

Republic of Indonesia Country Overview



Country context

Indonesia has undergone a remarkable transformation over the past 15 years to reduce poverty and create a growing middle class. The national poverty rate has decreased significantly, from 24 percent in 1999 to 9.41 percent in 2019 equivalent to 25,14 million people. Economic growth averaged at 5.0% in 2015 to 2019 as domestic demand strengthened, infrastructure is developed, and investment climate improved. Internationally, Indonesia also joined the G-20 as Southeast Asia's only representative.

Indonesia's economic growth has primarily benefitted the richest 20 percent and left the remaining 80 percent of the population behind. Although there's a decrease of the Gini coefficient for consumption from 0.414 in 2014 to 0.382 in 2019, Indonesia's level of inequality is still considered to be relatively high compared with East Asian neighbours. Inequality of opportunity which makes poorer children to have an unfair start in their life and undermining their ability to succeed later, is one of the four main drivers of inequality in Indonesia that affect both current and future generations.

Indonesia needs some further improvements to increase its human resources' productivity as stated relatively by Human Capital Index. HCI value for Indonesia in 2018 is 0.53, which is increased from 0.50 in 2012. It means that a child born in Indonesia today will be 53 percent as productive when she/he grows up as she/he could be if she/he enjoyed complete education and complete health and well-being. With this number, currently, Indonesia lays in rank 87 out of 157 countries. Thus, investment on health and education, as well as water and sanitation become a high priority for the governments.

Climate change is a major issue with Indonesia being one of the most vulnerable countries to climate change impacts. Many of these impacts are related to increasing water-related natural disasters and water borne disease outbreaks in the country. Climate change also impacts WASH services in many ways: damaging or destroying infrastructure through droughts, floods, etc.

High urbanization contributes to a gradual increase in the poverty rate, which the current poverty rate in urban areas is 7.38% in 2019. And, vulnerability to climate change also provides higher risks to urban populations and urban public infrastructure in Indonesia due to high density populations in urban areas. Urbanization in Indonesia has primarily been driven by the densification of rural settlements, leading to their re-classification from rural to urban, followed by the natural growth of population in urban areas. Population growth will prompt urbanization and the growth of small and medium cities throughout Indonesia. Big cities and peri-urban areas will form mega urban areas (Visi Indonesia, 2045). As cities become more crowded, already inadequate WASH infrastructure cannot support the basic needs of a growing urban population.

Regulations in Indonesia require local governments to provide WASH services to their citizen, as part of basic services such as education, health, housing, social as well as community's protection

and peace. To ensure its provision, the central government set up a minimum service standard as the basic right of citizen that should be complied by all local governments. This includes responsibility to obtain funding for the investment and operation as well as maintenance of the WASH system.

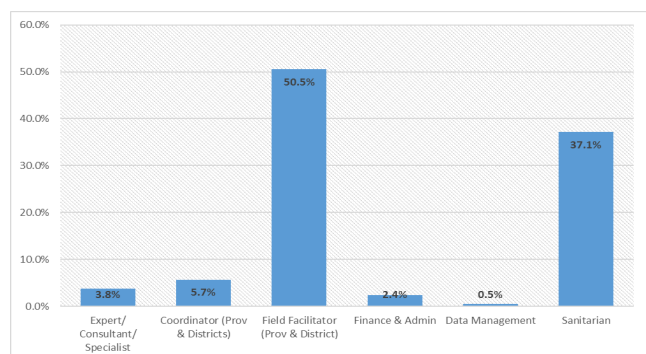
A. Opportunities for Economic Growth: The role of WASH

WASH's contribution to the health, social and economy is even stronger during the pandemic period. Intensifying hand hygiene practice as part of new health protocol is the most effective self-defense to reduce the COVID-19 transmission. Compliance of health protocol, especially on hand hygiene would help the communities to have their 'daily activities' during the pandemic. Furthermore, it is also critical to ensure the provision of clean water as well as collection, treatment, and disposal for safe and proper handwashing practice.

Economic and social returns from improvement in WASH sector are coming from different aspects, such as health impacts from improved water, sanitation, and implementation of good hygiene in the households. Owning a toilet, drinking water, and living in a clean community are important drives of child growth and cognitive development. A World Bank study in Indonesia resulted that children living in communities with lower level of open defecation during the first 1,000 days of life are 11 pp less likely to be stunted and 5 pp less likely to be underweight and also score 1.3 points higher on cognitives test. Both water and sanitation access in the home were associated with better early child outcomes.

Ecological sanitation approaches both in urban and rural area provides economic return from sanitation investment. A World Bank study in Indonesia discovered that 1 USD invest in sanitation provide benefit up to 7 USD, mainly coming from health care cost, access time, and productivity savings. In the recent market assessment on safely managed sanitation conducted by UNICEF Indonesia, there is a huge potential in the sanitation market up to IDR 116.7T (USD 8.33 Billion) for on site sanitation only to achieve 2024 National Medium-Term Development Plan (RPJMN 2024). This figure means that achieving safely managed sanitation alone can attract more investments from business and private sectors which impact to economic growth in the country.

WASH sector in the country also creates significant amount of job opportunities. The Gol's WASH projects, especially on WASH community-based program, has absorbed nearly 27.000 human resources across all level with majority are workers on the field (50% field facilitators and 30% sanitarian for hygiene behaviour promotion). Furthermore, there are 57,225 workers in 380 water utilities across Indonesia.



WASH is also contributing to performance of small and medium enterprises which are majority operating in the informal sector. Availability of WASH is contributing to the better service provision and stronger consumer's satisfaction. This is more important during the pandemic to support the continuation of business as the it has also huge impacts on social and economy.

The cost of inaction on WASH sector in Indonesia could reach up to IDR 56 trillion or USD 6.3 billion or 2.3% of the country GDP. Health and water resources contribute most to the overall economic lossess. These are derived from financial lossess to population who have to pay for health

services, pay extra to have access on clean water supply or lose income due to poor health caused by limited access to WASH services. On a bigger scale, poor WASH also contributes to welfare losses (due to additional time to access unimproved sanitation), tourism losses and environmental losses (due to loss of productive land).

B. Existing WASH service level and impact of COVID-19

Indonesia has good progress in increasing the access to improved water and sanitation. Up to date (BPS, 2019), Indonesia has achieved 77,44% improved sanitation including 7,5% safely managed sanitation with only 7.61% population practicing open defecation. Meanwhile in drinking water, 88% access to improved drinking water with 20% piped-water network.

Inequality of WASH access still is persisted in Indonesia. Factors other than poverty also significantly affect access to water and sanitation, particularly geographic locations, such as urban vs rural, west and east Indonesia. In addition, Indonesia also still challenged with gaps in service quality, which is mostly impacted to poor households.

The GoI implements many programs and projects to provide WASH access for marginalised and vulnerable households at urban and rural areas to ensure WASH provision is inclusive for all, including poor households and people with disabilities. In addition to incentive-based program, various financing supports such as subsidy, free connection fees, zakat (Moslem's charity fund), and access to micro-credit, are also provided to ensure the poor and vulnerable households get WASH access. Furthermore, specific attention to disability in community-based program is applied to address the wide range of needs of people with disabilities starting from the planning into monitoring phase. Master meter or communal water connection is also promoted to deliver water in urban-slum areas.

In the longer run, COVID-19 may reverse the development gain in the WASH sector. Based on recent assessments, the pandemic is mainly impacted to decrease of revenue collected by water utilities. On sanitation, the pandemic impacts to lower demand for desludging services that leads to lower revenue. On the other hand, local governments' budget allocation for WASH investments and subsidy is also decreased due to budget reallocations for COVID-19 responses. This condition will furtherly affect the overall performance of the WASH service providers and delay the achievement of WASH targets in the country.

Understanding the importance of WASH, the pandemic situation doesn't interfere the government to keep the national targets as stated in the National Medium Development Plan 2020-2024. Nevertheless, the pandemic provides greater attention on improving the non-piped systems to provide WASH access for all. On water, as the additional access of piped water might be delayed due to some challenges, a better quality of self-supply water is becoming more prominent to provide safe water to households. Good water disinfection practices will be continuously promoted to ensure water safety. Meanwhile, on sanitation, the Government also prioritizes the efforts to improve the fecal sludge management to ensure that on-site sanitation system could contribute to provide safe sanitation.

COVID-19 triggers new opportunities to innovate in improving service performance, as well as enhancing the awareness of health and safety aspects in WASH service provision. Digital-based technology is widely used to limit the interaction of workers with households, such as on public campaign, capacity development through on-line training or webinar, cash-less payment, or mobile app to request desludging service. Furthermore, water safety plan is now advocated to be implemented by all water utilities.

WASH development has a strong alignment with the overall theme of national development in 2021 which is to be adaptive and responsive to the COVID-19 pandemic as well as economy and social recoveries. Currently, WASH program is being part of National Health System Reform, especially on promotive and preventive programs. Furthermore, as COVID-19 countermeasure in Sanitation, the Government increased the budget on community-based sanitation from 32,9 M USD in 2020 into 67.7 M USD in 2021, which is not only to contribute in increasing the sanitation access and stunting elimination, but also to provide job opportunities for local communities.

C. Making Smart Investment: Options for Economic and Social Development

Greater investments are needed to achieve universal access to all and provide safely managed WASH to 20% of households in Year 2024 aligning with Sustainable Development Goal targets.

It is estimated that the investments required to build new infrastructure but also to include adequate operation and maintenance of the existing systems, as well as additional investment for non-structural measures to provide sustainable WASH services and promoting behavior change are around 24 B USD.

The majority of WASH investments is coming from governments' own pockets. Sixty three percent of investment in water supply is coming from central governments' budget, while 53% of investment in sanitation is using central governments' budget. Although tariffs are applied for WASH services; water tariffs are more 'mature' than sanitation. Though only 37% water utilities that already achieved full cost recovery (FCR) tariff but there are more water utilities than sanitation service providers who applied FCR. Tax-based revenue has just initiated to apply polluter-pays-principle by surcharging into property tax.

Given the huge amount of investments needed, the Government is mobilizing various sources of funding. Moslem's charity fund as alternative scheme emerged from the Islamic society is used to support the community to get access to water and sanitation. Micro-credits are intensified to allow individual households to get WASH access as well as small and ultra-micro business to have finance supports for expanding their WASH-related businesses. Partnerships with private sector is also being strengthened, not only to ensure financing source to develop new infrastructures but also to provide services. Various facilities and incentives are facilitated by the Government to attract private sector investments.

New and innovative financing instruments are initiated to reduce finance gap on achieving the national targets on WASH. Climate finance is considered as a potential source for having sustainable financing for WASH sector, as providing WASH access has a strong correlation with climate actions, for both mitigation and adaptation. Several instruments which can be utilized for WASH sectors are as follows: (i) Indonesia's Green Bond/Green Sukuk, (ii) SDG Indonesia One -as a blended finance platform to facilitate the involvement of philanthropist, donor, climate fund, green investor, commercial bank, Multilateral Development Banks (MDBs), etc-, and (iii) Green Climate Fund to stimulate private financing, unlocking climate-friendly investment for low-emission and climate resilient development. Moreover, since output-based grants has been one of financing scheme that succeed to increase household water and wastewater connections, the GoI is now move forward in developing and implementing performance-based grant for water utilities.

The GoI through respective ministries are strengthening partnerships with related stakeholders in order to encourage smart investment on WASH, such as (i) establish Public-Private-Partnership for Hand Washing with Soap (PPPHWWS) which is consisted of governments, private companies and

development partners to scale up sustainable Hand washing and hygiene behavior change interventions; (ii) conduct massive and structured public campaigns to increase and sustain demand on WASH access and services; (iii) promoting corporate social responsibility (CSR) and encourage corporations to move beyond CSR and incorporate social and environmental values as part of their core business strategy; and (iv) strengthen partnership with CSOs and academia to generate and leverage innovative approaches to accelerate the achievement of WASH targets.

D. Identified Actions to Support National Priorities Through MAM

Led by Bappenas, Water and Sanitation Partner Group in Indonesia has committed to improve WASH access and services for all. Main priorities agenda with each identified actions as follow:

Priority 1. Accelerate the achievement of national Open Defecation Free (ODF) and adoption of safely managed water and sanitation.

Actions:

- Strengthen and improve the implementation of water safety plan and water surveillance programs;
- Review Community-led Total Sanitation-CLTS program to accelerate ODF achievement and allow Post-ODF interventions;
- Scale up the implementation of 5 pillars STBM (Indonesian version of CLTS);
- Support local governments to initiate fecal sludge management programs and pilot regular desludging in selected districts;
- Develop and implement national strategy on advocacy and communication on WASH SDGs;
- Develop and rehab wastewater and sludge treatment plants in cities which is needed and ready to provide services;
- Establish a consensus on single data and single monitoring mechanism

Priority 2. Provide sustainable and innovative financing sources to sustain WASH services and ensure access and safely managed WASH services for the poor

Actions:

- Scale up and leverage Zakat fund for WASH by strengthening governments' collaboration with National Zakat Agency (Baznas) and other authorized zakat collection organization;
- Increase local financial capacity through reasonable tax and/or tariff mechanisms to ensure sustainable WASH services, in addition to improve quality of fiscal transfer to local governments;
- Enhance performance and efficiency of local resources for WASH;
- Improve accountability of subsidy or other financing mechanism available for targeted poor households;
- Continue the implementation of output-based grants and develop performance-based grant
- Promote and increase philanthropic funding for WASH as well as develop blended-finance scheme;
- Develop national policy and scale up the implementation of micro-credit for WASH from small and medium enterprises as well as from cooperatives;

Priority 3. Strengthen partnership with various stakeholders, including private sector for service delivery and resource mobilization

Actions:

- Develop regulation and its enforcement to mobilize domestic finance resources, including those are coming from private sectors;
- Expand the role of private engagements in the sectors to allow their participations in conducting sanitation advocacy & promotion and improving service delivery;
- Capacity building for individual entrepreneurs or small and medium business within sanitation service chain.

Priority 4. Improve peer-to-peer learning as part of advocacy and capacity building agenda

Actions:

- Strengthen cross learning mechanisms to improve local enabling environments and/or service delivery.
- Leverage role of local universities and research agencies to develop innovative and support the capacity building at local level;
- Develop web-based knowledge hub as a learning and sharing platform to accelerate sharing knowledge, practices, information and innovations throughout