

## KEY FINDINGS OF PREVIOUS CAPE IN THE URBAN AND WSS SECTOR<sup>1</sup>

### A. Water Supply and Other Urban Services Provision

1. Several urban infrastructure projects and a rural water supply project provide lessons for consideration in designing and implementing future projects.
2. **Emphasize Package of Services, Not Just Infrastructure.** Some local governments (LG) considered the integrated urban infrastructure development projects as a means only for improving physical infrastructure, not as investment support for the long-term delivery of municipal services (Loan 1077-INO: Botabek Urban Development Project and Loan 1078-INO: Bandar Lampung Urban Development Project). The project completion report (PCR)<sup>2</sup> for Loan 1198-INO: Central Java and D.I. Yogyakarta Urban Development (Sector) Project recommended that future Asian Development Bank (ADB) projects should emphasize (i) capacity building, (ii) balancing physical infrastructure with complementary activities promoting economic development, (iii) employment creation, and (iv) income generation. This PCR also suggested that LGs identify specific priority areas of urban deprivation within cities, and plan on achieving a balance of private sector and community-based initiatives directed to the poor communities. To date, the different village improvement programs in the projects have improved the living environment of the urban poor and enhanced the participation of the communities. In the future, this component also should provide for access to microcredit for housing improvements.
3. **Weak Household Demand.** Surveys showed that this was a factor in water supply and sanitation (WSS) subprojects, as well as the underutilization of water supply facilities (cited in the back-to-office reports for Loan 1511-INO: Metropolitan Bogor, Tangerang, and Bekasi Urban Development [Sector] Project). Perhaps in response to this problem, the 2000 project performance audit report (PPAR) for Loans 1077 and 1078<sup>3</sup> advised that the private sector might be able to deliver water better through bottles, rather through piped water supply. This would address the incentive problem in paying for water. On the other hand, the PPAR for Loan 1069<sup>4</sup> proposed simpler and less expensive technology for delivering water to low-income households in rural areas. Such socially oriented subprojects might be unable to recover operating costs, thus requiring recurrent Government subsidies. The PPAR on Loan 1352<sup>5</sup> confirmed this. It reported that projects supplying water (and sanitation) to scattered populations in poor rural areas are likely to fail if a clear demand for such services does not materialize, and rural communities are unwilling to pay for a major part of the investment and recurrent costs. The PPAR for Loan 1292<sup>6</sup> broached the possibility of amalgamating water supply enterprises (Perusahaan Daerah Air Minum [PDAMs]) into regional water authorities based on a program of financial restructuring and independent supervision to lower costs.
4. **Privatization of Water Supply Enterprises.** In the past, ADB had approached water supply subprojects as components of infrastructure development and health projects, and later as part of natural resources management. By 1994, ADB strategy focused on encouraging the

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<sup>1</sup> Operations Evaluation Department. ADB. 2000. *Country Assistance Program Evaluation for Indonesia*. Manila.

<sup>2</sup> ADB. 2000. *Project Completion Report on the Central Java and D.I. Yogyakarta Urban Development (Sector) Project in Indonesia*. Manila.

<sup>3</sup> ADB. 2000. *Project Performance Audit Report on Three Integrated Urban Infrastructure Development Projects: Secondary Cities Urban Development (Sector) Project, Botabek Urban Development Project, and Bandar Lampung Urban Development Project in Indonesia*. Manila.

<sup>4</sup> ADB. 2001. *Project Performance Audit Report on the Second IKK Water Supply Project in Indonesia*. Manila.

<sup>5</sup> ADB. 2004. *Project Performance Audit Report on the Rural Water Supply and Sanitation Sector Project in Indonesia*. Manila.

<sup>6</sup> ADB. 2004. *Project Performance Audit Report on the Eastern Islands Urban Development Sector Project in Indonesia*. Manila.

privatization of more successful urban water supply enterprises, and targeting assistance to low-income communities by cross-subsidizing user fees. However, privatization has not been achieved. While this approach might have been sustainable, it stops short of adopting a comprehensive water supply policy that merges goals regarding delivery, safety, conservation, and decentralization.

5. Greater Attention to Waste Management. ADB has not been involved much in the sanitation sector, because (i) it does not generate revenue, which means getting the Government to prioritize and fund the sector is a problem; (ii) a particular institution is not responsible for the sector; and (iii) a policy has not been formulated for the sector. Therefore, this subsector does not seem to be integrated into ADB-financed projects, according to the impact evaluation study (IES) on WSS. In several cases, the ADB-financed subprojects became the source of pollution.<sup>7</sup> Thus, ADB emphasized the need to review its level of commitment and ensure that health education was an essential component of future sanitation programs. The PPAR on Loans 1077 and 1078 (footnote 5) proposed that future projects focus on demand-side management for solid waste and sanitation components to reduce the volume of waste and encourage recycling. The PPAR also recommended offering free desludging services for human waste to generate demand, then using the treated sludge as compost to be sold to finance operation and maintenance (O&M) in a sustainable manner. If this is not feasible, the experience with Loan 1292-INO: Eastern Islands Urban Development Sector Project showed that waste collection and the operation of disposal sites might be contracted out to the private sector for improved service delivery.

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<sup>7</sup> Reported for Loan 1111-INO: Bogor and Palembang Urban Development Project and Loans 1383/1384-INO: Sumatra and West Java Urban Development (Sector) Projects.