

**COMBINED PROJECT INFORMATION DOCUMENTS / INTEGRATED
SAFEGUARDS DATA SHEET (PID/ISDS)**

Appraisal Stage

Report No.: PIDISDSA20585

Date Prepared/Updated: 17-Oct-2017

I. BASIC INFORMATION

A. Basic Project Data

Country:	Indonesia	Project ID:	P156125
		Parent Project ID (if any):	
Project Name:	National Urban Water Supply Program (P156125)		
Region:	EAST ASIA AND PACIFIC		
Estimated Appraisal Date:	02-Oct-2017	Estimated Board Date:	05-Dec-2017
Practice Area (Lead):	Water	Financing Instrument:	Investment Project Financing
Borrower(s)	Ministry of Finance, Republic of Indonesia		
Implementing Agency	DG Cipta Karya - Ministry of Public Works		
Financing (in USD Million)			
Financing Source			Amount
Borrower			502.60
International Bank for Reconstruction and Development			100.00
Financing Gap			0.00
Total Project Cost			602.60
Environmental Category:	B-Partial Assessment		
Appraisal Review Decision (from Decision Note):	The review did authorize the team to appraise and negotiate		
Other Decision:			
Is this a Repeater project?	No		

B. Introduction and Context

Country Context

Socio-economic context. Indonesia is the world's fourth most populous nation with 250 million people living in over 6,000 inhabited islands. It is the eight largest economy in terms of purchasing power parity. The poverty rate has decreased from 24 percent in 1997 to 11 percent in 2014, sustained by

strong annual growth rates (six percent and above per year maintained for a decade up to 2015). However, these achievements are now threatened by a slowdown in Indonesia's commodity driven economy, stagnant rates of poverty reduction and rapidly rising inequality.

Urbanization and urban water supply access. Rapid urbanization has resulted in over half of Indonesia's population living in urban areas (137.4 million in 2015). An overall underinvestment in infrastructure over the past decade has led to a significant infrastructure gap. This has significantly negated the potential growth and development benefits of urbanization. Despite its lower-middle income economy, drinking water infrastructure in urban areas lags behind urban population growth. Only a third of the urban population has access to piped water services. Indonesia's achievement of its Millennium Development Goal (MDG) target for access to improved water sources was largely driven by improved access in rural areas and only modest gains in urban areas. Geographic disparities in urban piped water supply are marked, ranging from 7.5% (Bangka Belitung province) to 70.8% (East Kalimantan province). Additionally, Indonesia's vulnerability to climate change and natural disaster has impacted water security and further increase the challenge in providing water supply services.

Decentralization and service delivery. Since 2001, decentralization has devolved significant responsibilities and empowered districts and municipalities. By 2014, subnational governments manage about half of total core public spending, making them increasingly critical in achieving Indonesia's service delivery goals. This trend is expected to continue, with ongoing revisions of Law 33/2004 on fiscal balance between central and local governments which is planned to further increase subnational government budget for both the management and development of infrastructure for basic services.

Sectoral and Institutional Context

Sector legal framework. Until 2015, Law 7/2004 on Water Resources and its accompanying regulations provided guidance and clarification on the roles and responsibilities of the different levels of government under decentralization, as well as laid the foundation for private sector participation in the water sector. This law was, however, annulled by the Constitutional Court in early 2015 following a legal challenge resulting on the reversion to the Waterworks Law (Law No. 11/1974) which was developed and implemented before decentralization. The Government has then issued two implementation regulations of the Waterworks Law, providing adjustments to be consistent with the current jurisdiction of local governments in line with the decentralization law. Until a new water law is enacted, these regulations will provide the overall legal framework for the sector.

Central government challenges. Currently, the Central Government, mainly through the Ministry of Public Works and Housing (MoPWH), continues to invest more in the water sector than local governments, primarily through mandated investment in bulk water supply, regional systems and remote areas. With continuing decentralization, the central government ministries' budget for infrastructure investment will be more limited, presenting the central government a challenge to allocate resources equitably, and better leverage central government programs.

Local government challenges. At the same time, local governments (LGs) face the challenges of increased responsibility and accountability for service provision, including the governance and performance of local service providers - typically local government-owned utilities (Perusahaan Daerah Air Minum - PDAMs). LGs investments in urban water services remains modest. The granting of cost recovery tariffs by LGs tends to be sensitive and generally not carried out. Central government incentive programs at the local levels area faced with various obstacles, including: (i) a limited sense of ownership and responsibility for water services by LGs, (ii) LGs reliance on central government funding for local water supply projects, and (iii) sub-optimal management of water infrastructure by

PDAMs. These have led to misalignment of investments between central government and LGs, resulting in suboptimal services to consumers.

PDAM challenges. There are currently about 375 PDAMs in Indonesia. Decentralization and splitting of districts have tended to increase the number of small PDAMs, with more than half having less than 10,000 connections, and a quarter having less than 5,000 connections. This fragmentation has limited economies of scale, reducing the potential of these PDAMs to be technically and financially viable. Performance of PDAMs depends on the performance of their owner (Local Government) which are responsible for providing financial support as needed and oversight/supervisory functions. The Ministry of Public Works and Housing (MoPWH) has a performance-rating system for the PDAMs, in which currently 214 PDAMs are categorized as "Healthy", 103 as "Less Healthy" and 73 as "Sick". The operational performance of PDAM is generally low with average national non-revenue water estimated at 33% and only 29% of PDAMs were found by MoPWH in 2013 to be operating at cost-recovery tariff levels although guidelines on water tariff settings have been provided by Ministry of Home Affairs (MOHA). Meanwhile, a separate MOHA's PDAM performance measurement system has not been consistently implemented as required by the PDAM supervisory boards. However, various government programs, including debt restructuring and debt-swap to equity program, has gradually improved overall PDAMs performance. Key capacity constraints faced by PDAMs are: (i) a lack of understanding of commercial operations of water utilities; (ii) a lack of understanding of and commitment to full cost recovery tariffs; (iii) an inability to identify projects and develop project proposals; and (iv) a general lack of technical and operational knowledge. Additionally, PDAMs also face additional challenges such as addressing climate change and disaster risks and the increasing water use conflict (i.e. with the neighboring PDAMs, local farmers and/or community systems).

Universal access target. The National Medium-term Development Plan (RPJMN) 2015-2019 sets out a target to achieve universal provision of basic services. This has been translated by the Ministry of Public Works and Housing (MOPWH) into its "100-0-100" program of eliminating slums and providing universal access to water and sanitation, including the end to open defecation, by 2019. A 2015 study by the Water and Sanitation Program (WSP) estimated that about 14.6 million additional people will require access to public water supply per year if this target is to be met, costing some US\$19 billion (IDR 252 trillion) in total capital investments. MoPWH's Strategic Planning (2015-2019) estimated total cost to support the agenda of urban water supply development at US\$6 billion, to provide about 10 million new household connections. While government expenditure for water supply has increased markedly, totaling US\$476 million (IDR 7 trillion) in 2013, it is still modest relative to the requirement of sector needs, and it is largely sourced from central government budget with scarcely 0.3% of sector expenditure coming from local governments. The magnitude of the sector needs has led to significant impetus towards the development of the water supply sector. The Government has launched a series of sectoral platform programs of service delivery in urban and rural water supply, sanitation and slum upgrading, in a large part to systematize financing efforts and leverage all resources (organizational and financial) available from national, provincial and local government programs, alongside donor financing and collaboration with private sector.

Sector initiatives. The urban water supply sectoral platform program build upon various ongoing Government sector initiatives, including: (i) provision of guidelines for water tariff setting stipulating that tariffs fully recover costs and a rate of return of 10% on investments; (ii) a service providers' debt restructuring program including partial or full write off of accrued interests and penalties, and debt to equity conversion, (iii) a program of central government guarantees and interest subsidies for commercial loans; (iv) an output-based grants through the water hibah program which is a central government's primary mechanism to increase piped water access for poor urban households; and (v) special allocation funds and grants from the Ministry of Finance for water supply and sanitation

through the Dana Alokasi Khusus (DAK). These initiatives have indicated increasing attention from the central government to engage in the urban water sector. The Bank and other donors have provided support in shaping up and implementing these initiatives through a series of technical assistance and policy advisory activities over the last decade. However, the various initiatives of increased investments from central government and support from development partners have not been accompanied by commensurate improvement in urban water supply services provision. The fragmentation of initiatives, the lack of investments at the local government level and inadequate focus on performance improvement of service providers are significant contributory factors to this mismatch.

National Urban Water Supply (NUWAS) Framework. Based on the need of a better approach to deliver urban water at scale, including a more integrated support, a better targeted investments linked to performance improvement of PDAMs and higher involvement (including financing) from local governments and PDAMs, in recent years, the Government has developed a basic framework for national urban water supply development (NUWAS Framework). This framework integrates various existing Government programs and projects in the urban water sector, to form a broad and comprehensive range of technical assistance, capacity building and investment financing support which can be targeted to various local governments and/or service providers to achieve specific improvement aims. The framework aligns the commitments and support activities of central and local governments provided to any given service providers, and ties support activities to service provider improvements and reform. The framework intends to operate at scale by simultaneously targeting the existing urban water service providers, offering differentiated packages of support tailored to the diverse performance status, needs, absorptive capacities and other circumstances of the many urban water service providers. The incentive-based structure of the framework comprises various tailored support packages. Each package is designed to integrate central Government, local government, PDAM and other financing, and is aimed at lifting the service provider to a higher level of performance and towards eligibility for the next support package, leading to gradual and continuous improvement. The framework is now being operationalized by the Directorate of Drinking Water Supply Development of Directorate General Cipta Karya of the MoPWH.

The proposed National Urban Water Supply Project (NUWSP) was designed to support the Government for the full operationalization of the NUWAS Framework. Through this project, all principles of the framework will be applied and followed by comprehensive monitoring and evaluation mechanism. Utilization of NUWAS Framework will support the Central Government in building the capacity of LGs to take more leadership and responsibilities to enhance their respective PDAMs, and to ultimately enable them to improve their performance in providing sustainable water supply services, aligned to the decentralized government structure. Findings and experiences from the implementation will be utilized to further improve and strengthen the framework.

C. Proposed Development Objective(s)

Development Objective(s)

The project development objective is to provide access to improved water sources and strengthen the operational performance of water service providers in select urban areas.

Key Results

The direct and indirect beneficiaries of this project will be the urban population of selected municipalities and districts which will benefit from the improvement and expansion of urban water supply systems financed by the project. The total beneficiaries from this project is expected to be a total of 1.2 million households (about 6 million people) living in at least 40 cities. At least 20% of the

new connections will be intended for urban poor households. It is also expected that 200 local governments and PDAMs will have improve capacity and performance from active participation in this project.

D. Project Description

A. Project Design

The Government financing to the urban water subsector (including central and local governments and other financing leveraged by the Government's financing) will be aligned and undertaken through the NUWAS framework. The Bank investment will contribute to Government's financing, aimed strategically to support the consolidation and implementation of the framework, in particular to target specific investments and technical assistance elements of the framework to directly increase water access and improve PDAM's operational efficiency. This will enhance the efficiency and impact of the Government own investments, and the additional leveraged resources to the subsector towards a common goal.

Key focus areas of the project include: (i) to improve the flow and effectiveness of available funds, whether it be from central government, donors and development partners, to increase investments in and improve the performance of the urban water sector; (ii) to incentivize PDAMs to move up the ladder of financial and operational sustainability so that they can increase access and provide better urban water services; (iii) to provide equitable but appropriate and sustainable access to investment funds for all PDAMs and local governments; (iv) to improve governance and accountability for urban water supply services in the decentralized government context; and (v) to complement existing government initiatives to improve and provide funding to the urban water sector. This project will also support improvement of the effectiveness of Central Government's investments in bulk water facilities (including through the regional schemes) by improving capacity of LGs/PDAMs in adsorbing and optimally utilizing the additional supply provided through these facilities.

B. Project Components

Three components are proposed to (i) support the physical investment windows of sectoral development platform, (ii) support the technical assistance and capacity building windows of the framework, and (iii) support central government's development, implementation and continuous improvement of the framework. A fourth component will assist the government at central and local levels with program implementation and management support.

Component 1: Investment Support for Urban Water Supply Infrastructure Development (US\$560.0 million, of which US\$70.0 million IBRD)

This component will support the central government in providing investment support to at least 40 LGs/PDAMs of varying performance / categories through the seed grants, performance-based grants and matching grants investment packages available under the framework. Bank financing will complement Central Government financing support for investment to be made accessible to LGs/PDAMs through the three types of grants which will be allocated to LGs/PDAMs with the following characteristics:

(a) Seed Grants (Stimulant Support). This investment support is intended for LGs/PDAMs with relatively low capacity (classified in groups 3, 4 and 5 according to the NUWAS framework described in the PAD) in urban areas where the coverage is also still low. This investment support will be for

capital investments and will be integrated with provision of Technical Assistance (TA) / Capacity Building (CB) programs. This type of investment support will be provided as a one-time capped and limited scope of support with a narrow pre-defined menu of activities limited to: (i) NRW reduction, (ii) utilization of idle water production capacity to provide water (extend coverage) to unserved areas; and (iii) rehabilitation and/or uprating of existing treatment plants.

(b) Matching Grants. The matching grant scheme is aimed to incentivize more financially and technically capable PDAMs/LGs (groups 1 and 2) to obtain non-Anggaran Pendapatan dan Belanja Negara (APBN/Central Government's budget) financing, especially domestic non-public financing, to invest in expanding and improving their water supply services. These non-public domestic financing sources may include domestic banks, PT. Sarana Multi Infrastruktur (PT. SMI) (or Regional Infrastructure Development Fund - RIDF), business-to-business funding, domestic private sector, and the domestic capital market. A grant equivalent to a pre-specified percentage of the approved non-public financing transaction will be provided to the LG/PDAM to be utilized for further improvement and expansion of the water supply services.

(c) Performance Based Grants (to improve efficiency and service expansion). Pre-specified performance-based grants will be made available to the PDAMs/LGs for the achievement of specific targets of specific key performance indicators on operation efficiency (i.e. NRW, energy efficiency, and/or new household connections, etc.). The targeted performance indicators for each participating PDAM/LGs will be pre-agreed through a performance-based agreement. The PDAM/LG will need to pre-finance these activities that may include physical activities (network rehabilitation and expansion, purchase and installation of main meters, rehabilitation or replacement of meters, creation of District Metering Areas, pressure control, pump replacement, etc.) and non-physical activities (improving customer database, implementation of active leakage detection, improve billing collection ratio, etc.). This grant is intended for PDAMs/LGs with some capacity to support with the activities' pre-financing needs (groups 2, 3 and 4). The mechanism for Performance-Based Grant will follow the on-granting mechanism already applied for the Water Hibah Program , an output-based grants program to provide new house connections to the poor. To complement the on-going Water Hibah Program, this project will collaborate with USAID and DFAT in piloting the utilization of Performance-Based Grants as the expanded Hibah to include other indicators for improved efficiency (starting with NRW reduction and Energy Efficiency).

Bank investment support under this component will be focused on supporting activities to improve quality and expand piped water supply services by improving operational efficiency and management of existing systems, ensuring the optimum utilization of the current systems prior to the investment in the development of new systems. To be eligible to receive these investment packages support (Matching Grant, Seed Grant and Performance-based Grant), participating PDAMs will have to enter into a performance agreement with their respective LGs. Implementation of these performance agreements will be monitored and evaluated by the Central Government (DG Cipta Karya, BPPSPAM, MOHA and MOF), as part of the operationalization of the NUWAS framework. An indicative list of the 40 priority LGs/PDAMs to be supported with the different packages is provided in Attachment 2 of Annex 2 of PAD.

Component 2: Technical Assistance and Capacity Building for Local Governments and PDAMs (US\$15.5 million, of which US\$10.0 million IBRD)

This component will support the capacity building of LGs, PDAMs and other stakeholders aimed, at performance improvement in a range of technical, financial, commercial, managerial, human resources, and climate and disaster risks resilience. A sub-component will support capacity building and training by improving the Government's Center of Excellence (CoE) Program . This sub-component will support the CoE program to develop and implement additional training modules for key topics that are not yet offered under the program. An indicative list of the 200 LGs/PDAMs

expected to benefit from to various CoE programs to be supported is provided in Attachment 3 of Annex 2. Another sub-component will provide support to selected LGs/PDAMs to improve their operational and financial performance, develop viable investment plans and prepare financing proposals for these investments (including proposals to access non-government financing from the domestic financial market). At the central level, a Technical Assistance and Capacity Building Team (TACT) will be assigned to provide support to the CoE program and to support the Central Project Management Unit (CPMU) in monitoring and evaluation of the TA/CB activities. The TACT will also help the CPMU in screening and reviewing proposals from LGs/PDAMs which will need to be aligned with the Rencana Induk Sistem Penyediaan Air Minum (RISPAM – LG’s Water Supply Development Master Plan) and PDAM’s Business Plan. At the local governments level, small Field Assistant (FAs) Teams will be assigned to directly engage with and provide support to LGs/PDAMs in data collection and reporting (utilizing the Self-Assessment Toolkit), identifying the needs of investments and TA/CB, and assisting LGs/PDAMs in preparing and submitting the proposals. These FAs will work under coordination of Provincial Coordinators (PCs) with oversight from the Regional Advisory and Management Consultant. The PCs will be also tasked with supporting provincial implementation units.

Component 3: Advisory and Policy Development Support for Central Government (US\$6.8 million, of which US\$5.0 million IBRD)

This component will support the strengthening and improvement of policies and instruments that forms the NUWAS framework, including supporting the Government agencies that have the mandates and responsibilities for them. As necessary, additional or complementary policies and instruments will be developed. This component will support the Water and Sanitation National Steering Committee (POKJA AMPL) to assess, improve and/or develop national level policies, implementation guidelines and other instruments for urban water management, regional water supply services, water governance and utility reform, private sector involvement, utility financing, poor inclusive services, citizen engagement, performance based financing (including expanding the investment options under Water Hibah program), and performance based contracting in the urban water sector. The key Central Government agencies in the POKJA AMPL include the BAPPENAS as the chair, Ministry of Finance, Ministry of Home Affairs and Ministry of Public Works and Housing. The Directorate General of Cipta Karya (DGCK) in MoPWH – the project Central Project Management Unit (CPMU)– and the Central Project Implementing Units (CPIUs) in the Ministry of Home Affairs (MOHA) will be supported to improve the LGs/PDAMs monitoring and evaluation system, as well as on policy strengthening. This will enable the status of the sector towards achieving sustained universal access targets to be more easily and systematically monitored. A team of Advisory Consultant will be assigned to provide support to the CPMU and CPIUs for this component. This Advisory Team will work closely with the POKJA AMPL as well as with other key sector stakeholders.

Component 4: Program Implementation and Management Support (estimated cost US\$20.3 million, of which US\$15.0 million IBRD)

This component will provide project management support the central, provincial and local government levels. A Central Management Consultant (CMC) will support the POKJA AMPL, CPMU and CPIUs on (i) communication/dissemination, (ii) screening and assessment of LGs/PDAMs proposals, (iii) monitoring, verification and evaluation of project implementation, and (iv) overall project management. Two regional-based Regional Management and Advisory Consultants (RMACs) will provide project management and implementation support to provincial POKJA AMPLs, provincial implementing units and to participating LGs/PDAMs, as well as coordinate with the TACT to facilitate LGs/PDAMs accessing the capacity building and training program. The RMAC will also oversee the Provincial Coordinators (PCs) and the Field Assistants (FAs) teams. Through this component, the project will support the government in monitoring and evaluation of operationalization of NUWAS Framework as a national platform program, not only in participating LGs/PDAMs.

Component Name:

Investment Support for Urban Water Supply Infrastructure Development

Comments (optional)

This component will support the Central Government in providing investment support to at least 40 LGs/PDAMs of varying performance/categories through the seed grants, performance-based grants and matching grants investment packages available under the framework. Bank financing will complement Central Government financing support for investment to be made accessible to LGs/PDAMs through the three types of grants and will be focused on supporting activities to improve quality and expand piped water supply services by improving operational efficiency and management of existing systems, ensuring the optimum utilization of the current systems prior to the development of new systems.

Component Name:

Technical Assistance and Capacity Building for Local Governments and PDAMs

Comments (optional)

This component is focused on supporting the capacity building of LGs, PDAMs and other stakeholders aimed at performance improvement in a range of technical, financial, commercial, managerial, human resources, and other areas.

Component 2a Capacity building and training. This component will support the central government to develop a structured and progressive capacity building and technical assistance program to build the capacity of local governments and PDAMs to improve water supply services, develop investment projects and access financing.

Component 2b Technical assistance. Under this project, a team of experts will be made available to provide technical assistance to LGs/PDAMs.

Component Name:

Advisory and Policy Development Support for Central Government

Comments (optional)

This component is focused on supporting the operationalization of urban water supply investment and service delivery improvement framework and roadmap. The component will support the development and/or strengthening of policies and instruments that forms the framework, including supporting the agencies that have the mandates and responsibilities for them.

Component Name:

Program Implementation and Management Support

Comments (optional)

This component will provide project management services to the implementing agencies at central, regional and local government levels.

E. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The exact locations for subprojects will be defined only during project implementation, thus an Environmental and Social Management Framework (ESMF) has been prepared as the safeguard instrument for this project. The ESMF provides a framework to guide the environmental and social screening, assessment, and management of subproject activities' potential impacts, including Land Acquisition and Involuntary Resettlement Policy Framework (LARPF), Indigenous People Policy Framework (IPPF), and chance find procedure and mitigation measures for Physical Cultural Resources (PCR). When the information is available, the proposed subprojects will be screened according to the ESMF and the specific safeguard instrument for each subproject will be prepared accordingly.

Bank funded activities under Component 1 will focus on improving efficiency of the existing piped water supply systems through reducing non-revenue water, improve energy efficiency and expand the services by installing new distribution lines and household connections in approximately 40 cities. The Bank will not provide direct financing for construction of new sources, water intake, transmission pipelines and water treatment plants. The Bank will indirectly finance the construction of new systems through the Matching Grant schemes developed to encourage LGs/PDAMs to mobilize domestic non-public finance. Eligible LGs/PDAMs could access any other funding mechanism to fund these new systems utilizing the technical assistance provided and facilitated under Component 2. The TA for these LGs/PDAMs will include support to prepare the projects to meet or to comply with good and acceptable safeguards standards per GOI and Bank policies. The TA component refers to the Bank's Interim Guidelines on the Application of Bank Safeguard Policies to Technical Assistance in Bank Finance Projects and Trust Funds Administered by the Bank (January 2014) wherein the terms of reference of these activities will be reviewed, assessed, and approved by the Bank. Environmental and Social Management Framework (ESMF) requirements will be applied to the subprojects, regardless of the source of financing for the subprojects. Safeguard requirements as described in the ESMF will be communicated to other potential financiers, as it will be applied. The other donors and/or financiers have been also invited in the public consultation.

Based on data from 367 PDAMs, there are only 74 PDAMs with total production capacity more than 500 l/s. Most PDAMs have multiple production units, usually they have one or two main treatment plants/production units and several smaller systems. Thus, even when their total production capacity is more than 500 l/s, the size of single unit treatment plant is mostly below 500 l/s. Most of the big water treatment plants (single unit capacity of more than 500 l/s) were built during the period of 1980s and early 90s or even before. Only metropolitan cities have treatment plants with capacity more than 1,000 l/s in single production unit. In the last decade, the size of new treatment plants in general is less than 500 l/s, average size is within the range of 100-200 l/s. For big cities, the new water treatment plants were mainly to have additional production capacity to provide services to the areas previously not served by the big treatment plants. It is also more difficult for cities to find large capacity of water sources within their administration area and the procedure to get permit for new water abstraction for more than 500 l/s is more complicated. In fact, the BBWS (the Agency of River Area under the Ministry of Public Works and Housing) is very rarely to issue permit for water abstraction for more than 500 l/s to a single PDAM, especially in Java and Bali. Cities have to consider getting bulk water supply from the regional systems.

The focus of the project is in improving operational efficiency, especially in reducing water losses and optimal utilization of existing systems, combined with technical assistance to PDAMs and LGs in water demand management. This will also reduce/postpone the need of big capital investment in building new production units.

Based on project design, there is no minimum and/or maximum of the size of eligible cities/urban areas. The grouping/categorization is based on PDAM performance and LG's fiscal capacity.

F. Environmental and Social Safeguards Specialists

Agustina Parwitosari, Environmental Safeguards Specialist

Alkadevi Morarji Patel, Social Safeguards Specialist

Krisnan Pitradjaja Isomartana, Environmental Safeguards Specialist

Sulistiowati Ms., Social Safeguards Specialist

Virza S. Sasmitawidjaja, Environmental Safeguards Specialist

II. IMPLEMENTATION

The Directorate General of Cipta Karya (DGCK) of the MoPWH will be the executing agency and will be responsible for the procurement and management of all Bank-financed contracts, financial management of loan proceeds, and subproject implementation in accordance with ESMF. A Central Project Management Unit (CPMU) will be established in the DGCK to manage and coordinate the input of the Technical Team of POKJA AMPL and the Central Project Implementing Unit (CPIU) which will be established in the MOHA. The CPMU will be supported by a combination of Central Management Consultant (CMC), Technical Assistance and Capacity Building Team (TACT), and Regional Management and Advisory Consultant (RMACs), including Provincial Coordinators and Field Assistants.

The existing Water and Sanitation National Steering Committee (POKJA AMPL), chaired by the Deputy Minister of Regional Development in the Ministry of Planning/National Planning Agency (BAPPENAS) will provide the overall policy guidance during the implementation of the project. The Steering Committee is also expected to coordinate and consolidate the views of various ministries and agencies in charge of water supply development.

The roles and responsibilities of each institution and consultants concerning safeguards are summarized below:

CPMU, supported by CMC:

- Review and approve safeguards instruments/assessments;
- Monitor the overall environmental and social safeguard implementation in accordance with ESMF;
- Consolidate project reports and submission to the Bank
- Prepare technical guidance for project implementation.

CPIU, supported by CMC and TACT:

- Review safeguards instruments/assessments;
- Assist in the capacity and institutional development of PPIUs and DPIUs;
- Manage procurement of consultants and contractors for project implementation and include environmental and social specification in the bidding documents and contracts for construction contractors;
- Assist in the implementation of ESMF and the related capacity building.

PPIUs, supported by RMACs:

- Monitor, supervise and report on the implementation of the ESMF and the required instruments for their respective DPIUs;
- Work closely with CPIU and DPIUs for annual coordination (budget, business plan, capacity building plan);
- Support CPMU in overseeing project implementation in line with requirements in the ESMF.

DPIUs, supported by Technical Specialist and Field Assistant Teams of the RMACs:

- Conduct environmental and social screening of subprojects and prepare the assessment and mitigation plan in accordance with ESMF;
- Record and manage complaints from communities in line with GRM;

- Participate in the safeguard capacity building;
- Ensure the bidding documents and construction contracts include the environmental and social specification.

III. SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>This project investment under Component 1 will focus on improving efficiency of the existing piped water supply systems through rehabilitation of distribution systems, treated water pumping stations, transmission networks, water intake, pre-treatment and water treatment facilities and expand the services by installing new distribution lines and household connections. The Bank will not directly finance construction of new water sources and new water treatment plants (WTPs).</p> <p>The Bank financing will indirectly linked to the construction of new systems through the Matching Grant schemes developed to encourage LGs/PDAMs to mobilize domestic non-public finance and through provision of technical assistance to eligible LGs/PDAMs in developing project proposals to be funded by these non-public investments (under Component 2). However, even under this scheme, the Matching Grant can be utilized only for activities that will improve efficiency and for optimal operation (i.e. for NRW reduction, energy efficiency program and expansion of distribution networks), and cannot be used to build new water sources.</p> <p>The proposed investments would primarily affect localized areas at or around the sites of facilities subject to physical works. Collateral environmental impacts mainly result from activities around construction, rehabilitation and operation of WTPs facilities and their auxiliaries, which could range from construction of new treatment facilities, water intake activity, operations of the WTPs, etc. The potential temporary environmental impacts could be on water pollution and health issues from poor sludge management, water resources scarcity due to increased water</p>

	<p>intake/demand, impacts and risks associated with leakage and spills of chlorine and other chemicals, dust, noise, vibration of the new WTPs construction activities. On the rehabilitation and expansion of transmission and distribution pipelines, construction activities could also have temporary social impact due to temporary access restrictions and temporary closure of roads and/or traffic disruption, dust, vibration and noise during piping installation works. All of these potential impacts can be localized and mitigated. The project is unlikely to have significant irreversible adverse environmental impacts that are sensitive, diverse or unprecedented.</p> <p>The disposal of sludge and sediments generated from the treatment process of new WTPs will be conducted in observance to the national requirements and comply with the Bank's policies.</p> <p>With the considerations above, the EA safeguard documents and provisions applicable to this project are as follows:</p> <p>(i) For investment activities that will remain undefined or whose locations cannot be determined during the project preparation, a stand-alone Environmental and Social Management Framework (ESMF) document has been prepared by the CPMU, consulted with the relevant stakeholders (public consultation was held on March 8, 2017), and cleared by the Bank by appraisal. The ESMF included the result of public consultations and it has been disclosed in the Infoshop on October 1, 2017.</p> <p>(ii) Activities under Component 2b (TA to develop proposals that could be used to access financial support from any available and suitable funding mechanism) refers to the Bank's Interim Guidelines on the Application of Safeguard Policies to Technical Assistance (TA) Activities in Bank Finance Projects and Trust Funds Administered by the Bank (January 2014) wherein the terms of reference of these activities (feasibility studies and detailed engineering designs) will be reviewed, assessed and approved by the Bank</p>
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		<p>accordingly. This has been defined in the ESMF.</p> <p>Based on the characteristics of the activities to be implemented under Component 1 and results of site visits by safeguard specialists to the typical urban water supply projects, the subprojects are unlikely to have significant, irreversible and adverse environmental impacts that are sensitive, diverse or unprecedented. Considering that project's impacts will be temporary and site specific, and they could be managed locally and mostly could be mitigated with appropriate mitigation measures, this project is proposed to be a Category B project.</p>
Natural Habitats OP/BP 4.04	No	<p>The project activities will take place in urban areas or already developed land/areas where the environment has been already affected by other human activities. Thus, no activities will be implemented in the critical natural habitats as defined by the policy.</p> <p>The project shall not finance any subprojects that will cause significant conversion or degradation to natural habitats and critical natural habitats.</p>
Forests OP/BP 4.36	No	The project will not finance activities that involve significant conversion or degradation of critical forest areas or related critical forest areas or natural forests as defined under the policy.
Pest Management OP 4.09	No	The project will not procure any pesticides, nor lead to the use of pesticides due to the nature of project activities.
Physical Cultural Resources OP/BP 4.11	Yes	It is highly unlikely that project activities will have an impact on PCR as most physical works will be located in the existing areas that are already developed, and no large construction and excavation activities are expected. However, since the exact project locations are yet to be defined, identification of the likely activities affecting archaeological, paleontological, historical, religious or unique natural values would be done for the subprojects once their locations are defined, following the screening process in the ESMF. The chance find procedure and mitigation measures for PCR has been

		included in the ESMF, and the standard appropriate clauses regarding the procedures to be followed in the event of chance finds of significant artifacts will be also included in construction contracts.
Indigenous Peoples OP/BP 4.10	Yes	<p>An Indigenous People Planning Framework (IPPF) has been developed to guide preparation of the appropriate instruments, should the presence of indigenous communities be identified in the proposed subproject sites during project implementation.</p> <p>The IPPF, as an integral part of the ESMF, provides guidance to screen the IP presence by using EGiMap tools (World Bank IPs Screening Study (2010) and to develop the Indigenous People Plan (IPP) in the subproject sites.</p> <p>The IPPF was consulted with relevant stakeholders on March 8, 2017 along with public consultation for ESMF and LARPF and disclosed on the DGCK website (www.ciptakarya.pu.go.id) on March 1, 2017 as well as through the Infoshop on March 3, 2017.</p>
Involuntary Resettlement OP/BP 4.12	Yes	<p>The exact locations for subprojects will be defined only during project implementation, thus and Environmental and Social Management Framework (ESMF) has been prepared as the safeguard instrument for this project. Most physical construction activities will be carried out in existing areas owned by LGs/PDAMs. However, relatively small land acquisition outside PDAM or LG owned land may be required for new construction and/or expansion of water supply infrastructure facilities. In the event that land acquisition is foreseen, the borrower prepares a LARPF and once sub-project sites have been identified, a stand-alone LARAP will be needed.</p> <p>The LARPF was consulted with relevant stakeholders on March 8, 2017 along with public consultation for ESMF and IPPF and disclosed on the DGCK website (www.ciptakarya.pu.go.id) on March 1, 2017 as well as through the Infoshop on March 3,</p>

		2017.
Safety of Dams OP/BP 4.37	No	<p>The project will exclude water source from existing dams (small or large) or dams under construction.</p> <p>The project will not finance (i) the activities that take water from an existing dam or a dam under construction; (ii) the activities that rely on the performance of an existing dam or dam under construction; (iii) water supply systems that draw directly from a reservoir controlled by an existing dam or a dam under construction; diversion dams or hydraulic structures downstream from an existing dam or dam under construction, where failure of the upstream dam could cause extensive damage to or failure of NUWSP subproject; (iv) water supply projects that will depend on the storage and operation of an existing dam or a DUC for their supply of water and could not function if the dam failed.</p>
Projects on International Waterways OP/BP 7.50	No	Project sites are not expected to affect international waterways. The proposed water supply systems rely on sources that are linked to rivers or springs inside the country. The additional amount of water to be extracted due to project interventions will be in line with the allowable amount and approved by relevant government authority.
Projects in Disputed Areas OP/BP 7.60	No	The project is not located in any known disputed areas as defined under the policy.

IV. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

Activities to be implemented under Component 1 of this project (construction of infrastructure) will include mainly rehabilitation and/or expansion of existing water supply infrastructure (e.g., distribution systems, distribution pumping stations and reservoirs, transmission pipelines, water intake, and water treatment facilities).

Under Component 2b, the project will provide technical assistance to LGs and PDAMs to prepare feasibility studies and proposals to access funding from any domestically available and suitable funding mechanisms to finance new water supply infrastructure development. The technical assistance may potentially create environmental and social impacts as a result of downstream project investments. The scope of project proposal could be similar to activities under Component 1 and/or new water treatment plant and its auxiliaries in urban/peri-urban

areas. However, the Bank will not finance the investments for new water supply infrastructure.

The proposed investments would primarily affect only localized areas at or around the sites of facilities subject to physical works. Environmental and social impacts of the project will mainly result from activities around construction, rehabilitation and operation of existing WTPs facilities and their auxiliaries, which could range from construction of water intake activity, operations of the WTPs, etc. The project does not anticipate large-scale land acquisition and is unlikely to have significant irreversible adverse and cumulative environmental impacts that are sensitive, diverse or unprecedented.

The overall results of the project will be to improve access to water supply in selected urban areas. Hence it will improve the quality of life of the community.

The project funds physical investments to improve operation efficiency of existing urban water supply systems which may have temporary and localized impacts. Thus, no potential large scale, significant, irreversible and cumulative environmental and social impacts are anticipated.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

In the long term, the project will provide positive impacts to the quality of life of the beneficiaries. The positive impacts include: (i) improved quantity and quality of water access, (ii) reduced incidents of water borne diseases, and (iii) more convenient access to clean and safe water at home allowing more productive time for adults and more time for children to learn and play.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

Not applicable

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

As all sub-projects sites will be identified during the project implementation phase, a framework approach has been adopted for the project. The Environmental and Social Management Framework (ESMF), as well as the Land Acquisition and Resettlement Policy Framework (LARPF) and Indigenous Peoples Planning Framework (IPPF) have been prepared to anticipate activities that may involve land acquisition temporarily or permanently or activities that take place in the area where indigenous communities are present.

The ESMF provides guidance for environmental and social safeguard screening during project implementation to assess any potential environmental and social impacts. The LARPF provides guidance for the preparation of Land Acquisition and Resettlement Action Plan (LARAP) during project implementation including the tracer study to document the acquisition and resettlement process in case the land was acquired between the project preparation until the effectiveness of the loan. The IPPF provides guidance for the screening of indigenous communities in the project area and the preparation of Indigenous Peoples Plan

(IPP) if the subproject proposed during project implementation will affect indigenous communities. A Grievance Redress Mechanism (GRM) is incorporated in the ESMF with the responsible units/individuals being set up/assigned at every level of project implementing units including at the LG/PDAM level.

The CPMU will be established under Directorate General Cipta Karya of MoPWH, lead by the Directorate of Drinking Water Supply Development. The CPMU will be responsible for implementation of environmental and social safeguards (ESMF) and in ensuring the ESMF is adopted by CPIUs, PPIUs and DPIUs (all relevant stakeholders of the project). At the Central Level, the CPMU and CPIUs will be supported by the Safeguards Specialist of the CMC (Central Management Consultant) in monitoring and overseeing implementation of ESMF while the TACT (Technical Assistance and Capacity Building Team) will assist CPMU in organizing and arrangement of safeguards training activities. To support PPIUs, the two RMACs (Regional Management and Advisory Consultants) will also have safeguards specialists embedded at their team. At the local government level and to assist DPIUs, the Technical Specialist of the Field Assistant Team will be responsible in providing safeguard support to the DPIUs.

To have better understanding on the ESMF, capacity building on safeguards aspects will be conducted in regular (at least once a year) basis for the relevant stakeholders, including for the consultants, started with the Safeguard Training as part of the Project Launching Workshops.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

The main project beneficiaries are households in the urban population in the selected municipalities and districts which will benefit from the improvement and expansion of urban water supply systems financed by the project; and those downstream communities as project affected people that are at risk because of land acquisition; in addition to indigenous communities that may get benefit or are at risk due to the subproject activity.

Other key stakeholders at the Central level are: DG Cipta Karya as Executing Agency and CPMU, the Water and Sanitation National Steering Committee (Pokja AMPL, that include BAPPENAS and MOF), CPIUs, and project consultants (CMC, and TACT) assisting the CPMU and CPIUs.

At the regional and local level, the key stakeholders are: PPIUs, DPIUs (Local Governments, PDAMs), and project consultants (RMACs that also include some technical specialists, Provincial Coordinators, and Field Assistant Teams).

The CPMU already prepared an ESMF and stakeholder consultation was conducted on March 8, 2017. Participants for the stakeholder consultation included representatives from participating LGs/PDAMs, NGOs, academics, practitioners, donors/donors' water programs, CPMU and CPIUs staff, as well as PPIUs. The Draft ESMF in Bahasa version was disclosed in the DGCK website (Bahasa Version) on March 1, 2017. The Draft ESMF in English version was also disclosed in the Infoshop on March 3, 2017.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other	
Date of receipt by the Bank	02-Mar-2017
Date of submission to InfoShop	03-Mar-2017
For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors	
"In country" Disclosure	
Indonesia	01-Mar-2017
<i>Comments:</i> Draft ESMF (Bahasa Version) is disclosed in DGCK's website	
Resettlement Action Plan/Framework/Policy Process	
Date of receipt by the Bank	02-Mar-2017
Date of submission to InfoShop	03-Mar-2017
"In country" Disclosure	
Indonesia	01-Mar-2017
<i>Comments:</i> Bahasa version is disclosed in DGCK's website as part of Draft ESMF	
Indigenous Peoples Development Plan/Framework	
Date of receipt by the Bank	02-Mar-2017
Date of submission to InfoShop	03-Mar-2017
"In country" Disclosure	
Indonesia	01-Mar-2017
<i>Comments:</i> Bahasa version is disclosed in DGCK's website as part of Draft ESMF	
If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.	
If in-country disclosure of any of the above documents is not expected, please explain why::	

C. Compliance Monitoring Indicators at the Corporate Level

OP/BP/GP 4.01 - Environment Assessment						
Does the project require a stand-alone EA (including EMP) report?	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>	NA	<input type="checkbox"/>
If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>	NA	<input type="checkbox"/>
Are the cost and the accountabilities for the EMP incorporated in the credit/loan?	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>	NA	<input type="checkbox"/>

OP/BP 4.11 - Physical Cultural Resources						
Does the EA include adequate measures related to cultural property?	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>	NA	<input type="checkbox"/>
Does the credit/loan incorporate mechanisms to mitigate the potential adverse impacts on cultural property?	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>	NA	<input type="checkbox"/>
OP/BP 4.10 - Indigenous Peoples						
Has a separate Indigenous Peoples Plan/Planning Framework (as appropriate) been prepared in consultation with affected Indigenous Peoples?	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>	NA	<input type="checkbox"/>
If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>	NA	<input type="checkbox"/>
If the whole project is designed to benefit IP, has the design been reviewed and approved by the Regional Social Development Unit or Practice Manager?	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>	NA	<input type="checkbox"/>
OP/BP 4.12 - Involuntary Resettlement						
Has a resettlement plan/abbreviated plan/policy framework/process framework (as appropriate) been prepared?	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>	NA	<input type="checkbox"/>
If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>	NA	<input type="checkbox"/>
Is physical displacement/relocation expected?	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>	TBD	<input type="checkbox"/>
100 Provide estimated number of people affected to date, or to be affected.						
Is economic displacement expected? (loss of assets or access to assets that leads to loss of income sources or other means of livelihoods)	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>	TBD	<input type="checkbox"/>
100 Provide estimated number of people affected to date, or to be affected.						
The World Bank Policy on Disclosure of Information						
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>	NA	<input type="checkbox"/>
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>	NA	<input type="checkbox"/>

project-affected groups and local NGOs?						
All Safeguard Policies						
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>	NA	<input type="checkbox"/>
Have costs related to safeguard policy measures been included in the project cost?	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>	NA	<input type="checkbox"/>
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>	NA	<input type="checkbox"/>
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>	NA	<input type="checkbox"/>

V. Contact point

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VII. Approval

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<i>Approved By:</i>		
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Country Director:	Name: Rolande Simone Pryce (CD)	Date: 29-Oct-2017