

**MANAGEMENT RESPONSE ON THE PROJECT PERFORMANCE AUDIT REPORT
ON THE RURAL WATER SUPPLY AND SANITATION SECTOR PROJECT IN INDONESIA
(Loan 1352-INO)**

On 25 February 2005, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

1. Management finds the report well prepared and contains issues and lessons pertinent to future projects in the sector. The Project Completion Report and the PPAR have rated this project “Partly Successful.” However, it is noted that many of the subprojects implemented under this sector project have not proven sustainable.

2. The project, approved in 1995, was implemented during a period of financial, economic, and political crisis. Although the organization and management of the project conformed to agreed arrangements, “the levels of responsibility changed when full decentralization was implemented in 1998” (para. 37), and “contrary to the assessment during project appraisal, the districts did not have sufficient management capacity” (para. 40) to implement the project. Such capacity was made up through an increase in the number of consultant months. It is acknowledged that ADB’s response to these changes in the context of project implementation, and particularly the fielding of the midterm review mission, could have been quicker.

3. Management notes, however, that most of the issues and lessons derived from the PPAR will be incorporated into projects under preparation. Water supply and sanitation (WSS) projects preferably should not combine target groups that require different operational modalities, one of the lessons learned in the PPAR—“projects should either be the regional water utility (PDAM) focused or community focused, but not both” (para. 78). Therefore, as acknowledged in footnote 20 of the PPAR, separate projects are proposed for urban areas (Water Supply and Sanitation Project [WSSP]) and rural areas (Community Water Services and Health Project [CWSHP]), respectively.

4. The WSSP will entail complex water supply systems including pumping, treatment, and household connections operated by water enterprises. It will offer house connections based on cost recovery tariffs (para. 83). Implementation and procurement arrangements for the WSSP will include measures to improve efficiency and transparency, and to reduce the risk of fraud and corruption. The related PPTA will assess the implementation capacity of government agencies at all appropriate levels (para. 80), and will propose an outsourced project management unit, and independent audits of financial accounts and project performance during implementation.

5. The CWSHP will provide simple WSS facilities which can be operated by communities without support by PDAMs (para. 77). Rural households under CWSHP will be requested to finance all operation and maintenance costs and contribute 20% to the total of construction costs (4% in cash and 16% in kind).

Methods to improve consultant procurement procedures will include specific training of procurement committee members, pre-bid conferences, hiring of external reviewers to assess proposals, and thorough reference checking on consultant candidates. Process monitoring consultants will be placed at the district level to monitor and address implementation problems and to carry out post-construction technical audits focusing on the quality of design and construction and the cost-effectiveness of the infrastructure in each community.

6. Community empowerment is one of the four components of the CWSHP. To promote a sense of ownership, the CWSHP has developed a menu of easily understandable WSS options to help communities make an informed choice. Tariffs and user fees for services will depend on the technology option chosen by the community. Household surveys undertaken during the PPTA suggest that the average willingness and capability to pay on a monthly basis are indeed sufficient to finance O&M costs of most technical options (paras. 75, 79, 83). Communities will control key activities with regard to planning, design, and construction of facilities, which in turn has proven to be an antidote against corruption in previous projects (para. 75), and will be adequately trained to demand and assess high quality construction and assistance, combined with professional and regular independent quality monitoring and control of activities.

7. Even though the CWSHP will be implemented by the Ministry of Health, it has taken on board the lessons learned from the Rural WSS Sector Project as documented in the PPAR. Similarly, the WSSP, proposed for preparation for approval in 2006, will include all essential elements of the Action Plan, agreed by the Government and ADB to mitigate the risk of fraud and corruption (paras. 85 and 86).

8. Water supply and sanitation subprojects need to be adapted to the resources and needs of local communities. The case for delivering bottled water for human consumption purposes to remote communities (para.74) should only be considered on a case by case basis as supplementary to existing and planned subprojects.