

POLICY BRIEF 1

SUSTAINABILITY OF
RURAL WATER SYSTEMS IN INDONESIA

Policy Brief

ENTERPRISE IN
WASHEvolving from the community
management model to provide more
professional sustainable services

Small-scale enterprises of varied types have potential to play increased roles in water service provision in Indonesia. In urban areas, water services are provided by local government owned utilities (PDAMs), while in rural areas, community based organisations (CBOs) manage village water supply.

CBOs currently operate largely on an informal basis, with limited access to finance and a limited capacity to develop and adopt improved commercial practices and planning systems. They are also highly reliant on volunteer commitment and time contribution. This situation impacts on the sustainability of rural water supply systems, compromises service quality and reduces the benefits that flow from the large-scale investments made in infrastructure.

Expansion of this sector and improvements to sustainability requires recognition of how CBOs could professionalise and formalise and develop as enterprises, and how on-going external support to CBOs could be provided, through associations of CBOs or other dedicated support services. To follow these paths, action is needed to address fragmentation and government roles at local level and ensure accountability for these roles.

KEY MESSAGES

- National efforts are needed to promote accountability for local government roles to support rural water service delivery
- Local governments can play critical roles to facilitate formalisation of community-based organisations (CBOs). At the same time they should monitor service quality and ensure equality of outcomes.
- Different formal organisational forms for CBOs need to be tested to promote informed choice of organisational type.
- Support is needed to address gender imbalances in water CBOs and facilitate female entrepreneurship.
- Associations of CBOs are of demonstrated value to the sector, and therefore should feature in strategies to advance the sector. However, these associations require sustainable business models to underpin their operations.



METHODOLOGY

This research was undertaken in 2013-2016 and led by researchers at the Institute for Sustainable Futures, UTS in partnership with Plan International Indonesia and Research in Economics and Business (P2EB) at University Gadjah Mada (UGM).

A systematic literature review on the topic was followed by study of the incentives shaping enterprise engagement in the water and sanitation sector in Indonesia, involving interviews with 29 stakeholders. These stakeholders were drawn from government (at national and subnational levels), civil society organisations, community-based organisations, donors, enterprises and associations.

A mixed method study of motivators, drivers and barriers was also conducted involving 21 water enterprises of different types (village-owned enterprises, cooperatives, associations, foundations) involving fieldwork in three provinces in Java.

Research outputs were published in English and Bahasa. Three seminars presented the research to national and provincial audiences in Indonesia allowing for stakeholders to verify the findings and develop strategies looking forward.

POLICY RECOMMENDATION 1: National level needs to promote accountability for local government roles to support rural water service delivery

The national policy focuses on a community-based management approach. This approach, combined with significant capital investment, has delivered improvements in access to water services in rural areas in Indonesia. Recent national regulations (PP 122/2015 and PermenPUPR 19/PRT/M/2016) stipulate roles for district and village governments, however follow-up and accountability for these roles requires attention.

At local level, this research found that 'post-construction support', as it is known, was dispersed across different local government agencies, and despite establishment of Pokja groups to facilitate coordination, dedicated on-going support to CBOs remained highly variable.

The research revealed typical challenges faced by CBOs to include limited capacity to further develop and expand their services, limited financial budgeting and planning skills, and a reliance on volunteer time and effort.

CBOs were reported to often rely on the leadership of a small group of social minded community members, and the required combination of skills and aptitudes (intelligent, literate, availability) are difficult to find.

In addition, the majority of CBOs lacked formal legal status, posing challenges for access to finance as well as for asset ownership. This means that CBOs were limited in their ability to expand and take full advantage of the market, and ensure wider access to services by rural citizens. At the same time, local governments carry the formal mandate to facilitate access to services for their citizens, and need to play a strengthened role to support further development of CBOs towards sustainable outcomes.

It is therefore imperative that the recent national regulations be promoted and followed up, such that an appropriate balance can be sought between sharing responsibility and accountability for rural water services between communities and local government.

Suggested responsibilities for local government are described under policy recommendation 2. Increased local government responsibility will also redress the current imbalance between typical local government support to rural and urban areas, as research participants noted that CBOs receive significantly less financial and technical support than PDAMs in urban areas.

POLICY RECOMMENDATION 2: Local governments to support further development and formalisation of community-based organisations (CBOs), and monitor service quality and equality of outcomes

There are three key roles for local governments: (i) Facilitate institutional development of CBOs, including their formalisation where appropriate; (ii) Monitor and regulate these enterprises and their quality of services, and; (iii) Ensure equality of outcomes, such that the poor and disadvantaged are able to receive services. Effective local level regulations need to be developed to clarify roles and responsibilities of the relevant local government agencies. There is a need to also develop clear agreements or contracts on the respective rights and responsibilities of CBOs and of local and village governments.

It is widely recognised that CBOs require on-going support post-construction, including technical and institutional support. As a part of such institutional support, as and where requested, and for larger CBOs, local governments could assist CBOs to formalise their operations into an appropriate legal form. Amongst the 21 formalised water enterprises interviewed in this research the large majority (95%) were financially successful, as compared with the many informal CBOs throughout Indonesia that lack financial sustainability. Local government can also facilitate access to finance to overcome current reported perceptions that banks often do not see CBOs as a profitable market.

Monitoring and oversight of water enterprises, as described in PP122/2015, to ensure service quality and accountability: Besides support to water CBOs as enterprises, local governments also have a concurrent mandate to conduct monitoring and oversight. The research did not address this dimension in detail in Indonesia (but did in the case of Vietnam), and further research is needed to ascertain the effectiveness of current monitoring and oversight processes.

In light of the Human Right to Water and Sanitation local governments have an important mandate to ensure that no one is excluded or left behind: Since affordability remains an issue in some locations and for some households, local governments must monitor *who benefits* and receives access to services, and who does not.

The research demonstrated that leaders of water enterprises were often socially minded, with the majority (74%) demonstrating strong or medium pro-social traits. Evidence of such pro-social traits is encouraging since it is likely to lead to proactive attention to serving the poor and disadvantaged. In addition, many water enterprise customers were poor: for 28% of the enterprises, low-income households comprised more than 50% of their customers, and for 43% of the enterprises low-income households comprised 25%-50% of their customers. In addition, flexible payments were being made available: 38% of the enterprises offered instalment payment of water connections and 5% offered instalment payment of water tariffs.

These findings are encouraging, however cannot replace the need for local governments to play a proactive role in ensuring that all people are able to receive services.

POLICY RECOMMENDATION 3: Different formal organisational forms for CBOs need to be tested to promote informed choice of organisational type

There is currently an insufficient evidence base to determine which legal organisational types will lead to the best outcomes. This research demonstrated there to be a breadth of possible types and a lack of consensus on which models should be promoted.

By law, non-formal organisations (such as informal CBOs) are not able to make legal contracts or agreements with other parties. Consequently, they cannot receive money or own assets. There are various options to choose from when a CBO registers legally with government:

- Formal non-business (not-for profit) organisations:
 - yayasana
 - perkumpulan badan hukum (registered organisations)
- Formal business (for profit) organisations:
 - koperasi (cooperatives)
 - badan hukum milik desa (BUMDes, village-owned enterprises)
 - commanditaire vennootschap (CVs, a business entity with two or more partners)
 - perseroan terbatas (PT, proprietary limited company).

The research revealed uncertainty amongst stakeholders interviewed concerning the type of organisation best suited for water enterprises. Membership based cooperatives were seen as able to offer access to loans from government and ability to share profits between members. In certain districts, it was reported that legislation has been passed to formalise water committees as BUMDes, including approaches to ensure the enterprise could be well-managed and controlled- to operate independently but to be owned by the village government. Some stakeholders noted the potential for political interference and that revenue from the water service might be used for other areas of village development (or, in one case, used for personal reasons by village administrators) rather than reinvested in the water system, unless clear guidelines and regulations are set. It was less usual, but still possible, for water CBOs to legalise as a yayasana.

Amongst the small sample of 21 formal enterprises involved in this research, there were no clear patterns of enterprise success in relation to the formal management structure of each enterprise (for example cooperative, BUMDes, limited liability company etc.). For instance, amongst the five highly successful enterprises, two were village-owned enterprises, and the remaining three were a cooperative, a foundation and a limited liability company.

There remains a need, for further testing and evaluation of which organisational types can best achieve quality service standards, financial sustainability and equitable outcomes.

This evidence base should then be used to promote *informed choice* by CBOs, with full knowledge of the relative strengths and weaknesses of the different types.

POLICY RECOMMENDATION 4: Support is needed to address gender imbalances in water CBOs and facilitate women's roles

All leaders of water enterprises interviewed were male. It was common for women to play administrative roles rather than leadership roles in such enterprises and amongst CBOs more broadly. This points to questions as to what extent women have equal opportunity to play leadership and decision-making roles and efforts needed to address this situation, particularly given women are the primary users of water services.

Government, civil society organisations and associations could all play roles to promote the role of women as leaders of water enterprises or CBOs, through socialisation efforts as well as tailored support that addresses the specific challenges faced by women in taking up leadership positions.

POLICY RECOMMENDATION 5: Associations of water CBOs should feature in strategies to advance the sector

District-level associations of water CBOs have shown demonstrated potential to improve member CBO effectiveness, and offer a valuable pathway to support enterprise development. Recently, many such organisations have been formed with the intention of supporting CBOs through training, technical guidance, financial access, and advocacy.

To be able to access finance these organisations also have to acquire legal status, making choices between the possible legal entity types described under recommendation 2. In East Java, for example, one group was operating as an association, but had formed a parallel cooperative business registered as a separate entity and was accessing loans and subsidies from government for upgrading and expanding water supply systems of their member CBOs.

The research revealed that financial sustainability and sound business models were needed for such associations to play their intended role. Reliance on membership fees and voluntary time contributions may not lead to sustainable outcomes. Partnership and support from local governments, or other external sources of revenue, as well as 'user-pays' services to CBOs may also be required to effectively deliver on their mandate.

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Further reading

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