Australia Indonesia Infrastructure Grants for Municipal Sanitation

PROJECT DESIGN DOCUMENT

SMEC

Australian AID

Indonesia Infrastructure Initiative

Australia Indonesia Infrastructure Grants for Municipal Sanitation

TECHNICAL REPORT

December 2011

Australian AID

Indonesia
Infrastructure Initiative

INDONESIA INFRASTRUCTURE INITIATIVE

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ACKNOWLEDGEMENTS

This report has been prepared by Chris Sandeman, Water and Sanitation Expert, who was engaged under the Indonesia Infrastructure Initiative (IndII), funded by AusAID, as part of the Activity No. 254.

Any errors of fact or interpretation are solely those of the author.

Chris Sandeman

Jakarta, December 2011

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ABSTRACT

This Program Design Document describes the Australia Indonesia Infrastructure grants for municipal sanitation (sAIIG) to be implemented over three years from 2012 to 2014. The sAIIG is designed to stimulate local government investment in municipal infrastructure for sanitation, and to provide incentives for governance reforms that will impact sanitation and other sectors.

The Government of Indonesia will award sAIIG to select LGs using the GoI on-granting regulations. Funds will be disbursed using an output-based modality after the LG has implemented the sanitation infrastructure stipulated in the grant agreement, and after the works have been verified as acceptable. The GoI will select LGs through an assessment of the governance credentials of the LGs, and evidence of their capacity to implement sanitation programs. To retain the grants throughout the program life, LGs will have to demonstrate progressive attainment of governance benchmarks.

The sAIIG concept is an extension of the Infrastructure Enhancement Grants (IEG) for municipal sanitation, which was implemented as a pilot program during Phase I of IndII. The sAIIG incorporates important lessons learned during that earlier activity, most significant of which was to adopt an output-based modality, and reduce the types of infrastructure eligible for grants. Neighbourhood sewerage with treatment, or with a connection to existing sewerage, and solid waste transfer stations comprise the eligible grant components of the sAIIG.

ACRONYMS AND ABBREVIATIONS

AIIG	Australia Indonesia Infrastructure Grants
AIP-CS	Australia-Indonesia Partnership (AIP 2008-13)
AMDAL	Environmental Impact Assessment *Analisa Mengenai Dampak Lingkungan*
APBD	LG budget of income & expenditure *Anggaran Pendapatan dan Belanja Daerah*
APBN	GoI budget of income & expenditure *Anggaran Pendapatan dan Belanja Negara*
BAPPENAS	National Development Planning Agency
BI	Bank Indonesia
BLUD	Local Public Service Delivery Agency *Badan Layanan Umum Daerah*
BPK	State Audit Board *Badan Pemeriksan Keuangan*
BPKP	Finance and Development Supervisory Board *Badan Pengawasan Keuangan Dan Pembangunan*
CLTS	Community-Led Total Sanitation
CSS	City Sanitation Strategy
DAK	Special Allocation Grant (to LG) *Dana Alokasi Khusus*
DEWATS	Decentralised wastewater treatment system
Dir. PLP	Directorate of Environmental Sanitation at DGHS *Penyehatan Lingkungan Permukiman*
DGHS	Directorate General of Human Settlements, Ministry of Public Works
DJPB	Directorate General of Treasury, Ministry of Public Works

DGFB	Directorate General of Fiscal Balance, Ministry of Finance
DPRD	Local Community Council *Dewan Perwakilan Rakyat Daerah*
EIA	Environmental Impact Assessment
GoA	Government of Australia
GoI	Government of Indonesia
IEG	Infrastructure Enhancement Grant
JMP	WHO / UNICEF Joint Monitoring Programme
KPK	Corruption Eradication Commission *Komisi Pemberantasan Korupsi*
LG	Local Government - City or Regency (Kota or Kabupaten)
LGDP	Local Government and Dentralisation Project (of the World Bank)
MCK	municipal communal toilet and ablution blocks
MDB	Multilateral Development Banks
MoF	Ministry of Finance
MoH	Ministry of Health
MoHA	Ministry of Home Affairs
MPSS	Program Memorandum for the Sanitation Sector
MPW	Ministry of Public Works
MSMHP	Metropolitan Sanitation Management and Health Programme
PAL	Wastewater Management *Pengelolaan Air Limbah*
PAMSIMAS	Community-based Water Supply and Sanitation *Penyediaan Air Minum dan Sanitasi Berbasis Masyarakat*
PDD	Program Design Document (this document)
PIU	Project Implementation Unit
PNPM Mandiri	National Program for Reducing Poverty through Community Empowerment

	Pengendali Penanggulangan Kemiskinan Berbasis Pemberdayaan Masyarakat
PPH	On-granting Agreement between DGHS and LG
PPSP	Accelerated programme of urban sanitation development *Percepatkan Pembangunan Sanitasi Permukiman*
RKL	Environmental Management Plan
RKM	Community Work Plan *Rencana Kerja Masyarakat*
RPL	Environmental Monitoring Plan
RPIJM	Planned Medium Term Investment Programme *Rencana Program Investasi Jangka Menengah*
RPJMN	National Medium Term Development Plan 2010 - 2014
sAIIG	Australia Indonesia Infrastructure Grants - Sanitation
SANIMAS	Community-based Sanitation *Sanitasi Oleh Masyarakat*
SEA	Strategic Impact Assessment
SKPD	Local Task Force under PIU *Satuan Kerja Perangkat Daerah*
WASAP	Water and Sanitation Program Trust Fund - World Bank administered
WASPOLA	Water and Sanitation Policy Assistance Project
WB	World Bank
WSP	Water and Sanitation Program - World Bank partnership with GoI
UPTD	Technical Service Unit *Unit Pelaksana Teknis Daerah*

Chapter 1: EXECUTIVE SUMMARY

1.1 BACKGROUND

Sanitation in Indonesia lags significantly behind its ASEAN neighbours. UNDP data shows improved sanitation facilities cover 67 percent of the urban population while some 9 percent use shared facilities, 8 percent use unimproved facilities, and an estimated 16 percent practice open defecation. Municipal services for solid waste sector are equally poor. Less than 50 percent of the household waste is disposed of in landfills, and very few landfills are operated in accordance with good sanitary disposal practice. Efforts to increase basic sanitation coverage are being set back by population growth, as investments in facilities have failed to keep pace with the growth in urban population.

Decentralisation has devolved considerable authority and responsibility in the sanitation sector to the LGs. During the past decade however, the engagement of LGs in the sector has been minimal. Current funding arrangements such as transfers, loans and subsidies deliver sanitation investments through national channels, or bypass LGs in favour of community initiatives. The sAIIG program is designed to re-engage LGs in the sanitation sector by providing incentives for investment and also to develop the grant channel as a new vehicle for transferring national subsidies for LGs.

1.2 THE SAIIG

The sanitation AIIG will provide $40 million in grants over a three-year period to approximately 40 selected local governments for implementing municipal sanitation infrastructure using an output-based modality. The sAIIG will provide improved sanitation to approximately 92,000 households or 400,000 beneficiaries. The terms of each grant will be defined in an on-granting agreement and the LGs will implement the program using GoI systems and procedures. The local governments will pre-finance the implementation and will claim reimbursement after verification of the completed works. The DGHS will ensure that LGs comply with the provisions of a Project Management Manual issued by decree of the Director General of Human Settlements and referenced in the on-granting agreements.

1.2.1 Components

Neighbourhood sewerage plus treatment - These will be simplified sewerage systems, designed for gravity flow only, of shallow depths (less than 1.5 metres), with no manholes or pumping stations but with inspection chambers and cleanouts. Typically each system will serve between 50 and 400 households. Treatment will consist of an

appropriate anaerobic process but will not be prescribed. Effluent quality must meet GoI Ministry of Environment requirements.

Neighbourhood sewerage connected to existing sewerage system **-** These will be identical to the neighbourhood schemes above except that in cities with existing sewerage schemes, the neighbourhood schemes may connect to the live sewer so that treatment will be provided by the existing facilities.

Intermediate Solid Waste Transfer Stations **-** Intermediate Transfer Stations (*Stasiun Peralihan Antara*, or SPA) receive solid waste from various sources, aggregate and compact it for haulage to the final disposal site. These facilities may vary in size from 5,000 m^2 to more than 10,000 m^2.

1.2.2 Goal and Objectives

The goal of the sAIIG is to increase the provision of improved sanitation facilities by Local Government through the implementation of public sanitation infrastructure.

The project development objectives are to:

(a) Increase LG investment in sanitation infrastructure that will contribute to meeting the GoI and MDG sanitation service targets by providing up to $40 million in output-based grants to 40 LGs that are willing to pre-finance $60 million of sanitation infrastructure during the three-year period 2012–2014.

(b) Improve governance in the sanitation sector at these LGs by requiring them to adhere to an agreed multi-year sanitation investment program and to make specific incremental improvements in governance.

1.3 LEVEL OF THE GRANT

The grant for neighbourhood sewerage plus treatment will be set at IDR 4,000,000 for each verified connection to a household.

The grant for neighbourhood sewerage connecting to existing mains sewers will be set IDR 3,000,000 for each verified connection to a household.

The sAIIG does not pre-assign a unit cost for intermediate solid waste treatment facilities; rather each proposal will be reviewed, and a cost for the facility determined. The grant will be fixed at 50% of the agreed cost. The grant will then be paid on satisfactory completion of the works.

1.4 IMPLEMENTATION ARRANGEMENTS

The program will be implemented through GoI systems and procedures. A direct funding agreement will be signed by GoI and AusAID, and GoI will establish a special account in Bank Indonesia, to which the grant funds will be transferred. The executing agency for the program will be DGHS. A central project management unit and Project Management Manual will be established by decree of the Director General of Human Settlements. DGHS will bear principal responsibility for selecting the participating LGs, using entry criteria agreed in the project design. Entry criteria include evidence of commitments to achieve governance benchmarks that will be stated in the grant agreements. Proposals for the award of grants will be sent from DGHS (in consultation with AusAID) to MoF, which will issue a notification of the grant award. MoF will subsequently sign a three-year grant agreement with each LG. The grant agreements will include reference to the DGHS project management manual which will contain detailed implementation guidelines. Day-to-day management of the program will be the responsibility of a DGHS project management unit which will be supported by consultants engaged by IndII.

1.5 PARTNER AGENCY COMMITMENT

The partner agency, DGHS, endorses the output-based design of the sAIIG. Both DGHS and the Directorate General of Fiscal Balance (DGFB) have participated in the design of the sAIIG for IndII Phase II. DGHS has established a team to support IndII during the design progress. DGHS has also committed budget funds equivalent to $0.6 million for a Central Project Management Unit (CPMU) to oversee the implementation of the sAIIG activity.

1.6 VERIFICATION

Verification will occur at two points: first, during the qualification process, and second on inspection of completed outputs. Before funds are committed, the CPMU, assisted by IndII, must approve the LG's proposed program. The approval will determine whether the LG's plans meet standards described in the PMM regarding land acquisition, social and environmental safeguards, design, and procurement documents. When the infrastructure is completed, the LG will request a verification review by the CPMU. IndII proposes to examine the possibility of progressive engagement with BPKP to participate in the second-stage verification process, giving GoI greater ownership of the process and mainstreaming the procedure.

1.7 CROSS CUTTING ISSUES

The program includes comprehensive attention to cross cutting issues in conformance with both GoI and AusAID guidelines covering poverty, disability, gender equality, child protection, and environmental compliance. IndII consultants will support LGs to

disseminate poverty, disability and gender issues among relevant LG departments involved in the implementation of the sAIIG.

1.8 TECHNICAL ASSISTANCE

The sAIIG design recognises that implementing a sewerage program for households is more complex than providing water connections through the Water Hibah. Therefore, in addition to the usual baseline, verification and oversight consultants, greater resources are being allocated to: build LG capacity; support LGs as they review and improve designs; and assess readiness in terms of land acquisition and environmental compliance. These consultants will be engaged by IndII and will work with the DGHS implementing units.

1.9 CRITICAL RISKS AND RISK MANAGEMENT STRATEGIES

The use of the output-based modality will significantly reduce grant implementation risks. Adequate safeguards are in place to detect the misuse of grant funds and to intervene as required. This intervention increases the possibility that allocated funds will not be disbursed. Many of the identified risks are related to procurement and implementation. The use of an output-based mechanism for administering the grant will reduce the procurement risks but not eliminate them. Construction quality will also remain an issue. For those reasons, procurement quality will be one of the key governance benchmarks in the grant agreements and a central requirement for LGs in retaining the grant awards. Construction quality will be addressed through dedicated field supervision and periodic review, prior to the handover of completed works, by independent consultants engaged under IndII contract. Post-procurement audits will be carried out periodically by the independent review consultant.

Additional monitoring and oversight will be achieved through a publicly accessible web site promulgating the program and the award of grants to LGs. Such websites have served as effective tools for good governance in PNPM, Pamsimas, and other projects. LGs will be required to establish sAIIG-specific websites or promote sAIIG content in their own websites to disseminate, at a minimum, the status of implementation, tenders, and results of procurement.

Chapter 2: ANALYSIS AND STRATEGIC CONTEXT

2.1 COUNTRY AND SECTOR ISSUES

Sanitation service coverage in Indonesia lags significantly behind its ASEAN neighbours. A recent UN report notes that improved sanitation facilities cover 67% of the urban population while some 9% use shared facilities, 8% use unimproved facilities, and an estimated 16% practice open defecation.[1] Municipal services for solid waste sector are equally poor. Less than 50% of the household waste is disposed of in landfills, and very few landfills are operated in accordance with good sanitary disposal practice.

Efforts to increase basic sanitation coverage are being set back by population growth. Investments in sanitation facilities have failed to keep pace with the growth in urban populations while the use of household on-site sanitation systems has not been accompanied by commensurate public investments in infrastructure for collection, treatment and disposal of waste.[2]

Whilst the delivery of sanitation services has been largely decentralised to LGs, funding arrangements remain highly centralised. Recent reviews of expenditure[3] of central and local governments show that LGs' overall expenditure for infrastructure is approximately equal to that of the central government. However, in terms of proportions devoted to sanitation investments, central agencies on average spend 7-8 times more than LGs.[4] For example, the MPW-approved sanitation budget for 2011 is $300 million. This greatly exceeds the GoI DAK[5] to LG for sanitation, which in 2011 was just $45 million shared amongst 428 LGs (with an average allocation of slightly more than $100,000).

Despite decentralisation of responsibilities, LGs are not fully aware of the important health and economic benefits of sanitation and this is reflected in lower budget allocations. Constituents have a long-established tolerance for poor sanitary conditions, a poor understanding of sanitation benefits and do not actively pressure their local governments for improvements. Local governments have historically viewed

[1] WHO / UNICEF Joint Monitoring Programme for Water Supply and Sanitation Estimates for the Use of Improved Sanitation Facilities. Updated March 2010. Indonesia.

[2] National population growth 1.49%; urban growth 1.75%, 2010 Census.

[3] World Bank Public Expenditure Review. June 2011.

[4] In addition to MPW, other recipients of national budget funds are MoH, the Ministry of Environment, and MoHA.

[5] DAK (Dana alokasi khusus) is an annual central budget allocation to most local governments covering 18 sector development requirements. It replaces the previous Inpres (Instruksi Presiden) funds under pre-decentralisation budgets. The total DAK was $2.5 trillion in 2010 and $2.7 trillion in 2011. The sanitation component of the DAK was $40 million in 2010 and $45 million in 2010 and 2011.

sanitation as a private responsibility and have limited their investments to servicing private sanitation infrastructure.[6]

The GoI has initiated a policy to address the deficiency of sanitation services as part of a broader policy platform that responds to related issues of poverty and health in both urban and rural settings. The most significant thrust of the policy is a doubling of the sanitation sector budget in the 2010–2014 RPJM compared to the previous RPJM budget - to $1.7 billion. The GoI has also emphasised the importance of sanitation by creating a separate sanitation category in the DAK starting in 2010.

At the operational level, sectoral ministries under the leadership of Bappenas have initiated the PPSP program as one part of the national policy to accelerate sanitation services in 330 cities.[7] In addition, the Ministry for Public Works has issued *Ministerial Regulation (Permen) PU 16/2008* to support the development of wastewater treatment facilities. The GoI has also enacted *Solid Waste Law 18/2008*, which requires mandatory use of sanitary landfills by 2013.

Fundamental to these policy initiatives is the decentralisation of services as required by law. This is further clarified in implementing regulations.[8] In practice, however, the division of responsibility for sanitation across central and local governments is less distinct. Ministries have assumed responsibility for "lumpy" investments such as treatment plants and major pipe networks, based on the argument that these elements of infrastructure are of national importance.

Lack of accountability in inter-government funding arrangements has been a barrier to expanding sanitation funding for LGs. Until now, concerns about the governance of DAK expenditure have deterred significant increases in DAK funding. The grant channel activated by GoI through the on-granting regulations[9] in 2008 provides accountability

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[6] The owner or developer of a domestic or commercial building structure is obliged to provide for sanitary disposal of wastes. Specifications for these facilities are given in regulations, but are not applied in practice. In high urban density areas, use of septic tanks is not appropriate but continues to be practiced.

[7] PPSP - Percepatkan Pembangunan Sanitasi Permukiman (Acceleration of urban sanitation). The objectives of PPSP by 2015 are to eliminate open defecation by increased sewerage coverage to 5 per cent of urban population in a minimum of 16 cities (includes five cities with new sewer systems); and implementing on-site public sanitation facilities in 226 cities. The five per cent coverage by all sewerage systems is less than 150,000 connections, which translates to services for about 1,750,000 people; this figure is influenced by the 2,000 commercial building connections in PDPAL Jaya with an estimated equivalent population (EP) of 500 each. The PPSP also targets improved solid waste management including recycling in 240 cities, and reduction in flooding of 22,500 ha of land in 100 LGs.

[8] Law 32/2004 (on Regional Autonomy), Law 33/2004 (on Fiscal Balance), and Government Regulation PP38/2007 on the Division of Responsibilities between Government, Provincial Government and Local Government.

[9] Regulations PMK 168 and 169 of 2008 were first applied to on-granting of GoI loan funds for Jakarta's Mass Rapid Transit. They have been applied effectively in the Water and Sanitation Hibah and Sanitation IEGs under IndII. and are also being applied by GoI for on-granting of national education budget funds. More recently, GoI used the same grant channel for a $150 million World Bank irrigation loan to finance grants to 110 LGs.

for funds transferred to LG through binding grant agreements between MoF and the LGs. This was used effectively by the Water and Sanitation Hibah to channel grants to LGs and to leverage LG investments in water and sanitation. To strengthen the accountability for DAK expenditure by LGs, the GoI is also implementing a pilot program[10] with the World Bank in five provinces. This program reimburses GoI expenditures for verifiable outputs funded by DAK. The successful demonstration through sAIIG using similar funding channels with proven governance and accountability measures will assist GoI to channel greater funds to LG for sanitation, leverage greater commitments from LG and redress the imbalance of funding provisions between the central and LG.

2.1.1 Goi Policies Alignment

The GoI policies and priorities in the sanitation sector are broadly aimed at achieving MDG sector targets. The GoI policy for sanitation is enunciated by MPW in *Ministerial Regulation 16/2008*, which sets out national policies and strategies for the development of domestic wastewater management systems to support Indonesia's commitment to achieving MDG targets by 2015.

The key policies are:

(a) Increasing access to sewerage and on-site sanitation, in urban and rural areas for improvements in public health;

(b) Institutional strengthening and capacity building of domestic wastewater management personnel.

The strategy for these policies is:

(a) Prioritise organisation of community-based sanitation in densely populated urban slums which are not served by centralised wastewater management systems;

(b) Gradually transform local systems into centralised sewerage systems in metropolitan and major cities by combining and/or adding to existing systems.

The sAIIG aligns with and supports this policy by prioritising local government investment in neighbourhood sewerage systems with decentralised wastewater treatment, or construction and connection of neighbourhood sewer schemes to existing centralised sewerage systems.

GoI policy for solid waste is enunciated in the solid waste law which requires local government to operate sanitary landfills by 2013. The MPW has issued ministerial regulations governing solid waste management which include requirements for intermediate treatment facilities (supported by sAIIG) in addition to requirements for

[10] The Local Government and Decentralization Project, loan 7914-ID.

final disposal sites.[11] Emphasis is also given to regional cooperation through the development of multi-jurisdictional waste disposal facilities. IndII is supporting the development of these regional solid waste facilities through its other programs.

The GoI's key vehicle for service delivery is the PPSP, which broadly identifies the sanitation requirements of LGs through City Sanitation Strategies (CSS) and investment programs.

In related programs, the Government has made poverty alleviation a development priority. The Government's foremost poverty reduction program is PNPM Mandiri, which provides assistance to poor rural and urban communities nationwide through up to three cycles of block grants for improving essential social services and basic infrastructure. The RPJM for 2010–2014 includes PNPM Mandiri as a development tool to accelerate poverty alleviation, with an indicative budget allocation of $6,754 million over five years for seven PNPM programs.[12] Sanitation is a component of most PNPM programs but many communities do not consider it a high priority. In more recent PNPM programs, MDBs have given higher priority to sanitation and even prepared dedicated sanitation PNPM programs.

2.2 PROBLEM ANALYSIS

The government of Indonesia faces two major problems: first it must meet the MDGs, which it can do by providing "improved sanitation" facilities to approximately 17% of the population; second, it needs to provide sustainable sanitation services at the city level through investment in sewerage infrastructure.

From one perspective, the sanitation coverage as measured by the percentage of permanent dwellings with a toilet and a septic tank or similar form of treatment is quite high.[13] The problem for LGs and GoI is that this type of installation has become all too prevalent as a means for servicing commercial and institutional buildings, restaurants, and shopping malls in city centres. Local governments have neglected to invest in municipal infrastructure (sewerage) which can provide sustainable sanitation coverage for high density urban development. Historically, LGs have held the view that the property owner is responsible for waste disposal and that the LG is only responsible for sanitation facilities that service urban poor in non-permanent or semi-

[11] Minister of Public Works regulation No. 21/PRT/M/2006 on national policy and strategy for development of solid waste management facilities (KSNP-SPP).

[12] PNPM programs included in the RPJM are: PNPM Urban ($664 million); PNPM Rural ($5,420 million); PNPM Regional Infrastructure for Social and Economic Development ($132 million); PNPM Rural Infrastructure ($335 million); PNPM for sanitation - SANIMAS ($37 million); PNPM for water supply and sanitation - PAMSIMAS ($469 million); and PNPM Support for Poor and Disadvantaged Areas – SPADA ($277 million). The Government increased the 2010 allocation for PNPM Mandiri to $1.3 billion, from $1.1 billion in 2009.

[13] Reported as 87% in the Susenas survey 2009.

permanent houses. This view has been sustained in part by the availability of funds from GoI ministry budgets which have supplemented, and in many cases replaced, local government expenditure. The default position of most LGs is to spend the DAK allocation on sanitation and little else of their other income, relying on GoI to provide funding for substantial infrastructure.

Although the government has put greater emphasis on development of the sanitation sector in the current five-year development budget, problems persist with commitment of funding from local government which are commensurate with ministry budgets. The PPSP project embraces ambitious targets for sanitation investment, a large part of which is expected to come from local government. PPSP estimates an investment of $8 billion from 2011 to Dec 2015, of which $5 billion is expected to come from approximately 300 local governments. This is a 30-fold increase over current levels of investment in sanitation by LGs.

The main problem facing effective GoI implementation of significant sanitation infrastructure is the lack of local government funding and commitment for investment in their infrastructure. Therefore, while MPW has secured ample budgets to implement central components of sewerage infrastructure, it is constrained by the lack of local government commitment to provide upstream collection sewers and property connections. What is needed is greater commitment of local funds by local government, or more funding to local governments from central government.

Local governments have limited capacity to commit more funds but are still able to do so, since present expenditure on sanitation infrastructure is very low. Providing more funds to local government for municipal sanitation is constrained by the mechanisms available for such transfers. Until now the DAK has been the only channel for such specific fund allocations. However, funding via the DAK is being restricted because of difficulties in the reconciling of DAK expenditure by local government, a problem being addressed by the World Bank and GoI[14]. Furthermore, the GoI restricts the use of the DAK sanitation funds to community-based sanitation programs and does not permit their use in municipal infrastructure programs.

The sAIIG addresses these two key problems simultaneously. It provides incentives for local government to commit funding for municipal infrastructure, and demonstrates the effectiveness of the grant mechanism as a viable and accountable means of scaling up funding to local government for municipal infrastructure.

2.3 LESSONS LEARNED

The Sanitation IEG pilot activity carried out in 22 LGs during Phase I of IndII identified lack of significant funding, fragmentation of programs, questionable sustainability, and poor governance as common problems amongst many of the participating LGs.

[14] Through the World Bank Local Government and Decentralization Project

Investment by LGs in the sector is small[15] compared to other budget expenditure. On average, approximately 1% of the LG investment budget goes to sanitation services. If salaries are included, the figure drops to 0.4% of the LG budget. This means that the average local government spends about $100,000[16] on sanitation services each year. Most of this budget allocation is for operational costs and not for investment in new infrastructure. Despite the commitment to the GoI PPSP policy, there is significant underinvestment in sanitation infrastructure. Other lessons learned point to poor governance in the procurement of goods and services and inadequate oversight of the sector.

Fragmentation of the sector is symptomatic of poor governance and planning. LGs receive small amounts of funding support from a large number of sources.[17] These funds are allocated to *ad-hoc* activities rather than consolidated into mainstream infrastructure components. The fragmentation is compounded by the involvement of more than one LG department (Dinas) in the delivery of sanitation services. More disturbing is the practice of fragmentation of procurement contracts to conform to the ceiling for direct purchase requirements in the procurement regulations.[18] The overall outcome is a lack of focus and a large number of small-scale components mostly linked to the funding source. This lack of consolidation of the sanitation program contributes to poor sustainability in sector development.

The proposed sAIIG addresses this problem by stipulating disbursement of the grant only for verified outputs of fixed infrastructure. A condition of the sAIIG disbursement will be that LG investments are procured through competitive tenders under the prevailing GoI regulations.[19] This will concentrate the funding of the LG into fewer and larger contracts, providing some critical mass in new sanitation service facilities. It will also simplify the oversight of the implementation process, which was a problem in the IEGs.

The IEGs exposed weaknesses in the capacity of LGs to plan, design, and implement sanitation infrastructure. This was also evident in the implementation of the Sanitation Hibah, which included a component for localised sewer schemes but which was not taken up by any of the five participating LGs. Difficulty with planning and design of these schemes was one of the reasons for the low demand. The sAIIG address this

[15] Estimates by IndII of all LG expenditure on sanitation are based on extrapolation from the budgets of the 22 LGs. Of that, a smaller fraction is applied to infrastructure.

[16] Excluding DAK.

[17] In addition to the DAK and DBH, the LGs receive funds from the central government via DPDF and PPD (Dana Penguatan Desentralisasi Fiskal dan Percepatan Pembangunan Daerah, based on PMK 118/2010 – a fund for the strengthening of fiscal decentralisation and the acceleration of regional development); DPIPD (Dana Penguatan Infrastruktur Dan Prasarana Daerah (based on PMK 113/2010 – a fund for strengthening regional infrastructure and services); and DPPID (Dana Percepatan Pembangunan Infrastruktur Daerah – a fund for acceleration of regional infrastructure development).

[18] Presidential Regulation 54 of 2010 allows contracts of less than IDR 50 million to be procured directly without competitive tendering.

[19] The sAIIG will stipulate a minimum contract size of $50,000 to qualify for the grant.

through a comprehensive TA plan to review the validity of proposals, designs, and environmental safeguards before committing grant funds.

The implementation of the Sanitation Hibah and the IEGs demonstrated strong commitment from LG when support was channelled directly to LG as opposed to GoI support implemented through the technical ministries. The Sanitation Hibah also demonstrated that uptake sanitation services by the community requires more socialisation of the benefits than for other social infrastructure services such as water supply and solid waste management.

The Sanitation Hibah demonstrated that the beneficiaries generally had low demand for improved sanitation, not seeing it as a priority. It was often not identified as a basic need or as having tangible benefits for the family or the wider community. Socialisation of the benefits will be a key component for success of the sAIIG. The LG supported by IndII TA inputs will be responsible for the socialisation.

Even when carefully addressed in socialisation activities, and with extensive community participation in planning, decision making and construction, the management and sustainability of communal facilities such as municipal communal toilet and ablution blocks (MCK) is frequently a problem. People often resent having to pay to use them and clearly prefer the convenience, and privacy, of having toilets in their own house. Reviews of communal facilities have indicated that there is a steady decline in their usage, due in part to households building their own sanitation disposal facilities. However these are often inadequate or discharge directly to drains. For these reasons, sAIIG is not supporting the construction of MCK, rather it will promote the construction of neighbourhood sewerage to provide safe disposal of household sanitary waste.

2.4 EXISTING AUSAID AND OTHER DONOR/MULTILATERAL PROGRAMS

There are two relevant streams of assistance from donors: (i) assistance to the sanitation sector; and (ii) decentralisation and governance.

The World Bank – WSP is implementing Phase 3 of the AusAID funded WASPOLA facility; delivering sanitation capacity improvements at LG and sub district/village level; and promoting adoption of better hygiene practice by the community through implementation of the CLTS program. WSP secured $3 million from the Gates Foundation for 2008–10 and is applying for a further $1.7 million for refinement of the CLTS capacity building efforts within LGs during 2011 and 2012. The sAIIG complements these policy and capacity improvements through the provision of grant funds to support implementation of LG programs.

The World Bank is implementing the $22.5 million AusAID funded PAMSIMAS component under WSI, which includes community-based sanitation for approximately 500 villages. The AusAID funded component is part of the IDA funded PAMSIMAS

program covering 5,000 villages and peri urban areas implemented as a community based water and sanitation program through DGHS.

ADB is financing the Metropolitan Sanitation Management and Health Project (MSMHP) in Medan and Yogyakarta, which will finance downstream sewerage improvements. These will require expansion of upstream tertiary and domestic sanitation infrastructure to feed the downstream expansion. The sAIIG will support these upstream developments.

The ADB is planning to finance major sewerage investments in five cities where IndII has recently completed Wastewater Master Plans. These will require investment in upstream infrastructure by LGs, and where possible this will be supported through the sAIIG also.

The Government of the Netherlands is supporting GoI with the Urban Sanitation Development Program, which provides €10 million for the development of PPSP pipeline projects including CSS. The sAIIG will provide support to LGs to implement the pipeline programs.

The World Bank Local Government and Decentralisation Project is supporting strengthened accountability of DAK expenditures through a $220 million loan which reimburses GoI for good governance and accountability of DAK disbursements[20]. The disbursements from the WB loan are based on LGs achieving prescribed infrastructure outputs (roads, irrigation, water, and sanitation). The LGDP DAK reimbursement project uses the GoI State Finance and Development Supervisory Board (BPKP) to provide oversight verification. The menu of acceptable options for reimbursement under the DAK for communal sanitation includes the type of neighbourhood wastewater systems proposed for the sAIIG program, but sAIIG will be implemented by LGs rather than community organisations.

In August 2011 the ADB signed a $100 million loan for Urban Sanitation and Rural Infrastructure Support to the PNPM Mandiri Project, to reduce poverty through community based initiatives to upgrade basic infrastructure in rural villages and improve sanitation services in poor urban neighbourhoods in nine provinces.

2.5 RATIONALE FOR AUSAID INVOLVEMENT

The sAIIG supports the AIP-CS Pillar 1, “sustainable growth and economic management”, through reducing constraints to sanitation infrastructure access and productivity growth. A recent study[21] by the World Bank has shown that Indonesia

[20] The Local Government and Decentralization Project

[21] Economic Impacts of Sanitation in Indonesia, WSP – World Bank, 2008 identified economic losses of USD 6.3 billion in FY 2006 due to poor sanitation mostly due to health impacts and pollution of water supplies.

incurred economic losses of up to 2.3% of GDP due to poor sanitation services. The sAIIG also supports poverty reduction by focusing on improvements to densely populated low income areas.

Support for AIP-CS Pillar 1 comes in the form of direct benefit to poor households through greater access to improved sanitation facilities and services, and through improved governance and sustainability of these services by LGs.

The sAIIG will be implemented by GoI using the GoI on-granting mechanism which was established in December 2008 and first used by IndII to successfully deliver the Water and Sanitation Hibah programs. Through IndII, AusAID further tested the "on-granting" mechanism in delivering the sanitation IEG program in FY 2010 and 2011 by IndII. The use of this modality strongly supports the broader objectives of the Paris Declaration and the Accra Action Agenda, as it impacts on:

- capacity development of the implementing agencies at GoI and learning from supporting technical assistance;
- delivery through use of partner country systems;
- division of labour among participating stakeholders;
- mutual accountability; and
- ensuring aid flows are more predictable though Funding Agreements at the central level and multi-year on-granting agreements at the LG level.

The sAIIG complements other AusAID programs in the sector, including the Sanitation Hibah, the sewerage development programs under IndII Phase I, WASPOLA, PAMSIMAS, and indirectly supports health improvement objectives under the AIP-CS.

2.5.1 Additionality

The sAIIG will focus on support for physical infrastructure. This will shift the balance of spending by LGs from discretionary recurrent expenditure to spending on fixed infrastructure for services. The formula for the sAIIG will be output-based and will provide an average of 60% of the cost of physical works for new infrastructure[22]. The LG will need to pre-finance the full cost of implementation for a net contribution of 40% after the grant is received. By comparison, the GoI DAK funding requires a 10% contribution from the LG. The proposed 60% grant will leverage LG financing for physical infrastructure to significantly higher levels than LGs are providing now. Pre-financing will also stimulate some LGs to mobilise otherwise dormant financial reserves

[22] Output-based grants are one form of results based financing in which the payment of grants is contingent on the recipient achieving an agreed outcome. In the sAIIG, the outcome will be the construction of sanitation infrastructure to an acceptable standard from an approved menu of options for sanitation and solid waste facilities. Grants for sewerage are 67% and grants for transfer station stations are set at 50%.

deposited in Bank Indonesia certificates of deposit. The LGs will continue to finance their obligatory recurring costs. The net result will be an overall increase in the LG sanitation budget with a significant increase in fixed infrastructure investment and a reduction of discretionary recurrent spending. The LGs will be encouraged to consolidate their various discretionary funding sources to invest in infrastructure that qualifies for sAIIG financing. Over the course of the program this will result in observable improvements to service delivery by LGs.

The implementation of the program over three consecutive budget years will allow the sAIIG to include tests of LG achievement of benchmarks for governance as well as physical investments. The governance benchmarks will be linked to annual reviews while the physical targets will be more flexible. Failure to achieve governance targets will be grounds for review and ultimately suspension of the grant.

2.5.2 Partner Agency Commitment

The partner agency, DGHS, actively participated in the Phase I IEG program from design to implementation. During implementation, the DGHS witnessed at first hand the difficulties of supporting sanitation sector development and governance at LG. The partner agency endorses the intent to simplify and rationalise the design of the AIIG to an output-based format. DGHS established a team to support IndII during the design progress. Both the Directorate General of Fiscal Balance (DGFB) and Bappenas has supported DGHS in the design of the sanitation sAIIG. DGHS also provided budget funds for an operational Central Project Management Unit (CPMU) to oversee the implementation of the Phase I activity and would do so again for the Phase II activity.

Moreover, DGHS and DGFB have demonstrated during the implementation of the Water and Sanitation Hibah and the Sanitation IEGs that they are willing to enforce governance issues arising from LG implementation of the grant programs.

A more critical issue will be the willingness of LGs to adopt governance criteria for continued access to the grants. Evidence from the Hibah and IEG programs show that heads of LGs are willing to take a tough line on services that directly impact the community, especially where the program is high profile and has a visible impact on constituents. The litmus test for the sAIIG will be the level of buy-in by LG to the governance criteria and their ultimate performance in meeting the criteria.

The partner agency, the Directorate General of Human Settlements (DGHS), Ministry of Public Works (MPW), is fully committed to the PPSP policy. LGs are committing to the PPSP through their preparation of City Sanitation Strategies. So far this is occurring in accordance with the roll-out schedule of the PPSP. The implementation of the Sanitation IEGs demonstrated strong commitment from GoI and LGs with significant excess demand for this modality of support. Further evidence of GoI commitment to sanitation is the new stand-alone grant under DAK for sanitation in 2010. In FY 2010 the sanitation DAK was $45 million, up from $40 million for FY 2009 in parallel with the

increased emphasis of programming and budgeting for sanitation through ministry budgets.

Chapter 3: PROGRAM DESCRIPTION

The sanitation AIIG will provide $40 million in grants over a three-year period to approximately 40 selected local governments for implementing sanitation infrastructure using an "output-based" modality. The sAIIG will provide improved sanitation to approximately 90,000 households or 400,000 beneficiaries. The grants will be defined in an on-granting agreement[23] and the implementation will follow GoI systems and procedures. The LGs will implement the program by pre-financing the works from their own funds and will claim reimbursement after verification of the completed works. Implementation by LGs will comply with the provisions of a Project Management Manual issued by decree of the Director General of Human Settlements and referenced in the on-granting agreements.

3.1 GOAL AND OBJECTIVES

The goal of the sAIIG is to increase the provision of improved sanitation facilities by LGs through the implementation of public sanitation infrastructure.

The project development objectives are to:

(a) Increase LG investment in sanitation infrastructure that will contribute to meeting the GoI and MDG sanitation service targets by providing up to $40 million in output-based grants to 40 LGs that are willing to pre-finance $61 million of sanitation infrastructure during the three-year period 2012–2014.

(b) Improve governance in the sanitation sector at these LGs by requiring them to adhere to an agreed multi-year sanitation investment program and to make specific incremental improvements in governance.

3.2 EXPECTED OUTCOMES

What will success look like at the end of the program? – A successful outcome will be one in which the participating LGs increase their overall sanitation expenditure significantly above non-participating LGs, and where most of that increase is directed to fixed infrastructure investments resulting in increased access, particularly for the poor and vulnerable, to efficient and sustainable sanitation services. The expansion in sanitation services will be accompanied by increased transparency and improved governance in the delivery of these services.

[23] The document is a PPH – Perjanjian Penerusah Hibah – literally an on-granting agreement signed between the head of LG and the Minister of Finance.

A successful outcome will also be one with evidence that public health and social welfare have improved, and that a socially inclusive approach has been taken. Women, the poor, people with disabilities and other disadvantaged groups, will have equitably participated, including in decision making, and will have enjoyed equitable access to resources and benefits.

3.3 PROGRAM FEATURES

3.3.1 Entry requirements to the sAIIG program

LGs selected to participate in the sAIIG program will possess three criteria: demonstrated commitment to financing and developing sanitation services; participation in GoI's Accelerated Program of Urban Sanitation Development (PPSP); and completion of their City Sanitation Strategy.

Evidence of good governance at the LG will also be required, indicated by the absence of negative audit findings by BPK or receiving as a minimum, an unqualified or qualified audit from BPK. Based on preliminary reviews of the implementation of the IEGs, governance at LG is somewhat correlated to BPK audit findings. In addition, if any of the LG's executive or senior staff are known to be under investigation by the KPK, the LG's standard of governance will be deemed unacceptable. Willingness of the LG to commit to progressive governance benchmarks will also be a precondition for acceptance into sAIIG.[24] The governance benchmarks will vary from LG to LG since in some locations the local government may have already implemented some of the governance measures proposed. In addition, LGs will be expected to make commitments to socialise the benefits of household sewer connections to the community in general and to women's groups in particular.

Governance Benchmarks

- Establishment of a Procurement Unit as required under PP54/2010
- Establishment of an UPTD operating authority for sewer schemes
- Establishment of e-procurement and reporting
- Commitment of adequate operational and maintenance budgets

3.3.2 Eligible infrastructure

The menu of sanitation infrastructure eligible for sAIIG grant is restricted, and based on an agreed specification for works and unit cost rates; the infrastructure is summarised below and described in detail in Annexe 2.

[24] Selection criteria and governance objectives are set out in Annexes 2 & 3 and the Project Management Manual.

- **Wastewater sub-sector**

(i) Neighbourhood sewerage plus treatment

These will be simplified sewerage systems, designed for gravity flow only, of shallow depths, less than 1.5 metres, with no manholes or pumping stations but with inspection chambers and inspection openings. Typically each system will serve between 50 and 400 households. Sewers will be limited to two sizes, 100 mm diameter and 150 mm diameter. Connections to the households will include the toilet, bathroom drains, and kitchen sink waste. The local government will be allowed to make its own connection policy. Since the grant will be paid based on the number of house connections made, and not on the construction of the system, there is added incentive to achieve the connections and build larger systems to benefit from the economies of scale. Treatment will consist of an appropriate anaerobic process but will not be prescriptive[25]. Effluent must meet Ministry of Environment requirements. The sAIIG will encourage higher effluent quality targets depending on the location and nature of the effluent discharge point. The LG will need to establish a semi-autonomous operating unit, the UPTD, by Year 2 of the project. The UPTD will have the power to collect tariffs and retain the funds for operation. During the transition period, the LG will assign operational responsibility to a Dinas of the LG.

(ii) Neighbourhood sewerage connected to existing sewerage system

These will be identical to the neighbourhood schemes connected to treatment except that in cities with existing sewerage schemes, the neighbourhood schemes may connect to the live sewer where treatment will be through the existing facilities. The absence of specific treatment facilities means that a lower level of grant will be paid for each connection to these schemes.

- **Solid Waste sub-sector**

(i) Intermediate Solid Waste Transfer Facilities (SPA)

Intermediate Transfer Facilities, *Stasiun Peralihan Antara* (SPA), receive solid waste collected by small trucks from various sources including domestic areas, interim collection stations, and recycling depots. They aggregate and compact the waste, which is then hauled to the final disposal site by a fleet of large trucks. These facilities may vary in size from 400 m^2 to more than 1,500 m^2. Therefore the sAIIG does not pre-assign a unit cost for these facilities; rather each proposal will be reviewed, and assessed in terms of readiness for implementation. At that time agreement will be reached on the appropriate cost for the facility and the grant will be fixed at 50% of the agreed cost. The grant will then be paid on satisfactory completion of the works. The solid waste interventions may be delayed into Year 2 of the program to better assess the sector.

[25] Imhoff tanks, upflow anaerobic reactors, multi compartment septic tanks. Effluent treatment may include absorption through soil or cultivated wetland.

3.3.3 Levels of grant

The grants for each type of infrastructure component will be predetermined on a scale between 67% and 50% of the total cost of construction, depending on the type of works. Higher grants are allocated for Simplified Sewerage Systems at 67% of nominal cost, while solid waste Transfer Stations will receive a 50% grant. The different levels of grant are intended to direct LG sanitation activities towards the more sustainable components.

Preliminary Level of Output-based Grants for Eligible Components

	Unit of payment	Fixed Price Rp	Level of Grant	Grant per family Rp
Wastewater				
1.1 Neighbourhood Sewerage System and Treatment Plant connecting minimum 50 families to treatment plant	connection	6,000,000	67%	4,000,000
1.2 Neighbourhood Sewerage System connected to Existing Wastewater System extending and connecting new customers	connection	4,500,000	67%	3,000,000
Solid Waste	Subject to prior review and agreement on cost			
2.1 Intermediate Transfer Station (SPA) minimum 1,000m2	installation		50%	

3.3.4 Implementation

In executing the sAIIG program, local governments will apply the DGHS Project Management Manual. Implementation of the Simplified Sewerage Systems will comply with DGHS standards, specifications and technical guidelines. The sewerage systems will be constructed by qualified contractors procured through competitive bidding under prevailing GoI procurement regulations. An Implementation Consultant will support the LGs in the detailed design and contract supervision.

3.3.5 Verification

An independent Verification Consultant will inspect the completed works in the field, check the LG's progress towards governance benchmarks, and calculate the value of grant payment due. The Consultant will identify any shortfalls in quality or quantity of infrastructure constructed and recommend either remedial actions, or non-disbursement for the non-qualifying component. Failure by the LG to achieve satisfactory progress on governance will trigger a review of the grant agreement; continued governance failures will lead to cancellation of the grant.

3.3.6 Program management

DGHS will be the principal partner agency responsible for execution of the program, although DGFB and BAPPENAS have also been involved with AusAID / IndII in the program design. DGHS, in close consultation with IndII, will have primary responsibility for selection of the LGs, approval of their proposed programs and allocation of the grants. DGHS will then propose the selected LGs and grants to DGFB for award of the on-granting agreements. AusAID / IndII will work with DGHS and DGFB to prepare the Direct Funding Agreement, the Project Management Manual, and the content of the on-granting agreements. DGHS will issue the Project Management Manual by decree of the Director General and will establish a Central Program Management Unit to be responsible for oversight of the sAIIG program.

IndII will engage consultants to support DGHS with program appraisal, baseline and other surveys, detailed design, implementation oversight, and independent verification. DGHS will be responsible for preparing recommendations for grant payment, which will be subject to a *No* Objection from AusAID / IndII. DGFB will manage the sAIIG funds as part of their national budget and authorise payments through the Special Account at BI, and report on the use of the funds to AusAID.

3.3.7 Land acquisition, social and environmental issues

In order to avoid delays due to land acquisition, any land required for construction of the sanitation infrastructure must already be in the ownership of the LG or the local community prior to sub-project approval. The land must also be free from any settlement or buildings which would delay implementation.

The sAIIG's effectiveness and sustainability will be increased by ensuring a gender inclusive approach is adopted and that women's, as well as men's, needs and priorities are heard. Socialisation and information dissemination will be designed to reach both women and men and there will be equitable participation by women and men in all aspects of sAIIG. The project will promote disability inclusive development, ensure equal access to infrastructure for people with disabilities, and facilitate active participation by people with disabilities in project activities.

It is expected that some PPSP activities will have already required a Strategic Environmental Assessment to ascertain whether the plans comply with Indonesian standards and safeguards. LGs are responsible for ensuring that all required environmental safeguards have been prepared (AMDAL, RKL, RPL); DGHS will review them as part of the approval process. In most cases sAIIG sub-projects will be small-scale with the potential to cause local, short-term, negative social and environmental impacts which will be addressed during the detailed design.

3.4 FORM(S) OF AID PROPOSED

Three alternative approaches were considered: (i) channelling the funds through the technical ministry, MPW; (ii) a DAK type project with possible enhancements; and (iii) an output- or performance-based grant to the LG.

Channelling of the funds through MPW would mean that MPW would provide indirect sanitation improvements to communities by implementing them through the provincial program manager. This runs counter to the current decentralisation objectives which are to enhance the transfer of funds for sanitation to LGs. The MPW budget is already at the limit of MPW capacity to implement, and no further consideration was given to channelling funds via MPW.

Examining the DAK concept as an option raises other issues. The DAK is in the form of a budgetary entitlement to LG. This would mean that the grant would be passed on to the LG as a budget allocation for the LG to spend and for GoI to subsequently report expenditure to AusAID. This modality has high risk and the governance mechanisms are not in place to allow its consideration.

Nevertheless the WB Local Government and Decentralization project has many good features and its implementation should be monitored to examine possible cross fertilisation of methodologies and approaches with the grant mechanism.

A significant improvement on the DAK model is the non-output based (conventional) grant mechanism which requires LGs to sign a binding grant agreement which can be enforced with penalties for non-compliance. This has better governance provisions than the DAK but also requires considerably more implementation oversight and obligatory prior review of supporting documents for all payments. The GoI is using this modality for education grants and other central grant transfers.

A hybrid of this modality combined with performance assessment was used for the IEGs. The complexity of implementing the IEGs confirmed that this level of oversight and supervision of the implementing agencies can be a limiting factor in its use. It also exposed weaknesses at LG in service delivery and governance in the sanitation sector.

As a result of this assessment and the lessons learned from the IEGs, the preferred approach for delivery of the sanitation AIIG is the GoI grant channel using an output based modality, as has been used successfully in the Sanitation Hibah[26]during Phase I of IndII.

[26] The Sanitation Hibah is an output-based grant program in which the LG invests equity in a sewerage operating authority which in turn applies those funds in addition to its own funding to expand sewerage connections. The grant is then disbursed to the LG based on evidence of new sewer connections having been made in accordance with agreed specifications and recipient targeting. The application of the sanitation hibah is limited to existing sewer schemes with operating sewer authorities.

3.5 ESTIMATED PROGRAM BUDGET AND TIMING

3.5.1 Project pipelines and readiness in 2012

Preliminary overview on sanitation program for year 2012 has been obtained from 24 LGs during the socialisation of the sAIIG. Those LGs were selected from previous IEG program, LGs assisted by IndII in preparing WWMP and other LGs proposed by DGHS that had a suitable 2012 sanitation program. Six of these LGs have programs for the construction of neighbourhood sewerage systems and the others are for additional house connections, totalling about IDR 42 billion or equivalent to $ 4.7 million in grants. A total of IDR 1.26 billion or equivalent to $0.13 is to be budgeted for solid waste sector (Transfer depot) The DEDs for 2012 programs have either been prepared, are in process or, will be prepared at the beginning of 2012. Six LGs have completed their DEDs. Land is reportedly available or in preparation.

3.5.2 Governance benchmarks

It is likely that the first year program will contain readily achievable governance benchmarks to help establish relationships and provide confidence to LGs, with more onerous governance criteria in subsequent years. Implementation arrangements and the level of funding support will be defined in a Funding Agreement between GoI and AusAID.

3.5.3 GoI PPSP schedule

The GoI PPSP initiative covers 330 cities. The roll-out of the PPSP is expected to be complete by 2014 as shown in the table below. It is anticipated that the sanitation AIIG could cover up to 50 LGs over a three-year period, allowing six months start-up and six months for completion and exit.

3.5.4 Uptake of the grant

Although the grants will be awarded for three years there will be an annual review and verification of the qualifying program for the current budget year. The anticipated uptake of the sAIIG is shown below.

Table 1: Uptake of the Grant and Disbursement to GoI Special Account

AusAID FY	2011-12	2012-13	2013-14	2014-15
GoI FY	2011	2012	2013	2014	2015
CSS Complete	114	176	248	330	Final verification and closure
IndII sAIIG LGs	start	30	40	50	
Current LG Inv*. $ mil		3	4	5	
sAIIG $ (mil)	start	4	20	16	
Disbursement to BI account		10	15	15	

* *excluding operating expenditure and salaries*

In Phase I, the IEG program provided an average of $250,000 to each LG for essentially a one year implementation period. In Phase II, the inclusion of small scale sewerage will increase the grant size to approximately $400,000 for each LG, each year. The application of the program over multiple years could result in average grants $1.2 million for each LG over three years. There will be 114 LGs that would qualify for the sAIIGs by the end of 2011. These are the 65 existing LGs with CSS and the 49 additional LGs with CSS in preparation during 2011. The LG selection and grant allocation criteria will aim to arrive at about 20% of qualifying LGs progressively entering the program during this period. Based on these figures a total *sanitation AIIG allocation of $40 million over 3 years* would leverage approximately a 400% increase in delivery of new fixed sanitation infrastructure by the participating LGs.

The sAIIG will also include a public diplomacy and communications component. Implementation of the Water and Sanitation Hibah has demonstrated that this is an effective tool in emphasising the constituency benefits of the program to the heads of LGs.

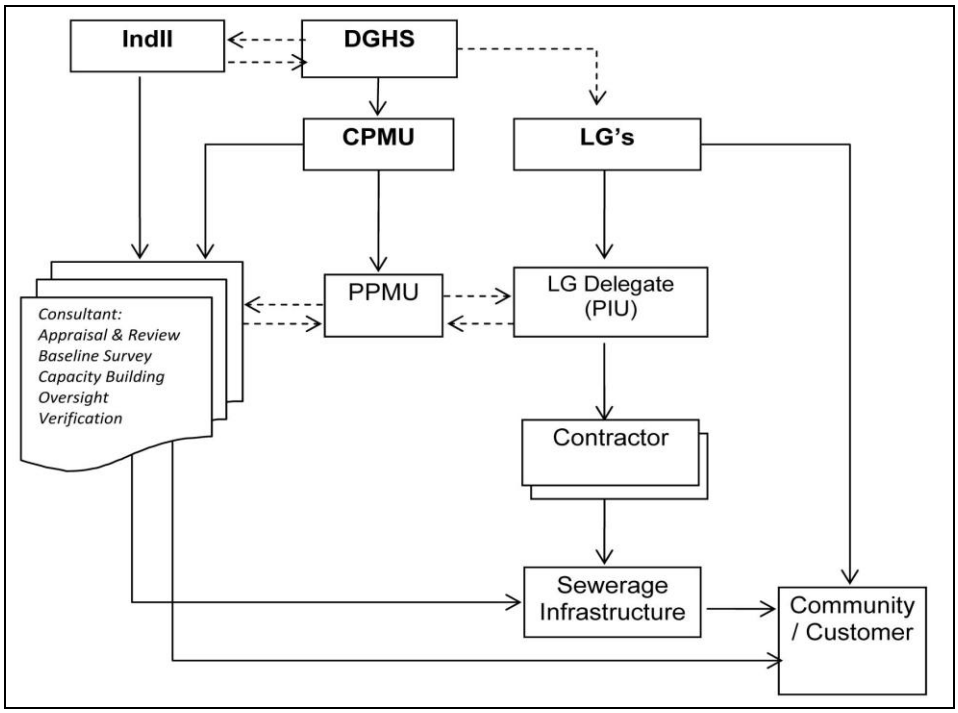
Chapter 4: IMPLEMENTATION ARRANGEMENTS

4.1 MANAGEMENT AND GOVERNANCE ARRANGEMENTS AND STRUCTURE

The program governance, management and organisational structure is shown in more detail in Annexe 3 – Program Management and Implementation Arrangements.

4.1.1 Management structure and organisation

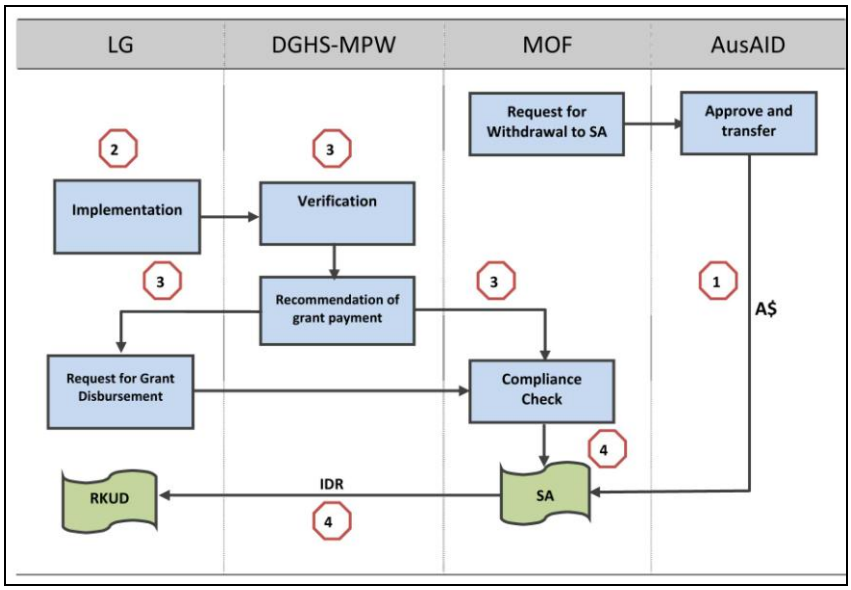
At the Central Government level, the sAIIG program will be managed by a special purpose coordination unit established by decree of the Directorate General of Human Settlements. The coordination unit will consist of Steering and Technical Teams, operating through a Central Project Management Unit (CPMU) in DGHS, and supported by Provincial Project Management Units (PPMU). The CPMU will be responsible for sAIIG program administration and will have a wide range of responsibilities, including: coordination with other government agencies, selecting LGs to participate, appraising LG multi-year sanitation programs, approving annual qualifying programs, reviewing sub-project designs, monitoring the LGs' procurement processes, monitoring and reporting on physical and financial progress, checking construction quality, verifying completed works, approving grant claims, and monitoring and evaluation. Consultants procured by IndII will support the CPMU by providing technical assistance in: oversight, sanitation program appraisal, review of qualifying programs, baseline surveys, and independent verification and monitoring.



At the Local Government level, Project Implementation Units (PIU), together with Local Task Forces (SKPD), will be established by decree of the Head of each participating Local Government. The PIUs will be responsible for project implementation and will have a wide range of responsibilities, including: preparation of sanitation programs, preparation of detailed designs and bidding documents, procurement of contractors, raising community awareness and social marketing of sAIIG, construction supervision and management, enforcing construction quality requirements, reporting physical and financial progress, and preparing documentation for grant payment applications. Consultants procured by IndII will support the PIU in discharging these duties. The technical assistance they provide will include: review and completion of detailed designs and contract documents implementation oversight and capacity building to support LGs in building community awareness, social marketing, procurement development and delivery of sanitation services.

4.1.2 Fund channelling

The sAIIG program will be implemented through GoI systems and procedures, as shown in the figure below. A direct funding agreement will be signed by GoI and AusAID, following which GoI will establish a Special Account in Bank Indonesia (BI).



(1) The grant funds are transferred to the GoI Special Account following a request from MoF to AusAID.

(2) The LGs implement the qualifying program works in accordance with the Grant Agreement between them and MoF.

(3) MPW verifies the completion of the works and issues a recommendation for the amount of the grant payment due; LG submits a request for a grant disbursement to MoF.

(4) MoF checks the documentation for compliance with the Grant Agreement and Project Management Manual and then transfers the funds from the Special Account to the LG's general revenue account (RKUD).

4.1.3 Indirect disbursement and currency management

Recent changes within GoI prevent BI from making direct disbursements to LGs. This is now done through an intermediary government bank. One possibility to consider is whether it is feasible to establish dual IDR and $A accounts at BI to flexibly manage currency exchange rates. The possibility of rolling over residual funds from the IEG program to the AIIG is also a matter to be considered.[27]

4.2 IMPLEMENTATION PLAN

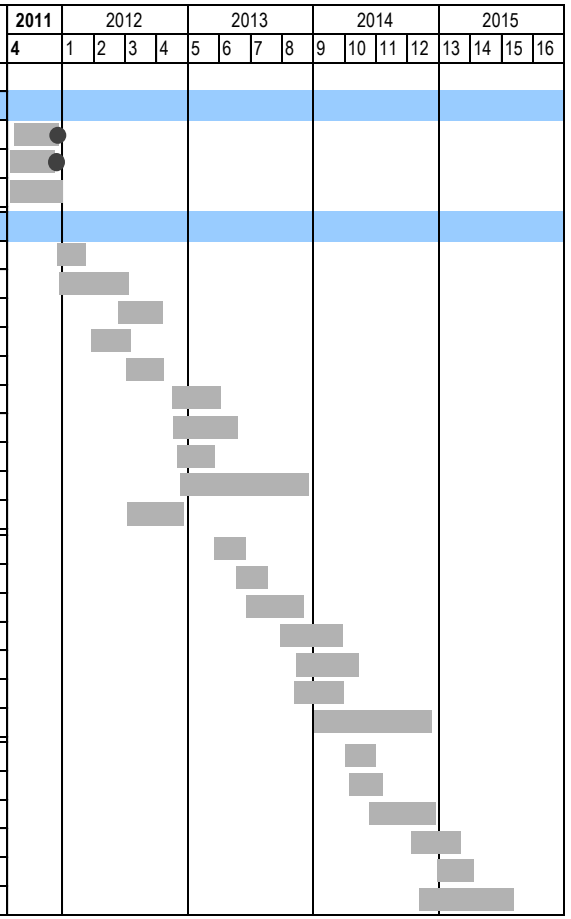
The sAIIG program is planned to run for three years from early 2012 to the end of 2014, with each year following a common annual activity cycle. Preparation of the sAIIG program began in September 2011 and final verification, evaluation and grant disbursement will be completed by June 2015.

Program preparation activities already underway include: collecting information about the existing DAK and SANIMAS programs, reviewing previous similar sanitation projects for lessons which can be learned about creating sustainable infrastructure, designing the sAIIG program and preparing this PDD, establishing LG selection criteria, socialising the sAIIG to LGs to generate interest and encourage them to start their preparations, and preparing the Project Management Manual with DGHS and DGFB. Socialisation efforts were vital because, as the sAIIG program is output-based, if any works are to be implemented in 2012 the LGs need to fully fund them in their 2012 APBDs which are prepared in October / November 2011. These budgets then have to be approved by the DPRD, which can be a long process.

LGs will join the program in annual batches once they have satisfied the qualifying criteria. Consequently, some may participate in sAIIG for three years, some for two years, and possibly some only in 2014. The target is for 40 LGs to participate, but the final number will be dictated by the availability of uncommitted grant funds, which will depend on the extent of the sanitation programs proposed by the LGs and their success in completing eligible works.

[27] At present approximately $300,000 is identified as non-qualifying expenditure and an additional $150,000 credit from exchange rate gains.

No.	ACTIVITY	PARTIES INVOLVED
I.	**PREPARATION STAGE**	
	FY 2011 Revise SA & MoF Agreement	IndII, AusAID,MoF
	sAIIG - Project Design Document, Project Manual,Peer Review &agreement	IndII, AusAID,MoF,DGHS,Bappenas
	sAIIG Program 2012 listed in APBDs & Appraisal	LGs
II.	**IMPLEMENTATION STAGE**	
	FY 2012 Appraisal of FY 2012 LG Programs	IndII, DGHS,LGs
	PPH Preparation & Signing	MoF
	Establish Special Account at BI & first Transfer	DGHS, IndII
	Recruitment of Consultants first Sub Project for TA, Baseline Survey and Verifications	DGHS, IndII
	Construction	LG
	Verification	PPMU, PIU,LGs,IndII
	sAIIG Disbursement	DJCK,MoF
	Review Progress and Reallocation of Grant	DGHS, IndII, MoF
	Monitoring	DGHS, IndII
	Socialisation and Selection of Next batch (2 & 3)LGs	DGHS, IndII
	FY 2013 Review and Appraisal of FY2013 LG Programs	DGHS, IndII
	Recruitment of Consultants Second Sub Project for TA, Baseline Survey and Verifications	DGHS, IndII
	Construction	LG
	Verification	PPMU, PIU,LGs,IndII
	sAIIG Disbursement	DGHS,MoF
	Review Progress and Reallocation of Grant	DGHS ,IndII,MoF
	Monitoring	DGHS, IndII
	FY 2014 Review and Appraisal of FY2014 LG Programs	DGHS, IndII
	Recruitment of Consultants Second Sub Project for TA, Baseline Survey and Verifications	DGHS, IndII
	Construction	LG
	Verification a	PPMU, PIU,LGs,IndII
	sAIIG Disbursement	DGHS,MoF
	Monitoring	DGHS, IndII



Once formal approval for the sAIIG program has been received from AusAID, the LGs will be invited to submit their proposed sanitation programs. IndII will recruit Appraisal Consultants who will support DGHS in determining whether the LGs qualify for participation, whether their proposed programs satisfy grant requirements, and whether the LG can fund the programs. Appraisal will include visits to the LGs to discuss their programs, collect information and determine their willingness to meet governance criteria. Once DGHS is satisfied with the LG's program they will notify DGFB of the grant proposal.

Successful LGs will then begin the annual sAIIG activity cycle by preparing detailed designs and bid documents for their first year program, supported by the Program Preparation Consultant. These documents will have to be approved by DGHS before they can be tendered. In the meantime, consultants will conduct the Baseline Survey at each sub-project location. Formal grant notification should be received from DGFB by May, and tendering will then begin. Construction is expected to begin in July and to be completed in about four months. Within two months of commissioning each sub-project, the Verification Consultant will make a field inspection and determine the quantity of eligible infrastructure which has been satisfactorily completed. This determination will be used by DGHS to calculate the amount of grant money payable. Grant payments should be authorised by the end of January and the LG should receive the grant by the end of March, allowing them to recycle the money in their second-year sanitation program, if they wish. The second-year program will follow the same annual cycle as the first.

4.3 TECHNICAL ASSISTANCE PLAN

Comprehensive technical assistance to support DGHS, the participating LGs, and IndII in the successful delivery of the grant program is included in the project design. DGHS will establish a CPMU to administer the program. The CPMU will require TA support in appraisal, approval, oversight, monitoring and reporting, while IndII will also require support in fulfilling their responsibilities. Local governments are required to plan, design and implement infrastructure with which they are not familiar, and for which they have very limited technical and human resource capacity. The scope of technical assistance anticipated for the project is described in the following sub-sections. The optimum way to package these services into consultancy contracts will be decided once the locations of the participating LGs are known.

4.3.1 Program appraisal and review

Initially the Consultant will appraise the multi-year sanitation programs proposed by candidate LGs as part of the selection process, including their planned budget allocations and governance indicators. Once LGs have been accepted into sAIIG, the Consultant will review each LG's annual program and confirm compliance with

environmental and social safeguards, land acquisition and relocation, procurement documents, and other requirements of the Project Management Manual and Grant Agreement. The Consultant will support the CPMU in determining the qualifying programs for each year's implementation; sAIIG funds will only be disbursed for infrastructure that qualifies.

4.3.2 Baseline survey

The Consultant will conduct a baseline survey of the qualifying programs for each year. The scope of work will encompass the collection of baseline data on the target populations in each selected sub-project area through a census of household size, socio-economic status, sanitation behaviour and interest in becoming a customer. The survey will also collect information on LG sanitation budgeting and governance as a basis for assessing progress over the life of the project.

4.3.3 Program preparation

The Consultant will support the CPMU in administering the sAIIG program and will be responsible for ensuring that LGs are adequately prepared to implement their sanitation programs. The Consultant will review existing designs and documents and, where necessary, complete the detailed designs and tender documents. The Consultant will ensure that there is a pipeline of sub-projects being prepared by LG for implementation in subsequent years.

4.3.4 Capacity building and community awareness

The Consultant will provide capacity building for the new UPTD-PAL which will become responsible for design, construction supervision, and the operation and maintenance of the new sAIIG wastewater systems, as well as having responsibility for all existing wastewater services of the LG. The Consultant will also provide capacity building to the LG's procurement staff as it establishes the new Procurement Unit.

An important capacity building tasks will be supporting the LGs to design and prepare materials for community awareness raising and developing a strategy for social marketing which reaches both women and men, to generate interest in, and demand for, the proposed new sanitation services. The strategy will be aimed at changing people's health and hygiene habits and behaviour, as well as educating them in the health risks associated with untreated sewage. LGs are encouraged to appoint their own facilitators to implement community activities, in particular awareness raising and social marketing.

The Consultant will ensure that the capacity building team includes social/poverty and gender specialists to support LGs in developing socially inclusive and gender sensitive approaches for implementing sAIIG activities. Related tasks will include illustrating the benefits of ensuring women participate equally with men, gender issues faced in the field, and how to ensure that women participate.

4.3.5 Oversight

Working in close association with the CPMU, the Consultant will be engaged early in the program and will provide quality assurance and technical oversight of the implementation process from the tender stage to completion and handover of the works. However, the LG will be responsible for day-to-day supervision of their contractors.

4.3.6 Independent verification

The Consultant will be responsible for compliance verification of the completed works with the: Detailed Design, Technical Specifications, Project Management Manual, Grant Agreement, and prevailing procurement regulations. The Consultant will verify the volume of eligible infrastructure constructed and also collect the data required for monitoring and evaluation.

sAIIG IMPLEMENTATION PLAN

2011	2012		2013		2014		2015
S-1	S-1	S-2	S-1	S-2	S-1	S-2	S-1
Criteria preparation	**Implementation FY 2012:**		**Implementation FY 2013:**		**Implementation FY 2014:**		
1) LGs to access sAIIG	procurement	implementation	procurement	implementation	procurement	implementation	
2) Component activities for sanitation in accordance with grant req'mts			Evaluation 2012		Evaluation 2013		Evaluation 2014
Selects 1st batch of LGs that meet the above requirements		Select 2nd batch of LGs that meet with criteria & **req'mts**	Select 3rd batch of LGs that meet with criteria & **req'mts**				Evaluation, review measurement of output outcome.
Assist LGs to develop 3-year program planning for 2012 till 2014	Appraisal of 2012/ 2013/ 2014 Program, verify DPA 2012	Appraisal of 2013 and/or 2014 Program		Appraisal of 2014 Program	Assistance to GoI in preparing grant scheme for the upcoming years		Exit Strategy
Grant Award 1st batch	PPH Process 1st batch	Grant Award 2nd batch	PPH Process 2nd batch	Grant Award 3rd batch	PPH Process of 3rd batch		Total PPH= 40

2011	2012		2013		2014		2015
S-1	S-1	S-2	S-1	S-2	S-1	S-2	S-1
	Review criteria of waste water and solid waste components.		Verification for 1st batch payment Verification of DPA 2013	Grant payment	Verification for 2nd batch payment Verification of DPA 2014	Grant payment	Verification for 3rd batch & grant payment
	Prepare LGs for 2013 & 2014						
Governance Targets	Modest		Realistic		Ambitious?		

4.4 VERIFICATION

The verification process will consist of two distinct stages. Once the grant has been awarded and defined in the on-granting agreement, the LGs will have also agreed to an outline implementation plan. However, the commitment of funds to specific components will require a verification of: (i) acceptable planning including land acquisition, social and environmental safeguards; (ii) acceptable design; and, (iii) acceptable procurement documents. This verification will be the responsibility of the CPMU assisted by IndII consultants. Prior approval of individual components will be required for LGs to qualify for a grant. Once the infrastructure has been implemented, the LG will request verification (post review) by the CPMU. Consultants from IndII will initially assist the CPMU. During the first year, the BPKP will witness the verification for payment of the grant. The role of the IndII verification consultant will progressively reduce during the second and third year of the program while that of the BPKP will increase. By the final year of the program, the verification process should be a GoI procedure with the IndII consultant providing a supporting role only. The roles and responsibilities of the DGHS (CPMU) and the BPKP in the verification process will be progressively developed during the first two years of implementation.

4.5 MONITORING & EVALUATION PLAN

M&E for sAIIG will be aligned with the broader IndII Phase II M&E framework for Watsan where end outcomes and objectives have already been defined. The development objectives for this activity are:

(a) Increasing LG investment in sanitation infrastructure that will contribute to meeting the GoI and MDG sanitation service targets.

(b) Improve governance in the sanitation sector at these LGs by requiring them to adhere to an agreed multi-year sanitation investment program and to make specific incremental improvements in governance.

M&E for sAIIG will comply with the annual activity cycle. Aside from on-going monitoring of program inputs and outputs, sAIIG will comprise a sub-project appraisal process, baseline study and analysis, implementation oversight, project verification and post-project evaluations. Annexe 5 provides more detail on the steps indicated.

M&E will be carried out by several parties, including GoI (CPMU, PPMU, PIU) and independent third-party Implementation and Verification Consultants that will be recruited under the program. GoI will be responsible for routine M&E activities consistent with current DGHS guidelines for sanitation infrastructure programs. IndII consultants will provide relevant support to these efforts, such as undertaking specific activities to assess progress toward meeting key program outcomes and other aspects of program implementation (gender, access, etc.) of specific interest to AusAID.

The program design matrix outlines a series of outcomes (short, medium and long) that will form the basis of reporting over the life of the program. The structure of the outcomes means that evidence of progression towards outcomes can be justified and the verification of connections demonstrates causal linkages to the investment provided through IndII. The outcomes will form the basis of reporting and will also allow for modifications to occur during the life of program if an outcome is unattainable or needs to be refined due to changes in the external environment.

The outcomes are structured to be quantifiable and have appropriate indicators. The most important outcomes relate to the provision of sanitation infrastructure that meets the standards and requirements of GoI. Other outcomes centre on improvements at the LG level with regards to sanitation planning, budgeting and governance, as well as the adoption of poverty and gender sensitive approaches to the implementation of relevant sanitation activities.

Indicators have also been defined and included as part of the design. The indicators will be reviewed annually to ensure they remain consistent, targeted and relevant to the needs of the program and are providing the necessary information to both GoI counterparts and AusAID.

Annexe 5 provides in-depth details on the monitoring arrangements. In short, monitoring will occur at two levels – the first will be the implementation of sanitation infrastructure and the second will focus on the broader support provided to LGs. IndII M&E reporting templates will be utilised for the monitoring of activities. Exception reporting will also be utilised in the event of immediate issues requiring attention.

4.6 COMMUNICATIONS

The template for the sAIIG's communications and public diplomacy program will be that used for the WSI Water Hibah in 2011. As with the Water Hibah, the sAIIG program will identify and communicate a number of key messages, depending upon the target audience. At the community and household level, the message will focus on the social and economic benefits of proper sanitation facilities and will address the sometime indifferent attitudes toward sanitation, evidenced within lower income areas. At the local government level, the message will emphasise the high political returns to local leadership from increased LG investment in, and commitment to sanitation services. At the central level, the message will focus on the benefits of devolving implementation to local government as the best means of achieving ambitious coverage targets while retaining management and oversight as a central responsibility; this being the most effective way of improving sanitation outcomes at the local level.

Various modalities will be used to deliver these messages, and may include the use of:

- events/ceremonies at both the district/city and community level attended by local/community leaders, other stakeholders and beneficiaries at the completion of construction;
- education/socialisation programs at the village/community level;
- production and release of material for print media (e.g. photos, press releases, human interest stories, profiles on household beneficiaries, etc);
- radio talk back and features, and television (if feasible);
- signage – stickers, signs, banners, etc;
- documentary videos for upload to the IndII website, YouTube and other purposes; and
- commemorative publications (such as coffee table book , calendars etc).

Important lessons can be drawn from the success of the WSI Water Hibah public diplomacy program, particularly with regards to the frequency and sequencing of events, and these will be incorporated into the sAIIG's communication plan developed in the early months of implementation.

4.7 PROCUREMENT ARRANGEMENTS

Public procurement in Indonesia has traditionally been conducted based on regulations which have been updated and modified from time to time. Unlike the procurement guidelines of the Multilateral Development Banks that stress the principles of economy, efficiency and transparency, these decrees have always had multiple objectives reflecting the varying emphases of Government policy.

International donor efforts at procurement reform resulted in the Paris Declaration on Aid Effectiveness (2005), Accra Agenda for Action (2008), and the Jakarta Commitment: Aid for Development Effectiveness – Indonesia's Road Map to 2014 (2009) under which donors agreed to align their programming cycles with those of Government of Indonesia systems and increasingly to use Government of Indonesia's financial management, procurement, monitoring and evaluation, and reporting systems. The Paris Declaration and Accra Agenda for Action are based on the premise that by working with government systems donors are increasing the effectiveness and efficiency of those systems, addressing the systemic causes of poor service delivery.

Procurement reform in Indonesia resulted in *KepPres 80/2003*, which had many weaknesses and was open to multiple interpretations, being replaced by *PerPres 54/2010,* which is intended to be followed by a separate Procurement Law covering all public funded expenditures. Meanwhile, *PerPres 8/2006* introduced the concept of establishing procurement units (ULP-Unit Layanan Pengadaan) in every government agency at every level, but gave no timeframe; *PerPres 54/2010* set a deadline of 2014. ULPs are intended to be pools of professional procurement officers which will take over the role of the current *ad hoc* tender committees. *PerPres 54/2010* clearly makes

mandatory the use of national procurement systems for channelling external funds - also a part of the Jakarta Commitment in 2009.

The sAIIG program will align with various national and international procurement reform initiatives that have been established in recent years, including the Paris Declaration on Aid Effectiveness (2005), Accra Agenda for Action (2008), and the Jakarta Commitment: Aid for Development Effectiveness – Indonesia's Road Map to 2014 (2009). It will also follow the provisions of *PerPres 54/2010* and use existing GoI on-granting regulations PMK 168 and 169 of 2008 to disburse grants directly to LGs, through MOF. These channels provide accountability and have been applied successfully in the Water and Sanitation Hibah and sanitation IEGs under IndII. The flow of funds is described and shown in detail in Annexe 3.

The GoI legislation mandates that the Implementing Agency DGHS take responsibility for the oversight of the application of the grant funds. Technical Assistance from IndII will include provision of Appraisal, Implementation and Verification consultants to assist DGHS with their oversight duties and support the LGs. The TAs will include the support required to verify compliance with the grant agreements and the technical standards of the Implementing Agency (DGHS). Consultant services will be procured by IndII through select tenders from qualified firms in the consultant pool.

sAIIG is an output-based program and LGs are therefore required to pre-finance all construction works, reducing the procurement risks for AusAID. LGs will be required to package the sub-projects and tender them in accordance with *PerPres 54/2010*. The practice of packaging works into small contracts to avoid having competitive tenders will not be permitted and the entire procurement process will be subject to post-review. The grant eligibility, detailed design, procurement and construction quality of sub-projects will all be monitored and supported by the sAIIG consultants.

On completion and commissioning of the sub-projects the independent verification consultants will determine the quantity of operational infrastructure; in the case of wastewater systems this will be the number of new house connections installed. Grant funding will follow the criteria and allocations described in Section 3.4 and will be based on the fixed prices shown, not on the actual tender prices obtained by the LGs. This will help to insulate AusAID from the cost of any malpractice in the tender process, as the additional cost of any inflated prices will be borne by the LG.

4.8 SUSTAINABILITY ISSUES

Sustainability of sanitation infrastructure and services is a key concern in the design of sAIIG. It is well-known that facilities implemented under community driven modalities have often had poor levels of sustainability in Indonesia. This has been confirmed by a recent survey for DGHS of 41 community implemented sanitation facilities constructed

between 2008 and 2009.[28] The survey found that 17% were operating very well, while 32% were operating well but with lower than the planned number of users; 52% were either incomplete, or partially or completely non-operational.

The sAIIG design is therefore focused on neighbourhood, simplified sewerage schemes, implemented by local governments using their own funds. After completion and handover, these assets will go onto the local government register. The use of good quality designs and materials implemented by qualified contractors procured competitively and overseen by IndII supported TA should produce sanitation infrastructure which has a reasonably long service life.

The requirement for LGs to establish a Technical Service Unit for Wastewater Management (UPTD-PAL) in the first year of the project will further strengthen sustainability of service delivery and maintenance of the facilities. The UPTD-PAL will be expected to eventually develop more autonomy, either as a Local Government public service agency (BLUD) or a Local Government owned wastewater company (PD PAL).

Sustainability will be a focus of post-project evaluation that will seek to verify continuation of sanitation prioritisation, good governance practices, sound management and maintenance of facilities. All of these will contribute to the longer-term goal of meeting national and international targets for access to efficient, sustainable and equitable sanitation services.

4.9 OVERARCHING POLICY ISSUES INCLUDING GENDER, ANTICORRUPTION, ENVIRONMENT AND CHILD PROTECTION

Poor environmental sanitation is a symptom of poverty but also causes and exacerbates poverty. Inadequate sanitation, solid waste management and drainage are more likely to be experienced by people living in low income communities. They are more likely to be living in areas subject to inundation, where infrastructure is poor and they have the least power to influence decision making which could improve their situation. Poor environmental sanitation has economic costs for individuals, households, the community and the nation as a whole. For people who are already poor or near poor, the financial cost of inadequate environmental sanitation can push them further into poverty.

GoA has a poverty framework which aims at reducing the incidence and severity of poverty in the Asia Pacific region through its aid program. Areas of the poverty framework particularly relevant to the implementation of the sAIIGs are: to provide essential social infrastructure with attention to the needs of poor communities; to support women to contribute and benefit from development; to improve the poor's access to and engagement in governance processes; to remove barriers to the

[28] Draft Final Report of SANIMAS Monitoring Program 2008-2009 by PT Waseco Tirta (November 2011)

participation of the poor including in decision making; to assist in developing more effective, efficient and transparent administration; and to support actions that take account of disadvantaged groups including minority groups, people with disability and the aged.

GoI has issued a *Presidential Decree No.15 2010 on the Acceleration of Poverty Reduction* which emphasises engaging with poor and vulnerable groups; improving the quality and quantity of policy alternatives for poverty reduction; and enhancing the effectiveness of poverty reduction measures.

As poverty reduction is a priority for both GoA and GoI, improved sanitation and solid waste management is a critical issue which the sAIIG will help to address in participating cities. While the program will not focus solely on poor households, poor members of the community will benefit from its implementation. Ensuring that appropriate measures are taken to include the poor and other disadvantaged groups is of concern for this design and further details can be found in Annexe 7 and the PMM.

4.9.1 Gender equality

Gender equality in development is of interest for both GoA and GoI. GoA policy requires that gender equality is taken into account in all development activities, while GoI *Presidential Instruction (INPRES) No.9/2000* and the Medium Term National Development Plan 2010-2014 (Rencana Pembangunan Jangka Menengah Nasional 2010-2014) require that gender is mainstreamed for more effective and equitable development. The IndII gender strategy and plan provide strategic direction and actions for improved gender equality which are required to be integrated into IndII-supported activities. Details of the gender inclusive approach for sAIIG can be found in Annexe 7 and the PMM.

The sAIIG's effectiveness, efficiency and sustainability will be increased by ensuring that a gender inclusive approach is adopted and that women's rights are considered. Socialisation and information dissemination will be designed to reach both women and men so that there will be equitable participation by women and men within the household in deciding to connect to the sewer service provided by the sAIIG.

The sAIIG design includes three mechanisms to encourage implementation of the proposed social and gender inclusive approaches:

(a) Consultants will provide gender awareness input to LGs to apply gender and socially inclusive approaches for their interaction with the community in implementing sAIIG activities. This will include guidance to LGs for development of awareness-raising and social marketing strategies to reach women and men from all socio-economic levels.

(b) The Baseline and Verification Consultants will collect qualitative data at community and LG levels. Quantitative questions related to household access and participation will be included in the socio-economic surveys to assess levels of overall

participation and the participation of women and the poor in project design and implementation.

(c) IndII carries out routine gender case study evaluations across all its activities; selected sAIIG activities will be subject to such evaluations.

4.9.2 Disability

Disability is a core concern for AusAID. AusAID's disability policy has a number of expected outcomes. The policy outcome particularly relevant to the implementation of the sAIIG activity is for improved quality of life for people with disability through disability inclusive development. Other especially relevant aspects of the policy are to ensure access to infrastructure for people with disability and the need to model good practice with regard to disability inclusive development. Guiding principles include the need to promote and enable active participation by people with disability and to recognise that people with disability hold the same rights as others.

4.9.3 Child protection

AusAID's child protection policy, applied in all aid delivery, requires zero tolerance by AusAID personnel and contractors of any form of child abuse, including child pornography. The general issue of child protection is considered in IndII's risk management strategy which is applied to all activities.

4.9.4 Anticorruption

In line with its aim of supporting Indonesia's efforts to reduce corruption, the sAIIG program will adhere to the three main pillars of the 2004–2009 RAN-PK[29]: (i) prevention; (ii) enforcement; and (iii) monitoring and evaluation. Implementation of the program will also be guided by Australia's anti-corruption approach of: (i) building constituencies for anti-corruption reform; (ii) reducing opportunities for corruption; and (iii) changing incentives for corrupt behaviour.

sAIIG will follow an output-based methodology such that grant funds are only disbursed after works have been completed, are in operation, and have been verified by an independent consultant. This output-based methodology and the fixed cost menu used for sAIIG allow the levels of corruption risk to be considered sufficiently low that a program-specific Anti-Corruption Action Plan is not required. In addition the

[29] Refer: Australia Indonesia Partnership - Anti-corruption for development plan 2008–13, p. 4

grant agreements will include a mechanism for recovery of funds from the LGs should evidence of ineligible expenditure be found after the grant has been disbursed.

To promote the principles of transparency and accountability LGs will be required to establish a sAIIG specific web-site, or feature prominently sAIIG content on their own web-site, for public disclosure of the details of all procurement and contract awards, which they will update within one week of contract awards.

MoF and the CPMU will use the computerised financial management system developed with the World Bank for the Local Government & Decentralisation Project (DAK Reimbursement) in 2010 to improve accountability. This system aims to make the project financial information and outputs transparent to all internal stakeholders: MoF, BAPPENAS, MPW, IndII, and LGs. Access to the system will be controlled by MoF, which developed it with MPW; the system is linked into MPW's MIS. MoF will be responsible for uploading data on sAIIG grant allocations and transfers, while the LGs will upload data on local budget allocations and contract awards.

Information on sAIIG outputs collected by IndII consultants will include: project location, GPS coordinates, technical data, physical progress and photographs of the sub-projects. The CPMU will upload verification results of completed sub-projects.

In addition, the AusAID "Anti-corruption for Development Plan" will be socialised with officers and stakeholders responsible for managing all aspects of the sAIIG program, including: MoF, MPW, and LG officials.

4.10 COMPLIANCE WITH THE ENVIRONMENT PROTECTION AND BIODIVERSITY CONSERVATION ACT

The Commonwealth of Australia Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act) is the legislative basis for environmental protection and management in Australia under which IndII is legally obliged to ensure appropriate measures of environmental compliance and protection are incorporated into all the facility activities, including the sAIIG. The *EPBC Act* came into effect on 16 July 2000, and is Australia's principal national legislation for the protection of the environment for activities supported by AusAID worldwide. As a facility, IndII must comply with GoA and GoI environmental protection legislation and related multilateral agreements signed by Australia and Indonesia. GoI has a number of legislations that provide for environmental management and protection applicable to sAIIG (see Annexe 8).

4.10.1PPSP sAIIG and the environment

The sAIIG supports the Indonesian nationwide initiative to accelerate the development of sanitation services (Percepatkan Pembangunan Sanitasi Permukiman, PPSP) in 330 cities to support the nation's commitment to meet the Millennium Development Goals

(MDG) for water and sanitation by 2015.[30] MDG Goal 7: Ensure Environmental Sustainability, is the overarching goal for this initiative (see Annexe 8). Both GoA and GoI recognise that the environment is a comprehensive system comprising biophysical, built, economic, and social/cultural aspects, making it a cross-cutting issue for all development activities. Implementation of PPSP is intended to take place over six stages. LGs wishing to join sAIIG should be at PPSP Stage 4, which seeks to establish a sector memorandum of understanding (MOU) based on the sanitation strategies developed by the districts/cities, see Annexe 8. The sector MOUs should consolidate the PPSP strategy and be elaborated in the district/city plans.

4.10.2IndII environmental management and sAIIG

The AusAID Environmental Management System (EMS) forms part of the IndII Environmental Compliance and Environmental Management Process (ECOMAP) which incorporates GoA and GoI environmental screening and measures (see Annexe 8). As the PPSP is a sector wide initiative with direct implications for district/city plans as noted above, *Act No. 32/2009 on Environmental Protection and Management* requires that a strategic environmental assessment (SEA) be undertaken to exercise environmental due diligence and ensure compliance of these plans with environmental standards and safeguards. It is highly likely that some PPSP activities will be subject to a SEA. Consultation with the Environment Ministry will confirm the format and level of detail for such an assessment. Although PPSP activities may be subject to a SEA, sAIIG is designed as a series of independent, small-scale initiatives with the potential to cause short-term, local negative environmental and social impacts. In most cases mitigation measures can be designed more readily for projects at this level. Individual design specifications and the proximity of these facilities to sensitive areas of biodiversity, or identifiable impacts contributing to climate change, will dictate whether the sub-project at a specified location requires a full EIA.

4.11 CRITICAL RISKS AND RISK MANAGEMENT STRATEGIES

As a new program, sAIIG will be subject to risks, however the use of the output based modality will significantly reduce risks on the application and delivery of the grant. The risks identified are summarised in the Summary Risk Matrix on the next page; the detailed risk identification, management and mitigation proposals are given in Annexe 10.

[30] United Nations Development Group (2003), Indicators for Monitoring the Millennium Development Goals - Definitions Rationale Concepts and Sources; United Nations Development Group - United Nations Population Fund, United Nations Development Programme, and the Department of Economic and Social Affairs–Statistics Division

The full extent of the risk profile for the proposed program will be better known as the implementation of the Phase I IEG activity progresses through 2011 and the lessons learnt are realised and documented. There are indications at this stage of some risks in the use of the IEG funds. Adequate safeguards are in place to detect the misuse of grant funds and intervene, but such intervention increases the possibility of non-disbursement of the allocated funds. Many of the identified risks are related to procurement and implementation aspects under the current modality. The shift to output-based delivery of the grants will reduce the procurement risks but not eliminate them. Construction quality will also remain an issue. For those reasons procurement quality will be one of the key governance milestones in the grant agreements and a central requirement for LGs to retain the grant awards. Construction quality will be addressed through dedicated field supervision and periodic review, prior to the handover of completed works, by independent consultants engaged under IndII contract. Post procurement audits will be carried out periodically by the independent review consultant. The relevant ministries will be fully engaged in conducting the audits, in order to meet the program's governance objectives.

Additional monitoring and oversight will be achieved through a publicly accessible web site promulgating the program and the award of grants to LGs. Such websites have served as effective tools for good governance in PNPM, Pamsimas, and other projects. LGs will be required to establish sAIIG specific websites or feature prominently sAIIG content in their own websites to disseminate at a minimum, status of implementation, tenders, and results of procurement.

The option of multi-year implementation will allow adjustments to grant allocations among LGs based on annual reviews of performance. Each LG will also be able to adjust its use of the grant from year to year to make up any applications not approved for reasons of non-compliance with standards or quality. These options will greatly reduce the risk of non-disbursement of the grant and allow flexibility for LG to adjust to annual variations in budget resources.

Under this modality, both GoI and IndII will have significant prior experience with the application of the Water Hibah, Sanitation Hibah and IEGs to adequately identify and manage risks associated with the sAIIG program.

The sAIIG model and modality does not threaten any stakeholder interests, rather it is highly complementary to the current policy environment and is strongly endorsed by DGHS, MoF and Bappenas.

DGHS has committed considerable resources to implementing the IEG as well as the Water and Sanitation Hibah. DGHS see the IEG program as a strong tool to encourage better governance in the sector under a decentralised environment. Indications to date are that DGHS will continue to commit resources for the implementation of the sAIIG.

SUMMARY RISK MATRIX

Risk	Impacts	Risk Rating	Mitigation Strategies
Instigating new program	• Unclear roles and responsibilities • Insufficient program management • Capacity/commitment of Partner Agencies	High	• Agreement on AusAID/IndII/Partners roles and responsibilities • DGHS committed and processes in place from previous Hibahs • Program management plan and related processes implemented
Program governance	• Loss of focus • Insufficient management control and direction	Medium	• Agreed program management monitoring and reporting • Regular communication with stakeholders • Implementation of governance board
Grants management	• Processes and procedures unclear • Contract disputes • Grant payments deferred	High	• Grants management process clearly defined and documented • Required outputs clearly defined and documented • Payment processes clearly defined and documented

Lack of overall LG Governance	• Embedded risks
	  ○ Poor procurement
	  ○ Contract disputes
	• Grant payments deferred
		High	• Improved LG governance – program objective
			• Required outputs and LG role clearly defined and documented
			• Baseline and verification requirements and processes clearly defined and documented with LG

Risk	Impacts	Risk Rating	Mitigation Strategies
Limited capacity of LGs for pre-financing	• Program unable to deliver outcomes • Slow uptake • Payment of grants deferred	Medium	• Clearly defined grant agreements • Menu of items and associated costs clearly articulated • Support from DGHS and MoF • Selection criteria includes funding ability
Financial risks	• Fraud • Corruption • Payment disputes	Low	• Output-based modality transfers risks to LGs • Grant management process clearly defined and documented • Verification process defined and documented

ANNEXES

ANNEXE 1: SECTOR/PROBLEM AND OTHER RELEVANT ANALYSES

A1.1. Developing Local Governance in Indonesia[31]

Indonesia has made significant progress in implementing decentralisation reforms. Since 2001 the Indonesian Government has effectively devolved key expenditure and revenue functions to sub-national governments, such that by 2010 they were responsible for a third of total public expenditure. These reforms have had positive impacts on improving governance in terms of increased local participation in the budget process, greater transparency, and accountability. Some evidence indicates that decentralisation has stimulated economic growth in local economies, at least in the medium term. It has also contributed to the government's poverty reduction goals. Nevertheless, the government recognises that fiscal decentralisation is still in its early stages and continues to refine and advance its decentralisation reform agenda.

Improved living standards are observed across the country, but significant challenges remain for inclusive development. As the country sustains high economic growth, the percentage of poor people in Indonesia has fallen from around 16.6% in 2007 to 13.3% in 2010. However, regional disparities in terms of poverty rates and access to basic services continue. In 2010, Maluku province reported a poverty rate of 27.7%, compared with 3.5% in Jakarta and 4.3% in Bali. Inequalities extend to other human development dimensions. East Maluku reported a human development index (HDI) of 70.96 in 2009, well below the Jakarta HDI of 77.36. The percentage of households with improved sanitation in Yogyakarta is more than 75%, compared with around 25% in Papua and Kalimantan Tengah. At least 12 provinces report that fewer than 70% of their households have access to electricity; about 12 provinces report almost full coverage. Future progress in reducing poverty and achieving the Millennium Development Goals will largely depend on improved access to, and quality of, basic services delivered to the local population.

Indonesia's long-term decentralisation policy objectives are to improve the delivery of basic services and infrastructure to local communities across the country (National Action Plan for Fiscal Decentralisation [NAPFD] 2010-2014). Since implementation of "big bang" decentralisation reforms in 2001, regional governments are responsible for the delivery of most basic services. Thus, improving the efficiency and equity of the system of intergovernmental fiscal relations is essential to achieve further gains in poverty reduction. The government aims to distribute available financing to Local Governments to ensure equitable coverage of basic services across the country.

[31] Source: Asian Development Bank - Proposed Loan for Second Local Government Finance and Governance Reform Program (September 2011)

The last decade of decentralisation reforms has transformed Indonesia's service delivery systems. The 524 sub-national governments (33 provinces and 491 districts) currently account for about 33% of total public expenditure, up from barely 7% in 2000. The reforms launched in 2001 involved a massive delegation of responsibility for the provision of public services and the reassignment of two-thirds of Central Government civil servants and more than 16,000 service delivery facilities to Local Governments. Ensuring an efficient assignment of expenditure responsibilities to sub-national governments is a long-term process requiring regular monitoring and review.

Local service delivery is mostly financed with Central Government grants, with growing contributions from local revenue and borrowing. Currently, the largest unconditional grant available to sub-national governments, the General Allocation Fund (DAU), accounts for 50% of total sub-national government revenues. The Provincial and Local Government share of revenues from extractive industries, the dana bagi hasil revenue sharing, represents 17% of their revenues; an additional 7% is accounted for by infrastructure development grants, the Specific Allocation Fund (DAK). Total grants to sub-national governments have more than doubled since 2005, from an estimated Rp150 trillion to around Rp350 trillion in 2010.

Local revenue, from limited taxes and charges, represented about 16% of total sub-national government revenue. However, recent assignments of new sources of revenue to sub-national governments are likely to increase the importance of this building block of sub-national financing. GoI has taken a cautious approach to the development of sub-national borrowing powers, such that total outstanding sub-national debt was reportedly just 0.15% of gross domestic product (GDP) in 2010.

A1.2. Local Economic Governance Survey[32]

The 2011 Local Economic Governance Survey (TKED) provides a picture of the quality of local economic governance in 245 regencies and cities across 19 provinces in Indonesia. The survey aims to provide LGs with a basis for prioritising reforms and improving their performance in local economic governance. The survey was conducted between August 2010 and January 2011 on appropriate respondents from 12,391 companies. The city of Blitar in East Java came out on top in the survey which was conducted by the Regional Autonomy Implementation Monitoring Committee (KPPOD).

The criteria used in the survey included nine indicators which relate mainly to the authority of Local Governments: (i) access to land; (ii) infrastructure; (iii) business licensing; (iv) quality of local regulations; (v) transaction costs; (vi) capacity and integrity of the regent/mayor; (vii) local government interaction with business actors;

[32] Source: 2011 Local Economic Governance Survey Survei *Tata Kelola Ekonomi Daerah* conducted by the Regional Autonomy Implementation Monitoring Committee (KPPOD)

(viii) program for private enterprise development (PPUS); and (ix) business security and conflict resolution.

The data were collected from direct interviews and analysis of local regulations, used to calculate sub-indices for each aspect of local economic governance, and then to compile the final index. Aside from the aspect concerning the quality of local regulations, which utilised analysis of secondary data (reviewing local regulations relating to the business community), a business survey (direct interviews with 40-50 business actors in each regency and city) was conducted to obtain data for the other eight aspects.

Based on respondents' perceptions, infrastructure was the most important aspect of local economic governance, and therefore received the highest weighting of 37.9% in calculating the final TKED index. The private enterprise development program (PPUS) came second with a weighting of 14%, while access to land scored 9%, and the capacity and integrity of the regent/mayor was weighted below 5%.

Infrastructure, which is deemed the chief constraint to business performance, is still considered to be of poor quality by the majority of business actors. Of the five types of infrastructure assessed, telephones and electricity - neither of which falls under local government authority - are considered relatively good by business actors, with only 22% and 34%, respectively, considering them as poor. While the quality of the infrastructure that falls under the authority of regency and municipal governments - roads, street lighting and clean water - was considered poor by between 40% and 50% of the respondents in the 19 provinces.

While eleven of the top twenty cities and regencies were located in East Java, the provincial capital, Surabaya, was ranked 110th.

A1.3. Environmental and Economic Impacts of Poor Sanitation

The World Bank Water and Sanitation Program (2011) highlighted a number of key findings from their study on the economic impact of poor sanitation in Indonesia.[33] Phase 1 of the study completed a quantitative and qualitative assessment of the impacts of poor sanitation on health, water, tourism, and other welfare impacts. The key findings showed that:

- In 2006, Indonesia lost an estimated US$6.3 billion due to poor sanitation and hygiene, equivalent to approximately 2.3% of GDP. Of the impacts evaluated, health and water resources contributed most to the overall economic losses estimated. Poor sanitation, including hygiene, causes at least 120 million disease episodes and 50,000 premature deaths annually. The resulting economic impact is more than US$3.3 billion per year;

[33] World Bank Water and Sanitation Program - East Asia and the Pacific (2011), The Economic Returns of Sanitation Interventions in Indonesia. http://www.wsp.org/wsp/content/economic-impacts-sanitation

- The associated economic costs of polluted water attributed to poor sanitation exceed US$1.5 billion per year. Poor sanitation also contributes up to US$1.2 billion per year in population welfare losses (due to additional time required to access unimproved sanitation), US$166 million per year in tourism losses, and US$96 million in environmental losses due to loss of productive land.

Phase 2 of the study involved survey work employing household questionnaires with focus group discussions, physical investigation, water quality, market, and health facility surveys. Primary data were supplemented with data from other national and local surveys. The key findings showed that:

- In rural areas the economic benefits of pit latrines exceed costs by at least seven times, and in urban areas the economic benefits of improved wastewater management exceed the costs by almost two times;
- Better "packaging" of and access to information on costs and benefits of sanitation options is key to rapidly increasing uptake in Indonesia. Decision makers—both households and government—need to be further sensitised to the health, economic and social benefits associated with improved sanitation, and the available choice of latrine designs, models, and sanitary options;
- Efforts to increase sanitation coverage must also compete with population growth in Indonesia, which stands at an estimated 1.3% per annum. At this rate, an additional 2.8 million Indonesians will require improved sanitation facilities every year from now until 2015, thus adding to the 100 million people currently without improved sanitation. Forecasts at current rate of progress suggest that Indonesia will fall short of the MDG target of 73% by 10 percentage points, equivalent to 25 million people.[34] The Government of Indonesia (GOI) recognises that in terms of providing adequate water supply and sanitation facilities, it is facing an uphill battle in keeping up with the population increase. Furthermore, significant rural-urban and inter-provincial disparities exist, which sanitation improvement efforts must address. There are also regional variations in coverage, ranging from 34% in West Sulawesi to 88% in Jakarta.

The environmental costs (including economic and financial costs) of poor sanitation are shown in Table A1.1. Relevant mitigation measures and potential benefits are also highlighted.

The World Bank Study (2011) found that all sanitation interventions have benefits that exceed costs, when compared with "no sanitation facility." The high net benefits from low-cost sanitation options, such as pit latrines, suggests these technologies should be centerpiece to increasing access for rural households. However, in densely populated areas, pit latrines have limited feasibility relative to the economic benefits from improved conveyance and treatment options, particularly where populations prefer the transport of waste off-site. Appropriate treatment and/or isolation of waste are

[34] Water and Sanitation Program, United Nations Children's Fund, World Health Organisation. 2007. Universal Sanitation in East Asia. Mission Impossible?

essential to future sustainable development sanitation initiatives in Indonesia. Three key recommendations were made based on the Study's findings:

1. Intensify efforts to improve access for the entire Indonesian population to improved basic sanitation. Indonesia approved a sound community-based sanitation strategy in 2008, and enough evidence is available to show that establishing a viable sanitation market—where demand by all income levels meets affordable and good quality supply—is feasible. For policy makers and local governments, this requires special attention to ensure demand is triggered, health benefits are captured, and coverage is sustained (i.e., avoiding returning to open defecation). Sanitation providers, from wholesalers to community-based masons, need to improve on affordable, upgradeable latrine structures and design to ensure widespread uptake. Information on sanitation options and models for households everywhere in Indonesia is another key element for rapidly accelerating and sustaining coverage.

2. Go beyond basic sanitation provision, where the population demands it and the funding is available. In densely populated urban areas, only basic sanitation provision is no longer feasible due to the higher expectations of populations, space constraints and risks of groundwater pollution. Decision makers should therefore be aware of the full range of conveyance and treatment options, and their related costs and benefits, in order to avoid investing in expensive technologies that are difficult and costly to sustain. In municipalities where funding is sufficient to permit more sustained and quality services, these will better capture the full environmental and health benefits and respond to the population's wish for a clean, liveable environment.

Promote evidence-based sanitation decision-making. Variations in economic performance of options suggests that careful consideration of site conditions and local demand and preferences is needed to select the most appropriate sanitation option and delivery approach. Decisions should take into account not only the measurable economic costs and benefits, but also other key factors for a decision, including intangible environmental impacts and socio-cultural issues that influence demand and behaviour change, availability of suppliers and private financing, and actual household willingness and ability to pay for services.

Table A1.1 The economic and financial costs of poor sanitation and relevant mitigation measures.[35]

Impact Category	Sub-impacts	Financial costs attributed to poor sanitation	Economic costs attributed to poor sanitation	Intervention – mitigation measures	Detail of mitigation measures	Potential Gains
1. Health	Health care costs	Marginal health-seeking costs, including patient transport, medication cost in public sector, and private sector tariffs	Full costs of health seeking, including full health care and patient transport costs	Latrine access	Toilets closer and more accessible (private rather than shared or public)	Save latrine access time
	Productivity costs	Income loss due to lost adult working days due to sickness	Welfare loss due to adult and child sickness time	Making toilets cleaner and safer	Improved position or type of toilet seat or pan, structure, collection system, ventilation, and waste evacuation	Avert health impacts (32% reduction); and generates market value in sanitation products
	Premature mortality	Short-term household income loss due to adult death (1 year)	Discounted lifetime income losses for adult & child death	Hygiene practices (hand washing with soap)	Availability of water for anal cleansing, safe disposal of materials for anal cleansing, hand washing with soap, toilet cleaning	Avert health impacts (45% reduction); and generates market value in hygienic products

[35] Adapted from World Bank Water and Sanitation Program - East Asia and the Pacific (2008), Economic Impacts of Sanitation in Indonesia - A five-country study conducted in Cambodia, Indonesia, Lao PDR, the Philippines, and Vietnam under the Economics of Sanitation Initiative (ESI).

Impact Category	Sub-impacts	Financial costs attributed to poor sanitation	Economic costs attributed to poor sanitation	Intervention – mitigation measures	Detail of mitigation measures	Potential Gains
2. Water resources	Drinking water costs	Water treatment and distribution	Financial + Time spent hauling water from less polluted water sources, or fuel for boiling water	Isolation of human waste from water resources	Improved septic tank functioning and emptying, flood-proof, treatment, and drainage system	Avert costs of accessing clean water for drinking and other household uses, and avert losses in fish production
	Domestic water uses	Additional expenditure sourcing water from non-polluted sources	Financial + Time spent hauling water from less polluted water sources	Reuse of human waste	Composting of feces for biogas production	Value of replaced fuel
	Fish losses	Negative impact on fisheries livelihood	Lost sales value due to reduction in fish catch	Isolation of human waste from water resources	Improved septic tank functioning and emptying, flood-proof, treatment, and drainage system	Avert costs of accessing clean water for drinking and other household uses, and avert losses in fish production
3. External environment	Land quality	Difficult to quantify in the study – however there would likely be decreased land value due to pollution or additional costs incurred for garbage/ environmental clean-up.	Economic value of land made unusable by poor sanitation	Isolation of human waste from land and water resources	Improved septic tank functioning and emptying, flood-proof, treatment, and drainage system	Averts land value degradation due to poor sanitation and pollution.

Impact Category	Sub-impacts	Financial costs attributed to poor sanitation	Economic costs attributed to poor sanitation	Intervention – mitigation measures	Detail of mitigation measures	Potential Gains
4. Other welfare	Time loss	Not quantified in the study – however there would likely be opportunity loss due to travel time using unimproved water and sanitation facilities	Welfare loss due to adult & child travel/ waiting time for defecation	Latrine access	Toilets closer and more accessible (private rather than shared or public)	Save latrine access time, and provides more time for other productive and non-productive activities.
5. Tourism	Tourism costs	Not quantified in the study - however there would likely be Financial losses due to low visitor rates	Revenue loss from low hotel occupancy rates	Sanitary conditions for tourists	Culturally appropriate improved tourist toilet facilities (hotels, restaurants, tourist attractions) and general sanitary conditions of tourist leisure facilities (e.g. water for swimming, environmental sanitation)	Avert tourist losses

A1.4. Relevant Government and Multilateral Programs

- ***GoI - PNPM Mandiri (2006 – 2014)***

PNPM Mandiri – the National Program for Community Empowerment - is the GoI's main poverty reduction program which provides assistance to poor rural and urban communities for improving social services and basic infrastructure. The program was launched in 2006 with the aim of reducing poverty by adopting a community-driven approach to development and providing direct support to poor rural and urban communities to improve essential social services and basic infrastructure.

In March 2010, 31 million Indonesians were officially classified as being below the poverty line. GoI has made poverty alleviation a development priority with the RPJM for 2010 to 2014 targeting a reduction in the poverty rate from 14.2% in 2009 to between 8 and 10% by 2014. The RPJM 2010 – 2014 includes PNPM Mandiri as a development tool to accelerate poverty alleviation with an indicative budget allocation of US$ 6,754 million over five years for seven PNPM Programs. The programs are:

1. PNPM Urban US$ 664 million
2. PNPM Rural US$ 5,420 million
3. PNPM Regional Infrastructure US$ 132 million
4. PNPM Rural Infrastructure US$ 335 million
5. PNPM Sanitation SANIMAS US$ 37 million
6. PNPM Water Supply & Sanitation PANSIMAS US$ 469 million
7. PNPM Poor & Disadvantaged Areas SPADA US$ 277 million

- ***GoI - Accelerated Programme of Urban Sanitation Development (PPSP) (2010-2014)***

The Accelerated Programme of Urban Sanitation Development *Percepatkan Pembangunan Sanitasi Permukiman* (PPSP) is supporting the development and implementation of City Sanitation Strategies (CSS). In total 330 cities are expected to develop CSSs by 2014 and, of these, 160 should have begun their implementation. The PPSP is coordinated by a Program Management Unit (PMU) and three Program Implementation Units (PIU) in Ministry of Public Works, Ministry of Health and Ministry of Home Affairs.

The targets for sanitation development by 2014 are:

- Elimination of open and careless defecation (ODF) in urban and rural areas;

- At-source reduction of waste generation and more environmentally friendly waste management by applying sanitary landfill or controlled landfill systems in final disposal sites;
- Reduction of stormwater ponding in selected urban areas.

Elimination of ODF is to be achieved by: (i) increasing the service provided by off-site sewerage networks by 5% of total urban population, or 5 million people in 16 cities, and (ii) constructing Sanimas (Community Based Sanitation) facilities in 226 cities. In solid waste Reduce, Reuse, Recycle (3R) practices will be introduced to reduce waste generation by 20%, and improved waste management services, in 240 cities.

The cities selected for the PPSP are required to follow a staged sanitation development process, as shown in Table A1.2.

Table A1.2 Staging Requirement of Sanitation Development Process

Stage	Number of Target Cities						Role & Responsibility
	2009	2010	2011	2012	2013	2014	
1. Campaign, education, advocacy and assistance	41	49	62	72	82	(100)	National, Provincial
2. Institutional and regulatory developments	41	49	62	72	82	(100)	National, Provincial
3. Preparation of City Sanitation Strategy (CSS)	24	41	49	62	72	82	District/City
4. Preparation of Program Memorandum	3	21	35	45	56	65	National
5. Implementation (cumulatively and in process)		3	24	59	104	160	National, Provincial, District/City
6. Monitoring, Evaluation, Counselling and Guidance	24	41	49	62	72	82	National, Provincial

Implementation of PPSP is intended to take place over six stages. LGs wishing to join sAIIG should have completed Stage 3 and started Stage 4, a sector Program Memorandum based on the CSS. These PMs are the basis for the activity design which seeks to formalise and consolidate implementation arrangements, including financial and technical aspects in preparation for implementation in Stage 5. The PM provides the justification and the commitments for funding from all levels of government (National, Provincial, District/City) and other agencies, including IndII's sAIIG, for program implementation.

The PMs consolidate the PPSP strategy as elaborated in the medium-term development plans (RPJMD), medium-term investment plans (RPIJM) and spatial plans (RTRW). PPSP operates under the assumption that sanitation is the responsibility of the Local Government.

DAK funding for implementation will be allocated to achieve greatest effectiveness. DAK will be allocated only to LGs that have shown their commitment to an improved sanitation service, show satisfactory performance in the provision of basic sanitation services and have completed their CSS.

- ***GoI – Community-based Sanitation (SANIMAS) (2003-2014)***

The Community-based Sanitation program (SANIMAS) began with funding from BORDA, AusAID and the World Bank in 2003, but since 2006 it has been purely APBN and APBD funded, with APBN used for preparation and APBD for implementation. Communities were also required to make a small contribution, usually by providing their labour. In 2009 APBN funding was restricted to Rp100 million / location, which could only be used for materials procurement.

In 2010 there was no SANIMAS funding from APBN, however, UKP4 the Presidential Working Unit for Supervision and Management of Development started monitoring the program. In 2011 SANIMAS resumed, but only for communal wastewater schemes, not for solid waste and drainage. SANIMAS grants are Rp 400 million per location, funded by APBN and paid directly to the community. The program is no longer focused on the BORDA system, the community may choose Biofilters manufactured by IATPI *Ikatan Ahli Teknik Penyehatan Indonesia* the Indonesian Society of Sanitary and Environmental Engineers. The 2011 program covers 56 locations in 17 provinces.

The Ministry of Health is responsible for rural SANIMAS, while the Ministry of Public Works is responsible for SANIMAS in densely populated / low income urban areas. The program includes public toilet, bathing and washing facilities (MCK), communal septic tanks for five to ten households, and simplified sewerage systems for fifty to one hundred households. Although the Wastewater Sub-Directorate of MPW is keen to implement more communal simplified sewerage systems there is no incentive for the community to choose the technology because the SANIMAS grant is fixed whichever technology they select, while the cost of simplified sewerage is the highest.

- ***ADB - Rural Infrastructure Support to PNPM Mandiri Project***

ADB is supporting GoI's PNPM Mandiri scheme through two projects: (i) the Rural Infrastructure Support to PNPM Mandiri Project (RIS-PNPM) for $50.0 million; and (ii) RIS-PNPM Project II for $84.2 million. Both projects include assistance for community mobilisation, and provide block grants to upgrade basic rural infrastructure in 2,160 villages in four provinces: Jambi, Lampung, Riau, and South Sumatera. In total, more than 3.5 million poor people will benefit from infrastructure improvements in their villages, including newly constructed roads and small bridges, upgraded footpaths and drainage, and improved sanitation and water supply facilities.

- ***ADB - Urban Sanitation and Rural Infrastructure Support to PNPM Mandiri Project (2011-2014)***

The Urban Sanitation and Rural Infrastructure (USRI) project will finance community-driven projects that upgrade basic infrastructure in rural villages and improve sanitation services in poor urban neighbourhoods using a $100 million ADB loan USRI will support GoI's PNPM Mandiri project for poverty reduction by providing assistance to poor communities through block grants, paid directly to the communities, to improve basic infrastructure facilities and sanitation services.

The USRI project will support and strengthen community empowerment and capacity to prioritise, design, implement, manage and monitor community-based projects. Community facilitators will assist communities to carry out poverty mapping, identify problems and needs, evaluate community implementation capacity, develop efficient planning and decision-making processes; establish and run community implementing organisations (ClOs); formulate development plans and specific investment plans to be financed by block grants; prepare technical designs and implement civil works, and formulate and implement O&M plans to ensure sustainability of completed facilities.

In rural areas block grants will be provided for financing the construction of basic rural infrastructure. Activities supported include: (i) building and repairing basic infrastructure such as small roads, bridges, irrigation infrastructure, clean water supply systems and sanitation; (ii) equipping or repairing social infrastructure such as school buildings, clinics, and providing supplies to school children and health clinics; and (iii) social and economic activities. The Project will allocate two cycles of block grants of Rp250 million each for about 600 of the poorest villages in Jambi, Lampung, Riau and South Sumatera. On completion of the first cycle of block grants a village performance evaluation will be carried out and villages that are evaluated as good performers will receive a second cycle of block grants. In urban neighbourhoods block grants will be provided to improve sanitation services. Activities supported include: (i) construction of public bathing, toilet and washing facilities, (ii) improvement of communal sewerage systems and waste treatment, and (iii) improvement of disposal / reuse systems. The Project will allocate block grants of Rp350 million each for about 1,350 urban neighbourhoods in 34 cities in the provinces of Central Java, Dl Yogyakarta, East Java, South Sulawesi and North Sulawesi.

- ***ADB – Metropolitan Sanitation Management and Health Project (2011-2014)***

The Metropolitan Sanitation Management and Health Project (MSMHP) aims to reduce environmental pollution of surface water and shallow groundwater in Medan and Yogyakarta through loan financed improvements to the wastewater services in these cities. The structural works will include the rehabilitation and expansion of existing off-site sanitation systems, providing approximately 28,000 additional house connections. In Medan the project will optimise the operation of the existing wastewater treatment plant through rehabilitation and upgrading and extend the existing sewerage system, which will include installation of new pipelines, new pumping stations and 9,000 new connections. In addition decentralised wastewater treatment systems (DEWATS) will be constructed to service two university accommodation blocks built under the national low-cost housing program. In Yogyakarta the project will substantially expand the existing sewerage system and install about 14,700 new sewer connections.

A complementary TA consultancy is designed to strengthen the capacity of the sanitation management agencies in Medan, Yogyakarta and Makassar. It will support the preparation and implementation of City Sanitation Strategy documents, local institutional development action plans for sanitation, community awareness programs and public health campaigns, and financial and operational performance improvement plans for the agencies responsible for wastewater management.

- ***World Bank - Local Government and Decentralisation Project (2010 - 2014)***

The objective of the Local Government and Decentralisation Project is to improve the accountability and reporting of the central government's Specific Purpose Grants (DAK) for the infrastructure sub-sectors within pilot local governments (LGs). Funding is from a US$ 220 million World Bank loan with implementation over four years using an output-based approach in five provinces: Central Kalimantan, East Java, Jambi, North Maluku and West Sulawesi. There are three components to the project:

(a) DAK reimbursement which will be implemented using an output based disbursement financing approach. Under this approach, the project will reimburse the existing DAK for infrastructure (roads, water, sanitation, and irrigation) based on reported and verified physical outputs delivered by participating LGs.

(b) Institutional strengthening to central and local governments and project management support. This component will support the strengthening of the basic institutional functioning of the project.

(c) Verification of Outputs (VO) will constitute State Finance and Development Supervisory Board (BPKP) verification of outputs. BPKP will finance the VO function, including the necessary staff and capacity enhancement from their own budget.

Table A1.2 Sanitation DAK – Component Activities

No.	Component Activity
I	Preparation
	Socialisation to District/City

No.	Component Activity
	Regional Workshop
	Field Facilitator Staff Training
II	Selection of villages
	Long List
	Short List
	Socialisation
	Rapid Participatory Assessment
III	Preparation of Communal Work Plan
	Determination of users
	Selection of Technology
	Detailed Engineering Design and Cost Estimate
	Community-based Organisation
	Communal Work Plan
	Documentation and legalisation of Communal Work Plan
IV	Community Empowerment
	Community self-help group training
	Treasurers training
	Foremen training
	Managers training
	Health Campaign
V	Construction
	Materials
	Workers wages
	Land
VI	Facilitation
	Community Field Facilitator (Social)
	LG Field Facilitator (Technical)

No.	Component Activity
VII	Operation and Maintenance
VIII	Monitoring and Evaluation

The MPW provides technical guidelines on the implementation, monitoring and evaluation for each of the four infrastructure sectors. The Special Allocation Grants for Community-based Environmental Sanitation *Dana Alokasi Khusus - Sanitasi Lingkungan Berbasis Masyarakat* program is managed by MPW's DGHS and supports construction of the following types of wastewater infrastructure: communal septic tanks, Mandi Cuci Kakus Plus-plus, and communal piped wastewater systems. In the solid waste sub-sector the sanitation DAK supports community-based solid waste management to reduce, reuse and recycle waste. In the drainage sub-sector it supports stormwater detention and retention (infiltration) systems. The component activities of the Sanitation DAK are shown in Table A1.2. SANIMAS planning and design involves a high degree of community participation with alternative sanitation solutions being considered. A Community Self-Help Group (KSM) is established to implement the Works and to maintain and manage them on completion.

ANNEXE 2: DETAILED DESCRIPTION OF PROGRAM ACTIVITIES

A2.1. sAIIG Approach

This Annexe describes in detail the proposed Australia Indonesia Infrastructure grants for municipal sanitation (sAIIG) program which will be implemented over the three years 2012 to 2014. The sAIIG program is designed to stimulate Local Government investment in sanitation infrastructure and to provide incentives for governance reforms which will improve the delivery of sanitation services, make LG procurement more professional and transparent, and raise awareness of gender equality issues. The sAIIG will be delivered to selected LGs using the GoI on-granting regulations and will be disbursed on an output-based modality upon verification of acceptable sanitation infrastructure outputs. Selection of the LGs and award of the grants will be made on an assessment of their governance credentials, their readiness with a suitable sanitation program and their willingness to pre-finance the works. Retention of the grants will be contingent on their delivery of sustainable infrastructure and their progressive attainment of improved governance benchmarks throughout the lifetime of the program.

A2.2. sAIIG Grant Features

The sAIIG sanitation grant program will be defined in an On-granting Agreement with each participating LG, with implementation over a two or three year period. The following are key features of the sAIIG grants:

- Grants are output-based - they will be paid only on completion of independently verified physical outputs;
- Grants are for the construction of new, fixed, sanitation infrastructure;
- Eligible infrastructure comprises those items listed on the sAIIG menu, which also shows the maximum unit rates and percentage of expenditure reimbursable by grant for each item;
- To be eligible for sAIIG grant the infrastructure must be procured by the LG through competitive tender in compliance with GoI regulations;
- The infrastructure must be constructed in accordance with Indonesian Technical Standards and Specifications, where appropriate, supplemented by IndII guidelines, including the gender equality guidelines;
- Continuation of the program after the first year will be subject to the LG achieving satisfactory technical standards and the specified governance benchmarks;
- Grants will be payable directly from MoF to the LG.

A2.3. Eligible Sanitation Infrastructure

Wastewater sub-sector

(i) Neighbourhood Sewerage plus Treatment

Neighbourhood sewerage systems, including wastewater treatment, are expected to receive the major portion of the sAIIG grant funding for the wastewater sub-sector. These comprise simplified sewerage, typically serving between 50 and 400 households, draining to a small, local wastewater treatment plant. The eligible scope of work will include the complete system: house connection, sewer pipes, inspection chambers and treatment plant.

(ii) Neighbourhood Sewerage connected to existing Sewerage Systems

In eight cities in Indonesia there are existing centralised sewerage systems; in five of these cities some 4,826 new house connections have been provided under the AusAID funded Sanitation Hibah during 2010/11. Under the sAIIG program neighbourhood simplified sewerage systems which can be connected into these existing systems will be provided, where there is spare capacity in the existing system and proven demand for wastewater services from potential customers.

Solid Waste sub-sector

(i) Intermediate Solid Waste Transfer Stations (SPA)

Intermediate Solid Waste Transfer Stations *Stasiun Peralihan Antara* (SPA) receive solid waste collected by small trucks either from Collection and Recycling Depots or from other collection points around the city. Transfer stations aggregate the waste and then use a fleet of large trucks to haul it to the final disposal site.

A2.4. Infrastructure Design Considerations

- ***Wastewater sub-sector***

Neighbourhood Sewerage plus Treatment

Neighbourhood sewerage will only be provided in areas which have a piped water supply or good groundwater to ensure that adequate wastewater flows are maintained in the sewers. Neighbourhood systems, also known as simplified sewerage systems, are suitable for existing unplanned low-income areas, as well as for new developments with a planned layout, and collect all household wastewater, both black and grey water, for off-site treatment. Conceptually, simplified sewerage is the same as conventional sewerage but aims to eliminate unnecessarily conservative design

features and use appropriate design standards – these are detailed in the Appendix to this Annexe.

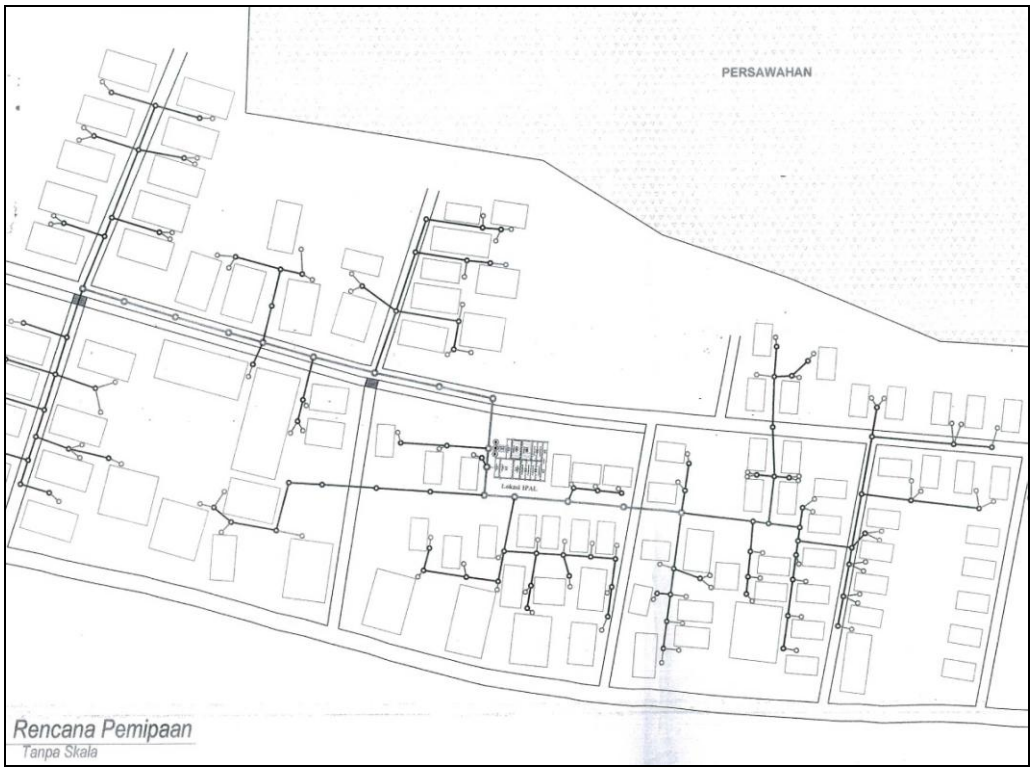
Simplified sewerage generally employ shallow, small diameter sewers laid at flat gradients which offer a low-cost sewerage solution. The typical simplified sewer diameter is 100 mm, laid at a slope of 1 in 200 (0.5 %), whereas a conventional sewer would have a minimum diameter of 200mm with the slope determined by a minimum velocity of flow. A 100mm diameter sewer line can serve up to 200 households with a wastewater flow of 400 litres per household per day. However, laying small diameter pipes at flat gradients requires careful construction; training and supervision are essential since contractors in Indonesia are not familiar with laying sewer lines with gravity flow.

Another feature of the original simplified sewerage systems was that they served the community within a block, which avoided laying sewers in roads. Where feasible simplified sewer pipes were laid in front gardens, under the pavement (trotoar), or through back gardens. However, in many densely populated urban locations in Indonesia there is no pavement or front garden and the sewer pipes have to be laid in the middle of the road or alley, just like conventional sewers. In simplified sewerage systems, because the sewers are at a shallower depth, small brick or plastic junction and inspection chambers can be used instead of large manholes. Sewage pumping stations are also avoided because of the relatively small service area, whereas in a conventional system covering a whole city pumping is often unavoidable.

Experience from other countries is that this type of system can be between 30% and 50% cheaper than conventional sewerage. However, it is essential to have an operator, with backup resources such as sewer cleaning equipment, available to monitor and maintain the treatment plant and to deal with any blockages, which may occur more frequently than with conventional sewers.

The sAIIG neighbourhood sewerage system includes construction of a wastewater treatment facility, installation of the sewerage network, inspection chambers and house connections up to the front wall of the house, and connection into all existing black and grey water drainage pipes at the house.

Figure A2.1 Plan for Neighbourhood Wastewater System in Marannue, Sulawesi Selatan



Each household connection will serve a minimum of one toilet, one shower (*tempat mandi*) and one sink or washing area (*tempat cuci*). All existing septic tank connections and grey water discharges must be intercepted. Where there are no existing drains which can be intercepted, but there is a bathroom and toilet, the householder will be responsible for installing the connection inside the house. In cases where there is no existing bathroom or toilet sAIIG will promote the use of incentives by LGs (see next page).

Neighbourhood wastewater systems have to be individually designed and the size of the system and potential number of customers will be determined by the topography and density of development of the area. It is expected that a minimum of 50 and maximum of 250 households will be served by each system. Ideally these systems operate entirely by gravity flow; however in some cases the treatment plant may be too low to be able to discharge the effluent to a suitable watercourse by gravity. In such cases an effluent pump will be provided, but this will increase the operating cost and reduce the reliability of the system.

Wastewater Treatment Plant

The heart of a small wastewater treatment plant is usually an anaerobic baffled reactor, essentially a septic tank upgraded to improve the efficiency of solids removal.

The treatment processes are the same, physical settling of solids followed by anaerobic digestion. The tank efficiency is improved by having a series of baffles which the wastewater is forced over and under. The effluent may then flow through an anaerobic upflow filter before being discharged. Where space is available the effluent may be discharged into a gravel / reed bed for further treatment.

The DGHS SANIMAS program has been based on the use of the Bremen Overseas Research and Development Association (BORDA) Decentralised Wastewater Treatment System (DEWATS). sAIIG will not be prescriptive about the treatment process but LGs' wastewater treatment proposals will be subject to the approval of IndII consultants. Where the treatment plant cannot be located high enough to discharge the effluent into a suitable watercourse by gravity an effluent pump will be provided,

Neighbourhood Sewerage Connected to existing Sewerage Systems

There are existing sewerage networks and off-site treatment facilities in: Yogyakarta, Medan, Balikpapan, Bandung, Banjarmasin, Cirebon, Denpasar, Jakarta, Surakarta and Tangerang. Under the Sanitation Hibah new sewer connections were provided on five of these networks: Bandung, Banjarmasin, Balikpapan, Jakarta and Surakarta. The system in Denpasar has an ongoing comprehensive development project funded by JICA. The systems in Yogyakarta and Medan are expected to start an ADB funded expansion project in early 2012. The increased capacity of these two systems will provide the opportunity for expansion of the upstream tertiary and domestic infrastructure. There may also be scope for sAIIG grants to be used for neighbourhood simplified sewerage systems which can be connected into the sewerage networks in Bandung, Banjarmasin, Tangerang and Cirebon. The ADB is planning to finance major sewerage investments in some of the eight cities where IndII has recently completed Wastewater Master Plans. If these proceed quickly enough there may also be scope for sAIIG funds to support development of some of the upstream infrastructure in these cities.

House Connection

The implementation of the Wwater and Ssanitation Hhibah allowedleft the connection policy to the individual LGs to set their own connection policy. As a result, LGs took a variety of different approaches to encourage households to connect. However, unlike the water hibah, a sewerage connection must be made to fittings in the house, unless it is possible to intercept the inlet pipe to a septic tank. Each house will also have different configurationsconditions for the various fittings. Some of these may need upgrading to conform to requirements for connecting to the sewer, for example use of an appropriate goose neck water trapseal. In some cases houses may have bathrooms but no toilet, or no bathroom at all. The sAIIG will promote the use of incentives by LG to encourage the households to connect. These incentives may include 'sign-on' offers to use the services of a LG engaged contractor to connect, and at the same time up-grade wastewater fittings in the house to comply with sewerage connection specifications.

- ***Solid Waste sub-sector***

Intermediate Solid Waste Transfer Stations (SPA)

Intermediate Solid Waste Transfer Stations *Stasiun Peralihan Antara* (SPA) receive solid waste collected by small trucks either from Collection and Recycling Depots or from other collection points around the city. Transfer stations aggregate the waste so that large capacity trucks can transport it to the final disposal site. Transfer Stations are usually justified where the journey time to the final disposal site exceeds half an hour.

Ideally a Transfer Station should be able to handle the solid waste generated by a population of between 500,000 and 750,000, producing 350 to 500 tonnes/day, such that in most Indonesian cities two such stations would be sufficient. Site location is important as good road access is required for the large trucks hauling the solid waste to the final disposal site.

DGHS considers that a site of 5,000 to 10,000 m2 is needed for an Intermediate Transfer Station; the site should be owned and managed by the LG. DGHS's standard budget for construction of a Transfer Station is Rp250 million, but the budget can vary greatly with the size of the site and the facilities provided. sAIIG grants cannot therefore be based on fixed unit costs; the design and cost estimate for each proposed station will be subject to prior review and approval by IndII's consultants.

Intermediate Transfer Station facilities may include:

- Sorting and composting areas;
- Ramps and elevated discharge area;
- Waste Compactor;
- Waste loading system;
- Office, changing room and toilets;
- Equipment store;
- Borehole, pump and Water tower;
- Septic tank;
- Guard Post;
- Mosque;
- Parking area for motorcycles.

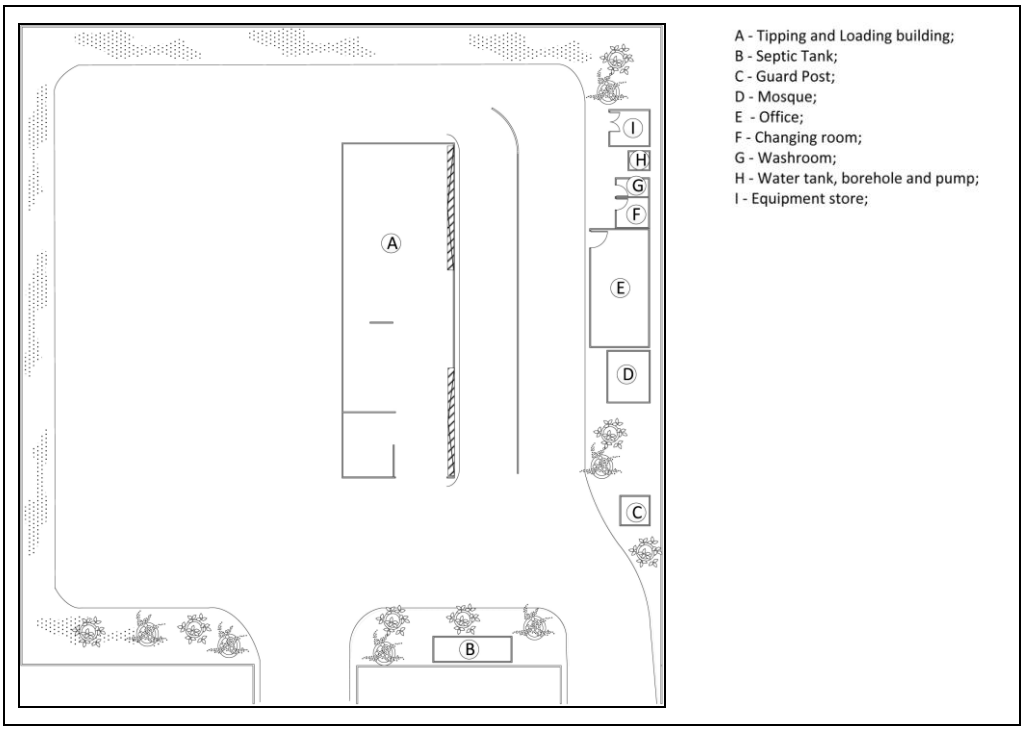
Transfer stations need to be individually designed to suit the site in order to ensure efficient traffic flow of the small collection and large transfer vehicles. The types and sizes of vehicles and the methods for unloading the collection vehicles and loading the transfer vehicles must be considered.

Smaller Transfer Stations may have collection vehicles discharging straight into transfer trucks which avoids the need for solid waste storage, minimising odour and vector problems. However, this tends to cause inefficient utilisation of the transfer trucks as loading is slower and the waste is not compacted.

Larger Transfer Stations may have a temporary storage area, which may be just a concrete tipping floor, where the collection vehicles can discharge their load. This allows both collection vehicles and transfer trucks to work at their own optimum schedules. A loading system is required to move the solid waste from the storage area, which might simply comprise a backhoe to push the waste into the trucks below. However, the loading system also provides the opportunity for compaction of the waste. A major transfer station would need at least a 20,000 m2 site and might provide parking, maintenance and repair facilities for the transfer truck fleet, a weighbridge and a multi-level Transfer Building.

In some cases, Transfer Stations might include facilities for sorting waste and composting organic waste in order to minimise the remaining volume of solid waste which has to be transported to the final disposal site. However, the DGHS model assumes that this process is carried out at Solid Waste Collection and Recycling Depots which receive solid waste collected by motorcycle pickups or handcarts from households and businesses.

Figure A2.4 Concept Design for Intermediate Solid Waste Transfer Station



A2.5. Uptake of Wastewater Services

IndII's Sanitation Hibah found that uptake of wastewater services by the community required more socialisation of the benefits than for other social infrastructure services such as water supply and solid waste.

The Capacity Building Consultant will therefore be responsible for supporting the LG in social marketing, preparing a community awareness programme, including public health, hygiene and the dangers of untreated sewage, in every wastewater sub-project location. This programme will run as early as possible during the design stage to generate community interest in, and demand for, the planned wastewater services. LGs are expected to adopt socially inclusive and gender sensitive approaches in the sAIIG preparation and implementation, and to ensure that there are equal opportunities for men and women to participate in activities.

It is hoped that LGs can be persuaded to offer new, free, bathrooms for eligible households, which is expected to prove an attractive incentive for poorer households to become customers for wastewater services.

A2.6. Sustainability, Operation and Maintenance of sAIIG Infrastructure

- ***Wastewater sub-sector***

Experience of community-based wastewater systems gained by both DGHS and IndII is that MCKs offer only a temporary sanitation solution and are often unpopular, not least because people are expected to pay each time they use the toilet or washing facilities. In addition they are high maintenance as they need an attendant to provide continuous cleaning; failure to provide this quickly renders them unpleasant and unhealthy. In many Indonesian provinces there is also a cultural resistance to the use of such communal facilities.

Meanwhile, as PDAMs expand their service coverage into poorer urban areas, their new customers stop using the MCK. Worse, PDAMs' new customers are likely, at best, to use poorly built septic tanks for their black water, meaning that the new water supply then results in a deterioration in local groundwater quality. In the worst cases, households may effectively discharge completely untreated wastewater, as well as untreated grey water. For these reasons, sAIIG is not supporting the construction of MCK, rather it will promote the construction of neighbourhood sewerage to provide safe disposal of household sanitary waste.

Sustainability of sanitation infrastructure and services is a key concern in the design of sAIIG. It is well-known that facilities implemented under community driven modalities have often had poor levels of sustainability in Indonesia. This has been confirmed by a recent survey for DGHS of 41 community implemented sanitation facilities constructed

between 2008 and 2009.36 The survey found that 17% were operating very well, while 32% were operating well but with lower than the planned number of users; 52% were either incomplete, or partially or completely non-operational.

The sAIIG design is therefore focused on neighbourhood simplified sewerage, implemented by Local Governments using their own funds. Neighbourhood sewerage systems with proper treatment facilities are expected to offer a sustainable improvement in environmental quality and should be relatively low maintenance

Good quality materials and construction are important factors in the sustainability of new infrastructure. Choice of pipe material is particularly important as different materials offer different service life and require different standards of installation. The ideal material for small diameter sewer pipes is vitrified clay, but this is not available in Indonesia; in the past such pipes have been imported. uPVC pipe is commonly used in Indonesia for both water and sewer pipelines but there are major concerns about its quality and sustainability.

The requirement for LGs to establish a Technical Service Unit for Wastewater Management (UPTD-PAL) in the first year of the project will further strengthen sustainability of service delivery and maintenance of the facilities. The UPTD-PAL would be expected to eventually develop more autonomy, either as a Local Government public service agency (BLUD) or a Local Government owned wastewater company (PD PAL).

- ***Solid Waste sub-sector***

DGHS have found that some Collection Depots they have funded have not been provided with an operational budget by the LG; in other cases the LG has refused to collect the residual solid waste from the depot without payment. The sAIIG funded Intermediate Transfer Stations will be built on LG owned land, using LG commissioned designs and their own finance. LGs are therefore expected to provide adequate budget for the management and operation of these facilities.

Sustainability will be a focus of post-project evaluation that will seek to verify continuation of sanitation prioritisation, good governance practices, sound management and maintenance of facilities. All of these will contribute to the longer-term goal of meeting national and international targets for access to efficient, sustainable and equitable sanitation services.

A2.7. Improving Governance

A key outcome of sAIIG will be stimulating LGs into accepting their responsibility for the provision of sanitation services and demonstrating their commitment through

[36] Draft Final Report of SANIMAS Monitoring Program 2008-2009 by PT Waseco Tirta (November 2011)

increased budgets for fixed infrastructure to expand and improve these services. In the Wastewater sub-sector engaging LGs in the maintenance of neighbourhood wastewater systems and treatment plants is seen as a first step towards the development of centralised wastewater systems.

The sanitation IEG during phase 1 of IndII found poor governance in the procurement of goods and services, fragmentation of sanitation services and inadequate funding for sanitation. The implementation of the sAIIG program over three consecutive budget years will allow IndII to set benchmarks on governance and investment and to monitor the LGs' achievements against them. LGs applying to join the sAIIG program will therefore be required to satisfy two initial indicators of good governance and to commit to a program of progressive governance benchmarks.

The first indicator of good governance will be taken as the opinion expressed in the annual audit of LG financial statements conducted by the National Audit Agency (BPK). Auditors have four basic options for their opinion: Unqualified, Qualified, Adverse and Disclaimer. Only LGs whose latest financial statements have received Unqualified or Qualified opinions will be considered for sAIIG; in bahasa Indonesia these are: *wajar tanpa pengecualian* (WTP) and, *wajar dengan pengecualian* (WDP).

The second indicator of good governance will be that there should be no known, current, Corruption Eradication Commission (KPK) investigation of any of the LG's executive or senior staff.

The first benchmark will require LGs to establish a Technical Service Unit for Wastewater Management (UPTD-PAL), see Annexe 3, in the first year of the sAIIG program, unless they already have an equivalent or better management agency.

LGs will be expected to meet annual performance benchmarks, particularly for governance, for their sAIIG grant funding to continue. Subsequent governance benchmarks will include:

- A LG website with information about current LG budgets and programs;
- Establishment of a procurement unit *Unit Layanan Pengadaan* in accordance with PerPres 54/2010;
- Establishment of an UPTD operating authority for sewer schemes;
- Evidence of good procurement practice including the introduction of e-procurement and reporting.

Failure to meet governance benchmarks will trigger a review of the On-granting Agreement with the ultimate penalty being cancellation of the grant.

A2.8. sAIIG Technical Assistance Requirements

Comprehensive technical assistance to support DGHS, the participating LGs, and IndII in the successful delivery of the grant program is included in the project design. DGHS will establish a CPMU to administer the program. The CPMU will require TA support in appraisal, approval, oversight, monitoring and reporting, while IndII will also require support in fulfilling their responsibilities. Local governments are required to plan, design and implement infrastructure with which they are not familiar, and for which they have very limited technical and human resource capacity. The scope of technical assistance anticipated for the project is described in the following sub-sections. The optimum way to package these services into consultancy contracts will be decided once the locations of the participating LGs are known.

- **Program appraisal and review**

Initially the Consultant will appraise the multi-year sanitation programs proposed by candidate LGs as part of the selection process, including their planned budget allocations and governance indicators. Once LGs have been accepted into sAIIG, the Consultant will review each LG's annual program and confirm compliance with environmental and social safeguards, land acquisition and relocation, procurement documents, and other requirements of the Project Management Manual and Grant Agreement. The Consultant will support the CPMU in determining the qualifying programs for each year's implementation; sAIIG funds will only be disbursed for infrastructure that qualifies.

- **Baseline survey**

The Consultant will conduct a baseline survey of the qualifying programs for each year. The scope of work will encompass the collection of baseline data on the target populations in each selected sub-project area through a census of household size, socio-economic status, sanitation behaviour and interest in becoming a customer. The survey will also collect information on LG sanitation budgeting and governance as a basis for assessing progress over the life of the project.

- **Program preparation**

The Consultant will support the CPMU in administering the sAIIG program and will be responsible for ensuring that LGs are adequately prepared to implement their sanitation programs. The Consultant will review existing designs and documents and, where necessary, complete the detailed designs and tender documents. In order to facilitate monitoring and reduce fragmentation into a multitude of small contracts there will be a minimum contract size of $ 50,000. The Consultant will ensure that there is a pipeline of sub-projects being prepared by LG for implementation in subsequent years.

- **Capacity building and community awareness**

The Consultant will provide capacity building for the new UPTD-PAL which will become responsible for design, construction supervision, and the operation and maintenance of the new sAIIG wastewater systems, as well as having responsibility for all existing wastewater services of the LG. The Consultant will also provide capacity building to the LG's procurement staff as it establishes the new Procurement Unit.

An important capacity building task will be supporting the LGs to design and prepare materials for community awareness raising and developing a strategy for social marketing which reaches both women and men, to generate interest in, and demand for, the proposed new sanitation services. The strategy will be aimed at changing people's health and hygiene habits and behaviour, as well as educating them in the health risks associated with untreated sewage. LGs are encouraged to appoint their own facilitators to implement sAIIG community activities, in particular awareness raising and social marketing.

The Consultant will include Social/Poverty and Gender Specialists in the capacity building team to support LGs in developing socially inclusive and gender sensitive approaches for implementing sAIIG activities. Other tasks will address: the benefits of including women equally with men, gender issues faced in the field, and how to ensure that women participate.

- **Oversight**

Working in close association with the CPMU, the Consultant will be engaged early in the program and will provide quality assurance and technical oversight of the implementation process from the tender stage to completion and handover of the works. The Consultant will check the quality of both the materials and the construction, but day to day supervision of contractors will be the responsibility of the LG. Works which do not meet the specified quality may be ineligible for grant payment. On completion of the works the Consultant will prepare all documentation required by the Verification Consultant.

- **Independent Verification**

The Consultant will be responsible for compliance verification of the completed works with the: Detailed Design, Technical Specifications, Project Management Manual, Grant Agreement, and prevailing procurement regulations. The Consultant will verify the volume of eligible infrastructure constructed in accordance with the schedule and the resulting grant payment due to the LG. The Verification Consultant will also be responsible for collecting the data required for Monitoring and Evaluation. In order to assess the sustainability the Consultant will return after about one year to check that the facilities are being used and still operating satisfactorily.

A2.9. Differences between sAIIG and other DGHS Sanitation Programs

- ***Sanitation DAK Program***

The sAIIG will have some of the features of the existing GoI Special Allocation Grants for Community-based Environmental Sanitation *Dana Alokasi Khusus - Sanitasi Lingkungan Berbasis Masyarakat* program managed by DGHS. The Sanitation DAK program, which is reimbursed from the World Bank LGDP loan, supports construction of the same type of neighbourhood wastewater systems proposed for sAIIG, as well as communal septic tanks and Mandi Cuci Kakus Plus-plus.

Key differences between the Sanitation DAK and sAIIG are:

- sAIIG will be planned and implemented by LGs, whereas the Sanitation DAK is a community-based program;
- sAIIG will use contractors for construction;
- sAIIG works will be tendered;
- Both sAIIG and the Sanitation DAK are output-based, but under sAIIG the LG has to pre-finance the Works, whereas under the DAK the LG receives the grant before implementation and GoI is reimbursed on the output;
- sAIIG grant will be paid to the LG only after the works are commissioned and have been verified by independent consultants, whereas under the LGDP only a 20% sample of the works are verified by BPKP.

- ***Community-based Sanitation Program***

Since 20011 the SANIMAS program has been focused exclusively on communal wastewater schemes, which includes local sewerage systems, communal septic tanks and communal toilet and washing facilities (MCK ++). The 2011 program covers 56 locations in 17 provinces.

Key differences between SANIMAS and sAIIG are:

- sAIIG will be planned and implemented by LGs, whereas SANIMAS is a community-based program;
- sAIIG will use contractors for construction, under SANIMAS the community has the right to construct the works themselves;
- sAIIG is output-based with the grant reimbursing LG expenditure, SANIMAS is a fixed grant paid to the community before implementation;
- sAIIG grants will be paid based on house connections installed, SANIMAS grant is paid per sub-project location.

APPENDIX – Outline of DGHS Technical Guidelines for Neighbourhood Sewerage

Neighbourhood wastewater systems shall be individually designed and the size of the system and potential number of customers determined after considering the topography and density of development of the area. Simplified sewerage should serve a minimum of 50 and maximum of approximately 400 households. Systems shall be designed to operate entirely by gravity flow; however, if the treatment plant cannot be located high enough to discharge the effluent into a suitable watercourse by gravity an effluent pump shall be provided.

1. Service Area

Areas to be served by simplified sewerage systems shall have a piped water supply or good groundwater to ensure that adequate wastewater flows are maintained in the sewers.

2. Depth of Sewers

The maximum depth of ground cover to the crown of the sewer pipe shall be 1.5m. The minimum depth of cover to the crown of the pipe when laid under roads exceeding 2.5m width shall be 1.0m. Where sewer pipes are laid in roads of less than 2.5m width the cover to the crown of the pipe may be reduced to 0.75m. Where sewer pipes are laid in alleyways of less than 1.5m width the cover to the crown of the pipe may be reduced to 0.5m.

3. Design Flows Pipe Diameter and Slope

Design flows shall be based on a wastewater flow of 400 litres per household per day.

The minimum pipe diameter shall be 100mm and maximum 150mm.

Sewer pipes shall be laid at a minimum slope of 1 in 100 (1.0 %) and maximum of 1 in 25 (4.0%).

4. Inspection Chambers

Inspection chambers

5. House Connections

All existing septic tank connections and grey water discharge pipes shall be intercepted such that each house connection serves a minimum of one toilet, one shower (*tempat mandi*) and one sink or washing area (*tempat cuci*). A grease trap may be installed on the pipe from the kitchen sink or washing area before it is connected into the toilet and shower lines.

ANNEXE 3: PROGRAM MANAGEMENT & IMPLEMENTATION ARRANGEMENTS

A3.1. Entry Requirements for LGs to join the sAIIG Program

DGHS has a clear, staged approach by which all LGs are supposed to plan and implement their sanitation development:

- Conduct a Sanitation Survey;
- Prepare a White Book on City Sanitation;
- Prepare a City Sanitation Strategy;
- Integrate the sanitation program / activities into the *musrenbang* process;[37]
- Implement the sanitation development program / activities;
- Monitor and evaluate the sanitation development program.

Minimum entry requirements for Local Governments to be eligible to join the sAIIG Program have been agreed between IndII and DGHS. LGs will be required to demonstrate their commitment to developing sanitation by having already prepared a Medium Term Development Plan (RPIJM) and a Master Plan for the development of their sanitation infrastructure.

LGs should also have participated in, or at least have expressed interest in joining, BAPPENAS's Accelerated Program of Urban Sanitation Development (PPSP) which is summarised in Annexe 1. LGs should

sAIIG ENTRY REQUIREMENTS

Minimum entry requirements for LGs to join the sAIIG Program are:

a. A City Sanitation Strategy (CSS) and a Medium Term Investment Program (RPIJM).

b. A program of sanitation development investments for FY 2012 to 2014.

c. Budget allocations for FY 2012 to 2014 which include finance for development of physical sanitation infrastructure.

d. Commitment to expand coverage and improve performance in the provision of sanitation services.

e. Commitment to apply Good Governance Principles in management of the sanitation sector.

f. Commitment to finance future operation and maintenance of the new sanitation infrastructure.

g. Commitment to improve sanitation sector regulations.

h. Commitment to promote community participation and adopt a gender inclusive approach in all sanitation sector activities.

i. Commitment to establish an institution to be responsible for the provision of wastewater services.

Where appropriate the above commitments will be included in the Obligations of the Grant Agreement between the MoF and the Local Government.

[37] Musrenbang is an annual process of discussion forums about priorities for local development. This bottom-up approach allows residents to influence Local Government programs and budget allocations.

have completed their City Sanitation Strategy and be drafting a Program Memorandum for the Sanitation Sector (MPSS). The Program Memorandum should include multi-year budgets demonstrating the LG's intention to finance and develop the sanitation infrastructure from their own funds, which will ultimately be reimbursed by sAIIG grant.

DGHS also expect the LGs to demonstrate their commitment to funding the operation and maintenance of the infrastructure for which they receive sAIIG grants. LGs should be willing to promote community participation, and adopt a gender inclusive approach in planning, developing and operating sanitation facilities. LGs should also be ready to establish an institution to take responsibility for the management of wastewater services.

In addition, IndII has requirements about the quality of LG governance. The first indicator of good governance will be taken as the opinion expressed in the annual audit of LG financial statements conducted by the National Audit Agency (BPK); as a minimum BPK's audit should produce either an unqualified or qualified opinion. Based on IndII's preliminary review of the implementation of the IEGs, there appears to be some correlation between LG governance and BPK audit findings.. The second governance indicator is that there should be no known, current, Corruption Eradication Commission (KPK) investigation of any of the LG's executive or senior staff.

LGs which satisfy all the entry requirements and are invited to join the sAIIG program will then be invited to sign an On-granting Agreement with the Ministry of Finance.

A3.2. Selection of Local Governments to be included in the sAIIG Program

In selecting LG candidates to join the sAIIG Program priority has been given to the eight cities which have recently completed Wastewater Master Plans with IndII. They are joined by 14 LGs who have participated in, and performed satisfactorily in, IndII's Infrastructure Enhancement Grant (IEG) program. In addition 7 LGs who have performed satisfactorily in either the Sanitation or Water Hibah are included, while the list of 30 candidates is completed by one LG from the Water CBO program.

Proposed Candidate LGs for sAIIG - entering program in 2012

			PPSP	CSS	PM	Previous IndII Programs	Other Programs
1	Kota	Banda Aceh	2009	2009	2011	Satisfactory IEG perf.	
2	Kab.	Deli Serdang	2010	2010		Good IEG perf.	
3	Kota	Medan	2009	2009		Good IEG perf.	ADB - MSMHP
4	Kota	Pekanbaru	2009	2009	2011	WW Master Plan; Satisfactory IEG	
5	Kota	Batam	2012	??		WW Master Plan 2011	
6	Kota	Bukit Tinggi	2009	2009	2011	Satisfactory IEG perf.	
7	Kota	Jambi	2009	2009	2011	Satisfactory IEG perf.	
8	Kota	Palembang	2010	2010		WW Master Plan 2011	
9	Kota	Bandar Lampung	2012	??		WW Master Plan 2011	
10	Kota	Bogor	2010	2010		WW Master Plan 2011	
11	Kota	Cimahi	2011	??		WW Master Plan; Satisfactory IEG	
12	Kota	Bandung	2010			Sanitation Hibah	
13	Kab.	Serang	2010	2010		Water Hibah	
14	Kota	Pekalongan	2009		2011	Satisfactory IEG perf.	
15	Kab.	Klaten	2011			Water Hibah	
16	Kota	Yogyakarta	2009	2009		Good performance under IEG	ADB - MSMHP
17	Kota	Surabaya	2010			WW Master Plan 2011	
18	Kab.	Sidoarjo	2011	2011		Water Hibah	
19	Kab.	Malang	2009			Good performance under IEG	
20	Kota	Blitar	2009	2008	2011	Good performance under IEG	
21	Kota	Batu	2009			Good performance under IEG	
22	Kota	Probolinggo	2010			Satisfactory IEG perf.	
23	Kab.	Jombang	2010			Satisfactory IEG perf.	
24	Kota	Denpasar	2009	2009		Good performance under IEG	JICA - Sewerage Dev
25	Kab.	Lombok Timur	2011	2010		Water Hibah	
26	Kab.	Hulu Sungai Selatan	2011	2011			
27	Kota	Banjarmasin	2009			Satisfactory IEG; Watsan Hibahs	
28	Kab.	Banjar	2010	2010		Water Hibah	
29	Kab.	Kapuas				Water Hibah	
30	Kab.	Jayapura	2009	2009		Poor performance under IEG	

Consideration has also been given to the nine cities in Indonesia which have existing centralised sewerage systems, where the sAIIG might be used to increase connections to the existing systems, to extend the service area or to serve areas which are unlikely to be covered. Yogykarta, Medan, Bandung, Banjarmasin and Denpasar are included in the group joining the program in 2012 and Tangerang and Cirebon in 2013. The two remaining cities with sewerage systems, Jakarta and Surakarta, are included in the sanitation hibah, but are not candidates for sAIIG. Surakarta's treatment plants are already operating at capacity, while Jakarta would not be considered for another AusAID grant program at present.

Another 45 LGs have been identified on the basis that they have completed, or are in the process of completing, City Sanitation Strategies. Most of these are LGs which entered the GoI PPSP program in 2010. These 45 LGs are candidates to join the sAIIG program in 2013.

Proposed Candidate LGs for sAIIG - entering program in 2013

			PPSP	CSS	PM	Previous IndII Programs	Other Programs
31	Kab.	Aceh Barat	2010	2010			
32	Kab.	Aceh Timur	2010	2010			
33	Kota	Langsa	2010	2010			
34	Kota	Lhoksumawe	2010	2010			
35	Kab.	Pidie	2011	2011			
36	Kab.	Toba Samosir	2010	2010			
37	Kota	Tebing Tinggi	2010	2010			
38	Kota	Padang	2009	2009		Water Hibah	
39	Kota	Sawahlunto	2011	2011			
40	Kota	Payakumbuh	2009	2009	2011		
41	Kota	Solok	2010	2010		Poor performance under IEG	
42	Kab.	Tanah Datar	2010	2010			
43	Kota	Prabumulih	2010	2010			
44	Kab.	Muara Enim	2010	2010			
45	Kota	Tangerang	??	2012			
46	Kota	Serang	2011	2011			
47	Kab.	Bandung	??			Water CBO	
48	Kab.	Pandeglang	2011	2011			
49	Kota	Bekasi	2010	2010			
50	Kota	Cirebon	2010	2010			
51	Kab.	Boyolali	2011	2011			
52	Kab.	Banjarnegara	2011	2011			
53	Kota	Tegal	2009	??	2011	Poor performance under IEG	
54	Kab.	Gunung Kidul	2010	2010			
55	Kota	Kediri	2009	??	2011		
56	Kab.	Madiun	2011	2011			
57	Kab.	Pasuruan	2011	2011			
58	Kab.	Tabanan	2010	2010			
59	Kab.	Buleleng	2010	2010			
60	Kab.	Dompu	2012	2012			
61	Kab.	Sumbawa Besar	2011	2011		Sumbawa Besar & Barat in 2011	
62	Kab.	Lombok Utara	2011	2011			
63	Kab.	Bima	2011	2011			
64	Kab.	Sumbawa Barat	2011	2011			
65	Kota	Mataram	2010	2011			
66	Kota	Samarinda	2010	2010			
67	Kota	Tarakan	2011	2011			
68	Kab.	Paser	2011	2011			
69	Kab.	Kutai Timur	2011	2011			
70	Kota	Palangka Raya	??			Water Hibah	
71	Kota	Pontianak	2010	2010			
72	Kab.	Sanggau	2010	2010			
73	Kota	Singkawang	2010	2010			
74	Kota	Makasar	2009			WW Master Plan Sep 2011	Poor performance under IEG
75	Kota	Ambon	2009	2009		Poor performance under IEG	

In total 75 LGs have been identified as potential candidates for sAIIG, more than the sAIIG target of 40, but providing an allowance for the possibility that some may not meet the conditions for entry.

A3.3. sAIIG Annual Activity Cycle

The main activities of the sAIIG program are shown in Figure A3.1, while the program Implementation Schedule is in Annexe 6.

The sAIIG program is planned to run for three years from early 2012 to end 2014 with each year following a common annual activity cycle. However, preparation of the sAIIG program began in September 2011 and final verification, evaluation and grant disbursement will be completed by June 2015.

- ***Preparation***

Preparation activities already begun for sAIIG include: collecting information about the existing DAK and SANIMAS programs, reviewing previous similar sanitation projects for lessons which can be learned about creating sustainable infrastructure, designing the sAIIG program and preparing this Project Design Document, establishing LG selection criteria, socialising the sAIIG to LGs to generate interest and encourage them to start their preparations, and preparing the Project Management Manual with DGHS and DGFB. Socialisation efforts were vital because, as the sAIIG program is output-based, if any works are to be implemented in 2012 the LGs need to fully fund them in their 2012 APBDs which are prepared in October / November 2011. These budgets then have to be approved by the DPRD, which can be a long process.

LGs will join the program in annual batches once they have satisfied the qualifying criteria. Consequently, some may participate in sAIIG for three years, some for two years, and possibly some only in 2014. The target is for 40 LGs to participate, but the final number will be dictated by the availability of uncommitted grant funds, which will depend on the extent of the sanitation programs proposed by the LGs and their success in completing eligible works.

- ***Appraisal***

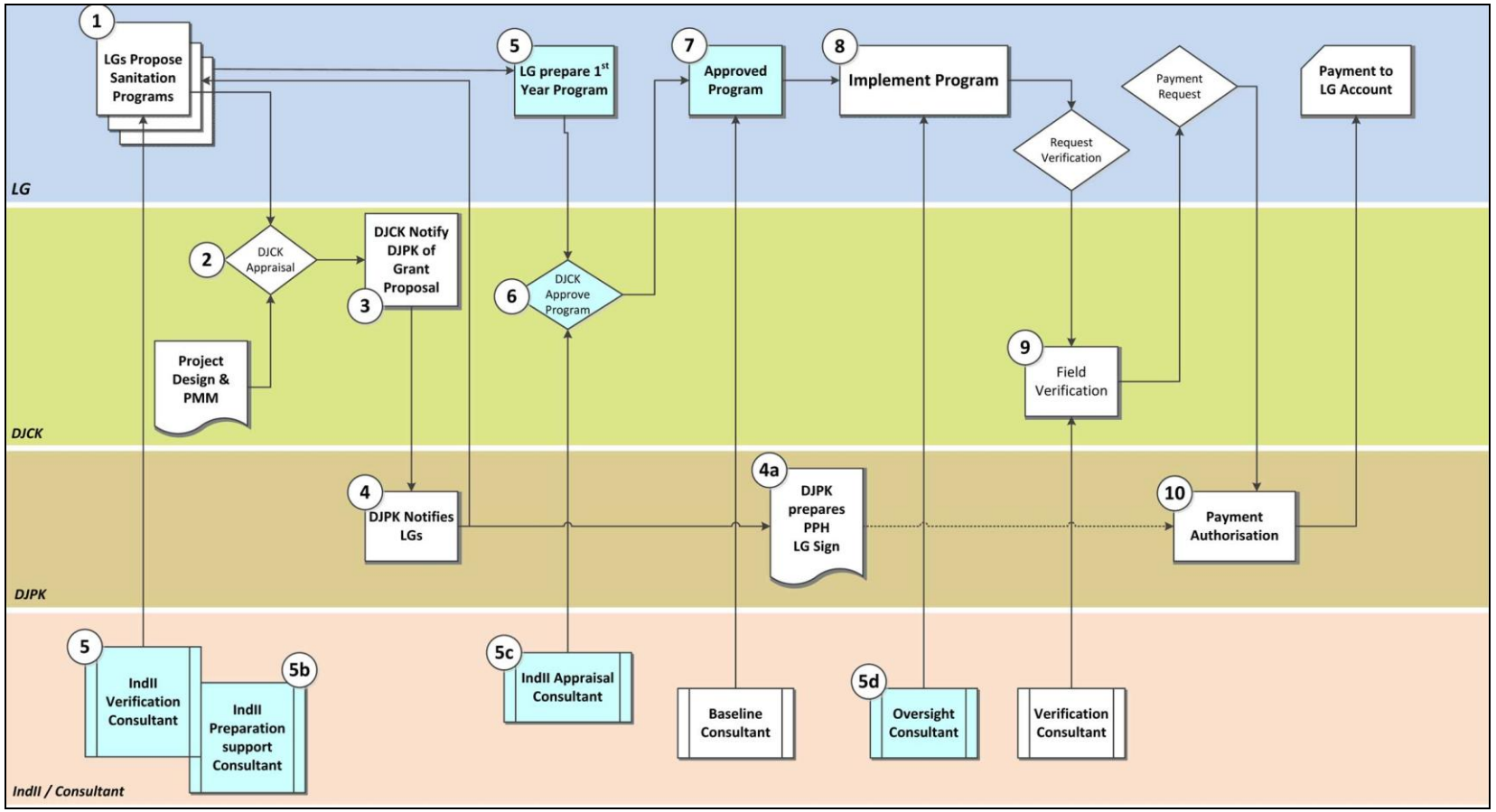
Once formal approval for the sAIIG program has been received from AusAID the LGs will be invited to submit their proposed sanitation programs. IndII will recruit the Appraisal Consultants who will support DGHS in determining whether the LGs qualify for participation, whether their proposed programs satisfy grant requirements, and whether the LG can fund the programs. Appraisal will include visits to the LGs to discuss their programs, collect information and determine their willingness to meet governance criteria. Once DGHS is satisfied with the LG's program they will notify DGFB of the grant proposal.

- ***First Annual Activity Cycle***

Successful LGs will then begin the annual sAIIG activity cycle by preparing detailed designs and bid documents for their first year program, supported by the Program Preparation Consultant. These documents will have to be approved by DGHS before they can be tendered. In the meantime consultants will conduct the Baseline Survey at each sub-project location. Formal grant notification should be received from DGFB by

May, and tendering will then begin as soon as the DPRD has approved the budget. Construction is expected to begin in July and to be completed in about four months. Within two months of commissioning each sub-project the Verification Consultant will make a field inspection and determine the quantity of eligible infrastructure which has been satisfactorily completed. This determination will be used by DGHS to calculate the amount of grant money payable. Grant payments should be authorised by the end of January and the LG should then receive the grant by the end of March, allowing them to recycle the money in their second year sanitation program, if they wish.

Figure A3.1 sAIIG Annual Activity Cycle



- ***Review***

Subsequent cycles will begin with a Performance Review of each participating LG against technical and governance criteria, assessed by the Verification Consultant. Technical criteria will include: progress against programme, quality and sustainability of the completed works. Governance criteria will include: transparency of the contract bidding process, disclosure of sAIIG procurement information on the internet, progress in establishing UPTD and ULP, progress with electronic procurement and reporting. On completion of this Performance Review there may be some grant adjustment, in accordance with the On-granting Agreement, which will allow for the reallocation of unutilised grant funds.

- ***Subsequent Annual Activity Cycles***

The annual sAIIG activity cycle will begin with the preparation of detailed designs and bidding documents for the year's work program, in which the LG will be supported by the Program Preparation Consultant. These documents will require DGHS's approval before they can be tendered. In the meantime the Appraisal Consultant will conduct the Baseline Survey at each sub-project location. Tendering should begin in May, once the DPRD has approved the budget. Construction is expected to begin in July and to be completed in about four months.

Within two months of commissioning each sub-project the Verification Consultant will make a field inspection and determine the quantity of eligible infrastructure which has been satisfactorily completed. This determination will be used by DGHS to calculate the amount of grant money payable. Grant payments should be authorised by the end of January and the LG should then receive the grant by the end of March, allowing them to recycle the money in the next annual sanitation program, if they wish.

A3.4. Criteria which proposed sub-Projects have to satisfy

LGs are free to propose any sub-project from the two sanitation sub-sectors, wastewater or solid waste, for facilities detailed on the menu of eligible sanitation infrastructure. Only fixed, permanent infrastructure is eligible for sAIIG funding.

LGs are expected to submit details of all sub-projects they propose to implement during one financial year at the same time. Each proposed sub-project must satisfy the following readiness criteria:

- Outline design prepared;
- Work Plan completed;
- Environmental safeguards prepared, if required (AMDAL, RKL, RPL);
- Listed in the Planned Medium Term Investment Program (RPIJM) of Cipta Karya;
- Included in the Program Memorandum referring to the City Sanitation Strategy.

In addition, any land required for construction of the sub-project must already be in the ownership of the LG, or the local community, such that there will be no delay due to land acquisition. Similarly the land must be free from any settlement or buildings which would delay implementation.

The LG must also have funds specifically allocated in its budget (APBD) for implementation of the sub-project.

A3.5. Stakeholder Duties and Responsibilities

The Directorate General of Human Settlements *Cipta Karya* (DGHS) in the Ministry of Public Works is the Executing Agency for the sAIIG program through the Central Project Management Unit (CPMU), which has been established in the Directorate of Environmental Sanitation. The CPMU will prepare and administer the sAIIG program. The sAIIG Project Manager and CPMU, supported by the Implementation and Verification Consultants, will:

- Coordinate with relevant government agencies;
- Provide guidance to, coordinate with and between, the PPMUs and the PIUs;
- Monitor the physical and financial progress of the whole sAIIG program;
- Prepare quarterly progress reports on the sAIIG program;
- Monitor the PIUs' bidding process;
- Check quality of materials, construction and supervision;
- Approve LG claims for grant payments for verified eligible sanitation Works;
- Carry out annual Monitoring & Evaluation of the sAIIG program;
- Prepare a program completion report.

Provincial Project Management Units will be established between the CPMU and the PIUs. The PPMUs will:

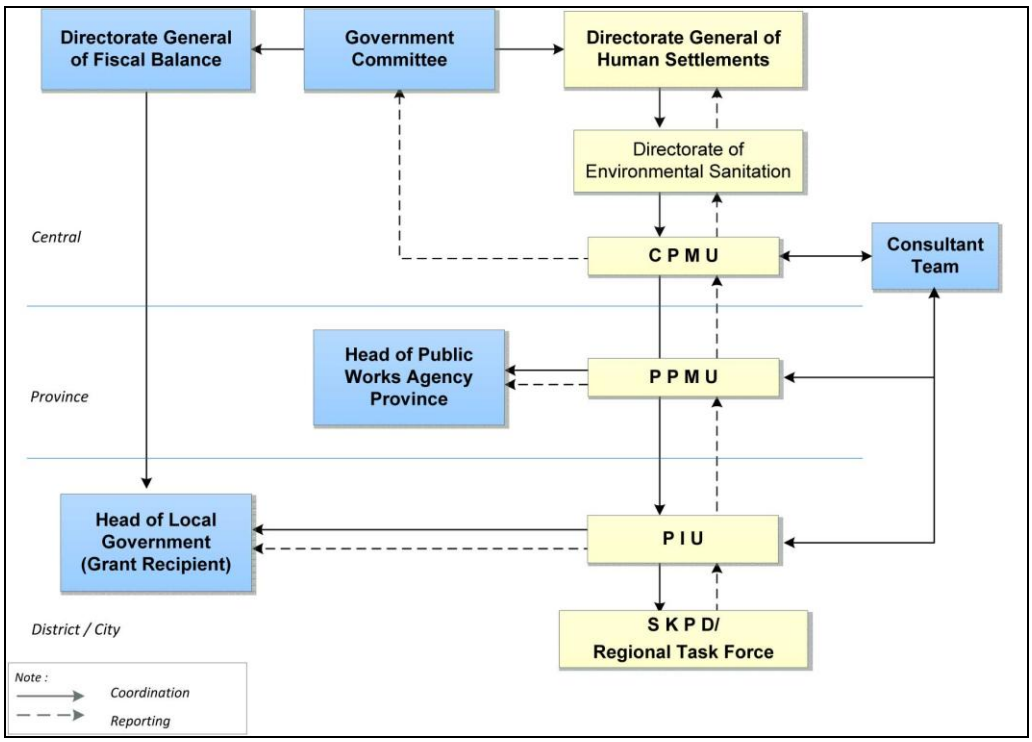
- Coordinate with the PIUs in their province;
- Monitor the physical and financial progress of the program at provincial level;
- Prepare quarterly progress reports on the sAIIG program at provincial level.

Implementation will be carried out by Project Implementation Units located in each of the Local Governments participating in the sAIIG program. The PIU will comprise representatives from various LG departments and report to the Head of the LG. The PIUs, assisted by the Implementation Consultant, and Local Task Force (SKPD) will:

- Prepare a comprehensive program of sanitation infrastructure for sAIIG grant;
- Prepare Bidding documents for the Works in accordance with GoI regulations;

- Conduct a competitive, fair and transparent bidding process for the Works;
- Raise community awareness and interest by socialisation of the sub-projects;
- Ensure that IndII's social and gender inclusion requirements are implemented;
- Supervise and manage construction of the sanitation Works;
- Ensure that the Technical Specifications and detailed designs are adhered to;
- Prepare quarterly Progress Reports detailing physical and financial progress;
- Prepare documentation required by the CPMU to process the grant payment;
- Prepare a program completion report.

Figure A3.2 Government Management Structure and Organisation



The Ministry of Finance Directorate General of Fiscal Balance (DGFB) is tasked with administering the grant funds provided by AusAID. DGFB will:

- Assess the readiness of each LG candidate to participate in the sAIIG program and recommend the grantees to the Minister of Finance;
- Prepare a draft On-granting Agreement (PPH) for each participating LG, for signature by the Minister of Finance and the Head of the LG;
- Administer the grant funds.

A3.6. Implementation Arrangements

The implementation of the sAIIG will be overseen by the existing Indonesia Infrastructure Initiative (IndII) Facility Management Contracting team to ensure synergy with other AusAID funded water and sanitation activities being funded through IndII, while also serving to minimise overhead costs. IndII will be responsible for ensuring that the program is implemented in compliance with the Grant Agreements and AusAID requirements. IndII's No Objection will be required before any grant payment is disbursed.

IndII will provide support to the CPMU and the PIUs through the T/A Consultants. Funds are included for the engagement of these Consultants to work with IndII and the GoI to ensure that the grant funds are properly applied. IndII will also provide capacity building for the LGs procurement function and the delivery of their sanitation services to help them meet the program governance requirements.

A mid-term review will form part of the monitoring and evaluation process and will help to ensure that the funds are used effectively and that the Works are sustainable.

- ***Local Government Institutional Arrangements***

Local Government institutional arrangements for sanitation in Indonesia vary but are usually highly fragmented between at least four service departments *dinas* e.g. Cleansing and Parks, Human Settlements and Spatial Planning, Health, and Roads and Drainage. In addition several technical departments *badan* such as Environment and Development Planning have responsibilities while LG districts *kecamatan* and sub-districts *kelurahan* are involved in community aspects, particularly the O&M of the tertiary drainage systems.

IndII's consultants in Kota Bogor and Kota Surabaya found no institutional responsibility at LG level for MCKs and SANIMAS installations connected to small wastewater treatment facilities. Recently constructed SANIMAS facilities are managed by local community heads (RW/RT), while there is no apparent accountability for user fees collected.[38]

For the purposes of implementing and sustaining the sAIIG program it has been agreed with DGHS that participating LGs will be required to establish a Technical Service Unit for Wastewater Management *Unit Pelaksana Teknis Dinas - Pengelolaan Air Limbah* (UPTD-PAL) in their *Dinas Kebersihan dan Pertamanan*. IndII will provide capacity building for this UPTD-PAL which, supported by the Implementation Consultant, will become responsible for design, construction supervision, and operation and maintenance of the neighbourhood wastewater systems.

[38] Wastewater Investment Master Plan Package I: Bogor / Surabaya – Final Master Plans – IndII – Mott MacDonald (2011)

Establishment of a UPTD is easily achieved, only requiring the Mayor / Bupati to issue a decree (SK); it will be included as a requirement in the On-granting Agreement. The UPTD-PAL would be expected to eventually develop more autonomy, either as a Local Government public service agency (BLUD) or a Local Government owned wastewater company (PD PAL), similar to existing water companies (PDAM). Use of BLUD status, created under PP 23/2005 and *Permendagri* 61/2007, has been pioneered by hospitals, but is seen as suitable for other public service providers which are likely to require government subsidy.

- ***Project Management Manual***

A Project Management Manual will be prepared by DGHS, the CPMU and IndII for the guidance of the CPMU, PPMUs and PIUs which will include detailed descriptions about the following:

- Scope of sAIIG program activities;
- Minimum eligibility criteria of LGs to participate in the sAIIG;
- The type of infrastructure which will be eligible for grant payments;
- Details of the values of grants which will be awarded;
- Technical Assistance to be provided;
- Conditions of LG and sub-project readiness;
- Conditions attached to disbursement of grants;
- Program management organisation structure and responsibilities;
- Readiness and verification activities;
- Program implementation procedures and mechanisms;
- Record keeping and reporting guidelines;
- Reporting, monitoring and evaluation;
- Principles of good governance;
- Price and unit cost reimbursement grants;
- Technical standards for wastewater and solid waste;
- Program policy on gender equality;
- Program policy on environmental impact and mitigation.

- ***Reporting Requirements***

The PIUs will be responsible for providing quarterly reports to IndII through the PPMU and CPMU on the progress of their sub-projects. These reports will include the following information:

– **Sub-Project Progress Reports (Quarterly)**
    - Construction supervisors' reports including photographs of the works in progress;
    - Contract status reports showing physical and financial progress;
    - Details of any non-compliance with the contract documents and proposed remedies.

The CPMU will be responsible for compiling quarterly sAIIG Program Monitoring Reports.

– **sAIIG Program Monitoring Report (Quarterly)**
    - Statement of sub-project progress;
    - Statement of grant applications received, verified, and values approved and forwarded for payment;

DGFB will be responsible for compiling bi-annual financial statements.

– **Financial Statements (Bi-annual)**
    - Statement of implementation of On-granting Agreements;
    - Statement of Bank Indonesia (BI) special account;
    - Actual and projected disbursements, including projected financial status of the Program.

A3.7. Fund Channelling

The procedure for fund channelling will closely follow that already used successfully for the *Water and Sanitation Hibah* and *Infrastructure Enhancement Grant* programs. However, recent changes within GoI prevent BI from making direct disbursements to LGs, which now have to be made through an intermediary government bank. The previous fund channelling procedure has therefore been modified to ensure that the LG receives the full sAIIG grant.

The features of the proposed mechanism, shown in Figure A3.3, are:

(a) The GoA and GoI will formalise agreement to implement the sAIIG under an amendment to the IndII *Subsidiary Arrangement* .

(b) The funds allocated to the sAIIG will be on the MoF budget ancillary account.

(c) The MoF will establish a Special Account in BI, appoint an authorised signatory and notify GoA. After conditions relevant to the effectiveness of the sAIIG grant are met, the GoA will make an initial deposit to the Special Account.

(d) Following socialisation to LGs regarding governance, pro poor focus and gender/vulnerable group issues, the MoF will sign individual On-granting

Agreements with the selected Local Governments that specify the amount of the grant committed to the Local Government, the agreed sanitation Works, including their locations, and any other relevant implementation conditions.

(e) The IndII TA consultants will conduct baseline surveys for those Local Governments which have signed On-granting Agreements.

(f) The Local Government will pre-finance the agreed sanitation Works.

(g) The LG will develop and implement a socialisation strategy to promote the new sanitation facilities to communities ensuring that poor neighbourhoods, women and other vulnerable groups are provided with information.

(h) The LG will implement the sanitation works through competitively bid construction contracts.

(i) Within three months of commissioning the Works the independent Verification Consultant will conduct a verification survey. The verified eligible sanitation Works will form the basis for determining the amount of the grant payment.

(j) The Local Government will submit a request for payment to DGHS. DGHS will cross-check the payment request with the verification survey and request IndII's No Objection.

(k) IndII will verify that the expenditure has met the conditions of the On-granting Agreement and issue its No Objection to DGHS.

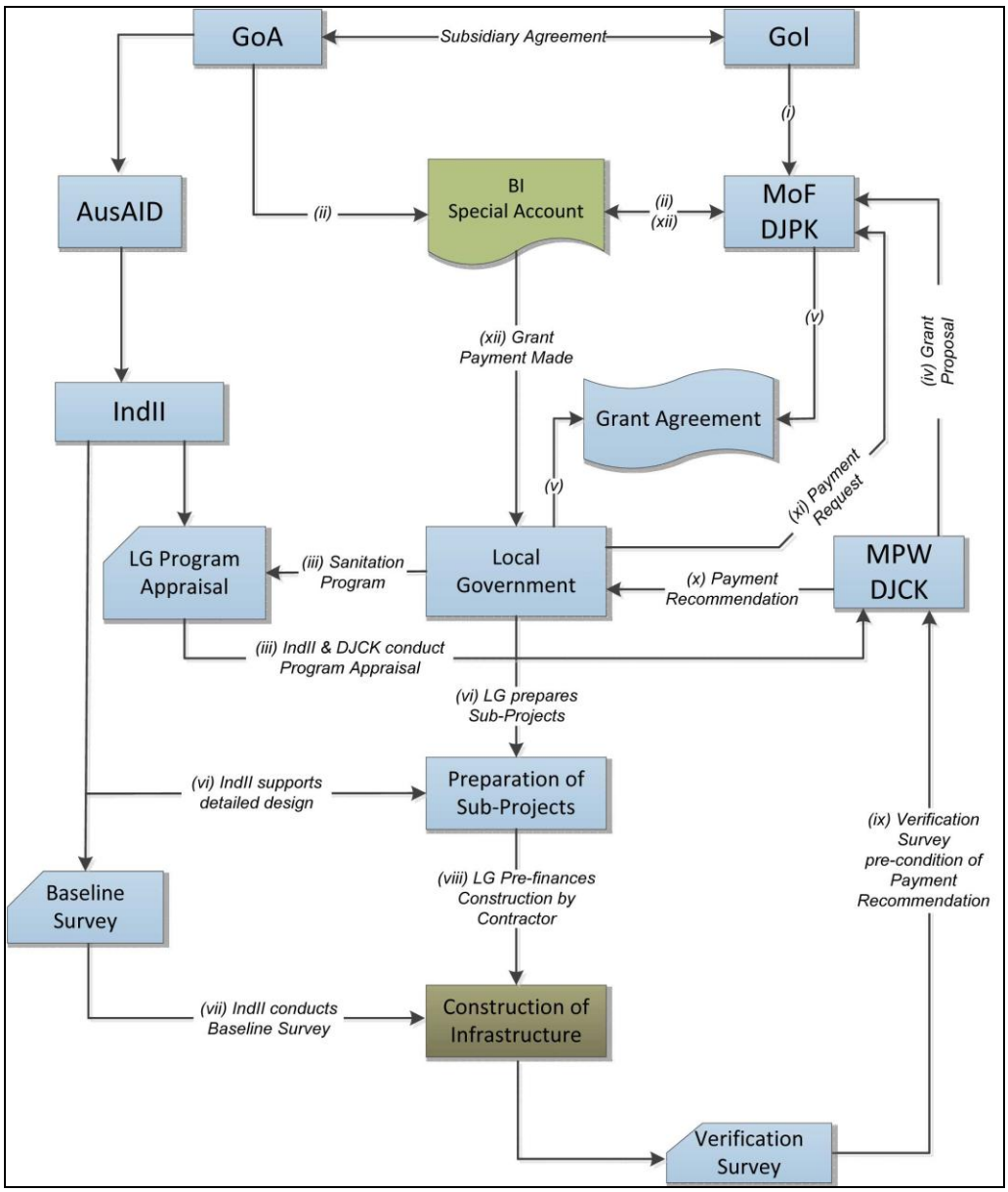
(l) DGHS will return a payment authorisation to the LG, copied to the MoF, supported by the results of the verification survey and IndII's No Objection.

(m) The MoF signatory to the Special Account will make the payment and copy the payment details to IndII. The MoF will request replenishment of the special account to GoA.

(n) IndII will verify that the LG has received the full grant payment and that the conditions of the *Subsidiary Arrangement* and the rules of the special account have been met and will approve the replenishment.

(o) Upon receipt of verification of expenditure and a quarterly call for funds, AusAID Post will organise payment of the replenishment into the Special Account.

Figure A3.4 Flow of Funds for sAIIG



ANNEXE 4: DETAILED BUDGET / COST ESTIMATES

A4.1. Value of Grant Reimbursement

The amount of the sAIIG grant due for disbursement to the LG will be calculated based on:

- The quantity of completed, commissioned and operational infrastructure, as certified by the independent Verification Consultant;
- The prices and percentages fixed in the menu of eligible infrastructure, as included in the On-granting Agreement, not the actual cost of the Works.

The maximum total grant payable to the LG shall not exceed the maximum value stated in the On-granting Agreement.

A4.2. APBD Budget Allocation

The sAIIG program is based on the requirement that participating LGs pre-finance construction of the infrastructure. In order for the program to commence in 2012 it is essential that the LGs make provision in their 2012 APBD budgets – these budgets were being prepared at the time of writing this PDD. IndII and DGHS have therefore opened preliminary discussions with 24 LGs to recommend that they make the necessary budget provision.

Based on the fixed prices and grant levels shown in Table A4.2 and with the total sAIIG grant funding set at AU$ 40 million, the total LG investment required is Rp 190,000 million. This is equivalent to AU$ 20.5 million and means that the overall cost of the planned sAIIG program is AU$ 60.5 million, of which 66% will be grant funded.

On the assumption that 40 LGs participate in the sAIIG program this means that their average net investment over three years, and after receiving grant reimbursement, will be Rp 4,745 million. However, in order to finance the program the average LG will need

Table A4.1 Average Investment

	LG investment Rp juta	sAIIG Grant Rp juta
Three Year Investment Program		
2012	2,584	
2013	4,293	1,709
2014	7,132	2,839
2015		4,716
Total	14,009	9,264
Net investmen	4,745	
Two Year Investment Program		
2012	0	
2013	5,264	
2014	8,745	3,481
2015		5,783
Total	14,009	9,264
Net investmen	4,745	

to invest Rp 2,584 million (AU$ 280,000) in each of the three years and re-cycle the grant monies from the first and second year programs.

Those LGs who are only able to participate for two years will need to invest more to achieve the same overall investment. To complete the program in two years the average LG will need to invest Rp 5,264 million (AU$ 570,000) in each of the two years and re-cycle the grant from the first year program.

The Rp 2,584 million figure should be regarded as a minimum, the actual APBD budget allocation will depend on the LG's proposed program and even those participating for three years are unlikely to be able to implement much within the first year.

These calculations also assume that the fixed prices reflect the actual tendered cost of the works. Should tendered costs exceed these prices the excess will be wholly borne by the LG.

A4.3. Menu of Fixed Prices

The potential scope of the sAIIG program has been estimated based on the fixed price menu of infrastructure outputs shown in Table A4.2. In most cases these prices have been developed from prices proposed by DGHS, and used in the Sanitation Hibah and IEG programs.

Table A4.2 sAIIG Menu of Fixed Prices and Level of Grant

	Unit of payment	Fixed Price Rp	Level of Grant	Grant per fanily Rp
Wastewater				
1.1 Neighbourhood Sewerage System and Treatment Plant connecting minimum 50 families	connection	6,000,000	67%	4,000,000
1.2 Neighbourhood Sewerage System connected to existing wastewater system extending and connecting new customers	connection	4,500,000	67%	3,000,000
Solid Waste	**Subject to prior review and agreement on cost**			
2.1 Intermediate Transfer Station (SPA)				
SPA minimum 10,000m2	installation	800,000,000	50%	
SPA minimum 5,000m2	installation	500,000,000	50%	

A4.4. Price Adjustments

The prices shown in Table A4.2 should strictly reflect the Local Governments' published rates and prices, such that individual fixed prices are established for each LG participating in sAIIG. Given that the variation is not large, it is considered that setting individual prices for each LG would create unnecessary complexity. By fixing one price for all LGs those with lower official rates will enjoy a slightly higher level of grant reimbursement.

The fixed prices should be adjusted each Financial Year to account for construction cost inflation, which can be quite substantial in Indonesia, which will reduce the overall scope of the program.

A4.5. Scope of the sAIIG Program

At this stage the scope of the sanitation programs which will be proposed by the 40 LGs is unknown. Once the LGs are aware of the sAIIG grant levels and submit their proposed sanitation programs further adjustment in the grant levels may become necessary. IndII's intention is that approximately 97.5% of the total sAIIG grant goes to funding wastewater, with 2.5% to solid waste.

Based on the fixed prices and grant levels shown in Table A4.2 the potential scope of the sAIIG program can be estimated, as shown in Table A.4.3.

- ***Wastewater***

The wastewater funding will be used to finance neighbourhood wastewater systems, either with or without treatment facilities. The limited number of existing centralised wastewater systems means that only about 3,200 connections to these systems are expected. In contrast 88,000 connections to new neighbourhood wastewater systems with treatment facilities are planned. Taken together these schemes should provide improved sanitation for about 91,200 households.

- ***Solid Waste***

The only solid waste infrastructure included in the sAIIG is the construction of Intermediate Transfer Stations (SPAs); while these are not expensive facilities, they do require relatively large sites, ideally 10,000m^2 or more. The availability of LG-owned land for these stations is expected to limit their construction to 30 sites, of which 20 would be on the minimum 5,000m^2 sites. There is no standard design available for SPAs and very few have so far been constructed in Indonesia; a fixed unit price cannot therefore be determined for this item. The Preparation Consultant will review the LG's cost estimate for each SPA individually and determine the eligible price which will be used as the basis for calculating the amount of the grant.

Table A4.3 sAIIG Overall Scope of Program

sAIIG Menu of Eligible Infrastructure

	Unit of payment	Fixed Price Rp	Level of Grant	Grant per fanily Rp	Total Fixed Price Rp million	LG investment Rp million	sAIIG Grant Rp million	Systems Planned	Families served	sAIIG Grant Rp million	sAIIG Grant AU$ million	
Wastewater												
1.1 Neighbourhood Sewerage System and Treatment Plant connecting minimum 50 families	connection	6,000,000	67%	4,000,000	600.0	200.0	400.0	880	88,000	352,000	38.05	
1.2 Neighbourhood Sewerage System connected to existing wastewater system extending and connecting new customers	connection	4,500,000	67%	3,000,000	450.0	150.0	300.0	32	3,200	9,600	1.04	
									91,200	361,600	**39.09**	97.6%
Solid Waste	**Subject to prior review and agreement on cost**											
2.1 Intermediate Transfer Station (SPA)												
SPA minimum 10,000m2	installation	800,000,000	50%		800.0	400.0	400.0	10		4,000	0.43	
SPA minimum 5,000m2	installation	500,000,000	50%		500.0	250.0	250.0	20		5,000	0.54	
										9,000	**0.97**	2.4%
										370,600	**40.06**	100%

A4.6. Measurement

- ***Wastewater***

The method of measurement has been designed to simplify the Verification Consultant's work while encouraging the LG to provide the desired outputs. The consultant will make an overall check that systems have been installed according to the designs, and that they are operating satisfactorily. Payment for wastewater systems is based on the number of new house connections installed and in service, in order to encourage LGs to persuade as many potential customers as possible to connect. The Verification Consultant will only need to count the number of new house connections installed. Where new connections are added between the initial and subsequent verification surveys these are also eligible for grant, up to the ceiling in the grant agreement.

The neighbourhood wastewater system in Item 1.1 includes construction of a new wastewater treatment plant, installation of the sewerage network, inspection chambers, grease traps, house connections up to the front wall of the house, and connection into all existing black and grey water drainage pipes at the house. Where the system requires a pump to lift the effluent out of the treatment plant an additional grant payment will be made.

The neighbourhood sewerage system connected into an existing centralised wastewater system in Item 1.2 includes installation of new sewer lines, including any necessary reinstatement of roads, inspection chambers, grease traps and house connections up to the front wall of the house; connections into all existing black and grey water drains at the house and downstream connections into the existing sewer are also included.

- ***Solid Waste***

The method of measurement requires the Verification Consultant to make an overall check that the solid waste facilities are complete and have been installed according to the designs, and that they are operating satisfactorily. In each case, payment is based on the facility as a whole.

The Intermediate Transfer Station in Item 2.1 includes construction of an elevated discharge area, access ramps, waste compactor and loading system. An office, changing room, store room, toilets, septic tank, borehole, pump and water tank are also included.

ANNEXE 5: MONITORING AND EVALUATION FRAMEWORK

A5.1. Program/Activity: Australia Indonesia Infrastructure Grants for Sanitation

The WHO/UNICEF Joint Monitoring Program (JMP) reported in their 2010 update that improved sanitation facilities in Indonesia are only available to 67% of the urban population, a level that lags significantly behind its ASEAN neighbours. Investment by LGs in the sector is also small compared to other sectors with, on average, only about 1% of LG budgets going to sanitation services; with most of the money being allocated for operational costs, not for investment in new infrastructure.

To remedy this situation, Indonesia has launched its flagship sanitation policy PPSP that is designed to eliminate open defecation by 2015 as well as targeting improved solid waste management and flood control. However, as has been noted elsewhere, lack of adequate financing and issues with some of the current funding mechanisms remains a problem. Using an output-based modality, sAIIG is designed to reduce constraints in financing sanitation infrastructure by helping to stimulate Local Government investment in sanitation infrastructure and to provide incentives for governance reforms impacting the sanitation and other sectors. Effective Monitoring and Evaluation will be a critical element in program implementation both to ensure that implementation is carried out according to agreed specifications and standards and that the beneficiary LG are working to meet key budgeting, governance and performance objectives.

A5.2. Outline of the M&E Process

- ***Basic Objectives and Limitations of M&E***

Key project development objectives as specified in this design document include:

1. Increasing LG investment in sanitation infrastructure toward meeting the GoI and MDG sanitation service targets, and
2. Improving governance of the sanitation sector by increasing accountability of LG to adhere to an agreed sanitation program and to incremental improvements in governance of the sanitation sector.

These objectives are to be met through the provision of specified inputs, outputs and expected outcomes/impacts as shown in the **Project Design Matrix**. It is the outputs and outcomes that will form the basis for M&E activities under the sAIIG program.

It should be noted here that reform (increasing levels of investment and improved governance) is not an end itself but rather a means to providing a basis for expanding equitable access to sanitation and improving the quality of service. Thus, besides meeting agreed investment and governance objectives in a satisfactory manner, the

project will also be concerned with increasing overall access (measured in terms of use) and it is expected that by the end of program (2015), sAIIG will have made a direct contribution to increasing access of people, particularly for the poor and vulnerable groups, to efficient, sustainable, and equitable sanitation services in the specific areas that are targeted by the program.

On the other hand, while more far-reaching impacts of improved sanitation and hygiene, including direct and indirect impacts on the environment, health, education, social exclusion, and poverty are acknowledged, the challenge for sAIIG will be to develop a M&E system that identifies those outcomes for which it is responsible and which can be realistically and appropriately measured within the life of the program. Thus, while improved public health and social welfare can be put as a long-term goal of the program, continual monitoring of key social conditions that can be impacted by improved sanitation should remain an important priority beyond the timeframe of the program.

It should also be noted that the key role of sAIIG M&E will relate to the effective monitoring of the grant agreements signed with the LG, both in terms of the technical and environmental quality of the infrastructure, and in meeting basic requirements for community participation and input in design and implementation, and in meeting targets for use and sustainability. The program will also seek to monitor overall LG commitment to increased investment, good governance practices and to increasing performance in terms of wider access and use. While these factors will also be seen as indicators of program success, they will not be factors determining grant payments.

- ***M&E Actors***

M&E activities will be undertaken by several parties. Within government, the Central Government (DGHS), through its CPMU (Central Project Management Unit), will be responsible for overall oversight of activity implementation, mainly for technical oversight of the sAIIG. Provincial Governments will also assign PPMU (Provincial Project Management Unit) as representatives of CPMU to oversee implementation in their respective Local Governments (LGs). At the LG level, there will be PIUs (Project Implementation Units) that will be responsible for program delivery and for supervising construction works.

IndII, as implementer of this AusAID funded program, will also be responsible for the monitoring of implementation progress as well as for undertaking assessment of the achievements of sAIIG against its defined objectives and outcomes. Regular monitoring by IndII will occur for each LG on at least a six monthly basis during the period of project implementation. The Technical Director and assigned Project Officer will be responsible for the consolidation of M&E information, particularly for progress issues, into six monthly M&E reports and into an M&E completion report at a later date.

In addition, IndII will engage Consultants that will support the program with oversight of design and implementation and with the verification and evaluation activities. More specifically it is proposed to utilise two separate consultancy packages – an Implementation Consultant to support the CPMU in administering the sAIIG program,

site surveys, design and preparation of technical specifications and contract documents for the Works; and an Independent Verification Consultant to check that the works have been constructed in accordance with the design and that all the necessary conditions for grant payment have been satisfied, and who will also be responsible for collecting the data required for Monitoring and Evaluation.

- ***M&E Process***

Formal assessment of sAIIG progress and achievements will be carried out in several stages and will follow the **Annual Activity Cycle** of the program. Aside from routine oversight of project implementation, this will involve a number of activities including: Sub-Project Appraisal, Baseline Study, Implementation Oversight, Project Verification and Post-Project Evaluation.

Sub-Project Appraisal will be designed to verify the feasibility of the specific sanitation investment proposals being put forward by each LG. This would be the responsibility of DGHS with Consultant support and would involve verifying technical, environmental and financial feasibility of the proposed sub-project, including meeting basic criteria for community participation in planning and design.[39] This will be used to determine whether the particular sub-project will qualify for a sAIIG grant.

The Baseline Study will be carried out for each approved sub-project location and as soon as possible after approval is received.[40] This would involve the definition and collection of baseline information on the target populations in each selected sub-project area. This would effectively involve a census of households who were considered as a result of their location or attachment to the community to be potential users of infrastructure (population at risk) along with a household census collecting relevant information on items such as household size and composition, poverty/socio-economic status, baseline sanitation behaviour (human waste, solid waste, drainage), knowledge of/involvement in activities related to proposed project, interest in participation (including payment of fees), knowledge of/involvement in sanitation and hygiene activities of LG, and so on.[41] The baseline would also involve the collection and evaluation of information on baseline conditions related to LG sanitation planning, budgeting, governance and performance that, with annual updates, could serve as a basis for assessing progress in policy and programming over the life of the project.[42]

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[39] Meeting governance criteria will be particularly important for community-based wastewater and drainage sub-projects. Solid waste initiatives which may serve much larger areas may need to be treated differently.

[40] Close coordination between Appraisal and Baseline Consultants will be essential. Consideration could be given to having the same group of Consultants or Firms involved in both operations. It is also assumed that, following on the program design, the baseline would be carried out across a time-slice of approved sub-projects in each LG on a roughly annual basis over the life of the program.

[41] Definition will be at the level of groups of households or possibly local community units (RT). The key will be a defined population that can be mapped, listed and followed up on in subsequent stages.

[42] Appraisal of existing LG sanitation programs and commitment to sanitation improvement and good governance would form part of the basis for initial selection of LG for program participation. This

Implementation Oversight will involve routine monitoring of sub-project implementation. It will be the responsibility of the various PIUs with consultant assistance.

Project Verification would be carried out to verify successful completion of facilities, including meeting of basic demographic and social targets regarding access and use that will serve as a basis for payment. It would be implemented by independent Verification Consultants, and could be the same firm that was responsible for the Baseline Study; the Verification Consultants should also be responsible for the Post-Project Evaluation. Project Verification would include verification of the technical, environmental and financial feasibility of the infrastructure as well as re-visiting all households in the study area defined in the Baseline to confirm that target populations are, in fact, being served and that they are at least initially satisfied with the cost and quality of the services being provided. Timing on this activity in each LG would also hopefully allow for follow-up oversight on progress in overall local sanitation-related programming, governance and performance.

Post-Project Evaluation would be carried out approximately one year after completion and verification of each sanitation sub-project and would focus on project sustainability in terms of the quality of facility management and maintenance, and of any changes in patterns of household sanitation behaviour, including levels of continued usage of sub-project facilities and satisfaction or dissatisfaction among the affected women and men, along with any ongoing knowledge/ participation in LG sanitation activities.

As noted, Consultants would be recruited to carry out the verification and data collection activities. The IndII M&E team with the involvement of a cross-cutting team (social/gender and environment) will be responsible for overall coordination of data gathering activities as well as for the management, storage and review of baseline, verification and post-project evaluation data.

Post Completion Study A majority of the defined end outcomes and resultant impacts will only be realised well after the completion of the sAIIG program. It is imperative to establish a sound baseline at the commencement of the activity to provide a basis for comparison moving forward for future studies at 3, 5 or even 10 years. The baseline methodology has already been discussed in this section but an important note is that the study will collect information on both the 'users' of the improved sanitation infrastructure as well as those living in the wider environment. In other words, the information collected will enable future review teams to measure improvements not only in targeted households but observational changes in the general environment (cleanliness, health etc) that impact upon the broader community. The baseline methodology provides more detail on the sampling and methodological approach to data collection and analysis.

Baseline operation however, would involve more systematic collection of information and documentation as a basis for monitoring subsequent progress.

It is recommend that a post completion study is undertaken, ideally one year after the completion of the sAIIG program. However, with the agreement of GoI and AusAID it is recommended that a long-term 10-year study be considered (using the baseline information collected during 2012 as well as the results from earlier studies). The same households will be surveyed and compared against the original data. This study would provide further evidence of change and demonstrate impacts from the initial investment provided through IndII. The study will also provide confidence to the GoI and AusAID that the model proposed by sAIIG was effective and appropriate to meet the sanitation infrastructure needs for targeted communities.

- ***Social/Poverty and Gender Issues***

Social/poverty and gender issues, particularly those related to equity in access and active participation will be addressed under the project. These aspects are discussed in greater detail in the Section of the Main Report dealing with gender and in Annexe 7. In particular, IndII will engage Social/Poverty and Gender Specialists, as part of the Capacity Building teams working with LGs, to help develop awareness raising and social marketing approaches to encourage communities to participate in sAIIG. The Social/Poverty and Gender specialists will support the LGs' implementation of the gender sensitive approaches outlined in their Gender Mainstreaming Action Plans. This will include methods of ensuring the involvement of all segments of society (including the poor, women and men, and disabled) in local committees and working groups dealing with sanitation and sanitation infrastructure improvement. They will show LGs how to ensure equality in access to information and equality in access to the benefits of improved services. They will encourage LGs to meet defined targets for involvement of women (including women from marginalised groups) in decision-making, in receipt of any paid work, and in filling any positions associated with the program, such as facilitators.

IndII's M&E specialists will design appropriate indicators and data collection methodologies for monitoring implementation and outcomes related to social/poverty and gender sensitive initiatives implemented by LGs under the program. Monitoring will include the following:

1. A series of special Case Studies to be implemented by IndII's Gender Specialists to evaluate LG understanding and performance and impacts of capacity building activities.
2. Qualitative data collection at community and LG levels by baseline survey and verification teams to identify social/poverty and gender initiatives introduced under the program and their performance and effectiveness in meeting objectives. This will likely involve semi-structured interviews with officials, local group discussions (including representatives of marginalised groups) and collection or relevant supporting documentation.
3. A limited number of quantitative questions related to household access to and participation in various aspects of program activities to be included in baseline and follow-up household socio-economic surveys.

A5.3. Expected sAIIG Outcomes and Monitoring Procedures

- ***Short-term, Medium-term and Long-term Outcomes***

Key expected outcomes of sAIIG are shown in the **Project Design Matrix**. Here, short-term outcomes or impacts reflect conditions that should be at least partially measurable over an annual sub-project cycle (e.g. from the time the sub-project is approved until shortly after it has been completed). Medium-term outcomes require a longer time frame, although it will hopefully be possible to measure at least some progress as part of the proposed Post Project Evaluation. Long-term outcomes are necessarily beyond the life of the program although they should be part of continuous monitoring at local and higher government levels.

Table A5.1 Outcomes - Impacts

Outcomes – Impacts		
Short	**Medium**	**Long**
• Grant system functioning successfully, LG prioritising sanitation in budgeting and adopting improved governance procedures • Sanitation infrastructure built under sAIIG scheme meet quality and sustainability criteria • Households connect to sewerage as a result of LG awareness raising and socially and gender inclusive approaches) • LGs adopted social/poverty/gender inclusive approach in program implementation	• Grants proved as effective incentive for LGs (more LGs participating in the sAIIG program) • Investment for sanitation infrastructure prioritised and budgeted in LGs policy and planning document • Women, people with disability and the poor continue to be engaged by LGs in an inclusive approach to sanitation improvements • Sanitation facilities well managed and maintained by LGs	• Increasing access of people, particularly for the poor and vulnerable groups, to efficient, sustainable, and equitable sanitation services

Here, the most important outcomes are those related to improved sanitation infrastructure that meet government-defined quality and sustainability criteria, and to improved sanitation facilities and services that are being effectively used by the community, and particularly that are serving the needs of women and the poor. These form the basis for criteria that will be used to determine payment authorisation.

Besides this, the program will also seek to support improvements in sanitation planning, budgeting and governance, as well as in the adoption of poverty and gender sensitive approaches in implementing sanitation activities. While these are not primary objectives of the program (the focus is on the provision of quality

infrastructure and its use), improved governance and participation (particularly among women and the poor) remain critical to reaching GoI targets regarding hygiene behaviour and sound sanitation use over the longer term.

Finally, over the medium term sAIIG will focus on concerns related to sustainability. This is equally critical and will be a focus of Post-Project Evaluation that will seek to verify continuation of sanitation prioritisation, good governance practices, sound management and maintenance of facilities (including community involvement) and their effective use. All of these will further contribute to the longer-term goal of meeting national and international targets regarding overall access to efficient, sustainable and equitable sanitation services.

- ***Monitoring Procedures***

In practice, monitoring and evaluation will be carried out at two levels. The first level is at the level of individual sub-projects and relates to the successful implementation of the program as measured by the justification/soundness of initial proposals, the completion of infrastructure and service systems according to standard and evidence of sustainability of these investments over time. This will be accomplished by verification of the feasibility of LG proposals as part of a baseline survey operation, by verification of successful completion of facilities, including meeting basic targets for use, as a basis for payment, and by a follow-up visit a minimum of one year following completion to assess quality of maintenance and of continued usage and satisfaction by the affected population.

To do this, at the Baseline Study stage sAIIG will establish an integrated database and coding system for each participating LG allowing for unambiguous identification of types of sub-projects, their locations and the populations (households) in the relevant communities.[43] The database will include information necessary for sampling and for establishing base population figures for calculation of relevant indices along with systems (mapping, etc.) to permit subsequent follow-up during Project Verification and Post-Project Evaluation stages. Basic information for each household will also be collected on such factors as poverty status, nature of baseline sanitation use, and participation in socialisation activities disaggregated by gender, possibly on a sample basis.[44] These households would then serve as a panel that would be followed up at Project Verification and Post-Project stages to assess any changes.

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[43] In principle this would involve a conception of the "population at risk" defined in terms of the universe of households that could feasibly be served by a particular design. This population will vary by sub-project, but for example, could represent the population with potential access to a community-based sewerage system, the cluster of households targeted by an MCK or households with planned access to improved drainage. In practice, at least for most sanitation and drainage initiatives it may be the population defined at the level of the RT or group of RTs that includes those considered eligible. Whatever the definition, these "target" households would be identified and mapped (along with infrastructure locations) during the Baseline Study and would form the basis for subsequent sampling and follow-up at later stages.

[44] The large number of households (estimated at around 100,000) for the entire sAIIG program may make complete coverage difficult. Sampling, however, will also be difficult given the lack of knowledge ahead

The one exception here is likely to be solid waste sub-projects involving transfer stations that would cover a much larger population, and where levels of public participation would be less relevant. Given that these sub-projects are likely to be limited in number, a special approach to M&E at the community level will be defined. Similar to the other types of sub-projects it will involve defining a relevant service area (population at risk) but would then likely involve covering only a small sample of affected communities (RT) and assessment only at Baseline and Post-Project Evaluation stages to assess levels of access/use of rubbish collection services, and satisfaction with them.

The second level, following GoI and AusAID's IFGI priorities relates to achievement of broader objectives dealing with levels of Local Government commitment to improved sanitation and hygiene, to improved governance and accountability, and to improved overall performance in terms of service quality and levels of access and use. This will be accomplished through successive evaluation of conditions (at Baseline, at Verification and at Post-Project Evaluation) using a combination of documentation at the Local Government level, data obtained from secondary sources (such as from the National Statistics Board – BPS) and, where relevant, primary data obtained from households in the areas directly affected by project activities. [45]

- ***Key Indicators***

A list of potential indicators corresponding to the sAIIG short-term outcomes is shown in Table A5.2 and these are further elaborated below.

1. *Grant system functioning successfully, LG prioritising sanitation in budgeting and adopting improved governance procedures*

While LGs will enter sAIIG at different stages of development all are expected to include efforts to improve prioritisation and governance as part of their participation. This will be evaluated in terms of LG commitment to expanded sanitation efforts, particularly as reflected in aspects of planning and budgeting for sanitation infrastructure and services, and in terms of improved governance reflected in such things as outreach to communities, local awareness of LG sanitation responsibilities and initiatives and so on. Measurement, drawing on information derived from LG interviews and documentation, would take place at Baseline Study, Project Verification and Post-Project Evaluation stages. Some specific indicators drawn from the proposed

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of time on the populations in different sub-projects for which separate estimates may need to be provided. In principle, sample sizes of around 400 households would provide adequate representation (ca. 5% error at 95% confidence), particularly if a longitudinal (panel) design is used. In practice, it is likely that complete coverage would be required for the Baseline (given the need to establish a universe against which to measure progress) and possibly also at Verification (to verify targets reflecting use), but it may be possible and, probably more efficient to use a sample for the Post-Project Evaluation sufficient to permit analysis of continued use and satisfaction at the LG rather than the particular sub-project level.

[45] IndII will acquire raw data sets from recent SUSENAS (National Socio-Economic Survey) from BPS that will permit calculation of basic sanitation usage at LG level.

IndII Water Supply and Sanitation Index that could meet the needs of this project are outlined below, while others could also be considered.

- Local Government work plans are readily available and set out clear sanitation objectives and responsibilities (var, on WSSI 1,1) (from LG)
- Local Government utilises working group (Pokja) to facilitate integrated sanitation planning and budgeting (WSSI 1.3) (from LG)
- Local Government budgets for sanitation are readily available and show increases in both overall and investment expenditure per capita over the life of the project. (var. on WSSI 1,4 and 1.6) (from LG)
- Local Government has regulations and systems in place regarding disposal of human waste (household and communal septic tanks) (WSSI 2.6) (from LG)
- Local Government implements public outreach campaign on importance of improved sanitation and hygiene (WSSI 3.1) (from LG)
- Both women and men in households have seen, heard of, or participated in, local awareness campaigns on clean water, sanitation or hygiene issues (WSSI 3.2) (from HH questionnaires)
- Households aware of Local Government responsibility for protecting rivers and groundwater from sewage pollution (WSSI 3.4) (from HH questionnaires)
- Local Government has system and is responsive to complaints regarding sanitation issues in the local community (var. on WSSI 4.5) (from LG)

Table A5.2 Short Term Outcomes and Verifiable Indicators

Short Term Outcomes	Objectively Verifiable Indicators
Grant system functioning successfully, LG prioritising sanitation in budgeting and adopting improved governance procedures	• Increase in level of the LGs sanitation investment directed to fixed infrastructure investments • Positive changes in transparency and governance benchmarks in the delivery of sanitation services • Output-based grant system adopted by GoI to support sanitation sector
Sanitation infrastructure built under the sAIIG program meets quality and sustainability criteria	• Sanitation facilities meet criteria of: 1. Financial viability: utility can continue to provide sanitation services 2. Affordability for beneficiaries: beneficiaries continue to use the services 3. Environmental quality: the services have a positive impact on local environmental quality 4. Technical feasibility: the systems are capable of providing sanitation services over time

Short Term Outcomes	Objectively Verifiable Indicators
Households connect to sewerage, particularly the poor (as a result of awareness raising and socially inclusive approaches)	• Per cent of population connected to sewers (disaggregated by income) Proportion of poor households benefiting from sewerage
LGs adopted social/poverty/gender inclusive approach in program implementation	LG implementing teams represent similar proportion of women found within government

2. *Sanitation infrastructure built under the sAIIG program meets quality and sustainability criteria*

Sanitation infrastructure would be evaluated in terms of financial viability, technical feasibility, environmental quality and affordability for beneficiaries. This would occur at Sub-project Appraisal (as a basis for grant approval), at Project Verification (as a basis for grant payment) and at Post-Project Evaluation (as a basis for assessing sustainability). Technical, environmental and financial viability would be assessed by qualified verification personnel; affordability would need to be addressed via questions on costs incurred by households that would be part of the follow-up visits to households to assess levels of facility use and satisfaction.

3. *Sanitation facilities effectively used by community, particularly the poor (as a result of awareness raising and socially and gender inclusive approaches)*

Measurement would be based on the percent of population in the sub-project areas using improved sanitation. Measures would be derived from a consistent set of household-level questions on types of human waste disposal, solid waste disposal and drainage that would be included in the panel household questionnaire at Baseline, Verification and Post-Project stages.[46] There would also be direct questions on levels of access/use of the sAIIG supported facilities to independently confirm LG reports on participation. Measurement would also conform to DGHS definitions of improved sanitation.

4. *LGs adopted social/poverty/gender inclusive approach in program implementation*

Verification Consultants would confirm gender composition of implementing/facilitating teams at the Project Verification stage. Questions would also be included in the panel household questionnaire at Baseline and subsequent stages to

[46] Common questions deal with the type of sanitation facility (private, shared, public, none); the method of final disposal for human waste (sewerage, septic tank, cubluk, communal toilet, pond, river, etc.); for septic tanks the frequency of desludging; the method of disposal of water form bathing or washing (closed drain, open drain, pond, river, etc.); the quality of local drainage (free flowing, blocked, none); and the method of disposal of solid waste (rubbish collector, compost, burning, etc.,).

assess levels of overall participation and participation of women and the poor in project design, implementation and management of community sanitation facilities.

Examples of Questions on HH Sanitation Access / Use

(Pilot Survey Air Minum dan Penyehatan Lingkungan – BPS)

Type of sanitation facility used

(Sarana sanitasi yang digunakan)

1. Private facility *(Sendiri)*
2. Public facility/MCK *(Umum/MCK)*
3. Shared facility with neighbours *(Bergabung dengan tetannga)*
4. None *(Tidak ada)*

Type of final disposal for human waste used

(Fasilitas tempat pembunagan tinja yang digunakan)

1. City sewerage system *(Saluran air limbah perkotaan)*
2. Septik tank *(Septiktank)*
3. Cubluk *(Cubluk)*
4. Communal toilet (MCK) *(Jamban komunal (MCK))*
5. Pond *(Kolam*)
6. River *(Sungai)*
7. Garden/vacant land *(Kebun/tanah digali)*

If final disposal in septic tank (code 2), how often do you empty the sludge?

(Bila anda menggunakan septiktank (Jika R2 bekode 2), berapa kali anda melakukan penurasan?)

1. Once in 6 months *(Satu kali dalam 6 bulan)*
2. Once in a year *(Satu kali dalam 1 tahun)*
3. Once in 2 years *(Satu kali dalam 2 tahun)*
4. Once in 3 years *(Satu kali dalam 3 tahun)*
5. Equal or more than 5 years *(> 5 tahun sekali)*
6. Never *(Tidak pernah)*

Type of system used for greywater disposal

(Fasilitas pembuangan air limbah non tingja (mandi/dapur/cuci)

1. To a closed drain *(Ke saluran tertutup)*
2. To an open drain *(Ke saluran terbuka)*
3. Left stagnant *(Dibiarkan tergenang)*
4. Dispose of in pond *(Di alirkan ke kolam)*
5. Dispose of in river *(Di alirkan ke sungai)*
6. SPAL

Adequacy of drainage near the house

(Pengaliran air pada saluran di sekitar rumah)

1. Fast flowing *(Lancar)*
2. Stagnant *(Tergenang)*
3. Very slow flow *(Mengalir sangat lambat)*
4. No drain *(Tidak ada got)*

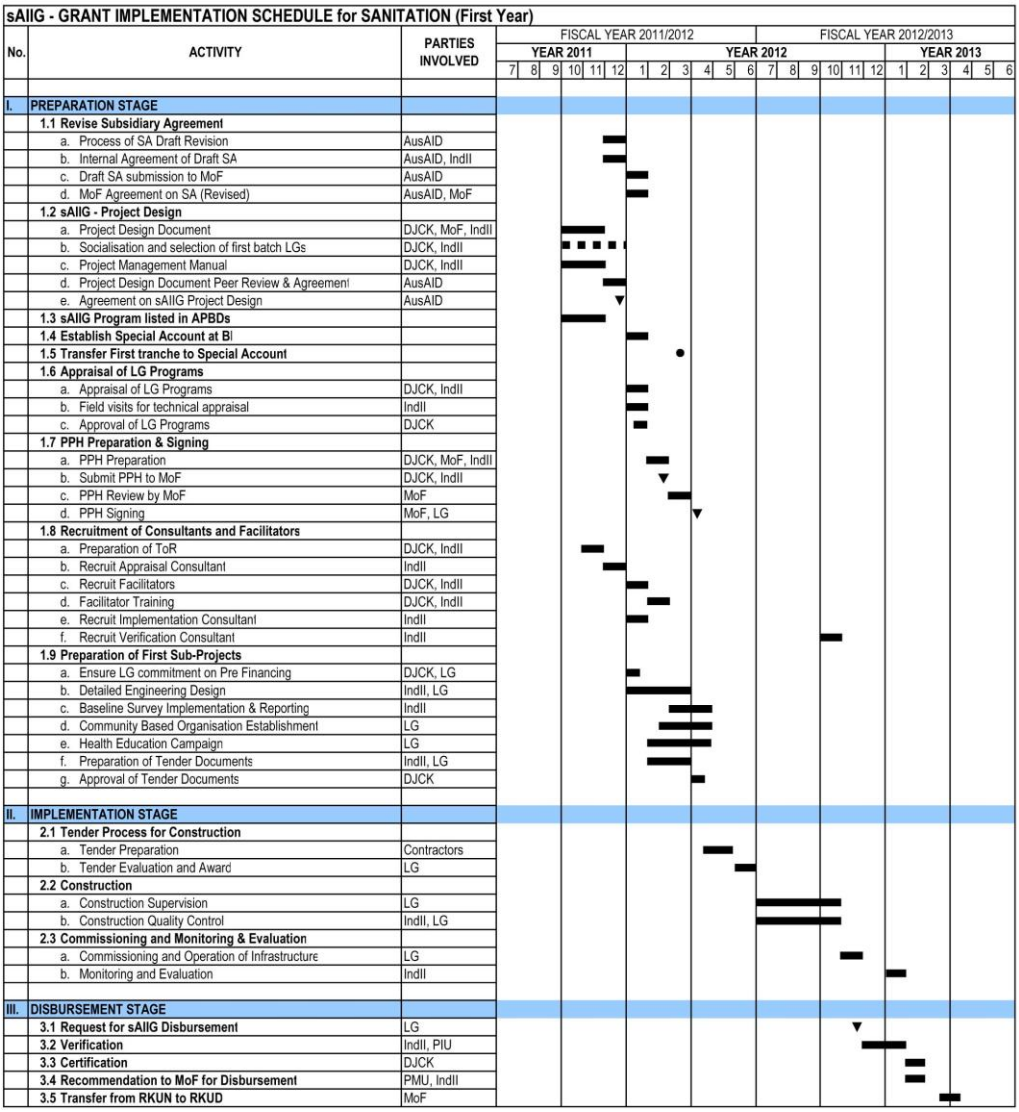
Method of rubbish disposal – yes or no to each method

(Cara pembuangan sampah) (isi code 1 jika ya dan 2 jika tidak)

1. Taken by rubbish collector *(Diangkut petugas sampah)*
2. Stockpiled *(Ditimbun)*
3. Composted *(Dibuat kompos)*
4. Burned *(Dibakar*)
5. Thrown in pond or river *(Dibuang ke kali/sungai)*
6. Thrown away anywhere *(Dibuang sembarangan)*
7. Recycled *(Daur ulang)*
8. Other *(Lainnya)*

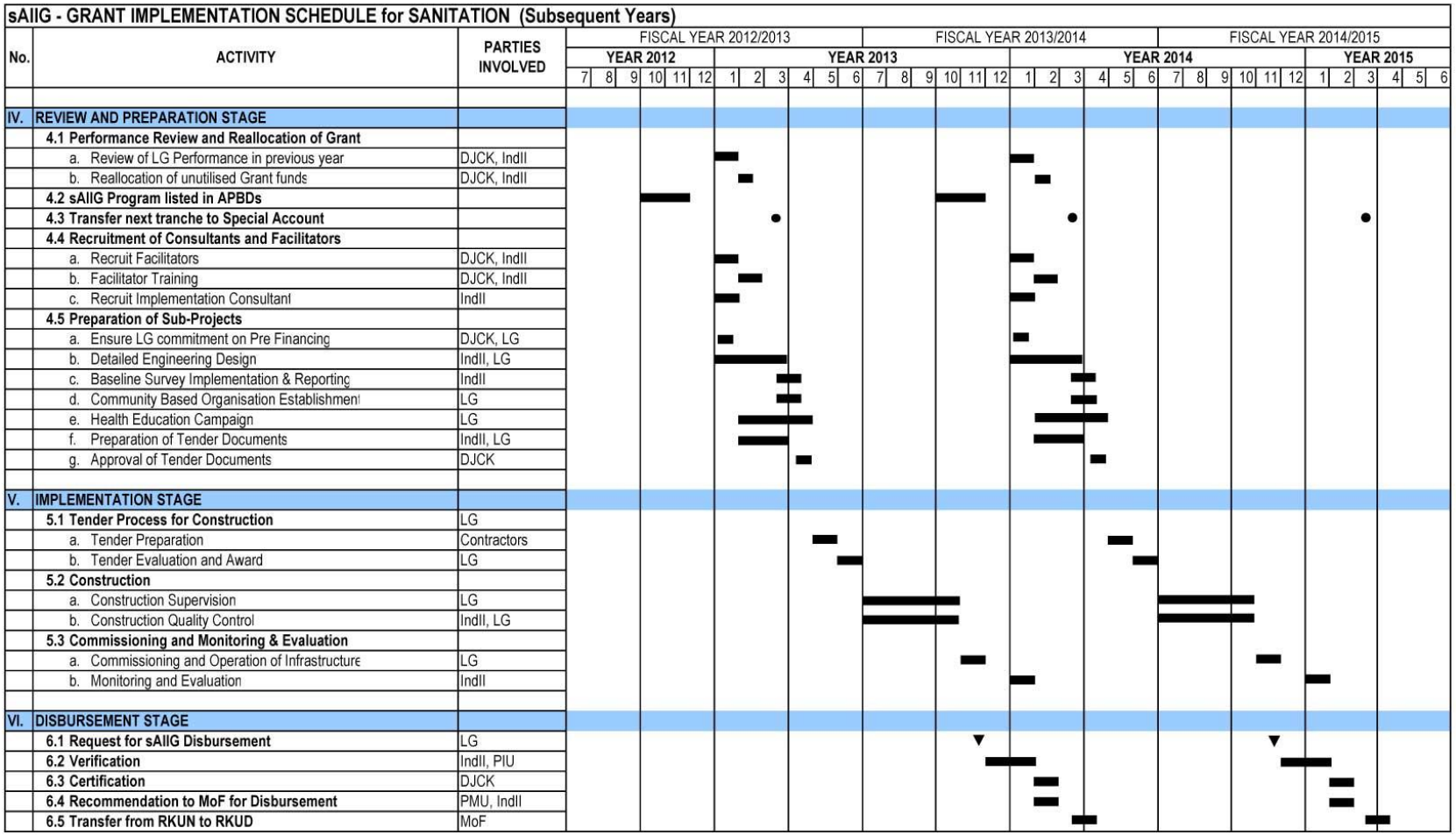
ANNEXE 6: IMPLEMENTATION SCHEDULE

Figure A6.1 sAIIG Implementation Schedule (First Year)



No.	ACTIVITY	PARTIES INVOLVED
I.	**PREPARATION STAGE**	
	1.1 Revise Subsidiary Agreement	
	a. Process of SA Draft Revision	AusAID
	b. Internal Agreement of Draft SA	AusAID, IndII
	c. Draft SA submission to MoF	AusAID
	d. MoF Agreement on SA (Revised)	AusAID, MoF
	1.2 sAIIG - Project Design	
	a. Project Design Document	DJCK, MoF, IndII
	b. Socialisation and selection of first batch LGs	DJCK, IndII
	c. Project Management Manual	DJCK, IndII
	d. Project Design Document Peer Review & Agreement	AusAID
	e. Agreement on sAIIG Project Design	AusAID
	1.3 sAIIG Program listed in APBDs	
	1.4 Establish Special Account at BI	
	1.5 Transfer First tranche to Special Account	
	1.6 Appraisal of LG Programs	
	a. Appraisal of LG Programs	DJCK, IndII
	b. Field visits for technical appraisal	IndII
	c. Approval of LG Programs	DJCK
	1.7 PPH Preparation & Signing	
	a. PPH Preparation	DJCK, MoF, IndII
	b. Submit PPH to MoF	DJCK, IndII
	c. PPH Review by MoF	MoF
	d. PPH Signing	MoF, LG
	1.8 Recruitment of Consultants and Facilitators	
	a. Preparation of ToR	DJCK, IndII
	b. Recruit Appraisal Consultant	IndII
	c. Recruit Facilitators	DJCK, IndII
	d. Facilitator Training	DJCK, IndII
	e. Recruit Implementation Consultant	IndII
	f. Recruit Verification Consultant	IndII
	1.9 Preparation of First Sub-Projects	
	a. Ensure LG commitment on Pre Financing	DJCK, LG
	b. Detailed Engineering Design	IndII, LG
	c. Baseline Survey Implementation & Reporting	IndII
	d. Community Based Organisation Establishment	LG
	e. Health Education Campaign	LG
	f. Preparation of Tender Documents	IndII, LG
	g. Approval of Tender Documents	DJCK
II.	**IMPLEMENTATION STAGE**	
	2.1 Tender Process for Construction	
	a. Tender Preparation	Contractors
	b. Tender Evaluation and Award	LG
	2.2 Construction	
	a. Construction Supervision	LG
	b. Construction Quality Control	IndII, LG
	2.3 Commissioning and Monitoring & Evaluation	
	a. Commissioning and Operation of Infrastructure	LG
	b. Monitoring and Evaluation	IndII
III.	**DISBURSEMENT STAGE**	
	3.1 Request for sAIIG Disbursement	LG
	3.2 Verification	IndII, PIU
	3.3 Certification	DJCK
	3.4 Recommendation to MoF for Disbursement	PMU, IndII
	3.5 Transfer from RKUN to RKUD	MoF

Figure A6.2 sAIIG Implementation Schedule (Subsequent Years)



No.	ACTIVITY	PARTIES INVOLVED
	sAIIG - GRANT IMPLEMENTATION SCHEDULE for SANITATION (Subsequent Years)	
IV.	**REVIEW AND PREPARATION STAGE**	
	4.1 Performance Review and Reallocation of Grant	
	a. Review of LG Performance in previous year	DJCK, IndII
	b. Reallocation of unutilised Grant funds	DJCK, IndII
	4.2 sAIIG Program listed in APBDs	
	4.3 Transfer next tranche to Special Account	
	4.4 Recruitment of Consultants and Facilitators	
	a. Recruit Facilitators	DJCK, IndII
	b. Facilitator Training	DJCK, IndII
	c. Recruit Implementation Consultant	IndII
	4.5 Preparation of Sub-Projects	
	a. Ensure LG commitment on Pre Financing	DJCK, LG
	b. Detailed Engineering Design	IndII, LG
	c. Baseline Survey Implementation & Reporting	IndII
	d. Community Based Organisation Establishment	LG
	e. Health Education Campaign	LG
	f. Preparation of Tender Documents	IndII, LG
	g. Approval of Tender Documents	DJCK
V.	**IMPLEMENTATION STAGE**	
	5.1 Tender Process for Construction	LG
	a. Tender Preparation	Contractors
	b. Tender Evaluation and Award	LG
	5.2 Construction	
	a. Construction Supervision	LG
	b. Construction Quality Control	IndII, LG
	5.3 Commissioning and Monitoring & Evaluation	
	a. Commissioning and Operation of Infrastructure	LG
	b. Monitoring and Evaluation	IndII
VI.	**DISBURSEMENT STAGE**	
	6.1 Request for sAIIG Disbursement	LG
	6.2 Verification	IndII, PIU
	6.3 Certification	DJCK
	6.4 Recommendation to MoF for Disbursement	PMU, IndII
	6.5 Transfer from RKUN to RKUD	MoF

FISCAL YEAR 2012/2013 | FISCAL YEAR 2013/2014 | FISCAL YEAR 2014/2015

YEAR 2012: 7 8 9 10 11 12 | YEAR 2013: 1 2 3 4 5 6 7 8 9 10 11 12 | YEAR 2014: 1 2 3 4 5 6 7 8 9 10 11 12 | YEAR 2015: 1 2 3 4 5 6

ANNEXE 7: SOCIAL, POVERTY AND GENDER ISSUES

A7.1. Poverty

Indonesia's urban populations have grown rapidly as people have come to the cities from rural areas in search of a better livelihood. However, there has been little planning for the infrastructure needs of these rapidly increasing populations.

In 2004 over 12% of Indonesia's urban population were classified as poor. In addition to people who are identified as poor, there are many more who live in 'near poverty'.47 For the poor and the 'near poor', sudden loss of income or additional expenditure, for example because of sanitation-related illness, is likely to force them further into poverty.

- **Health**

Poor environmental sanitation conditions characterise many low income urban areas. These locations are often poorly drained and are subject to inundation. Management of solid waste is usually lacking and solid waste is a very visible problem. Low income households are much less likely to have access to a toilet in their own house than members of wealthier households.48 Without a toilet, people use neighbours' latrines, communal facilities, defecate in waterways and open land, or use plastic bags which are later dumped in the environment.49

Inadequate environmental sanitation supports the prevalence of disease. Poor people are likely to suffer more from sanitation related diseases than those who are wealthier.[50] Diseases associated with poor sanitation such as chronic diarrhoea, intestinal parasitasis and giardiasis are important causes of stunting and malnutrition which render children more susceptible to other diseases such as pneumonia.[51] The financial costs of poor sanitation to low income households can be severe. Not only are there the costs of medical treatment but there is loss of income earning and

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47 In 2002, over 50% of Indonesia's population was found to be living on less than US$2/day (1993 purchasing power parity). ADB 2006 *From Poverty to Prosperity: a country poverty analysis for Indonesia*

48 For example, in Palembang, a sanitation survey revealed that 23% of low income households did not have a toilet in their house compared with 2% of higher income households. (Socio-economic survey Palembang, Wastewater Master Plan Package 2, 2011)

49 16% of low income householders surveyed in Palembang stated that they practised open defecation compared with 0% of higher income households. (Socio-economic survey Palembang, Wastewater Master Plan Package 2, 2011)

50 23% of low income householders surveyed in Palembang compared with 16% of higher income householders reported a household member experiencing diarrhoea over the previous year (Socio-economic survey Palembang, Wastewater Master Plan Package 2, 2011)

51 Bartram, J, Cairncross S (2010) *Hygiene, Sanitation, and Water: Forgotten Foundations of Health*. PLoS Med 7(11): e1000367. doi:10.1371/journal.pmed.1000367; Mara D, Lane J, Scott B, Trouba D (2010) *Sanitation and Health*. PLoS Med 7(11): e1000363. doi:10.1371/journal.pmed.1000363

productive work time by those who are ill and also by those who are caring for them. The burden of caring for sick family members falls most heavily on poor women. In addition, the future of daughters is impacted when they miss school to assist with domestic, caring and income earning work. The poor are also more likely to suffer the premature deaths of loved family members, especially young children, because of sanitation related illness.

- **Sanitation promotion and social marketing**

Where it is socially acceptable to use sub-standard sanitation or practise open defecation and people have done so for generations, demand for improved sanitation, especially where it involves expenditure of scarce household resources, is extremely low. Sanitation promotion is essential to increase demand and the on-going use of improved sanitation. It is in the top 10 of the most cost effective major disease control interventions at US$10 per DALY (Disability Adjusted Life Years) averted.[52]

Although health benefits are usually perceived by health workers and decision makers as a primary benefit of improved sanitation, people themselves may have other priorities as, frequently, the occurrence of sanitation related disease is accepted as part of everyday life. People are likely to value improved sanitation for privacy, convenience, social status, better security for women and girls, and ease of toileting children.[53] These values, rather than the values of health workers or others, need to be identified in discussions with communities and be incorporated in the design of appropriate sanitation promotion and marketing strategies.

- **Poor and vulnerable groups**

All groups within the community need to understand the problems of inadequate sanitation, the benefits of improved sanitation, and to be involved in finding solutions which fit their particular socio-economic and cultural situations. Commonly excluded groups include the very poor, members of minorities, the elderly, people with disability and chronic illness, women, and women heads of households. [54] Without the inclusion of these vulnerable groups, decisions will be made which are more likely to enable the participation and benefit of those with more power and influence.

Improved environmental sanitation relies on the willingness of everyone to be involved. If some groups do not have any investment in or ownership of decisions regarding the improvements, they are less likely to participate. The challenge for the sAIIG is to ensure that people from vulnerable and excluded groups, and any NGOs or CBOs which represent them, are included in consultations, socialisation, participation,

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[52] Hygiene promotion is the most cost effective at US$5 per DALY averted. Bartram, J, Cairncross S (2010) *Hygiene, Sanitation, and Water: Forgotten Foundations of Health*. PLoS Med 7(11): e1000367. doi:10.1371/journal.pmed.1000367

[53] Bartram, J, Cairncross S (2010) *Hygiene, Sanitation, and Water: Forgotten Foundations of Health*. PLoS Med 7(11): e1000367. doi:10.1371/journal.pmed.1000367; Sanitation 21 Framework

[54] BPS estimates approximately 14% of households in Indonesia are headed by women. Justice for the Poor *Briefing Note* Vol 6 Issue 2

group formation and capacity building to improve their understanding of the issues, increase their demand and ownership of solutions and, ultimately, to encourage sustainability.

- **A socially-inclusive approach**
  - *Capacity building*: IndII will engage social/poverty specialist consultants to support LGs in developing socially inclusive approaches for implementing sAIIG activities. These approaches will incorporate the points below. Capacity building will also include increasing LG's understanding of how activities which are socially inclusive are more likely to be more effective, efficient and sustainable.
  - *Awareness raising and social marketing*: Supported by IndII consultants, approaches will be developed and implemented by LGs to increase demand in the community.[55] The particular understandings, values, attitudes, practices and socio-economic constraints of the community, with particular attention to those of poor households and other vulnerable groups, will be identified. This information will be used for the development of awareness raising and social marketing activities to encourage buy-in by the community, including by poor women and men, and other vulnerable groups. The option of engaging other organisations, such as NGOs which have experience in the provision of services to the poor and disadvantaged in the city, to conduct the awareness raising and social marketing should be raised by the consultants with LGs.
  - *Expenditure*: Cost is often a major obstacle for participation by the poor. Even though effective awareness raising approaches may be developed, the poor may simply be unable to invest, or unwilling to take the risk of investing, their scarce resources into sanitation improvements and subsequent operating and maintenance costs. The social marketing approach needs to include identification of how the financial burden of participating can be reduced, especially for the poor.
  - *Consultations:* LG are required to ensure that during preparation and implementation of the activity, the community is regularly consulted to encourage ownership. In community consultations, women and men from poor households and other vulnerable groups will be included to enable them to express their needs and expectations. LG and their facilitators will make sure that community leaders know and fulfil with the requirement that poor and other vulnerable households are to be included in any consultations.
  - *Community committees*: Committees often have influence over the ways funds are used, who obtains income earning opportunities, or who will have access to a facility and how it will be managed. However, they are likely to exclude the poor and marginalised unless attention is given to ensuring that

[55] Although focusing on rural sanitation, *Scaling Up Rural Sanitation Introductory Guide to Sanitation Marketing*, WSP, 2011, provides principles and ideas which can be adapted to an urban situation. See also the *Sanitation 21 Framework*.

they are included. If any community committees are formed as part of sAIIG activities, LGs will encourage local communities to ensure that membership, including on the executive, will include women and men from low income and vulnerable households to ensure that they are part of the decision making process. People with disability will be encouraged to be involved on any committee formed in relation to the sAIIG to provide their particular perspectives and needs. Where community committees are formed, IndII's monitoring activities will include identification of whether poor women and men and people with disability have been included.

- *Operation and maintenance*: Operation and maintenance of infrastructure is frequently an aspect which is given less focus than its construction. LGs (or NGOs engaged by LGs) will engage with all sections of the community, including poor women and men, to ensure that there is full understanding of the requirements of operation and maintenance of their individual sanitation facilities.
- *Sanitation service fees*: Women and men from poor households need to be involved in discussions about the costs of O&M so that they know how much money they will be required to pay, what their money will be used for, how the money will be managed, and to enable them to express any concerns that they have. Solutions to reduce the financial burden of maintenance costs on poor families should be negotiated by LG where necessary.
- *Hygiene and behavioural change programs*: These programs can improve the impact of improved sanitation by reducing sanitation-related illness and its costs and encouraging on-going use and maintenance of facilities. LGs will be encouraged by IndII's consultants to link their improved sanitation activities to health and hygiene programs or behaviour change activities being implemented in the same locality, such as those which may be being implemented by Dinas Kesehatan, an NGO or other donor.

A7.2. Gender

- ***GoI Gender Mainstreaming Regulations***

Presidential Instruction No.9/2000 on Gender Mainstreaming in National Development requires all government institution and agency leaders, at national and local level, to establish an internal work unit for the smooth implementation of gender mainstreaming. They are required to develop job descriptions and determine the necessary actions for implementing gender mainstreaming. Following this PerPres, Minister of Home Affairs Regulation No.15/2008 provided Guidelines on the Implementation of Gender Mainstreaming, defining the obligations and responsibilities of Local Governments.

Gender mainstreaming implementation is focused on government programs, starting with planning (RPJM), through implementation, to monitoring and evaluation. However, it also applies to programs funded by external agencies and donors.

Amongst the tasks of local Gender Mainstreaming Working Groups is creating a Local Action Plan for Gender Mainstreaming in their Regency / City which has to include gender mainstreaming in legislation and in the local development cycle, strengthening gender mainstreaming in institutions, and strengthening community participation.

PerMenDagri No.15/2008 requires the Heads of Local Governments to submit Gender Mainstreaming Implementation reports to the Governor every six months. These reports are required to include:

(a) the implementation of programs and activities, agencies involved and aim of the activities;

(b) the use of funds from the state budget, local budget, or other sources;

(c) problems faced and efforts made.

- ***A gender-inclusive approach***

The provision of improved sanitation has the potential to be of special value to women. It can offer them convenience and security, improved privacy, enable small children to be toileted more easily[56], reduce expenditure for the treatment of sanitation related diseases and reduce the time they lose caring for family members who are sick. However, because of women's and men's differing roles and expectations imposed on them by society, women and men have unequal opportunities to express their different needs, priorities, and concerns about any environmental sanitation improvements which are proposed, and they have unequal opportunities to participate and maximise benefits.

Gender equality measures to be employed during the sAIIG are:

- *Composition of consultant teams*: Consultant teams employed by IndII will be required to give equal opportunity to women to be part of their teams.
- *Support for LG*: A gender specialist will be included in the consultant team engaged by IndII for capacity building with LGs. Capacity building will include the benefits to be gained by including women equally with men, gender issues they will face in the field, how to ensure that women will participate and benefit equally, and how to implement LGs' Gender Mainstreaming Action Plans. Capacity building by IndII's consultants will incorporate the points in the gender inclusive approach outlined below and encourage LGs to integrate

[56] Especially in poor households small children are often allowed to defecate in the open and their faeces and that of babies is sometimes not considered to be dangerous to health. For example,20% of households surveyed in Palembang stated that they did not think babies' faeces were as dangerous to human health as adults'. An additional 12% of respondents said they did not know (Palembang Socio Economic Survey for the Wastewater Investment Master Plan Package 2 2011),.

these ideas into their Gender Mainstreaming Action Plans and implement them. The capacity building will include support LGs to design awareness raising and social marketing to reach both women and men in their awareness (see below) in line with AusAID's *Concept Note on Gender and the Environment in Water and Sanitation Grants Programs.*

- *Public diplomacy, awareness raising and social marketing activities*: IndII's Water Hibah activity has shown that Public Diplomacy and awareness raising activities are important to encourage other LG to be involved and community interest. It has also demonstrated effective measures to involve women and men equally. IndII will encourage 'launching' activities for sAIIG to include the promotion of gender equality, for example in speeches, banners and other communication material developed.[57] Awareness raising and social marketing activities developed by LG with support from capacity building consultants will ensure that women are targeted equally with men, and will identify and address women's different perspectives, needs and priorities.
- *Information* dissemination: Information is provided directly to men who do not always pass on information to their wives in full, accurately, or at all. The channels through which both women and men access information and the types of media which are most easily understood by both will be identified during capacity building by IndII's consultants with LGs to form the basis for their information dissemination and awareness raising activities.
- *Composition of government teams*: In government, men are more likely to be chosen for activities which give them additional allowances, for example, activities which take them to the field. However, men and women have different experiential backgrounds and ways of interacting, and women's representation as implementers is important. Women are also more likely to relate better to women in the community. Government management units, such as PMU, as well as LG implementing teams are required to have at least the same proportion of women representatives as are found within the relevant government department. Qualified women will be encouraged to take leadership and trainer positions. IndII will monitor the proportion of women representatives in government implementing teams.
- *Social facilitators*: . LGs are encouraged to appoint their own facilitators to implement community activities, in particular awareness raising and social marketing. Social facilitators selected from the community should include at least 50% women, reflecting their proportion in the community.
- *Consultations*: IndII's capacity building consultants will encourage LG to ensure that women are invited to community meetings to enable them to obtain information and express their opinions. Because women are often not accustomed to participating in community meetings, or are shy to speak in public where men are present, it may be necessary to have separate women-

[57] IndII has a gender communications plan to guide IndII's communication team and communications consultants.

only meetings to enable them to voice their ideas freely. Some women may then be willing to present the results of their discussions and decisions at the main meeting or, if not, the facilitator could present them. Women's and men's different needs, concerns and constraints to participation which are expressed in consultations and meetings will be identified, documented and addressed in implementation of the sAIIG activity.

- *Women's organisations*: IndII's capacity building consultants will encourage LG to consult with women's organisations and involve them in socialisation and social marketing efforts. However, these groups may represent wealthier, more influential and educated women. IndII's capacity building consultants will also encourage LG to ensure that marginalised women, such as women from minority ethnic or religious groups, the very poor, and female heads of household are also consulted. IndII's monitoring of socialisation and social marketing efforts will collect qualitative data on the involvement of women's organisations and marginalised women.
- *Sanitation Service fees*: Women and women's organisations will be informed and consulted by LG about the fees to be charged for provision of sanitation services.

ANNEXE 8: ENVIRONMENTAL PROCESS

A8.1. Compliance with GoA and GoI Environmental Protection Regulations

- ***IndII Environmental Management***

As a facility, IndII must comply with GoI and GoA environmental protection legislation and related multilateral agreements signed by Australia and Indonesia. Both GoA and GoI recognise that the biological and physical environments cannot be considered in isolation from people and their interactions with their surroundings. This is consistent with the view of the environment is comprehensive comprising the biophysical, built, economic, and social/cultural aspects, making it a cross-cutting issue for all development activities.

The Commonwealth of Australia Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act) is the legislative basis for environmental protection and management in Australia under which IndII is legally obliged to ensure appropriate measures of environmental compliance and protection are incorporated into all the facility activities, including the sAIIG. The EPBC Act came into effect on 16 July 2000, and is Australia's principal national legislation for the protection of the environment for activities supported by AusAID worldwide.

The objectives of the EPBC Act (Section 3) are:

(a) to provide for the protection of the environment, especially those aspects of the environment that are matters of national environmental significance;

(b) to promote ecologically sustainable development through the conservation and ecologically sustainable use of natural resources ;

(c) to promote the conservation of biodiversity; and (ca) to provide for the protection and conservation of heritage ;

(d) to promote a co-operative approach to the protection and management of the environment involving governments, the community, land-holders and indigenous peoples ;

(e) to assist in the co-operative implementation of Australia's international environmental responsibilities;

(f) to recognise the role of indigenous people in the conservation and ecologically sustainable use of Australia's biodiversity; and

(g) to promote the use of indigenous peoples' knowledge of biodiversity with the involvement of, and in co-operation with, the owners of the knowledge.

The principles of ecologically sustainable development are applied under the EPBC Act. These are outlined in Section 3A of the EPBC Act:

(a) decision-making processes should effectively integrate both long-term and short-term economic, environmental, social and equitable considerations;

(b) if there are threats of serious or irreversible environmental damage, lack of full scientific certainty should not be used as a reason for postponing measures to prevent environmental degradation;

(c) the principle of inter-generational equity—that the present generation should ensure that the health, diversity and productivity of the environment is maintained or enhanced for the benefit of future generations;

(d) the conservation of biological diversity and ecological integrity should be a fundamental consideration in decision-making; and

(e) improved valuation, pricing and incentive mechanisms should be promoted.

Section 160, division 4, subdivision A of the EPBC Act which specifically refers to foreign aid, states:

"… before a Commonwealth agency or employee of the Commonwealth gives an authorisation (however described) of an action [into] the entry by the Commonwealth, under Australia's foreign aid program, into a contract, agreement or arrangement for the implementation of a project that has, will have or is likely to have a significant impact on the environment anywhere in the world … the agency or employee must obtain and consider advice from the Minister [for the Environment] in accordance with this Subdivision."

GoI has a large number of laws and regulations that provide for environmental management and protection; most notable are, Act No. 32/2009 on Environmental Protection and Management, Government Regulation No. 27/1999 on Environmental Impact Assessment; and the Regulation of the Minister of Environment No. 11/2006 on Types of Business and/or Activities Requiring Environmental Impact Assessment. The GoI environmental legislations applicable to sAIIG are listed in an Appendix to this Annexe; it is also noted that sector agencies like Cipta Karya have legislation for further guidance in environmental protection (e.g. Regulation of Public Works No. 17/KPTS/M/2003).

AusAID has developed an environmental management system (EMS) for all its aid activities. This EMS is part of the Environmental Compliance and Environmental Management Process (ECOMAP) of IndII that incorporates GoA and GoI screening and measures for environmental management and protection for all aspects of IndII activities.

- ***IndII ECOMAP***

The IndII Environmental Compliance and Environmental Management Process (ECOMAP) ensures there is an appropriate integration of environmental awareness into all aspects of IndII activities, so that the relevant regulations, policies and

strategies of the Government of Australia (GOA), the Government of Indonesia (GOI) and AusAID can be met. The objective of ECOMAP is to provide IndII team members with the tools to: i) identify, access and manage actual or potential environmental impacts; ii) avoid or mitigate negative impacts and promote positive impacts; and iii) report regularly on impacts. ECOMAP is based on the AusAID environmental management system (EMS) as outlined in the Environmental Management Guide for Australia's Aid Program 2011 (unpublished). The ECOMAP is an EMS that follows the AusAID program cycle comprising the following components:

1. Understanding the Policy and Legal Setting;
2. Conducting Environmental Assessment and Planning:
    a. Development of strategic plans in AusAID-IndII;
    b. Design of aid activities;
3. Implementation;
4. Monitoring and evaluation;
5. Ensuring continual improvement.

The AusAID environmental screening questions are presented in Table A8.2. The Activity Design Screening Questions are most applicable to the sAIIG activity.

The main focus of the ECOMAP is the recording of the decision-making processes associated with exercising due diligence in undertaking appropriate measures to ensure IndII activities have appropriate environmental safeguards in meeting legal obligations under the Australian EPBC Act, Indonesian environmental legislation and multilateral agreements signed by GOA and GOI. Refer to the IndII ECOMAP Manual (2011) for further details.

Table A8.2: Environmental Screening Questions

Strategic planning screening questions
Q1. Is the initiative likely to take place in a vulnerable location or risky sector?
Q2. Is the initiative likely to have a significant negative impact on the environment?
Q3. Is a SEA of the initiative (including policy, program, portfolio, country or regional strategy) planned?
Aid activity design screening questions
Q1. Will the activity take place in a vulnerable place or risky sector?
Q2. Could climate change or natural disasters impact on the activity?
Q3. Could the activity impact on ecosystems that sustain livelihoods?
Q4. Could opportunities to build resilience be incorporated?
Q5. Could the activity have a significant impact on the environment, including increasing greenhouse gas emissions?

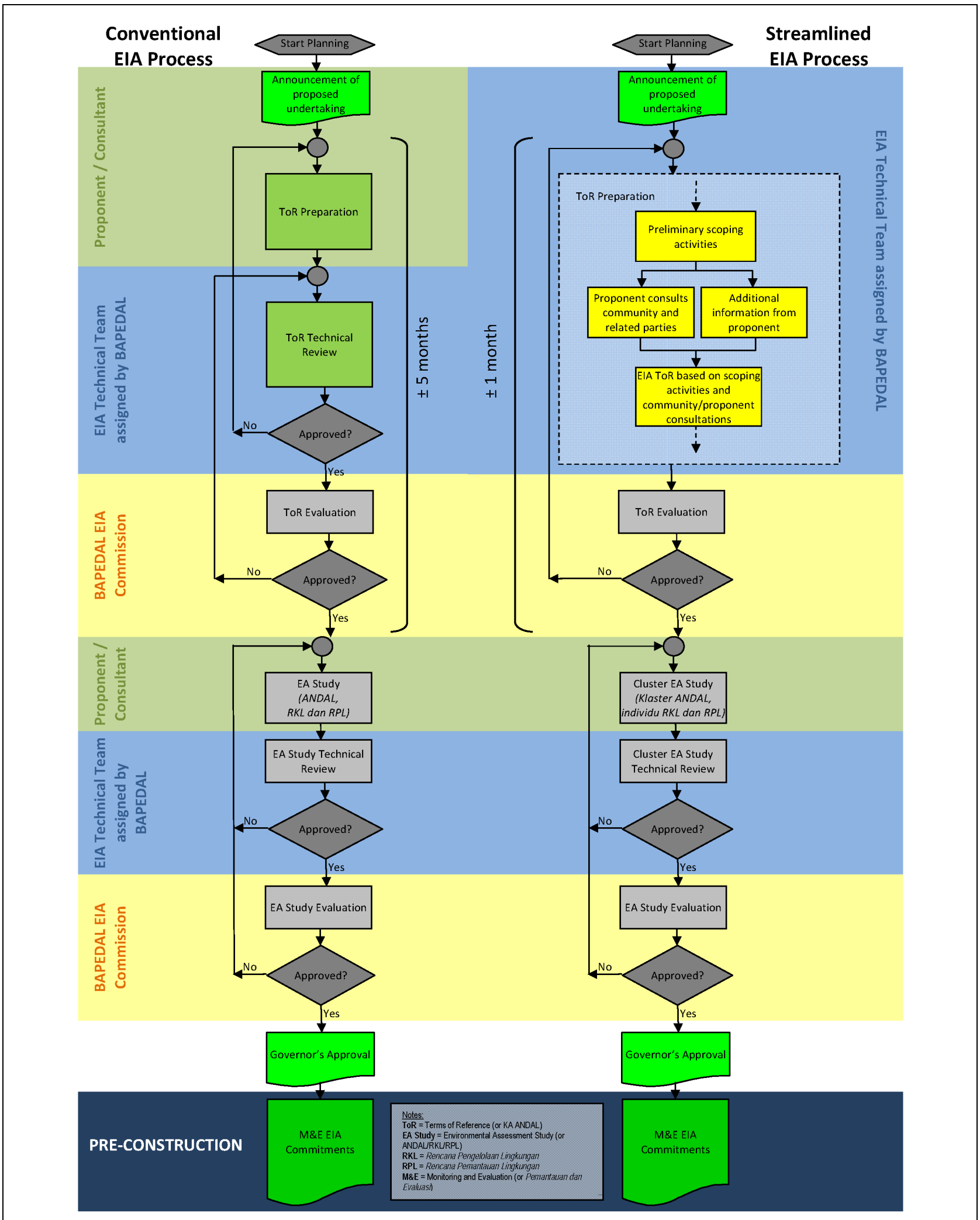
As overview, the first step of the EOCMAP is the application of GoA environmental screening questions to the PPSP activity. This provides macro-level screening to determine the extent to which an environmental assessment would be necessary, either as a strategic impact assessment (SEA) or as a more detailed environmental

impact assessment (EIA). The next step is the application of GoI environmental screening measures in accordance with Regulation of the Minister of Environment No. 11/2006 (for EIA) and the Regulation of Public Works No. 17/KPTS/M/2003 (for UKL/UPL). This is also done to determine the level of environmental reporting. A flowchart for GoI's AMDAL process is included in Figure A8.2.

As the PPSP is a sector wide initiative with direct implications to district/city mid-term development plans, mid-term investment plans, spatial plans etc., Act No. 32/2009 on Environmental Protection and Management requires that a strategic impact assessment be undertaken in exercising environmental due diligence and compliance of these plans to environmental standards and safeguards. It is highly likely that the PPSP initiative would be subject to a SEA. Consultation with the Environment Ministry will confirm the format and level of detail for such an assessment.

Although PPSP may be subject to a SEA, it is a community-based activity comprising wastewater management facilities and solid waste transfer facilities that would be considered small-scale, with the potential to cause local short-term negative environmental and social impacts. In most cases mitigation measures can be designed more readily for projects at this level. Accordingly, Regulation of Public Works No. 17/KPTS/M/2003 requires an UKL/UPL where, for example, wastewater facilities are < 2 ha, and sewage drainage systems are < 500 ha (see ECOMAP). Individual design specifications and the location of these community facilities to sensitive areas of biodiversity or identifiable impacts contributing to climate change would dictate whether the undertaking at a specified location would require a more detailed impact assessment pursuant to the criteria of Regulation of the Minister of Environment No. 11/2006 on Types of Business and / Activities Requiring Environmental Impact Assessment.

Figure A8.2 Overview of GOI EIA Flow-chart



APPENDIX – GoI Environmental Laws and Regulations Applicable to sAIIG

The following GoI environmental laws and regulations are applicable to sAIIG:

- Act No. 32/2009 and Environmental Protection and Management.
- *Undang-Undang Nomor 32 tahun 2009 tentang Perlindungan dan Pengelolaan Lingkungan Hidup.*
- Government Regulation No. 27/1999 on Environmental Impact Assessment.
- *Peraturan Pemerintah Nomor 27 Tahun 1999 tentang Analisis Mengenai Dampak Lingkungan Hidup.*
- Regulation of the Minister of Environment No. 24/2009 Assessment Guide for EIA Document(s).
- *Peraturan Menteri Negara Lingkungan Hidup Nomor 24 tahun 2009 tentang Panduan Penilaian Dokumen AMDAL.*
- Regulation of the Minister of Environment No. 25/2009 on the Development and Supervision of the EIA Evaluation Commission.
- *Peraturan Menteri Negara Lingkungan Hidup Nomor 25 tahun 2009 tentang Pembinaan dan PengawasanTerhadap Komisi Penilai AMDAL.*
- Regulation of the Minister of Environment No. 11/ 2008 on the Competency Requirements for Document Preparation of EIA and Competency Requirements Document Drafting of EIA.
- *Peraturan Menteri Negara Lingkungan Hidup Nomor 11 tahun 2008 tentang Persyaratan Kompetensi Dalam Penyusunan Dokumen AMDAL dan Persyaratan Kompetensi Penyusun Dokumen AMDAL.*
- Regulation of the Minister of Environment No. 08/2006 on Guidelines for the Preparation of the Environmental Impact Assessment (document).
- *Peraturan Menteri Negara Lingkungan Hidup Nomor 08 tahun 2006 tentang Pedoman Penyusunan Analisis Mengenai Dampak Lingkungan Hidup.*
- Regulation of the Minister of Environment No. 11/2006 on Types of Business and / Activities Requiring Environmental Impact Assessment.
- *Peraturan Menteri Negara Lingkungan Hidup Nomor 11 tahun 2006 tentang Jenis Usaha dan/Kegiatan yang Wajib Dilengkapi Dengan Analisis Mengenai Dampak Lingkungan Hidup.*
- Regulation of the Minister of Environment No. 05/2008 on Working Procedures for the EIA Evaluation Commission.
- *Peraturan Menteri Negara Lingkungan Hidup Nomor 05 tahun 2008 tentang Tata Kerja Komisi Penilai Analisis Mengenai Dampak Lingkungan Hidup.*

- Regulation of the Minister of Environment No. 06/2008 concerning Governance of the County /City EIA Evaluation Commission.
- *Peraturan Menteri Negara Lingkungan Hidup Nomor 06 tahun 2008 tentang Tata Laksana Komisi Penilai Analisis Mengenai Dampak Lingkungan Hidup Kabupaten/Kota.*
- Decree of the Minister of State for the Environment No. 45/2005 on Guidelines for Drafting the Environmental Management Plan (RKL) and Environmental Monitoring Plan (RPL).
- *Keputusan Menteri Negara Lingkungan Hidup Nomor 45 tahun 2005 tentang Pedoman Penyusun Laporan Pelaksanaan Rencana Pengelolaan Lingkungan Hidup (RKL) dan Rencana Pemantauan Lingkungan Hidup (RPL).*
- Decree of the Minister of State for the Environment No. 8/2000 on Community Involvement in the Preparation of the EIA document.
- *Keputusan Menteri Negara Lingkungan Hidup Nomor 8 tahun 2000 tentang Keterlibatan Masyarakat dalam Penyusunan Dokumen AMDAL.*
- Regulation of the Minister of Environment No. 27/2009 on Guidelines for Strategic Environmental Assessment
- *Peraturan Menteri Negara Lingkungan Hidup Nomor 27 Tahun 2009 tentang Pedoman Pelaksanaan Kajian Lingkungan Hidup Strategis*
- Ministry of Environment (2011), Water Pollution Control Manufacturing Industry, Infrastructure and Services – A Collection of Regulations
- *Kementerian Lingkungan Hidup (2011) Pengendalian Pencemaran Air Industri Manufaktur, Prasarana dan Jasa – Kumpulan Peraturan*
- Ministry of the Environmental Act No. 18/2008 Regarding Waste Management
- *Kementerian Lingkungan Hidup, Undang-undang No. 18/2008 tentang Pengelolaan Sampah*
- Ministerial Decree of Settlement and Regional Infrastructure No. 17/KPTS/M/2003 on the Determination of Settlement and Regional Infrastructure Business and/or Activities Required to have Environmental Management and Environmental Monitoring Plans
- *Keputusan Menteri Permukiman dan Prasarana Wilayah No. 17/KPTS/M/2003 tentang Penetapan Jenis Usaha dan/atau Kegiatan Bidang Permukiman dan Prasarana Wilayah yang Wajib Dilengkapi dengan Upaya Pengelolaan Lingkungan dan Upaya Pemantauan Lingkungan*

ANNEXE 9: TA TERMS OF REFERENCE

A9.1. Scope of Services for Appraisal and Review

The consultant's services will include:

- Support to the CPMU in appraising the LGs' proposed multi-year sanitation programs;
- Analysis of LGs' budget allocations and financial planning;
- Collection and analysis of data and information relating to the Governance indicators;
- Evaluation of LGs' first year program and confirm compliance with environmental and social safeguards;
- Evaluation of proposed locations, land acquisition and ownership, for the first year works;
- Confirmation that the LGs' budgets are sufficient for the proposed first year works;
- Support the CPMU in determining the qualifying program for the year.

None of the consultant positions involve working with children.

A9.2. Scope of Services for Baseline Survey

The consultant's services will include:

- Conduct a baseline survey of each qualifying program by collecting baseline data on the target populations in each sub-project area through a census of household size, socio-economic status, sanitation behaviour and interest in becoming a customer;
- Collection of information on LG sanitation budgeting and governance as a basis for assessing future progress;
- Analysis of the data collected.

None of the consultant positions involve working with children.

A9.3. Scope of Services for Program Preparation

The consultant's services will include:

- Ensure LGs are adequately prepared to implement their sanitation programs;

- Review LGs' existing designs and documents and, where necessary, revise and complete the detailed designs, technical specifications and tender documents;
- Ensure that LG is preparing a pipeline of sub-projects for implementation in subsequent years.

None of the consultant's positions involve working with children.

A9.4. Scope of Services for Capacity Building and Community Awareness

The consultant's services will include:

- Provide capacity building for the new UPTD-PAL which will become responsible for design, construction, operation and maintenance of all LG wastewater services;
- Provide capacity building to the LG's procurement staff in new Procurement Unit;
- Support LGs to design and prepare materials for community awareness raising and develop a strategy for social marketing;
- Support LGs to develop socially inclusive and gender sensitive approaches for implementing sAIIG activities.

None of the consultant positions involve working with children.

A9.5. Scope of Services for Oversight

The consultant's services will include:

- Support to the CPMU and PIUs in administering the sAIIG program;
- Quality assurance and technical oversight of the implementation from tender to handover;
- Check the quality of both the materials and the construction;
- Prepare all documentation required for verification.

None of the consultant positions involve working with children.

A9.6. Scope of Services for Verification

The consultant's services will include:

- Verifying compliance of the completed works with the: Detailed Design, Technical Specifications, Project Management Manual, Grant Agreement, and prevailing procurement regulations;

- Verifying the volume of eligible infrastructure constructed in accordance with the schedule and the resulting grant payment due to the LG;
- Collecting necessary data and information relating to the Technical and Governance benchmarks;
- Collecting data required for Monitoring and Evaluation;
- Verifying that all the conditions for grant payment have been satisfied;
- Making a sustainability assessment after approximately one year to check that the facilities are still being used and are operating satisfactorily.

None of the consultant positions involve working with children.

ANNEXE 10: RISK MANAGEMENT AND MATRIX

A10.1. Risk Management

Although the sAIIG is a new program, the design has carefully reviewed the implementation of the IEG which highlighted many of the risks that would need to be addressed. Among the lessons learned from the IEGs, the design uses output based modality to provide the platform for an effective risk mitigation strategy.

The risks identified, discussed below, and tabulated in Figure A10.1 Risk Matrix, would indicate the program has a medium to high risk level, but with the successful application of the key mitigation strategies that have been identified, the residual risk level would be seen as medium.

As a new program, the risks range from those associated with setting up the program itself and associated governance practices, through the development and implementation of the grants management process, including the payment and distribution aspects, to verification of the delivery of the agreed outputs and their sustainability.

The greater the range and reach of community consultation undertaken and the communities ongoing involvement in the program will also assist in the reduction of the overall risk to the successful implementations at the community level.

A10.2. Program Management and Governance

The sAIIG is modelled on the original design of the Infrastructure Enhancement Grant program (IEG) and many of the program management aspects will be based on the previous IEG and Hibah programs. Agreements have been reached with the partner agencies involved and roles and responsibilities have been agreed. These, and the program management details will be formalised in the Project Management Manual (PMM) which will be issued under a decree of the Director General for Human Settlements, MPW. The implementing LGs will be bound by the Grant Agreements which will be signed by the Mayor/Bupati and the Minister of Finance. These are legally binding, and require the LGs to implement the program in accordance with the provisions therein and the PMM. As such, this presents a moderate of risk in ensuring the full commitment from these partner agencies, noting that the lead partner agency – Directorate General of Human Settlements (DGHS) is fully committed to the program and the finalisation of the management details.

The design of the sAIIG addresses the risks associated with sustainability of the funding source, the capacity for administering the grant scheme, the type of service subject to a grant and the extent to which the LG is willing and able to be paid over time. Grant agreements with the LGs will have a three year tenure and will contain provisions that

allow the redistribution, increase, or cancellation of the grant based on the performance of the respective LGs.

Governance presents potential risks from two aspects, the overall governance of the program itself, through all the elements of grant management and the requirement to improve the capacity of the governance aspects of the Local Governments (LGs). The risks associated with program governance will be addressed by the application of well-defined program management guidelines in the PMM and the use of suitably qualified personnel skilled in program management. Poor governance at the LG level was a notable factor in the previous IEG and has been addressed as part of the scope and objectives of this program, noting also that during the previous programs the partner agencies involved, DGHS and the DGFB, demonstrated that they were willing to address the governance issues arising from the LG implementation.

With output based modality, accountability also increases for donors and governments: public funding is linked to the delivery of predefined outputs and therefore waste or inappropriate allocation should be minimised and hence plays an important role in the fight to improve governance and reduce corruption. A key mitigation strategy in this area is the inclusion of an active communication strategy that advertises what services are to be delivered to whom and at what price and this will be achieved via the requirement for LGs to provide either a standalone website detailing their activities in this area or a link containing this information through their current website.

The sAIIG program will be implemented by the Kabupaten/Kota in accordance with the Project Implementation Guidelines. The program management will consist of CPMU at central level, PPMU at provincial level and PIU at local level.

The Central Project Management Unit (CPMU) will be established by a Decree from the Director General of Human Settlement (DGHS). The main tasks of the CPMU are to evaluate the program proposals of the LGs and submit to MoF for grant award, to monitor the implementation of the program, and on completion to verify that the grant payment requirements have been satisfied.

Provincial Project Management Units (PPMU) will also be established by the Director General of DGHS to help the CPMU in coordinating with the PIUs and monitoring progress. PPMUs will be positioned in each province where there are participating kabupaten/kota.

Project Implementation Units (PIU) will be led by an officer of the LG's Financial Management Department established by decree of the Bupati/Mayor to assist in implementing the program.

An independent oversight consultant, reporting to the CPMU, will work with the PPMUs and PIUs to oversee the implementation.

A10.3. Delivery

Delivery risks are related to procurement and implementation aspects. The shift to output-based delivery of the grants will reduce the procurement risk but does provide safeguards against use of grant funds for unacceptable procurement practice. Grant agreements will define measurable outputs and the technical specifications for the works by reference to the PMM. The grant agreement and PMM also define the infrastructure items that qualify for grants as well as the requirements for competitive tenders by LG. Construction quality will also remain a potential risk, but will be mitigated by transparent procurement requirements as one of the key governance benchmarks in the grant agreements and a key requirement for LGs retaining the grant awards. Construction quality risks will also be addressed prior to the handover of completed works through independent verification consultants engaged under IndII contract. The full engagement of the technical Ministry should also form part of the governance development objective to mitigate the risks related to development of required skills to support the potential ongoing uptake of the program. There are risks associated with the ability of detecting poor construction or below standard delivery and therefore outputs should be defined appropriately; procurement documents specified carefully and existing laws and standards enforced through regulation, contract management/monitoring or both, demonstrating the importance, of how an enabling environment and their associated risks can also shape the success of an output based modality scheme.

LGs will be expected to demonstrate their commitment to funding the required infrastructure and ongoing maintenance through agreed benchmarks for implementation and O&M budgeting. To monitor the sustainability of the infrastructure the Verification Consultant will return a year after initial verification to check whether satisfactory sanitation service has been maintained. In the case where it has not, appropriate sanctions will be applied to the LG including withholding the next grant disbursement, or adjusting the grant award to the Local Government.

A10.4. Financial

Output based modality shifts performance risk to the LGs by paying only after delivery of verifiable products and service. However, the degree of performance risk shifted depends on the ability of the LG to pre finance investments and services until output based payments are distributed. Ultimately access to finance will determine how much performance risks are reasonably shifted to the LG and mitigating the risks in relation to uptake of the program by LGs.

By shifting performance risk to the LGs , output based modality can raise some additional unintended embedded risks, in particular, the payment risk that after outputs have been refinanced and delivered as agreed, grant payments are substantially delayed or not made. The overall design will incorporate measures to mitigate this potential risk.

Output based modality can also mitigate some of the risks of cost overruns (or benefit shortfalls) related to investments through grants, as the value of the grants is fixed before implementation but paid only after outputs have been delivered. This mechanism credibly caps available public funding so that LGs are aware that they must bear any cost overruns. Furthermore the explicit nature and grant design will clearly identify the risks being taken.

Non-disbursement of the grant money is also a potential risk, but this will be mitigated by the option of multi-year implementation and allowing adjustments to grant allocations between LGs based on annual reviews of performance to occur. Each LG will also be able to adjust its use of the grant from year to year to make up any applications not approved for reasons of non-compliance with standards of quality.

Significant currency fluctuations produce the risk of under or over budgeting for the program, and mechanisms to reduce this risk will need to be investigated, with a strategy of conversions of tranches of the funding providing a timeframe mitigation strategy of balancing and budgeting within the local currency.

Figure A10.1 RISK MATRIX

Risk	Impacts	Risk Rating	Mitigation Strategies
Instigating new program	• Unclear roles and responsibilities • Insufficient program management • Capacity and commitment of Partner Agencies	Medium	• Agreement and ratification of AusAID/IndII/Partner Agencies – roles and responsibilities • DGHS committed and processes in place from previous Hibahs • Agreements to be put in place • Program management plan and related processes implemented
Program governance	• Loss of focus • Insufficient management control and direction	Medium	• Agreed program management monitoring and reporting • Regular communication with stakeholders • Implementation of governance board
Grants management	• Unclear roles and responsibilities • Processes and procedures unclear • Output based modality requirements not clearly defined • Contract disputes • Grant payments deferred	High	• Grants management process clearly defined and documented • Required outputs clearly defined and documented • Contracts reflect output requirements • Baseline and verification requirements and processes clearly defined and documented • Payment processes clearly defined and documented

Risk	Impacts	Risk Rating	Mitigation Strategies

Lack of overall LG Governance	• Embedded risks
	  ○ Poor procurement
	  ○ Contract disputes
	• Grant payments deferred
		High	• Improved LG governance – program objective
			• Required outputs and LG role clearly defined and documented
			• Ensure contracts reflect output requirements
			• Use of BAPPENAS e-procurement system
			• Baseline and verification requirements and processes clearly defined and documented with LG
			• Payment processes clearly defined and documented
			• Web page communications implemented by LG

Limited capacity of LGs for pre-financing	• Program unable to deliver outcomes • Slow uptake • Payment of grants deferred	Medium	• Clearly defined grant agreements • Menu of items and associated costs clearly articulated • Support from DGHS and MoF • Selection criteria includes funding ability
Financial risks	• Fraud • Corruption • Payment disputes	Low	• Output based modality transfers risks to LGs • Grant management process clearly defined and documented • Verification process defined and documented • Payment process between MoF and LG

Risk	Impacts	Risk Rating	Mitigation Strategies
Currency Fluctuations	• Budgeting impacts • Potential overspend or underspend	Medium	• Maintain account in Rupiah • Transfer of moneys into account in tranches • Management of demand over 3 year period
Lack of Community Consultation	• All needs and expectations not identified • Lack of ownership at community level • Poor and vulnerable groups disadvantaged • Community NGOs and CBOs not actively engaged	Medium	• Communications Plan • Community involvement • Appointment of Social Facilitators

ANNEXE 11: ASSESSMENT OF CAPACITY, RISK AND BENEFITS ASSOCIATED WITH USING THE PARTNER GOVERNMENT'S PUBLIC FINANCIAL MANAGEMENT SYSTEMS

The Project will be implemented by the participating Local Governments using GoI regulations and procedures. As such, some forty or more Local Governments will implement on average 30 small scale sanitation components each, making a total of about four hundred or more small scale contracts. The mode of delivery of this assistance through government systems does not require prior review and approval of these contracts but makes such works and expenditure subject to post review, as is the normal procedure of GoI systems.

Fiscal governance focuses on the contractual obligation of the Local Governments with the MoF (DGFB) encompassed in the on-granting agreements. These agreements require the Local Governments to surrender grants that are not used in accordance with the on-granting agreements. The on-granting agreements refer to the Project Management Manual for greater detail of the procedures, and quality of the deliverables. Use of the grant not in accordance with the on-granting agreements will be declared "ineligible expenditure" and subject to recovery of the grant by MoF.

In turn, MoF is obligated under the Subsidiary Agreement to acquit 'ineligible expenditure' as unutilised grant funds which are subject to return to GoA unless they are used subsequently in other approved works. In practice the LGs may be given the opportunity to 'make good' those works which are of unsatisfactory quality.

Indonesia
Infrastructure Initiative

Ratu Plaza Office Tower
20th Floor
Jl. Jenderal Sudirman No. 9
Jakarta 10270
Indonesia

Tel: +62-21 7278 0538
Fax: +62-21 7278 0539

www.indii.co.id