

# Independent Evaluation of the Water and Sanitation Hibah Program Indonesia



## DRAFT: Final Evaluation Report

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- Local Governments and PDAMs in Klaten, Surakarta, Wonogiri, Banjarnasin, and Banjarbaru
- Indonesian Infrastructure Initiative (IndII)
- Water Supply and Sanitation Formulation and Action Planning Facility
- World Bank
- Asian Development Bank
- USAID

## Glossary

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|             |  |
|-------------|--|
| AusAID      | Australian Government Aid Program  |
| ADB         | Asian Development Bank   |
| ABPN        | National State Budget  |
| APBD        | Regional Budget  |
| Bappenas    | The National Development Planning Agency   |
| Cipta Karya | Directorate General of Human Settlements,<br>Ministry of Public Works                      |
| CPMU        | Central Project Management Unit  |
| DAK         | Specific Allocation Fund   |
| DAU         | General Allocation Fund  |
| DFA         | Direct Funding Agreement   |
| DGHS        | Directorate General of Human Settlements   |
| DIPA        | Budget Execution Document  |
| DPPA        | Revised Budget Execution Document  |
| GPOBA       | Global Partnership for Output-Based Aid  |
| GoA         | Government of Australia  |
| Gol         | Government of Indonesia  |
| IndII       | Indonesian Infrastructure Initiative   |
| KDH         | Mayor / Head of Region   |
| LG          | Local Government   |
| M&E         | Monitoring and Evaluation  |
| MBR         | Low-Income Household   |
| MDG         | Millennium Development Goal  |
| MoF         | Ministry of Finance  |
| MoU         | Memorandum of Understanding  |
| NPPH        | On-Granting Agreement  |
| OBA         | Output-Based Aid   |
| PAMSIMAS    | Program Air Minum Sanitasi Masyarakat<br>(Community Based Water and Sanitation<br>Program) |
| PDAM        | Local Government-owned Water Company   |
| PD PAL      | Local Government Wastewater Company  |
| PERPAMSI    | Water Supply Association   |

|         |   |
|---------|---|
| RK      | Rencana Komprehensif (Comprehensive Plan)                                   |
| RT      | Rencana Tahunan (Annual Plan)   |
| SME     | Small-Medium sized Enterprise   |
| SP2D    | Official Check for Payment  |
| SPH     | Surat Penetaphkan Hibah (Notice of Grant Award) (Letter)                    |
| SPM     | Payment Request Letter  |
| SPP     | Payment Authorization Letter  |
| USAID   | United States of America Aid Program  |
| WASPOLA | Water Supply and Sanitation Policy Formulation and Action Planning Facility |
| WATSAN  | Water and Sanitation  |
| WSI     | Water and Sanitation Initiative   |

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# Executive Summary

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From June 2010 – June 2011, the Government of Indonesia (GoI) and AusAID have been supporting an innovative program, piloting an output-based funding mechanism for water and sanitation activities in Indonesia. The program has built on a previous trial by the Global Partnership for Output-Based Aid. The Water and Sanitation Hibah Program ('hibah program') operates by paying an agreed amount for verified connections of households to water or sanitation services, installed by local water and sanitation utilities (PDAMs). It is being implemented by GoI with support from the Indonesian Infrastructure Facility (IndII), on behalf of GoI and AusAID. The program particularly targets low-income households and makes connections from excess capacity in PDAMs so infrastructure investment is not necessary.

Key stakeholders view the program as very successful, a view endorsed by this evaluation team. Both this program specifically and the funding mechanism more generally hold further potential in assisting Indonesia to make increased progress on achieving their Millennium Development Goals (MDGs) and other development related targets. This mechanism provides a more efficient and effective way for donors to fund activities that support these goals.

## Purpose and approach

There are three purposes for this evaluation:

1. To assess whether the hibah program achieved its targeted outputs and outcomes.
2. To assess the performance of the hibah mechanism, including its effectiveness, efficiency, and sustainability.
3. To identify lessons learned for the water and sanitation sector and more generally.

The key stakeholders and/or users of this evaluation include the GoI, AusAID, local governments (LGs) and IndII. Other key users are likely to include the World Bank, Asian Development Bank and USAID.

The methodological approach used was a Rapid Evaluation Appraisal Method<sup>1</sup> mixed-method evaluation. Information was gathered from a document review, key informant interviews (with GoI central government agencies, AusAID, IndII, sector organisations and other donors), a key stakeholder workshop, field work and a beneficiary survey. Quantitative connections data was obtained from existing sources. Field work was undertaken in five selected locations: Klaten, Solo, Wonogiri, Banjarmasin and Banjar Baru. Interviews with LG and PDAM officials, field observations and a small sample beneficiary impact survey were conducted in each location, to better understand emerging impacts. These locations were selected to provide a mix of high and moderate performing PDAMs and LGs.

## Findings and lessons learned

### *Key water and sanitation outputs and outcomes achieved*

- The number of household connections for water is in line with targets and is being exceeded in 10 locations. Sanitation connections are also in line with targets but are proving to be more challenging due to infrastructure requirements.
- Interviews with households showed positive emerging impacts on beneficiaries. For water, these include access to better quality and cheaper water, substantial time savings in accessing and treating water, and health improvements. For sanitation connections there were improvements in the local environment. Households also report a reduction in odours and less pooling of stagnant water, which should reduce the incidence of vector-borne diseases (dengue and malaria). Women and disabled/elder people were found to be significant beneficiaries of the program. Beneficiaries want to stay connected to water or sanitation services, as long as they remained affordable.

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<sup>1</sup>Beebe, J. (2001). *Rapid assessment process – an introduction*. Oxford: Altamira Press.



- Neither LGs nor IndII have dictated what approach PDAMs should take in implementation. This has led to innovation to meet local needs as PDAMs have been flexible in their costings, pricing approach and marketing.
- In future, a combination of capital works and output-based modalities will be required as complementary capital investment in infrastructure is necessary in some areas to increase system capacity and service coverage.

#### *Operation of the hibah mechanism*

- Overall the hibah is an effective mechanism for on-granting to LGs and for increasing service coverage by PDAMs. There is significant interest and support for this output-based modality by the Indonesian central and local government.
- There has been more effective coordination between central government agencies (Cipta Karya - Ministry of Public Works, Ministry of Finance , Bappenas), local governments and IndII.
- Overall, the mechanism is effective but further clarity is required to enhance the processes and sequencing of components.
- The selection of higher performing LGs and PDAMs was necessary in this pilot to ensure its success. However modification to the program will be necessary in future to widen the capacity of the program to reach low-income households in less financially healthy PDAMs.

#### *Operation of the hibah program*

- IndII currently has a project modality but there is a request from stakeholders to adopt a more strategic focus. Embedding the hibah mechanism in Gol systems with IndII taking an implementation support role with Cipta Karya should be considered. This requires further consideration and planning.
- The M&E approach is fragmented and the activities are limited in some areas. The M&E approach requires improvements to meet stakeholder information needs particularly in assessing impacts, as well as examining the program, the mechanism and contributions to the sector's monitoring.

### **Evaluative judgement, conclusions, and recommendations**

Overall, this report found the hibah program to be highly successful, and judged its efficiency and effectiveness as *excellent* based on merit criteria developed as part of this evaluation. The program's sustainability was judged to be *good*, with scope for the program to achieve excellence on this measure in future phases. The success of this program has resulted in extremely strong interest and support by key stakeholders particularly Gol. This pilot has generated significant interest from other donors (such as the World Bank and the ADB) in utilising the mechanism to channel funding. For this reason, the recommendations in this report should be considered carefully, to ensure the ongoing success of both this program, and the funding mechanism itself. Particular consideration should be given to the following:

- Process-related evaluation activities are required to assess the capacity of implementing organisations at each step of the mechanism.
- Future programs need to: be better aligned to the budget cycle; have greater flexibility in funding arrangements (to permit infrastructure development) and to allow other PDAMs to qualify; run over a longer term to permit LGs better plan for activities in this sector; and include more support for capacity development of LGs and PDAMs.
- M&E activities need to be extended and better linked to sectoral monitoring activities.
- Community education activities need be expanded to include water and sanitation hygiene behaviour change modules, as well as information on mitigating environmental impacts.
- Scoping and assessment of processes and capacity will be important prior to application of the hibah mechanism in other sectors.
- A water and sanitation implementation group could be established, reporting to the Water and Sanitation Working Group. All relevant sector activities including support for PERPAMSI programs to build capacity of PDAMs need to be identified, which could be linked to the water and sanitation hibah program.

# 1. Introduction

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This evaluation of the pilot Indonesian water and sanitation hibah had three objectives:

1. To assess whether the hibah program achieved its targeted outputs and outcomes.
2. To assess the performance of the hibah mechanism, including the effectiveness, efficiency, and sustainability of the mechanism.
3. To identify lessons learned for the water and sanitation sector and more generally.

The key stakeholders of this evaluation include the Gol, AusAID, the Indonesia Infrastructure Initiative (IndII) (managing contractor for this program), and Indonesian local governments and water utilities (PDAMs). USAID, the ADB and the World Bank are also expected to utilise the information contained in this evaluation.

This evaluation of the water and sanitation hibahs will be used to inform the following management decisions:

1. What changes, if any, can be made to a second phase of the program to make it more efficient, effective and sustainable.
2. Whether the hibah mechanism is an efficient and effective means of delivering funding to local governments for other projects.
3. What resources and actions must be allocated and/or undertaken by AusAID for an impact evaluation on the hibah program to be undertaken in approximately five years' time.

## 1.1 Background

Access to 'safe' water and 'adequate' sanitation in Indonesia is generally poor. The Gol is highly motivated to achieve its MDGs for this sector, although they have recognised that this will be challenging. Problems with infrastructure development are critical to this. Access to piped sewerage is one of the lowest in the region (less than 1 per cent of urban residents have access), with only 11 cities having piped sewerage infrastructure. Access to piped water has decreased from 39 per cent to 31 per cent in urban areas due to rapid growth. Affordability of connection to these services poses another barrier.

As a consequence of the development and management of infrastructure in Indonesia historically, water and sanitation utility companies can generally be characterised as:

- heavily indebted and unable to borrow
- in need of investment to upgrade and expand services
- having poor coordination and sometimes dysfunctional relationships between PDAMs, the LGs that own/fund them, and the central government (that also provides funding)
- lacking a commercial and customer focus
- having human resource capacity/management issues.

There is a drive to support aid that incentivises improvements in the fiscal position of PDAMs, and stimulates investment in WATSAN infrastructure, particularly in urban areas, where population growth is rapid. Ensuring affordability of connection to these services is also a factor that needs to be addressed. The hibah program is based on the concept of output-based aid<sup>2</sup>, and evolved from a pilot program in Jakarta by the Global Partnership for Output-based Aid (GPOBA). The development of this program occurred in close collaboration with the Gol, with important policy reform and legislative change occurring. This passing of the Ministry of Finance (MoF) regulations 168 and 169/2008 now enables aid to be channelled directly to the local level. This is where responsibility for municipal infrastructure development lies and where funding is needed.

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<sup>2</sup> where payment is made on the basis of proven outputs or results

The Water and Sanitation Initiative (WSI) budget measure was announced in the 2008-09 Australian federal budget with funding of \$300 million. The Indonesia program is the single largest beneficiary with a \$60.5 million allocation. The Indonesian allocation for this WSI is composed of three key programs, the most significant being \$25 million for a water and sanitation incentive grants (*hibah*<sup>3</sup>) program to stimulate increased local government investment in piped water supplies and sewerage systems in poor communities<sup>4</sup>. This program (referred to below as the “hibah program”) is the subject of this evaluation.

The hibah program has piloted an innovative payment mechanism based on an output-based approach. Essentially, the approach encourages local governments (LGs) to invest in their urban water utilities (PDAMs) to expand their water network through new water connections (with a focus on low-income households). Each LG is paid upon completion and independent verification of new household water connections that have been functioning for at least three months. The same principles apply to the sanitation/sewerage component of the program. The program represents a completely new approach, and was developed by AusAID and IndII, with close engagement with Indonesia’s MoF and Ministry for Public Works (MPW). Following a peer review of the program, it was agreed that IndII would act as the implementing agency, due to the close alignment between their activities and those of the hibah program. IndII’s activities also focused on leveraging improvements in the design and use, and execution of Gol investment in the WATSAN sector.

According to the hibah program design document, the high-level outcome of the hibah program is to increase investment from participating LGs in their respective water and sanitation utilities as a first step towards greater responsibility by LGs for water and sanitation services. The key outputs of the program were planned as:

1. Up to a maximum of 70,000 household water connections of which approximately 50 per cent were to be poor households; and
2. Up to a maximum of 10,000 household wastewater connections of which approximately 50 per cent were to be poor households.

A Direct Funding Agreement (DFA) between the Government of Australia (GoA) and the Gol was signed in May 2010. Water connection construction started in June 2010 with an end date of June 2011.

Whilst the hibah program is relatively young in terms of implementation, it has caught the attention of other donors, notably USAID and the multilateral development banks (World Bank and Asian Development Bank). AusAID and USAID will soon enter into an agreement that outlines USAID’s contribution of USD10 million to expand the water hibah into new districts. The money will be transferred to the Special Account AusAID has established in Bank Indonesia and will be managed by the IndII facility. The multilateral development banks are interested in using the hibah mechanism as a possible means of disbursing future loans to LGs.

Given the hibah mechanism’s apparent success so far and the promising results of other output-based aid projects implemented by GPOBA, Gol and AusAID are considering whether the hibah mechanism can be used in other sectors in Indonesia, primarily in road maintenance and more generally, in other country programs and sectors.

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<sup>3</sup>*Hibah* means grant in Bahasa Indonesia. In the context of the water and sanitation initiative, it refers to an outputs-based mechanism where funds are transferred to a Bank of Indonesia Special Account by AusAID and then disbursed to local governments by the Indonesian Ministry of Finance after independent verification of agreed outputs, in this case, water or sewerage connections.

<sup>4</sup> Other WSI programs include: \$22.5 million for the World Bank’s Water and Sanitation in Low-income Communities (PAMSIMAS) program to expand water and sanitation in rural villages; and \$9 million to support the preparation of high standard sanitation investment plans for eight cities. Separate independent reviews will be conducted on these WSI programs.

## 1.1.1 Situating WATSAN in decentralisation and public finance developments

### Decentralisation

The take up of the hibah in large part reflects the incentives of Indonesia's decentralisation governance and public finance framework. Some background on this framework helps explain how the hibah has worked.

Indonesia had a highly centralised system of governance in the Suharto period. Agencies of the central government essentially provided most public services in a deconcentrated fashion. This involves using localised service delivery units that were accountable for their finances and performance to the central government. Good local services relied on the performance and quality of central government policymaking and resource allocation decisions.

In 1999, the central government rapidly created a system of provinces and local governments with substantial expenditure responsibilities and service delivery mandates. Some elements were adjusted in 2004. This was a rapid decentralisation, primarily reflecting a need to facilitate much greater local control over public services and spending, given such a politically and ethnically diverse archipelago. Improving service delivery was a secondary objective to loosening the political pressure valve. Therefore, the framework for decentralisation and details on how sub-national governments are expected to deliver services are still a work in progress. Many observers regard the framework as needing a lot of work<sup>5</sup>. Better performing regions with more responsive governments and leaders have been able to chart their own course and take the initiative. The hibah approach has relied on working with these better performing districts.

### WATSAN policy environment

For WATSAN, the 1999 decentralisation law effectively handed over responsibility for water supply to local governments. In urban areas, this is the responsibility of local government-owned PDAMs. There are approximately 350 PDAMs in Indonesia. Most PDAMs are small, with fewer than 10,000 connections: only four per cent have more than 50 000 connections (AusAID 2009).

The allocation of policy responsibilities in the WATSAN sector is fragmented. The Ministry of Health is responsible for water quality issues for potable water, and sometimes rural services. Ministry of Public Works is the Gol technical agency responsible for the water sector. The Ministry for Home Affairs has a role in administrative matters, for example setting the organisation structure for different size PDAMs, and setting tariff guidelines. Bappenas has a role in national economic planning giving it planning approval over ministry budgets. However it has no authority to initiate sectoral interventions. Put together, the various policy elements under each agency's purview are focussed on integrated and sustainable water resources management. There is a water supply and environmental sanitation working group that coordinates between government, donors and other stakeholders.

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<sup>5</sup>For example, Fadliya and Mcleod (2011) argue that "...the decentralisation framework lacks clarity as to the objectives it was intended to serve, resulting in a number of seemingly undesirable outcomes. One such is the fragmentation of the Indonesian polity through widespread splitting of provinces and districts. Another is that there are huge differences among jurisdictions in the levels of per capita transfers, implying that recipient governments end up with vastly differing capacities to provide services such as education and health to their citizens. Although the relevant law and regulations have already been modified to some extent, the changes fall well short of the far-reaching adjustments needed if the scheme is to serve Indonesia's needs into the future."

## PDAM financial situation

With regard to the PDAMs, the Ministry of Home Affairs has issued a decree stipulating that tariffs should fully recover costs with a rate of return of 10 percent. It also permits PDAMs to charge more to commercial and industrial users. However, the evidence is that few utilities recover their costs. A 2005 study by the Ministry of Public Works found that most PDAMs faced financial problems (Hadipuro, 2005), yet only a third increased tariffs between 1998 and 2005. Many PDAMs had sizeable domestic loans. Some had defaulted on loans from the Ministry of Finance. There has been a renegotiation of some of these loans, but until this is fully resolved, many PDAMs cannot borrow from the central government to expand their networks. The hibah is working solely with local governments that meet DGHS criteria, where PDAMs have to be free of debt arrears or have qualified for the MoF debt restructuring program.

With the financial squeeze, the only other sources of financing for maintenance or expansion for PDAMS are:

- Central government matching grants (hibah) to regional governments
- Central government Special Allocation Fund (DAK)<sup>6</sup>
- Grants by the Ministry of Public Works for raw water supply and treatment
- Capital provided by the local government.

Even with greater resourcing from these sources, investment would need to increase sharply to keep pace with burgeoning demand. The ADB, among others, has concluded that investments in WATSAN remain far lower than those made in other comparable middle-income countries.

## 1.2 Evaluation objectives

Four evaluation objectives guided this evaluation. These objectives permitted judgements to be made regarding the effectiveness, efficiency and sustainability of the program. These were:

1. To outline the intent of the hibah program including the identification of the intended outputs and outcomes.
2. To describe the implementation of the hibah program.
3. To assess the progress towards the intended outputs and outcomes of the hibah program.
4. To identify relevant lessons learned that will be valuable for future related projects.

To meet these evaluation objectives, a number of information objectives/evaluation questions were examined. These are summarised for each objective in Table 1.

## 1.3 Methodology and analysis

The methodological approach used was a mixed-method evaluation, based on the Rapid Evaluation Appraisal Method<sup>7</sup>. This approach focuses on selecting data collection methods which enable the collection of robust data within a short time-frame. Both quantitative and qualitative research methods and a thematic analysis were used for this evaluation. Specific details for each research method are provided in the sections below.

The evaluation was conducted using a collaborative, consultative, and adaptive approach, which strengthened the methodology, as did the make-up of the evaluation team (Appendix 7.1, also see Figure 1). At the start of the fieldwork in Indonesia, a workshop was held with key stakeholders to discuss and confirm the scope of the evaluation. Stakeholders requested a major focus of this evaluation to be on the processes involved in the water and sanitation hibah program to assist in their understanding of the hibah mechanism. Consequently, the focus of the evaluation was adapted in response to this request.

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<sup>6</sup> This amounts to approximately 2.5 per cent of the national budget. About 5 per cent was directed towards the water supply sector in 2009, concentrated in village community-based systems (Woodward 2009)

<sup>7</sup> Beebe, J. (2001). *Rapid assessment process – an introduction*. Oxford: Altamira Press.

### **1.3.1 Logic model**

A logic model depicting the intended hibah program inputs, outputs and intended outcomes/impacts was drafted by the evaluation team prior to arrival in Indonesia. The logic model displayed the theory of change for the hibah program and assisted the evaluation team to clarify and confirm the intent of the hibah program. Assumptions underpinning the intent of the hibah program were documented. This model was discussed in the stakeholder workshop and refined. The logic model was then used as a tool to guide the fieldwork while scanning for unintended outcome/impacts.

### **1.3.2 Document review**

Key documents supplied by AusAID and by key stakeholders were reviewed to assist the review, specifically, to draft the logic model and to assist identification of existing output and outcome related data. The complete list of documents referred to is contained in the bibliography of this report.

### **1.3.3 Stakeholder workshop**

A workshop was held with key stakeholders at the beginning of the in-country visit. Representatives from the following agencies attended:

- IndII Water and Sanitation hibah team
- AusAID Jakarta
- Ministry of Public Works (Directorate of Program Development, Directorate of Water Development, Directorate of Environmental Sanitation Development)
- Ministry of Finance (Directorate Financing and Local Government Capacity)
- National Development and Planning Agency (Bappenas) (Directorate of Housing and Settlement).

The workshop provided an opportunity for key stakeholders to discuss the program (e.g., how it operated and its intended outputs and outcomes), and to discuss and confirm the logic model. Criteria to judge each of the merit criteria were also identified during the workshop.

### **1.3.4 Key informant interviews**

A total of 25 separate key informant group interviews were undertaken as part of this review. Fourteen were conducted at various agencies in Jakarta, and a further 11 were completed during site visits. These are detailed in Appendix 7.2.1. Names of interviewees are not disclosed for ethical reasons, but organisation and location details are included. The focus of each interview depended on the organisation/individual being interviewed, but the research questions were used as a guide (Appendix 7.2.2).

Interviews were digitally recorded and then transcribed in New Zealand. Additional interview notes were typed electronically (to permit analysis) where required. Verbal or written consent procedures were followed for all interviews.

The locations for the fieldwork (Appendix 7.2.3) were selected based on the current level of progress of the hibah program in each site. Both successful and less successful sites were chosen to assist the evaluation team in learning from the mechanism processes, outputs and outcomes/impacts from the hibah program. The counterfactual was also examined (i.e., what would have happened without the hibah program).

### **1.3.5 Observations**

The evaluation team conducted on-site observations in five locations of the water and sanitation connection – in Klaten, Surakarta, Wonogiri, Banjarmasin, and Banjarbaru.



### **1.3.6 Beneficiary survey**

Beneficiaries of the water and sanitation hibahs were surveyed during field visits. A total of 43 interviews were completed in five areas (three water and two sanitation). Interviewees were selected by the PDAMs and Indll, based on accessibility and availability. The focus of the survey was to gather preliminary data on the changes to beneficiaries' lives and the quality and sustainability of the connections.

### **1.3.7 Analysis**

Multiple sources of evidence (identified above) were used in the analysis of the review findings. Key findings were triangulated unless otherwise stated. A thematic analysis of key stakeholder interviews was used, guided by the evaluation objectives and research questions. Unintended findings were documented as part of the fieldwork and analysis processes.

### **1.3.8 Merit criteria**

Merit criteria were identified for assessing the efficiency, effectiveness and sustainability of the hibah program during the stakeholder workshop. These merit criteria formed the basis for evaluation judgements and conclusions made. A four-point rating scale was used.

### **1.3.9 Scope and limitations**

This evaluation examined both the water and sanitation hibahs. The evaluation data incorporated the use of existing output and outcomes data. This included the connection numbers provided through Indll. There was no impact data systematically collected on the changes to beneficiaries prior to this evaluation. This evaluation included a survey of a limited sample of direct beneficiaries. Due to time constraints, the evaluation team split into two interviewing teams. To ensure consistency, a session on interviewing techniques was held prior to fieldwork commencing, and regular debriefs were held by the evaluation team to discuss the emergent issues.

**Table 1. Evaluation objectives and associated information objectives/research questions**

| Evaluation Objectives   | Information objectives/research questions   |
|---|---|
| <p><b>1. Formative:</b> <i>What was the intent of the hibah program and what were the intended outputs and outcomes?</i></p>  | 1.1 What was the size of the grants and how were they determined?   |
|   | 1.2 Logic model of hibah program (inputs-activities-outputs-outcomes/impacts) and the intended contribution to higher-level water and sanitation outcomes and to beneficiaries          |
|   | 1.3 Context and mediating factors   |
|   | 1.4 Assumptions   |
|   | 1.5 Theory of change  |
| <p><b>2. Process:</b> <i>What were the processes used and progress made with the implementation of the hibah program?</i></p> | 2.1 What were the processes used and progress made with implementation of hibah program?  |
|   | 2.2 How did the funding operate for the hibah mechanism?  |
|   | 2.3 What factors led to connections not being independently verified as functioning?  |
| <p><b>3. Outputs and Outcomes:</b> <i>Were the stated objectives (outputs and outcomes) achieved?</i></p>                     | 3.1 Did all LGs/utilities achieve their agreed connection outputs and objectives?   |
|   | 3.2 What percentage of connections were independently verified as functioning and then paid?  |
|   | 3.3 What were the impacts for direct beneficiaries?   |
|   | 3.4 Were low-income households significant beneficiaries of the hibah program?  |
|   | 3.5 To what extent did women-headed households and those with disabilities benefit from the program?  |
|   | 3.8 What impact did the hibah program have on LG investment in their utilities?   |
|   | 3.9 What would have happened without this hibah program in the fieldwork areas?   |
| <p><b>4. Lessons Learned:</b> <i>What relevant lessons learned can be identified that can inform related projects?</i></p>    | 4.1 Was the size of the grants (as an incentive for LGs) appropriate?   |
|   | 4.2 What factors led to connections not being independently verified as functioning? And how can these factors be overcome in future phases of the program?                             |
|   | 4.3 What factors (that arose during the implementation) of the program will either positively or negatively impact the sustainability of water and sanitation connections?              |
|   | 4.4 How did the hibah mechanism encourage good public financial management through the prequalification aspects and verification processes of the program?                              |
|   | 4.5 Are LGs likely to continue investing in their utilities and expand their networks (e.g. have participating LGs increased their investment in their utilities in their 2011 budget)? |
|   | 4.6 How efficient was the hibah mechanism for disbursing funds to LGs (compared to the Dana Alokasi Khusus – DAK mechanism)?  |
|   | 4.7 Were risks using the hibah mechanism appropriately managed?   |
|   | 4.8 Was the M&E Framework appropriate for monitoring the hibah program? If not, what changes should be made for any future phases of the program?                                       |
|   | 4.9 Did the M&E allow IndII and AusAID to appropriately manage the program?   |
|   | 4.10 Was management of the hibah program through IndII the most efficient management method (compared to if AusAID had managed the program)?  |
|   | 4.11 Was the survey process effective in identifying target households, and verifying effective and sustainable household (or community) connections?                                   |



## 2. The water and sanitation hibah program

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This section of the evaluation report outlines the intended outputs and outcomes of the hibah program in two ways. An outline of the theory of change and its underlying assumptions, and a 'working' logic model are included. These components form the framework for this evaluation and could be used to inform the design of phase two of the water and sanitation hibah program.

### 2.1 Theory of change

This pilot was implemented to test the theory of change for this new water and sanitation funding mechanism, using an output-based approach, with an aim to increase the number of water and sanitation connections for lower-income households. This approach involves funding being transferred directly from central to local governments who pay the PDAMs a specified amount for each connection once it is made. It was also intended that this approach would build capacity within local governments and PDAMs, improve service delivery to lower-income households, and drive reform among LGs and PDAMs.

The logic model developed to delimit the scope and intended steps within the water and sanitation hibah is provided in Figure 2. The following points describe the key steps in the model.

- AusAID's Water and Sanitation Initiative includes the hibah program. Funding of \$25 million allocated. AusAID approves funding, formalises this with the GoI (signs Direct Funding Agreement) and transfers funding to GoI (MoF special account).
- PDAMs that are able to meet the eligibility (prequalification) criteria for the hibah program are selected and confirm their intention to participate. Some PDAMs may need to make some improvements to business practices first, in order to qualify.
- Number of connections that can be made (to water and/or sanitation services) are identified by PDAMs. The Directorate General of Housing and Settlements (DGHS) decided on the size of the grant/number of connections that would be awarded to each participant and notifies the MoF.
- An agreement for the number of connections to be made under an agreement via the hibah program is made between MoF and LG.
- LGs and MoF plan and prepare budgets:
  - MoF issues a letter notifying the award of the grant to LG from GoI
  - LGs budgets to include funding for pre-financing of PDAMs (LGs), to enable activities (connections) to be completed prior to reimbursement (by MoF for hibah program).
- Based on planning and budgeting, agreements are made with PDAMs/LGs.
- Indll completes baseline survey of all households PDAMs propose to connect. Households to be connected confirmed.
- PDAMs complete connections to households.
- PDAMs notify Indll of connections made. Indll arranges for connections to be verified (by independent contractor).
- Independent contractor verifies connections as complete (including documentation check, physical check of connection, and confirmation of bill payment history) and submits a report to the Central Project Management Unit (CPMU).
- The CPMU reviews the report. If this is satisfactory, they send a recommendation letter to MoF.
- LG compiles documentation and submits reimbursement request to MoF for verified connections.
- Reimbursement is paid by MoF to LG based on the CPMU's recommendation.
- PDAMs sustainability improved due to service expansion and improvements in business practices.
- Households connected to water and sanitation services benefit directly from improved health (e.g., reduction in water borne diseases, incidents of diarrhoea), and quality of life (e.g., labour and cost savings, improvements in SME productivity).

- Associated education activities (by hibah program, government agencies and other NGOs) lead to indirect improvements through behaviour change due to better hygiene knowledge.
- LGs and central government incentivised to invest in additional service expansion or infrastructure development due to positive results of the hibah program.
- Coordination between government agencies (local and central) and other stakeholders (e.g., IndII, MoF) is improved, leading to better outcomes generally in this sector.
- AusAID and GoI objectives for WATSAN (including MDGs for this sector) are achieved.

## 2.2 Assumptions

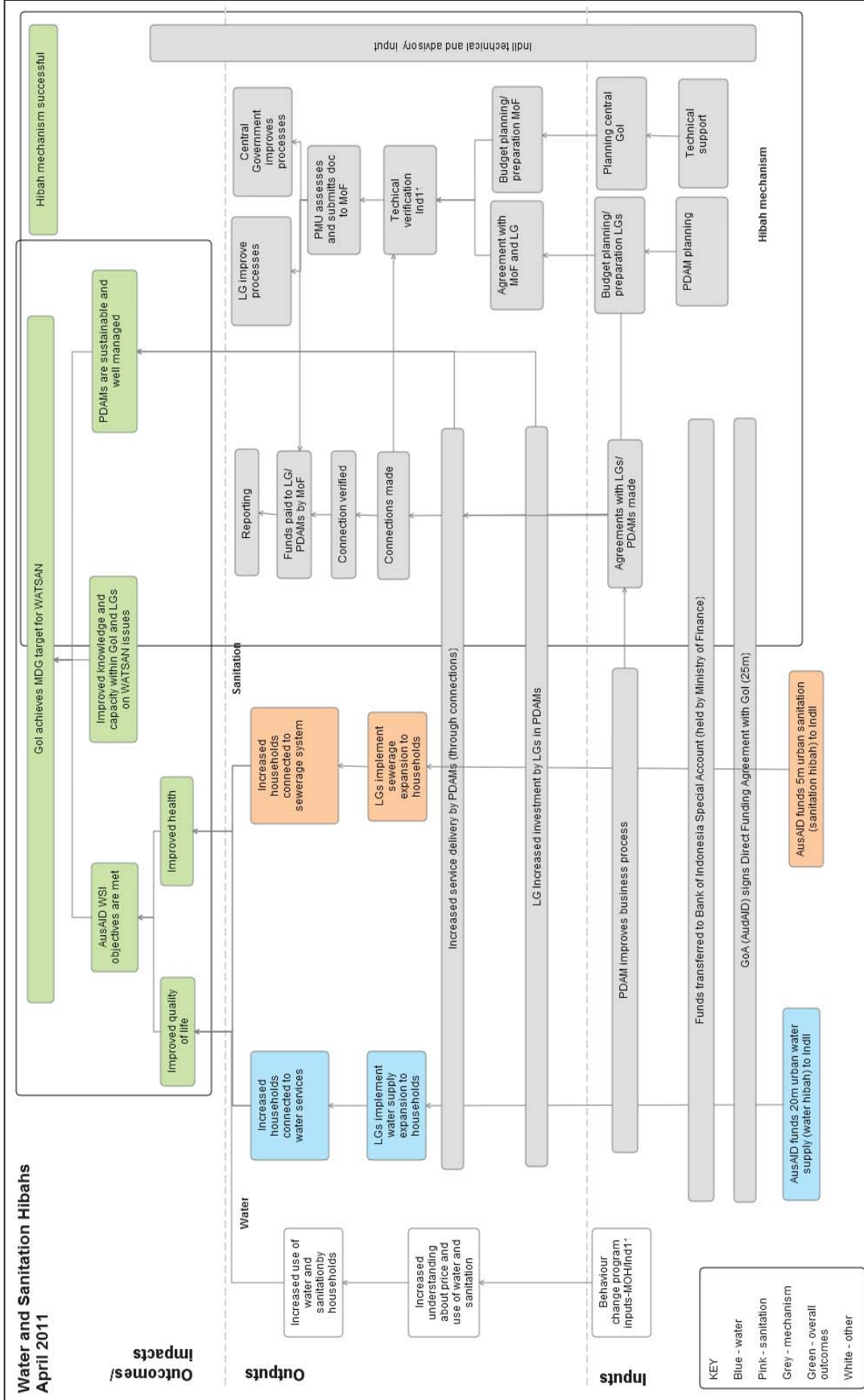
The following assumptions underpin the theory of change and intended outputs and outcomes/impacts from the water and sanitation hibah:

- There is a demand for connection to water and sanitation services.
- Requisite legal mechanisms to allow the planned activities are in place (at central and local level).
- Sufficient pre-financing is available to PDAM and is provided in a timely manner.
- All other requisite funding is provided in a timely manner (e.g., funding from central to local government).
- There is sufficient infrastructure and capacity to complete the connections agreed.
- The size of the grant is sufficient to complete the agreed number of connections.

A key presumption underlying the hibah is the fact that those not connected to water supply networks pay the most for water. For example, in the early 1990s in North Jakarta (Crane 1994), the price of water was US\$2.62 per cubic metre for vendor customers, US\$1.26 per m<sup>3</sup> for standpipe customers, US\$1.08 per m<sup>3</sup> for household resales customers, and only US\$0.18 per m<sup>3</sup> for connected households. The time involved in collecting water can be a further significant cost, particularly if people have to travel far, or up hills. It is assumed that since these households already pay so much for water and spend a lot of time getting water then they would be more interested in purchasing mains water to save money and time. In addition, assuming the PDAM can overcome a short-term financing constraint and has some spare capacity, it too should be incentivised to connect new customers, if given some assistance for the connection. The households chosen were considered poor in terms of the electricity consumption criteria. They are in provinces with poverty rates ranging from about 20 to 28 per cent.



**Figure 1. The evaluation team, GoI, IndII stakeholders and Klaten PDAM personnel.**



**Figure 2. Water and sanitation hibah logic model.**

### 3. Overall findings

#### 3.1 Key outputs

The planned outputs of the program focused on increased access (connections) to water and sanitation services, with a focus on poor households, and creating more sustainable services.

The evaluation found that excellent progress has been made by both the water and sanitation components. Work has been implemented by PDAMs to Indonesian government standards with pro-poor targeting of low-income households. While the original objective was for 50 per cent of households to be 'poor', during implementation, the goal was effectively shifted to 100 per cent of households, but with a less restrictive criteria being applied when defining 'poor'<sup>8</sup>.

The target for the water hibah was for 70,000 connections to be made by the end of June 2011. Indll revised the target to 76,000 connections due to reallocation of funds from the sanitation hibah. Monitoring data from Indll's shows the number of connections for water is in line with targets with 62,623 connections installed by 14 April 2011, compared with a target of 65,022 (Figure 3).

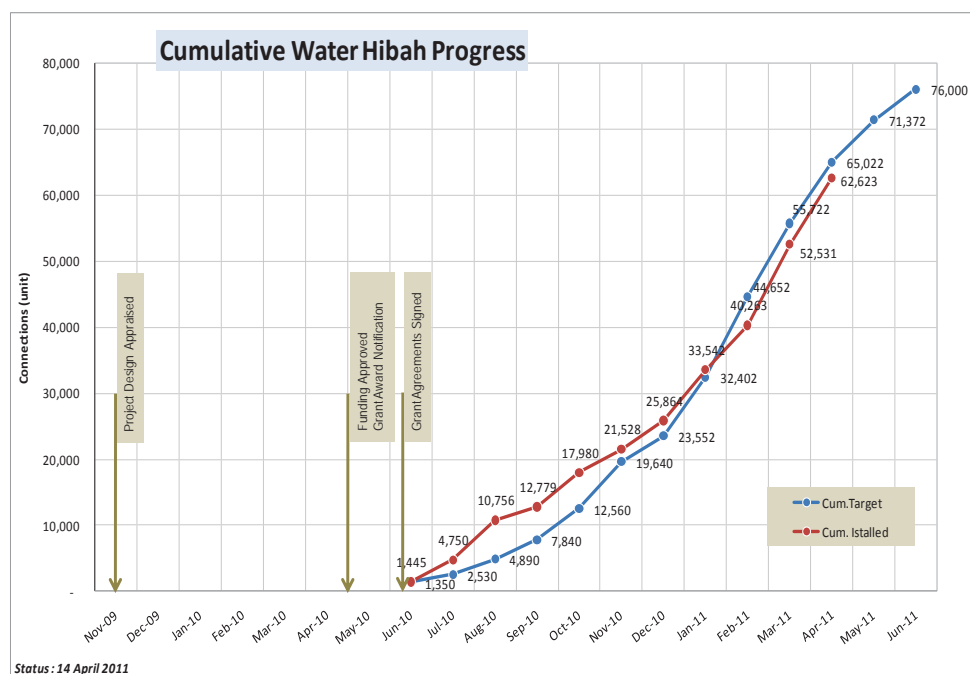
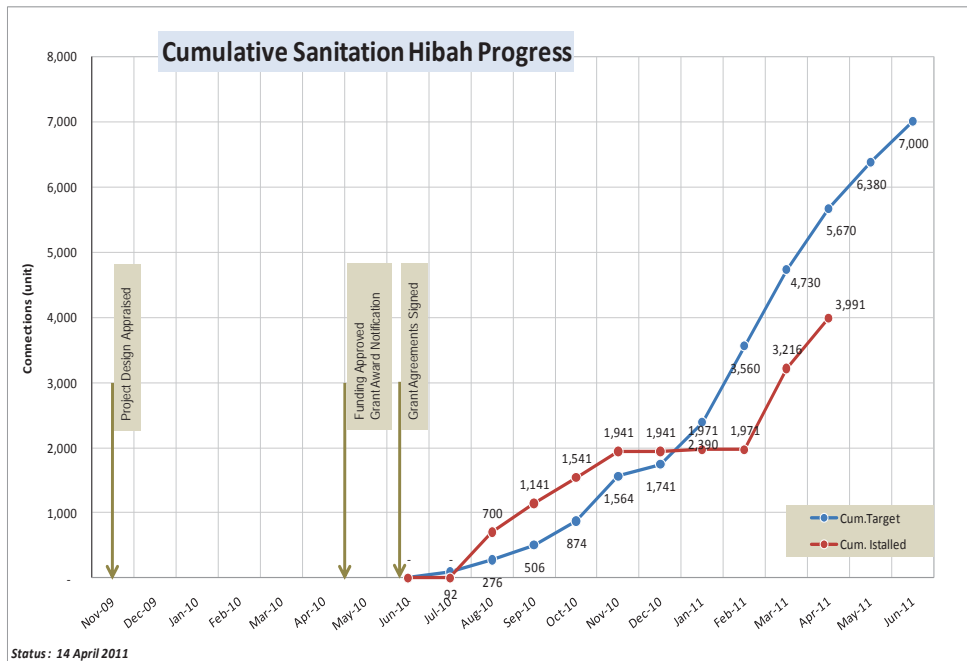


Figure 3. Cumulative progress on water hibah connections (Indll 2011).

The target for the sanitation hibah was 10,000 household connections to centralised sewerage and communal systems by the end of June 2011. Indll revised the target to 7,000 connections based on revised costs. Sanitation connections are slightly behind compared to water, but are still broadly in line with targets (3,991 installed compared to a target of 5,670 (Figure 4)). In line with the implementation strategy, an additional allocation of 2000 connections has been made to the City of Banjarmasin which is one the of best performing utilities in the program. The Banjarmasin PD PAL (sewage utility company) performed well in the first phase of the program due to strong leadership from the municipality in planning for environmental improvements in the city. The PD PAL has good technical

<sup>8</sup> The low-income threshold (MBR) was defined in terms of electricity consumption, a proxy of income. The household survey was used to establish whether households were using less than 1300VA, the threshold for being defined as poor. In the five areas visited by the team, an average of 98 per cent of households were classified as poor.

capacity and has built assets in four areas which now have underutilised capacity to expand household sewer connections.



**Figure4. Cumulative progress on sanitation hibah connections (IndII 2011).**

IndII also reports on the current status of the hibah program for each local government area (Figure 5). Although this shows that not all connections have been verified, this is due to timing. Connections have to be made and then payments made by households for two consecutive monthly billing cycles. During site visits, those locations where verification had not yet occurred knew the schedule for when verification consultants would be visiting for this to be completed. Central and local governments reported that once connections were independently verified as functioning then payment occurred. Overall stakeholders indicated the verification process was operating well, and all connections were expected to be verified without incident. There were no reports of unverifiable connections, other than those in Banjarbaru that were begun before a Memorandum of Understanding (MoU) was signed by the MoF and the Head of the District.

The approach of using excess capacity in PDAM water systems is proving to be effective because it can be used while there is still spare capacity to add users. Increasing the capacity of the network would require longer-term capital improvement and maintenance programs. IndII has recognised the need to build demand for water and responded by including education to promote efficient water usage. Sanitation is proving more challenging. There is a need to foster demand and promote hygiene behaviour, which could be undertaken by aligning with other programs, such as health programs. Households are very aware of the benefits they could gain from sanitation, but these benefits are at times less clear for water connections. The benefits improve as more households are connected. Overall, this output-based approach is clearly leading to an increased focus on sector coverage and more investment by PDAMs in their water and sanitation networks.

The progress that has been made on this program overall is commendable, given the very short implementation time frame.





2. Criteria for beneficiaries, related to MBR (Low-income Household) classification (which is determined based on a household's connection to electricity)
3. Technical criteria for house connection

**Notice of Grant Award (SPH).** Based on an LG's selection as a Grantee, a recommend list of grants is drawn up by DGHS and discussed. A favourable result from this discussion results in a recommendation to the MoF to issue a Notice of Grant Award (SPH). Following this, the LG sets the draft budget document (draft DIPA), building upon the grant budget amount specified in the SPH. The DIPA is the detailed disbursement plan for each LG.

**Grant Agreement.** Based on the SPH, the LG sets their Comprehensive Plan (RK). The RK is used to describe the year-to-year implementation of the grant. The MoF then prepares an 'on-grant' agreement (NPPH) between the central government (the MoF) and the Bupati (Mayor). In the authorization process, the RK must be attached to the NPPH. The NPPH contains details of: goals, amount, sources, grantees, grants requirement, grants channelling procedure, grants utilisation procedure, grants reporting and monitoring procedure, the Grantor and Grantee's rights and obligation, and sanctions.

**Budget Document – DIPA.** During the DIPA process, the MoF asks LGs to set their Annual Plan (Rencana Tahunan - RT). This plan describes the projection (plan) of the MoF's hibah expenditure in the related year. The RT is used to budget their hibah revenue, as well the expenditure/investment allocation. Based on the RT, the budget document (DIPA) is then prepared by MoF, and explains the detail of APBN disbursement plan for each LG.

**Local Regulations (Perda) Investment & Budget Document - DPA.** In order to get Water and Sanitation Grant, LGs are required to make some equity investment into their PDAM. This investment should be stipulated in the Local Regulation (Perda), which is approved by the local parliament. After the Perda for investment is approved and issued, the LG sets the budget related to their Water and Sanitation hibah revenue and equity investment for the PDAM at the amount specified in the NPPH.

**LG Revised Budget Document – DPPA.** If the stipulation of the hibah is signed by the MoF after the APBD is issued, an LG may need to revise their APBD. The revised budget document (DPPA) is then issued, describes the estimated grant receipt, and provides a detailed plan of disbursement related to implementation activities.

**Construction.** The PDAM manages the activities to build the connections as agreed. This involves procurement, construction, payment to third parties, and preparation of activity reports.

**Technical Verification.** Based on activity reports, the Project Management Unit of DGHS requests IndII to mobilise an Independent Verification consultant to examine the achievement of house connection. They examine technical compliance and customer satisfaction levels. The Project Management Unit then submits the results of this verification to the MoF as a recommendation for payment to be processed.

**Payment Request and Document Verification.** After technical verification, the LG finance office prepares all documents needed to request the grant payment. The LG submits their Request Letter to the Hibah Directorate of MoF with all supporting documents including their output report. The directorate verifies the documents, and prepares the disbursement-related-documents (SPP, SPM, SP2D).

**Payment.** The MoF transfers the hibah directly to LG's special bank account.

**Reporting & Monitoring.** Each reporting entity (central, province, and Municipality (Kabupaten/Kota)) prepare reports on grant distribution and activities implementation in their area. LGs are required to prepare reports on grant acceptance and use and annual report on water hibah implementation. These report are submitted to central Government and Audit Agency on a regular basis.

Support is provided through IndII to central government agencies in Cipta Karya and MoF, as well as to local governments. They are provided with necessary training to implement a program using the new hibah mechanism. Support also includes funding for activities that central government has no

budget for including baseline surveys that are necessary for low-income targeting and independent verification. IndII is flexible with engagement of necessary staff and very responsive to decision making for changes in the program i.e. the shifting of grant program funds from PDAM's that are not able to deliver to those who can utilise the funds in the program time frame. Until Cipta Karya has the necessary financial and human resources to adequately supervise the hibah program an external program of assistance through the IndII Facility will be required. Due to the resource requirements and need for a flexible support mechanism, the IndII Facility is assessed as being more suitable for this function than AusAID implementing direct support to a Gol hibah Program.

### 3.2.2 Central government

Under the decentralisation policy, there are several funding mechanisms to local government: the General Allocation Fund (DAU), the Specific Allocation Fund (DAK), shared tax revenue, and shared natural resources revenue. The central government uses these to meet obligations in order to provide funding to close fiscal gaps and offset differences in national versus local priorities in expenditures. The hibah is the alternative way in which to channel central government funds to region based on special needs or sector prioritisation requirement. Government issued Regulation No. 57/2005 to facilitate the mechanism of hibah, with administration guidance stipulated by the Ministry of Finance Decrees PMK 168/2008 and 169/2008.

The evaluation found that the implementation of the water and sanitation hibah's through Gol systems has been successful. Ministry of Finance and local government reached agreement on the hibah mechanism including planning process, budget preparation, technical verification and payment systems.

During site visits local governments reported that the mechanism had worked very well. PDAMs had generally been able to implement priority works with local government funds that were already planned but waiting on central government funding. Under both the water and sanitation hibah there was evidence that the activity leveraged additional investment by local government to extend water supply or sewer mains to un-served areas. Local governments all reported that after the verification of the outputs the reimbursement mechanism from MoF worked well with funds being reimbursed within a one- to two-week period.

The hibah program has been extremely well received by the Gol. Their interest and buy-in to output-based aid is extremely high, and has resulted in swift and strong commitments to this program specifically and the concept more generally. Overall, Gol see this program as a genuine opportunity to make progress towards MDG targets. For example:

*"In my 10 years in development.....I have never known an infrastructure program to move that quickly before... This really has traction with Gol and it incentivises behaviour....it is a powerful tool for us going forward." (Key stakeholder, Jakarta)*

*"...it seemed to be the key they had been looking for in terms of unlocking capacity to better target and control fiscal transfers to sub-national government and targeted to areas where developments are most needed." (Key stakeholder, Jakarta)*

There has been more effective coordination between central government agencies (Cipta Karya - Ministry of Public Works, Ministry of Finance (MoF), Bappenas), local governments and IndII. This mechanism involves central government agencies with LGs working together to put in place agreements and achieve connections, resulting in more effective cooperation and coordination. For example, the MoF and Cipta Karya called together PDAMs and LGs to a meeting in Jakarta to explain the new mechanism and the roles that different agencies will need to play. Stakeholders made the following comments in relation to the program:

*"The government admits that this is something good, something that can be replicated in other areas for other programs." (LG/PDAM)*

*"So the scheme is good. Everything is good. It's just that sometimes the complication arise because of internal problems of the local government." (LG/PDAM)*



*"Sometimes we have a problem in the local part that they're questioning the ability of this. Is this grant really coming through? So they [the LG] were concerned if we already paid down so much funds and then we did not receive this grant." (LG/PDAM)*

Serious consideration is now being given by central government agencies on how to shift some allocations in the APBN (National Budget) into a hibah mechanism for the water and sanitation sector, and/or other sectors given the success of this pilot.

Several representatives from central and local government did express some concern that the targeting of low-income households under the hibah was causing a negative shift in PDAMs financial position. Under Gol regulations, PDAMs are only able to charge low-income tariffs. For water supply these tariffs are less than the PDAM's production cost of water which effectively means they are not recovering basic operation and maintenance costs for these connections. They proposed that in future hibah grants should be more flexible to allow PDAMs to improve their cost recovery position.

The evaluation found that most of the hibah program processes were clear. Comments by stakeholders below illustrate this finding:

*"The mechanism is very special compared to other programs.....the phases are very clear, the agreement is also very clear. Distribution [of]...responsibilities between central government and the city government.....is all very clear and also for the dissemination of information to the [beneficiaries]." (LG/PDAM)*

*"...with this project, the steps that are to be taken are quite established. So it's quite easy to follow." (LG/PDAM)*

However, stakeholders also indicated that some of the background processes were less clear. In particular who had responsibility for various aspects of the program and process at the central level.

### **3.2.3 Local government**

The hibah program has proven to be an effective mechanism for on-granting to LGs (increasing water and sanitation service delivery), and has supported the operationalisation of Indonesia's decentralisation framework.

Historically, LGs have struggled to assume their responsibilities for infrastructure development following decentralisation. This program has contributed in two important ways to overcome this problem. Firstly, awareness of and interest in water and sanitation infrastructure development has been greatly stimulated as a consequence of the incentive mechanism of output-based aid. This will help Indonesia progress towards achievement of MDGs over both the short and long term, as those responsible for many of the activities required to meet these objectives become more willing to engage (e.g. LGs). Comments from stakeholders illustrate this:

*"After this program many LGs come here to discuss with us about this program. They are becoming aware. 'Oh our neighbour - he got a hibah from central government. Why don't we...have the same program here?'" (Gol, Jakarta)*

*"You need to make sure you get the incentive targeted right....local governments aren't incentivised by money. They have more money than they know what to do with. So you have to get them to want to do it. And that it." (Key stakeholder, Jakarta)*

Over both the short and long term, this will help Indonesia progress towards achievement of MDGs, as those responsible (LGs) for many of the activities required to meet these objectives become more willing to engage.

Secondly, this program has helped foster good working relationships between all stakeholders, including between central and local government. This has helped to overcome some of the barriers that have arisen following decentralisation.

### 3.2.4 PDAMs

As a result of the hibah program, PDAMs have experienced a substantial increase in investment by LGs. This has been described as an extremely positive outcome, and some optimism was expressed that the positive outcomes (increased connections) associated with this investment may provide a platform for ongoing investment, especially as LGs awareness that this is a responsibility of theirs grows.

*"So [because of] this program they [think] 'oh, yes this is our responsibility to do that'. so I think that is very good." (discussing the responsibility of LGs to fund investment in the sector, and how the hibah has stimulated their awareness of this) (GoI, Jakarta)*

Furthermore, the success of the program has facilitated the relationship building between PDAMs and their LGs. Improvements in levels of trust that PDAMs can deliver services (Figure 6) has boosted LGs confidence levels. This approach is also showing signs that it will also stimulate further investment by LGs in the WATSAN sector, so further progress towards MDGs and national WATSAN objectives can be made.



**Figure 6. PDAM personnel inspecting connection in Banjarbaru.**

Cipta Karya and local governments reported that the current hibah mechanism is increasing coverage but only of low-income households. However, in some cases, a significant increase in numbers of households on low-income tariffs reduces the PDAMs financial standing. Alternative approaches can have a pro-poor approach but encourage connection of all households. A review of tariffs would be necessary to ensure that the PDAM's financial viability is improved as part of their participation in the hibah program.

Another positive impact of the program has been the hands-off approach adopted by LGs and IndII towards PDAMs and program implementation. This has led to innovation to meet local needs as PDAMs have been flexible in their costings, pricing approach and marketing.

### 3.2.5 Comparison to other mechanisms

The hibah mechanism is preferred by LGs (and PDAMs) to the special grant allocation (DAK), as it is clearer, and LGs have confidence that funds will be forthcoming. Furthermore, local government bodies state that the hibah mechanism is more effective as they receive the funds directly and can ensure that funds are used effectively. They can see benefits if it can also be used to channel funds for system upgrades. Major works including treatment plants, storages and major pipelines are currently implemented by Cipta Karya systems and then handed over to the PDAM without local government involvement in supervision and quality assurance.

*"So Ministry of Finance, yes we deal with the channel the money. But we can't do the payment without the technical recommendation. I think this is the beauty of hibah, if you compare it to the DAK let's say...it is impossible to find such sound coordination like this."(GoI, Jakarta)*

*"Well the power of output-based aid. This is a new paradigm in development. It's exciting, new, innovative and I think a very promising paradigm and mechanism for delivering aid. I think it's very attractive for AusAID.....we can blend high-level high-quality technical assistance with grant funding and if AusAID needs to move money and have impacts with their funds, I think grant funding though output-based aid is worth exploring."(Key stakeholder, Jakarta)*

*"If you do a comparative look with other programs, this would have to be a stand out - a front runner." (Key stakeholder, Jakarta)*

*(referring to DAK)..."if we generalise this mechanism with the PDAM, people are empowered, because every activity has a specific objective". (LG/PDAM)*

The DAK and other funding mechanisms are input-based. Local governments received funds in advance and then use these for activities deemed necessary. The accountability of these other funding mechanisms is very different from the hibah program. The structure of the hibah program, with payments being made on outputs makes it a highly accountable process, and most stakeholders expressed a preference for the hibah mechanism because of this accountability. Nonetheless, some LGs prefer the other funding mechanisms because they are more affordable (there is no requirement for pre-financing).

### 3.3 Impacts for beneficiaries

Interviews with households showed positive emerging impacts for beneficiaries (see Figure 7). For water, these include improved access to better quality and cheaper water, and substantial time and labour savings described by 18 of 24 interviewees. Given the cost in terms of money and time of the alternative water sources that the interviewees had previously used, most households will be significantly better off as a result of the connection. People indicated they felt they or their family were experiencing health improvements, with three interviewees specifically mentioning a reduction in diarrhoea and/or skin irritations. The ability to bathe at home in clean water was also discussed as a positive benefit.

Benefits to vulnerable individuals were clearly identified, with babies being bathed in clean water, health benefits to children, and labour saving for elderly members of the family. While only one interviewee described cost reductions in their micro-business as a result of a water connection, four interviewees indicated that while they haven't experienced changes in their income yet, they now have more time and/or motivation to exploit these opportunities. Anecdotal evidence (from key stakeholder interviews) suggests these kinds of benefits are likely to be widespread.

While concerns around ongoing affordability of connection were mentioned during some interviews, 11 of the 24 interviewees indicated that they planned to stay connected at this stage, with no interviewee indicating that they planned to terminate their connection. A similar finding was made regarding sanitation connections.

For sanitation connections, improvements in the local environment were identified as a positive impact. Households reported a reduction in odours and less pooling of stagnant water, which should reduce the incidence of vector-borne diseases (dengue and malaria). Anecdotal evidence (from key stakeholder interviews) also indicated that having improved sanitation was a point of pride for some, leading to other beneficial activities such as building toilets.

*“People are building a toilet....they are proud to have a connection. Not just in the big cities – now they get the connection.” (Gol, Jakarta)*

Site-specific details on impacts on beneficiaries can be found in Appendix 7.3.



**Figure 7. Beneficiaries from hibah water connections.**

### 3.3.1 Gender

Overall, gender issues have been addressed well in the hibah program, particularly at the beneficiary level. Many of the activities completed as part of this program have explicitly addressed gender. However, it is not specifically accounted for within monitoring activities.

The most positive outcomes related to gender equality are those associated with access and participation in the hibah program (i.e., household connections), and the impacts these have had. Women had good access to information on the program, and were found to be the main individuals making approaches to PDAMs for connection under this program. Women have reported considerable benefits as a result of their water connections. They have made savings in both time and money, and experienced improvements in quality of life, health, and profits from income earning activities. These findings support one of the goals of the project; that water connections should lead to positive impacts for women in particular by freeing them to undertake alternative higher value activities because of less childhood sickness and less time spent sourcing water.

Community outreach programs and other education and information dissemination activities and workshops have tried to ensure coverage and participation is equitable, with positive outcomes noted as a result. In particular, this has led to an improved understanding of, and interest in, gender issues more generally by participants, as well as a more considered appreciation of the role gender plays in water and sanitation activities.



The collection of sex disaggregated data during the baseline survey has provided useful information, and permitted learning opportunities for stakeholders, improving their awareness and understanding of gender issues. Furthermore, the employment of a gender specialist in the implementing team is now contributing to the extent to which gender issues have been addressed in the hibah program.

### 3.3.2 Environment

Impacts on the environment were not specifically examined as part of this review. Nonetheless, environmental benefits can specifically be attributed to areas where sewer connections were made under the sanitation hibah. In Banjarmasin, the main reason given by households for connecting to the sewer was the improvement in the environment and reduction of groundwater pollution. An increased number of households near the river that were connected to sewerage systems reduce the discharge of raw sewage and grey water directly into the river. The Mayor of Banjarmasin and PDAM officials saw the need for improvements in the river water quality and reducing pollution of groundwater from pit latrines and septic tanks as key challenges for their city. Public campaigns associated with the hibah program have increased people's awareness of their impacts on the river and the need to reduce the amount of solid and liquid waste.

In most areas of the water hibah the main environmental benefit will be a reduction on the amount of fuel required to boil water for drinking. Access to piped water supply in most cases has no quantifiable impact on surrounding areas as household simply substitute use of poor quality water from wells with better quality piped water. However, it is expected that in water-scarce areas there will be a small increase in wastewater discharges as people have easier access to water for bathing and washing.

## 3.4 Lessons learned

This section of the report summarises the key lessons learned from this evaluation. They are as follows:

### 3.4.1 The hibah mechanism

**The hibah is an effective mechanism for on-granting to LGs and for increasing service coverage by PDAMs.** This mechanism ensures payments are made on an output basis which benefits lower-income households. This mechanism provides a pathway to channel funds to LGs within the decentralisation framework.

*"The hibah mechanism is already good. And everything has been well formulated how to get the grant, how to be accountable for the grant, how to build coordination between the central government institutions and our institutions." (LG/PDAM)*

*"Every single rupiah is to go to the right people/right budget". (Gol, Jakarta)*

A key reason for strong Gol support is that it provides a mechanism for central government to work with LGs and achieve progress towards MDG targets. This mechanism is an effective tool to incentivise LGs to address the serious historical infrastructure issues. The output-based aid approach is preferred by local government and PDAMs to the special grant allocation (DAK). Local government view the hibah mechanism as more effectively meeting their needs. If they receive funds directly for major projects they can ensure that work they undertake is implemented effectively.

*"So for LG, what happened since the beginning of this program - we see a significant increase in their allocation of investment from LG to PDAM. So this is very good news. So it means that hopefully in the future, many...the construction of water connections or development of PDAMs can be fulfilled by each LGs. So we can see now the progress." (Gol, Jakarta)*

**The effective subsidy of the program seems appropriate, but may need to be reviewed.** Indll estimate that the program effectively subsidises, on average, about 30 per cent of the connection cost through the grant mechanism. Going forward, a key question is whether the aim should be to lower this, so as to connect more households and leverage greater resources from government and consumers. A useful answer to this question is beyond the scope of this review, but going forward, the program will need to be clear about whether it is about more household connections, or about creating incentives for other policy changes.

**Indonesian central government interest in output-based aid is high.** Serious consideration is being given by central government agencies on how to shift some allocations in the APBN (National Budget) into a hibah mechanism for the water and sanitation sector, and/or other sectors given the success of this pilot.

*"I can't emphasise how critical that is because there was, there's almost a 10 year period where there was no on-granting mechanism that worked inside the government.....there was no way of getting grants to local governments so essentially no foreign money, no external money got to local governments for nearly 10 years." (Key stakeholder, Jakarta)*

Other donors (World Bank, USAID) are interested in using the hibah mechanism in the water and sanitation sector and in other sectors.

**Overall the mechanism is effective but further clarity is required to enhance the processes and sequencing of components.** Greater clarity on aspects of the mechanism and the capacity of implementing organisations is required. These include a guidelines manual, synchronisation with the budget cycle and financial management regulations.

*"We need time to socialise or communicate the regulations here.....they need a lot of time to communicate the regulations." (LG/PDAM)*

**There is significant interest and support by local governments in this output-based modality for achieving increased service delivery.** However, a combination of capital works and output-based funding will be required, as complementary capital investment in infrastructure is necessary in some areas to increase system capacity and service coverage.

*"With this hibah program we can accelerate our development of the rural areas that are not yet developed. So we develop these areas, we provide services to these areas faster, especially for the low-income family." (LG/PDAM)*

*"We have not been able to reach the other remote areas and also the lower-income families. So if we only rely on the local budget of the Government I don't think we can cover or reach the target." (LG/PDAM)*

*"We want to accelerate things. We don't want to wait until 20 year ahead." (LG/PDAM)*

### 3.4.2 Service delivery and pricing

**Neither LGs nor Indll have dictated an approach PDAMs should use.** This has led to innovation to meet local needs as PDAMs have been flexible in their costings, pricing approach and marketing.

**Project selection in the pilot included higher performing LGs and PDAMs which was necessary to ensure its success.** The pre-financing mechanism in its current form does not allow selection of lower level LGs and PDAMs in terms of financial capacity and cash flow availability. Extension of the hibah program needs to consider alternative approaches that will widen the capacity of the program to reach low-income households in less financial PDAMs.

### 3.4.3 Impacts for beneficiaries

**Interviews with households showed positive emerging impacts on beneficiaries.** For water, these include access to better quality and cheaper water, substantial time savings in accessing and treating water, and overall health improvements. People reported they feel better and have more energy, and there is evidence of cost reductions for micro-businesses. For sanitation connections, improvements in the local environment were noticed along with households reporting a reduction in odours and less pooling of stagnant water. This should reduce the incidence of vector-borne diseases (dengue and malaria).

**Educational programs over use and cost of water and hygiene behaviour programs are required.** IndII has already responded to the need for education courses on the use and cost of water and environmental impacts. These courses need to be extended, and introduced for the sanitation sector.

*“What we found is they have the water but they don’t use it properly - such as, after three months they only consume four metacubic, very small, and then when I ask why - because the quality is too good so they just use it for drinking, not for bathing, not for washing.” (Key stakeholder, Jakarta)*

*“They are afraid that if they consume a lot of water they’ll be billed a lot of money. But then the fact is that they’ll end up paying a lot less.” (Key stakeholder, Jakarta)*

### 3.4.4 Gender and environment

**Overall gender issues appear well addressed** but further improvements can be made (see recommendations).

**Outcomes for the environment are generally positive.** However, community education is required in areas impacted by both the water and sanitation hibah to reduce any minor environmental impacts.

### 3.4.5 Program management

**The IndII facility assisted the successful implementation of the Water and Sanitation Hibah and was an effective means of supporting program delivery by Gol.** AusAID’s management role in the hibah program has been essential in providing policy guidance as well as supervision of the IndII Facility. The hibah program was successful primarily due to good alignment with Gol policy and strong support of local government. However, essential support from IndII for policy advice, technical assistance and logistics was necessary to adequately supervise and monitor the program.

**IndII currently has a project modality** and there is a request from stakeholders to adopt a more strategic focus. The term ‘project’ need not be interpreted in a negative manner, since the modality is at the pilot stage. Going forward, there should be consideration for embedding the hibah mechanism in Gol systems with IndII taking an implementation support role with Cipta Karya.

In addition, there needs to be more communication within IndII and with stakeholders across the sector to ensure coordination and no duplication of activities such as assessing and providing technical support to PDAMs.

### 3.4.6 Monitoring and evaluation

**The M&E approach is fragmented and the activities are limited in some areas.** M&E is a high priority for the future. The impact data is only minor at the moment, but it is showing positive emerging impacts. The M&E approach requires improvements to meet stakeholder information needs particularly in assessing impacts. This can be undertaken on a regular systematic basis using an evaluative monitoring approach. All stakeholders acknowledge there is some work to be done in this area. The M&E approach and activities should be extended to include program, mechanism and the contribution to sector monitoring aspects.

## 4. Evaluative judgements

This section includes the evaluative judgements for three merit criteria of the pilot water and sanitation hibah mechanism. The evaluation conclusions and associated recommendations are then presented for stakeholders to consider in the planning for the next phase.

### 4.1 Merit criteria

The breakdown of the merit criteria for effectiveness, efficiency, and sustainability were identified during the stakeholder workshop to assist the evaluation team in reaching judgements on the pilot water and sanitation hibah program. A four-point rating scale was used; excellence, good, adequate and poor. In making evaluative judgements, the findings from the analysis were compared against the breakdown for the three criteria displayed in Table 2. Stakeholders considered achieving these areas as excellence in the performance of the water and hibah program.

**Table 2. Merit criteria to judge the effectiveness, efficiency, and sustainability of the hibah program.**

|                       |  |
|-----------------------|--|
| <i>Effectiveness</i>  | <ul style="list-style-type: none"> <li>▪ Buy-in to the program by the central government, local governments and PDAMs</li> <li>▪ More connections than expected</li> <li>▪ More local governments involved than expected</li> <li>▪ Exceeding target for share of poor households involved</li> <li>▪ Existing resources of governments used (leveraged) by the program</li> </ul> |
| <i>Efficiency</i>     | <ul style="list-style-type: none"> <li>▪ Program worked well</li> <li>▪ Sufficient time required under the approach by various actors – PDAMs, local governments, central government</li> <li>▪ Efficiency of how well the mechanism was implemented</li> <li>▪ Capacity for scaling up</li> </ul>   |
| <i>Sustainability</i> | <ul style="list-style-type: none"> <li>▪ Resources devoted to the approach by governments</li> <li>▪ Demand to do additional connections and include additional PDAMs</li> <li>▪ Process of connecting poor households continues</li> <li>▪ Government continues buy-in to the overall program, so that it continues</li> </ul>  |

#### 4.1.1 Effectiveness

Overall, the water and sanitation hibah program has achieved a performance of “**excellence**” for the criterion of effectiveness. Connections data shows that targets are likely to be achieved or have exceeded expectations. Lower income households were direct beneficiaries. Buy-in and commitment to the program by all stakeholders was found to be extremely strong. However, this assessment is largely attributed to the performance of the water hibah.

The sanitation hibah had more challenges and on its own is judged to have achieved a performance of ‘**good**’. Connections under the sanitation hibah are behind (Figure 4) but not significantly. The analysis of the key stakeholder interviews found strong buy-in and commitment of key stakeholders for sanitation. However, there are more barriers, primarily due to infrastructure challenges in increasing the volume of connections in the sanitation sector and a lower level of perceived value by potential beneficiaries.

The hibah mechanism was found to be very effective on a number of fronts, sometimes in unanticipated ways. Such as:

- The incentive power of the hibah mechanisms is considerable. This has led to a high number of connections particularly in water and also in sanitation. The fact that the hibah mechanism is not a financial burden on stakeholders is particularly important. This pilot water and sanitation hibah program seems to have acted as the incentive.



- The relationship-building and trust between PDAMs and LGs and central and local governments is viewed as important. This approach is a positive way of building these relationships. The level of coordination this mechanism has stimulated between central and local governments has been really positive.
- This pilot hibah program has demonstrated that water and sanitation services can be delivered by local governments and PDAMs. It was evident from the PDAMs visited that many LGs have sufficient funds but there was a lack of incentive to invest before. Ownership of the challenges at LGs visited appears to be happening now because of this program.
- The fact that LGs were willing to alter their budgets during the course of the fiscal year reflects buy-in to the mechanism by the local executive.
- This output-based mechanism is also promoting interest from other LGs as they now trust this program because it delivers favourably compared to other approaches where payments did not occur and the incentive disappeared.
- Stakeholders consistently rated this program higher than other mechanisms such as the DAK. The hibah mechanism proved to be an effective incentive for interest in and action on water and sanitation activities. The output-based structure of the hibah was the reason for this, and the basis for stakeholders preference for the hibah rather than other funding mechanisms.

### 4.1.2 Efficiency

Overall, the water and sanitation hibah program was found to have achieved a performance of “**excellence**” for the criterion of efficiency. Overall the whole mechanism seems to be very efficient. However, the fast pace of implementation and limited time meant the schedules were tight for this pilot phase.

The coordination and processes involved in establishing the connections and verification appears efficient and robust. Communications between different actors during the process has worked well and good faith has kept the processes moving. The evaluation in the field locations showed that in some locations the willingness to keep the process moving was due to the flexibility of different actors. This newly-created mechanism has resulted in an efficient conversion channel of planning, implementing and funding actual water and sanitation connections.

However, the short implementation period was seen as a limiting factor. With more time the next phase will allow less successful PDAMs and LGs to be involved. Time was found to be a particular issue for the sanitation hibah. More time will allow more progress to be made given the scale of infrastructure development required.

### 4.1.3 Sustainability

Overall the sustainability assessment of the mechanism and results from the pilot water and sanitation hibah is rated “**good**”. The cost of connections and tariffs appear affordable to beneficiaries. The intention is for beneficiaries to remain connected to both water and sanitation systems based on the affordability and benefit to their quality of life and health. However, the affordability long term cannot be assessed at this point.

The strong buy-in by stakeholders and preference for this mechanism by LGs and PDAMs has created good momentum for this program and funding mechanism. This is an opportunity for the GoI and AusAID to capitalise on, and will help achieve ‘excellent’ sustainability in future.

Stakeholders raised several sustainability challenges in regard to maintaining ongoing hibah mechanism processes and scaling up. These included:

- The size of the grant will need to be bigger if scaled up, as infrastructure expansion will be more costly.
- The inclusion of lower-performing PDAMs. Further consideration will need to be given to the design of the next phase to ensure this and to ensure tailored support is available for PDAMs and LGs.

- There is still some lack of clarity within the hibah mechanism and in the capacity to manage the higher volume of workflow arising from scaling up (e.g., the agreements between LG and MoF). Further consideration will also be required of central and local government processes and capacity.
- The ongoing ability to pay for sanitation connection.
- The need for more education about the benefits of sanitation and the actual cost of piped water.
- The current dependency on a donor for this mechanism to operate. Gol has indicated strong interest in shifting some of their funds using this mechanism to achieve service delivery in the water and sanitation sector and potentially in other sectors such as transport, health and education.

## 5. Conclusions and recommendations

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Overall, the pilot water and sanitation hibah program is highly successful and is effective in demonstrating the efficiency of an output-based approach to achieve higher volumes of water and sanitation connections for households. It has also helped build local government and PDAM focus and capacity in service delivery. The commitment of key stakeholders to the design and implementation of the hibah mechanism has been outstanding. Furthermore, their ability to achieve the high volume of water and sanitation connections in such a short time period is commendable. This pilot program and the positive results are highly relevant for Gol and other stakeholders. This output-based approach is an effective way to accelerate progress towards MDG targets for water and sanitation, and improve peoples' lives.

The key conclusions and associated recommendations for consideration by key stakeholders in scaling up and designing phase two of the water and sanitation hibah program are as follows:

### Hibah mechanism

The hibah mechanism is an effective way of channelling funds from central to local governments for service delivery in the water and sanitation sector. It was found that the goodwill and flexibility of personnel involved in the different steps of the process are contributing to the successful implementation of this pilot mechanism. However, further clarity is required to enhance the processes and sequencing of components to underpin tighter alignment with government systems.

1. **Recommendation:** *Additional process-related evaluation activities are required to provide greater clarity on aspects of the mechanism and the capacity of implementing organisations. This includes a guidelines manual, synchronisation with the budget cycle and financial management regulations.*
2. **Recommendation:** *That consideration be given to approaches for multi-year funding to support capital expansion and substantive maintenance, for the extension and expansion of this program.*

### Local governments and PDAMs

In scaling up this water and sanitation program and for other actors using this mechanism, consideration needs to be given to the capacity of implementing bodies including central and local governments and PDAMs to sustain the increased work flows.

3. **Recommendation:** *Further process-related evaluation activities are required to assess the capacity of implementing organisations at each step of the mechanism. This can be undertaken in the initial stage of phase two concurrently with the planning for the extended level in implementing water and sanitation connections.*
4. **Recommendation:** *To extend the scope of LG and PDAMs involved in the water and sanitation hibah program, flexible technical support is essential for supporting the capacity development of local government and PDAMs to plan, implement and deliver the contracted water and sanitation outputs while maintaining viable business entities.*

### Modality of delivery

The pilot water and sanitation hibah program had a project modality delivered by Gol and IndII. There is a request from stakeholders to adopt a more strategic focus. This would include consideration for embedding the hibah mechanism in Gol systems with IndII taking an implementation support role with Cipta Karya.

5. **Recommendation:** *A program-based design which aligns to the budget cycle is used in phase two and an implementation group formed which reports to the Water and Sanitation Working Group. A longer term vision and plan for full alignment into government processes is required.*

## Communication and wider sector involvement

There needs to be more communication within IndII and with stakeholders across the sector to enhance coordination and prevent duplication of activities.

6. **Recommendation:** Education in using water and sanitation and hygiene behaviour change is required. Using existing Ministry of Health education programs may be an option for the future.
7. **Recommendation:** A water and sanitation implementation group for the hibah program is established, reporting to the Water and Sanitation Working Group. All relevant sector activities including support for PERPAMSI programs to build capacity of PDAMs need to be identified, which could be linked to the water and sanitation hibah program.

## Monitoring and Evaluation

The M&E is a high priority for the future and requires improvements particularly in assessing impacts and linking with other sector activities, and more resources.

8. **Recommendation:** The M&E approach and activities can be extended to include the hibah mechanism processes, outputs and outcomes/impacts (particularly for beneficiaries), and the contribution to sectoral monitoring activities. This evaluation's logic model can be updated and used as the basis for the phase two monitoring and evaluation framework as it delimits the wider water and sanitation hibah program components. A systematic outcomes/impact monitoring approach is recommended from the start of phase two.

## Gender

The importance of gender equality in the hibah program needs to be more clearly communicated to all stakeholders.

9. **Recommendations:**
  - a. Gender specific indicator(s) should continue to be incorporated into the monitoring and evaluation framework.
  - b. Key data collection must ensure data can be disaggregated by gender
  - c. Women need to be well represented during initial community consultation
  - d. Important information about the utility service needs to reach women in households directly.

## Environment

10. **Recommendation:** Community education material should ensure environmental impacts are included to reduce the potential for minor impacts from the water and sanitation hibah.

## Scaling up

This hibah mechanism delivers, and can be extended and mainstreamed. However capital works components will need to be included to achieve extended service delivery.

11. **Recommendation:** A combination of direct funding of capital works and output-based funding is recommended for increasing service delivery in the water and sanitation sector.
12. **Recommendation:** That the modality, delivery, and policy lessons of IndII influence the design of other AusAID programs in Indonesia.
13. **Recommendation:** If pre-financing is to be expanded, research into other PDAMs and their fiscal position is needed. An improved understand of this will ensure equity investment in pre-financing will be not misallocated. This needs to be considered in the planning of flexible technical and business requirements.
14. **Recommendation:** To scale up, flexibility in the amount and type of support, including institutional strengthening is required as the program will be working with a greater range of LGs and PDAMs.

## **Application to other sectors**

The hibah mechanism has the potential to be applied to other sectors, such as road maintenance, in conjunction with other flexible modalities. However, there are some specific reasons this modality worked particularly well in this case (in particular, that PDAMs selected had sufficient capacity and resources, and that the outputs were easy to defined and evaluate). Consequently, it does not suit all circumstances and may only be one of the aid modalities adopted within a sector.

**15. Recommendation:** *A careful analysis of what and how easily measurable and feasible intended 'outputs' are will be important prior to application in other sectors, as well as scoping and assessing processes and capacity.*

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## 7. Appendices

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7.1 Evaluation team

7.2 Methodology appendix

7.21 List of interviewees

7.22 Interview guides

7.23 Field schedule

7.3 Site location findings

7.4 Terms of Reference



## 7.1 Evaluation team

### **Kate Averill Team leader (Evaluation Consult)**

Kate was the team-leader, and provided the evaluation design and methodology. Kate coordinated and had a key role in writing the report.

### **Deddi Nordiawan (Independent Consultant – Indonesia)**

Deddi is based in Indonesia as an independent performance management framework consultant. He was involved with all aspects of the evaluation.

### **Marcus Howard (AusAID)**

Marcus is a highly experienced water and sanitation expert with experience in Indonesia and other countries. He provided technical expertise and guidance to the evaluation team. He was involved in all aspects of the review.

### **Jonathan Gouy (AusAID)**

Jonathon is an economic and policy adviser to AusAID. He provided funding expertise and guidance to the evaluation team.

### **Kara Scally-Irvine (Evaluation Consult)**

Kara was based in New Zealand and worked with Kate during this evaluation. She completed the coding of the interviews, was involved in the quantitative and qualitative analysis of the outputs and outcome/impact data and the writing of this report.

### **Evaluation support team**

Sue Ellen O'Farrell (AusAID, Canberra), Melinda Hutapea (AusAID - Indonesia) and Christiana Dewi (AusAID Indonesia) provided support to the evaluation team.

## 7.2 Methodology appendix

### 7.2.1 List of interviewees

| Interview No. | No Interviewees   | Organisation(s)  | Location             |
|---------------|-------------------|--|----------------------|
| 1             | 4 representatives | AusAID   | Jakarta              |
| 2             | 3 representatives | IndII  | Jakarta              |
| 3             | 3 representatives | IndII  | Jakarta              |
| 4             | 3 representatives | IndII  | Jakarta              |
| 5             | 2 representatives | Directorate of Water Supply Development  | Jakarta              |
| 6             | 2 representatives | Directorate of Environmental Sanitation Development                                | Jakarta              |
| 7             | 3 representative  | Waspola Facility   | Jakarta              |
| 8             | 3 representatives | IndII  | Jakarta              |
| 9             | 2 representatives | Directorate for Housing and Settlement, Bappenas                                   | Jakarta              |
| 10            | 2 representatives | Directorate General of Fiscal Balance, Ministry of Finance                         | Jakarta              |
| 11            | 2 representatives | Directorate of Program Development, DG Human Settlements, Ministry of Public Works | Jakarta              |
| 12            | 1 representative  | ADB  | Jakarta              |
| 13            | 2 representatives | USAID  | Jakarta              |
| 14            | 2 representatives | World Bank   | Jakarta              |
| 15            | 4 representatives | PDAM, Planning agency, Finance Bureau, Economic Bureau                             | Kabupaten Klaten     |
| 16            | 4 representatives | PDAM, Planning agency, Finance Bureau, Economic Bureau                             | Kota Solo            |
| 17            | 4 representatives | PDAM, Planning agency, Finance Bureau, Economic Bureau                             | Kabupaten Wonogiri   |
| 18            | 4 representatives | PDAM, Planning agency, Finance Bureau, Economic Bureau                             | Kabupaten Yogyakarta |
| 19            | 5 representatives | PD PAL, PDAM, Planning agency, Finance Bureau, Economic Bureau                     | Kota Banjarmasin     |
| 20            | 4 representatives | PDAM, Planning agency, Finance Bureau, Economic Bureau                             | Kabupaten Banjarbaru |
| 21            | 4 representatives | PDAM, Planning agency, Finance Bureau, Economic Bureau                             | Kabupaten Banjarbaru |

### 7.2.2 Interview guides (overpage)

**Interview guide: Key stakeholders**

- Select relevant questions for stakeholder before each interview.
- Use Interview Recording Template to record key points for each question from each interview.

| Topic/section (Evaluation Objectives)   | Question classification. | Qn No | Questions  | Relevant key stakeholders for this question |
|---|--------------------------|-------|--|---|
| <i>Intro/prelim</i>   |                          |       | <ul style="list-style-type: none"> <li>• Introduce review (Use information sheet)</li> <li>• Complete consent process (complete form or do verbally if more appropriate)</li> <li>• Interview will take about 45 mins</li> <li>• Use digital recorder for selected interviews</li> </ul> |   |
| <i>Basic data collection</i>  |                          |       | <ul style="list-style-type: none"> <li>• What is/are your name(s)</li> <li>• What organisation do you work for?</li> <li>• What is your role within the organisation?</li> <li>• How long have been in this role?</li> </ul>   |   |
| 1. <i>Formative: What was the intent of the hibah program and what were the intended outputs and outcomes?</i>  | Effic (2)<br>1.1         | 1     | What was the size of the grants and how were they determined?  |   |
|   | 1.2                      | 2     | What do you see as the key intended outputs outcomes from this program?  |   |
| 2. <i>Process: What were the processes used and progress made with the implementation of the hibah program?</i> | 2.1                      | 3     | What were the processes used with implementation of hibah program?<br>What progress has been made with implementation of hibah program?<br>(Selection, planning, budgeting, verification, disbursement)  |   |
|   | 2.2                      | 4     | How did the funding operate for the hibah mechanism?<br>(Probe - planning, budgeting, disbursement)  |   |
|   | Effect (c)<br>2.3        | 5     | What factors led to connections not being independently verified as functioning?   |   |
| 3. <i>Outputs and Outcomes: Were the stated objectives (outputs and outcomes) achieved?</i>                     | Effect (a)<br>3.1        | 6     | Did all LGs/utilities achieve their agreed connection outputs and objectives?<br>(Probe – If not why not?)   |   |
|   | Effect (b)<br>3.2        | 7     | What percentage of connections were independently verified as functioning and then paid?   |   |
|   | 3.3                      | 8     | What were the impacts for direct beneficiaries?<br>(Probe - household facilities, access to safe water or sanitation, hygiene behaviour, other changes)  |   |

|  |    |  |  |  |
|--|----|--|--|--|
|  |    |  | Who were the key beneficiary households?<br>(Were low-income households significant beneficiaries of the hibah program?)   |  |
| Effect (d)<br>3.6  | 9  |  |  |  |
| Effect (d)<br>3.7  | 10 |  | To what extent did women-headed households and those with disabilities benefit from the program?   |  |
| Effect (e)<br>3.8  | 11 |  | What impact did the hibah program have on LG investment in their utilities?<br>(Probe - number of trained/qualified people employed by LGs/PDAMs to provide services)<br>What differences have you noticed within LGs or PDAMs that have come from this program and the processes?<br>(Probe - knowledge, skills, other) |  |
| Counterfactual<br>3.9  | 12 |  | What would have happened without this hibah program in the fieldwork areas?  |  |
| Effic (h)<br>4.1   | 13 |  | Was the size of the grants (as an incentive for LGs) appropriate?<br>(Probe - why?)  |  |
| Effect (c)<br>4.2  | 14 |  | What factors led to connections not being independently verified as functioning? And how can these factors be overcome in future phases of the program?  |  |
| Sus (k)<br>4.3   | 15 |  | What factors (that arose during the implementation) of the program will either positively or negatively impact the sustainability of water and sanitation connections?   |  |
| Effect (f)<br>4.4  | 16 |  | How did the hibah mechanism encourage good public financial management through the prequalification aspects and verification processes of the program?   |  |
| Sus (l)<br>4.5   | 17 |  | Are LGs likely to continue investing in their utilities and expand their networks (e.g. have participating LGs increased their investment in their utilities in their 2011 budget)?  |  |
| Effic (i) 4.6  | 18 |  | How efficient was the hibah mechanism for disbursing funds to LGs (compared to the Dana Alokasi Khusus – DAK mechanism) (Probe - why?)   |  |
| 4.7  | 19 |  | Were risks using the hibah mechanism appropriately managed?  |  |
| M&E (m) 4.8  | 20 |  | Was the M&E Framework appropriate for monitoring the hibah program? If not, what changes should be made for any future phases of the program?  |  |
| M&E (n) 4.9  | 21 |  | Did the M&E allow Indll and AusAid to appropriately manage the program?  |  |
| Effic (g) 4.10   | 22 |  | Was management of the hibah program through Indll the most efficient management method (compared to if AusAID had of managed the program)?   |  |
| M&E (o) 4.11   | 23 |  | Was the survey process effective in identifying target households, and verifying effective and sustainable household (or community) connections?   |  |
| Finishing up   | 24 |  | Are there any areas or points you would like to comment upon further?<br>On behalf of the review team thank you for your time. We appreciate your support on this review.  |  |
| <p>4. Lessons Learned:<br/>What relevant lessons learned can be identified that can inform related projects?</p> |    |  |  |  |

**Interview guide/data collection sheet: Beneficiary households**

Date/time:

Interviewer(s):

Location:

| Section/topic                | Interview points/question (Prompts)   | Note taking area   |
|------------------------------|---|--|
| <i>Intro/prelim</i>          | <ul style="list-style-type: none"> <li>• Introduce review briefly (use key points from info sheet)</li> <li>• Indicate interview/discussion will take about 15 minutes</li> <li>• Complete verbal consent process</li> </ul>  |  |
| <i>Basic data collection</i> | <ol style="list-style-type: none"> <li>1. What is your name?</li> <li>2. How many people live in your household? (m/f/adult/children)</li> <li>3. How long have you lived here?</li> </ol>  | Name:<br>M:      F:      children:      Total:<br>Years:      months:                                |
| <i>Connections</i>           | <ol style="list-style-type: none"> <li>4. Are you connected to the water supply?</li> <li>5. Are you connected to the sewerage supply?</li> <li>6. When did this/these connections take place?</li> <li>7. What did you use for water and/or sewerage before you were connected?</li> <li>8. How much does it cost to be connected?                         <ul style="list-style-type: none"> <li>• <i>affordability (inc connection charge and ongoing cost)</i></li> <li>• <i>Do they expect to stay connected</i></li> <li>• <i>Problems</i></li> <li>• <i>.....</i></li> </ul> </li> </ol> | <ol style="list-style-type: none"> <li>4.</li> <li>5.</li> <li>6.</li> <li>7.</li> <li>8.</li> </ol> |



## 7.2.3 Field schedule

| Date/  | Activity /Location   | Comment  |
|--|--|--|
| <b><u>Thursday 31 March</u></b><br>Fly to Yogyakarta | Arrived in Yogya at night  |  |
| <b><u>Friday 1 April</u></b><br>7.00 – 8.00          | Travel by road to Klaten (approximately 50 min to Klaten)  | Klaten and Wonogiri are examples of high achiever in Water hibah program (note: due to Friday prayer time, AusAID and Indli proposed to do the field visit on Saturday morning – however if the meetings with stakeholders finished early, we could still add visit to households on Friday) |
| 8.00 – 11.00   | Meeting with PDAM, project implementing unit of water hibah and followed by meeting with District Head/Mayor of Klaten | Including travel time from PDAM office to District Head/Mayor office   |
| 11.00 – 14.00  | Travel to Solo (approximately 1 hour)<br>On the way:<br>Lunch break<br>Friday prayer                                   |  |
| 14.00 – 16.00  | Meeting with PDAM, project implementing unit and followed by meeting with Mayor of Solo.                               | Solo is high performing city in Sanitation Hibah. Including travel time from PDAM office to District Head/Mayor office   |
| 16.00 – 17.00  | Visit to households  |  |
| 17.00 – 18.00  | Travel back to Yogyakarta  |  |
| <b><u>Saturday 2 April</u></b>                       |  |  |
| 8.00 – 9.00  | Travel to Klaten   |  |
| 9.00 – 11.00   | Visit to households  |  |
| 11.00 – 12.00  | Travel back to Yogyakarta  |  |
| <b><u>Sunday 3 April</u></b>                         | Yogyakarta<br>Internal team discussion/work  |  |
| <b><u>Monday 4 April</u></b>                         |  |  |
| 6.30   | Travel to Wonogiri   | Check out from hotel   |
| 7.00 – 9.00  | Meeting with PDAM, project implementing unit and   | Klaten and Wonogiri are examples of high achiever in   |
| 9.00 – 11.00   |  |  |





## 7.3 Site location findings

### Findings - Klaten

#### Background Information

Klaten Kabupaten (District) is located in Central Java Province south-east of Mt Merapi. Average elevation ranges between 75 and 160 meters above mean sea level. Klaten Kabupaten covers an area of 66,556 ha, and based on data for 2007, has a population of 1,298,680 spread over 26 kecamatan (sub-districts) with population density of 19.5 per ha. Klaten is primarily a rural district but has a strong tourism industry due to the Prambanan Temple. The poverty rate in rural Central Java is 26 per cent, and 28 per cent in urban areas, compared with the national average of 24 per cent. Central Java Province's revenue raising capacity is about half of the national average.

#### Institutional Arrangements

Klaten PDAM was established in 1977 and is a well-functioning water utility with 150 staff. Klaten operates under the Bupati with a Chairman and Directors for Finance/Administration and Technical Services. It has won several awards from PERPAMSI for its good financial and technical performance.

#### PDAM Financial<sup>9</sup>

| PDAM Financial Figures 2010 | PDAM Klaten       |
|-----------------------------|-------------------|
| Asset                       | Rp 49,389,365,011 |
| Liabilities                 | Rp 12,718,104,271 |
| Equity                      | Rp 36,671,260,740 |
| Working Capital             | Rp 6,977,385,937  |
| Cash & Equivalent           | Rp 5,343,476,135  |
| Inventory                   | Rp 139,005,093    |
| Current Ratio               | 12.58             |
| Debt Equity Ratio           | 0.35              |
| Profit/Loss                 | Rp 1,581,142,779  |
| ROE                         | 4.31%             |

PDAM Klaten has a quite good availability of funds to operate its business. It can be seen from its working capital - which is positive - that the current asset exceeds the current liabilities. PDAM Klaten also has good liquidity. It has good short-term financial strength because the high current ratio and it means PDAM Klaten doesn't have problems in meeting its short-term obligations. The low debt equity ratio indicates that the majority of assets are financed through equity. Its earnings are also less volatile as a result of having no additional interest expense. Return on Equity shows us that PDAM Klaten is efficient enough to generate profit.

#### Installation

Connection cost 850,000 rupiah.

Payment Options:

Instalment: 1<sup>st</sup> payment of 50,000 and 40 payments of 20,000.

User Tariff: 600 Rp per M3. Average bill is 15 M3/month or 40,000 Rp.

<sup>9</sup>See section at the end of this appendix for details of financial indicators

### **Description of the Water Supply System**

Klaten PDAM provides a piped water supply in 8 kecamatan within the Kabupaten. The PDAM water supply is divided into 10 sub-systems, with a total of 28,696 connections. One new sub-system was recently completed and 3 more sub-systems are proposed for development with new central government funding.

Klaten has a total water allocation of 417 L/s (36 ML/d), from a combination of deep wells and springs sources, which the PDAM has developed for a total production capacity of 305 L/s (26.4 ML/d). Non Revenue Water (water loss) is 22per cent which is low by Indonesian standards. Prior to 2008 Klaten PDAM reported they had zero growth in new water connections. Since then it has installed over 7,000 new connections from their own budget and the water hibah program.

### **Water Hibah Program**

IndII funded a baseline survey of 3,286 households in 8 sub-districts of Cwas, Delanggu, Jatinom, Kalikotes, Kemalang, Pramban, Tcucuck and Wedi.

Under the water hibah program Klaten has received a grant of 8 billion rupiah for 3000 new household connections. During the site visit the Klaten PDAM reported that it had achieved the 3000 household target. There were no technical problems with the installations.

### **Hibah Financial and Approval Mechanism**

Before implementation, a local regulation (regarding LG investment to PDAM) was issued to allow the program to take effect. The hibah investment was considered as important to increase the PDAM capacity to construct service extensions. The LG needed cooperation from the local parliament to approve the necessary local regulation. Klaten budgeted their allocation of investment to PDAM after the local regulation was issued which increased the time taken to process the investment until the end of the year.

For the PDAM, after agreement was reached with the Ministry of Finance, they decided to start work immediately; otherwise construction would not have been finished in the scheduled time. There were two options; waiting for the investment from LG or using PDAM resources to start the construction.

### **Technical Issues**

Klaten implemented the hibah program by making new connections to the existing piped water supply system and by extending water services to allow connections to households in unserved areas. New water pipelines and household connections were installed by a contractor under supervision of the PDAM.

In the area visited by the evaluation mission an extension of the Klaten water supply system was necessary to provide the supply. All houses in the community met the criteria and had been connected under the hibah program. Each house had a tap stand at the meter and in some cases the owner had extended the pipe connection inside the house. Pressure and flow observed was good. At some houses there was inadequate drainage around the tap stand. In these cases a concrete pad and drainage is required to reduce pooling of water as this could cause transmission of vector borne disease. .

### **Beneficiary Impacts – Household Surveys**

The evaluation team, IndII and GoI stakeholders surveyed 13 households in Klaten that were connected through the water hibah. Examples of key changes for beneficiaries from the water hibah connections include:

*Before-* households reported that before the new water connection they used their own well for washing which was often salty and discoloured. The beneficiaries reported that before they mainly used the public well for drinking which was about 1km away.

*Changes in health-* beneficiaries reported they felt cleaner from washing with piped water and that their children's skin problems had decreased which they felt was due to the better quality of washing water.

*Changes in quality of life –* key changes for beneficiaries include that having piped water is saving time and they have more energy as they do not have to collect water from the well.

*Other changes –* beneficiaries report they are using the piped water for their cattle

*Problems -* no major problems were reported. Minor issues include discoloured water from pipe after a storm and occasional leakage

*Sustainability –*11/13 beneficiary households' surveyed reported they will continue with their water connection and two households did not comment.

### **Counterfactual**

The water supply system funded under the water hibah program connected all households in the community and the team did not visit an un-served community. The counterfactual position would be seen in nearby villages that relied on similar groundwater sources which are contaminated by saline water intrusion. These communities would have problems similar to those reported by the households before they were connected to a piped water supply i.e. walking long distances to collect water which was a daily burden particular for women.

### **Lessons Learned**

Customer awareness programs, which are run at the time of implementation, need to include education on hygiene practices. Education is required on issues including the need for adequate drainage at the tap stand as well as how they can manage increased volumes of household wastewater.

The time constraint of the water hibah program did not allow for planning and implementation of major works such as pipe extensions to reach some priority areas. More time was needed under the hibah program by PDAM's to reach the more remote areas.

The water hibah complemented PDAM programs including water treatment and extension of transmission mains that were funded from capital reserves and central government grants.

Sustainability is an issue for PDAM's as the low-income tariff does not provide for full cost recovery. There is a need for schemes to aim for universal access to create a cross-subsidy mechanism, so that services to all households including low-income-people can be maintained.

For PDAM's hibah is considered a better option than the DAK, but there needs to be consideration of their financial capacity to pre-finance the work.

## Findings – Solo (Surakarta City)

### Background Information

Solo (Surakarta City) is located in Central Java Province east of Mt Merapi. Average elevation of the city is around 90 meters above mean sea level. Solo covers an area of 44.04 km<sup>2</sup>, and based on data for 2005, has a population of 556,054 spread over ten districts with population density of 12,594 per km<sup>2</sup>. The eastern part of the town is bordered by Bengawan Solo River, the longest river on Java. Solo is a commercial and market centre with a number of textile and pharmaceutical of industries. It has a strong cultural heritage including batik production and is a tourism centres with the Keraton Surakarta Palace market. Solo is also a tourist destination as it close to Yogyakarta, the Prambanan Temple and Borobudur UNESCO World Heritage site.

The poverty rate in rural Central Java is 26 per cent and 28 per cent in urban areas, compared with the national average of 24 per cent. Central Java Province's revenue raising capacity is about half of the national average.

### Institutional Arrangements

Surakarta City PDAM was established in 1960 and is a well-functioning utility with responsibility for water and sewerage in the city. Surakarta operates under the Bupati with a Chairman and Directors for Finance/Administration and Technical Services.

### PDAM Financial

| PDAM Financial Figures 2010 | PDAM Solo          |
|-----------------------------|--------------------|
| Asset                       | Rp 94,079,859,029  |
| Liabilities                 | Rp 68,502,345,322  |
| Equity                      | Rp 25,577,513,708  |
| Working Capital             | Rp (2,260,231,395) |
| Cash & Equivalent           | Rp 2,329,755,505   |
| Inventory                   | Rp 77,494,930      |
| Current Ratio               | 0.83               |
| Debt Equity Ratio           | 2.68               |
| Profit/Loss                 | Rp 6,203,703,480   |
| ROE                         | 24.25%             |

PDAM Solo has a problem with its capacity to operate the business as it lacks the capital funds necessary for growth. This is shown by its negative result of the working capital, which shows that current liabilities are higher than current assets. For liquidity, a current ratio under 1 suggests that the company would be unable to pay off its obligations if they came due at that point. While this shows the company is not in good financial health, it does not necessarily mean that it will go bankrupt - as there are many ways to access financing. PDAM Solo also has a large number of debts. It has as quite high debt equity ratio which means the majority of assets are financed through debt. If debt is used to finance increased services and a larger customer base, the company could potentially generate more earnings than it would have without outside financing. With efficiency to generate profit; PDAM Solo has a very good result in ROE. This figure means that a high profit is to generated from the resources provided by its stockholders.

### Installation

Sanitation: No connection charge. User tariff 7,500 Rp per household per month.

### **Description of the Water Supply System**

PDAM Solo provides a piped water supply in five kecamatan within the Kabupaten. Solo sources raw water from a combination of deep wells (472 L/s) and from Cokrotulung springs (387 L/s). The PDAM has developed a total production capacity of 859 L/s (74.2 ML/d). In 2005 the PDAM water supply served 55.2 per cent of the population with a total of 52,776 connections and operated 469 public standpipes. Several areas of the city report problems with low water pressure and lack 24hr/7day service. As a large proportion of the population use groundwater from shallow wells the use of septic tank systems has an adverse impact ground water quality.

### **Description of Sewerage System**

PDAM Solo operates a piped sewerage system with a total of 11,023 customer connections which is only equivalent to 10per cent of the total city population. It also provides a disposal facility for septic tank wastes at PD-PAL Mojosongo. In Solo, 89per cent of the wastewater discharged comes from households, 7per cent from commerce and 4 per cent from hospitals and industries. The wastewater treatment facility PD-PAL Semanggi and IPAL Mojosongo Wastewater Treatment Plant have a combined treatment capacity of 4,665 m<sup>3</sup>/day. Wastewater treatment is undertaken through an anaerobic filter bed process. 5 areas of the city are also served by communal piped sewerage systems which discharge to neighbourhood septic tanks systems.

### **Sewerage Hibah Program**

Indll funded a baseline survey of 1,101 households in 3 sub-districts of Serengan, Pasar Kliwon and Laweyan.

Under the Sanitation Hibah PDAM Solo received a grant of 2 billion rupiah for 400 new household connections. During the site visit the PDAM reported that it had achieved more than that target and installed 465 connections. Due to the PDAM's good performance Indll has approved an additional 2 billion rupiah for another 400 household connections. Connections were verified by Cipta Karya and independent consultants engaged by Indll.

### **Hibah Financial and Approval Mechanism**

After the hibah agreement with the Ministry of Finance, PDAM Solo started construction of works immediately. They were able to use current inventory (pipes and fittings) to build the connections. A local regulation was prepared parallel with the construction to allow for the hibah program.

In the budget process, the investment allocation for the hibah was included in the revised budget document in 2010. When a payment request was made to Ministry of Finance in December 10, all documents required were provided and the payment was received soon after.

### **Technical Issues**

Due to time constraints no service extensions were made, it was decided that only houses that fronted an existing sewer could be serviced. In the neighbourhood visited only 25 out of 66 houses were connected to the sewer so water quality in the local drainage system was not greatly improved. Drains were still polluted by discharges from neighbouring properties. To achieve the full environmental and health benefits of sewerage hibah programs should aim for a 100 per cent connection rate in each neighbourhood served.

Household connections were installed by contractors under the direct supervision of the PDAM. In households visited the service was made by installation of a service pipe laid by cutting a trench through the floor of the house or a pipe around the outside of the house. Connections were only made to the toilet and/or laundry. Tiled or concrete floors had been reinstated to a satisfactory standard.

Greywater from the kitchen was not connected in all households due to the plumbing requirements. It was disposed of to the sewer by bucket through the laundry floor drain or discharged to the

stormwater drainage system. In future hibah programs implementing agencies should aim for connection of both toilet and greywater discharges to the sewer.

### **Beneficiary Impacts – Household Surveys**

The evaluation team, Indll and GoI stakeholders surveyed five households in Solo that were connected through the sanitation hibah. Examples of key changes for beneficiaries from the sanitation hibah connection include:

*Before* - households reported that before the new sanitation connection was made they were using a septic tank system which they get cleaned once a year. Beneficiaries reported that their septic tanks caused bad odours which required chemical treatment.

*Changes in health* – two out of five beneficiaries reported they felt it was cleaner and more hygienic with less water pooling around their houses. They also said they had installed more hand washing stations where the waste water drained into the new sewer pipes.

*Changes in quality of life* –beneficiaries said the odour had reduced with the new sanitation connection.

*Problems* - no major problems were reported.

*Sustainability* – Beneficiaries said that the sanitation installation needed to be done on a wider basis to service all houses to really make a much bigger difference to their community.

### **Counterfactual**

The majority of households (89 per cent) in Solo City access drinking water from a deep well or PDAM and use 83.7 per cent use septic tanks for their sanitation and about 11.3 per cent discharge waste directly to the river.. About 5 per cent of households use shallow well water for drinking which places them at risk of diarrhoeal diseases due to contamination of shallow groundwater by septic tanks.

Households in the area visited reported that there was no noticeable difference in the area as a result of the sanitation hibah. About 43 per cent of households reported they were not happy with their septic tank system so they would benefit from a sewer connection. Achieving the full health and environmental benefits of sewerage requires universal coverage in an area served otherwise there will be no discernable improvement in their local environment

### **Lessons Learned**

The PDAM reported that it would prefer to use the hibah grants to construct works to extend sewerage services to poor areas and would aim to include all households.

Awareness training and community consultation focused on the environmental benefits of sewerage but not on hygiene. Health and hygiene behaviour change were not part of the public campaigns

## Findings – Wonogiri

### Background Information

Wonogiri Kabupaten (District) is located in Central Java Province. Average elevation of Wonogiri is 235 meters above mean sea level. Wonogiri is located in the Sewu highlands which is a kaarst formation. Wonogiri Kabupaten covers an area of 182,236 ha, and based on data from 2009, it has a population of 1,212,677 people spread over a twenty five kecamatan (sub-districts) with population density of 6.65 per ha. Gajahmungkur dam located near Wonogiri has three main functions, as a hydro power plant, to produce electricity to provide water for irrigation of rice fields, and for tourism.

The poverty rate in rural Central Java is 26 per cent, and 28 per cent in urban areas, compared with the national average of 24 per cent. Central Java Province's revenue raising capacity is about half of the national average.

### Institutional Arrangements

Wonogiri PDAM was established in 1977 and is a well-functioning water utility with 150 staff. Wonogiri PDAM operates under the Bupati with a Director and department heads for Finance/Administration, Technical Services, Customer Services, Planning and Research and Development.

### PDAM Financial

| PDAM Financial Figures 2010 | PDAM Wonogiri     |
|-----------------------------|-------------------|
| Asset                       | Rp 18,427,966,897 |
| Liabilities                 | Rp 6,870,532,400  |
| Equity                      | Rp 11,557,434,497 |
| Working Capital             | Rp 932,168,945    |
| Cash & Equivalent           | Rp 1,864,899,271  |
| Inventory                   | Rp 124,194,415    |
| Current Ratio               | 1.36              |
| Debt Equity Ratio           | 0.59              |
| Profit/Loss                 | Rp 350,440,427    |
| ROE                         | 3.03%             |

PDAM Wonogiri has adequate availability of funds to operate its business. It has a positive working capital, although still low compared to other PDAM's (except PDAM Solo). It means that PDAM Wonogiri can still can operate its business but requires extra income to make it more secure. It also has a good current ratio which indicates it has no problems fulfilling short-term liabilities. In debt to equity ratio, indicates that that the majority of assets are financed through equity. PDAM Wonogiri is also efficient enough to generate a profit, which can be seen from its ROE.

### Installation

Connection cost for each household was 1 million rupiah. This comprised 800,000 rupiah for the connection and 200,000 for an incentive scheme under which the participant was eligible to win a motor bike or television.

User Tariffs: INR per M3



### **Description of the Water Supply System**

Wonogiri PDAM provides a piped water supply to communities in 17 kecamatan. The PDAM water supply is divided into seven sub-systems, with a total of 20,499 connections which serves 42.18 per cent of the urban population.

Wonogiri sources its raw water from a combination of deep wells and springs sources and the PDAM has a total production capacity of 389 L/s (33.6 ML/d). Non-revenue water (water loss) is 24 per cent which is low by Indonesian standards.

### **Water Hibah Program**

IndII funded a baseline survey of 2,353 households in 10 sub-districts. 9 sub-systems were assessed as having spare capacity for new hh water connections and were suitable for inclusion in the hibah program.

Under the water hibah Wonogiri received a grant of five billion rupiah for 2,000 new household connections. During the site visit the PDAM reported that it had completed all the planned connections. There has been independent verification of the connections and billing effectiveness and 1.9 billion rupiah has been claimed and paid. The remainder of 3.1 billion rupiah is expected to be verified for payment in May 2011.

### **Hibah Financial and Approval Mechanism**

As part of the process the PDAM prepared a list of customers, including the lower-income segment. When the agreement was signed with the Ministry of Finance, the list was utilised as customer base data.

The LG prepared a Local Regulation for PDAM investment after an intensive discussion between PDAM, LG and parliament. Based on that Local Regulation, the LG allocated investment funds in their 2010 budget (January) and allocated some additional funds in their revised 2010 budget (September). So, when the agreement was signed funds were already in place from the 2010 budget. Construction by the PDAM was commenced after the investment loan was made by the LG to PDAM.

A payment request was submitted to the Ministry of Finance in the second week of December after verification had been completed.

### **Technical Issues**

Water scarcity is a major problem for communities in Wonogiri without access to a piped water supply. Dug wells and springs frequently run dry outside the wet season. The PDAM provides water to nearby communities during the dry period by filling storage tanks or wells, which was considered as expensive and not an efficient use of water.

Wonogiri mainly utilised the hibah program to extend services to un-served communities in rural areas. The water supply system visited was a basic spring-fed pipe system installation which was appropriate and all houses visited had metered connections. Due to the rural nature of the system household connections were away from the road and were quite long which made the connections more expensive than for urban connections.

### **Beneficiary Impacts – Household Surveys**

The evaluation team, IndII and GoI stakeholders surveyed six households in Wonogiri that were connected through the water hibah. Examples of key changes for beneficiaries from the water hibah connections include:

*Before-* households reported that before the new water connection they got their drinking water from the river which dried up during dry season. Then they had to queue for water which could take most of the day.



*Changes in health*—beneficiaries said they are able to bath more now they have regular water and their bodies feel better because of less strain from having to carry water.

*Changes in quality of life*—beneficiaries said that it is much less work now they have piped water and do not have to go and wait to collect water. They are also saving money as it is cheaper to have piped water than to buy water

*Other changes* – beneficiaries said they now have more time so they can be more productive in their businesses such as making tempe to sell. They also use the water for their animals.

*Problems* – None reported as the water quality from the connections was reported to be good.

During the site visit, four residents approached the evaluation team to say that they had not been connected to the scheme despite asking for the service. They reported that options of a loan or term payments were not made available to all households.

*Sustainability* – all beneficiaries said they will stay connected as it was cheaper than the alternatives and made life easier.

### **Counterfactual**

The team met with residents in an area that was not served by a piped water supply. They reported that they had significant issues with their domestic water supply, particularly in the dry season when their wells run dry. People had to purchase tankered water from the PDAM or walk long distances to collect water from a stream. These residents said they would benefit from a piped water supply as water purchased from the PDAM was mostly wasted when discharged into their household wells.

### **Lessons Learned**

The actual beneficiaries visited were different from the initial targeted beneficiaries as they changed significantly after the initial household survey. Initial household surveys should therefore focus on a smaller group and allow the use of national statistics office data and statistical analysis to verify that the program will target low-income areas.

Consultants who undertook the initial community consultation did not ensure that people understood the project cycle at the survey stage. Many residents did not quite understand that the survey was preliminary and there was not a commitment to provide them with a piped water supply.

There is a need to improve training of consultants undertaking household surveys to ensure they properly communicate the nature of the consultation.

The PDAM was ready to implement once the agreement was signed as the investment from the LG had been budgeted at the beginning of year. Therefore, the sequence of investment, construction, hibah payment, occurred effectively in Wonogiri.

## Findings – Banjarmasin

### Background Information

Banjarmasin City (District) is located in South Kalimantan Province. Average elevation of Banjarmasin is -0.16 meters, which is below mean sea level. Banjarmasin is located on the east side of the Barito River and the groundwater table is affected by tides from the Java Sea. Banjarmasin City covers an area of 7200 ha, and based on data from 2008, it has a population of 640,351 people spread over 13 kecamatan (sub-districts) with population density of 88.9 per ha. The city is a transport hub for South Kalimantan and is a centre for commerce, fisheries and an important deep water port and trade centre. Exports from the region include rubber, timber, petroleum, coal, gold, and diamonds. Passenger ships and ferries to and from Java also operate from here.

The poverty rate in rural South Kalimantan is 16 per cent and 25 per cent in urban areas, compared with the national average of 24 per cent. South Kalimantan's revenue raising capacity per head is about two-thirds of the national average level.

### Institutional Arrangements

Bandamarsin PDAM was established in 1976 and is a well-functioning water utility with 329 staff. The PD PAL is responsible for sewerage and has 40 staff. Bandamarsin PDAM operates under the Bupati with a Director and department heads for Finance/Administration, Technical Services, and Customer Services.

### Financial Figures of PD PAL

| PD PAL Financial Figures 2010 | PD PAL Banjarmasin |
|-------------------------------|--------------------|
| Asset                         | Rp 62,307,857,932  |
| Liabilities                   | Rp 90,861,020      |
| Equity                        | Rp 62,216,996,912  |
| Working Capital               | Rp 27,332,688,922  |
| Cash & Equivalent             | Rp 23,321,514,782  |
| Inventory                     | Rp 3,501,028,020   |
| Current Ratio                 | 301.82             |
| Debt Equity Ratio             | 0.0015             |
| Profit/Loss                   | Rp (4,949,662,493) |
| ROE                           | -7.96%             |

PD PAL Banjarmasin has a large working capital, which means it can easily operate its business and only has a small amount of liabilities. That small amount of liabilities contributes to the high number of current ratio. This figure indicates PD PAL Banjarmasin has a very good liquidity. It has no problem in paying back short-term liabilities and has good short-term financial strength. Looking at its debt equity ratio, we know that almost all its assets are financed by equity. Low debt/equity ratios may indicate as well that as a company it is not taking advantage of the increased profits that financial leverage may bring. A low debt equity ratio is less risky for the PD PAL because their interests are better protected in the event of a business decline. PD PAL Banjarmasin has a negative result of ROE, as it generates a loss rather than profit.

## Financial Figures of PDAM

| PDAM Financial Figures 2010 | PDAM Banjarmasin   |
|-----------------------------|--------------------|
| Asset                       | Rp 360,581,533,398 |
| Liabilities                 | Rp 132,685,989,338 |
| Equity                      | Rp 227,895,544,060 |
| Working Capital             | Rp 2,055,406,113   |
| Cash & Equivalent           | Rp 11,243,052,363  |
| Inventory                   | Rp 1,469,259,572   |
| Current Ratio               | 1.08               |
| Debt Equity Ratio           | 0.58               |
| Profit/Loss                 | Rp 2,020,514,320   |
| ROE                         | 0.89%              |

PDAM Banjarmasin has a good availability of funds to operate its business because of its available working capital. It also has a good current ratio which indicates no problems are occurring in fulfillment of its short-term liabilities. With the debt to equity ratio, the result is a majority of new assets are financed through equity. Its earnings might be less volatile as a result of having no additional interest expense. PDAM Banjarmasin however has a low percentage of ROE. This indicates the financial efficiency of PDAM Banjarmasin is quite low.

### Installation

No connection cost was charged for sewerage. There is a user tariff of 25 per cent of the PDAM bill which is around 10-25,000 INR per month per household.

### Description of the Water Supply System

Bandarmasih PDAM provides a piped water supply to four zones. The PDAM water supply covers 13 districts and has a total of 112,948 connections which serve 98 per cent of the population. The hibah program focused on low-income areas adjoining the river where households typically use shallow wells, which are polluted, or river water which is of low quality.

Banjarmasin sources its raw water from upstream surface water sources. The PDAM has a total production capacity of 1571 L/s (135.7 ML/d) from two water treatment plants. Pramuka IPA has a capacity of 1025 L/s and serves areas in the east and southern areas and Yani IPA serves the west and southern areas of the city. Non-revenue water (water loss) is 28.5 per cent.

### Description of the Sewerage System

Four separate areas of the city in Lambung, Manghurat, Pekapuran, Hksn and Basiah are serviced by sewerage networks and there are a number of communal sewerage systems. Many communal systems also include a biogas facility which has been very well accepted by residents who use the gas for cooking.

Treatment plants and main sewer networks have been installed by utilising local government grants but the collection network is very limited. Treatment plants operate satisfactorily but are underloaded. With the high water table in Banjarmasin the city wants to trial different sewerage system technology including the use of vacuum systems along the river.

The City has an active public campaign to stop open defecation, reduce the amount of waste thrown into the river and to encourage households to treat sewage properly by connecting to the sewer. It has a strong environmental focus to reduce pollution of the river and groundwater but does not include a strong behavioural change element in the program.

### **Water Hibah Program**

Indll funded a baseline survey of 4,513 households in six sub-districts including West Banjarmasin, South Banjarmasin, East Banjarmasin, North Banjarmasin, Central Banjarmasin and regions in Kabupaten Banjar.

Under the water hibah Banjamsih received a grant of 9.5 billion rupiah for 3,500 household water supply connections. During the site visit to Banjamsin the PDAM and PDPAL reported that the house connection program had gone smoothly although in some areas more time was required to get main pipes installed to improve service pressures. Independent verification will take place in April. Due to good performance in the first phase the PDAM has been allocated an additional 4.5 billion for new extensions.

### **Sewerage Hibah Program**

Under the sewerage hibah the City received a grant of 10 billion rupiah for 2,000 household sewer connections in Kota Banjamsin. During the site visit to Banjamsin the PDPAL reported that the house connection program had gone well but that it was difficult to get agreement to connect. The PDPAL has been allocated an additional 10 billion for another 2000 connection due to its good performance.

### **Hibah Financial and Approval Mechanism**

PAL Banjarmasin was selected as a sewerage hibah recipient. The selection process considered the availability of a City Sanitation Strategic Plan. Since Banjarmasin had developed the City Plan, they were able to access the sewerage hibah.

PDAM Banjarmasin sent their hibah proposal to central government (Ministry of Finance, as well as Ministry of Public Work) and were able to meet conditions; such as the PDAM business plan and financial conditions.

A local regulation on PDAM investment had already been issued not only for hibah purpose, but allowed for more strategic and long term plans as well. For hibah 2010, an equity investment from the LG to the PDAM was included in the revised budget in October 2010.

Construction was started by the PDAM before the LG investment was made. In this case, PDAM had the capacity to use their own working capital to finance construction.

### **Technical Issues**

#### *Water Supply*

In Banjarmasin the local PDAM focused the water hibah program on extending services to low-income communities living close to or on the river. Poor people in these areas have traditionally relied on low quality river water or polluted wells for drinking and bathing and they reported suffering effects including diarrhoeal diseases and skin infections. Access to good quality piped water has made a significant impact on their lives. Practical access to water significantly improved the lives of elderly women who often bore the burden of collecting water.

However, communities in the new areas serviced did report that the water supply was not available on a 24 hours 7 day a week basis which was inconvenient. The PDAM advised that in targeting communities along the river and in the short timeframe of the hibah program they did not have time to install planned supply mains to these areas. The PDAM assured the mission that works are scheduled to improve the supply situation but this will take time.

#### *Sewerage*

In the Hksn area which was visited, the PDPAL extended sewer reticulation to enable the household connections. This clearly demonstrates the leveraging impact of the hibah program. Their policy has been to connect all houses in a location rather than doing them intermittently to gain full environmental benefits. Households are required to connect both toilets and grey water to the sewer to make the

most effective use of the system. However demand is not high and village leaders have had to persuade individuals to connect.

Up to 15,000 connections are planned for the Hksn area with a flow of 5,000 M3 per day. Sewage flows to a relatively new waste water treatment plant which has four rotating biological contractor treatment units. There is provision for the treatment plant to be duplicated as wastewater flows grow. The plant appeared well run and the operators reported that the effluent meets licence standards.

Current household septic systems in Hksn are badly designed. Each house has a small septic tank which retains solids and effluent overflows underneath the house where it ponds due to the high water table. Most houses are therefore sitting in a pool of partially treated sewage which is a potential source of both diarrhoeal and vector-borne diseases. In the future the city proposed they will make connection to the sewer or local treatment compulsory for new developments of over 20 houses to improve the local environment.

### **Beneficiary Impacts – Household Surveys**

The evaluation team, IndII and GoI stakeholders surveyed 12 households in Banjarmasin, six that were connected through the water hibah and six that were connected to a sewage system by the sanitation hibah. Examples of changes for beneficiaries from the water and sanitation hibah connections include:

*Before-* households reported that before the new water connection they either got their drinking water from the river where they washed or brought their drinking water.

*Changes in health*– beneficiaries said they are able to bath more now they have regular water and feel cleaner. They said that their children's health has improved with less skin irritations as the children now bathed at home.

*Changes in quality of life* –beneficiaries said that it is much less work now they have piped water and do not have to go to collect water. Also having water available all the time makes life much easier particularly with washing clothes as previously the well was too busy to have water for laundry.

*Other changes* – beneficiaries said having piped water saves time and now their neighbours want water connections.

With sanitation, households interviewed reported little improvement as the house already had a septic tank. People did acknowledge that connection to the sewer will be good for the local environment and was beneficial for them.

*Problems* – three households said that sometimes, particularly in the morning, the water supply was intermittent.

### **Counterfactual**

River water and shallow groundwater is polluted so communities close to the river have to spend time to collect drinking water or need to purchase water from vendors. People continue to use low quality water for washing and bathing which contributes to health issues including skin irritations. In Banjarmasin households without access to a piped water supply still suffer from these disadvantages.

In areas benefitting from the sanitation hibah we met with residents who were not connected to the sewer. They reported that they were still using their septic tank but would be connected to the sewer in the future. Residents interviewed had access to piped water so did not expect to see any significant change in their own circumstances as their septic system worked. Most did appreciate that once all households were connected there would be a general improvement in the local environment.

**Lessons Learned**

A strong communication plan was required to inform people of the benefits of connection to water supply and sewerage systems. For programs involving sewerage systems a greater emphasis needs to be placed on developing need thorough hygiene behaviour change.

When expanding piped water supply to new areas the PDAM requires time to ensure that the necessary headwork's and supply mains are planned and installed. Preparatory work for the larger works can take several months.

For sustainability, capacity building should be managed continuously, not only for the beneficiaries but also for LG officers and parliamentarians to enhance their perspective about water-sector prioritisation.

## Findings – Banjarbaru

### Background Information

Kota Banjarbaru is located in South Kalimantan Province to the south-east of Banjarmasin. Average elevation of the city is 0-25 meters above mean sea level. Banjarbaru covers an area of 37,130 ha, and in 2008, it had a population of 164,216 people spread over five kecamatan (sub-districts) with population density of 442 per km<sup>2</sup>. Banjarbaru City is the administrative and commercial centre for the region. Economic activity in the city includes commerce, restaurant and hotel (21.7%), services (16.3%), building (16.3%), processing industry (15.7%) and diamond mining, (8.7%), while agriculture contributes only 4.9 per cent.

The poverty rate in rural South Kalimantan is 16 per cent and 25 per cent in urban areas, compared with the national average of 24 per cent. South Kalimantan's revenue raising capacity per head is about two-thirds of the national average level.

### Institutional Arrangements

PDAM Intan Banjar serves Kabupaten Banjar and Kota Banjarbaru and was established in 1982 as Badan Pengelolaan Air Minum (BPAM) and in 1988 it was established as a PDAM. It is a well-functioning water utility with 117 staff. The PDAM operates under the Bupati of both local governments with a Director and department heads for Finance/Administration, Technical Services and three branch offices.

### PDAM Financial

| PDAM Financial Figures 2010 | PDAM Banjar        |
|-----------------------------|--------------------|
| Asset                       | Rp 149,675,600,483 |
| Liabilities                 | Rp 21,679,221,371  |
| Equity                      | Rp 127,996,379,112 |
| Working Capital             | Rp 16,066,332,437  |
| Cash & Equivalent           | Rp 15,385,563,048  |
| Inventory                   | Rp 52,520,250      |
| Current Ratio               | 3.39               |
| Debt Equity Ratio           | 0.17               |
| Profit/Loss                 | Rp 4,698,220,861   |
| ROE                         | 3.67%              |

PDAM Banjar has a large amount of working capital, which means it can easily operate its business. PDAM Banjar also has liquidity. It has good short-term financial strength because the high current ratio and it means PDAM Banjar doesn't have problems meeting its short-term obligations. In debt to equity ratio, the result is that the majority of assets are financed through equity. PDAM Banjar has a good ROE which shows it makes a profit and is able to generate funds from the resources provided by its stockholders.

### Installation

Connection fee for water is 1,100,000 IDR per household. Actual cost of supply including extension of supply mains was estimated at around 7 million IDR per household.

Payment Options: Instalment: 1<sup>st</sup> payment of 250,000 IDR and 5 or 10 payments of [unknown].



### **Description of the Water Supply System**

PDAM Intan Banjar provides a piped water supply to communities within 17 Kecamatan. The PDAM Intan Banjar water supply is divided into 10 sub-systems, with a total of 29,229 connections. Water is sourced from deep well and surface water sources and treated prior to distribution. The PDAM has a total production capacity of 417.5 L/s (36 ML/d).

### **Water Hibah Program**

IndII funded a baseline survey of 2,353 households in 10 sub-districts. 9 sub-systems were assessed as having spare capacity for new hh water connections.

Under the water hibah PDAM Intan Banjar received a grant of 5 billion rupiah for 2,000 new household connections. During the site visit to Kota Banjarbaru and Kabupaten Banjar the PDAM reported that it had installed 2,500 connections. They advised that the City had applied for 5,000 connections as there was great demand for the piped water supply as groundwater sources were badly polluted.

### **Hibah Financial and Approval Mechanism**

Due to an early miscommunication the PDAM commenced installation of household connections before the MoU was signed. This caused funding issues for the PDAM and local government, which pre-installed household connections that were not covered by the hibah grant.

A Local Regulation on PDAM Investment had been established before the hibah grant could be made effective. The investment was not disbursed in 2010, therefore there was no hibah payment for Banjar in 2010.

### **Technical Issues**

PDAM Intan Banjar used the hibah grant to extend water supply services to unserved areas where there is demand for piped water. Existing groundwater sources are known to be polluted so residents use well water for washing and purchase drinking water from vendors.

Household water connections have been enabled by extension of new reticulation pipelines into unserved areas. The technical quality of the work appeared to be appropriate and household connections included meters.

We observed that a number of poorer households in the area visited were not connected. Targeting only low-income households creates an issue for PDAM's as the social tariff is less than the production cost of water. PDAM Intan Banjar advised that they prefer the hibah mechanism over the DAK grant or funding through Cipta Karya but noted the need for more flexibility and use of similar grant mechanisms for water main extensions and water treatment plant upgrades.

### **Beneficiary Impacts – Household Surveys**

The evaluation team, IndII and GoI stakeholders surveyed six households in Banjarbaru that now have water connections from the water hibah. Examples of changes for beneficiaries from the water and sanitation hibah connections include:

*Before* – households reported that before the new water connection they brought drinking water from local vendors and a water connection from a local business which was expensive or the obtained water from a well which was polluted.

*Changes in health* – beneficiaries said they are able to bath more now they have regular water and feel cleaner.

*Changes in quality of life* – beneficiaries said that it made life much easier to have water to drink but they were still not sure of how much it would cost if they used more water for bathing and washing.

*Problems* – beneficiaries said the water quality from the connections was good but some mornings the water pressure was low.

*Sustainability* – all beneficiaries said they will stay connected.

### **Counterfactual**

The community visited included a number of households not connected to the piped water supply. Residents reported that people not able to access a piped water supply for their drinking water either purchased it from neighbours or vendors. Some local residents still walked to a business that provided non-potable water free of charge to residents who lived nearby, but that this water required further treatment before it could be used for drinking.

### **Lessons Learned**

Ensure that PDAM's and local government understand the approval mechanism during the consultation process before entering into a hibah agreement.

Application of grant mechanisms to capital works is an option that the PDAM's believe would be more flexible than the current household connection program.

Connection programs like the water hibah program should aim for achievement of more universal coverage of households to improve the financial viability of PDAM's.

## PDAM Financial Figures

| PDAM Financial Figures 2010 | PDAM Klaten       | PDAM Solo          | PDAM Wonogiri     | PD PAL Banjarmasin | PDAM Banjarmasin   |
|-----------------------------|-------------------|--------------------|-------------------|--------------------|--------------------|
| Asset                       | Rp 49.389.365.011 | Rp 94.079.859.029  | Rp 18.427.966.897 | Rp 62.307.857.932  | Rp 360.581.533.398 |
| Liabilities                 | Rp 12.718.104.271 | Rp 68.502.345.322  | Rp 6.870.532.400  | Rp 90.861.020      | Rp 132.685.989.338 |
| Equity                      | Rp 36.671.260.740 | Rp 25.577.513.708  | Rp 11.557.434.497 | Rp 62.216.996.912  | Rp 227.895.544.060 |
| Working Capital             | Rp 6.977.385.937  | Rp (2.260.231.395) | Rp 932.168.945    | Rp 27.332.688.922  | Rp 2.055.406.113   |
| Cash & Equivalent           | Rp 5.343.476.135  | Rp 2.329.755.505   | Rp 1.864.899.271  | Rp 23.321.514.782  | Rp 11.243.052.363  |
| Inventory                   | Rp 139.005.093    | Rp 77.494.930      | Rp 124.194.415    | Rp 3.501.028.020   | Rp 1.469.259.572   |
| Current Ratio               | 12,58             | 0,83               | 1,36              | 301,82             | 1,08               |
| Debt Equity Ratio           | 0,35              | 2,68               | 0,59              | 0,0015             | 0,58               |
| Profit/Loss                 | Rp 1.581.142.779  | Rp 6.203.703.480   | Rp 350.440.427    | Rp (4.949.662.493) | Rp 2.020.514.320   |
| ROE                         | 4,31%             | 24,25%             | 3,03%             | -7,96%             | 0,89%              |

## Definition of Financial Indicators

### 1. Working Capital

Working capital measures a company's availability to finance its business. The number can be positive or negative, depending on how much debt the company is carrying. Working capital is calculated as:

$$\text{WorkingCapital} = \text{CurrentAssets} - \text{CurrentLiabilities}$$

### 2. Current Ratio

Current Ratio measures a company's liquidity. The ratio is calculated by its ability to pay back the short-term liabilities (debt and payables) with its short-term assets (cash, inventory, receivables). Current Ratio is calculated as:

$$\text{CurrentRatio} = \frac{\text{CurrentAssets}}{\text{CurrentLiabilities}}$$

### 3. Debt Equity Ratio

Debt Equity Ratio measures a company's financial leverage calculated by dividing its total liabilities by stockholders' equity. It indicates what proportion of equity and debt the company is using to finance its assets. Debt Equity Ratio is calculated as:

$$\text{DebtEquityRatio} = \frac{\text{TotalLiabilities}}{\text{Equity}}$$

### 4. ROE (Return On Equity)

ROE measures a company's profitability by revealing how much profit a company generates with the money shareholders have invested. ROE is expressed as a percentage and calculated as:

$$\text{ROE} = \frac{\text{NetIncome}}{\text{Equity}}$$

## 7.4 Terms of reference

### Independent Review of the Water and Sanitation Hibahs

#### Background:

1. The Water and Sanitation Initiative (WSI) budget measure was announced in the 2008-09 Australian federal budget with funding of \$300 million. The Indonesia program is the single largest beneficiary with a \$60.5 million allocation.
2. The Indonesia WSI is composed of three key programs, the most significant being \$25 million for a water and sanitation incentive grants (*hibah*<sup>10</sup>) program to stimulate increased local government investment in piped water supplies and sewerage systems in poor communities.<sup>11</sup> This program (referred to below as the “hibah program”) is the subject of this independent review.
3. The hibah program received peer review approval in November 2009. Due to the tight timeframe for the hibah program’s implementation (to be completed by June 2011), and the close linkages between it and other water and sanitation activities being funded by the Indonesia Infrastructure Initiative (IndII), a three year \$60 million infrastructure facility, the peer review agreed that IndII was an appropriate vehicle to manage the implementation of the water and sanitation hibah program.<sup>12</sup>
4. The hibah program aims to pilot an innovative payment mechanism based on an output-based approach. Essentially, the approach encourages local governments (LGs) to invest in their urban water utilities (PDAMs) to expand their water network through new water connections (with a focus on low-income households). Each LG is paid upon completion and independent verification of new household water connections that have been functioning for at least three months. The same principles apply to the sanitation/sewerage component of the program.
5. According to the hibah program design document, the high-level outcome of the hibah program is to increase investment from participating LGs in their respective water and sanitation utilities as a first step towards greater responsibility by LGs for water and sanitation services. The key outputs of the program are:
  - a. Up to a maximum of 70,000 household water connections of which approximately 50% will be poor households; and
  - b. Up to a maximum of 10,000 household wastewater connections of which approximately 50% will be poor households.
6. A Direct Funding Agreement (DFA) between the Government of Australia (GoA) and GoI was signed in May 2010 and water connections construction started in June 2010.

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<sup>10</sup> *Hibah* means grant in Bahasa Indonesia. In the context of the water and sanitation initiative, it refers to an outputs-based mechanism where funds are transferred to a Bank of Indonesia Special Account by AusAID and then disbursed to local governments by the Indonesian Ministry of Finance after independent verification of agreed outputs, in this case, water or sewerage connections.

<sup>11</sup> Other WSI programs include: \$22.5 million for the World Bank’s Water and Sanitation in Low Income Communities (PAMSIMAS) program to expand water and sanitation in rural villages; and \$9 million to support the preparation of high standard sanitation investment plans for eight cities. Separate independent reviews will be conducted on these WSI programs.

<sup>12</sup> More information about IndII can be found from the IndII website: [www.indii.co.id](http://www.indii.co.id) and the key documents listed in these ToRs.

7. Whilst the hibah program is relatively young in terms of implementation, it has caught the attention of other donors, notably USAID and the multilateral development banks (World Bank and Asian Development Bank). AusAID and USAID will soon enter into an agreement that outlines USAID's contribution of USD10 million to expand the water hibah into new districts. The money will be transferred to the Special Account AusAID has established in Bank Indonesia and will be managed by the IndII facility. The multilateral development banks are interested in using the hibah mechanism as a possible means of disbursing future loans to LGs.

8. Given the hibah mechanism's apparent success so far and the promising results of other output-based aid projects implemented by the Global Partnership for Output Based Aid (GPOBA), AusAID is considering whether the hibah mechanism can be used in other sectors in Indonesia, primarily in road maintenance and more generally, in other country programs and sectors.

### **Scope of the Review:**

9. The review will cover both the water *and* sanitation hibah programs.
10. Based on paragraphs 7 and 8 above, there are two purposes to this independent review:
  - a. To assess whether the hibah program achieved its targeted outputs and outcomes; and
  - b. To assess the performance of the hibah mechanism, including the effectiveness and efficiency of the mechanism and lessons learned for the water and sanitation sector and more generally.
11. This review will inform the following management decisions:
  - a. Whether to implement a second phase of this hibah program, and if so, what changes, if any, can be made to the program to make it more efficient, effective and sustainable;
  - b. Whether the hibah mechanism is an efficient and effective means of delivering funding to local governments for other infrastructure projects; and
  - c. What resources and actions must be allocated and/or undertaken by AusAID for an impact evaluation on the hibah program to be undertaken in approximately five years time.

### **Possible Evaluation Questions:**

12. While reviewing the performance of the program and hibah mechanism, we expect the review team to consider the following questions:
13. **Effectiveness:** Did the hibah program achieve its targeted outputs and objectives?
  - a. Did all LGs/utilities achieve their agreed connection targets?
  - b. What percentage of connections were independently verified as functioning and then paid?
  - c. What factors led to connections not being independently verified as functioning? And how can these factors be overcome in future phases of the hibah program?
  - d. Were low income households significant beneficiaries of the hibah program? And to what extent did women-headed households and those with disabilities benefit from the program?
  - e. What impact did the hibah program have on LG investment in their utilities?

- f. How did the hibah mechanism encourage good public financial management through the prequalification aspects and verification processes of the program?
14. **Efficiency:** Was the hibah program managed to get the most out of the inputs of funds, staff and other resources, including continual management of risks?
- g. Was management of the hibah program through IndII the most efficient management method (compared to if AusAID had managed the program)?
  - h. Was the size of the grants (as an incentive for LGs) appropriate?
  - i. How efficient was the hibah mechanism for disbursing funds to LGs (compared to the Dana Alokasi Khusus – DAK mechanism)?
  - j. Were risks using the hibah mechanism appropriately managed?
15. **Sustainability:** Did the hibah program appropriately address sustainability so that benefits of the activity will continue after the program with due account of partner government systems and stakeholder ownership?
- k. What factors (that arose during the implementation) of the program will either positively or negatively impact the sustainability of water and sanitation connections?
  - l. Are LGs likely to continue investing in their utilities and expand their networks (e.g. have participating LGs increased their investment in their utilities in their 2011 budget)?
16. **Monitoring and Evaluation:** Did the hibah program's monitoring and evaluation systems effectively measure progress towards meeting objectives?
- m. Was the M&E Framework appropriate for monitoring the hibah program? If not, what changes should be made for any future phases of the program?
  - n. Did the M&E allow IndII and AusAID to appropriately manage the program?
  - o. Was the survey process effective in identifying target households, and verifying effective and sustainable household (or community) connections?

**Review Process:**

17. The review process will be comprised of the following components:
- a. Three days **preparation/familiarisation with the program** and other review team members: this will include reading relevant documentation provided by AusAID (including advise AusAID of any additional documents or information required prior to the in-country visit). Telephone conferences between team members to discuss roles within the review may also take place during this timeframe.
  - b. The M&E specialist/team leader will have two days to develop an **evaluation plan** including the methodology, key review questions and identification of key respondents. The plan will outline the specific roles, responsibilities and expectations of review team members. The AusAID review manager will discuss the evaluation plan with the team leader before the plan is developed. Standards for this evaluation plan can be found at Attachment A.
  - c. Participate in an **AusAID briefing session** in Jakarta at the start of the in-country field visit (approximately half a day on Monday 28 March 2011).
  - d. **Conduct meetings in Jakarta** (from Monday 28 March 2011 until Friday 8 April – 12 days) and possibly travel to four locations (of varying success<sup>13</sup>) where the hibah program was implemented.

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<sup>13</sup> AusAID suggests the review team travel to two locations where the hibah program worked very well, one location with average performance and one location where the program was not so successful. AusAID will assist the team leader identify these locations.

- e. **Prepare an aide memoire** (of two pages) for submission on the final day of the field review which outlines the major findings of the review to AusAID Jakarta and counterparts (half a day).
- f. **Submit a draft ICR** (5 days of writing for the team leader). The team leader will discuss the contributions of other team members prior and/or during the mission in Jakarta. AusAID will take approximately two to four weeks to compile comments on the draft for the team leader to consider.
- g. **Submit the final ICR** (2 days of writing for the team leader). Other review members will be expected to support the team leader as appropriate (e.g. fact checking). The final report will be published on the AusAID website.

**Review Team:**

18. The review team will be made up of the following team members:
- a. An independent monitoring and evaluation specialist (team leader);  
The M&E specialist will have had technical training in M&E, be experienced in reviewing development projects, including those using government systems and be an experienced review/evaluation team leader.
  - b. A water and sanitation specialist;  
The water and sanitation specialist will have experience in the design and delivery of water and sanitation projects as development programs. The specialist will also be experienced in urban water supply projects and familiar with urban management and governance arrangements between local governments and their water utilities.
  - c. A public finance management (PFM) specialist;  
The PFM specialist will have experience related to the use of Indonesian Government financing systems. The specialist will also be experienced in donor use of government systems, with specific knowledge on risks and the administration required for using such systems.
  - d. An AusAID officer;  
The AusAID officer will be familiar with the use of output-based approaches to delivering services in development programs. This officer will also use their position within the Agency to socialise and apply the review results to other parts of the Agency/program where appropriate.
  - e. GoI officials as appropriate; and  
During certain parts of the in-country mission (most likely for field visits), GoI officials will be invited/encouraged to participate. AusAID Jakarta will identify appropriate GoI officials for this.
  - f. Translator/s  
AusAID will hire a translator to attend review meetings and field trips. The translator will be expected to attend AusAID briefing sessions to gain a context/background of the program and associated key terms/language.



### **Reporting Requirements:**

19. The review team (led by the M&E specialist) will provide AusAID with the following reports:
- a. **Evaluation plan** – to meet AusAID standards (see Attachment A) and be submitted at least one week prior to the in-country visit for stakeholder consideration;
  - b. **Presentation of an Aide Memoire** and discussion – on the initial findings of the review to be presented to AusAID and to key GoI stakeholders at the completion of the in-country mission;
  - c. **Draft review report** – to be submitted to AusAID within two weeks of completing the field visit. AusAID may share the report and seek feedback from relevant GoI agencies/ministries and other key stakeholders (such as IndII/SMEC) as appropriate;
  - d. **Final review report** – to be submitted within two weeks of receipt of AusAID’s comments on the draft report. The review team shall determine whether any amendment to the draft is warranted. The report shall be a brief and clear summary of the review outcomes and be based on a balanced analysis of the program.
20. Both the draft and final report should be no more than 20 pages of text plus short reports (of no more than four pages long) for each site visit and a special annex on the use of the hibah mechanism in other sectors. The executive summary should be no more than 2-3 pages.
21. The draft report may be subject to an independent technical quality review. Revisions to the report may be required following these reviews, and will be negotiated as appropriate.

### **List of key stakeholders:**

22. The review team may wish to interview the following stakeholders during the in-country visit:
- a. SMEC / IndII Facility – including the water and sanitation technical director and his team as well as the facility director;
  - b. Ministry of Public Works, specifically key personnel from the Directorate General of Human Settlements;
  - c. Ministry of Finance, specifically key personnel from the Directorate General of Fiscal Balance;
  - d. National Development and Planning Agency (Bappenas), specifically key personnel from the Directorate of Housing Settlement;
  - e. Relevant Local Government officials and utility personnel from field visit sites;
  - f. Other donors (including the World Bank/GPOBA, Asian Development Bank and USAID)

### **List of key documents:**

23. The review team will be provided with the following documents prior to their visit in-country:
- a. WSI Urban Water Supply and Sanitation Program Design Document;
  - b. Design Peer Review Minute and Quality at Entry reports by peer reviewers;
  - c. Relevant monitoring reports;
  - d. GoA-GoI Direct Funding Agreement;
  - e. Water Hibah Program Management Guidelines;
  - f. Monitoring and Evaluation Framework of the Water and Sanitation Initiative;

- g. IndII Backgrounder (overview of IndII)
- h. IndII Mid Term Review (body of report and Case Study on water hibah)
- i. Daniel Kark's summary/analysis of OBA projects

## ATTACHMENT A: EVALUATION PLAN STANDARDS

### Standards for Evaluation Plans

| No. | Standard   | Further Guidance Available |
|-----|--|----------------------------|
| 1   | The evaluation design was based on a collaborative approach.   |                            |
| 2   | The primary intended users of the evaluation are clearly identified and their evaluation needs are described. It is clear which stakeholders are beyond the boundaries of the evaluation.                    |                            |
| 3   | Limitations or constraints on the evaluation are described (e.g. time frame; resources; available data; political sensitivities).  |                            |
| 4   | The purpose and/or objectives of the evaluation are stated.  |                            |
| 5   | A broad investigatory framework is provided to orient the reader to the overall evaluation design.   |                            |
| 6   | More detailed evaluation questions are posed. These are based on the terms of reference, but provide AusAID with greater clarity in how the terms of reference a) have been interpreted; and b) will be met. |                            |
| 7   | It is clear which questions are considered to be of higher priority and are expected to provide the most important information.  |                            |
| 8   | The design is flexible enough to allow unexpected issues to emerge.  |                            |
| 9   | The methods to collect data are described for each question (or related questions).  |                            |
| 10  | The proposed data collection methods are appropriate for the questions posed.  |                            |
| 11  | Triangulation of data collection methods is proposed to strengthen the confidence in the findings.   |                            |
| 12  | The sampling strategy is clear and appropriate for the evaluation questions posed.   |                            |
| 13  | The approach to data processing is described and is consistent with the time and resources available.  |                            |
| 14  | Ethical considerations have been addressed where relevant (e.g. privacy and confidentiality).  |                            |
| 15  | It is clear who will be making the judgements.   |                            |
| 16  | Approaches to enhance the utilisation of findings are outlined (if this has been requested in the terms of reference).   |                            |
| 17  | The evaluation plan provides guidance on scheduling. The final schedule (if attached) reflects adequate time to answer the posed evaluation questions.   |                            |
| 18  | The allocation of evaluation tasks to team members is clearly described (i.e. data collection, processing and reporting).  |                            |

## Detailed Description of Standards for Evaluation Plans

### *1. Evaluation Design is based on a collaborative approach*

The evaluator has consulted AusAID, and stakeholders identified as important by AusAID, to develop the evaluation plan. Consultation may have been in-person, by phone or by email. Important stakeholders have been given the opportunity to comment on the evaluation plan before the evaluation commences. This ensures that additional information will not be requested after the data collection phase is complete.

### *2. Primary intended users of the evaluation are clearly identified*

An evaluation cannot meet the needs of all stakeholders. Individuals (by title) in named organisations should be identified as the *users of the evaluation findings*. These are the people who will be using the information to make judgements and decisions. Audience is a different concept and often refers to a vague group of people that may be interested in, or may be affected by any decisions that result from the evaluation.

### *3. Limitations or constraints on the evaluation are described*

The time available for the evaluation has implications for the scope of the evaluation. If a large number of questions are posed, but AusAID only wants a cursory look at many of these, then a shorter time frame may be appropriate. The evaluator needs to highlight any important limitations in terms of time available, resources applied, or the expertise of the evaluation team to deliver a credible, defensible evaluation product. Political sensitivities often limit the design of an evaluation and if important also need to be highlighted.

### *4. Clear purpose and/or objectives*

These would normally be taken from the terms of reference. The evaluation design ought to restate these so that the plan is a stand-alone document.

### *5. A broad investigatory framework is provided to orient the reader*

This is an introductory orientation of the overall design of the evaluation. It usually is short, about one paragraph in length. For example, it could highlight whether the evaluation is predominantly exploratory or descriptive, or whether cause and effect design is proposed, or whether or not any case studies would feature in the overall design. It would highlight the major methods for data collection and analysis.

### *6. Detailed evaluation questions are posed*

Although the terms of reference is where AusAID communicates what the evaluation is to address, the evaluator will still need to give careful consideration to how these larger questions will be addressed. This means that more detailed questions will need to be generated. Because many of the questions presented in a terms of reference are very broad, the more detailed questions allow AusAID to know how the evaluator has interpreted the broader questions, and whether or not the evaluation will generate sufficient information to meet the broader questions. It also allows the AusAID evaluation manager to see the implications of the scope of the evaluation described in the terms of reference. The evaluation manager needs to pay careful attention to this aspect of the evaluation plan.

### *7. High priority questions are identified*

AusAID evaluations often have a very large number of evaluation questions that cover a very wide number of aspects of the program to be evaluated. Some of these questions will be more important than others, and the evaluation plan needs to reflect where the emphasis will be placed. The evaluation team will not usually be able to answer all the questions listed for all respondents and so will need to

make decisions during interviews about what will be dropped and what is essential. The evaluation manager needs to be confident that the evaluator will, at a minimum, deliver information on the priority questions.

*8. Flexible design to allow unexpected issues to emerge*

This flexibility is usually built in to the questioning technique employed during an interview. However, the evaluation plan should provide for sufficient time during individual interviews and across the schedule as a whole to allow new issues to emerge and be responded to if they are important.

*9. Methods for each evaluation questions are described*

The plan ought to show how each of the evaluation questions will be answered by pointing to the methods that will be used to collect the information. For most AusAID reviews this is likely to be in-depth interviews, focus group discussions/interviews, document reviews and in some cases observations of activities. Large workshops are not usually a suitable method to gather reliable and valid information – however, they may have other important political purposes. For several questions there may be a number of data collection methods proposed.

*10. Methods are appropriate for the evaluation questions posed*

Although this takes evaluation expertise, it is still worth looking at the questions posed and consider if the methods described could reasonably answer the questions. For example, a focus group discussion would be most unlikely to answer a sensitive question; a review of a program strategy document (such as gender) would be unlikely to tell you if the program's gender activities were of a high quality. It would need to be supported by information from other sources.

*11. Triangulation of methods is proposed*

Triangulation is the use of a range of sources of information. Given the short time frame of most AusAID evaluations or reviews, it is difficult to have a wide range of methods employed. To deal with this, the evaluation needs to plan to discuss similar questions across a range of different respondents within and across different organisations.

*12. Sampling strategy is clear and appropriate*

Most evaluations will require some sort of sampling strategy. For example, if case studies are going to be used to investigate certain aspects of a program in more detail, then the basis for the selection needs to be transparent. For most reviews and evaluations that employ qualitative methods then purposeful sampling is a common approach. In this case the criteria for selection of the cases should be described. It should be clear that the criteria are suitable for the evaluation questions posed. Sampling may also be important where there are a large number of respondents that could be interviewed such as beneficiaries. For quantitative studies that are attempting to generalise findings across a wider population of activities or populations (e.g. household survey), random sampling strategies would be appropriate – this is not often required for typical AusAID reviews and evaluations.

*13. Data processing is described*

A common problem with AusAID reviews and evaluations is that data is often collected, but not systematically processed. This does not mean to infer that complex analytical techniques will be required, rather that the findings in evaluation reports are based on a systematic treatment of the information collected. How the evaluator plans to process the data should be described.

*14. Ethical considerations have been described*

The evaluation design needs to identify where there are any special ethical considerations. For most of the evaluations and reviews conducted by AusAID, this will mostly be around privacy and confidentiality

issues. There is no straight forward answer to what is most appropriate. In some cases where information is not likely to be especially sensitive, it will be sufficient to simply tell the respondent or persons involved that the information will be available to relevant stakeholders as a basis for the report findings. However it is not acceptable to publish processed data identifying individuals or organisations where the respondent was not made aware of this. In cases where the evaluator has informed the respondent, but the information is still considered to be sensitive, or could cause difficulties for others, then the information should not be made available unless there could be no identification with the respondent. Any potential untoward outcomes should be anticipated and managed for in the evaluation design.

*15. Who will be making the judgements is clear*

Often there is confusion about who will be making judgements about a program. Make sure this is very clear to the evaluator and is reflected in the evaluation design. In some cases AusAID may want an evaluator to report neutrally on facts and leave AusAID to make the final judgements. In other cases AusAID would require the evaluator to make their own professional judgement based on the evidence gathered. This is an important distinction and can affect the way information is collected and presented.

*16. Approaches to enhance utilisation of findings are outlined*

If utilisation of the findings is important, then this needs to be communicated to the evaluator. There are a variety of well-tested approaches to utilisation that a professional evaluator will be familiar with. These should be outlined in the evaluation plan. Utilisation begins with the evaluation design stage.

*17. Scheduling guidance is provided*

The schedule should be developed by AusAID after the evaluation plan has been submitted, but ideally based on guidance from the evaluator. The most common problem is that the persons recruited for interview are not always the best respondents for the evaluation questions posed. Often there are many donor meetings where respondents cannot provide substantive comment on many of the evaluation questions. Also consider the time for each interview with the associated evaluation questions. Most 60 minute interviews with a respondent cover no more than four or five key topics; less if translation is required. Check to see that enough time is available to meet with the implementation team – this usually requires a lot longer than what is allocated.

*18. Evaluation tasks allocated to team members*

It is very important that each team member knows before the evaluation begins what they will be expected to do. It is not appropriate for the team leader to allocate reporting responsibilities on the last day of the in-country mission. The evaluation plan should show what responsibilities each team member has so they can ensure that adequate data is collected, processed, and interpreted and they can meet a high standard during the reporting stage. It is often useful to show which evaluation questions each team member carries responsibility for.

## ATTACHMENT B: STANDARDS FOR INDEPENDENT EVALUATION REPORTS

### Standard 6: Independent Evaluation Reports

Trialled in AusAID Indonesia Country Program

| No.                                    | Standard  | Further Guidance Available |
|--|---|----------------------------|
| <b>Introductions</b>                   |   |                            |
| 6.1                                    | A background to the evaluation summarizes: the total value of the initiative; the number of years of the initiative; the stage of initiative delivery; key outcomes of the program; and the key issues identified in the terms of reference |                            |
| 6.2                                    | A brief summary of the methodology employed is provided   |                            |
| 6.3                                    | Key limitations of the methodology are described and any relevant guidance provided to enable appropriate interpretation of the findings  |                            |
| 6.4                                    | The executive summary provides all the necessary information to enable primary users to make good quality decisions.  |                            |
| <b>Findings and Analysis</b>           |   |                            |
| 6.5                                    | The evaluation report clearly addresses all questions in the Terms of Reference   |                            |
| 6.6                                    | There is a full description of each of the issues identified so that the reader feels they have been given the full picture   |                            |
| 6.7                                    | The relative importance of the issues communicated is clear to the reader   |                            |
| 6.8                                    | There is a good balance between operational and strategic issues  |                            |
| 6.9                                    | The text clearly establishes that the evidence supports the arguments posed   |                            |
| 6.10                                   | Alternative points of view are considered where appropriate   |                            |
| 6.11                                   | Complex issues are fully explored and not oversimplified  |                            |
| 6.12                                   | The role of the context in program performance is explored  |                            |
| 6.13                                   | The text uses appropriate methods/language to convince the reader of the findings and conclusions   |                            |
| 6.14                                   | There is an adequate exploration of the factors that have influenced the issues identified and conclusions drawn  |                            |
| 6.15                                   | The implications of key findings are fully explored   |                            |
| 6.16                                   | The overall position of the author is clear and their professional judgments are unambiguous.   |                            |
| <b>Conclusions and Recommendations</b> |   |                            |
| 6.17                                   | The conclusions and recommendations logically flow from the presentation of findings and any associated analyses.   |                            |
| 6.18                                   | Individuals have been allocated responsibility for responding to recommendations.   |                            |
| 6.19                                   | Where there are significant cost implications of recommendations, these have been estimated (financial, human and materials costs).   |                            |
| 6.20                                   | The recommendations are feasible  |                            |

## Detailed Description of Standards for Evaluation Reports

### Introductions

#### *6.1. The background provides adequate information for individuals not familiar with the initiative*

The background provides adequate information to enable individuals not fully familiar with the initiative to interpret the report. It summarizes: the total value of the initiative; the number of years of the initiative; the stage of initiative delivery; the delivery mechanism; key expected outcomes of the program; and the key issues identified in the terms of reference.

#### *6.2. A brief summary of the methodology employed is provided*

Although a fully elaborated methodology was developed before the evaluation, a summary of the significant details is included. Sufficient information is required to enable the reader to quickly understand the evidentiary basis of the evaluation. The evidentiary base must be convincing and in proportion to the resources invested in the evaluation. For important evaluations the full methodology is annexed.

#### *6.3. Key limitations of the methodology are described and any relevant guidance provided to enable appropriate interpretation of the findings*

Key limitations are summarised in the evaluation report to enable the reader to make appropriate decisions. Where necessary the author has provided specific guidance of where the reader ought to be cautious about the findings.

#### *6.4. The executive summary provides all the necessary information to enable primary users to make good quality decisions.*

The executive summary provides all the necessary information to enable *primary stakeholders*, especially senior management to make good quality decisions without reading the entire document. It is not a simple cut and paste of the main body of the report. It summarises the key findings, provides sufficient analyses and arguments, and presents final conclusions and recommendations. Resource implications of recommendations are summarised. The length of the executive summary is proportionate to the length of the report (e.g. two to three pages for short uncomplicated reports, and up to five or six pages for more lengthy complex reports).

### Findings and Analyses

#### *6.5. The evaluation report clearly addresses all questions in the Terms of Reference*

It should be relatively easy to identify where each of the questions in the terms of reference are addressed. The report does not need to be a mechanical presentation of these questions, but it should be relatively easy to negotiate the report and find relevant information about specific questions in the terms of reference.

#### *6.6. There is a full description of each of the issues identified*

There is a full description of each of the issues identified so that the reader feels they have been given the full picture. The description of the issues allows the reader to understand the issues from a range of perspectives and not only the perspective of a single individual. The issues are described specifically, with no broad motherhood statements that make practical conclusions difficult to generate.

#### *6.7. The relative importance of the issues communicated is clear to the reader*



The report makes it clear what issues are priority issues to consider. Minor issues are not set out mechanically against the terms of reference and given the same depth of treatment as more important issues. The breadth of description, depth of analysis and attention in the recommendations can indicate the degree of priority. The author may simply state the relative importance of issues.

*6.8. There is a good balance between operational and strategic issues*

The report must address the full range of issues encountered in the initiative. Although there will be some technical issues, managerial or operational issues are very important to consider and are often at the core of many important challenges. How the initiative is relating to its context, how the context is impacting on the initiative need to be reflected in the report. Strategic direction, approaches employed and progress toward end-of-program outcomes are important considerations. The strategic direction or any higher order issues of the initiative have been given adequate space, and minor technical issues are treated in a more limited fashion.

*6.9. The text clearly establishes that the evidence supports the arguments posed*

The author does not assume the reader accepts the evidence is of sufficient quality. For key findings, the basis of the findings and related conclusions is communicated clearly. The range or number informants that shared a view should be communicated – this does not have to be systematically counting the number of respondents, but the degree to which views are shared across respondents should be communicated in some way. The information is brought together from a range of sources, but communicated as a coherent whole. Evaluator opinions that are not supported by evidence or some basis are not the dominant communication style in the report.

*6.10. Alternative points of view are considered where appropriate*

Alternative views must be presented, especially for important, controversial or disappointing findings. They are not immediately dismissed, but are seriously considered. Key stakeholder views such as those of the implementation team must be given sufficient attention, and balanced by national partners, AusAID or other important stakeholder views.

*6.11. Complex issues are fully explored and not oversimplified*

The text acknowledges the complexity of issues if they are complex. The text does not present solutions to complex problems as simple, correct answers. For example, the findings must be presented fairly so that specific stakeholders are not held fully accountable for problems when multiple factors are involved. Human development is complex, and the report recognises that implementation teams and national partners are often working in complex environments and facing multiple challenges. This complexity must be recognised. Although the author takes a clear position, the reader is able to draw their own conclusions as the findings are presented comprehensively.

*6.12. The role of the context in program performance is explored*

The context can have two major effects on a program. The first is how the context has affected the achievement of outcomes (both supportive and inhibiting); and the second concerns the extent to which the program has had any effect on the context. Sufficient information is presented to allow the reader to understand the relationship between the initiative and its context. Evaluation reports do not describe initiatives as if they are isolated activities.

*6.13. The text uses appropriate methods/language to convince the reader of the findings and conclusions*

Arguments presented do not use emotive word choices in an effort to appeal to the emotions of the reader. As discussed above, the method to convince readers is the presentation of evidence or a credible basis for the finding. Using the international literature to build the credibility of the report can be

effective. The report handles political issues with sensitivity. A good report considers the expected positions of the important stakeholders – if findings are unexpected then this is carefully communicated in the text.

*6.14. There is an adequate exploration of the factors that have influenced the issues identified and conclusions drawn*

It is not sufficient to simply describe a situation. A full analysis of the likely factors that have led to the situation is necessary. Factors that enable progress or achievement are just as important as factors that inhibit them. These factors should be generated from a range of data sources. A range of causes should be considered rather than regularly offering a single cause for major issues.

*6.15. The implications of key findings are fully explored*

AusAID initiative managers, senior management and other stakeholders need some direction on the implications of the findings if this is not immediately apparent. Implications to achieving initiative objectives, implementation for meeting time frames, or expenditure projections or sustainability are often important considerations.

*6.16. The overall position of the author is clear and their professional judgments are unambiguous.*

The task of the evaluator is to evaluate. They must make their position clear (and as early as possible in the report) unless the TORs have not required the evaluator to do this. The report does not simply state findings and expect AusAID to interpret them and draw their own conclusions. The report presents the authors view unambiguously. Has the initiative made adequate progress or not? Are the factors that have accounted for the limited achievements been unavoidable or are they due to poor management. Unambiguous judgements also present findings and conclusions sensitively and constructively.

## **Conclusions and Recommendations**

*6.17. The conclusions and recommendations logically flow from the presentation of findings and any associated analyses.*

It is possible to trace issues through the text from description, to analysis, to conclusion and recommendation. No recommendation appears at the end that is not supported by descriptive and analytical work in the text. There are no important inferred recommendations in the text that have not been drawn into the conclusion or list of recommendations at the end.

The “chain of evidence” is evident. This is where all questions in the methodology have data that has been collected, findings presented, analysis conducted, interpretation carried out and reported. If questions in the methodology have not been addressed then an explanation has been given.

*6.18. Individuals have been allocated responsibility for responding to recommendations.*

Job titles, rather than organisations, have been allocated responsibility for all recommendations for action. If some recommendations are for broader partner government, or AusAID sectoral or corporate learning then these are identified separately.

*6.19. Significant cost implications of recommendations have been estimated*

If recommendations imply human, financial or material costs, these are estimated. If recommendations for additional technical support are made, then the number of days input is estimated. For important technical assistance positions proposed, the key content to consider for the terms of reference is annexed.