

IMPLEMENTATION REPORT

Road to the 10th World Water Forum 2024
Sustainable Water Finance Subtheme

Seminar 1:

Government Support and Private Sector's Perspective on Public Private Partnership (PPP) for Water Resources Infrastructure

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Authors acknowledge that this document serves solely as an event implementation report, summarizing the proceedings and outcomes of the event. The information and insights presented herein are derived from the contributions and knowledge shared by the respective speakers during the event.

FOREWORD



Herry Trisaputra Zuna

Director General for Public Works and
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Water is the core aspect of our planet. It is fundamental to human survival and integral to ecosystems and economies. Yet, the challenges we face in managing this major resource are immense. Climate change, population growth, urbanization, and pollution are exerting unprecedented pressures on our water systems, making sustainable water management more urgent than ever.

As the world prepares for the 10th World Water Forum in Bali, the theme of sustainable water finance emerges as a critical cornerstone for our discussions. It is both an honor and a privilege to contribute to this dialogue, which is valuable for the future of our global water resources.

The journey to Bali is not just a path to a prestigious forum, it is a call to action to create robust financial frameworks that ensure the long-term availability and quality of water by integrating economic, environmental, and social considerations into water policies and projects. This approach is essential for achieving the Sustainable Development Goals (SDGs) 6, which aims to ensure the availability and sustainable management of water and sanitation for all.

As the co-coordinator of the Sustainable Water Finance subtheme, Directorate General of Infrastructure Financing for Public Works and Housing is honored to host distinguished speakers and stakeholders to the workshop series held in 4 consecutive themes to the innovative solutions, collaborative efforts, and, critically, sustainable financing mechanisms that can turn ideas into reality.

As we progress towards the 10th World Water Forum in Bali, let us be guided by a shared commitment to sustainable water management and the recognition that our collective future depends on the decisions we make today. Together, we can create a future where water is managed sustainably, equitably, and with resilience.

Introduction

Indonesia was the elected host of the 10th World Water Forum in 2024. The forum held on 18–25 May 2024 in Bali with the main theme of “Water for Shared Prosperity” to answer global challenges and potentials caused by increasing population growth and urbanization. Leading up to the main event, there are three interconnected forum processes, namely political process, regional process, and thematic process. Every forum process has its own agenda and throughout the thematic process, all multi-stakeholders will develop action plans and facilitate the implementation of action plans to address issues identified associated with several sub-themes. Six subthemes were introduced to enhance the discussion in the thematic process. Those are Water Security and Prosperity, Water for Humans and Nature, Disaster Risk Reduction and Management, Governance, Cooperation and Hydro-diplomacy, Sustainable Water Finance, and Knowledge and Innovation.

In the thematic process of the Sustainable Water Finance subtheme, five topics to be further explored:

- 1) Revisiting of international water financing architecture (including new economic approaches) with emphasis on transparency, accountability, fairness & equity;
- 2) Innovative and sustainable funding, financing, and delivery mechanisms; Improved funding for basic access to safe water and sanitation for all at all scales;
- 4) Special schemes and incentives promoting green finance; and
- 5) Enhanced funding to cope with water crises, water disasters and for climate resilience.

Directorate General of Infrastructure Financing for Public Works and Housing as the coordinator of Sustainable Water Finance subtheme is hosting a series of workshop as part of the side event of the Sustainable Water Finance subtheme, inviting distinguished speakers and stakeholders. The workshop series covers problem mapping, setting up a working group including expert panel and funding solution. The workshop series event consists of 4 workshops with 4 different topics that took place from February 2023 to February 2024. The 1st Workshop was held in February 2023 entitled “Government Support and Private Sectors’ Perspective on Public-Private Partnership (PPP) for Water Resources Infrastructure”, the 2nd Workshop was held in March 2023 entitled “Blended Finance for Water Sector”, the 3rd Workshop was held on July 4th 2023 entitled “Secure and Increase Funding for Basic Access to Safe Water and Sanitation for All at All Scales”, and the 4th and final workshop was held on February 5th 2024 entitled covers the topic of “Designing Global Water Fund Establishment”.

This series of events will be summarized in 4 implementation reports each of which will highlight a specific theme and the corresponding discussions. The output of each seminar/workshop will be catalyzed as an input for the sessions of Sustainable Water Finance subtheme in the main event of World Water Forum 2024.



2023

Seminar 1

Topic: Government Support and Private Sectors' Perspective on Public Private Partnership for Water Resources Infrastructure

Feb

Mar

Workshop 2

Topic: Blended Finance for Water Sector

Workshop 3

Secure and Increase Funding for Basic Access to Safe Water and Sanitation for All at All Scales

Jul

2024

Jan

Workshop 4

Designing Global Water Fund Establishment



May

Figure 1. Sustainable Water Finance Subtheme Seminar/Workshop Series Timeline

Source: DGIF, 2024

Executive Summary

The 1st Seminar was held to discuss the role and commitment of the government and private sector to the Public-Private Partnership (PPP) scheme for water resources investment. The seminar was attended by 258 participants, consisted of international organizations, Indonesia ministries and agencies, state-owned enterprises/ private companies, embassies, local governments, financial institutions, consulting companies, academic institutions, and water sector institutions.

The workshop mainly discussing:

- 1) Why government needs private finance participation in water investment and the incentives from the government to attract private financing;
- 2) Critical aspects of the government's commitment to materialize PPP for water based on multilateral agencies' experiences;
- 3) Prospects of PPP for water in Indonesia and private appetite to participate in the projects;
- 4) Contribution and role international finance in water resources project; and
- 5) Potential and challenges in the PPP transaction for water project.

The workshop presented 5 (five) panellists from BAPPENAS as a representative of the government, Asian Development Bank (ADB) as a representative from multilateral banks, PT Moya Indonesia as a representative from the private sector, K-Water as a representative of international organisation focusing on the water sector, and PricewaterhouseCoopers (PwC) as a representative of a consulting company.

Government support plays a big role in the success of the PPP scheme since it would provide ease and security for private sectors in conducting investment, especially in water resources infrastructure. This idea became an interesting topic to be discussed in the 1st Seminar.

This event comprised a panel discussion session with key takeaways as follows:

- 1) Government Perspective: Indonesia seeks private financing to meet its water sector targets, supporting projects like SPAM Umbulan and SPAM Bandar Lampung with Viability Gap Funding (VGF) and other support mechanisms;
- 2) Private Sector Perspective: There's significant interest in PPP for water supply due to Indonesia's underserved population, presenting growth opportunities and societal benefits;
- 3) Critical Aspects: Climate sustainability and integrated water management (Source to Tap approach) were crucial, aiming to reduce risks and enhance project viability;
- 4) Case Study: The Karian Water Supply System exemplified successful public-private cooperation, highlighting robust regulatory frameworks and government support.

Background

Water is a basic need for everyone; increasing water needs should be fulfilled by infrastructure delivery. However, growing population and living standards, climate change, COVID-19 pandemic, among others, are putting more and more pressure on water resources.

Globally, emerging challenges related to Covid-19, 2 billion people lack access to safely managed drinking water services, 2.3 billion people do not have basic hand washing facilities at their homes and 3.6 billion people lack access to safely managed sanitation services.

As climate change worsens, the water quality degrades and will potentially cause water-related disasters. It will cost the global economy up to USD 5.6 trillion.



"Safe and sustainably managed water and sanitation for all by 2030"

Currently, the global cost of achieving Sustainable Development Goal number 6 which are related to clean water and sanitation for all by 2030 is estimated at USD 1 trillion – equivalent to 1,21% of GDP, and faces a funding gap of 61 percent. The issue is that water-related infrastructure provision requires a high investment, while the available funds are limited.

Considering these conditions, innovative water financing is fundamental to ensure overall access to water and sanitation to achieve SDGs. Key stakeholders need to work together to increase investment in the water sector.

On the other hand, water resources management needs to be managed comprehensively, from the upstream to the downstream, while also considering the various sources of funds available.

The 1st seminar discusses the Public-Private Partnership (PPP) implementation in water resources infrastructure since Indonesia has been working on the PPP scheme for water resources infrastructure, especially in multipurpose dams, irrigation, hydropower, and drinking water sector.

However, the PPP scheme is also possible to be implemented in another sector, such as river and shore protection, also flood reduction. This seminar aimed to gain perspective and lessons learned from various stakeholders to discuss strategies for PPP implementation not only in Indonesia but also in other countries that currently facing challenges in financing water resources management. All the lessons-learned will contribute to the everlasting effort on water-resource investment process improvement which could lead to the improvement of people's life quality.



Objectives

The objective of the 1st seminar is to discuss the development of the Public-Private Partnership (PPP) scheme in water-related infrastructure and draw lessons from the case studies to have a better output water resources delivery.

In particular, it is expected to explore the following ideas:

- Understanding government support and private sector perspectives on investment through PPP in the water sector and its challenges;
- Responding to private sector interest in investment through PPP financing scheme in the water sector;
- Accelerating innovation in water sector PPP financing schemes.

To achieve this goal, a panel discussion was held discussing key points as follows:

- Why the Government needs private finance participation in water investment and the incentives from the government to attract private financing;
- Critical aspects of the government's commitment to realize PPP for water based on multilateral agencies's experiences;
- Prospects of PPP for water in Indonesia and private appetite to participate in the projects;
- Contribution and role of the international finance in water resources project;
- Potential and challenges in the transaction of the PPP for water project.



Challenges

To achieve the Sustainable Development Goals (SDGs) 6 target, which is to ensure access to safe and sustainable water and sanitation for all by 2030, globally as many as 2 billion people do not have access to drinking water services, and as many as 3.6 billion people do not have access to adequate sanitation.

The global funding requirement to achieve SDG 6 is USD 1 trillion per year or 1.21% of GDP, while the present value of additional investment required can reach USD 1.7 trillion. To meet funding needs, there is a funding gap of 61% of the total funding needs which requires finding a financing solution.

Providing clean water in Indonesia also faces big challenges, namely the level of piped drinking water services is still at 20.69%, and water sector infrastructure requires large investments at the start, but does not generate revenue, so water sector infrastructure depends on public funding and is difficult to obtain. funding from the private sector.

On the other hand, the implementation of water resources management is still not aligned and needs to be managed comprehensively. From the upstream to the downstream. In the upstream level, the implementation should be improved to enhance the effectiveness of water and sanitation services.



Providing clean water in Indonesia also faces big challenges, namely the level of piped drinking water services is still at 20.69%

Topic of Discussion



Figure 2. Panel Session on the 1st Seminar: Government Support and Private Sectors Perspective on PPP for Water Resources Infrastructure

Source: DGIF, February 2023

In the 1st Seminar, a panel discussion was held to explore about PPP Scheme as a potential financing scheme in accelerating water infrastructure provision. Insights from the government and private sector, as well as local and international institution representatives and experts, are gathered to generate input for the 10th World Water Forum 2024.

The panel discussion was led by representatives as follows:

- **Sri Bagus Guritno**, Director for Innovative Funding Engagement, Ministry of National Development Planning / Development Planning Agency, Republic of Indonesia
- **Kin Wai Chan**, Public Private Partnership Specialist, Asian Development Bank (ADB)
- **Agung Wiryawan**, Partner at Capital Projects and Infrastructure, PricewaterhouseCoopers (PwC) Indonesia
- **Irwan Dinata**, Chief Executive Officer (CEO) of PT Moya Indonesia Principal Specialist of Global Business Development, Korean Water Resources Corporation (K-Water)

Moderator: Fauziah Zen, Senior Economist of Economic Research Institute for ASEAN and East Asia (ERIA)

I. Understanding Government Support and Private Sector Perspectives on Investment through PPP in the Water Sector and Its Challenges

From the government's perspective, private financing is urgently needed in Indonesia to close the financial gap for achieving RPJMN 2020-2024 target in the water sector. Private parties can participate in water infrastructure development through Public Private Partnership (PPP) scheme.

However, The PPP scheme itself has challenges in its implementation, one of which is the return of investment uncertainties. In this case, Government support plays a critical role in order to provide easiness and security for private sectors in conducting investment. Therefore, the Government of Indonesia develops related regulations and provides government support in the form of Viability Gap Funding (VGF), Special Allocation Funds, Construction Support, etc.

The potential incentives that could be provided by the Government are in the

form of PPP regulation, ease of licensing, and the Government's commitment to return private investment. These incentives are expected to increase private sector interest and encourage private sector involvement in the PPP financing scheme.

Moreover, private sector involvement in PPP schemes will help water infrastructure provision and also provide knowledge transfer to the Government. This results in the development of not only the water infrastructure, but also the capacity of Government officials.

Currently, there are several water supply projects utilizing PPP financing schemes in Indonesia, such as SPAM Umbulan, SPAM Bandar Lampung, SPAM Pekanbaru, and SPAM Semarang Barat. It proves that private sectors have a huge interest in the water sector investment which should be supported by the Government of Indonesia.



Integrated Approach for Water Services

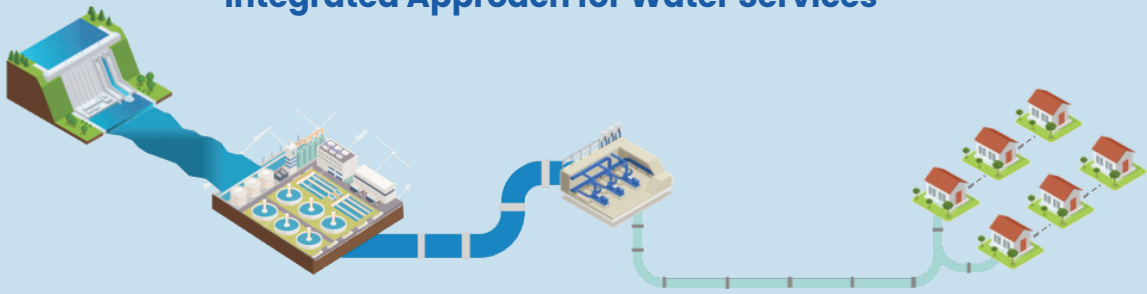


Figure 3. "Source to Tap" as an Integrated Approach for Water Services

Source: DGIF, 2023

II. Responding to Private Sector Interest in Investment through PPP Financing Scheme in the Water Sector

From the private sector's perspective, the water sector is one of the potential sectors for PPP, especially in water supply since Indonesia still has limited piping coverage for more than 280 million people. This phenomenon becomes a positive signal for the private sector not only to expand their business but also to contribute to

supporting the Government to fulfill the basic needs of people.

The improvement in the water sector also brings a lot of positive impacts for the country, such as increasing the country's productivity, increasing people's quality of life, and creating new job opportunities.

“

There is a significant interest in PPP for water supply due to large number of Indonesia's unserved population, presenting growth opportunities and societal benefits.

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III. Accelerating Innovation in Water Sector PPP Financing Scheme

The critical aspect that should be considered in PPP for the water sector is to support climate sustainability. This challenge should be discussed further in The 10th World Water Forum 2024 so that every country has a common vision and actions toward climate sustainability. The other aspect is the integration of upstream and downstream to minimize risk interface.

The Ministry of Public Works and Housing of The Republic of Indonesia is

now working on the Source to Tap scheme so that the water sector can be improved as an integrated system.

One of the good examples of water infrastructure investment is the Karian-Serpong Water Supply System which combines public financing and private financing. It proves that the regulation and government support are well developed and strong enough to attract private sectors.

Key Takeaways



Public-Private Partnership (PPP) scheme is a potential solution to address the lack of funding and to advance the quality of water-related infrastructure. To improve PPP implementation, there is a need to focus more on some of these aspects: risk management, governance, contractual arrangements, financing, and tariffs. Moreover, Government support plays a big role in the success of the PPP scheme since it would provide ease and security for private sectors in conducting investment, especially in water resources infrastructure.

Some key takeaways from the discussion are as follows:

- An integrated upstream-downstream (source to tap) PPP scheme approach in water sector infrastructure development needs to be implemented as an interface risk mitigation to provide guarantees of project sustainability to investors, including through a performance-based contract system on the downstream side. The PPP financing scheme needs
- to be expanded to the water resources subsector such as multi-purpose dams, irrigation management, and mini-hydro/micro-hydro power plants, as well as to the sanitation subsector. Adjustments to standardization of
- water tariff regulations supported by more efficient procedures, as well as clearer PPP project structures need to be implemented to increase investor interest in the water resources sector. It is necessary to implement a mixed financing model (blended
- finance), namely government financing sources together with investors, financial institutions, and donor institutions, as a solution to increase project bankability.



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