

Management Response on the Project Performance Audit Report (PPAR) on the Eastern Islands Urban Development Sector Project

On 15 October 2004, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

1. Management and staff found the report well prepared and useful in highlighting some important issues and lessons learned from urban development initiatives in Indonesia. The observations and recommendations of the PPAR are supported, and many are already incorporated into the most recently approved and forthcoming ADB-financed projects in this sector, e.g. Neighborhood Upgrading and Shelter Sector Project (NUSSP) approved in 2003, Community Water Services and Health project (CWSHP), a firm project for 2004, and the Water Supply and Sanitation project (WSSP) in 2005. These projects are ADB's most recent initiatives in the urban sector in Indonesia and they have been designed with a full understanding of the issues raised in the PPAR, many of which have been known to SERD since completion of the Eastern Islands Urban Development Sector Project (Project).

1. One of the key lessons learned from the Project is the need for extensive and effective capacity building of local government staff. Where appropriate, ADB interventions will support extensive capacity building in local and regional governments in project implementation and in establishing systems for sustainable operations and maintenance. These components are designed to respond flexibly to the specific needs of particular local governments.

2. The PPAR also identified the need for comprehensive operations and maintenance (O&M) programs to be in place, together with strong commitment to cost recovery and development of local borrowing capacity. All projects, and CWSHP and WSSP in particular, will build capacity for sustainable O&M of project investments. For example, in CWSHP, participating communities choose among several options on the specific level of investment and associated O&M commitment, and then are required to make appropriate provisions in their community action plans (CAPs). In addition, cost recovery is targeted in all three projects either through land taxes and costs for plot purchase, or through tariffs. The process of cost recovery is underpinned with loan covenants, community consultation, and involvement in the design of the investments in NUSSP and CWSHP, and the detailed design of cost recovery is a mandatory section of each CAP under CWSHP. Under the proposed WSSP, there will be extensive consultations on the capacity to borrow, including focused assistance in revenue generation for the participating water supply enterprises (PDAMs). The project will also foster increased community awareness of both of the environmental consequences of poor wastewater management and of basic maintenance techniques for septic tanks, which are the major cause of pollution from wastewater.

3. Another lesson learned is the need for improved governance structure of PDAMs. Towards this end, under the proposed WSSP, ADB would focus on sustainability of PDAMs, including their governance structures. The project is designed to build on and support development of a broad-based constituency for reform in the WSS sector of selected local governments.

4. Close attention will be paid to the other lessons learned as well as the recommended follow-up actions. In particular, ADB is remaining engaged with the Government on provision of training programs for local government staff. As noted, these newly approved and proposed projects (WSSP, CWSHP and NUSSP) have adequate training components, and as far as possible, these capacity building activities will be delivered by local institutions in-country, preferably those within the local government concerned.

5. Most of these lessons learned under the Project are recognized to apply across a number of sectors in both Indonesia and the Philippines, and as such will be considered in the design of all new projects in SERD.