (see annex 1) is to assess to what extent programme targets have been achieved and what lessons can be identified over the programme period. These lessons are important for the future of the P3SW programme and comparable initiatives undertaken by DGIS (the Directorate of International Cooperation). The specific tasks of the evaluation team include the assessment and quantification of the results achieved, the assessment of the sustainability of the programme, the identification of key risk and success factors in relation to the chosen PPP approaches, and the formulation of recommendations

primarily for DGIS in relation to newly established PPP facilities but also for the programme partners (WFH and WMD, local and national counterparts).

1.3 Evaluation scope, approach and implementation

1.3.1 Evaluation scope

The evaluation scope has been defined as follows:

- In terms of *the period to be covered*, the evaluation addressed programme developments from January 2009 until the time of writing. This implies that the evaluation has built on the results of the MTR (conducted late 2008 – early 2009) and not assessed prior programme developments that have already been analysed by the MTR. This choice has however not exempted the evaluation team from duly becoming informed about the background that led to the inception of the P3SW programme and its institutional set up.

On the other hand, the evaluation has also looked at developments *after* and at the legacy *beyond* the formal closing of both project components (late 2009 for the Pekanbaru component, November 2011 for the East Indonesia component). As far as the Pekanbaru component is concerned, it was important to take into account that WFH cannot be held responsible for developments in the post-programme period. In East Indonesia, WMD has continued its partnerships in the post-programme period along its long-stated commitment for a period of time (15 years).

- In terms of *geographical coverage*, the evaluation has assessed both programme components (Pekanbaru and East Indonesia), but for obvious reasons more attention has been paid to East Indonesia. Following the visit to Pekanbaru, a visit was paid to Medan where a similar PPP approach has been adopted by WFH but with more positive results. In East Indonesia, the evaluation team has visited the four cities where the programme has been most prominent: Manado, Biak, Sorong and Merauke.⁵ In addition Ambon has been visited as, being the location where WMD started its work in East Indonesia, it presented helpful learning opportunities for this evaluation.
- In terms of *content*, the terms of reference clearly indicate the main issues to be addressed. The consultations and interviews conducted during the start-up phase further suggested some issues to be addressed more specifically (such as the institutional and administrative setting in the Netherlands), but without altering the foci of this evaluation. Furthermore, it has been decided to include in the evaluation the project funded via the Dutch Embassy for the East Indonesia component, as in the locations where this project was implemented (Manado, Biak, Sorong), it can hardly be distinguished from P3SW.

⁵ Programme expenditure in these four locations covered 95% of total programme expenditure for the East Indonesia component.

1.3.2 Evaluation approach

The double focus of the evaluation (accountability and learning) indicates that it attempted to both *look back*, thereby trying to acquire an understanding of the results achieved and the factors that have played a role in this regard, and *look forward* with the aim of reflecting on the optimal conditions that need to be fulfilled to achieve the greatest impact with PPP approaches. This implies that the evaluation team adopted, on the one hand, a somewhat rigid and structured approach allowing it to come up with valid findings related to project performance, but on the other hand, also used interactive and open-ended approaches in their discussion with key stakeholders to identify lessons learned.

Evaluation methodology

The evaluation methodology has been designed based on the terms of reference. In addition, an evaluation framework (see annex 5) has been developed that operationalizes, where possible, the issues raised in the TOR by defining components (for descriptive questions) and judgment criteria (for evaluative questions). The framework also provides an indication of the data collection tools to be used for each evaluation component.

The following tools/methods were used for collecting, structuring, processing and analysing data in the various phases of the evaluation:

- *Document review*: the team examined a significant number of relevant key documents produced by the P3SW key stakeholders: project proposals (including their assessment), annual and longer term plans, progress reports, monitoring reports, the MTR report, cooperation agreements, audit reports, etc.; an overview of the main documents consulted is presented in annex 3
- *Broader literature review*, which included the study of a limited number of documents such as relevant DGIS policy documents, studies and notes (primarily of other donors and research institutes) related to PPPs in the water sector, particularly with regard to the legal and institutional framework of the sector in Indonesia
- *Semi-structured and unstructured interviews*, with representatives of stakeholders in the Netherlands, Jakarta and the project areas; efforts have also been made to gain at least some understanding of the perception of the target communities of the program
- *Site visits*, in particular to assess the technical quality of infrastructure built or improved with project resources
- *Focus group discussions* dealt with a limited number of issues of major importance for the evaluation.

As is normal practice in such evaluations, in order to understand the projects, the relationships between partners and the impacts of the capacity building and financial investments, stakeholders from across the spectrum were consulted. Efforts were made to understand how perspectives of different stakeholders had been formed based on their actual and expected relationship to the project, their level of seniority, and their role in the projects. As would be expected, key stakeholders were found to have

differing perspectives on the project. This led the team to devote significant attention to the triangulation (cross checking) of information.

Evaluation phases

The table below presents the four evaluation phases and corresponding activities, results and products delivered by the consultants:

Table 1: Overview evaluation phases

Evaluation phase	Key activities	Results	Evaluation products
Preparation and inception phase (April - May)	<ul style="list-style-type: none"> • Finalise terms of reference • Identify and contract evaluation team • Calculate budget • Conduct initial interviews and study project documents • Draft inception report • Meet with key stakeholders to discuss inception report 	<ul style="list-style-type: none"> • TOR finalised • Budget finalised and approved • Evaluation team composed and consultants contracted • Evaluation scope, approach and work plan defined and agreed upon 	<ul style="list-style-type: none"> • Inception report • Evaluation framework
Desk phase (second half of May, early June)	<ul style="list-style-type: none"> • Collect and analyse key documents • Finalise evaluation framework • Finalise evaluation work plan • Produce desk phase report • Identify key resource persons for field phase 	<ul style="list-style-type: none"> • Key documents gathered and analysed • Evaluation methodology finalised • Desk phase report including key information drafted for internal use • List of resource persons to be contacted in each location defined (first draft) • Work plan for field visit further operationalized 	<ul style="list-style-type: none"> • Evaluation framework • Desk phase report • Work plan for field visit
Field phase (6-29 June)	<ul style="list-style-type: none"> • Conduct briefing at the level of Dutch Embassy and Indonesian key institutions • Collect data in Indonesia (Jakarta, project locations, other PPP locations), including sharing of preliminary findings and lessons • Conduct debriefing at the level of Dutch Embassy and Indonesian key institutions 	<ul style="list-style-type: none"> • Local stakeholders adequately informed about evaluation aims and approach • Team informed about local views and expectations • Data and information gathered for valid analysis and judgment, and for identification of lessons learned 	<ul style="list-style-type: none"> • Short presentation with preliminary findings
Synthesis phase (July - November)	<ul style="list-style-type: none"> • Collect additional information and cross checking (via visits to key stakeholders in the Netherlands) • Write first draft of evaluation report • Circulate first draft of evaluation report (25/8) 	<ul style="list-style-type: none"> • All information necessary to write draft report gathered • Preliminary findings, assessments, lessons learned and recommendations checked with key 	<ul style="list-style-type: none"> • Draft final report • Final report

Evaluation phase	Key activities	Results	Evaluation products
	<ul style="list-style-type: none"> • Discuss draft evaluation report with DGIS • Circulate second draft of evaluation report (12/11) • Discuss second draft of evaluation report with stakeholders • Integrate comments in final report 	stakeholders <ul style="list-style-type: none"> • Draft report written and made available • Comments inventoried and assessed • Final report drafted 	

Evaluation team

The evaluation team has been composed of five members with different but relevant backgrounds and profiles, allowing the various requirements of the TOR to be adequately addressed:

- *Dirk Van Esbroeck* has been the team leader for this evaluation. He has been responsible for the overall coordination and management. Together with Ken Caplan, he was in charge of the preparatory phase. He conducted the desk study and three weeks of fieldwork. He visited all but one of the locations included in the program. He is the main author of the synthesis report.
- *Ken Caplan* acted as senior member of the evaluation team. He was jointly responsible for the preparatory phase and conducted two weeks of fieldwork covering both project components. As a specialist in institutional aspects and partnerships in the water and sanitation sector, Ken had a special interest in the institutional aspects of the PPP arrangements. He was also co-author of the synthesis report.
- *Neil Macleod's* broad experience in the management of water utilities enabled him to address the technical and organisational aspects of the program. He participated for one week in the fieldwork, visiting two locations in the East Indonesia component of the project. He also made a limited contribution to the synthesis report.
- *Risyana Sukarma* is a sanitation and environmental engineer and acted as senior local consultant of the team. He contributed his broad contact base to identify knowledgeable resource persons and institutions, both in Jakarta and the field. He has also been involved in the practical preparation of the field visits and been part of the team during the fieldwork period (roughly two weeks); his fieldwork covered all but one location of the East Indonesia component of the program. He also reviewed and provided inputs to the synthesis report.
- *Agus Rumansara* is well acquainted with the development sector and policies in Papua and has been responsible for situating the project within the specific context of Papua (including its status as an area with special autonomy) and facilitating contacts with key institutions and individuals. His role in the evaluation has been limited to field visits to the three locations in Papua (Biak, Merauke, Sorong).

In addition to the five team members, a translator was used for two weeks of the field visit, and logistical support was mobilized for the Pekanbaru visit to book tickets and accommodation, and identify and contact resource persons and institutions in the field locations.

1.3.3 Challenges in view of the validity of evaluation findings

Each evaluation has to cope with certain challenges and develop an approach that ensures the validity of its findings. This evaluation also had to deal with a few particular challenges:

- Limited time was available for the site visits; on average, the team could only spend 2 – 2.5 working days per location. While these visits were well-prepared and local stakeholders extremely helpful and open, this remains a short period to address the often complex history and particularities of each location. In addition, the short time available has made it difficult to go beyond the programme setting and liaise with a broader range of stakeholders;
- The programme component in Pekanbaru stopped prematurely in 2009, which for obvious reasons constituted a challenge for the team in sequencing events during the project, pulling together supporting documentation and juxtaposing the current situation against what was happening at the time when the project ended;
- A major finding for the team is that in most places *'the spirit of the relationship was hardly one of partnership'*. This situation has influenced the evaluation as partners proved to have different perspectives and interests and thereby interpretations of events. Triangulating information in order to make a balanced assessment has been particularly challenging in Pekanbaru and Manado, where the visits of the team coincided with a period of substantial tensions between the local and external partners;⁶
- The assessment of efficiency and effectiveness proved to be a challenge to some extent in Pekanbaru as the programme had stopped there for more than two years at the moment of the visit of the evaluation team; on the other side, it facilitated the assessment of the sustainability of this programme component;
- The evaluation framework did not include well elaborated components to assess in detail Technical Assistance (TA) and the management and dynamics of the PPP setup, which can be explained by the fact that these programme dimensions were not explicitly addressed in the TOR. During implementation their high importance became however gradually apparent, so that they eventually got a major attention in this report without there being a clear underlying assessment framework. In retrospect, such a framework could have helped the evaluation of more systematically address these issues and, above all, to better elaborate lessons learned on the basis of process indicators related to the PPP dynamics.

1.4 Structure of the report

This report is divided into four main parts. The first part contains, in addition to this introductory chapter, a description of the P3SW context. Then follow two parts that

⁶ In Pekanbaru, the visit took place just after a decision of the local court in favor of WFH's partner; that has been brought to court after the premature ending of the cooperation agreement by the Pekanbaru Government. In Manado, the cooperation agreement of the city with WMD's local company and the huge debt resulting from this agreement were much debated in political circles at the moment of the team's visit. In addition, a shareholder meeting was upcoming and eventually held a few days after the team's visit.

describe both programmes and their key characteristics, and assess their respective efficiency, effectiveness and sustainability. The fourth part presents an overarching analysis and then identifies the lessons learned related to this programme from a public private partnership angle and presents some recommendations. Five annexes complete the report.

2 The P3SW context

2.1 The Indonesian setting

A comprehensive description of the Indonesian legal, policy and institutional framework with regard to water supply falls beyond the scope of this evaluation. This sub-chapter is therefore limited to the presentation of a selected number of key issues that are important in view of the aims and context of this evaluation.

The Government Regulation 16/2005 related to the development of drinking water systems and, subsequently, the Indonesian policy and strategy for the development of drinking water supply (Decree of the Ministry of Public Works, 20/2006) provide the main water supply related targets to be achieved in view of, among other goals, the Millennium Development Goals (MDGs). The following table presents the targets as formulated in these documents using 1990 as the baseline⁷:

Table 2: Overview of WS targets

	1990	2004	2009	2015
MDG target piped water combined (%)	14	21	32	48
- urban areas (%)	38	41	57	72
- rural areas (%)	6	8	13	30
MDG target non-piped protected water (%)	28	37	37	32
Non-piped non-protected (%)	56	41	32	20

The table above clearly illustrates both the magnitude of the task (e.g. the increase by 27% between 2004 and 2015 of the population with access to piped water represents more than 60 million people to be connected) and the relevance of P3SW as a programme supporting the efforts of the Indonesian Government to increase the provision of piped water, in urban areas in particular.

Five policy directions have been defined to reach these ambitious targets; it should be noted that they include efforts to increase the role of the private sector:

- An increase of the coverage and quality of drinking water in a consistent and phased way via the decrease of non-revenue water and with a priority focus on the poor; this aim is to be achieved (via PPPs among other avenues) through support to the local drinking water companies, the expansion of piped water systems and improved asset management;
- An optimization of the financing of the sector's investment needs in part by increasing the role of the private sector in the funding of drinking water facilities;

⁷ Data are taken from *Peraturan Menteri Pekerjaan Umum nomor 20/PRP/M/2006, Kebijakan dan strategi nasional pengembangan sistem penyediaan air minum* (Regulation of the Ministry of Public Works number 20/PRP/M/2006, National policy and strategy related to the development of drinking water supply systems). Other data of the Directorate of Water Supply, Directorate General Cipta Karya (DGCK) of the Ministry of Public Works are quite different for piped water for 2009 and 2015: MDG target piped water combined: 25.56% (2009; 43.96% in urban areas and 11.84% in rural areas) and 41.03% (2015; 68.32% in urban areas and 19.76% in rural areas).

- The development of an institutional and regulatory framework including the application of a good governance approach at the level of the water utilities;
- An increased availability of water resources for drinking water purposes;
- An increased role and partnership with the private sector (including an improvement in the investment climate).

In line with these policy directions, the Indonesian Government undertook various initiatives to modernize the legislation in the water sector and to accelerate infrastructure development in general. This has led to the facilitation and promotion of PPPs (e.g. through the 2010 Regulation of the Ministry of Public Works on Business Cooperation in water supply system development, which allows local water companies to act as private businesses and to enter into business-to-business cooperation agreements, apparently without needing to engage in public tender procedures). However, there remain many grey areas in the present legal framework and legal provisions with regard to PPPs in the water sector. These grey areas have given rise to different interpretations and often created some uncertainty, serving as a disincentive for interested private partners.

In addition to the regulations mentioned above, the following legal provisions are also important in the context of the P3SW program:

- *The law on regional autonomy (22/1999)* replaced later by the 32/2004 law, provided for far-reaching autonomy of districts and municipalities in a number of important areas, including the provision of drinking water. Whereas it is widely recognized that these laws have provided too much autonomy to local governments and some corrective measures have been undertaken in the meantime, the provision of drinking water (regulation, guidance, supervision) remains decentralized and is mostly taken up by local water companies (PDAM) that are primarily owned by and operate under the authority of the mayor or district head. Overall, the small scale of these PDAMs and the absence of national (or provincial) coordination and authority constitute major handicaps in view of the complexity of drinking water provision and the challenges ahead;
- *The law on water resources (7/2004)* aimed to promote a coherent, integrated approach for sustainable water resources management using a river basin approach as a guiding principle. The law deals with the definition of authority and responsibility in the water sector and also provides for participation of civil society and the business community. The law is to be seen as a global framework to be operationalized further in government regulations such as the above mentioned law on Drinking Water (16/2005). The drafting of these regulations became, however, the duty of sector-based directorates that worked somewhat in isolation, leading to overlaps and lack of coordination among the different regulations and hence to a partial loss of the integrated approach of the framework law.

Within the framework depicted above, the following key institutions can be identified:

- *At the national level:*
 - BAPPENAS, the national planning agency, performs a planning and oversight function but can also provide assistance to local government with the development and implementation of PPPs. The Agency also provides a

consultancy facility that, based on requests from local government, can assist them in developing PPPs. The Agency is also presently considering the establishment of a specialized PPP centre.

- The Directorate for Water Supply Development / Directorate General of Human Settlements (DGCK) under the Ministry of Public Works is establishing long, medium-term and annual development plans for water supply for the country and providing technical guidance to local governments by issuing norms, standards, guidelines and manuals on water supply. The Ministry, through its Directorate General of Water Resources and DGCK, plays an important role in covering the investment needs for the provision of water (resources) for potable water provision that has to be assured via the local governments/PDAM. For the period 2009-2014, IDR 7.4 trillion have been put aside for this purpose.⁸
 - BPPSPAM, the Water Supply System Development Supporting Agency, was established in 2005 to support the development of water supply systems via (among others) the provision of policy and strategic advice to the Government, the monitoring and evaluation of quality standards and the performance of water utilities and the proposal of corrective actions in these areas where necessary, and the provision of advice to the Government with regard to the involvement of cooperatives and the private sector in drinking water provision.
 - PERPAMSI, the Association of Indonesian Water Supply Companies (PDAMs), focuses primarily on developing the capacity of its 394 members that have more than 8.6M customers in total, representing national service coverage of 24%.
- *At the local level:*
 - The local city/district governments are run by elected mayors or district heads with a municipal council or district parliament. Local governments are the owners of the assets and play a key role in the area of water supply, which is part of their jurisdiction. In most areas, local governments own the local water companies and often play an important role in the management and key decision-making within these companies (e.g., among other areas, by appointing their directors, deciding on the tariff levels, supporting investment and determining how to use the revenue of the companies including for purposes not related to water supply). Local elections held every four years often bring new individuals and parties to power, which in many cases also leads to changes in the PDAM direction and local policies. Political interference is broadly considered as one of the major factors leading to underperformance of the PDAM.
 - Municipal councils and district parliaments have the key responsibility of ensuring satisfactory quality of water supplies. However, as explained below, water supply in many cases is not high on the agenda.
 - The PDAM (local water companies) are in charge of the provision of piped water. Most PDAM are small: only 8% have more than 50,000 customers and 79% have less than 20,000 customers. In the past, many PDAM were badly performing; many have accumulated huge debts over decades. While the

⁸ Indonesia's investment needs to cover the water-related MDGs are estimated at IDR 63 Trillion, of which presently only 31 Trillion is covered via the national budget (information provided by BPPSPAM).

performance of the PDAMs has slowly improved over the last few years, 2011 data of BPPSPAM (covering 335 PDAMs) indicate that only 41% can be considered healthy, whereas 38% are less healthy and 21% are in a critical condition.⁹ An important debt restructuring programme has been set up to rescue PDAMs in difficulties provided they meet certain criteria. By 2011, 68 PDAMs in difficulties had already received support via the Ministry of Finance.¹⁰

In the overview above, customers have purposely been omitted. In present day Indonesia, the customers, who are the ultimate target of the water utilities, hardly play a role as stakeholders in their own right. This situation differs substantially from that in many other developing countries in which customers make demands on the system. Several factors seem important to note: (1) the relative abundance of water and thereby the relatively easy and cheap access to it in most parts of the Indonesian archipelago, and (2) the lack of society-wide collective action and claim making in cases where public water supply systems (or indeed other services as well) are failing.

Although many initiatives have been undertaken to promote PPPs in Indonesia and in the water sector in particular, so far there are still relatively few PPP examples in the water sector, with few cited as success stories. The 2011 BPPSPAM report mentions 4 cases of public private partnerships, of which only one had reached the implementation stage, and 11 cities or districts where business-to-business arrangements are being prepared. Major constraints for increased private sector involvement include the limited levels of understanding, competence, experience and acquaintance with PPPs at both the local and to some degree the national levels. National-level support to local governments for the development and implementation of PPPs seems to lack sufficient capacity to reach out to the local level, particularly those in most need of support.

Furthermore, public support for PPPs in the water sector is far from unanimous, as PPPs are often considered too complicated and risky in comparison to more traditional funding mechanisms (e.g. support from the national budget and/or development aid) with which most key actors, including at the local level, are more acquainted. More generally, the public at large often has a negative view of cooperation of public authorities (including state owned companies) with the private sector, which easily sparks suspicion of corruption and collusion of interests.

2.2 Programme setting in the Netherlands

The origins and institutional setting of the P3SW programme have already been analysed extensively in the MTR. This analysis will not be repeated nor further developed here. The evaluation is instead limited to presenting the key characteristics of the programme setting and putting forward a few elements which in retrospect prove to have influenced programme performance and might be important to take into account in view of future PPP promotion.

⁹ BPPSPAM's evaluation of each PDAM is based on 18 indicators grouped under 4 headings: financial condition, services, operational aspects and human resources. The figures for 2004 were: 12% healthy PDAM, 23% PDAM in a less healthy and 65% in a critical condition.

¹⁰ Most of the data pertaining to PDAM conditions are taken from the BPPSPAM annual report.

The initiative to establish the P3SW was taken in 2002 resulting from the desire of the Minister in charge of development cooperation to promote PPPs in the water sector. The Minister's initiative was strongly supported by 'Partners for Water', an institution under the Ministry of Transport and Water Management that was in charge of the management of many international water projects and promoted the involvement of Dutch water companies in international drinking water supply projects.

Despite this strongly supply-driven and favourable policy environment, it took a considerable length of time – till 2005 – before the programme could formally start. The pilot nature of the programme is certainly a major explanation for this difficult start-up. Firstly, it took time to define an adequate format for the PPP cooperation (between the Dutch Government and the Dutch water supply companies). Secondly, the two Dutch water companies that had been selected needed considerable time and resources to adequately prepare their respective partnerships with their Indonesian counterparts. This can at least be partially explained by the complex institutional and political environment in Indonesia, which underwent important changes (revision of the water legislation, promotion of PPPs via new legislation, ...) in the period of programme preparation. In the case of WMD, the time it took to familiarise itself with the specific situation in Papua certainly played a role. WFH from its side was selected by P3SW for a BOT project in Bogor. Contract negotiations with Bogor, however, took a long time and finally failed. By the end of 2004 it was agreed by PFW to replace the PPP in Bogor with the PPP in Pekanbaru.

The Dutch institutional setting for P3SW that resulted from the rather prolonged preparation process can be characterised as follows:

- *DGIS* acted as the funder of the P3SW programme on the basis of the P3SW Activity Appraisal Document; while recognising the pilot nature of P3SW, it was expected that the programme would contribute to the Minister's target to provide 50 million people with access to safe water supply before 2015. *DGIS* also sought to learn lessons from this particular PPP experience.
- *RWS (Rijkswaterstaat)*, an implementing agency of the Ministry of Transport and Water Management (V&W), was in charge of the implementation of P3SW through its executive arm 'Partners for Water'. A major reason for the involvement of *RWS* was that it provided a legal and regulatory framework for public-private cooperation for the selection of executing private partners, whereas *DGIS* could only select private partners via a public tender.
- *An agreement* between the Director of DMW (Department Environment and Water of *DGIS*) on behalf of the Ministry of Foreign Affairs and the Ministry of Transport and Water Management defined the modalities of cooperation between both Ministries.
- *Two Dutch water companies*, namely WFH, a consortium of five Dutch water companies, and WMD were selected to each implement one pilot project in Indonesia. These companies are publicly owned but operate along business principles and are entitled to operate as private companies abroad within the limits of Dutch legislation and under particular conditions of their Boards of Commissioners.

- V&W/RWS as programme managers drafted separate *subsidy dispositions* (not contracts) with the two private parties (WFH and WMD) that were in charge of actual programme implementation in the field. These subsidy dispositions remained rather global and qualitative, and hence, could not really be used as a yardstick for monitoring and eventual accountability. They also failed to define, among other things, the funds to be provided by the private parties, the actual use of the grant (i.e. for investments, technical assistance, etc.) and the procedure and ownership of investments recovered during or after project implementation. As such, the planned establishment of a revolving fund in both pilots did not become part of the contractual arrangements.
- As programme implementing agency, V&W/RWS was also responsible for the *monitoring of programme implementation*, which was mainly assured via regular field visits and bi-annual (later annual) progress reporting.
- *The Dutch Embassy* in Jakarta (RNE) was somewhat involved in the preparatory stages of the P3SW and received regular visits and progress reports from project partners. As the projects progressed and in particular after the MTR, the Embassy became more involved primarily to ensure that Dutch-Indonesian bilateral cooperation relations remained constructive.

2.3 Actual functioning of global programme setup during programme implementation

*The previous sub-chapters described the complicated institutional setup of the programme and the multitude of actors involved. In practice and for obvious reasons, the thrust of programme implementation has however always been situated at the level of the cooperation between the Dutch water companies and their local partners, the PDAM and/or local government. The way this cooperation was shaped and developed over time will be discussed and analysed in the following chapters. The focus here will be on the role and interaction among the **other** Dutch and Indonesian institutions in programme implementation, in particular in view of the pilot nature of the programme and its learning ambitions.*

The Dutch water companies and local government institutions have been the main actors of the P3SW programme throughout its various stages, whereas the involvement of other Dutch and Indonesian institutions, including parties that formally were co-responsible for the programme, and their interaction with other stakeholders has remained minimal. Considering the pilot nature of the programme and the clearly articulated determination to learn from this experience, the evaluators were expecting that the opposite would have occurred. Various factors have played a role in this regard:

- The complex institutional setup in the Netherlands was prompted by the desire to minimise legal and procedural constraints. While this was understandable in itself, key institutions involved failed to deal adequately with the consequences of this complex setting and to define adequate mechanisms to ensure mutual exchange, strategic steering and reflection. The water companies from their side focused mainly on the development of their partnerships at the local level. The highly challenging nature of the coordination and monitoring of the pilot programme was insufficiently understood and addressed, and mechanisms to, for

instance, settle disputes between the supervising and implementing agencies were lacking. In view of the considerable risks and challenges of this pilot programme and its institutional complexity, elaborated programme management mechanisms should have been worked out from the very start. Ideally, these should have included the setup of a mixed (with Dutch and Indonesian representatives) programme monitoring structure that could have closely followed project implementation and insisted on corrective action when necessary.

- On the Indonesian side and notwithstanding the consultations with Jakarta-based institutions during programme preparation and implementation, the involvement of key Indonesian institutions (BAPPENAS, Ministry of Public Works, BPPSPAM) has remained limited. While local and in particular Dutch partners established some contacts with these institutions and in some cases shared progress reports with them, no structural linkages and mechanisms (of regular consultation, exchange or even decision making) were established. The fact that water supply is a decentralised competence and that, particularly in East Indonesia, local governments are often reluctant to involve 'Jakarta' has also certainly played a role in this regard.
- The nature of the contractual relationship between RWS/V&W and the Dutch companies (a subsidy disposition based on project proposals lacking binding targets. made it very difficult for RWS/V&W (and by extension DGIS and the RNE) to influence the course of programme implementation. The fact that the agreements failed to take into account prevailing Indonesian requirements related to PPP projects (such as the use of specific documents including regularly updated business plans, annual plans and reports) implied that neither Indonesian nor Dutch partners had a basis to dialogue with the implementing partners on programme progress.
- Partially as a consequence of the previous points, the Embassy's role has remained limited during the crucial preparation and starting periods of the programme. While the Dutch water companies reported regularly to the Embassy, this seems to have been less the case with the RWS/V&W monitor. Only from 2008 onwards and in particular after the MTR has the Embassy become more involved in programme follow up.

The combined effect of these factors has impacted on project performance as it has implied among other things that:

- Early in the process important miscalculations have been made (e.g. lack of consideration for the pilot nature of the program and its particular challenges, over-ambitious planning, underestimation of technical, cultural and political constraints at the local level, ...) that have impacted implementation considerably but could have been avoided;
- Valuable technical and programme management expertise from associated institutions both in the Netherlands (DGIS), and Indonesia (in particular BPPSPAM,) was not used;

- Global experience acquired with PPPs in the years prior to P3SW (and largely available at the level of knowledge institutions, including in the Netherlands) was not or insufficiently used during preparation and implementation of the program;
- No joint and systematic learning efforts were undertaken. This did not however imply that the implementing partners did not learn from their experiences. They clearly did so, but rather in isolation; higher levels of interaction with other institutions involved would certainly have enhanced and speeded up the learning process.

II. ANALYSIS OF THE PEKANBARU COMPONENT

3. Background

3.1 Inception

The initiative for this programme was taken by WFH¹¹, an association of five Dutch water companies that was incorporated in January 2001 and invests in the rehabilitation, extension and operations of the infrastructure of Indonesian water utilities. It represents a more institutionalized and business-like follow-up of twinning relations that were developed between Dutch and Indonesian water utilities in the eighties.

WFH initially intended to implement a PPP with the city of Bogor (West Java), but after a last-minute decision from the Bogor authorities not to pursue the partnership, WFH was confronted with the challenge of rapidly finding an alternative. It was decided to opt for cooperation with the city of Pekanbaru, which offered an interesting opportunity to develop a PPP. Indeed a few years before, Pekanbaru had concluded a joint operation agreement with KTDP, a local company directed by the previous Managing Director during 8 years of PDAM Tirtanadi (one of the best performing utilities in Indonesia) and also President for 8 years of PERPAMSI. KTDP could not, however, secure the funding needed to honour its contractual commitments. As such, it was in dire need of a strong financial partner such as WFH with whom it could join forces. WFH felt sufficiently confident to enter into an agreement with KTDP in view of the good reputation and track record of its Director and the fact that it had gained similar and positive experience in North Sumatra, among other locations, via a REOT (Rehabilitate, Extend, Operate, Transfer) contract since 2002 with PDAM Tirtanadi in Medan. In January 2005, representatives for the P3SW and from the Dutch Embassy conducted a mission to assess conditions in Pekanbaru.

3.2 Key characteristics

3.2.1 Institutional setup

The Pekanbaru component had a rather complicated institutional setup, as it had to be grafted onto an existing PPP between the city and KTDP. Considered from the local side, the key institutions were the Municipality of Pekanbaru and its PDAM Tirta Siak, which was in charge of the water supply to the city. At the start of the cooperation, the company had two water treatment plants (WTP) of which one was only operating at half of its capacity. The company supplied water to about 20,000 domestic and commercial connections via a network of about 300 km. Prior to the cooperation with KTDP, the city (and its PDAM) had engaged in other cooperation attempts but never succeeded in increasing the quality and coverage of water supply to a level compatible with the scale

¹¹ The P3SW subsidy dispositions (€1M via the Ministry of Foreign Affairs; €4.1M via the Ministry of Transport and Water Management) have been provided to the Water Fund Holland foundation, which consequently signed a service agreement in November 2005 with Water Fund Indonesia to implement the program. For reasons of convenience the WFH denomination is used throughout this report.

and ambitions of the city, which is one of the major economic growth centres of Indonesia. Interviewees suggested that the PDAM had a core of staff who for decades strongly opposed any changes, presumably so as to safeguard their individual interests.¹²

KTDP is an Indonesian company that was incorporated in 1998 with PERPAMSI and the Pension Fund of Indonesian Water Companies as its initial shareholders; ownership subsequently shifted to private hands. In 2003 the company entered into a Joint Operation Agreement (JOA) with Pekanbaru City acquiring the concession to supply water to the city. This JOA, established for a 14-year period, included among other things the obligation for KTDP to upgrade the City's WTP capacity up to 600 l/s and the installation of 20,000 new connections. It allowed for a mixed management setup with the City appointing the PDAM Managing Director and KTDP the technical and financial directors.

For the implementation of the P3SW program, KTDP and WFH set up a joint venture company in 2005, PT Tirta Riau, with WFH as majority shareholder (51%).

The City of Pekanbaru welcomed the partnership between KTDP and WFH but insisted that this should not alter the terms of the initial JOA between itself and KTDP. Although during the evaluation team's visit to Pekanbaru, local authorities complained that WFH never had entered into a direct agreement with the City, the setup of this (or a tripartite KTDP – WFH – City) agreement was not considered when WFH entered the scene, despite the request by WFH, among other reasons because this would require a renewed approval by the local parliament. WFH's position on the City – KTDP JOA was however defined in an amendment to that agreement, which reviewed some of KTDP's initial obligations in accordance with the provisions of the subsidy disposition between WFH and RWS/V&W, i.e. the actual outputs of WFH's proposal (see next section).

In line with the agreement above, PT MTI, a local subsidiary of WFH specialized in new connections, agreed a contract with KTDP for the implementation of 50,000 household connections, 400 km of reticulation systems and the replacement of 20,000 water meters.

From 2006 onwards NV PWN, the water supply company of North Holland Province and a 30% shareholder in WFH, reinforced the PPP in Pekanbaru with funding and Technical Assistance, notably in the field of reducing NRW, public relations and communications, and capacity building in other fields of PDAM operations. PWN availed of a vast body of hands-on experience in working with PDAMs through twinning arrangements since the mid eighties.

3.2.2 Key aims and outputs

The key aim of the PPP as stated in the proposal was *'to provide wholesome and affordable piped water to the citizens in the supply area of the PDAM, as to improve public health and support economic progress and consequently contribute to sustainable*

¹² It is not clear to which extent KTDP and WFH were aware of the rather bad track record of the Pekanbaru PDAM. WFH's project proposal does not identify it as a risk factor.

development and the alleviation of poverty'. To achieve this objective, the main aims were:

- The reduction of non-revenue water (NRW) from 47% to 27%
- The improvement of the performance of PDAM staff through training
- The rehabilitation and extension of the Tampan and Rumbai WTPs from 400 to 900 l/s
- Investments in infrastructure to increase the capacity of transport lines from the WTPs to the town and for the rehabilitation of water towers
- The implementation of 50,000 new household connections and 400 km of reticulation pipes, allowing an extra 250,000 people to receive clean water from the piped network
- The replacement of 20,000 water meters.

The proposal stated that upon completion of these results the PPP would be considered sustainable.

3.2.3 Activities planned and budget

The activities planned were quite straightforward and conceived to achieve the outputs mentioned above. Tirta Riau planned to take over management of production staff from the PDAM and much attention was paid to adequate training to the staff. This training would consist of a mix of classroom teaching and on-the-job training for managerial and operational staff. The training was to be provided via technical experts from Dutch water companies and via Yayasan Tirta Dharma, the training school of PERPAMSI. In addition, regular job performance assessments were planned so as to change the mindset of the operational staff. Once the PPP was completed, it was expected that the PDAM would be comprised of staff that were capable, motivated, well trained and experienced to manage and operate the infrastructure.

The initial budget as included in the proposal amounted to €9.5M, composed of a DGIS subsidy (€5.1M), a KTDP contribution of €1.7M and a contribution from WFH and its subsidiary MTI of €2.7M. The MTR mentions slightly different figures: an €8.9M budget (DGIS: €5.1M; WFH+KTDP €3.8M) to which later a €1.4M loan from PWN (a water company that is a member of WFH) to KTDP had to be added. The 'own' MTI contribution included the customers' payment for new connections.

The approach of this component also included a mechanism to recover the capital expenditure. The grant provided by DGIS (€5.1M) was to be governed by the WFH Foundation, which signed a service agreement with WFI BV (a company), which in turn would loan the funds to Tirta Riau (€4.6M) and MTI (€0.6M) to cover investments respectively in treatment, transport and TA, in household connections and the reticulation system. (In reality, a smaller amount of funds were loaned to Tirta Riau and MTI, while also KTDP received loans.) Tirta Riau was however not required to repay the loan as long as it could not recover the costs of its investments through the sale of water. The agreements further stipulated that if the funds were paid back to WFI BV, the latter

would use these to service its loan to the WFH Foundation. The WFH Foundation would then reinvest the funds in the water sector in Indonesia.¹³

¹³ Article 4.1 of the statutes it follows that one seat of the Board of WFH Foundation is reserved for an "outsider." DGIS and PFW were both invited to take up this position, but did not or perhaps could not do so.

4. Assessment of efficiency and effectiveness

4.1 Programme inputs and activities

4.1.1 Overview of actual spending and correspondence with initial planning

The table below provides a comparison, in terms of funding sources, between the initial budget (including the PWN loan provided to KTDP) and the actual expenditure for this programme component¹⁴:

Table 3: Comparison between budget and actual expenditure (according to source of funding, Pekanbaru)

Source of funding	Initial budget	Actual contribution/use	Difference
DGIS	5,091,304 €	3,222,461 €	1,868,843 €
KTDP	1,739,130 €	-	1,739,130 €
WFH/MTI	2,704,348 €	418,216 €	2,286,132 €
PWN	1,400,000 €	1,340,350 €	59,650 €
Total	10,934,782 €	4,981,027 €	5,953,755 €

The table above clearly illustrates the huge variation between the initial budget and the actual contribution/use of the funds. Only 63% of the DGIS budget has been used, KTDP's contribution could not be mobilized at all (because of its financial difficulties¹⁵), while the contribution of WFH/MTI has remained substantially below the initial budget. The PWN loan to support KTDP has however been provided to a major extent.

A comparison of the planned and actual use with regard to the nature of the expenses provides the following picture:

Table 4: Comparison between budget and actual expenditure (according to nature of expenses, Pekanbaru)

Nature of expenses	Initial budget	Actual contribution/use	Difference
Rehabilitation/extension WTP	2,434,783 €	2,918,453 €	6,181,546 €
Rehabilitation/extension transport & distribution	6,665,216 €		
KTDP loan for debt restructuring	1,400,000 €	1,193,912 € (°)	206,088 €
TA/Indonesian delegations	434,783 €	836,934 €	-402,151 €
Audit costs	-	31,728 €	-31,728 €
Total	10,934,782 €	4,981,027 €	5,953,755 €

(°) up to 2008; data from MTR.

¹⁴ Sources: Initial project proposal (Public Private Partnership (PPP) Plan for Water Infrastructure Development in PDAM Tirta Siak, Pekanbaru City, Riau, Province, Indonesia) and the final report of November 2010.

¹⁵ KTDP concluded the JOA with Pemko in 2003, while the PPP with WFH was put in place in 2005, and PWN joined in 2006. In the period 2003-2006 KTDP has invested some €2.1 million (IDR 25 billion) in rehabilitation of the Pekanbaru water supply system, as confirmed by a BPKP audit performed in 2010. KTDP had financed these investments with various small loans from Indonesian parties. Since the project in Pekanbaru did not generate profit, KTDP has turned to WFH/PWN for debt rescheduling, which happened to an amount of approx. €1.2 million.

As will be discussed in more detail below, also in terms of the actual nature of the expenses, there are major differences between the initially planned and actual use of the funds. Spending for hardware has remained substantially below the initial provisions (only 32% spent), whereas expenses of TA have been substantially higher.

4.1.2 Actual programme implementation

The programme of work saw a quick start with various studies and operation and maintenance related activities for the water production units (2005-2006). Through a substantial investment programme early in 2006, the capacity of the WTP Tampan had been restored from 300 l/s to 550 l/s. (However, insufficient attention was paid to O&M of the plant by PDAM and thereby the condition of the WTP rapidly deteriorated again.)

As a result of this earlier work, the programme then underwent important changes compared to the initial plans. Indeed, in view of KTDP's increasing financial problems, the original setup and targets (implementation of a REOT type agreement related to the treatment plants and the implementation of household connections and public taps) had to be reviewed to keep KTDP afloat and, hence, ensure the continuity of the program. Part of the P3SW budget (€1M) was therefore used for restructuring KTDP's debt under specific conditions (agreed upon by RWS); in addition one of WFH's members (PWN) provided an additional contribution of €1.4M out of its own funds that have for the most part been used for investments in the NRW program.

A major factor impeding implementation of the original setup was the resistance to change by the PDAM, in particular by not granting Tirta Riau the right to become de facto the operator of the plant that would then sell water to KTDP/PDAM. Stagnation of the programme was further deepened by the difficulties of approaching PDAM and involving it in the change process, and having the managing director, who was opposed to the PPP, removed. Each progress report between 2005 and 2009 describes a number of activities that relate to the restructuring of KTDP, investments in infrastructure and attempts to improve the performance of the PDAM (i.e. via staff layoffs and various capacity building activities).

Overall, programme implementation was - understandably - determined by the complex dynamics of the JOA between KTDP and the Pekanbaru Government, including its PDAM. While WFH would have preferred a setup with a clearly delineated responsibility for specific components of the water supply chain, the comprehensive nature of the KTDP - PDAM PPP implied that the competence and responsibilities of the entire chain were entirely attributable to both partners. Pemko consistently refused proposals of KTDP/WFH/PWN to change the JOA to the extent that KTDP would appoint the entire management of the PDAM, including the managing director. Consequently Pemko was able to keep a non co-operative PDAM director in place, and allowed a situation whereby the PDAM was without a managing director for a substantial period of time.

A major concern from the very start was to create a supportive environment to ensure the adequate embedding and sustainability of infrastructural and managerial improvements. The progress and monitoring reports describe many important efforts

to introduce the required changes in terms of improved governance and co-management, but also the strong resistance (and even intimidation of change-minded senior staff brought in by KTDP) of PDAM staff to give up the prerogatives that they had tacitly acquired over time. During the evaluation's visit to Pekanbaru, several representatives from the local government and the PDAM stated that WFH, PWN and KTDP have operated in isolation from PDAM and the City government, and did not associate the latter with key decision-making processes. The team found evidence elsewhere however, that this seems not to have been the case and that planning and review were conducted in an inclusive way. It might however have been that local staff lacked the necessary levels of competence and did not feel sufficiently empowered to engage in discussions with the external partners on an equal footing. PDAM had obvious reasons to maintain the status quo.

Furthermore, the procurement of goods and services in the project (for consultancies, supplies and contracting) followed the prevailing rules (competitive bidding), which prohibited the PDAM from effectively 'controlling' the process. KTDP and WFH refused, for understandable reasons, to entrust the entire management and implementation to the PDAM as the latter would have desired. On the other hand, the fact that the PDAM was the key operator of the water supply system would have made it logical to situate key procedures and competence *within* their administrative system. Tenders of Tirta Riau, KTDP and MTI were supervised by a team consisting of representatives from these companies, Pemko and PDAM. Pemko and PDAM were thus involved, and tenders were based on their procedures and administrative requirements.

WFH/PWN and KTDP undertook various attempts to sort out the fundamental differences on how to manage the partnership, as illustrated by the high numbers of field visits (eight missions in 2009 alone!). As WFH/PWN delivered their inputs via KTDP and the latter was not always performing optimally and faced internal difficulties, they had little grip however on the desired change process. WFH and PWN have had sufficient opportunity to meet directly with Pemko and PDAM management. Almost every field visit was concluded by a joint meeting of KTDP, WFH, PWN, Pemko and PDAM. The stalemate led to a substantial reduction in the investment plans in 2009, which inevitably affected service delivery performance. Even after investments (in e.g. installed production capacity and replacement of pipes) turnover hardly changed. This fact is mentioned several times in the progress reports. However, in early 2009, a far-reaching rescue plan, endorsed by all key partners, initially seemed to provide a lasting solution.

From mid-2009 onwards the relationship between the partners deteriorated substantially. (One reason is that Pemko/PDAM in the end did not agree with making Tirta Riau responsible for O&M of the treatment plants.) The municipality then sent out warning letters to KTDP that it was not meeting the agreed targets and that, hence, it intended to terminate the cooperation. Despite several mediation efforts, among others by BPPSPAM, the Pekanbaru Government eventually decided to discontinue the cooperation. By that time KTDP and its foreign partners agreed with this decision, as all their efforts to bring the partnership on track again had proven fruitless. The final proposal to transfer the JOA to a BOT for water supply production, an option supported by BPPSPAM, was not accepted by Pemko. This was a missed opportunity for PDAM to avail of adequate water in terms of quality and quantity (through Tirta Riau), which

would have allowed PDAM to focus its attention and resources on improving distribution, billing and revenue collection.

As the JOA contained a clause requiring the repayment of investments from the local partner to KTDP in the case of early termination, a procedure was initiated to audit the investments made in the framework of the PPP. The audit was conducted by BPKP¹⁶, but proved to be a cumbersome process because KTDP's financial and administrative records had been inadequately kept and the audit required additional support from WFH. As BPKP did not accept some of the cost items submitted by KTDP, the latter's initial claim of IDR 68 billion was reduced to 57.5 billion.

The actual termination of the agreement was postponed several times because of disagreement on the final sum that the City government was supposed to reimburse. In view of the big differences of opinion, BPPSPAM was then called in by KTDP and Pemko to act as mediator. The results of its investigations indicated that, depending on the scenario applied, the City's debt would vary between IDR 10 billion and IDR 39 billion. BPPSPAM's efforts did not bring the parties closer to an agreement. BPPSPAM recommended both partners to continue discussions. Despite various efforts undertaken by KTDP, Pemko failed to do so. Finally, KTDP decided to bring the case to BANI, the Arbitration Court (*Badan Arbitrase Nasional Indonesia*) that decided in favour of KTDP as did, subsequently, the Pekanbaru court in May 2012. At the time of the evaluation's visit, the City government had not yet decided whether it would appeal or not.

4.1.3 Appropriateness and quality of Technical Assistance (TA) inputs

TA inputs had to be delivered in the context of a local PDAM that had been broadly kept intact under the prevailing PPP between KTDP and the local government. Ample experience has proven that such TA inputs can only bring optimal results in a good enabling environment (support from management and owners) and with local staff that are qualified to take on, or at least open and supportive to, change, which was certainly not the case.

While the initial programme documents do not mention the PDAM's poor track record, KTDP and its Dutch partners seem to have quickly become aware of the long period of the PDAM's mismanagement of public funds and the need to address this constraint initially by replacing the PDAM General Manager (which took 2 years). TA inputs were therefore of a varied nature, including a focus on the badly needed institutional changes. In other words, TA was an intrinsic part of several 'building blocks' of the programme pertaining to the WTP, the distribution system and household connections, staff capacity building and organizational change. TA inputs also included the hiring in of expertise from a successful PDAM in Medan (North Sumatra); initially this move was promising, but later on it was discontinued by the local PDAM. Overall, far more than the planned TA was mobilized, which can be explained by, among other things, the serious institutional difficulties that required a high level of involvement of senior WFH/PWN staff.

¹⁶ *Badan Pengawasan Keuangan dan Pembangunan*, the Financial and Development Supervision Authority, is a state body that exists at the level of every province in Indonesia

As discussed below, none of the PPP 'building blocks' has well withstood the institutional crisis and subsequent premature termination of the cooperation. On the one hand, one can state that attempts to engage in a deep change management process (addressing both the environment and the vision/values/attitude/practices of PDAM staff) have remained all-in-all rather limited. On the other hand, the conditions within the PDAM and local political environment might simply not have allowed for the necessary changes to take place, regardless of the quality of the TA inputs and approach. This leads to the conclusion that the major weakness in the approach of the Dutch partners is situated in the lack of a thorough initial analysis which would have flagged up more of the history of the PDAM, details of its debt situation and previous failed PPP arrangements. This might have forewarned against engaging in a cooperation agreement with the City government.

4.1.4 Appropriateness and quality of investments

Despite some conflicting information provided by various stakeholders, the evaluation team can confirm that key decisions related to investments have as a rule been the result of a joint decision making process by the programme's key partners along clearly established procedures. The same can be stated with regard to the decision, taken by the Dutch partners, to come to the rescue of KTDP, as its survival was key to the continuity of the programme.

The MTR (p. 67) stated that in terms of hardware, a policy was followed of basic upgrading and repairs of existing infrastructure without introduction of sophisticated and/or costly new systems and features. However, the team could not however come to a conclusion on the quality of the investments *at the moment of the termination of the cooperation*.¹⁷

4.2 Achievement of programme aims and outputs

4.2.1 Achievement of programme aims

The initial target of the programme was to ensure access to drinking water for an additional 250,000 people via 50,000 new connections and another 30,000 people via public taps (part of a specific pro-poor policy) and to globally achieve a reliable and dependable water supply.

Technical progress reports (2009) stated that water provision in Pekanbaru was in poor condition and even constituted a threat to public health, among other reasons because of the acidity of the water distributed (pH 4.5) due to the lack of use of chemicals. The water acidity also poses a serious threat of corrosion of the distribution systems and for equipment/systems relying on the use of the piped water. The final report of this programme component (November 2010) stated similarly that important investments

¹⁷ As will be explained later, most of the improvements realised during project implementation could not be maintained after the project period. WFH and KTDP can however not be held responsible for this. PDAM staff also pointed to insufficient quality of some technical interventions, but this claim could not be checked thoroughly.

(also via the local company MTI that realized household connections) of about €5.5M in hardware and TA have not led to better performance of the PDAM, nor to a significant increase of the number of household connections in the city.

4.2.2 Achievement of programme outputs

The table below provides some data with regard to key targets of the project:

Table 5: Comparison of targets and actual achievements (Pekanbaru component)

	Target	Achievements (°)
Additional population served	250,000	Data unavailable
New connections installed	50,000	-1,109 (*)
New water meters	20,000	4,808
Investments (€M)	7	5,5
Actual WTP production (l/s)	900	380
Pro poor public taps	300	Data unavailable
NRW (%)	27	57

(°) Latest data found (often pertaining to the situation by the end of 2008).

(*) The decrease in new connections is to be explained by a cleaning up of the customers' records. In 2008 213 new connections have been implemented; from the project start until 2009 in total about 1,000 new connections would have been established.

Other results achieved include:

- The long promised scheduled water tariff increase was eventually endorsed by the mayor in March 2009; this 50% tariff increase did not however produce any impact on the financial results, as the PDAM claimed that the income increase had been matched by a similar increase in expenses for maintenance and management (there was a strong doubt that this could be true as site inspections revealed bad maintenance, very limited use of chemicals, etc.);
- The efforts to improve the PDAM's management capacities via twinning with Tirtanadi (a successful water utility of Medan) produced initially good results, but later became less effective because of resistance in Pekanbaru (that interviewees attributed to cultural sensitivities of introducing Batak initiatives from Medan in non-Batak Pekanbaru);
- Progress reports state that the revenues roughly covered the utility's operation and maintenance costs. The yearly profits/losses in the period from fiscal year 2005 - 2006 until fiscal year 2009 - 2010 amounted respectively to (figures in IDR billion) -10.071, + 4.707, - 5.251, - 18.292, - 9.483. By the end of fiscal year 2010, the cumulative losses of the PDAM, which had started to operate as an entity under the City government in 1997, amounted to IDR 87.149 billion.

4.3 Conclusion on programme efficiency and effectiveness

The results above clearly indicate that the programme has not reached its targets, while spending has been considerable. As such, there is a clear imbalance between actual

achievements and the resources used. Local partners seem – at least in private – ready to take part of the blame for the failure of the project.

In retrospect, the lack of local embedding and true ‘acceptance’ of the project seems the major explanation for the disappointing results of the project. This lack of acceptance implied that the city government was unwilling to adequately assume its responsibilities under the JOA and undertake necessary actions such as putting in place a competent and open Managing Director. As a consequence, considerable attempts to come to the rescue of KTDP and the many efforts (investments, capacity building) eventually produced little effect. This has meant that good quality (soft and hard) interventions eventually lost their value and relevance. With the benefit of hindsight, one might question whether it would not have been more appropriate to create a more solid basis for such important investments before actually engaging in such an important project.

On the other hand, as WFH pointed out, their decision to go ahead was taken on ‘hard’ positive indications related to, among others, the positive political environment in the Netherlands, the substantial local market potential, the presence of a reliable local partner, etc. A staged approach, starting with low profile measures allowing to get better acquainted with the environment, would however have more adequate.

5. Sustainability of programme benefits

The previous chapters have indicated that the programme failed to a major degree to achieve its envisaged aims and outputs. As such, it makes little sense to assess the sustainability of *the benefits* achieved. During the visit of the evaluation team to Pekanbaru, some data was however provided with regard to the present situation (i.e. about 2.5 years after the actual end of the cooperation) with regard to the city's drinking water supply system. This data is interesting to analyse as it provides an idea of the City's capacity to deal with the situation in the post-programme period.

5.1 Sustainability of water supply

During the project period, actual city coverage by the PDAM was already limited. The PDAM's service area only covered about one third of the city's population (in 5 of the 12 sub-districts of the city) and only an estimated 10-15% of the population were connected to the piped water system. By February 2012, the number of connections had decreased to 13,869 from 18,815 connections in 2008 and 19,924 connections in 2005. The problem of the water acidity had not yet been addressed at the time of the visit by the evaluation team and continued to threaten human health, the distribution system and equipment. Other important data include: the percentage of NRW has increased to 63.7% (57% in 2008) and an estimated 50% of the pumping system had become inoperative.

Discussion with stakeholders that were not related to the PDAM confirmed the decrease of the services of the PDAM. Large sections of the city population have actually stopped relying on the PDAM's services and have looked for other, often more costly solutions.

5.2 Sustainability of technical outputs

Short site visits during the evaluation field phase revealed that many of the improvements achieved during the programme implementation period could not be sustained because of failing operation and maintenance. For example, by early 2006 Tirta Riau had restored production capacity but the condition of the water treatment plant in Tampan deteriorated quickly because of inadequate operation and maintenance by the PDAM. Local technicians also claimed that the lack of a phased and integrated approach during project implementation implied that many improvements achieved remained isolated and, hence, could not produce the intended effect and often were ill maintained for that reason. In this regard, the decision to increase the connections and to change water meters was questioned by PDAM staff, as the investments needed to sufficiently improve and then maintain water production and distribution had not been finalized.

5.3 Economic and financial viability

Some key figures presented by the PDAM management during the field visit are provided below:¹⁸

Table 6: Financial key performance indicators PDAM Pekanbaru (in IDR million)

	2002	2010	2011
Operational revenue	10,795	15,818	14,531
Other revenue	0,052	0,024	2,238
Operational expenses	8,619	10,057	10,037
Other expenses	9,352	16,282	11,779
Profit/loss before taxes	-7,123	-10,497	-5,046

The indicators above illustrate the critical condition of the PDAM. Moreover, the PDAM faces huge challenges to ensure (timely) payment by its customers: only 54% of the bills are paid within one month, 14% with a 2-3 months delay, 8% are outstanding for 4-18 months and 23% for more than 19 months. The outstanding customer debts amounted to IDR 33,120 billion in 2010, an increase of IDR 4,215 billion compared to the previous year. This implies that about one third of the operational revenue eventually ends up as an outstanding debt.

It is therefore not surprising that the PDAM is highly debt-ridden. By December 2011, the company's debt amounted to more than IDR 113 billion, which is roughly the equivalent of 7.5 years of operational revenue. The problematic financial position of the PDAM might have constituted a major impediment for other (foreign) interested donors and investors¹⁹ to engage in a partnership with the company.

5.4 Institutional sustainability

As the PPP has been ended prematurely, the programme has clearly not contributed to institutional sustainability. The negative experience with the P3SW programme has, once again, made it clear to local stakeholders that the PDAM might not be the best suited institution to assure the drinking supply in the city and that other avenues, side-lining the PDAM, need to be explored.

¹⁸ Due to a lack of time, the data below could not be checked thoroughly and discussed with the PDAM management. Hence, key issues such as the depreciation policy and the way bad customer debts have been written off could not be addressed. The same applies for the considerable non-operational revenue for 2011, which is largely explained by the IDR 2,107 billion review of the bad debts that had been written off before.

¹⁹ The interest to invest in the city's water supply is quite understandable. Pekanbaru is an economic growth pole with a substantial annual economic growth (around 9%) and an annual population increase above 4%. The city is the capital of the province of Riau where economic activities are drastically increasing, in particular in the plantation sector. Most of the city's population have a decent income and are ready to pay for a reliable drinking water supply.

5.5 Social and political sustainability

For the same reason as above, the programme has not contributed to social and political sustainability. In this regard and on a slightly broader level, it has become clear that the PDAM has lost virtually all credibility, not only at the level of (potential) customers but also at that of the political elite. Moreover, the organization's track record over 40 years is characterized by a series of failures, which have caused nearly all its (potential) customers to 'give up' and look for other solutions, which are relatively easy to find in Pekanbaru.²⁰ In addition, the private sector has discovered the water sector: indeed, many small companies have emerged that engage in the distribution of water that is often of questionable quality. All these factors, coupled with the fact that Pekanbaru is essentially a city of newcomers with little social cohesion, mean there is a lack of urgency to demand improved permanent water supplies at the level of society. This constraint already existed at the start of the programme and hindered its quest for improved governance and performance. This handicap seems not to have been fully understood by the Dutch programme partners or KTDP, as at no point in time have actions been considered to strengthen the 'demand side'. Convincing the PDAM of the need and then supporting public relations efforts to improve its image towards the public and in socialising the increase in water tariffs were not strong enough to alter or overcome a negative perception among the customers that had been built up over decades.

From a social point of view, the poorer sections of society seem to be the greatest victims of the present situation. Unlike the better-off sections of the local population, they cannot engage in the drilling of shallow wells and, hence, most probably have to devote a substantial part of their income to the purchase of water from informal providers. As they do not possess significant political power, their grievances remain largely unnoticed and unaddressed.

Rather to the surprise of the evaluation team and despite efforts conducted in the early project years to inform the public about the PPP, it was found that virtually nobody is well informed about the development of the programme and the context of its premature termination. The fact that the courts have upheld the KTDP claim on the City has remained largely unnoticed, another illustration of the fact that in Pekanbaru 'water is not a political issue'.

Quite ironically, the failure of the programme in Pekanbaru and the substantial price the City might eventually be obliged to pay for it (provided the present decision of the court is confirmed), might in the end constitute an important trigger for key city stakeholders to consider truly alternative and more viable options (outside the PDAM) to arrange the city's water supply.

²⁰ The water table is situated in most parts of the city at around 10 m. Though water quality is not good, most people resort to the construction of shallow tube-wells; bigger housing schemes go for artesian wells.

5.6 Environmental sustainability

The present water supply system gets its water from the Siak River. As mentioned earlier, the water is of bad quality (high acidity and turbidity). In addition, earlier analyses of the quality of the water by the local university pointed to major pollution from industries (paper, chemical, rubber, oil) situated along the riverbank. Despite the existing environmental legal framework and civil society efforts to curb industrial pollution, river pollution and destruction of the river basin are still on the increase. The massive pumping of groundwater constitutes another ecological threat. In some areas of the city, the water level is said to have decreased already. As most inhabitants have no alternative, it is extremely difficult to address this problem.

5.7 Sustainability of Dutch involvement and learning

The failure of the Pekanbaru programme has been a bitter pill to swallow for the Dutch partners and KTDP. Even if Pekanbaru City eventually reimburses part of the initial investments, the private partners will never entirely recover the losses incurred. In addition, it is still difficult to forecast the effects of an eventual reimbursement on the private partners' image. Local government officials and members of parliament indeed feel bitter in view of the court's decision and find it hard to accept that they have to pay for investments that ultimately have not changed the quality of their water supply system (*how can it be that a cooperation that fails costs us considerable money on top?*).

To the evaluators' knowledge, the programme partners have learned a lot from this experience but have not (yet) engaged in a *systematic* attempt to capture lessons from it. On the other hand, the Pekanbaru experience has not prevented WFH from exploring further possibilities for PPP cooperation in Indonesia largely as a result of other significantly more positive PPP experiences in Indonesia.

III. ANALYSIS OF THE EAST INDONESIA COMPONENT

6. Programme background

6.1 Inception

WMD, a company owned by the Dutch province of Drenthe and 11 communes, produces and distributes drinking water to more than 450,000 inhabitants of Drenthe province. WMD's commitment to assisting drinking water companies in the South dates from the mid-nineties when it started to cooperate with the city of Ambon. The presence of a large Moluccan community in Drenthe has been one of the reasons for WMD to choose East Indonesia, Ambon in particular, as a major location for its international activities.

While initially a twinning approach was followed, through the establishment of Dream Sukses Airindo (DSA), a local water company set up as a joint venture company (JVC) with WMD bringing in 58% of the shares, WMD aspired to achieve a bigger impact on the local water supply situation. WMD decided to stay in Ambon during the very difficult period of civil war that started in 1999 and lasted for a few years. The experience with the JVC in Ambon laid down the foundations of what was later called the 'WMD model' that also has been applied in the P3SW program.

Via its participation in the call for tenders for the P3SW program, WMD aimed to scale up its Ambon experience. An ambitious programme proposal foreseeing the creation of ten JVCs in East Indonesia was submitted for funding. As was the case with the Pekanbaru component, the actual preparation of the project and the processing of the subsidy disposition took a considerable time. During the preparation period the list of cities (JVCs) to be included in the project had to be adapted several times because of contextual changes such as administrative splits within the districts targeted. In addition, some cities proved to be less interested in the WMD cooperation model and thereby declined the cooperation offer. This may, in part, have been due to their sense that working with a private partner would jeopardise relatively free financial support from the national level. In addition, vested personal / political interests in some PDAM might have played a role also in the decision not to cooperate with a foreign partner that was expected to bring in more rational management, accounting and procurement practices.

6.2 Key characteristics

6.2.1 Institutional set up

SWOI (*Stichting Waterprojecten Oost-Indonesië* – Foundation for Water Projects in East Indonesia) was established in May 2005 with the aim of providing and managing the funding for water projects in East Indonesia. The Foundation mobilizes funds (such as the P3SW grant) and provides these funds as loans to its subsidiary Tirta Drenthe BV (TAD) which loans out the funds in conformity with prevailing market conditions to the local joint venture companies. Its Indonesian subsidiary called Tirta Inti Drenthe (TID) is in charge of actual programme implementation together with local water companies.

TID has an office in Manado, the largest programme location, and manages implementation from there. It has also posted a staff member in Biak and Sorong; in Biak a technical member of staff from Inowa, a consultancy company co-owned by WMD, supports the local team.

The key component of the WMD approach is the local joint venture companies, established by particular TAD subsidiaries (Tirta Sulawesi BV in the case of Manado, Tirta Papua BV in the case of Biak, Sorong and Merauke, Tirta Ambon in the case of Ambon), the local government (city or district) and in most cases the local PDAM owned by the local government.²¹ From the start, WMD understandably sought to safeguard the operational autonomy of these companies against political interference, which indeed often constitutes one of the major causes of the poor performance of the PDAMs. So-called '*perusahaan daerah*' (local government owned enterprises) are indeed often controlled by the political elite in power and their management is often entrusted to people selected on the basis of their political affiliation and loyalty to the mayor/district rather than professional experience. Many local governments also use these companies as "cash cows" or, at least, as instruments to reinforce their political power and influence. Finally, many PDAM were known for their high levels of mismanagement and even corruption in which both senior figures (directors, commissioners, local shareholders) as staff members were involved. On the other hand, much improvement in PDAM management has been noted across Indonesia over the last 10 years through the open and competitive selection of PDAM directors, the reform of PDAM supervisory boards to include a consumers' representative, increased transparency of financial statements, benchmarking of key indicators and other measures. Examples of well performing PDAMs are said to include utilities operating in major cities such as Pontianak, Malang, Bogor, Banjarmasin and Jember.

Prior to the conclusion of the cooperation agreements between WMD and the local government, in virtually all locations the PDAMs were badly functioning or had even collapsed (Sorong). The PDAMs all faced substantial debts, could only function on a cash basis and were only able to provide below standard services. In none of the cases were there realistic prospects for improvement. As such, partnerships could not be considered as commercially attractive, at least not in the early years of cooperation. WMD was aware of the challenges ahead, but was committed to engage in a substantial and long-term effort to create viable and well functioning water utilities as part of its social responsibility. To that effect, WMD adopted a phased approach with a first phase of 4-5 years intended to rehabilitate infrastructure and strengthen local capacities and institutions. After this period, the improved water supply performance was expected to constitute the basis for better financial performance, allowing the JVCs to attract investment loans on the market without external support. Eventually (after 15 years) WMD could pull out from the company and use any possible financial gains elsewhere in Indonesia.

²¹ The institutional setup on the WMD side (SWOI - WMD - TAD - TID - Tirta Sulawesi/Papua) is complex, but the same persons play a key role in the companies mentioned. We therefore in most cases will use 'WMD' as a generic denomination for the broad WMD institutional setup. The other companies will only be referred to when there is a specific reason to do so.

Cooperation agreements

Taken *directly* from the cooperation agreements (CA), the following are some of the key characteristics of the highly similar²² arrangements concluded with the local governments in Manado, Biak, Merauke and Sorong:

- Contracting parties: the local WMD subsidiary (BV Tirta Sulawesi or BV Tirta Papua), the local (city or district) government and the local PDAMs (except for Sorong²³) that are owned by the local government;
- These parties agree to set up a JVC: the WMD subsidiary has a majority share (51%) in all JVCs; the local government owns the remaining (49%) shares;
- Duration of the cooperation agreement: 15 years;
- The local government via a decree of the mayor/district head transfers to the JVC the concession to produce, sell and distribute clean water as well as to operate collection systems and treatment in the supply area for 30 years;
- The WMD subsidiary provides the local partner with funds for the payment of its JVC shares, partially (80-90%, depending on the CA) via a loan in € (interest rate 5.5-6%, depending on the CA) to be repaid over 10 years starting the 6th year of the cooperation; the remaining part of the funds (10-20%) constitutes a WMD grant to the local partner;
- The objectives of the cooperation are similar to those mentioned in the P3SW proposal (see also below) and include: the improvement of services to the community by improving and developing water supply, the upgrading of customer services by increasing the service coverage ratio, compliance in due course with the WHO standards for clean and drinking water, improvement and development of operational performance and enhancement of managerial capacity, and support to the economic and social development of the city or district;
- The initial CA foresaw the transfer of PDAM assets to the newly established JVC; later on it became unclear however whether such a transfer would be legal and the transfer process was thereby cancelled;
- After 15 years, the local partner has the right to purchase all the shares owned by the WMD subsidiary. The price of the shares is to be calculated on the basis of the visible net assets value of the JVC; if the local partner does not exercise this right within 5 years, the WMD subsidiary has the right to buy the shares of the local partner at the same price;
- During the first five years, the JVC will pay a yearly contribution to the local government (in Manado: IDR 2.1 billion; in Biak/Merauke/Sorong: 6% of the revenue generated from the water paid by the customers in that year, starting after 3 years of cooperation) and to the local WMD subsidiary (in Manado: IDR 1.5 billion; in Biak/Merauke/Sorong: 4% of the revenue of the water paid by the customers in that year, starting after 3 years of cooperation);
- The water tariff will be calculated on the principle of full cost recovery according to a tariff formula agreed upon by the parties; resulting tariff changes can be

²² We focus here on Manado, Biak, Merauke and Sorong, the locations that have been included in the P3SW program. The Ambon JVC, already created in the nineties and not included in the P3SW, has a slightly different set up.

²³ By the time of the set up of the cooperation agreement, the PDAM of Sorong had become entirely inoperative, which is presumably the main reason why it has not been included in the cooperation agreement.

automatically applied without approval from any party. The local government has the right to make a proposal for differentiation of the tariff for different groups of consumers. The parties can (Biak/Manado/Merauke) or will (Sorong) establish a regulatory body to supervise the tariff policy implementation;

- The WMD subsidiary will apply its best efforts to arrange the financing for the JVC investments;
- The JVC will take on the PDAM personnel, who will keep similar positions; the WMD subsidiary will provide training to improve PDAM performance;
- The JVC will in reasonable time report to the local government and the PDAM on any matters having significant impact on the availability of water service to the customers;
- Yearly operations, maintenance and business control is to be implemented on the basis of master and business plans that will be presented to the local authorities, revised yearly and submitted for approval to the general shareholders meeting;
- WMD and its subsidiaries are paid for the various services rendered based on time inputs and related costs; a contribution payment is also foreseen (see above), and a handling fee for the services by TID and Inowa (a consultancy company co-owned by WMD and based in Bandung, Java).²⁴

The provisions above indicate that once the CA has been concluded, WMD via its subsidiary basically controls the company and, hence, the water supply in the locations concerned. This is in line with WMD's eagerness to improve the local situation, whose model involves the transformation of the local water supply companies into well performing water utilities. In addition, the autonomy of these JVCs towards the local government needed to be assured, so that management and institutional changes could be implemented and external capital mobilized. On the other hand, compliance was sought with local conditions and sensitivities. As such, the implementation of new tariffs, a sensitive issue, has de facto always been subject to consultations with the local government and the possibility to apply a tariff increase annually has not always been followed (see also chapter 7.2). Further, the new companies took over the PDAM employees and salary modifications of government personnel were mostly also applied in the companies.

At least in the early stages, WMD considered its role basically as that of the manager of the comprehensive change process, thereby mobilizing the necessary expertise and funding, providing training, improving financial and administrative management, and rehabilitating production and distribution infrastructure. The P3SW funding was meant to support the start-up phase mainly, for which an estimated duration of 4 years was needed.

Loan agreements

In addition to the CA, loan agreements were concluded covering the expenditure realized mainly by WMD (via its subsidiaries) on behalf of the JVC (or the PDAM in the case of loans covering operating expenditure and provided to the PDAMs before the

²⁴ While most of these costs are charged to the P3SW budget, they eventually become a loan to the JVC, the conditions of which are arranged in separate loan agreements (see below).

actual establishment of the JVC).²⁵ The first series of these agreements became actual addenda to the CAs. Later on (2007-2008), loan agreements were concluded but were only signed well after the actual period of expenditure. As described in more detail below, in several locations the “ex-post” conclusion of these loan agreements has given rise to tensions for various reasons:

- Firstly, some local parties stated that it was never clear to them that the expenses realized with P3SW funds, which they knew were granted to SWOI/WMD by the Dutch Government, would eventually be charged as a loan to the JVC. It should also be noted that the provisions in the CA remain quite unclear on this issue. These CA state only that the WMD subsidiary will use its best efforts to arrange the investments (without reference to operating expenditure) of the JVC and that the water supply operations will be conducted on the basis of full cost recovery and meet the requirements set by the lenders as provided in the financing agreements. WMD states firmly however that from the early stages it has been made clear that the funds used should be considered as loans.
- Further, local partners were only post factum informed of the actual expenditure covering the loaned amount and financing agreements covering these expenses were only concluded ex post also. This changed only from 2009 onwards, when loan agreements were more clearly linked to the investment plans agreed upon.
- Thirdly, until 2010 the loaned funds never transited via the JVC but were directly spent via TID or TAD, i.e. without direct involvement of JVC as borrower of the funds and following procedures that often lacked transparency according to local partners. Only starting in 2011 were payments conducted via the JVC using the funds provided by WMD on a case-by-case basis to cover specific expenditure agreed upon before by WMD.

The loan agreements cover different categories of loans²⁶:

- Operating loans that are used to fund daily operations, salary payments, the paying off of debts to pension funds and energy companies. These loans are granted in local currency with a term of 10 years and a 10% interest rate; they are to be repaid in equal instalments.
- So-called loans for projects which are financed by WMD and the SWOI (from the P3SW and RNE project contributions); a choice has been made for separate project loans so as to give the SWOI and the Dutch government an insight into expenditure. These loans are also granted in local currency with a term of 10 years and a 10% interest rate; they are to be repaid in equal instalments.
- For other expenditure, such as technical support, archiving, administration, contract design and consultancy (called collective support²⁷) interest-free loans are provided in local currency be repaid at the end of the CA.

²⁵ These loans were considered necessary to ensure a bare level of functioning of the (ailing) PDAMs.

²⁶ Very recently WMD decided to review the conditions of these loan agreements; see last section of 7.1.2.

²⁷ ‘Collective support’ refers to various types of expenses that cannot be attributed to one particular JVC. They include among others TA costs (TID director, other ‘global TA’), investments related to the central laboratory in Manado, expenses for training and education and, above all, the considerable

Overall, the loan agreements could be considered as skewed in favour of WMD. They state, among others, that interest and loan repayments should be made any time the company's cash flow allows so and that TAD has the full and irrevocable authority to determine when this is the case. The agreements state further that if the Director is unwilling to cooperate with the transfer of money, this is a valid reason for his immediate dismissal²⁸. On the other hand, no sanctions are applicable if WMD is unable (or unwilling) to honour its commitment to provide loans, as has been the case with the loan agreement concluded for 2012.

6.2.2 Major aims and outputs

WMD received P3SW funding and an additional grant provided by the Royal Netherlands Embassy (RNE) in Jakarta. While it is hard to distinguish between these funding sources in day-to-day implementation, their aims and outputs are presented separately below.

Aims and outputs as formulated in the P3SW proposal

The programme aims as mentioned in the programme proposal of June 2005 can be summarized as: *To achieve within 15 years the establishment of autonomous, sustainable local water companies that ensure on a cost recovery basis the production and distribution of drinking water for the entire population in the company's service area.*

The achievement of this aim implies, among other things:

- The application of the full cost recovery principle using tariffs that are checked by an independent regulator taking into account the WHO norms with regard to the cost of water as a percentage of the global family income;
- The sustainable strengthening of local management and operational capacities, allowing the local company to become financially independent;
- Improved quality of life, health and economic opportunities for the population.

The proposal also contains some clear targets:

- Improved drinking water supply in about 10 cities ensuring 91,500 new connections which will provide access to water for an additional 600,000 people;
- Achievement of 85% coverage in these cities (about 1.8 million people) in 15 years;
- Gradual increase of water provision to 24 hours per day; and
- Rehabilitation of the distribution networks including a decrease of NRW from 70% to 15%.

preparatory costs (estimated at €2,982,391 including emergency costs in Sorong at the very start of the cooperation; see also 7.1.2 below).

²⁸ One would expect that such provisions, which deal with the operations of the companies, are not included in a formal agreement.

In addition the programme aims to expand Dutch expertise abroad and increase experience with PPPs and innovative forms of development cooperation.

In terms of outputs,²⁹ the proposal mentions the following:

- Establishment of PPPs with local PDAMs using a JVC approach, with WMD having a majority share (51%); no dividend payment during the partnership period but continued re-investment of generated cash and profit;
- Rehabilitation of the distribution networks with a reduction of leakages to 15%;
- Improvement of the service delivery level via the rehabilitation of water production
- Improvement of the willingness to pay (via service improvement, attention to poor consumers and the introduction of social tariffs within a full cost recovery approach);
- Development of local skills and management, among other things via a dedicated training centre in Manado;
- Collection and treatment of wastewater using a business approach;
- Improved knowledge of integrated water resources management so as to protect the water catchment areas;
- Improved water provision to economic areas (ports, industry) so as to improve the cash-flow of the PDAMs;
- Strengthened awareness of drinking water and sanitation;
- Respect for local values without making a distinction between cultures, religion or political convictions;
- Global development of drinking water supply in East Indonesia via the mobilization of additional funding and connection with programs of international financing institutions (IFIs).

Aims and outputs as formulated in the additional request submitted to the RNE

The additional request aims to speed up the technical and organizational change process initiated via the P3SW support, so as to improve the financial position of the three JVCs concerned (Manado, Biak, Sorong) so that the services can be expanded via funds that have been generated by the companies and via external funding.

The best way to achieve this aim is via the realization of 45,380 extra connections, which implies an improvement of the water production via a complete rehabilitation of the WTP and a decrease of the NRW via the accelerated introduction of BRP. In addition, efforts will be undertaken to improve the image of the local companies so as to attract additional customers.

6.2.3 Activities planned and budget

P3SW program

The proposal describes in detail an important number of **activities** that are not specifically linked to outputs, but can be summarised as follows:

²⁹ Not all issues listed can be considered as 'outputs' in the definition used by the DAC in the context of results based management; all issues are nevertheless worth reviewing.

- Preparatory activities including the identification of potential joint venture partners, consultations with local and Dutch stakeholders, contract negotiations and the setup of a local office;
- Start-up activities (at the level of each of the locations selected): technical and organisational appraisals, emergency interventions in case local water supply is at risk, the drafting of a master plan, a business and investment plan;
- Implementation of the activities foreseen in the master plan, which describes the plans to improve the technical infrastructure and is further operationalized in a business plan; to the extent possible, these plans are to be defined in close cooperation with the local stakeholders. A yearly review of the plans will be needed;
- Once the JVCs have become operational they will be supported via a two-fold approach:
 - Technical improvements of infrastructure (decrease of NRW, improvement of water intake where needed, construction of public taps, expansion of household connections), and
 - Institutional strengthening of the company (improvement of management and company culture and of accountability; improved client focus and monitoring).

The P3SW **budget** is composed of a €7.5M grant from DGIS and a €2.5 contribution by WMD. In addition, SWOI has attracted a €1.5M loan from the Dutch Rabobank and PT Air Manado a €0.5M loan from SNS bank; these loans were meant mainly to fund the renovation of the Paal 2 WTP in Manado. The project proposal further provides the following preliminary estimate for the use of the initial funding:

- Costs during the preparation phase (mobilisation, contract preparation, crash programme): €1.7M;
- Costs during implementation: €8.3M;
- Total capital expenditure (10 locations): €6.8 M.

Proposal to RNE

The following main **activities** are mentioned in the proposal:

- Accelerated implementation of the block renovation programme to identify and decrease leakages;
- Accelerated implementation of investments related to the rehabilitation of the water treatment plants in Manado and Sorong;
- Replacement of most pumps in Biak;
- Launch of a promotion campaign to improve the JVCs' image and generate more demand among the public to be connected;
- Plan a micro-credit scheme to facilitate the funding of household connections;
- Intensification of the Agresso³⁰ training programme and purchase of additional computers to deal with the expansion of the client base.

³⁰ Agresso is the software introduced by WMD in the JVC that deals with customer registration and billing, among others.

The total grant is €3.5M, and is part of a broader funding arrangement also including local contributions (connection costs, paid by the customers) of €3.24M and a WMD contribution of €1.3M, which suggests a total **budget** of €8.04M. This is meant to cover investments related to water treatment (€0.73M), promotion and Agresso training (€0.1M), household connections (€6.48M) and unforeseen expenses (€0.73M).

7. Assessment of efficiency and effectiveness

7.1 Programme inputs and activities

7.1.1 Overview of actual spending and correspondence with initial planning

From the start of programme implementation onwards, overall spending of the P3SW funds has been ahead of schedule: at the time of the MTR (end 2008), actual spending had already reached 114% of the budget foreseen for the 2005 – 2009 period. On the other hand, actual achievement of the envisaged outputs lagged behind for various reasons (see below). The RNE funds as such have been a welcome addition to try to achieve the initial programme targets.

The table below provides a comparison, in terms of funding sources, between the initial P3SW and RNE budgets (including bank loans that were actually not planned initially), and the actual expenditure for this programme component³¹:

Table 7: Overview of programme funding sources (East Indonesia component; P3SW + RNE)

Source of funding	P3SW budget	RNE budget	Actual use/spending	Difference
DGIS	7,500,000 €		7,546,071 €	-46,071 €
RNE		3,500,000 €	3,576,829 €	-76,829 €
WMD	2,500,000 €	1,301,262 €	4,791,253 €	- 989,991 €
Bank loans	2,000,000 €		2,000,000 €	0 €
Local contribution (°)		3,241,429 €	837,760 €	2,403,669 €
<i>Total</i>	<i>12,000,000 €</i>	<i>8,042,691 €</i>	<i>18,751,913 €</i>	<i>1,290,778 €</i>

(°) Based on own calculations, using the data of the audited yearly accounts; the local contribution was to be financed via new customers signing up for new connections.

The table clearly illustrates that actual spending for each category has been above the initial budget, with the exception of the local contribution, which is below the budgeted amount due to less than anticipated connections. WMD has mobilized these extra funds from its own resources, which is a clear illustration of the company's commitment towards the programme and its capacity to access additional funding when necessary.

In addition it should be mentioned that the RNE's initial budget was elaborated on the basis of an exchange rate of 14,500 IDR/Euro. As during the implementation period of the project (2008 – 2011), the Euro has weakened substantially against the IDR, the initial budget has been insufficient to ensure the achievement of the project targets. There were however also other factors influencing a below-target achievement of the objectives (see below).

³¹ Source: 2011 financial report unless stated otherwise.

An overview of expenditure by category provides the following picture:³²

Table 8: Overview of expenditure by category

Nature of expenses	Total spending (€)	Total spending (%)
Water production and rehabilitation/extension WTP (of which TA)	3.937.334 € 738.179 €	20.9 % 3.9 %
Rehabilitation/extension of transport & distribution (of which TA)	6.683.347 € 2.492.871 €	35.5 % 13.2 %
Organisational support (of which TA)	1.968.746 € 1.156.866 €	10.5 % 6.1 %
Collective support (of which TA)	5.323.176 € 4.483.379 €	28.3 % 23.8 %
Unspecified expenses (of which TA)	906.541 € 839.365 €	4.8 % 4.3 %
Total (of which TA)	18.819.144 € 9.710.660 €	100 % 51.6 %

The table above shows that TA and TA-related expenses (travel, board and lodging) constitute slightly more than half of the program expenses. This figure correlates with the findings of the MTR that calculated that by the end of 2008 around 56% of program expenses were TA related. The table indicates also that since 2008 the relative share of TA expenses has slightly decreased. TA costs remain high however for a program with a strong focus on construction and rehabilitation.³³ In addition, they provide some indirect indication of the limited sustained effect of capacity building efforts of JVC staff and thereby brought forward questions at the local level about the relevance and effectiveness of part of the external TA (see 7.1.3 below).

As can be learned from the table below, most programme expenses have been incurred in Manado. 30% of the actual expenses are labelled 'collective support' and include in more than half of instances expenses related to the start-up phase; other important 'collective support' expenses include the central laboratory in Manado, expatriate TA (TID Director, other global TA) and programme management expenses. Percentage wise expenditure in the four cities all in all is relatively in line with original budgetary provisions.

³² The reviewers were not able to reconcile the differences related to total expenditure between tables 7 to 9. The differences can be attributed to different databases being used, which have not entirely aligned, and to some own calculations. They remain however relatively minimal and do not affect the overall picture.

³³ Note that about one third of the TA costs are connected directly to investments (water production and rehabilitation/extension of WTP, and rehabilitation/extension of transport and distribution).

Table 9: Overview of planned and actual programme expenses by location (East Indonesia component; P3SW + RNE)

Location	Budget (€) (*)	Actual expenses (€) (**)	Budget (%)	Actual expenses (%)
Biak	1,150,000	2,077,594	9.58	11.60
Manado (°)	3,300,000	6,136,953	27.50	34.26
Merauke	650,000	462,368	5.42	2.58
Sorong	1,150,000	3,020,360	9.58	16.86
Elsewhere	4,050,000	892,281	33.75	4.98
Collective support	1,700,000	5,324,596	14.17	29.72
Total	12,000,000	17,914,152	100.00	100.00

(*) As included in original budget (as presented in MTR, p. 59).

(°) Budget includes bank loans of €2,000,000.

(**) Data from the final WMD financial statement; the difference of € 904,991 with the previous table relates to expenses that apparently could not be assigned to any of the locations.

7.1.2 Actual programme implementation

Preparation and start-up

Understandably during the programme start-up phase the emphasis has been on studies, planning, programming and - at least in financial terms - on contract negotiations and quick scans. An estimated €2,159,192 has been spent, mainly in the 2004 - 2006 period, for this purpose. In the case of Sorong where the PDAM had become inoperative, these activities had to be combined with an emergency programme (cost: €194,115) to ensure a minimum level of service delivery. This included far reaching measures such as the search for former PDAM staff and the payment of seven months' salary arrears to convince former staff to resume their activities.

Even without considering the special efforts undertaken in Sorong, preparatory costs have been very substantial (€2,982,421), far more than the €700,000 earmarked for such activities in the DGIS P3SW budget.³⁴ As such, the relatively high levels of spending during the first years (€1,208,926 in 2004, €2,148,870 in 2005 and €2,064,304 in 2006) can be attributed largely to these substantial start-up expenses. Investments in this period only reached an estimated €2.1M.

At the same time and as amply described in the MTR, the quality of this preparatory phase could have been stronger. Eventually, WMD could only engage in four out of the ten locations in a partnership along its preferred model. The four CAs were concluded in August 2004 (Biak and Sorong) and October 2005 (Manado and Merauke). Attempts to set up partnerships in other locations have continued for quite a long period, despite external recommendations (from the external monitor and the MTR) to concentrate efforts on the four existing partnerships.

As has been the case in many PPPs for water and sanitation around the world, an important number of key findings and assumptions in the initial plans have proven to be incomplete or incorrect later on; these include the quality of local infrastructure, the

³⁴ ... which implied that a considerable part of WMD's own contribution went into the funding of these expenses.

level of support from local government and the quality and strength of the PDAM, which were all assessed too optimistically. In addition dealing with sometimes long standing mechanisms of fraud, often initiated or covered up by senior staff and/or their political affiliates, proved to be a true challenge and a source of tensions between the partners. Even so, much wisdom and tact was required to implement efforts to ring-fence the companies and avoid that cash was withdrawn (under the form of dividend payments or otherwise).

In retrospect, WMD was understandably convinced that the expertise and experience gained in Ambon provided a solid basis for a high quality initial assessment of other municipalities. In hindsight though, while technical assessments may have been sufficient, weaknesses recorded in this analysis have more often been due to institutional and contextual factors.

While to a certain extent it can be understood that WMD's assessment of the institutional environment was not truly adequate, this is less the case for the weak technical assessment that deals with WMD's core business. It is not clear to what extent WMD has learned lessons out of this experience and to what extent these technical failures are an indication of a lack of *technical* capacity with regard to the specific situation in East Indonesia³⁵.

Infrastructure improvements

Investments in the rehabilitation and expansion of infrastructure (WTP, distribution) and to address the substantial losses of water via Block Renovation Programs (BRP) reached substantial levels from 2005 in Biak and Sorong and from 2007 onwards in Manado and Merauke. Progress was however hampered by the important but complex discussion related to the transfer of assets from the local PDAMs (local governments) to the newly created JVCs. While expert advice on this issue has not been uniform, key players such as BAPPENAS and PERPAMSI told WMD quite early in the process that there were serious risks that such transfers would prove not to be legally acceptable. This issue cast a shadow on the partner relations for a long period. Eventually only by September 2008 did WMD agree to reverse the asset transfer process.

Opinions on the quality of the infrastructure works are mixed. Rehabilitation work on the WTP Paal Dua in Manado is considered of good quality. In one case (the Lotta WTP, also in Manado), rehabilitation efforts were however very much hampered by earlier design errors for which WMD and its consultants were not responsible. In other places (e.g. Biak) some installations (realized by the project) are of good quality whereas others show deficiencies. The ambition, put forward in the RNE proposal, to reach a 24/7 water supply in the service areas concerned in Biak, Manado and Sorong via the rehabilitation of the WTP and important BRP efforts proved far from realistic (see below). Consequently, the option, under the RNE project, to invest substantially in network extension can be questioned as no continuous water supply could be guaranteed. Indeed, while more customers might have been connected, a discontinuous water supply puts a heavy strain on the distribution system, leading to increased

³⁵ This is referred to again under 7.1.3, as local stakeholders are not unanimously positive about the quality of expatriate (and local) TA.

maintenance and repair, a decrease in the life of the network and increased non-revenue water.

Partnership relations

From 2009 onwards, the programme focused de facto on the four cities included in this assessment, with the exception of some activities in Jayapura. This relative concentration on a limited number of cities seems to have been beneficial for the programme. Despite institutional tensions (see below), spending levels remained high during the subsequent years until the end of 2011, when external funds from P3SW and RNE had been entirely spent. Important efforts have also been undertaken to improve internal management and efficiency, to introduce measures to improve internal transparency and combat fraud and corruption. The availability of the RNE funds brought about renewed important efforts to reduce NRW via a BRP approach and important new investments to ensure increased water production and treatment, and expand the distribution network.

In discussions between the evaluation team, local WMD staff and staff of the JVCs and the city/district leadership, the difficult relationship between the JVC partners has always been cited as an important issue. In the early stages a strongly interventionist approach by WMD had been accepted by the local parties in view of their under-performing PDAMs and WMD's eagerness to redress the situation. But major issues soon emerged in all locations as follows:

- Notwithstanding the fact that key decisions have been adequately formalized (in meetings of the board of commissioners and in general shareholder meetings) and captured in writing (through master and business plans, annual plans and budgets, ...), the agenda seems to have been set largely by WMD and its subsidiaries and key decisions taken at their level;
- The view heard frequently during the evaluation from local partners was that external TA (expatriate, from Inowa) is mobilized without their prior consultation and consent. The cost of TA³⁶ constitutes a very high part of the expenditure (56% at the time of the MTR, 52% for the entire project period). As addressed in more detail below (see 7.1.3), local stakeholders have cast doubts about the quality and appropriateness of part of this TA that is mobilized from within the WMD "family" without considering whether there was a valid reason to outsource or without clear terms of reference on the basis of which the provider of the TA can be held to account.
- WMD has introduced the use of Agresso, its own software for financial and administrative management (customer management, billing, accounting, stock management, ...³⁷). While the quality of this software is broadly accepted, local partners questioned the relevance of its use in the Indonesian context³⁸. The Agresso software is costly compared to similar locally available software (such as that used by the local branches of the PLN, the national electricity company); the

³⁶ ... including travel costs and other TA related expenses.

³⁷ Most JVCs only use the customer management (including billing) module as they consider the entire software package as too expensive.

³⁸ WMD stated that when the software was being introduced, no other options were available. This could not be verified by the evaluation team.

final financial report mentions a €363,349 expenditure related to Agresso, mostly at the level of the Manado JVC. In addition, the use of the software is quite demanding, while local staff have not been fully trained and depend on Bandung-based Inowa staff for backup support and supervision, which have a cost³⁹. In addition, cash transactions cannot yet be directly entered in the accounting module and additional time-consuming operations have to be performed to fully conduct accounting operations in Agresso. The Evaluation Team was also told that the update of the Agresso software would be very costly, which has led at least one JVC to consider a switch to a less costly software.

- The nature of the support by WMD (loan versus grant) to the JVC has been the major issue of contention. As noted above, WMD suggests that it has been clear on this issue from the very start of the partnership, but local stakeholders deny this. The CAs do not provide much clarity on this issue. While '*full cost recovery*' and '*no profit no loss*' are principles that partners have shared since the very start of the cooperation, the application of these principles does not automatically imply that all external support should be considered as a loan. The fact that WMD only started attempts to structurally settle the loan issue in 2009 by submitting loan agreements for approval to local partners, and that these agreements included relatively high interest rates (around 10% for expenses related to investments and operations; no interest on 'collective support' expenses), has strained the relationship. A major concern for local parties was that the loan amount has not resulted in actual significant water supply improvements. Moreover the payment of most expenses that were included in the loans had been made via TIA/TAD, often without clear communication to the JVCs concerned and without their prior knowledge of the actual costs of the investments.

These tensions with regard to the loan size, the terms of the loan agreements and the way loans were issued and calculated have had an impact on programme implementation. This was particularly the case in Manado where the disputes among the partners led to a years-long standstill in the investment programme.

At the time of the evaluation visit⁴⁰, this issue was about to be brought to the political floor. In some sense, local JVC management perceives their foreign partners as pursuing their business interests and insufficiently valuing local knowledge and expertise.

The setup of a revolving fund and loan repayments

The conversion (to a major degree) of the P3SW grant into a loan at JVC level finds its justification in the application of the *full cost recovery* principle in the implementation of the PPPs. While the application of this principle is relevant and also part of Indonesian policies, a review of project implementation suggests that the definition of its modalities in the context of development aid directed at weak local institutions has not been

³⁹ Backstopping from Inowa can however be provided via phone/internet; only in very rare cases is it necessary that specialised staff has to conduct a visit to one of the companies.

⁴⁰ One week after the visit of the Evaluation, important meetings have been held (Board of Commissioners and General Shareholders Meeting of PT Air Manado, the Manado JVC) where decisions have been taken that might have resolved the problem. See more details further in this sub-chapter.

conducted thoroughly during the preparation and early phases of the project. The same can be stated with regard to the setup of the connected revolving fund that is only referred to in broad terms in the initial programme documents and not at all in the CA. Also at the level of the funding agencies (DGIS and RWS), no reflection has taken place on the status of grant funds that are used for loan purposes.

As mentioned earlier, WMD started its cooperation at a time when local companies were in bad shape; in some locations support to cover operating expenses was even provided *before* the signing of the CAs to ensure at least a minimum service level. Credit support for covering operating expenses coupled with investment support and capacity building has continued for some years after the signing of the CAs. Presently, all JVCs still need loans to cover their capital expenditure.

While the relevance of this support is beyond doubt, the decision to provide it entirely as a loan can be questioned. Taking (or providing) loans to cover *operating* expenses is questionable from an economic and financial point of view and can easily lead the borrower into a situation of indebtedness from which it is difficult to recover, especially when loans are provided under conditions that make it difficult to achieve financial viability.⁴¹ This has been the case in most JVCs that have experienced a steady growth of their loans from WMD. As described above, this has caused unrest and even tensions because of the (perceived) lack of clarity around the calculation of the loans. Fortunately, WMD has understood the problem and recently taken the decision to drastically review their loan conditions (see next section describing important recent changes). This is a welcome, albeit late development. In retrospect a clearer and better initial design would have avoided difficulties and tensions that now have impacted negatively on the relations between the partners.

Since last year some of the JVCs have started repaying their loans. The loan amounts repaid so far are:

- Ambon: IDR 900M (€78,261)
- Sorong: IDR 250M (€21,739)
- Biak: IDR 1,000M (€86,957)

While these repayments are undoubtedly an illustration of progress, they are relatively small in view of the outstanding debts. In addition, both the Sorong and Biak management stated that these repayments have deprived their company of the necessary cash to run the company adequately. Whether the JVCs will eventually be able to completely repay their loans will very much depend on their capacity to develop into well performing companies in the future. The reviewers' analysis (see 8.3, among others) indicates that this cannot be confirmed at present.

A final consideration relates to the authority over and ownership of the revolving fund. These are presently vested in the SWOI Foundation, which is formally independent from WMD but *de facto* well connected to it. The decision to entrust the ownership and management of the revolving fund solely to a Dutch foundation is regretted in Indonesia.

⁴¹ The interest rates were fixed at 10%, for operating expenses and investment projects, which is well above inflation, less than the rates applied by commercial banks but higher than the rates applied in donor support programmes similar to P3SW.

Indonesian institutions state they are better placed to take the most relevant decisions on the future use of the funds and question whether it is logical to channel grant aid back to the Netherlands, when it will eventually be used again in Indonesia.⁴²

Important recent changes initiated by WMD

WMD has not been unaware of these difficulties and, to their credit, has engaged in efforts to adapt their model and take into account the grievances of their partners. A major change has been the shift in the WMD approach from 'controlling' to 'facilitating', decided upon during a strategic reflection meeting early 2011. The new approach was then explained during a workshop with the directors of the JVC. While it has not fully become clear to the review team how this shift has worked out in practice, important changes are taking place. The new WMD approach is also to be viewed against the background of its decision to merge its offices in Indonesia (TID, Inowa and PLN, the central laboratory in Manado) into one country office so as to improve communication and coherence of its support to its five partner JVCs.⁴³

In practice, from 2011 onwards the WMD country office has offered its partners an integrated package of services (technical services such as project supervision, review of engineering design, TA for operating activities; water quality services including training via the water laboratory; financial services including an annual audit; legal and institutional support; and Agresso/IT support). For these services, WMD charges a yearly fixed fee of IDR 30,000 per active house connection (increased yearly by 6%). At the time of the review, only the JVCs of Biak and Merauke have accepted WMD's offer and signed a service agreement.

In addition, since 2011, investments and expenditure for operating expenses are to be realized by the JVCs themselves (not via TID/TAD), either using their own resources or via loans (from the WMD group, from banks...) on the basis of yearly action and investment plans. Since 2009, loan agreements have been roughly concluded on time (not retrospectively). The loan amounts included in the 2011 agreements were however substantially reduced by WMD in September 2011; WMD mentioned the low level of repayment of the earlier loans as the reason for this decision.

In an effort to unblock the stalemate in Manado, WMD via its Director, who also occupied the position of President Commissioner of PT Air Manado (the Manado JVC), proposed during the June 25, 2012 meeting of the board of commissioners to (1) write off all outstanding loan interest for the period 2007-2011, (2) write off all collective support loans for 2007 and 2008, and for 2009 - 2010. This proposal was accepted by the board and later on by the general assembly of the shareholders held on the same day. The evaluation has been told that a similar decision is expected to be taken for the other JVCs.

⁴² A member of the SWOI contacted by the Evaluation stated that the SWOI would consult local stakeholders such as BAPPENAS in future decisions on the use of the revolving fund.

⁴³ The four JVCs analysed here plus Ambon. WMD, via its subsidiary PT Tirta Ambon, is shareholder of DSA, the Ambon based JVC. The director in Ambon brings sufficient technical and management skills that allows for a significantly reduced reliance on WMD. No P3SW and RNE funds were intended to be nor have been spent in Ambon.

7.1.3 Appropriateness and quality of TA inputs

While TA inputs have been very considerable in the project (56% of expenditure at the time of the MTR, 52% at the end of the project), as mentioned above, local stakeholders did not consider all TA relevant and of the desired quality. WMD strongly disagrees with this opinion. It has been difficult for the evaluation to assess this issue in depth. A few considerations can nevertheless be put forward:

- As WMD mobilises TA internally (belonging to a company of its own group, Inowa included), TA has never been tendered; local staff who often were highly critical of the effectiveness of this external TA, also because they recognised that it was expensive and it increased the company's loan.
- Local stakeholders suggested they had little influence on decision making with regard to TA (when is TA needed, for what purposes and under which conditions: time period, local or international, fee, ...) and that clear TOR, if existing, were not shared at the local level. This might have impacted negatively on the eventual TA relevance and effectiveness. TA inputs were often considered as external, which might have contributed to the poor quality of follow-up O&M in many cases.
- The evaluation recorded varied assessments related to the quality of international TA; while the language barrier constituted a handicap, some of this TA was able to engage in fruitful relationships with the JVC staff and contribute to local capacity building. In some cases however (notably in Manado), doubts were cast on the actual quality of the TA input that, it was claimed, was unable to provide added value. In other cases cheaper local TA might have been available to do the job.
- Local partners have been without exception highly critical towards TA inputs from Inowa. The quality of their work has often been questioned and examples were cited of Inowa staff that had too little experience for the job and provided below quality work. Some consultancy jobs were not implemented or implemented with considerable delay and local partners suggest it was difficult for them to hold Inowa accountable for their underperformance. The fact that the Inowa Director is a member of the Board of Commissioners in several JVCs proved to be an additional constraint in this regard.

7.1.4 Appropriateness and quality of investments

With a few exceptions, there is little doubt about the relevance and quality of investments *as such*, but the subsequent operation and maintenance is often insufficient, which affects the eventual contribution of these investments to higher performance of the water supply system. Whether insufficient operation and maintenance are due to the lack of an 'O&M culture' or to the fact that the revenue is insufficient to cover O&M costs, is difficult to determine. As will be further explained, investments did not necessarily lead to the anticipated increased revenue, apparently for a number of reasons (amount of new customers below target, continued high levels of NRW and illegal connections, etc.). In addition, there was often (e.g. in Merauke) disagreement on investment priorities between the partners. A good example was the decision to expand the distribution network in Sorong when the treatment capacity and the water resource were unable to meet the increased demand. In addition the financial viability of the

proposal to expand the network did not seem to take into account the cash flow needed to support this investment.

During interviews, the quality of the master and investment plans came into question in terms of relevance of the underlying strategy to develop the water supply system and the lack of qualified managers whose selection was not necessarily based on their expertise. While the different investments planned might have been relevant, one might ask whether they have been implemented in the right order (see Sorong example in previous paragraph). Discontinuous water supply puts a heavy strain on the distribution system and, hence, increases operation and maintenance costs and eventual sustainability⁴⁴.

The performance of water treatment works is affected by bottlenecks within these plants and imbalances between the various treatment phases. For example the clarifiers at a waterworks in Sorong are not able to meet the load put on them by heavy sediment loads during periods of rainfall and should be doubled in capacity. In another works there, the hydraulic design of a recent amendment to the treatment plant makes it difficult to operate the sand filters correctly because the top water level of the storage tank is above the floor of the filters.

7.2 Achievement of programme aims and outputs

A consistent assessment of the level of achievement of programme aims and outputs has been a challenge for various reasons: the substantial differences between the planned and actual activities in the programme locations, the lack of quantified aims and outputs in the programme proposal and the fact that it is not clear to what extent the RNE targets are additional to the initial P3SW targets or replacing these.

The evaluation has on the other hand been helped by important changes in WMD's reporting practice; from 2008 onwards the progress reports contain a series of highly relevant performance indicators (pertaining to consumers, human resources, production, distribution and income) that have been reported on fairly consistently over the 2008-2011 period.⁴⁵ The evaluation has also received TO reports related to the five locations, which with the exception of Ambon can be considered as a baseline.⁴⁶

⁴⁴ A network that does not operate under continuous water pressure is also susceptible to the ingress of polluted water, which affects the water quality in the network. In addition the pressurisation and depressurisation of water mains puts hydraulic strains on the pipes and joints and leads to the accelerated failure of the network and increased leakage from pipe joints and fittings.

⁴⁵ These data are to an important degree similar to the data BPPSPAM requests the PDAM to provide on an annual basis (see chapter 2.1 above). In view of the Paris Declaration principles (alignment to national systems), it can be queried why WMD when setting their key performance indicators did not adopt the BPPSPAM approach. This would have facilitated the provision of the requested performance data to BPPSPAM.

⁴⁶ The 'baseline' data included in these reports refer to 2004 (Biak, Sorong), 2005 (Manado, Merauke) and the first half of 2006 (Ambon). With the exception of Ambon, they must reflect the situation before the start of the P3SW intervention or the situation during the first months of this intervention.

7.2.1 Achievement of programme aims

The programme aims have been presented above (see 6.2.2). The main programme aim is to: *'achieve **within 15 years** the establishment of autonomous, sustainable local water companies that ensure on a cost recovery basis the production and distribution of drinking water for the entire population in the company's service area'*. The programme aim describes a target that is situated clearly *beyond* the programme review period that covers 2004 – 2011 (P3SW + RNE project), i.e. roughly half of the 15 years. Thereby the level of achievement of this aim cannot be fully assessed at this time; however in chapter 8 of this report (Sustainability of programme benefits) an attempt is made to judge the probability of continuity of the benefits achieved and reflect on how the water companies might develop in the future. This will at least allow an estimate of the future level of achievement of the programme aims. In addition, the level of achievement so far, which can be assessed to a large extent, provides an indication (but not more than that) of what will be achieved after 15 years. Such an assessment can be made on the basis of the targets presented in the initial programme documents, the achievement of which is presented in table 10 on the next page.⁴⁷

7.2.2 Achievement of programme outputs

Annex 4 presents five tables containing 15 key performance indicators for the four locations under study plus Ambon, the evolution of which has been compared over time. Many but not all of these indicators are included in the analysis below.

The analysis of the level of output achievement in table 11 (immediately following table 10 below) follows the same format as the analysis at the level of the programme aims using a comparative table. The 'outputs' as mentioned in the first column constitute a logical combination of the outputs mentioned in the P3SW and RNE proposals.

⁴⁷ Some of these targets are also included in the KPI tables presented in annex 4 and in the next section that analyses the achievements at output level. The compilation of these data has been complicated by the existence, in a number of cases, of different data pertaining to the same indicator. Data with regard to the baseline have been taken or derived from the baseline reports and/or the RNE proposal where some baseline data were also mentioned, but have not been used in case of major discrepancies with other data pertaining to the subsequent years. The data covering the years 2008-2011 have been taken from the yearly progress reports, with the exception of the financial data for the period 2009-2011 for which the audited accounts have been used (thereby using the latest data available pertaining to a particular year in case of the existence of different data on that particular year).

Table 10: Comparison between targets and actual achievements at programme aim level (East Indonesia component)

Target	Level of achievement	Comments
The application of the full cost recovery principle using tariffs that are checked by an independent regulator and taking into account the WHO norms with regard to the cost of water as percentage of the global family income	<ul style="list-style-type: none"> • The full cost recovery principle is adhered to <i>in principle</i> everywhere, as it is part of the Indonesian policy. • The principle has been included in the CAs that also contain a clear mechanism to introduce annual adaptations of the water tariffs. The yearly tariff increase should be at least the inflation rate + 2%. • Actual adaptation of the water tariffs did take place, but not on an annual basis. Average yearly increase of average water tariff (<i>period of comparison in years between brackets</i>): <ul style="list-style-type: none"> ○ Biak: 34% (2) ○ Manado: 5.6% (7) ○ Merauke: 8.5% (3) ○ Sorong: 9.9% (2) ○ Ambon: 8% (2) • The possible (or compulsory) setup of an independent regulator is mentioned in the CAs but has nowhere been realized. • To the evaluation team's knowledge no analysis has been conducted with regard to the WHO norms; as is mostly the case in Indonesia, there exists a diversified tariff structure everywhere foreseeing subsidized rates for the economically poor. The programme has not truly developed a pro-poor focus as yet. 	<ul style="list-style-type: none"> • Yearly inflation in the period under study has ranged between 4 and 7%, which implies that the yearly tariff increase should vary between 6 and 9% so as to follow the provisions of the CAs. This has apparently been achieved. • Nowhere has the position of an independent regulator been considered. One might wonder whether it would not have been better to entrust such a function to a higher (provincial or national) level, notwithstanding the fact that this would question the competence of the district/city level with regard to water supply.
The sustainable strengthening of local management and exploitation capacities, allowing the local company to become financially independent.	This issue will be addressed in chapter 8.	
Improved quality of life, health and economic opportunities for the population.	To the evaluation team's knowledge, this issue has not yet been analysed so far.	
Improved drinking water supply in about 10 cities ensuring 91,500 new connections, which will provide access to water for an additional 600,000 people.	<ul style="list-style-type: none"> • Only 4 cities have been covered by the program. • It is difficult to give an exact figure with regard to the number of 'new' connections; the evaluation team has assumed that the target refers to <i>net new connections</i> (actual increase of <i>active HC</i>)⁴⁸. 	<ul style="list-style-type: none"> • The target to cover 10 cities has been clearly far too ambitious for this pilot programme. • The net increase in active household connections (8,763 for the 4 locations

⁴⁸ The number of net new connections equals to the total number of new connections minus the number of clients that are disconnected (mostly because of non-payment).

Target	Level of achievement	Comments
The RNE mentions the figure of 45,380 new connections to be realised in Biak, Sorong and Manado.	<ul style="list-style-type: none"> • Net increase in <i>active</i> household connections (<i>period covered between brackets</i>): <ul style="list-style-type: none"> ○ Biak: 698 (2004 - 2012) ○ Manado: 7,074 (2008 - 2012) ○ Merauke: 340 (2005 - 2012) ○ Sorong: 651 (2005 - 2012) ○ Ambon: 2,607 (2006 - 2012) • Additional people having access to water⁴⁹ (<i>period covered between brackets</i>): <ul style="list-style-type: none"> ○ Biak: 1,368 (2004 - 2012) ○ Manado: 41,780 (2005 - 2012) ○ Merauke: 5,648 ((2005 - 2010) ○ Sorong: 36,936 (2005 - 2012) ○ Ambon: 12,851 (2008 - 2011) 	<p>included in the evaluation) lags substantially behind the initial targets (that might have been far too ambitious even when one takes into account the midterm nature – 15 years – of this target), but also behind the RNE targets that have been defined at a moment WMD had gained far more operational experience.</p> <ul style="list-style-type: none"> • Total increase of the number of people having access to water (in the 4 locations under study) is estimated at 85,732, which also remains far below the initial targets.
Achievement of 85% coverage in these cities (about 1.8 million people) in 15 years.	<p>2012 coverage unless mentioned otherwise (<i>coverage in baseline year between brackets</i>):</p> <ul style="list-style-type: none"> • Biak: 36% - 2010 (25%) • Manado: 35% - 2008 (25%) • Merauke: 34% - 2010 (35% - 2008) • Sorong: 48% (31%) • Ambon: 70% (61%) 	On average, only a coverage increase of 10% has been realised, which implies that the ambition to reach 85% in 15 years might be too ambitious in the 4 locations studied; it might however be achieved in Ambon.
Gradual increase of water provision towards 24 hours per day.	<p>Present situation:</p> <ul style="list-style-type: none"> • Biak: 24 hours per day (30%); 18 hours per day (30%); 2 times a week 10 hours/day (40%) • Manado: no specific data could be obtained • Merauke: 2-4 hours per day • Sorong: 4-6 hours per day during 2-3 days per week • Ambon: <i>varying between 3 and 20 hours/day</i> 	This target seems to be too high to be achieved in 15 years.
Decrease of NRW from 70% to 15%	<p>Present situation (<i>baseline between brackets</i>):</p> <ul style="list-style-type: none"> • Biak: 66% (61%) • Manado: 66% (79%) • Merauke: 50% (30% - 2008) • Sorong: 51% (80%) • Ambon: 28% (56%) 	At current rates of investment and progress, this target seems to be too high to be achieved in 15 years.

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These data are to be interpreted with caution, as it is not clear whether the coverage area has been defined in the same way in the years being compared.

Table 11: Comparison between targets and actual achievements at programme outputs level (East Indonesia component)

Target	Level of achievement	Comments
<p>Establishment of PPPs with local PDAMs using a JVC approach, with WMD having a majority share (51%); no dividend payment during the partnership period but continued re-investment of generated cash and profit.</p>	<p>PPPs have been established in four locations for a duration of at least 15 years, with the local government and (in three cases) the local PDAMs as partner. The cooperation agreements for these four PPPs are highly similar and foresee a majority share (51%) for WMD's local company (BV Tirta Sulawesi or BV Tirta Papua).</p> <p>The CAs include a provision that no dividend will be paid during the first 15 years of the agreement. This provision has effectively been followed. However, the CAs also include a clause foreseeing substantial 'contribution fees' for both the local government and the WMD subsidiary:</p> <ul style="list-style-type: none"> • in Manado: IDR 2.1 billion for the local government and IDR 1.5 billion for the WMD subsidiary yearly during the first five years of the cooperation; the amount of the contribution is to be negotiated for the period later on; • in Biak/Merauke/Sorong: 6% of the revenue generated from the water paid by the customers in that year, starting after 3 years of cooperation and 4% of that revenue to the local WMD subsidiary, also starting after 3 years of cooperation. <p>While the contribution fee to the local government can be considered as a compensation for the use of local infrastructure, the rationale for the contribution to the WMD subsidiary is more difficult to understand, considering that most of the services/investments provided via WMD are loaned to the JVC. WMD states that this contribution is meant to cover costs that are not charged to the JVC.</p>	<p>As mentioned earlier, the CAs do not contain clear targets to be achieved via the PPP, neither do they include the terms of the loan agreements.</p> <p>The contributions for the local government and the local WMD subsidiaries are quite substantial. For instance, in Manado the IDR 3.6 billion to be paid yearly is slightly more than 10% of the yearly gross revenue from the JVC. In the three other locations, the combined contribution is equal to 10% of the revenue related to the water sales, which is slightly less than in Manado.</p> <p>The appropriateness of these contributions at least as long as the JVC are financially and operationally weak can be questioned. Actual payment of these contributions deprives the JVC of the barely needed cash (note however that in some cases the payment of these contributions has been delayed; for Manado, it has recently been decided to pay the local government the outstanding contribution for the 2007-2011 period in five yearly instalments starting in 2013, despite the financially precarious situation of the JVC).</p>
<p>Rehabilitation of the distribution networks with a reduction of leakages to 15%, including (RNE) accelerated implementation of the block renovation program.</p>	<p>Considerable funds have been devoted to the rehabilitation of distribution networks and block renovation programs, but these have not led to substantial decreases in NRW (see previous table: NRW has decreased in two of the four locations only and remains above 50% everywhere, far away from the 15% target). The relatively limited progress made is not in accordance with the resources spent.</p> <p>WMD seems to have believed strongly that BRP may resolve the issue of leakages and NRW could then be reduced accordingly. As a matter of fact, non-technical losses attributed more significantly to the high NRW, as became evident in Merauke and Biak. This high NRW due to non-technical losses, many of them due to 'illegal' connections. If the situation permits, customers will try to avoid properly paying for water.</p>	<p>The fact that the Manado JVC has succeeded in substantially reducing NRW in 2011, i.e. in a period without financial resources available to address this challenge, seems to suggest that non-technical factors play an important role in addressing the NRW issue and that the existing PPPs might have failed to create a business culture that was able to eradicate or considerably diminish corrupt practices or illegal connections that constitute a major factor of high NRW levels.</p>

Target	Level of achievement	Comments
<p>Improvement of the service delivery level via the rehabilitation of water production, including (RNE) accelerated implementation of investments related to the rehabilitation of the water treatment plants in Manado and Sorong, and replacement of most pumps in Biak.</p>	<p>The increase in water production has been as follows in the five locations (<i>evolution in .000 m3 and percentage wise; period of comparison between brackets</i>):</p> <ul style="list-style-type: none"> ○ Biak: + 785; +29% (2008 - 2011) ○ Manado: -1,639; -8% (2008 - 2011) ○ Merauke: -69; -10% ((2005 - 2011) ○ Sorong: +818; +8% (2008 - 2011) ○ Ambon: +179; +6% (2006 - 2011) <p>The increase of water sold, which at least partially is resulting from the water production and the capacity to reduce RNW, has been as follows in the five locations (<i>evolution in .000 m3 and percentage wise; period of comparison between brackets</i>):</p> <ul style="list-style-type: none"> ○ Biak: -41; -3% (2008 - 2011) ○ Manado: 1,871; +51% (2008 - 2011) ○ Merauke: +384; +45% ((2005 - 2011) ○ Sorong: +693; +21% (2008 - 2011) ○ Ambon: +831; +63% (2008 - 2011) 	<p>The figures suggest that the huge efforts to improve water production and distribution have been successful in terms of the increase of water sold in three locations. The lack of correlation between 'water produced' and 'water sold' points to the importance of addressing both physical and other causes of NRW.</p>
<p>Improvement of the readiness to pay (via service improvement, attention for poor consumers and the introduction of social tariffs within a full cost recovery approach);</p>	<p>We can consider the relative importance of <i>non-active connections</i> as a first (proxy) indicator for the readiness to pay⁵⁰. The evolution of the percentage of active connections (as part of the total number of connections) has been as follows:</p> <ul style="list-style-type: none"> ○ Biak: 99% - 81% (2008 - 2012) ○ Manado: 68% (2011) ○ Merauke: 95% - 76% ((2005 - 2011) ○ Sorong: 99% - 74% % (2005 - 2011) <p>Another interesting indicator relates to the <i>actual payment behaviour</i> of the customers. While this indicator is not only determined by the quality of the services, it is certainly very much influenced by it. The team tried to calculate, as proxy indicators, the evolution in the total amount of the customer debts (comparison between two subsequent years - in percentage of turnover) and the amount of outstanding customer debts as a percentage of yearly water sales. The results are summarised below.</p>	<p>While the data from the initial years are to be dealt with carefully, one can assume that the 2011/12 data are valid. These data point to a high number (about one quarter) of non-active connections.</p>

⁵⁰ One must be careful about too strict an interpretation of the results related to this indicator. The policies with regard to disconnecting customers vary among the locations and in time, as is the case with their actual application.

Target	Level of achievement					Comments
	Biak	Ma- nado	Me- rauke	So- rong	Am- bon	
Total water sales 2011 (in IDR 000,000)	5.879	32.426	5.351	8 051		
Year increase of customer debts (*)	1.195	546	160	1.059		
Debt increase as % of water sales	20,3	1,7	3,0	13,2		
Total water sales 2009 (in IDR 000,000)	4.998	23.806	5.172	5.070	7.822	
Year increase of customer debts (*)	1.526	1	-409	2.212	961	
Debt increase as % of water sales	30,5	0,0	-7,9	43,6	12,3	
Evolution 2011 against 2009 (%)	-10,2	1,7	10,9	-30,5	-12,3	
Outstanding debt customers as % of water sales 2011 (*)	172	35	20	82		
Outstanding debt customers as % of water sales 2009 (*)	141	49	26	68	25	
Evolution 2011 against 2009 (%)	31	-14	-6	14		
(*) Without taking into account writing off of bad debts						
(*) Comparison with 2010 in the cases of Manado, Sorong and Ambon						
<p>The table above suggests that overall debts (in percentage of water sales) have not increased in the period 2009-2011. However, the amount of outstanding debts is a major reason for concern in Biak and Sorong. In these locations, customer arrears were already considerable in 2009 and have increased since. In Manado and Sorong there are less problems in this regard and both locations succeeded in diminishing the outstanding debts (as % of water sales).</p> <p>Thus the evolution in payment practice from the customers cannot be concluded to suggest either an improved or reduced willingness to pay.</p> <p>In all locations there exist differentiated tariff structures for different categories of customers. For each category, the tariffs increase along with consumption increases. There exists much tariff differentiation; e.g. the lowest tariff (so-called</p>						

Target	Level of achievement	Comments
	social tariff, applied for most families) is in Sorong only 20% of the highest tariff (applied for the harbour).	
Improved water provision to economic areas (ports, industry) so as to improve the cash flow of the PDAMs.	This has not been addressed in any of the locations visited.	This is a significant contributor to improved cash flows and improved financial viability and therefore should have received more attention.
Launching of a promotion campaign to improve the JVCs' image and spark more interest among the public to be connected + launching of a micro-credit scheme to facilitate the funding of household connections.	<p>Promotion/public relation campaigns have only been launched occasionally (e.g. at the moment of a tariff increase). None of the JVCs has established a fully-fledged customer policy.</p> <p>The micro-credit scheme to facilitate the payment of household connections has not been set up, but new clients got the opportunity to spread the payment for their connection over a number of months.</p>	
Development of local skills and management, among others via an own training centre in Manado; (RNE) intensification of the Agresso training programme and purchase of additional computers to deal with the expansion of the client base.	<p>Considerable efforts have been undertaken to improve local managerial, financial and technical skills, with positive results, in particular related to administration and finance. Some JVC would have preferred more in-depth training on Agresso to further reduce dependency from Inowa.</p> <p>Areas that were not that successfully addressed in the envisaged change process relate to customer relations and strategic positioning in the local context.</p>	See discussion with regard to the Agresso software elsewhere in this report (among others under 7.1.2).
Collection and treatment of wastewater using a business approach.	The programme has not addressed this issue (yet).	
Improved knowledge of integrated water resources management so as to protect the water catchment areas.	This issue has not been addressed either, whereas in Sorong destruction of the catchment area has increased turbidity of the water at the major intake. In Merauke, the source located in the Wasur conservation area is also under threat of destruction, although less seriously.	
Strengthened awareness towards drinking water and sanitation.	This issue has been addressed occasionally but is not an integrated part of the JVC's business approach. PR campaigns have however been organised in Manado, Biak and Sorong.	
Respect for local values without making a distinction	No indications have been found that this would not be the case. Staff in Papua for instance belong to different ethnic groups. (In Papua alone there are more than 250	In terms of water as a common good, local values related to how to use water can only be observed

Target	Level of achievement	Comments
between cultures, religion and political convictions.	ethnic groups, and hence adapting to other cultures is common.)	with regard to rivers or wells, whereas piped water systems are managed via a 'modern' management approach. This issue will however become important when the water companies also deal with the management of the catchment areas of the water supply rivers.
Global development of drinking water supply in East Indonesia via the mobilization of additional funding and connection with programs of international financing organisations (IFI).	This target is actually to be considered rather an <i>effect</i> of the program. So far, the institutional development of the JVC has not been sufficiently convincing whereby access to additional funding from commercial sources can be successfully pursued. In addition, JVC management seems still to only consider WMD as the source for funding. No coherent efforts have been undertaken so far to analyse let alone compare other funding alternatives, both locally and nationally.	As mentioned earlier, there exists an - apparently incorrect - conviction at the local level that water utilities that have set up a JVC with a foreign company are excluded from national support.

7.3 Conclusions on programme efficiency and effectiveness

The assessment of the efficiency and effectiveness of the programme has been a challenge for various reasons: the substantial differences between the planned and actual activities in the programme locations, and between initial budget and actual spending, the lack of quantified aims and outputs in the initial programme proposal and the fact that it is not clear to what extent the RNE targets are additional to the initial P3SW targets or replacing these. As such, no straightforward judgement can be provided.

On the other side, the findings of the evaluation unambiguously indicate that the programme has not reached its aims, while programme spending has been considerable. Even when abstraction is made from the big initial ambitions and targets as stated in the P3SW and RNE proposals, it can be safely stated that actual achievements are not in balance with the resources used. The net increase in terms of additional people having access to water and of increased active house connections remains substantially below the initial targets and those having access to water rarely enjoy a 24/7 service as initially aimed for. This disappointing outcome can be explained by a number of factors that have been mutually enforcing, such as the limited effect of efforts to achieve efficiency gains via decreasing NRW, rehabilitation of treatment plants and distribution networks, and improvement of administrative and financial management. While the set-up of the JVC undoubtedly has been beneficial for the local PDAM and even saved some of them from bankruptcy, for many reasons the multiple efforts from WMD and its local partners have not brought the JVCs to the envisaged levels in terms of competence and institutional and financial strength. The difficulties, of various nature, in the cooperation between the partners seem to constitute a cross-cutting factor impacting negatively on the many in essence genuinely positive efforts that have been undertaken to develop the water companies.

Our conclusion needs to be nuanced however. First, one should continue to remember the difficult initial conditions in the four locations where the project has been implemented. Further, WMD has opted for a 15 years long involvement, points to the fact that we are only half way through this period and is convinced that it can reach far better results within a few years. Finally and while WMD has clearly been in the driving seat so far, the local partners should also be held accountable for the poor performance of the JVC that eventually should become entirely locally owned companies.

8. Sustainability of the programme

The sustainability of the programme has been assessed at two levels:

- the sustainability of the programme purpose, which is increased water supply;
- the sustainability of the programme's outputs at technical, economic/financial, institutional, social political and ecological level.

Both levels are interconnected, as sustainability of water supply in the four locations will be guaranteed by a combination of the underlying technical, economic/financial and other factors that need to be fulfilled to ensure continuity (and if possible expansion) of the water supply. We will first address sustainability at programme purpose level, while most of the underlying factors are addressed in the subsequent sections of this report.

8.1 Sustainability of water supply

Overall, it can be stated that in none of the four locations the basic (technical, financial, institutional) conditions are fulfilled to a degree that allows true affirmation of the sustainability of water supply in the years to come. On the other hand, in none of the locations is the situation so dramatic that there is no prospect at all with regard to future sustainability.

Key to future sustainability of the water supply seems the ability, in all locations, to attract additional resources for *effective* investments to improve both technical and non-technical performance, while priority investments seem to be situated rather at the institutional level. At this moment, the JVCs' performance is indeed too weak to itself generate the necessary financial resources for this purpose. Achieving higher levels of non-technical performance seems to depend not only on additional resources but also on the extent to which these can contribute to the much needed change in the company's culture, management and O&M practices.

The fact that WMD is committed to continue its partnership for quite a long period (15 years) is certainly an important asset in this regard. However, the experiences over the previous 7-8 years make clear that the challenge remains for WMD to adapt its intervention model in such a way that sustainable progress is realized in the various areas that are key to ensuring sustainable water supply. The local partners are confronted with a similar challenge to change their ways of interacting with their foreign partner so as to engage in a cooperation dynamic that ensures effective contributions from the external partner that can be fully embedded in the company's structure and functioning.

8.2 Sustainability of technical outputs

Important efforts have been undertaken to rehabilitate/improve and expand the existing infrastructure, both related to the production and treatment of water and to distribution. Thereby technologies have been used that are locally accessible, manageable and applicable. While in some cases there are doubts about the

appropriateness of the interventions undertaken at a particular juncture in time (see above), the major concern seems to be related to operation and maintenance of the expanded or rehabilitated infrastructure. The team visited many sites where the necessary levels of maintenance were not guaranteed. In some cases at least, this was to be attributed to neglect by JVC staff rather than to actual ignorance on how to proceed. But cases were also found where equipment had been provided without sufficient instructions for proper installation (e.g. generator sets). Excessively high expectations (from the Indonesian partners) on the Dutch partner (WMD) have also led to the adoption (by the Dutch partner) of simple operation and maintenance practices that local partners could have taken up themselves (with the exception of Ambon).

As mentioned above, local JVC staff have been trained in the Agresso software but only to a certain level; WMD states that additional training has been offered on numerous occasions, but considered too expensive by the JVCs. As such, they remain dependent on back-up support from Inowa. Such support seems to be guaranteed as long as the JVCs have the necessary resources to pay for the services needed. At least one JVC is considering switching to alternative software in case they need to buy an expensive update of Agresso. In such a case, they feel Inowa should assist them in the transition process.

8.3 Economic and financial viability

Table 12 at the end of this chapter presents some key financial figures and ratios related to the four JVCs (+ Ambon for comparative purposes). These data are based on the audited financial reports for the years 2009 – 2011, but have to be dealt with in a cautious way and should only be used to identify *overall* findings and tendencies.⁵¹ As such, the table allows us to draw the following conclusions:

⁵¹ The audited financial reports are evidently a key reference for the analysis of the financial viability of the JVCs. However, their analysis (including yearly comparisons of the accounts) has to be conducted with care for several reasons:

- Sometimes major accounting corrections are introduced covering several years (e.g. transfer of assets from/to the JVC from the PDAM, retroactive depreciation exercises covering several years), which might be relevant but render yearly comparisons difficult. Sometimes also, there are major changes in yearly key figures related to expenditure and income that are difficult to understand in view of the operations of the JVC.
- For several reasons, the results as stated in the financial reports provide a financial picture that is more positive than the actual situation:
 - Expenditures related to loan interest have, mainly for tax reasons, not (yet) been included in the books. While this issue might have lost its relevance in view of WMD's recent decision to write off the interest on regular loans, there remains an important debt related to the loans issued for the payment of the shares of the companies (around 6% yearly);
 - Depreciation of assets is conducted at nominal book value, not at the basis of the actual purchase price; while WMD states that this is current practice in water companies, it implies that the assets are not valued at their current replacement cost and that this value is not used as a basis for calculating depreciation. As assets (*including the PDAM assets*) are not depreciated at their replacement cost, there will be insufficient cash to replace assets at the end of their useful lives unless other measures are taken.
 - The policies followed to write off customer debts imply that the account receivables gives an overly optimistic picture;

- Overall, none of the four JVCs is presently making profit; while the situation has improved in Manado (slightly) and Sorong (considerably⁵²) between 2009 and 2011 and remained stable in Biak, losses remain considerable everywhere. The main reasons for this are:
 - While revenues have gone up in the four locations, the same has been the case for the costs of goods sold, which has implied that – with Sorong as an exception - gross revenue has decreased in the period 2009 – 2011;
 - Only in Sorong can we note a substantial positive change in operational profit (i.e. less losses), both in pure financial terms and in terms of loss per cubic meter water sold.

The data of Ambon illustrate however that the situation can be reversed quickly.

- All four companies presently have (i.e. about seven years after their incorporation) negative equity and are in urgent need of recapitalization, in particular when external funds are to be attracted;
- None of the companies has been able to improve its liquidity position during the period studied; the liquidity position of both Biak and Manado is precarious, and that of Sorong is poor⁵³. For 2011, EBIT (earnings before interest and taxes) is negative in all JVC, whereas EBITDA (earning before interest, taxes, depreciation and amortization) is positive in Manado, slightly positive in Sorong and negative in Biak and Merauke. When yearly variations in debtors and creditors are incorporated, the operational cash flow becomes negative in all locations.
- Although the number of years for comparison is limited, none of the four locations presents clear signs of moving towards financially breaking even.

Using the data of the table as a main reference, there is little evidence of a strong impact of the use of the programme resources on the financial performance of the JVCs over the last four years.⁵⁴ Overall, there might be a slight improvement, but even if so it would be difficult to attribute this to the program's efforts. In this regard, it should be mentioned that over recent years the situation of the PDAM has improved across Indonesia; furthermore, the case of Manado (2011) seems to suggest that performance gains can be realized under good leadership and under external pressure (i.e. when external financial support is not available).

From a sustainability perspective, the present financial situation of the JVCs offers reasons for concern. There seems not to be a single reason for the weak present performance. While the heritage from the past is certainly one element, it does not explain the present weak financial performance. Overall, the following elements seem to

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- The audited accounts provide a picture on the basis of cash transactions only, which implied that goods/services purchased are not included in the books when they have not yet been paid for.

⁵² In the case of Sorong, any positive comparison taking 2009 as a reference year should be dealt with cautiously in view of the poor overall performance of 2009.

⁵³ In this regard, it becomes obvious that the appropriateness of recent repayments, by these two companies, of their WMD loans can be questioned.

⁵⁴ ... but we can safely assume that without external support the situation would be far more dramatic.

play an important role: (1) the investments realised under P3SW fail to sufficiently create the anticipated gains in terms of increased production and productivity while they continue, via depreciation and increased O&M, to influence the financial results: (2) while in some locations some gains have been realised in terms of decreasing NRW, the figures remain too high to allow reaching a level of (at least) break even in a sustainable way; (3) relations with consumers are far from optimal resulting in high degrees of default (unpaid bills, disconnections). It seems that financial sustainability will only be achieved if these elements can be addressed jointly and adequately.

Under the present conditions, none of the JVCs seems able to generate substantial internal revenue to redress the situation. Major issues of concern include the negative equity and precarious cash position of the JVCs, the inability (or unwillingness?)⁵⁵ to address NRW and default payments of customers in a consistent way, and the inability to safeguard productivity and production gains made possible by major infrastructure investments. As long as these issues are not addressed more effectively, there seems to be little hope for improved financial performance.

Also, while water tariffs have been regularly increased in the past (see above), such increases have not ensured full cost recovery. A further substantial increase of the tariffs seems however (politically and socially) unfeasible and is not really an aim of the JVCs. This also seems to be the case for water charges for commercial and industrial customers as well as government facilities, which have the potential to substantially increase cash flows as these customers can be disconnected for non-payment of accounts. Concluding, it seems the JVCs also feel that the improvement of their financial position should be realized via efficiency gains.

On a broader note, one might wonder how the JVCs will be able to address their capital expenditure needs in the future. As is illustrated by the table, they do not (sufficiently) generate cash internally, whereas WMD's capacity/readiness to provide additional (interest free?) loans might be limited. In the past, WMD has provided loans to the local partners for all expenditure needs (see above), even to pay for the companies' equity at the moment of their establishment. WMD's contributions have been crucial to redress the precarious starting situation in most locations. On the other hand, none of the JVCs has so far explored other possibilities to attract funding (from the local government, from the national government, from other donors) nor have they been empowered to do so, which implies they remain dependent on WMD, at least in the short term.

Finally, the analysis above indicated that at least for the years to come it is unrealistic to expect substantial loan repayments from the JVCs to WMD. The hope that these loans could truly be used as a revolving fund is, at least at this moment in time, not realistic.

8.4 Institutional sustainability

As amply described in the previous chapter, the difficult relations between the JVC management and staff on the one hand, and WMD on the other have led to feelings of disempowerment and lack of ownership at the local level. This situation might continue

⁵⁵ The recent experience in Manado where important successes have been achieved in addressing NRW that has been a long-standing problem, provides some reason for optimism.

as long as WMD effectively uses its majority position to take, if necessary unilaterally, key strategic decisions. In this regard, WMD states that its management style has been induced by the lack of pro-active engagement of the local partner. Further, it underlines that it has changed its approach from 'controlling' to 'facilitating', but this is not yet experienced as such at the local level. Apparently, local staff and management have become too acquainted with the situation of the past, so that now they cannot truly proactively make use of the opportunities that might exist.

The assessment of efficiency and effectiveness revealed that the internal functioning of the JVCs has undoubtedly improved over recent years, in particular with regard to administration and finance. This has however not yet led to the desired effects, e.g. in terms of improved payments by customers and less NRW due to non-physical causes. Technical performance seems not to have improved. Overall, JVCs still seem to lack the drive that is necessary to turn them into well performing companies.

As explained in chapter 2, the setup of PPPs is part of national policies but not all government agencies seem to be unambiguously in favour of PPPs in the water sector. It can nevertheless be stated that the programme aligns with the national policies. This does however not imply that the 'WMD model' *as such* is the best option in the present policy framework and institutional setting in East Indonesia. As will be discussed further, the WMD approach has caused a lot of uneasiness and concern, particularly in its early stages. While the situation has improved in the meanwhile, actual linkages with national-level institutions remain weak and are in some instances even strained, among other reasons because of the lack of transparency by WMD as perceived at the national level (a refusal to provide BPPSPAM the data with regard to key performance indicators and the CA terms as a key case in point). JVC and WMD alike seem so far not to have acquainted themselves either with the existing possibilities for specialized (related to PPP) and financial support.

WMD's initial concern to protect the JVCs from external interference was justified in view of experience in the past with PDAMs that were often used for short-sighted political interests. Overall, the operational autonomy of the JVCs has been well respected, but this has often required considerable efforts from WMD, in particular in the early stages. Local authorities could however have been more supportive in providing the adequate level and kind of backing in the organizational change process, among others with regard to the selection of capable and reform-minded JVC directors.

8.5 Social and political sustainability

As already mentioned elsewhere in this report (see 5.5, among others), for many reasons the issue of (failing) drinking water supply is often not high on the local social and political agenda. The local population in most instances has become used to resorting to alternative water provision in case local supply systems fail; for example everywhere there exist well performing private distribution systems (of clean and drinking water).

The lack of strong social pressure has its corollary at the political level. Water supply is still too rarely a political issue⁵⁶. This implies that the JVCs are well protected against unacceptable political interference⁵⁷. But coupled with WMD's insistence on the company's independence, this has also led to a lack of genuine local interest and commitment. This is illustrated for example by the lack of authentic ownership in the JVCs (and resulting seemingly inadequate oversight at the general shareholders and board of commissioners level) and, more seriously, in a de facto disengagement of local government whereas this should remain in essence a key public duty and concern. As such, the JVCs cannot call upon government support when this might be really useful, for instance to assist in addressing key problems such as default payments of customers, illegal connections and the mobilization of additional capital (via local or national channels). On the other hand, politicians and administrators are understandably not eager to react to the consumers' misbehaviour as long as service performance is (perceived to be) low. Lack of political support might become a problem in Biak where one of the main sources (a shallow groundwater well in Snerbow) is located in a military (Air Force) area. The military instances are presently raising questions for the PDAM with regard to the continuation of the use of the source in the future.

8.6 Environmental sustainability

Neither the P3SW programme nor the RNE project have addressed the environmental dimension of sustainability, but, with the exception of Sorong (environmental degradation in the catchment area of the main source of water intake, due to traditional farming practices) and Merauke (conversion of protected forest areas) no major ecological threats seem to be present.

8.7 Sustainability of Dutch involvement and learning

As has become clear from this analysis, the programme can so far not be considered a success. This is recognised by WMD, which states it has learned important lessons from its East Indonesia experience, which helps it to revise its approach in current and new initiatives. The recent institutional changes creating a grouping of WMD's local companies under one umbrella, is a clear step towards embedding WMD capacity in the Indonesian context.

Overall, WMD's commitment in the South is embodied in the charismatic personality of the present WMD Director. While WMD's involvement in East Indonesia is certainly not only the Director's doing (many WMD staff have conducted support visits to the country), he remains the clear and unequivocal driving force of the initiative with little evidence of succession and sustainability planning were he to leave WMD and the organisation then to be headed by somebody who does not share the same interest in the South.

⁵⁶ ... except when it leads to a considerable build-up of public debt, as was the case in Manado recently.

⁵⁷ ... abstraction made from interventions to use the funds of the companies for other purposes.

In the Netherlands, the incorporation of the SWOI has been an attempt to organise in a structured way the mobilisation of additional funding for activities in the South. It is important to note however that the revolving fund is not yet operational, which will not only lead to further erosion of the funds loaned, but might also put pressure on WMD for additional funding. It is not clear whether WMD is ready/capable to mobilise more funds. If WMD chooses, for whatever reason, not to provide additional funds it is possible that the same will happen with the four JVCs as with Ambon, i.e. that operational cooperation effectively comes to an end.

Table 12: Key financial data related to the JVC

Key figures (mostly in IDR 000.000)	Biak			Manado			Merauke			Sorong			Ambon	
	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010
Revenue (1)	5.566	6.248	6.413	26.056	34.171	35.722	5.429	5.555	5.903	5.708	9.934	10.179	7.823	9.955
Costs of goods sold (2)	2.803	3.711	5.742	14.612	15.096	27.076	3.755	4.555	4.358	4.745	4.704	5.107	5.518	5.521
Gross revenue (3)	2.763	2.538	671	11.444	19.074	8.646	1.674	997	1.545	963	5.230	5.072	2.305	5.521
Change gross revenue 2009 - 2011 (%) (4)			-76			-24			-8			427		
Operational costs (5)	5.721	10.077	3.989	22.162	30.208	16.535	2.670	4.467	3.537	6.230	8.423	7.243	3.745	3.535
Water produced (.000 M3) (6)	3.149	3.285	3.539	24.737	25.148	19.805	1.053	974	1.228	3.497	3.680	4.051	2.464	2.713
Operational cost ratio ((2+5)/6) (7)	2.707	4.197	2.750	1.487	1.801	2.202	6.102	9.263	6.429	3.138	3.567	3.049	3.759	3.338
Operational revenue ratio (1/6) (8)	1.768	1.902	1.812	1.053	1.359	1.804	5.156	5.703	4.807	1.632	2.699	2.513	3.175	3.669
Operational profit per m3 water sold (8-7)	-939	-2.295	-938	-433	-443	-398	-946	-3.560	-1.622	-1.506	-868	-536	-584	331
Change in operational profit/m3; 2009 - 2011 (%)			0			8			-71			64		
Profit out of operations	-2.959	-7.540	-3.318	-10.718	-11.134	-7.889	-996	-3.463	-1.963	-5.267	-3.193	-2.170	-1.440	900
Change in operational profit 2009 - 2011 (%)			-12			26			-97			59		
Other costs/revenue	21	255	389	-4.836	1.869	575	150	7	29	-217	7	2	151	138
Net profit	-2.938	-7.284	-2.929	-15.554	-10.486	-7.314	-846	-3.463	-1.963	-5.485	-3.187	-2.169	-1.288	1.038
Change in net profit 2009 - 2011 (%)			0			53			-132			60		
Total equity	-558	-7.682	-10.610	-17.768	-21.733	-26.882	-2.432	-3.780	-5.743	-20.117	-18.855	-21.023	5.592	6.630
Acid test ratio (cash+equiv./current liabilities; %)	131	148	36	2	2	1	379	154	136	74	366	63	535	743

IV. CONCLUDING PART

9. Overarching analysis

The P3SW projects under review provide a rich set of experiences from which to draw lessons that can inform how DGIS and RNE can support improvements in access to water supply through PPP arrangements both in Indonesia and elsewhere. The reviewers have thereby understood the task to be that of drawing conclusions from the numerous specific findings of these P3SW cases (as carefully documented above) that could be applied more generally. The understanding is that DGIS recognises that the mix of context and approach of these WMD and WFH cases are unlikely to be repeated or found elsewhere. Indeed it is also understood that it would be inappropriate to hold these DGIS-supported PPPs in Indonesia that were formed some time ago to approaches that are currently considered best practice. That said, however, by 2005 there had already been a wealth of information and guidance generated on how best to develop PPPs in the water and sanitation sector from a range of experiences around the world. Admittedly many of these had been framed differently from P3SW in that they were based on tender processes at the municipal level (rather than the global nature of the DGIS call for proposals), framed around emerging regulatory processes at the national level, and contracted with multinational firms that had a clear private sector profile and approach. Interestingly enough though, this evaluation suggests that many of the same institutional challenges around accountability and partnership issues of communications crop up regardless of whether the contracting party is from the private or public sector in their originating country.

Needless to say, all that is written below does not apply equally to both sets of P3SW projects. There are a few key differences between Pekanbaru and the East Indonesian cases. A primary difference is around how WFH was told, in essence, to remain behind the scenes leaving KTDP to be the sole contracting party with the Pekanbaru municipality. Thereby whilst there was certainly interaction between WFH/PWM/PfW with the Pemko, WFH's ability to shape the discussions with the municipality was contractually via a second party, KTDP, with whom it however had some trust and previous working experience. In contrast, WMD has been the clear, unequivocal lead in the East Indonesia projects. Secondly, unlike the WMD projects, the initial scope of the Pekanbaru project was framed around improving production only, although it was quickly drawn into distribution as well. The ownership structures around assets and investments were different between the two approaches (as explained in other parts of this document).

Differences in the contract aside however, the striking similarity is in the dynamics between the contracted and contracting parties and the contextual factors that have made these arrangements challenging for all parties, with the externally derived PPP, to varying degrees depending on the location, becoming embroiled in local power plays. Many of the observations below are indeed speculative in an attempt to unpack the multiple interpretations of events and approaches in order to reach certain conclusions about what might have helped the various relationships to have been more successful.

Similarly it is easy in hindsight to see where each party carries a certain level of responsibility for relationships that have either gone badly or lost time during which the partnership could have been working more effectively and efficiently. What is clear is that despite the challenges, WMD has remained remarkably committed to a long-term engagement which eventually, as has happened in Ambon, will hopefully result in a trend in the right direction towards a viable set of utilities and that WFH appears to have tried everything against all odds to save the relationship in Pekanbaru.

9.1 Public-Public Partnerships in a wider PPP context

Perhaps one of the most challenging elements of these P3SW arrangements revolves around the public-public aspect of the partnerships. This sees the arrangement as “non-commercialised” whereby two public sector entities engage in a relationship to support the public good. The challenges of public-public partnerships are captured effectively by Boag and McDonald as follows:

“Language barriers, cultural differences, uneven technological skills, dissimilar hydrological contexts, disparate labour-management relations, varied histories of water commodification, different interpretations of equity, and a host of other large and small discrepancies can lead to competing – even contradictory – objectives and tensions in partnership frameworks. Though sometimes glossed over in the enthusiasm to identify and promote alternatives to privatisation, virtually all of the literature on PUPs [Public Utility Partnerships] is cognisant of the difficulties associated with operationalizing them.”⁵⁸

Indeed many of these difficulties noted in the quote above apply to the P3SW cases as amply detailed in the previous chapters of this report. As the list quoted above suggests (and the analysis herein supports), success of such arrangements rarely hinges merely on shared or transferred technical competence but significantly more on institutional and contextual factors. As such, the analysis in this concluding section focuses more on these than on the specific technical elements of either the Pekanbaru or East Indonesia cases.

Whilst acknowledging the difficulties of such PUP arrangements, putting the P3SW PPPs into a wider global context, as noted above, by the time these contracts were signed, there had been a wealth of relevant experience around the world that brought different Northern and Southern utilities together through different modalities. It is not obvious to the evaluators that at the time of framing these contracts any party actually made a concerted or significant effort to understand what the World Bank, French multinationals, academic / research institutions and even civil society organizations had already learned about how best to structure these kinds of relationships. At the time, there was an emerging emphasis on somewhat more voluntary or loose public-public partnerships through programmes like Water Utility Partnerships or Water Operator Partnerships between public entities in the North and in the South. Indeed, WMD had already engaged in a fruitful twinning arrangement with the municipality of Ambon. Such public-public arrangements were again seen as an antidote to the highly

⁵⁸ Boag, G. and D. McDonald. “A Critical Review of Public-Public Partnerships in Water Services”. Water Alternatives Vol. 3: Issue 1 (2010) (available at www.water-alternatives.org)

contentious and highly polarized debates about the role of the (international) private sector in the delivery of water and sanitation services. Thus, the relationship under review here was cast as public-public and thereby evoked significantly less ideological resistance to or even technical comparisons with private northern partnerships with public southern institutions. This is evidenced by the dearth of analytical information on these particular relationships and other public-public partnerships either through general internet scans or in the literature. Thus, for better or worse, public-public constructs like those reviewed here have largely been run under the radar, quite unlike the huge scrutiny of public-private contracts like that in Buenos Aires, Manila or even Jakarta.

Ultimately, apart from the not-for-profit/not-for-loss approach of the northern partner (discussed further elsewhere in this document), only a few features distinguish this PPP from the more strictly public-private partnerships advocated earlier primarily in the 1997-2007 period by the World Bank. One did not have to look very far to see these kinds of PPPs in operation in Indonesia, as two had been established in the late 1990s to serve the whole of Jakarta. While the large scale and scope of the Jakarta cases are hardly comparable to Pekanbaru or projects in East Indonesia, even by 2005, there were a number of lessons learned from these projects that do not seem to have influenced the design of the P3SW. In fact, the World Water Forum in The Hague in 2000 played a crucial role in airing and framing the debates about PPPs, the role of the private sector and early lessons learned about how best to design contract modalities for either a supporting role or more comprehensive relationships between foreign operators and local public entities. Many of these lessons had by this time been captured in toolkits published by, for example, the World Bank, the UK's DFID and the Swiss SDC-SECO-Swiss Re collaboration.

By 2005-6 or so, the notion of staging varying forms of contracting from service or management contracts that then evolved, as appropriate, into longer-term lease or concession contracts was becoming more of a standardized approach. This reduced the immediate risk to both parties, provided time for the two sides to get to know each other better, and allowed for the contracted party to understand what was actually "under the ground" in terms of infrastructure. It is the evaluators' opinion, and certainly confirmed in interviews with both of the Dutch partners, that this kind of staged approach would have helped to avoid a number of key difficulties in each of the cases reviewed.

At the time these P3SW projects were being developed, there was significant pressure from within DGIS to seek an active role for Dutch water companies to support Dutch ministerial targets around the Millennium Development Goals. The technically competent Dutch water sector was seen by the Dutch Government to offer a less profit-oriented approach to international work. Admittedly the learning curve for these companies has been as steep (though with less exposed financial and publicity risks) as that of any of the French or other western companies involved in similar partnerships. As has been well documented and as the French companies quickly began to understand, although there were some successes like the PPP lease contract in Senegal and the management contracts in Johannesburg and Kampala, working internationally in municipalities with decentralised responsibility to ensure service delivery, mixed local management and technical skills, low cost recovery, insufficient tariff rates, high

political interference and little hands-on regulation proves incredibly difficult. Interestingly with the exception of Deltares which entered into a management by proxy role for the Dutch Government, it is unclear whether Dutch expertise and knowledge was called upon at the early stages of these PPPs from a range of research / academic institutions, NGOs with experience of working in poor communities in the developing world, or wider engineering organizations with utility operational expertise.

9.2 Indonesian wider PPP context

Within Indonesia, the water and sanitation sectors were largely decentralized down to municipal level as part of a comprehensive decentralization process that started with the promulgation of the 1999 law on regional autonomy. Thus the responsibility for ensuring that services are delivered effectively and efficiently is primarily the responsibility of the mayor or district head usually through local public utilities (PDAMs). The Ministry of Public Works (MPW) supports municipalities by issuing technical regulations and providing norms, standards, guidelines and manuals. Within MPW, the Water Supply Supervisory Support System Agency (BPPSPAM) works as a consultative body at national level and gives recommendations to local government on water supply provision systems, including on cooperation with the private sector. BPPSPAM is neither a contracting authority nor regulatory body. The establishment of a water supply regulatory body is the responsibility of local government.

While this is perhaps not the place for a longer discussion on the role of PPPs in the water sector in Indonesia, a brief reference is required to set the analysis and findings into context. Indonesia's experience in PPPs for water production and distribution is relatively minimal outside of Jakarta. As noted in a recent article from Global Water Intelligence on PPPs, "33 projects on the central government's list from 2010 were cancelled [in 2011] because of lack of progress. Of the 24 water projects on the government's updated list from 2011, only four [had] reached the prequalification stage by April 2012 and not a single one has yet come to tender."⁵⁹

Various funding schemes have been put in place⁶⁰ to support the development of water supply projects and to encourage an appropriate role for the private sector to bolster the limited capacity at local level. Interviews with a wide variety of stakeholders throughout the evaluation process revealed, however, a lack of clarity around the new laws and regulations and also whether PPPs inhibit access by participating municipalities to public funds. What is clear, however, is that as the sector is decentralized and responsibility lies with local government to ensure a viable water service, they are allowed to engage in PPPs through a tender and procurement process with or without support from BAPPENAS (the national planning agency). Alternatively, to make it easier to engage the private sector in a PPP, a municipality can classify the

⁵⁹ GWI, Volume 13, Issue 4, April 2012.

⁶⁰ Various funds and facilities were mentioned during the evaluation interviews. Among these, the **Indonesia Infrastructure Guarantee Fund**, with funding from the World Bank and the Asian Development Bank, provides support to municipalities that enter into agreements with private companies through competitive tendering processes. BAPPENAS is creating a **Viability Gap Fund** that will allocate funds to private parties as appropriate. BAPPENAS is also thinking to create a **Project Development Fund** to provide feasibility studies and transaction advice. This is still under development and mirrors a similar facility that was perhaps prematurely established in 2007 (with funding from the Dutch Government).

utility (PDAM) as a private entity, thereby allowing it to enter into a business-to-business (B2B) arrangement with a private firm (local, national or international) without requiring approval from central government.

Local governments can request support from central government in the preparation of these arrangements to help screen projects and to develop capacity to work with the private sector. Practically speaking, due to a lack of capacity and to avoid (seeming to be) meddling in local government affairs, central government cannot offer this support without being asked. According to many interviewees, in fact many local governments would not welcome central government involvement in their affairs and prefer this independence from Jakarta, in particular in peripheral areas of the Indonesian archipelago. The critical aspect of this development is that local governments, often with very limited capacity, are generally left to their own devices to develop, sign and implement a partnership project with a private firm. While BAPPENAS and BPPSPAM require that local governments provide information on service provision and the status of the utility and regional/provincial governments can only get involved when aspects of service delivery cross jurisdictions, neither central nor provincial government appear to have much influence over what happens at the local level. The emphasis is on PDAMs developing appropriate plans that are then approved by municipal authorities (in essence requiring the backing of the mayor or the district head).

Interestingly enough, Dutch partners have followed their local government counterparts and not really sought out support from the central level as well, acting to some degree in isolation. Apart from interaction with Perpamsi, there is little memory of any interaction with other donor-supported programs in the sector, like that of the World Bank, USAID and others. In some sense, there is even a query as to whether WMD-supported JVCs were openly refusing to cooperate with national authorities by not providing service delivery figures to BPPSPAM, for example.⁶¹

Coming back to PPPs more generally, when asked which PPP project in the water sector had been most successful, interviewees were generally at a loss. The Medan case was noted although it was designed as a PPP for production without all the added complications of distribution. This kind of arrangement has been noted by MPW and BPPSPAM as an emerging preference for private companies. The Tangerang case was also noted as a successful case. However, this contract had only been signed in 2010-11, and while seemingly on the right track and potentially well-designed, it might be too early to declare this 20-year concession contract from production to distribution with Aetra as the only bidder as a model.

Unlike with the original British and French contractors in Jakarta, there is also a further factor that came up in various conversations – that of the special affinity particularly in East Indonesia for the Netherlands (whereby Manado used to be called the twelfth province of the Netherlands and Papua remained under Dutch administration until 1963). Thus there was a familiarity and almost symbolic element to support from WMD on both sides. This combined with the image of the Netherlands as the fairly undisputed “water experts” brought a certain set of underlying assumptions to the table for both the Dutch and the Indonesians. This historical element has probably cast as much of an

⁶¹ While the evaluators are unaware of how they initially became involved, BPPSPAM did take on a facilitation role between WFH-KTDP and the municipality and PDAM of Pekanbaru.

influence over the relationships of late as perhaps it was a source of positive framing at the beginning.

9.3 Accountability

Ideally accountability is framed around the three-way relationship between customers, public authorities and service providers. The clearest route sees the customer directly holding the provider to account for the services bought. More often than not though, customers also need to rely on a longer route of accountability whereby users' voice is channelled through the public sector and/or elected officials⁶² to put pressure on service providers. In practice, in Indonesia this set of relationships is still largely missing. Due probably to some combination of having alternative sources for water and their low expectations of public officials to resolve issues to the benefit of their constituencies, as noted in the findings of the report, neither customers nor potential customers are making demands on the system.⁶³ Interviews in each of the cities visited revealed a similar lack of engagement on the part of citizens. In such cases, "extra actors are often needed, such as water boards, regulatory bodies and/or asset owners as well as alternative providers [and NGOs] to clarify expectations, strengthen client power and hold people or organizations in a position of authority to account."⁶⁴ In essence, few channels are effectively holding any of those in authority to account (nor, in fact, is there a reliable ability to hold customers to account to ensure that they pay their bills).

The challenge of creating a customer-centred approach was noted numerous times in the analysis in earlier sections of this report from both P3SW cases. Improving the image of the companies, enhancing the ability to hear from and then respond to customers, and focusing on willingness to pay will create accountability mechanisms that cannot so easily be ignored and, along with recovering outstanding debts, will help put the companies on a more stabilised financial footing.

Accountability through regulation

Emerging best practice even back in the mid-2000s suggested that regulatory frameworks relied on realistic, clearly defined and well-negotiated targets as well as roles and responsibilities in order to keep track of progress, mediate conflicts and resist external political pressure. Much of this would generally be reflected in the documents (contracts, MoUs, etc.) that bind the partners together. With regard to targets, there is reason to question whether the targets set have been realistic. Again while technically feasible, the challenge to meeting the targets has largely come from institutional and contextual factors that might have been oversimplified or underestimated at the start of the project. In fact, what quickly became apparent for both Dutch parties was that they held the responsibility as the "manager of a comprehensive change process."

⁶² Adapted from World Bank World Development Report 2005: Making Services Work for the Poor.

⁶³ It was also suggested that particularly in the case of Pekanbaru, there is a sense that the city is a transitional one whereby many residents do not consider themselves as permanent but seeking to move on to bigger cities or perhaps even back to their rural roots. Such a demographic is also unlikely to make demands on the system.

⁶⁴ BPD Water and Sanitation. Improving Partnership Governance in Water Services: Accountability and Transparency, June 2011. (available at www.bpdws.org)

In large part, even though the contract agreements in East Indonesia contain a clause that foresees the possible establishment of a local regulatory body, both P3SW PPP efforts operated in a regulatory vacuum. While in Indonesia, there is a regulator for the PPPs in Jakarta, there is not a formally assigned regulator for PPPs operating in cities and towns outside of the capital. BPPSPAM and the Ministry of Public Works have different functions to support and facilitate but neither has the authority or capacity to monitor progress or to get more officially involved. As noted above, BPPSPAM makes recommendations to improve performance and provides consultant support to create business plans, cost recovery plans, etc. It has no direct authority; while it can advise, it can impose no penalties for non-compliance.⁶⁵

To some degree, a minor *regulatory function* was played by Deltares, assigned to monitor progress on behalf of the Dutch Government and also to step in to resolve conflicts towards the end at least of the Pekanbaru case. Although the representative from Deltares was asked to act impartially, it might not have been clear to the Indonesian parties on whose behalf Deltares was acting. Beyond this role for Deltares, farmed out on behalf of the two Dutch agencies involved (DGIS and Rijkswaterstaat), there appears to have been no clear mechanism from any angle to hold the different parties to account. Civil society has remained largely silent or resigned to maintaining their low expectations, particularly in the case of Pekanbaru, but also in Manado where one interviewee noted that “people from Manado are very calm and difficult to spark”. The Dutch companies’ shareholders or the foundations responsible for managing the revolving funds seemed to recognize the experimental “pilot” nature of the exercise and thus have provided some leeway. Thus while there are losses at stake for both WFH and WMD, according to interviewees, the shareholders have either trusted the lead to achieve what they can in each case in due course, did not expect the finances to actually be recovered in the first place, or otherwise do not seem to have made onerous demands to rectify the various situations.⁶⁶ In other words, there is little relative pressure from the Netherlands. If anything, the pressure for accountability comes mostly from the Royal Netherlands Embassy who see the potential damage that failed projects could have on the reputation of Dutch assistance and more importantly on bilateral relations.

From the Indonesian side, government stakeholders at the national level certainly lacked the authority but also perhaps the capacity, experience and clarity to step in. Local government authorities (again also without the in-house expertise) appear to have had their own vested interests, political processes and other concerns that prevented them from exercising any oversight as the contracting party. (This is in direct contrast to local PDAM employees in Pekanbaru in particular who did exercise not oversight but sufficient power to threaten the ability of the contracting party to deliver.)

In hindsight, it appears that the PPP was in fact originally designed more around the relationship between the Dutch parties than between a local municipality and a Dutch contracted party. Dutch documentation often refers to the PPP as the grant provisions

⁶⁵ BPPSPAM did step in to play a meaningful role in long and frequent meetings with both parties in Pekanbaru to come up with the “10-point rescue plan” that was agreed by all.

⁶⁶ In the case of Drenthe and WMD, the sense of commitment is overwhelming and only partially reflected in the Euro 3.5 million commitment of own money allowed by WMD shareholders. Commitment also stems in part from the historical relation between the Netherlands and East Indonesia and the huge immigrant population particularly from Ambon in that part of the country.

made from DGIS/RWS to WFH and WMD. Thus from the start, as the Dutch parties became preoccupied with finding an appropriate arrangement in the Netherlands and leaving the Indonesian relationships as part of the competence of the Dutch water utilities, the local partners seem to have ended up with very little ownership over the framing documents of the partnership. As noted in earlier sections of the report (particularly with reference to Pekanbaru), the lack of local embedding and "true" acceptance of the project had been its downfall.

A related point is the emphasis on the loan repayments and the revolving funds back to Dutch institutions. As the funds were subsequently converted from a grant into a loan and then the repayment of the loan goes into a revolving fund that is then reinvested in the water sector in Indonesia, there is some question as to at what point the money stops being public funds provided by the Dutch Government. While the Dutch Government did not accept a seat on the foundations' governing bodies, in essence, the repayment of the loans had become the primary and ultimate proxy for the success of the pilot programs. This thereby becomes the main channel for accountability and neither the Dutch Government, nor Indonesian counterparts for that matter, then has much of a say on how the funds are ultimately spent or what happens to the funds after repayment.

Clarifying targets and roles and responsibilities

Beyond acting in a regulatory vacuum, ambitious targets had been defined and again from a technical viewpoint, there is no reason to assume that these could not have been achieved for either case. Once the political and other partnership elements were factored in though, these targets quickly turned out to be well beyond what could realistically be achieved.

Similarly roles and responsibilities (based on capacity and expertise) had seemingly not been clearly defined by the partners up front. For example, it was not clear to the evaluators what the formal obligations of the local government partners were. In the case of the East Indonesia projects, commissioners play more of an advisory role but in essence on behalf of each of the partners. From the WMD side, practicality has suggested the WMD managing directors in Indonesia also take on a commissioner role. Local commissioners may or may not be strong enough to provide any countervailing force. In the end, no real check and balance mechanism seems to exist that can quickly resolve problems or even anticipate their emergence.

A clear technical assistance role was taken on by the Dutch partner in each case. With support from a distance and through various visits from Dutch experts, this function has largely been managed by a pre-designated Indonesian partner, Inowa, which was established in essence as a Dutch subsidiary. Technical assistance was therefore never tendered as Inowa is part of the "family" of companies and thereby a legitimate part of the Joint Venture agreement. While there may have been terms of reference for Inowa or other sub-contractors' work, these do not seem to have been agreed through a clear process. In the event that Inowa did not perform well, as their invoices were paid for in the first instance by TID/TAD and then charged back to the PDAM/municipality, requests for accountability were after the fact and became muddled in with other arguments. Admittedly there was much ill feeling expressed towards Inowa in each of

the cities visited. There was speculation as to whether their technical skills were sufficient, whether their role as Commissioner was in fact a conflict of interest even if they excused themselves from agenda items where contracts for Inowa were discussed, and whether more localized expertise would have been sufficient to handle various tasks assigned to the consulting firm.⁶⁷ Thus localized expertise was not sought for the technical elements within each municipality although tenders were issued for the construction and some studies in the case of Pekanbaru.

As for conflict resolution, no clear and agreed mechanism seems to have been established in East Indonesia. The JOA in Pekanbaru spells out the procedure through amicable settlement, then involvement of expert and finally arbitration. Usually this is done by designating a party (or individual) at the outset that is trusted by both sides to act objectively and fairly in the case of a dispute. Perhaps, as noted elsewhere in this document, the partners did not sit down at the outset and determine a sense of what could go wrong and where the risks in the relationship might lie. As it turned out, it is difficult to imagine which party or individual in any of the specific cases could act in this way to manage disputes between the parties.⁶⁸ Each party, (whether the MPW, BPPSPAM, Deltares, Perpamsi, etc.) seems to have come to the table with perceived preconceptions.

9.4. The 'partnership' in PPPs

Many research papers from academics as well as the IFC and World Bank and others over the last few years have suggested that PPPs will only work if sufficient thought and emphasis is placed on the final "P" - partnership. In this case, it is difficult to see many of the characteristics of what might be considered a genuine partnership. For obvious reasons, as noted in the detailed narrative of how the two PPPs unfolded, in many instances efforts at building a clear partnership with local stakeholders through transparent communications have not been overwhelmingly successful.

Changes in local government have brought in different political interests, with the resulting need to invest again in developing relationships and managing expectations. In particular for East Indonesia, this has been challenging due to the Dutch partners' use of specific contractors to manage elements of the technical work, questions around the ownership of the assets and the division of shares, the reluctance to share key performance data with Indonesian counterparts, that [for WMD] "all major projects were managed from Assen" and the reluctance to co-manage available funding, which have aroused suspicion or even downright distrust on the part of local partners. (In fact, it seems that even the Dutch funders did not have access to the contracts that they were partially funding and that underpinned the entire relationship at the local level.)

⁶⁷ Again the PDAMs were far from corruption-free zones prior to when the Dutch partners arrived on the scene and thus the desire to control the funding on the part of the Dutch partner is understandable. One could easily speculate, and many interviewees did, that the desire of local politicians and local stakeholders to give contracts to local companies had less to do with costings and efficiencies but rather to allow for some of the funding to actually pass through Indonesian hands. Inowa bore the brunt of much of this resentment.

⁶⁸ There exists in Indonesia a practice of conflict mediation in many domains (for example in land conflicts) and a mediator need not necessarily come from the water sector.

Local partners' inability to convey an integrity-based approach to the partnership is also a key cause for Dutch partners to avoid handing over more responsibility. Many PDAM had a poor reputation and track record with a history of fraud, corruption and incompetence. Managing directors had been / are generally political appointees who at best may not understand the water business and at worst may have vested interests to protect. Certainly in the case of Pekanbaru, the original Managing Director was actively working against the partnership even well after he had been removed from the position.⁶⁹ Thus the whole spirit of the relationship on both sides was hardly one of partnership but came across rather as a series of tactics.

It is easy to look back in hindsight and see where different turning points or critical moments further soured the different relationships. Similarly it is easy to misremember, gloss over, or redirect the emphasis of certain incidents, and the evaluators have had to triangulate various aspects of what actually occurred by corroborating with the documentation (minutes of meetings, for example). What has been telling is that, given the Indonesian culture's emphasis on saving face, the level of open acrimony that frames the Indonesian perspective suggests a clear clash of cultures. Although relatively small in the scheme of things, a revealing point was that at no time during the evaluation period and through the wealth of interviews conducted by the team was there any mention of the notion of "we" as partners. All conversations were largely framed around an "us" and "them".

In many interviews, there was a sense from Indonesian counterparts (particularly PDAM staff) that there had been little real engagement in decision-making, suggesting that the partnership was something that "was happening to them rather than with them." Various interviewees from the Indonesian side in numerous municipalities recognized that their capacity was weak but also had hoped for more investment to build up their skills. It is difficult to judge the effectiveness of technical assistance not so much in terms of resolving technical problems but to ensure that staff (who may again have had other interests) were capable of fixing problems should they reappear. In one instance, staff proclaimed a reluctance to get involved in fixing an issue for which they suggested they had the skills and capacity, for fear that any tinkering they did with the system would result in the foreign partner renouncing their efforts and in essence "removing the warranty".

Evidence suggests that in all cases annual plans with investment schemes were discussed in joint annual planning meetings between the partners. While it is blatantly untrue to say (as some did) that Indonesian counterparts were never involved (as there are minutes to prove otherwise), whether these were balanced forums to debate targets, investment options, contractor quality or other issues, even as the plans and the reality deviated further and further, remains debatable. What remains unclear is how these meetings were conducted and whether, for example, the Indonesian partner really had the wherewithal to negotiate on the technical aspects, to debate costings, etc. Here again the cultural nuances come in; speculation about whether Dutch and Indonesian working styles can be sufficiently compatible was questioned by all parties – Dutch and

⁶⁹ There has been much speculation as to his role in various acts of sabotage as well as physical threat to KTDP senior staff and physical property. Interviewees in Pekanbaru suspected that employees were afraid that they would lose their jobs or worse their side businesses. "Without the Mayor's backing, KTDP can't touch us" was the general sentiment expressed.

Indonesian. As one Dutch interviewee suggested, "it is hard but one needs to not think like a Dutchman" to make these communications work. So while indeed Indonesians may have been in the room and agreeing with their Dutch counterparts "in public", like in other Southeast Asian cultures, saying 'yes' does not always translate into actions. Similarly in Indonesian culture, meetings are essentially meant to formalize decisions that have already been taken informally beforehand, thus Indonesian counterparts may have thought of the outcomes of these sessions as pre-arranged and/or the Dutch partner might have overlooked the importance of engaging in informal decision making before key meetings were held.

Ultimately in few cases does it appear that there was someone from the side of the PDAM or municipality who actually held the vision, goals and rationale of the entire partnership project. The mayor's support was universally noted as critical to endorse the efforts of the utility to the general public and to ensure that customers pay, to support penalties against non-effective employees, and to seek support from national bodies as needed. A key challenge here is that these partnerships span political cycles and thereby as a new mayor comes in, the general practice is to denounce the contracts signed by the previous mayor, even if they are not clear what other options they may have but to keep the contract in place. Ultimately they can name the PDAM managing director as the PDAM is a state owned enterprise.

As noted above and discussed further below, historically there is also a sense that the water utilities have served as a money-spinner or "cash cow" for the municipality and thereby political interference unsurprisingly appears to be the norm. Attempts to ringfence the utility financially and protect it from political cycles and interference have proven difficult across the board. When asked how best to get around this problem of political interference, the only practical solution that arose from a wide range of stakeholders was that a business plan that had been widely shared amongst the partners, the local media and consumers held the key to accountability and continuity.

In addition and as mentioned above, there are positive examples of improved PDAM performance in a number of cases, where the political cycles have played a positive role. These might be part of a general evolution in Indonesia towards improved institutional performance.

Whichever the model used, it seems there needs to be clear separation between policy and implementation so that the politicians can set the policies and the tariffs, as informed by the company. Then the company management must be allowed to get on with the business of running the company - that is: appointing competent staff, collecting revenue, managing the assets and the customers, etc. The P3SW experience, among others, has illustrated that politicians do not usually make good business people with regard to public services and so need to be kept out of operational decisions. If they get too close to the day-to-day operational issues they also compromise their ability to exercise oversight over the performance of the water utility. It is certainly clear in the case of East Indonesia that WMD has been appropriately trying to create this separation.

9.5 The nature of the contract

As noted above, the contracts for each of these pilot programs were largely initiated as a function of funding becoming available from the Dutch Government. In the case of Pekanbaru, Dutch funding is channelled through WFH to KTDP who served as the primary interlocutor and contractor with the municipality. WFH was asked outright to be kept at a distance by the Mayor for two major reasons: 1) for fear that KTDP would renounce its earlier contractual obligations and 2) to avoid re-engaging with local council to get their permission to sign an agreement with another entity. In the case of WMD, funding was channelled via SWOI through the company and then directly towards investments in Indonesian municipalities. In this case, Dutch Government funding was augmented with WMD funds and a bank loan agreed by the company's shareholders as noted above. In neither case did the funding ever really touch the hands or enter the accounts of the PDAMs. In both cases, funding was granted by the Dutch Government and, though without initially being mentioned in the Contracting Agreements, these funds were then converted almost exclusively into loans to the Indonesian municipalities. The loans were to be repaid into revolving funds that would then fund activities in other or the same municipalities. It appears that the main difference in terms of the funding mechanism is that by the end of the contract, the value of the Pekanbaru-KTDP-WFH joint venture would essentially have been zero (with all the funding having been repaid with interest) and the East Indonesia Joint Ventures would be assessed at their net book value.

From the Dutch side, the funding was geared around a series of pilot programs. This suggests both an experimental element but also that a learning component would be sufficiently built in so that all stakeholders could learn from the experience, both good and less good. In fact, a formal learning component was not really created for either partnership. Individuals involved all claimed to have learned a lot but this learning has not been formally captured. The framing of the original paperwork was set out as a "subsidy grant" with rather loose deliverables. At the time of framing, this made sense given the experimental nature provided that clearer pathways towards the targets would be set at some moment in time. In due course though each of the parties began to scrutinize the documents to better understand what was binding for either side. Master plans with year-on-year goals and targets were either not established at the outset or not really used as a benchmark.

During the evaluators' discussions in Indonesia, there was significant reference to the loan element of the funding. The East Indonesia CAs only define the modalities of the loan provided for the purchase, by the local partner, of the shares of the JVC, but are not dealing with other forms of loan funding. That might be the reason that several Indonesian interviewees noted that they did not realize that the funding they were receiving was a loan rather than a grant. They stated that when a loan is issued, it is common practice that the borrower receives the funds from the lender and spends these according to his needs, which has not been the case in the P3SW programme. Even if WMD might have been clear on the status of its support, it is not unthinkable that the Indonesian partner would believe that they could eventually convince the lender to reduce the terms, to convert the loan into a grant or to find another way to be bailed out,

effectively writing off the amount owed.⁷⁰ It is also possible as more than one interviewee noted, that a mayor signed the agreement knowing full well that the terms of repayment would come into force after his term in office.

In retrospect it is difficult to determine what has happened exactly. It is however clear that the initial lack of clarity has given rise to many difficulties later on when, several years after the signing of the CAs, WMD requested that the JVC sign loan agreements covering past expenses.

There is also perhaps a difference in interpretation around the role and meaning vested in contracts but also the historical psychology around development assistance. For the Dutch partners, the contract was a clear record of agreement. For the Indonesian parties, it is possible the contract was seen as referring to the beginning rather than the end of a conversation. Suffice to say, interviewees provided a wide range of anecdotes that suggested that the spirit in which the contracts had been negotiated was less than helpful and that partnerships in several cases did not start off well. (In Manado, it was noted that an almost bankrupt PDAM started buying things on credit as soon as the contract had been signed suggesting that "the private sector will pay". While it is true that the situation in the utility needed severe remedial actions and funding was used in several instances to pay for operating costs even before the actual signing of the CA, there does seem to be a general consensus that the "emergency phase" in which WMD controlled as many of the shots as possible "was allowed to continue for too long" before more of a spirit of partnership was re-attempted.)

As noted above, the contract had not been shared with the Dutch government funding parties and thereby any monitoring done by Deltares or the Embassy more generally allowed them to comment on what they were seeing but without really knowing what they were looking for, beyond the overarching and ambitious targets in the original proposal. Similarly it is unlikely that many staff in the PDAMs actually understood what was in the agreements.

⁷⁰ This happens with domestic loans too as there are programs to support highly indebted PDAMs at present. Moreover, WMD has recently substantially decreased the loan amounts and softened the loan terms (see above).

10. Overarching lessons and recommendations⁷¹

As noted above, the experiences described in this document provide a wealth of rich learning for all parties involved. Below are a series of lessons learned and recommendations primarily aimed at strengthening future programming for DGIS' new PPP funding stream. Obviously these recommendations stem from either one or both experiences documented above in Indonesia. The evaluators expect, however, that, as per the terms of reference for the study, there may be wider application beyond Indonesia in how these recommendations could be applied. Thus the approach taken by the team has been reflective rather than a direct linear relationship between the findings and analysis of the two P3SW cases and the discussion below.

Wider PPP context and water sector delivery

Several issues have been raised above with regard to the wider PPP context and water sector delivery more generally. Again there has been a wealth of information, analysis and toolkits developed for the design, implementation and monitoring of PPPs. While in the Netherlands, water is delivered through public entities, their entry into the international arena through more contractual mechanisms (i.e. beyond twinning arrangements) puts them more in line with private sector providers operating on a contract basis to a set of expected deliverables and outcomes. Thus many of the lessons learned in the past decade around the design and delivery of PPP constructs should become clear points of reference for any new contracts put in place. *(1) Should DGIS not feel they have the requisite skills in-house to assess these proposals and contracts, an advisory or ad hoc review group could easily be formed.*

Within this context, there may be a need for some greater deliberation about DGIS policy. Working with healthy PDAMs seems unlikely to yield the kinds of poverty alleviation targets expected of Dutch development assistance. While contracts that only focus on production are obviously attractive for many international operators, how best to ensure that such contracts have a more immediate impact on the delivery of services for the poor is not obvious. Working with PDAMs that have low capacity proves incredibly challenging for a host of reasons outlined above. If "unhealthy PDAMs" are the primary focus, *(2) a clearly staged approach starting with shorter term service or management contracts would allow Dutch partners to more clearly assess the need, the state of the infrastructure, and the political and financial context in which the PDAM is operating.* This kind of approach would more readily lend itself to a "piloting" and experimental mentality that set appropriate and realistic expectations for all parties and a general understanding that partners would readjust together as the programme progressed.

(3) DGIS should not only make the learning focus explicit in their calls for proposals and their funding arrangements but also invest more clearly in the learning coming out of these experiences. Such learning should be as much aimed at including Indonesian partners at local and national levels as possible. The "learning by doing" approach that was implicit in these initial P3SW activities largely and somewhat understandably went missing in and amongst the challenges of everyday implementation.

⁷¹ While recommendations are embedded in the text, please note that for easy referencing they are numbered (1), (2), etc. They are also found in table form at the end of this section.

Accountability

To allow for proper and ongoing investment in expansion and rehabilitation, (4) *funders should seek reassurance from contracting parties (both local government and operators) that financial ringfencing will create a sufficient distance between political and municipal interests in using the water company as a "cash cow".* Clear business plans should be developed based on comprehensive institutional assessments (i.e. not only technical and financial factors but also social, political and environmental aspects). Towards this end, more time should thus be made available to understand the institutional arrangements and relationships, looking at the competencies, risks and vested interests of various actors. (5) *Other skills beyond the technical and financial may be required to help conduct the analysis but also to negotiate the contract at the local level as well as set (and revisit) realistic targets.* (Traditionally transaction advisors have focused more comprehensively on the technical and financial aspects of the arrangement rather than the more (emerging or evolving) political economy, social and environmental aspects.)

Such political economy analysis suggests that clear and genuine municipal commitment via the mayors' support is absolutely critical in ensuring the success of such arrangements. Efforts should be aimed not only at "fixing the problems with the utility" but also at educating the political ruling class (from across political parties) as to what is involved in successfully running a water utility. (6) *The JVC should thus be put into a broader context, seeking to work across a range of stakeholders who could ultimately influence (positively or negatively) the effectiveness and efficiency of the PDAM.* Ensuring a customer focus that generates demand on the utility and thereby frames accountability mechanisms is also critical and may in fact lead to local institutional and political commitment. (This may require skills beyond public relations as well.) Solidly structured PPPs should thereby support capacity not only at the technical level but also across the demand side, working through both the short and long routes to accountability.

Capacity building

For Indonesia specifically, if funding arrangements are aimed at or supportive of business to business (B2B) contracts, (7) *a more clearly defined joint Dutch-Indonesian review and support mechanism needs to be put in place to ensure that local government capacity building becomes an unequivocal component of the contract.* Depending on the scale of the funding provided and the number of PDAMs supported, a more concerted effort could be designed with BPPSPAM, for example, to work with PDAMs, not only to extract information but also to facilitate regular partnership meetings, to facilitate cross learning and sharing between different PPP projects (both Dutch supported or otherwise), and to inform central government actors on emerging ways to best support such partnerships. Regular forums with national stakeholders in this way will help to inform refining of laws and delineation of roles and responsibilities between different levels, but also to further expand the competencies and capacity at the national level to work with local level stakeholders.

(8) *Technical assistance should be clearly framed as part of a broader organizational reform process rather than as an ongoing series of one-off problem solving.* Experiences elsewhere have been designed in such a way that incentives around technical assistance

initially through international experts have been purposely and strategically declining⁷². The process for designating / recruiting and then managing technical assistance providers should be transparent with jointly agreed ToRs, oversight and quality assurance. Where available, a clear preference for local providers of technical assistance should be weighed up by the partners, looking at any tradeoffs in quality vis-à-vis costs, timing, capacity, etc. Admittedly WMD's new model that sees Inowa as a more formalized part of the partnership through a "one-stop-shop" is more transparent and seems to give PDAMs the option whether to make use of their services or not.

Partnership processes

A jointly designed business plan provides the key partnership building activity and the primary accountability document for partners. Again with wider local stakeholders informed and involved, this creates a situation in which everyone knows what to do, when to do it, how much it will cost, what the risks are, etc. Creating the necessary ownership and political support during the process is critical. Interestingly, there is an emerging practice of inclusive planning processes in Indonesia whereby civil society is engaged in determining what the priorities are. These are not simple processes but there is an emerging body of experience and expertise in a range of countries that can inform how best to conduct such multi-stakeholder exercises. *(9) Funding tranches should then be based on widely owned, clear and approved (updated) business plans.*

As noted above, the evaluators have observed that the approach to service delivery has largely been that of fixing technical problems with the partnership then being boiled down to the financial and transactional aspects between contracting party and contractor. While this is understandable and in a vacuum the targets set have been, by and large, technically and financially feasible, wider political and institutional forces have inhibited progress. Best practice in partnerships is now to take a wider view, to see which entities outside of the partnership could actually be brought in to help improve the chances of success. In many countries, civil society organizations have been brought in to help overcome some of these barriers, helping to reassert the focus on the consumer by becoming part of the delivery model. In such instances, NGOs and Civil Society Organizations (CSOs) are helping utilities to expand reach into poor communities through mobilizing communities, educating consumers on how utilities work, supporting a monitoring and oversight role, etc. The evaluators' recommendation is to *(10) assess proposals on how well demand for the service is understood and what plans the partners have for enhancing demand potentially through the use of NGOs and CSOs.*

By and large, as noted above, there has been very little "we" expressed among partners throughout the exercise. The perception, rightly or wrongly, is that the designer, provider, overseer, payee and re-investor (through SWOI) are all the same organization – at least in the case in East Indonesia. Efforts thus need to be made to find the glue that will bind partners together more effectively. In general, efforts at jointly developing

⁷² In the Johannesburg case, the management contract was structured to bring about specific improvements in the operation of the company over 5 years. The private operator that provided this support had to achieve certain targets related to improved customer service, the introduction of an asset management system and an asset register, the implementation of a customer management system, the appointment and training of 15 key top managers, etc. In the latter example, the private operator had to phase out all but one of their staff over the 5-year period.

priorities and solving problems, efforts to understand each other's risks and an emphasis on the Operations and Maintenance of the partnership itself are absolutely critical in making these things work. *(11) Proposals should explicitly state the joint approach to partnership building and maintenance, and review mechanisms should focus not only on the technical accomplishments of the partnership but also the state of the partnership as well.*

Contracting and funding arrangements

Again contracts should be staged starting with simpler institutional arrangements that represent lower-risk service and management contracts and then moving towards lease and concession contracts. A management contract is the option that provides the least risk and the best way to turn around a failed organisation. If assets are to be managed under this model then a lease arrangement is only required if the operator is expected to invest capital in improving these assets. If not, the assets can remain under the ownership of the public utility/company.

Ownership options from the outset should not be a consideration. A key challenge in the early stages of these P3SW relationships has been the ownership share of the Joint Venture Company. While it is understood why this was the preferred option for the Dutch operator, it created and fostered an atmosphere of distrust amongst the partners. In the event that a more substantial Joint Venture Agreement is reached, a lease arrangement of the assets (as exists in the various East Indonesia contracts) is a logical approach.

(12) The staged approach starting with simpler arrangements that later develop into more complex partnerships should also be translated into adapted funding arrangements. In the early stages grants should be used as start-up funds, in particular in the case of 'unhealthy' water utilities that should be a primary focus for DGIS. The terms of the funding arrangement can change into a loan agreement in later stages as the water utility becomes institutionally and financially more viable. Partners can mobilize the necessary loan capital on the local or international markets or via existing financing schemes in the country (an option preferred above the Dutch partner bringing in capital himself) and (13) DGIS should consider setting up a guarantee mechanism to cover loans issued to water utilities that are in a transition from 'unhealthy' to 'healthy'.

(14) Public funds should not as a rule be used for loan purposes as many accessible funding sources seem to exist, particularly in Indonesia. In case DGIS would nevertheless allow its funding to be used by private partners for loan purposes, a clear mechanism needs to be determined that defines among other elements the ownership of these funds and the way DGIS will be associated to its further use.

Overview of recommendations

Proposal stage

(1) Should DGIS not feel they have the requisite skills in-house to assess PPP proposals and contracts, an advisory or ad hoc review group could easily be formed.

(2) A clearly staged approach starting with shorter term service or management

contracts should be encouraged, allowing Dutch partners to more clearly assess the need, the state of the infrastructure, and the political and financial context in which the PDAM is operating.

(3) DGIS should not only make the learning focus explicit in their calls for proposals and their funding arrangements but also invest more clearly in the learning coming out of these experiences.

(4) Funders should seek reassurance from contracting parties (both local government and operators) that financial ringfencing will create a sufficient distance between political and municipal interests in using the water company as a "cash cow".

(5) Transaction advisors could be engaged to help conduct the initial analysis but also to negotiate the contract at the local level as well as set (and revisit) realistic targets.

(6) The JVC should be encouraged and expected to show how they are operating in a broader context, with evidence that they are seeking to work actively across a range of stakeholders who could ultimately influence (positively or negatively) the effectiveness and efficiency of the PDAM.

(7) A more clearly defined joint Dutch-Indonesian review and support mechanism needs to be put in place to ensure that local government capacity building becomes an unequivocal component of the contract.

(10) PPP proposals should be assessed on how well demand for the service is understood and what plans the partners have for enhancing demand, potentially through the use of NGOs and CSOs.

(11) Proposals should explicitly state the joint approach to partnership building and maintenance, and review mechanisms should focus not only on the technical accomplishments of the partnership but also the state of the partnership.

Ongoing

(8) Technical assistance should be clearly framed as part of a broader organisational reform process rather than as an ongoing series of one-off problem solving.

(9) Funding tranches should be based on widely owned, clear and approved (updated) business plans. (12) The staged approach (starting with simpler arrangements that later develop into more complex partnerships) should also be translated into adapted funding arrangements.

(14) Public funds should not as a rule be used for loan purposes, as many accessible funding sources seem to exist, particularly in Indonesia. (13) However, if loans are determined appropriate, DGIS should consider setting up a guarantee mechanism to cover loans issued to water utilities that are in a transition from 'unhealthy' to 'healthy'.

ANNEXES (separate volume)

1. Terms of reference

2. Itinerary and persons met

3. Main documents and references consulted

4. Key Performance Indicators (five locations)

5. Evaluation framework

Final Evaluation of the P3SW Public Private Partnership

Pilot Programme for Pekanbaru and East Indonesia

Annexes

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Neil Macleod
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Risyana Sukarma

Final - January 2013

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1. Terms of reference

Terms of reference final evaluation P3SW Indonesia

1 Introduction

The P3SW programme aims at piloting the extent to which innovative approaches to public private partnerships can assist in solving the problems in the water sector of Indonesia.

Basic programme data:

Contribution DGIS: EUR 13.2 mln

Contribution partners: EUR 7.2 mln

Programme goals:

- *Institutionally, technically and administratively rehabilitate involved water utilities.*
- *Provide 870.000 people with safe drinking water within the timespan of the pilot.*
- *Attract external finance to cover the follow-up phases of the pilot beyond 2010*
- *Gain experience with different PPP modalities.*

Start date: May 2005

End date pilot phase: Dec 2010

End date partnerships: Dec 2020 (15 yr joint ventures)

P3SW combines aspects of traditional investment projects, technical assistance and water operator partnerships (WOPs) in a long term commitment aiming at (financial) sustainability. The foreseen income generated by water utilities as part of the programme was intended to be reinvested in the water sector through a revolving fund.

Important characteristics of the P3SW programme are:

- A business approach aiming for full cost recovery
- Working according to not for profit not for loss principles
- Particular attention to vulnerable groups in society
- Adequate training for management and staff of local water utilities.

The Eastern Indonesian pilots are managed by WMD (The Dutch water utility from the province of Drenthe) and Water Fund Holland (WFH) for the pilot in Pekanbaru.

The pilot phase of the programme already ended in December 2010. Given the long term commitment of WMD to the partnership with the local utilities and the importance of PPPs in the new development policy of the Netherlands an end evaluation of this programme is desirable.

2 Purpose of the evaluation

Given the pilot nature of the programme the emphasis of the evaluation is on identifying lessons for the future. The final evaluation aims at assessing the extent to which programme targets have been achieved and what lessons can be identified from the experience over the programme period. These lessons are important for the future of the P3SW programme as well as for comparable initiatives in the DGIS portfolio.

At **project level** the evaluation focuses on the results of the WFH pilot in Pekanbaru and the pilot of WMD in 10 locations throughout Eastern Indonesia.

At **programme level** the focus is on the overall set-up of the P3SW programme. Including the division of labour between the different partners, the institutional support and the strengths and weaknesses of the PPP-models applied by WFH and WMD. The evaluation will cover the following items:

- A description of both PPP-models and the expected results
- An assessment of the extent to which the programme has worked according to the original (and adjusted) plans.
- An assessment of the extent to which the original (and adjusted) targets have been achieved.
- Establish to what extent sustainable water supply will be achieved if the pilot are continued along the same lines as set out in the original plans.
- As far as possible identify technical, financial and institutional success- and risk factors in relation to the chosen PPP approaches.

3 Specific tasks

- Establish the provided inputs of the partners involved (both in terms of financial means and in terms of capacity)
- As far as possible quantify the results achieved (in relation to the original targets) on:

- Water production (quantity, quality, continuity)
- Distribution (network, reservoirs, non-revenue water, meters)
- Number of working house connections and public stand posts.
- The total number of people with access to safe drinking water.
- Capacity building (no. of people trained, at what level)
- Involvement of water users, communication
- Effectiveness of utility management
- An assessment of the sustainability of the programme
 - Technical aspects (quality and maintenance of components)
 - Financial/economic aspects (accountability, client administration, billing, affordability, tariffs, cost control)
 - Institutionally (Institutional set up of the programme and the extent to which the counterpart utilities can operate independently, quality of management information, planning and control)
 - Socially and politically (pro poor approach, alignment with national, regional and local politics)
 - Commitment of financial institutions for follow-up funding.
 - Ecologically (impact on catchment/water system)
- Identify key risks and success factors in relation to the characteristics of the chosen PPP approaches.
- Formulate recommendations for the programme specifically and for DGIS more generally

4 Evaluation team

In consultation with WMD en WFH, the Dutch Embassy in Jakarta, DGIS and Deltares will compose an evaluation team. DGIS is responsible for the final composition of the team. Given the complexity of the P3SW programme and the geographical distribution the team will consist of two international consultants and two local consultants. The team has to have a good mix of competencies in the area of drinking water facilities, institutional development, business economics and PPPs. Experience in Indonesia and knowledge of the Indonesian language is an advantage.

BPP-Spam has also expressed their interests in a review and is willing to provide one of the local consultants. Given the role of (local and national) government in the programme, a more neutral consultant might be the preferred option. The embassy is requested to advise on this.

5. Approach

The consultants will use a mix of desk study, interviews with key people in the Netherlands and Indonesia (local and national) and field visits. The P3SW-projectproposals, annual plans, progress reports (of WMD and Deltares) and Mid Term Review (MTR)-reports are available as documentation.

The P3SW-pilots implemented in different locations. For WFH it concerns Pekanbaru (Sumatra); for WMD 10 different locations across eastern Indonesia.

The final evaluation will at least evaluate the situation in Pekanbaru (WFH) and Manado (WMD). From the other WMD-locations, the final evaluation will concentrate on the locations where the cooperation will continue: Sorong, Biak en Merauke. And visit at least one location where the project didn't get off the ground. The choice of sites will be finalized during the inception phase.

The evaluation team will have discussions on Indonesian side with the central government (BPP-SPAM), the local authorities and representatives of PDAM's/JV's. At the Dutch side, there will be interviews with WMD, WFH, DGIS, The Netherlands Embassy, Deltares (responsible for the monitoring of the programme) and the DHV (who implemented the mid-term review in 2009).

The evaluation will be carried out in phases. The evaluation team will firstly produce an inception report in which the basis for the evaluation will be documented. Specific attention will be paid to the indicators on which the achieved results will be determined and the way the business model for the programme will be assessed.

6. Deliverables

- Inception report (including presentation to stakeholders in the Netherlands)
- Preliminary findings report (to be presented to Netherlands Embassy in Jakarta at the end of the fieldwork period).
- Final draft of evaluation report (including a presentation to stakeholders)
- Final report

The reports will be produced in English and will have to be submitted to the Ministry of Foreign Affairs electronically.

7. Indicative schedule final evaluation

March 2012	determine ToR in consultation with DGIS
Feb-March 2012	Selection evaluation team
Mid April 2012	Start
Early May 2012	Completion and discussion inception report
Early June 2012	Presentation preliminary findings at Embassy Jakarta
Mid June 2012	Completion final draft evaluation report and presentation to stakeholders in the Netherlands.
Late June 2012	Completion final report.

2. Persons met

Program partners and stakeholders in the Netherlands

- DGIS
 - Pim van der Male, Senior Policy Officer Water Management
 - Roelofs Karin, Head Water and Environment Division
 - Dick C. van Ginhoven, Senior Water and Sanitation Advisor
 - Roel Biesgraef, Policy advisor water governance

- WFH/Aquanet/PWN
 - Bert Jansen, Director WFH
 - Leo Commandeur, Director Aquanet (international branch PWN)

- WMD
 - Karst Hoogsteen, Director
 - Theo Terpstra, Chief Financial Officer
 - Antoon
 - Peter Schouten

- Gerard van der Kolff, Deltares (program monitor)
- Jan Oomen, DHV, team leader of the MTR
- Bart Teeuwen, consultant (institutional expert) – *phone interview*
- Mrs. G. de Vries – Leggedoor, Vice chairman Stichting Waterprojecten Oost-Indonesië

Program partners and stakeholders in Indonesia

1. Jakarta

- Royal Netherlands Embassy
 - Tjeerd de Zwaan, Ambassador
 - Peter de Vries, First Secretary
 - Christien Hukom, Program Officer for Development Cooperation
 - Nathalie Lintvelt, Head of Economic Affairs Department
 - Cees Cramer, Senior Administrative Officer

- BPPSPAM:
 - Amry Dhamri, PPP Expert, member of administrators
 - Tamin M. Zakaria, Secretary

- BAPPENAS: Bastary Pandji INdra, Director of Public Private Partnership Development
- Ministry of Public Works: Danny Sutjiono, Director Water Supply Development (+ about 10 staff)
- PERPAMSI: Dwiki Riantara, Head of Training and Partnership
- IUWASH: Foort Bustraan, Deputy Chief of Party/Watsan Technical Advisor
- Infrastructure reform sector development project:
 - Louis Braam, Team Leader/PPP Transaction Specialist
 - Proyono, PPP Advisor

- Kumala Siregar, Director of KTDP
- Irma Damayanti, Palyja, Water for All Initiative

2. Pekanbaru and Medan

- City parliament/council:
 - Desmianto, Head of Parliament
 - Kudus, Commission Secretary
 - Adwiar, Secretary of the parliament
- PDAM:
 - T. Ahmad, Head financial dept.
 - Gyahri Rahmad, Head of technical dept.
 - Ukrawati, Head of Rumbai section
 - Suhandi, Head of Infrastructure section
 - Mohamad Nasir, Head of Production section
 - Surasi, Planning Department
- City Government:
 - H. Firdaus, Mayor
 - Yuzanri Yakub, Secretary
 - Zulpikar, 2nd Assistant
 - T. Ahmad, PDAM
 - Suhandi, PDAM
 - Isyandi, PDAM
 - Masirya, Head Economic Administration Section
 - DEdi Gusmiadi
 - Sartidjah, PDAM
- Dewi Anggraini, former staff KTDP
- Riko Kurniawan, Director ELAN (NGO)
- Erizal, former Vice Mayor
- Fakhurrodzi, Rosi, Ilham, journalists
- Dwipa Dalius, Cateleya (legal aid foundation)
- Ahmad Zazali, Scale-up (NGO)
- Oni Suryana
- Ir. Mardianto Manan, M
- Abdi Suscripto, former Director PDAM Pekanbaru

3. Manado

- TID
 - Josien Ruyter, Director TID
 - Ida Sukmanati

- PT Air Manado (local JVC)
 - Otniel Kojansow
 - Albert Wuysang, Vice President Board of Commissioners
 - Tommy Sumakul, Commissioner
 - Vecky Gandey, Commissioner
 - Vicky Silimau, senior staff
 - Yan Wawo, general director
 - Denny, Head Production and Laboratorium Dept.
 - Ferry, Head Technical Planning and Supervision Dept.
 - Flepy, Head Distribution Dept.
 - Lonto, NRW team

- Didi Sjafii, Director PDAM
- Paulus Tallulembang, former TID staff
- BPPSPAM (on mission to Manado)
 - Sri Nursanti
 - Dwipa Dalius
 - Arie Yanuar Taba
 - Amry Dharma

- City government
 - Vicky Lumentu, Mayor
 - Haefrey Sendoh, Secretary
 - Several staff members

- Seth Walo, former member of parliament
- Willy Areros, member of parliament

4. Ambon

- Alfons Tetelepta, Director of PT DSA
- Effendi, Commissioner
- Aka, PDAM Supervisory Board
- Other members of Supervisory Board

5. Biak

- PT War Besrendi:
 - Arnold Asyarem, Director
 - Albert Mallow, Commissioner
 - Nanik Riyanti, Vice Director
 - Suryan, Production Dept.
 - Hasael Rumabar, Head of Financial Dept.

- Ester Toni, Public Relations Division
 - Wahyu Pramuji, Planning Dept.
 - Khairul Anam, Distribution
 - Susmanto, Maintenance division,
 - Dewi, Financial Division
 - Wawan Syariful Anwar, TID – controller
 - M.Z. Tobing, Public Relations Division
 - Poli Rumasep, Distribution
- A member of the Biak district parliament

6. Merauke

- PT Wedu Merauke:
 - Frans Tuapattinaja, Director
 - Simon Abraham, Commissioner
 - Heni Astuti Suparman, Commissioner
 - Katrina Rapar, General Manager
 - Paulus Teurupun, Head Technical Dept.
 - Bernardus Yamu, Head General Section
 - Maryana Somar, Head Financial Section
 - Budi Prasetyo, Head Sales and Marketing Section
 - Hendra Rusdiyanto, Head Distribution Section
 - Amarudin Lagne, Technical planning
 - Aidin, Head Maintenance Unit
 - Sudarsono Borlak, Head Production Unit
 - Ferdinandus Renwarin Head General Unit
- T.H. Pasaribu, TID coordinator
- YASANTO (local NGO): Jago Bukit, Anton Maskim

7. Sorong

- PT Tirta Remu:
 - Sophia Manomutu, Director
 - Amos Kasi, member of the board of Commissioners
 - Vicky Mundiahi, head of the financial dept.
 - Tommy Na, head of technical dept.
 - Sastra Weliza, head of general & customer service dept.
 - Other team members
- City government:
 - Drs. Ec. Lambert Jitmau, Mayor
 - Dr. H. E. Sihombing, MM, City Secretary
 - Abubakar Alhamid S.Sos, M.Si, 2nd Mayor Assistant

3. Main documents and references consulted

At the level of the DGIC

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 - Covenant between RWS and MoF
 - Beoordelingsmemorandum Pilot Project Public-Private Partnership (June 2005)
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 - Financieel overzicht RNE: Drinkwatervoorziening Oost-Indonesië
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 - Overzicht aflossingen PT's t/m Juni 2012
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4. Key Performance Indicators (five locations)

4.1 Biak

Indicators	Baseline	2008	2009	2010	2011	Evaluation	Changes (*)
Consumer data							
Population service area	120.849	129.267	132.201	135.202	142.521		21.672
Number of HC		5.390	5.845	6.603	7.127	7.127	1.737
Number of active HC	5.110	5.327	5.711	6.352	5.808	5.808	698
People served by public taps							
Nr. of public taps			22	27	?		
Inhabitants having access to water	30.660	34.641	38.561	48.501		32.028	1.368
Connection density - active HC (%)	25	25	26	28	24		-1
Coverage (%)	25	27	29	36			11
Human resources							
Number of employees	42	47	40	42	43		1
Staff efficiency (Active HC/employee)	122	113	143	151	135		13
Production							
Water production (.000m3)		2.754	3.149	3.285	3.539		785
Specific energy use (kWh/m3)		0,43	0,40	0,48	0,54		0,11
Distribution							
Water sold (.000 m3, via HC and trucks)		1.429	1.324	1.373	1.397	1.388	-41
NRW (%)	66	48	58	58	61		-5
Income							
Total operational income (000,000 IDR)		4.712	6.582	5.641	6.413		1.701
Income from water sales (000,000 IDR)	3.450	4.642	6.507	6.248	5.879		2.429
Average tariff (IDR/m3)	950 (?)	2.198	3.804	3.973			1.775
Income after taxes (000,000 IDR)		-2.414	1.914	-7.284	-2.929		-515

(*) Baseline (2004) against latest data available

4.2 Manado

Indicators	Baseline	2008	2009	2010	2011	Evaluation	Changes (*)
Consumer data							
Population service area	405.000	450.780	468.811	487.563	426.411	410.481	5.481
Number of HC	25.284				33.914		8.630
Number of active HC	32.000 (?)	16.608	17.057	21.834	22.930	23.682	7.074
People served by public taps							
Nr. of public taps	17	121	121	121			
Inhabitants having access to water	91.590	114.214	125.277	133.370			41.780
Connection density - active HC (%) (*)	47 (?)	22	22	27	32	35	13
Coverage (%)		25	27	27		35	10
Human resources							
Number of employees	318	350	350	285	276	276	-42
Staff efficiency (Active HC/employee)		47	49	77	83	86	39
Production							
Water production (.000m3)	27026 (?)	21.444	24.737	25.148	19.805		-1.639
Distribution							
Water sold (.000 m3, via HC and trucks)		3.638	4.309	5.258	5.509		1.871
NRW (%)	79	83	83	79	72	66	-13
Income							
Total operational income (000,000 IDR)		20.187	27.050	28.560	35.722		15.535
Income from water sales (000,000 IDR)		19.116	25.159	34.171	32.426		13.310
Average tariff (IDR/m3)	2.950	3.084	4.002	3.978		4.299	1.349
Income after taxes (000,000 IDR)		-12.630	-15.554	-9.265	-7.313		5.317

(*) Baseline (2005) against latest data available

(*) = (Active HC * 6)/population service area

4.3 Merauke

Indicators	Baseline	2008	2009	2010	2011	Evaluation	Changes (*)
Consumer data							
Population service area		70.864	72.614	74.408	77.131		77.131
Number of HC	3.199				4.467	4.465	1.266
Number of active HC	3.049	3.330	3.406	3.329	3.380	3.389	340
People served by public taps		5.000	5.000	5.000			
Nr. of public taps	22	?	?	?			
Inhabitants having access to water	19.326	24.980	25.436	24.974			5.648
Connection density - active HC (%)		28	28	27	26		-2
Coverage (%)		35	35	34			-1
Human resources							
Number of employees	45	66	66	66	56	56	-45
Staff efficiency (Active HC/employee)	68	50	52	50	60	61	-7
Production							
Water production (.000m3)	844	970	1.053	974	1.228	1.228	384
Specific energy use (kWh/m3)		1,40	1,28	1,23	1,39		-0,01
Distribution							
Water sold (.000 m3, via HC and trucks)		683	687	633	614	614	-69
NRW (%)		30	35	35	50	50	20
Income							
Total operational income (000,000 IDR)		5.376	5.428	5.555	5.902		526
Income from water sales (000,000 IDR)		5.031	5.171	5.376	5.351		320
Average tariff (IDR/m3)	5.950	6.028	7.700	7.627			1.677
Income after taxes (000,000 IDR)		-1.805	-846	-3.462	-1.963		-158

(*) Baseline (2005) against latest data available

4.4 Sorong

Indicators	Baseline	2008	2009	2010	2011	Evaluation	Changes (*)
Consumer data							
Population service area	172.803	188.443	193.963	199.646	207.632	188.477	15.674
Number of HC	9.035	6.802	7.224	11.258	11.867	12.978	3.943
Number of active HC	8.985		7.224	7.486	7.012	9.636	651
People served by public taps							
Nr. of public taps	62		300				238
Inhabitants having access to water	53.910	40.812	60.323	61.897		90.846	36.936
Connection density active HC (%)	31	0	22	22	20	31	0
Coverage (%)	31	22	31	31		48	17
Human resources							
Number of employees	133	131	127	121	121	119	-14
Staff efficiency (Active HC/employee)	68		57	62	58	81	13
Production							
Water production (.000m3)	340 (*)	3.253	3.497	3.680	4.051	3.946	693
Specific energy use (kWh/m3)		0,40	0,46	0,65	0,51		0,11
Distribution							
Water sold (.000 m3, via HC and trucks)	1019 (*)	1.518	1.511	1.479	1.597	1.636	118
NRW (%)	80	53	57	60	61	51	-29
Income							
Total operational income (000,000 IDR)	3666 (*)	4.401	5.708	9.934	10.179		5.778
Income from water sales (000,000 IDR)		3.881	5.070	8.162	8.051		4.170
Average tariff (IDR/m3)	1000 (?)	2.547	3.075	3.075			528
Income after taxes (000,000 IDR)	-4589 (*)	-8.647	-3.394	-3.186	-2.168		6.479

(*) Baseline (2005) against latest data available

(?) Atypical year because of disconnection from power grid

4.5 Ambon

Indicators	Baseline	2008	2009	2010	2011	Evaluation	Changes (*)
Consumer data							
Population service area		57.750	58.200	58.654	60.801	68.079	10.329
Number of HC					7.374	7.374	7.374
Number of active HC	4.767	5.696	6.044	6.342	7.374	7.374	2.607
People served by public taps		800	800	800			
Nr. of public taps							
Inhabitants having access to water		34.976	37.064	38.052		47.827	12.851
Connection density - active HC (%)		59	62	65	73	73	14
Coverage (%)		0,61	0,64	0,65		0,70	0,10
Human resources							
Number of employees	40	45	50	50	53	52	12
Staff efficiency (Active HC/employee)	119	127	121	127	139	142	23
Production							
Water production (.000m3)	2.757	1.968	2.464	2.713	2.936		179
Specific energy use (kWh/m3)	0,41	0,52	0,55	0,44	0,03 (?)		0,03
Distribution							
Water sold (.000 m3, via HC and trucks)		1.329	1.453	1.668	2.160		831
NRW (%)	56	32	41	38	26	28	-28
Income							
Total operational income (000,000 IDR)		4.725	7.823	9.955	7281 (*)	12.637	7.912
Income from water sales (000,000 IDR)		4.394	6.717	8.760	5912 (*)		4.366
Average tariff (IDR/m3)		3.157	3.449	3.689			532
Income after taxes (000,000 IDR)		-2.794	-1.288	1.037	1.697		4.491

(*) Baseline (first half of 2006) against latest data available

(*) Figures for 9 months only

5. Evaluation framework

Key task/issue	Question/judgement criterion/ indicator	Document review	Broader literature review	Interviews the Netherlands	Interviews Jakarta	Interviews field	Site visits & observation	Focus group discussions	Case study	Comments/clarifications	
1. Establish provided inputs of partners involved	1.1 How many financial means have been spent on the program origins of these means?	X								Entire program period to be considered, but no analysis of period before MTR	
	1.2 Relation between actual spending and initial planning? Reasons for deviations?	X		(X)		X					
	1.3 Nature of spending (TA, investments, ...) and level of correspondance with initial planning? Reasons for deviations?	X		(X)		X					
	1.4 Relevance and quality of TA inputs	(X)	(X)	X	X	X		X	(X)		
	1.5 Relevance and quality of investments	(X)	(X)		X	X	X	X	(X)		
	1.6 Relevance and quality of other uses of financial means (if any)	(X)	(X)		X	X	(X)	X			
2. Description and assessment of the PPP models	<i>2.1 PPP in Pekanbaru</i>										
	2.1.1 Historical background	X		X	X	X					
	2.1.2 Major aims	X		X	X	X					
	2.1.3 Description: contract modalities, financing, regulatory environment, actual implementation and stakeholder engagement	X	X	X	X	X		X			
	2.1.4 Assessment of the model (strong and weak points, benchmark with international practices, key risk and succes factors, ...)	X	X	X	X	X		X	X	Benchmark with international practices both at time contracts were signed and today	
	<i>2.2 PPP in East Indonesia</i>										
	2.2.1 Historical background	X		X	X	X					
	2.2.2 Major aims	X		X	X	X					
	2.2.3 Description: contract modalities, financing, regulatory environment, actual implementation and stakeholder engagement	X	X	X	X	X		X			
	2.2.4 Assessment of the model (strong and weak points, benchmark with international practices, key risk and succes factors, ...)	X	X	X	X	X		X	X	Benchmark with international practices both at time contracts were signed and today	

3.	3.1 Pekanbaru								
Quantification of the results (in relation to original targets)	3.1.1 To which extent did the project component achieve its original targets:								
	• aim: improved water supply for 350,000 people contributing to improved health and economic progress (including 40,000 poor living below the poverty line)	X	X	X	X	X	X	X	X
	• output 1: 50,000 house connections; 400 km of distribution channels; 20,000 water meters replaced; 300 public taps installed	X			X	X	X		
	• output 2: water treatment in Tampan and Rumbai renovated	X			X	X			
	• output 3: conveyance capacity to city increased to 900 l/s	X			X	X	X		
	• output 4: non revenue water reduced from 47% to 27%	X	X		X	X	X		
	• output 5: capacity of PDAM Tirta Riau developed (indicators mentioned: WTP plants are model plants, well trained and motivated staff)	X	X	X	X		X		
	• output 6: revolving fund operational (via recovery and reinvestment of capital cost)	X	X	X					
	output 7: improved position of Dutch drinking water sector on Indonesia market (incl. export spin offs)	X	X	X	X		X		
	3.1.2 Which factors (internal, external) explain the level of achievement of the objectives?	X	X	X	X	X	X	X	
	3.2 East Indonesia								
	• aim: improved water supply (WHO norms) in East Indonesia for 2,000,000 people in 15 years time (on the basis of full cost recovery at acceptable tariffs), contributing to improved quality of life, health and economic activation of population	X	X	X	X	X	X	X	X
	• output 1: between 7 and 13 local water supply companies (PDAM) rehabilitated and reorganised to enable them to operate in a sustainable way (indicators: decrease NRW from 70% to 15%; improvement service levels: 24/7 supply; improved readiness to pay for water; increased local knowledge and management); improved treatment of waste water;	X	X	X	X	X	X	X	
	• output 2: decrease of operational costs of local PDAMs	X	X	X	X				
	• output 3: increased sales of drinking water	X	X		X				
	• output 4: improved financial position of PDAMs (with affordable tariffs for local population and basis for future investments)	X	X	X	X				
	• output 5: strengthened involvement Dutch water sector in Indonesia (incl. export spin offs)	X	X	X	X		X	X	
	3.2.2 Which factors (internal, external) explain the level of achievement of the objectives?	X	X	X	X	X	X	X	

4. An assessment of the sustainability of the program	4.1 <i>Pekanbaru</i>									
	4.1.1 To which extent has the improved level of water supply (achieved at the end of the implementation period) been maintained?	X	X	X	X	X	X	X	X	Assessment at level of consumer
	4.1.2 To which extent have the technical achievements (related to outputs 1-4) of the project component been preserved (adequate O&M, ..)?	X		(X)	X	X				
	4.1.3 To which extent can counterpart utilities ensure financial/economic viability (cost control, billing, tariffs, commitment of financial/political institutions for follow-up funding, ..)?	X	X	X	X			X		
	4.1.4 To which extent are local counterpart utilities institutionally sustainable (good accountability; good internal systems of planning, implementation and control; sufficient political back; sufficient level of operational independency, ...)	X	X	X	X			X		
	4.1.5 To which extent is social and political sustainability ensured (political embedding of the water utility; alignment with regional and national policies; pro poor orientation; ...)	X	X	X	X			X		
	4.1.6 To which extent is the drinking water system ecologically sustainable?	X	X	X	X	X		X		
4.1.7 To which extent are the results with regard to increased Dutch involvement in the water sector sustainable?	X	X	X	X			X		Desired focus: increased involvement as such, or lessons learned?	
4.2 <i>East-Indonesia</i>	4.2.1 To which extent has the improved level of water supply (achieved at the end of the implementation period) been maintained?	X	X	X	X	X	X	X	X	Assessment at level of consumer
	4.2.2 To which extent have the technical achievements (related to outputs 1-3) of the project component been preserved (adequate O&M, ..)?	X		(X)	X	X				
	4.2.3 To which extent can counterpart utilities ensure financial/economic viability (cost control, billing, tariffs, commitment of financial/political institutions for follow-up funding, ..)?	X	X	X	X			X		

4.2.4 To which extent are local counterpart utilities institutionally sustainable (good accountability; good internal systems of planning, implementation and control; sufficient political back; sufficient level of operational independency, ...)	X	X	X	X		X
4.2.5 To which extent is social and political sustainability ensured (political embedding of the water utility; alignment with regional and national policies; pro poor orientation; ...)	X	X	X	X		X
4.2.6 To which extent is the drinking water system ecologically sustainable?	X	X	X	X	X	X
4.2.7 To which extent are the results with regard to increased Dutch involvement in the water sector sustainable?	X	X	X	X		X

Desired focus: increased involvement as such, or lessons learned?