

Photos: Water.org



WATER.ORG IN INDONESIA

An evaluation of Water.org's activities in Indonesia finds that progress is being made to realize the huge potential of repayable finance for water supply and sanitation (WSS), but a strategic focus on systemic change is needed to achieve the government's ambitious targets for 2030.

Context

Indonesia's National Mid-term Development Plan declares that all Indonesians should have full access to safe water and sanitation by 2030. Meeting this ambitious target will depend on a rapid overhaul of the services now available to the population: only 6.8% of Indonesians have access to safely managed drinking water, 12% lack even basic access, and only 7.4% can access safely managed sanitation. One in ten Indonesians still practices open defecation.

Though government WSS spending has risen considerably in Indonesia, it remains among the lowest in the world as a share of national gross domestic product (0.2%), and 82% of this WSS budget goes to infrastructure. Households are expected to invest in their own sanitation, while many rural communities have to manage and operate their own water supply through community-based organizations (CBOs).

Access to finance is therefore key. Unfortunately, despite the illustrious history of Indonesia's largely formal microfinance industry, repayable finance for WSS investments has not generally been available to the country's 203 million low earners. Many laborers fail to meet certain eligibility requirements, leaving them with few options other than black market lenders and potentially exploitative terms. This makes Water.org's engagement all the more vital.

KEY HIGHLIGHTS

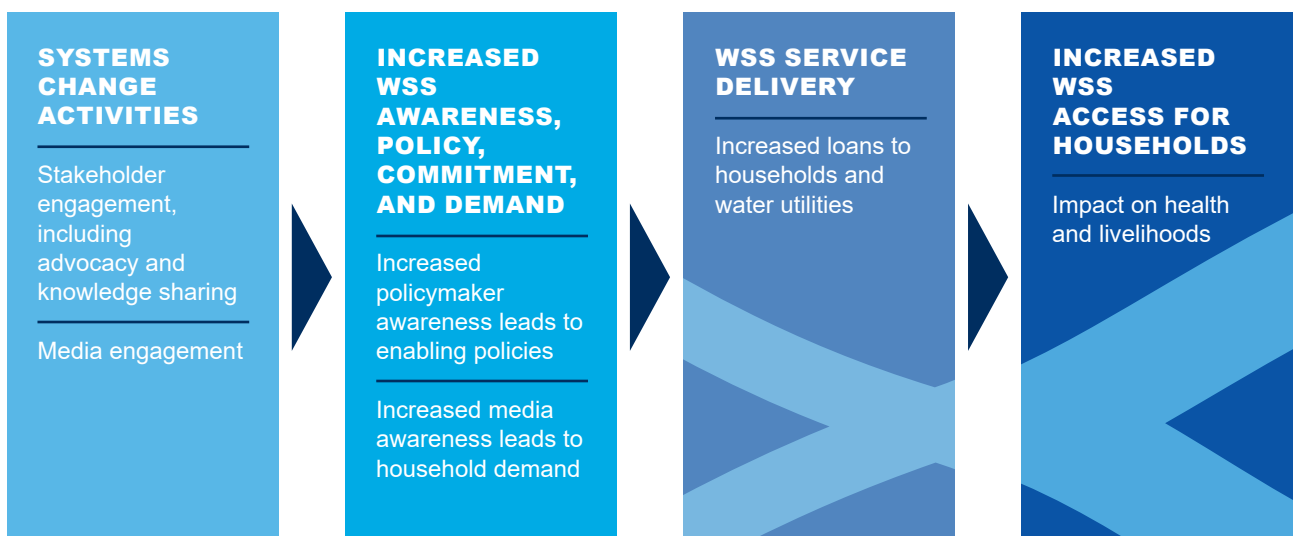
- Water.org mobilized IDR 1,140 billion (\$81 million) for WSS finance from 2014 to 2020.
- Repayable WSS finance has huge potential in Indonesia, as indicated by the outcomes of Water.org’s activities, replicated and scaled by its partners, and the inclusion of microfinance into Indonesia’s national planning.
- WaterConnect CBO signed an agreement to extend its financing model to 3,000 rural water utilities across 33 provinces, and trained 18 urban water utilities and 71 journalists in repayable WSS finance.
- The public and banking institutions have limited awareness of the potential of repayable WSS finance and the importance of WSS funding, which has hampered investment.
- An explicit strategic focus on long-term results, supported by a baseline survey, monitoring, and advocacy, is needed for systemic sector change.

Water.org in Indonesia

Water.org introduced the WaterCredit model to Indonesia in 2014. The following year, it kicked off an IKEA Foundation-funded project in Indonesia and India to promote repayable finance for WSS. Water.org identified and trained financial institutions, and forged relationships with key sector institutions and international partners operating in the WSS sector in Indonesia. It subsequently supported rural water utilities through its WaterConnect CBO model, which partners with CBOs to help them attract financing needed for capital investments as well as expand and improve services. In 2019, Water.org applied the approach to urban water utilities (known as PDAMs) through the WaterConnect PDAM model.



THEORY OF CHANGE FOR WSS SYSTEMS STRENGTHENING



Evaluating impact

An evaluation of Water.org's work in Indonesia focused on how its activities may have contributed to systemic change in the WSS sector, and examined the strategy guiding interventions. Water.org's work with local and national institutions was found to have yielded impressive impacts:

- The WaterConnect CBO model will be scaled up across 3,000 rural utilities in 33 provinces under the National Rural Supply and Sanitation Program (PAMSIMAS), which has committed to contributing more than \$100,000 for loan guarantee premiums for CBOs.
- As a result of Water.org's engagement and training on marketing, finance skills, and capital access, an agreement with the Association of Drinking Water Companies in Indonesia (PERPAMSI) has led to implementation of the WaterConnect PDAM model with 18 urban water utilities.
- Water.org's advocacy to support and promote WSS lending among its members, combined with training, led to the Association of District-owned Banks (PERBAMIDA) agreeing to help engage financial institutions.
- Funding from the IKEA Foundation helped create an evidence base and pave the path for other donors to invest in WSS finance in Indonesia: Danone-AQUA signed an agreement with Water.org in 2016 to scale and replicate successes in microcredit uptake. Since then, Microsoft, Amazon Web Services, and Target Media Indonesia have stepped up to test WSS financing models at scale.
- Water.org engaged with the Ministry of National Development Planning (BAPPENAS), advocating for WSS finance and sharing evidence of successful credit provision by Water.org and its partners. As a result, Indonesia has included microfinance in its current National Mid-term Development Plan (RPJMN 2020–2024).
- A robust media campaign to spread awareness of WSS and microfinance has complemented Water.org's activities. This has included media training for 71 journalists and a dissemination effort that has resulted in 47 newspaper articles and 3 television broadcasts.

Deepening relationships with sector institutions – in particular BAPPENAS and the Financial Services Authority (OJK) – have led to much higher awareness of how microcredit can facilitate WSS access. This bodes well for lasting systemic change. Water.org's own track record is an excellent testimonial for repayable finance schemes for WSS: from 2014 to 2020, it mobilized about \$81 million through its three models, of which some \$24 million was generated through the IKEA Foundation project.

Lessons learned

Repayable finance works for WSS: The outcomes of activities implemented by Water.org, and more importantly the replication and scaling up achieved via partners, demonstrate the huge potential of WSS microcredit for low-income communities. The inclusion of microcredit in Indonesia's mid-term development plan for the first time is confirmation that the government believes repayable finance can contribute significantly to its ambitious targets for WSS.

Interest from key sector actors is critical: Given the relatively small scale at which Water.org operates, repayable WSS finance schemes can only be successfully disseminated on a national scale by engaging responsible government ministries and institutions, as well as international partners working in WSS in Indonesia. Securing the support of key government actors and development partners would set the scene for enabling policies and the necessary funding mechanisms. This has formed the basis of Water.org's strategy to operate at three levels by carrying out direct activities, influencing partners' activities, and helping to change the WSS sector.

Limited awareness of the importance of WSS hampers the achievement of outcomes: The public as well as financial institutions lack awareness of the full potential of WSS microfinance. Related factors include lending regulations that shut out most Indonesian laborers, regulations that hinder large banks from investing in microfinance, inadequate outreach by financial institutions to rural communities, and lack of financial literacy among low-income communities.

In-depth analysis of the market potential for WSS microfinance is needed: The evaluation found that Water.org had not adequately addressed the overall market potential, including the bottlenecks holding up progress. The organization lacked an integrated perspective on how different financing modalities – public finance, repayable finance, and blended finance models – could best be deployed, depending on the context.

System-level outcomes require strategic planning: Systems change needs time, and should be facilitated by strategies that include an explicit theory of change. This should be designed so as to account for both the intended and unintended consequences of activities undertaken.

Recommendations

The evaluation found that Water.org's direct and indirect partnerships provided a platform for scaling up, which in turn generated the awareness and political will fundamental to systems change. It also acknowledged the messier reality in which different levels of activity overlapped; there were differences in understanding about which activities contributed to what levels of change among staff interviewed. Regardless, Water.org's continuing engagement with sector institutions and international partners served as the medium through which several types



of programmatic activities operated. The following recommendations seek to clarify future approaches to WSS work in Indonesia.

Sector engagement should be scaled up for systems change: Water.org should develop a strategic theory of change that aims to build on sector engagement to achieve systems change. This approach should draw on a baseline survey of the WSS sector supported by monitoring. It should also incorporate an advocacy strategy and media campaign to raise awareness of the role that financing can play in improving water and sanitation access.

Support replication and scaling of the WaterCredit model: To meet the full potential of repayable finance for WSS, Water.org should identify both banking and non-banking partners. It should also do more to engage commercial banks to replicate and scale WSS microfinance. Existing relationships with government should be deepened so that it designates WSS loans as priority sector lending.

Advocate for alternative financing models: Repayable WSS finance is quite different from massive public infrastructure investment, and there are many modalities through which it can be implemented. Government institutions should be made aware of blended finance models that combine, for example, smart subsidies, charity funds, or funds allocated to corporate social responsibility with repayable finance. Water.org and other organizations could support the government by developing and piloting such models.

Work with like-minded organizations to advocate for repayable WSS finance: Water.org has worked with WSS partners to replicate and scale its models, but more effective partnerships are needed to advocate a coherent strategy for boosting WSS financing, including how repayable finance could integrate with public financing. The shared goals of partners need to be clear in order to advocate on a country as well as global level.