

IMPLEMENTATION REPORT

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

Workshop 3: **Secure and Increase Funding for Basic Access to Safe Water and Sanitation for All at All Scales**

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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 3rd Workshop was held with the objective to discuss the key challenges and opportunities of sustainable water financing in securing and increasing funding for basic access to safe water and sanitation for all at all scales. The workshop is attended by 207 participants from Ministries, International Organizations, State Owned Enterprises, Banks, Financing Agencies, Consultants, and Academics. The event comprises of 2 sessions: panel dialogue and a breakout session.

Innovative financing mechanisms can help bridge this funding gap by leveraging resources to facilitate the implementation of sustainable water practices, infrastructure development, and sanitation initiatives to address these challenges. Community-based water and sanitation management plays a crucial role in addressing the water and sanitation needs of underserved populations.

exemplified by the Jakarta water Bundling Project that is able to secure funding and financing to the private sector;

- 5) To actualize successful financing and timely implementation of water sector projects, it is essential to create a comprehensive market analysis, financial feasibility, and regulatory considerations; and
- 6) To realize The Vision of Indonesia 2045, water and sanitation programs must be accelerated, and collaboration between central and local governments must be emphasized.

During our breakout session, we have identified the key takeaways in leveraging access to funding and financing for water and sanitation sector to be realized as follows:

During our panel discussion, some key takeaways are:

- 1) Collaboration between various parties is crucial, including service providers, local and central government, and financial institutions;
- 2) The importance of promoting small scale PPP and establishing a clear regulatory framework that can accommodate supplementary service providers, to ensure improved service coverage and upscaling projects;
- 3) The need to leverage various financing schemes and resources of financing including blended finance, micro-finance, to fill in the financing gap;
- 4) A highly effective business model entails combining the private sector with national strategic partnerships,

- 1) Ensuring national and local policies alignment with international commitments;
 - 2) Engaging coordination among relevant stakeholders, communities involved in policy making processes in water and sanitation;
 - 3) Develop comprehensive water and sanitation plans that address infrastructure needs, service delivery, financing requirements, and environmental sustainability.
 - 4) Invest in capacity building for key stakeholders and communities;
 - 5) Develop robust financial strategies that explore range of funding sources and prioritizing on sustainable mechanisms that ensure long-term operation and maintenance of infrastructure.
-

Background



Access to safe water and adequate sanitation is fundamental to human health and well-being, yet it remains a significant challenge globally. Over 2 billion people still lack access to safely managed drinking water, and nearly 4.2 billion people are without safely managed sanitation services. This pressing issue has profound impacts on public health, economic development, and environmental sustainability, and it underscores the urgent need for increased and secure funding at all scales to ensure universal access to these basic services.

However, financial constraints and insufficient infrastructure investment have left many communities, particularly in developing countries, without access to these vital services. The need for substantial and sustained investment is critical to bridge the gap and achieve the United Nations' Sustainable Development Goal 6 (SDG 6), which aims to ensure the availability and sustainable management of water and sanitation for all by 2030.



4 billion *people*

Almost two-thirds of the world's population experience severe water scarcity for at least one month on each year ¹⁾



61 per cent
Funding gap

There is a funding gap of about 61% between identified needs to achieve SDG 6 target ²⁾

Footnote:

1. Water Scarcity, United Nations Water, Mekonnen and Hoekstra, 2016

2. United Nations Statistics Division Development Data and Outreach Branch

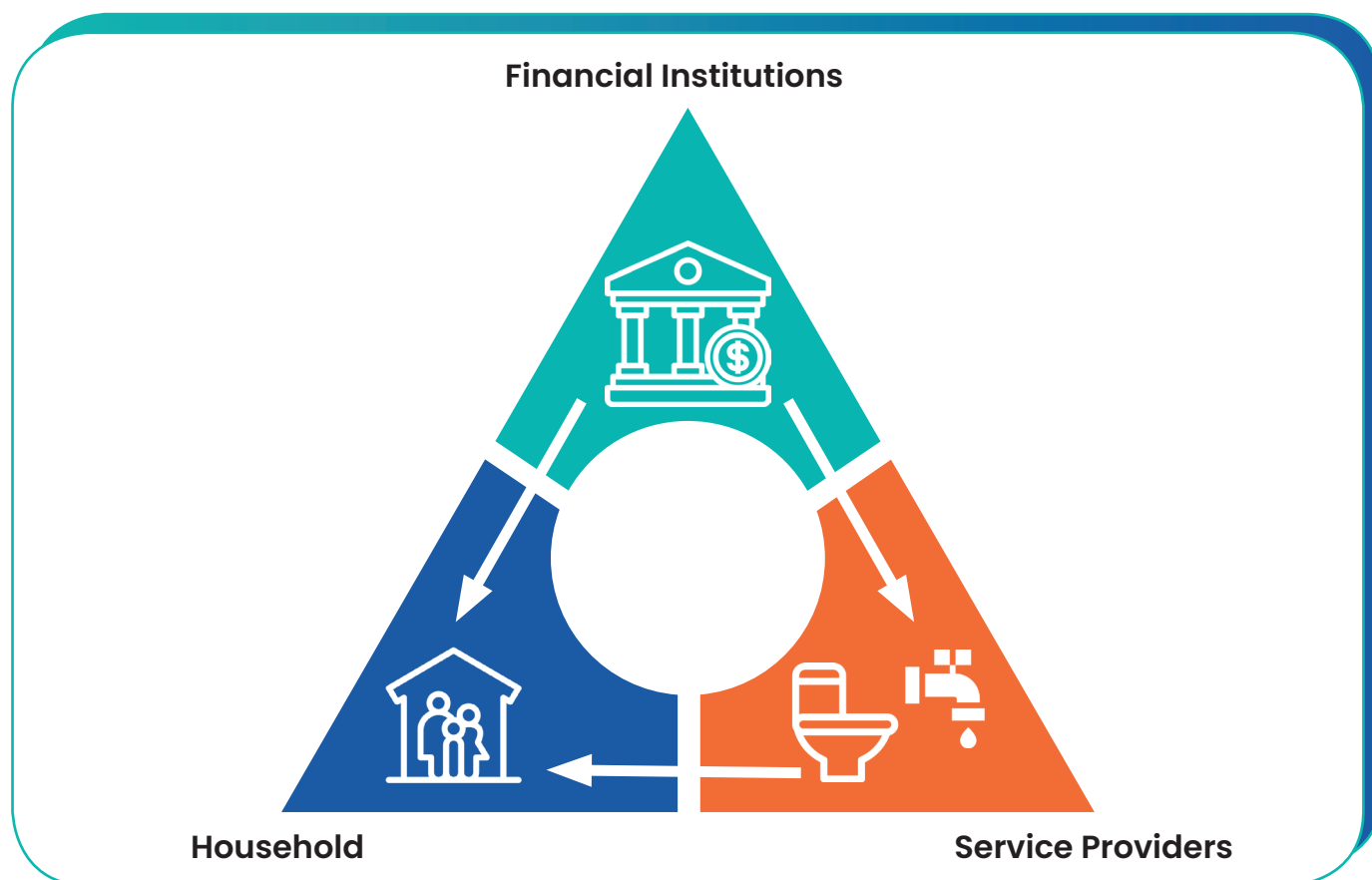


Figure 2. Essential Factors on Successful Water Provision

Source: Water org, 2023

Globally, the current levels of funding flowing to water and sanitation services are in line only with the capital costs meeting essential water and sanitation services. Given the disparities in spending between and within countries, a comprehensive and inclusive regulation is needed, and available resources should be more targeted at underserved populations. Innovative funding schemes are also needed that actively involve the public, private, and community to fulfill access to water and sanitation comprehensively.

securing and increasing funding for basic access to safe water and sanitation for all is a testament to the collective efforts needed to address one of the most pressing global challenges. As Indonesia prepares to host the 10th World Water Forum in Bali, it stands as a beacon of progress and innovation, ready to lead the global dialogue on sustainable water management and inspire action towards a future where everyone has access to safe water and sanitation



Objectives



To discuss the key challenges and opportunities of sustainable water financing in securing and increasing funding for basic access to safe water and sanitation for all at all scales by focusing on the following discussion:

- Increase awareness and advocate for political commitment
- Explore and secure diverse sources of funding
- Strengthen the financial management of water and sanitation services, ensuring transparency, accountability, and effective use of resources
- Prioritize funding for initiatives that target underserved and vulnerable populations
- Promote investments in water and sanitation infrastructure that are resilient to climate change and other environmental challenges

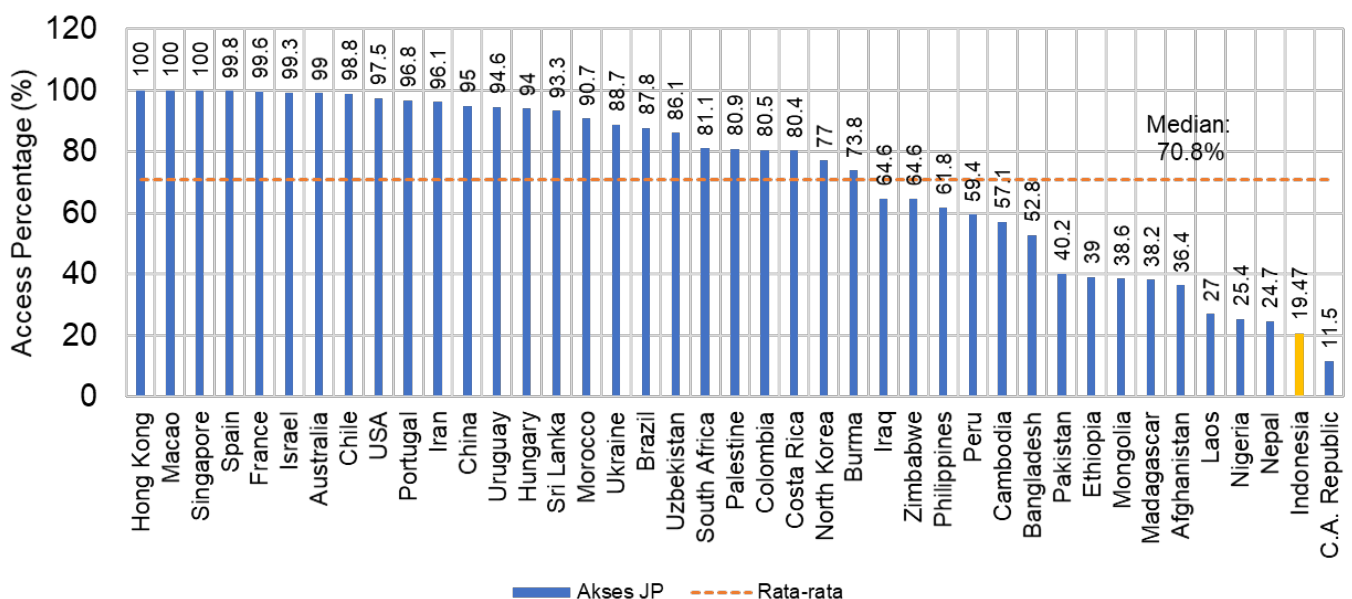


Figure 3. Comparison of Achievements of Access to Piped Drinking Water in Indonesia with Other Countries

Source: Susenas KOR BPS 2022, and The Global Economy based on WHO-UNICEF

Challenges

- The main challenges in financing water and sanitation are limited funding, low priority given to the water and sanitation sector, insufficient engagement with private interest, complexity in tariff implementation, low willingness to pay of the community, and high idle capacity and Non-Revenue Water (NRW).
- Referring to the data shown by Bappenas, the issue with water and sanitation sector includes low service coverage, with only 19.74% for piped water and 10.16% for safe sanitation.
- Concerning the target of 10 million water connections by 2024 in Indonesia, only 5 million have been realized. Adequate financing is needed to fill in the gap, however budget allocation is still under 1% of the total need.
- The funding gap and the services in the water and sanitation sector cannot be fulfilled by only formal service providers like PDAM especially for the informal community. Thus, there is a need to work together with the supplementary service provider.
- Involvement of the community and local government is vital for the implementation of the water and sanitation sector. At present, there are 37,000 village-scale organizations and 6,000 Community-Based Water Supply and Sanitation Management Groups (KP-DWSS) in Indonesia which can be a leading solution. The issues faced by the supplementary service providers cover the legal status, the availability of supporting ecosystems, and disparities of knowledge and capacity among agencies.
- The implementation of Public-Private Partnerships in the water and sanitation sector is still focusing on the large-scale project which is hard to implement and requires substantial support from the central government. Therefore, there is a need for small-scale PPP projects that can address challenges with lower risks.

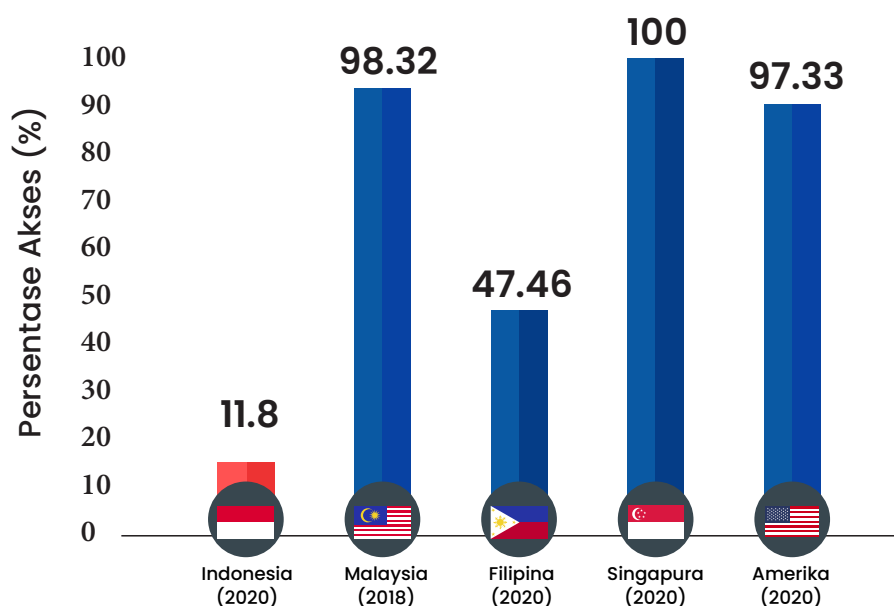


Figure 4. Comparison of Achievements of Safe Drinking Water with Other Countries

Source: Susenas KOR BPS 2022, and The Global Economy based on WHO-UNICEF

Topic of Discussion



Figure 5. Panel Session on the 3rd Workshop: “Secure and Increase Funding for Basic Access to Safe Water and Sanitation for All at All Scales”

Source: DGIF, 2024

I. Global Best Practices on Institutional Community-Based Water and Sanitation Management

Irma Magdalena Setono, Senior Water and Sanitation Specialist Water Global Practice, World Bank

Community involvement is very crucial in water supply and management. Especially due to the fact there is still a funding gap in water supply management. This funding gap cannot be achieved solely by formal service providers because there are still informal communities such as people in slum settlements who cannot be served by PDAM. Formal service providers, such

as PDAM, require legal ownership proven by an ownership certificate to be able to provide services. This cannot be fulfilled by the informal community, so inclusive services are needed from supplementary service providers who can also work together with formal service providers in providing services.

Several main factors for sustainable community-based water supply and management include policies, institutions, regulations, and financing which are described as:

- Clear policy framework that can accommodate supplementary service providers in policy strategies at both local and national levels. This policy framework must integrate the role of community-based provision and management to achieve targets;
- Institutional governance that provides clear delineations and guidelines for community-based water supply and management. Delineation which contains the division of service areas between formal service providers and supplementary service providers. For example, the division of delineation between PDAM and the Drinking

Water Supply and Sanitation Facilities Management Group (KP-SPAM) can produce synergy in the water supply and sanitation sector;

- Rules or regulations regarding community-based provision, for example, include Minimum Service Standards (SPM) to provide guidelines for supplementary service providers; and
- Access to various funding sources so that funding does not only focus on one aspect of investment. In terms of water and sanitation provision, the investment aspect also includes the provision of services and access to the community.

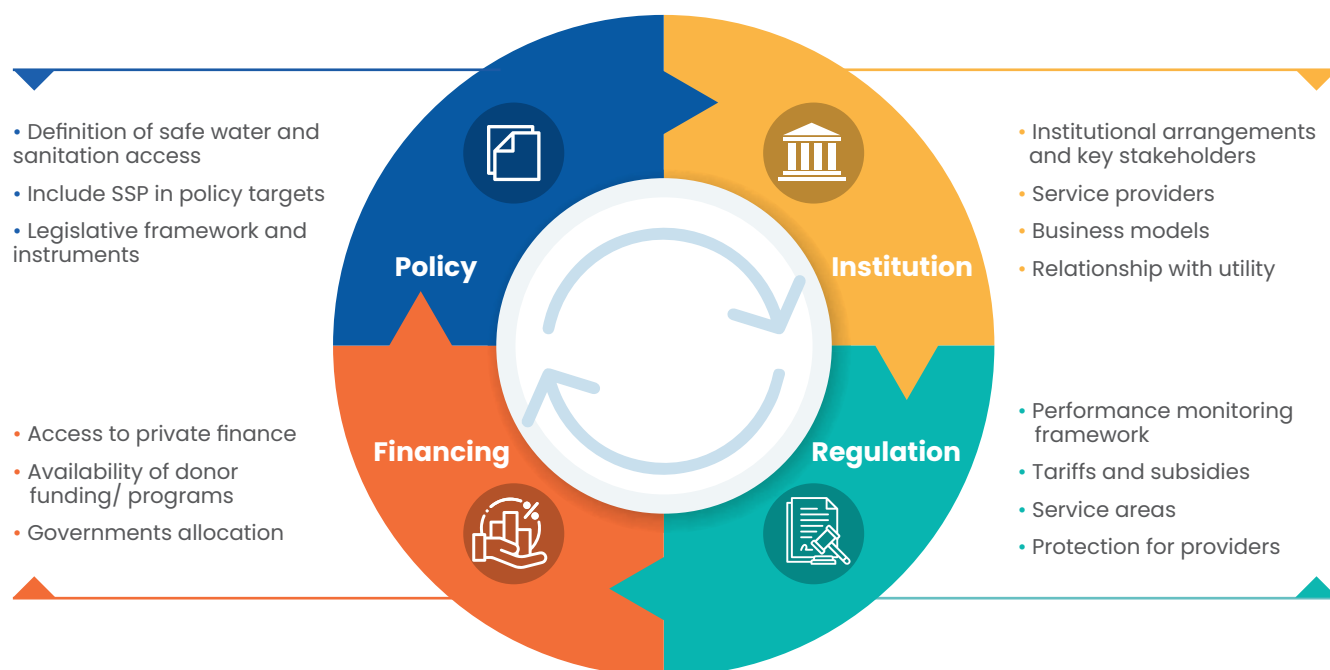


Figure 6. Framework of Crucial Factors for Sustainable Community-Based Water and Sanitation Management

Source: World Bank, 2023

II. Water Governance, Stakeholder Engagement, And Sustainable Water and Sanitation Management In Indonesia And Other Countries

Tri Dewi Virgiyanti, Director of Housing and Settlements, Ministry of National Development Planning/Bappenas

Globally, Indonesia is still lagging in terms of access to drinking water and sanitation. The percentage of the population that has access to piped drinking water is still low, namely 19.47%. Meanwhile, pipe sanitation only reached 6.9%, and there is still a high level of defecation.

Infrastructure and institutional development is very important to achieve drinking water and sanitation access targets. Around 10 million clean water channels are needed, but by 2024, only around 5 million channels will be achieved.

The safe sanitation target is expected to be achieved by 2024, but there is still a gap of 9%. Adequate funding is needed to cover the gap.

To overcome challenges in the water sector, local governments are the main actors in providing clean water. However, intervention from the central government is needed considering existing limitations.

In terms of sanitation, it is more complex in its relationship with stakeholders. There are centralized systems that require greater investment and diverse stakeholders.

Calculating the pipe sanitation target for 2024, the funds allocated through the Regional Revenue and Expenditure Budget (APBD) are still below 1%, far from existing needs. Therefore, efforts to mobilize and secure funding are needed, because this is a basic need that must be provided by the government.

Alternative funding is also needed, such as Corporate Social Responsibility (CSR), and involving private sector participation. However, even though the private sector can support capital expenditure, government support is still needed to meet long-term needs. Therefore, Bappenas encourages the availability of a state budget for water sector infrastructure.

In terms of drinking water and sanitation policy and governance, there are problems between operators and regulations. Sanitation cannot be separated from drinking water. Supervision is needed so that operators can carry out activities by existing regulations. Currently in Indonesia, there is still a mix of roles, thus supervision is still limited. There is a need for clear responsibilities among stakeholders.

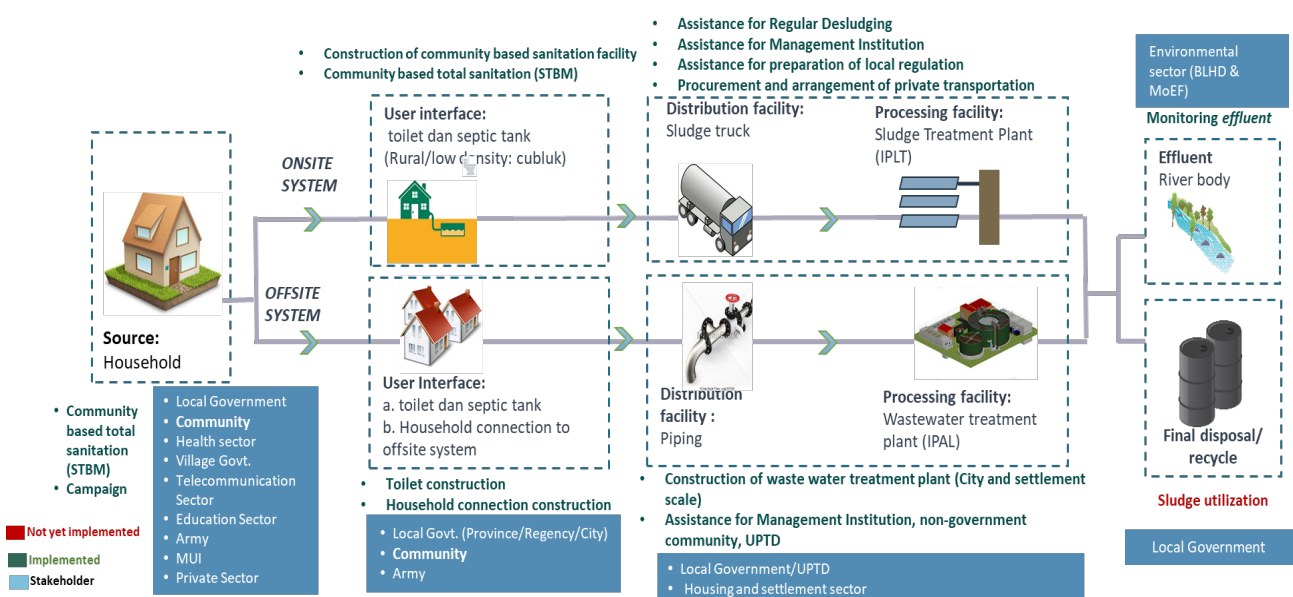


Figure 7. Stakeholders Engagement Of The Provision Of Sanitation In Indonesia

Source: Bappenas, 2023

III. Small scale Public Private Partnership as an Alternative Financing Opportunity for Water and Sanitation

Junko Sagara, Water Resources Specialist in Southeast Asia Department, Asian Development Bank (ADB)

In general, many PPP projects in the clean water sector focus on large-scale projects that have a large impact, but are difficult to implement, require a long preparation time, and require large support from the central government.

Currently in Indonesia there is a segmentation of responsibility for the implementation of water and sanitation infrastructure where the central government is responsible for the upstream side, and the provincial/city government and PDAM are responsible for the downstream side.

Small-scale PPPs can be maximized to overcome these challenges where small-scale PPPs are suitable for holding segments that are difficult for PDAMs to reach.

The main difference between ordinary PPP projects and small-scale PPP projects is the lower risk and need for central government support. This type of PPP can be implemented in various parts of various countries.

A key aspect of the success of small-scale PPPs is the establishment of a clear policy framework for PPP projects.

Currently, ADB is preparing a joint study with the Indonesian government regarding the implementation of alternative types of PPP, including how to run source-to-tap schemes and the implementation of blended finance for various countries and regions.

IV. Scaling up Local and Community-based Management of Water and Sanitation and Alternative Funding and Financing Opportunities

Don Johnston, Regional Operations Director, South East Asia Region, Water.org

Water.org has been involved in various water and sanitation sector infrastructure projects in Indonesia. Currently, Water.org has provided access to loans for nearly 600 community-based water sector provider organizations out of a total of 6,000 organizations in Indonesia. One example is the clean water supply project implemented by the Drinking Water and Sanitation Facilities Management Group (KP-SPAM) in Sendang Village, Central Java. 50% of the people in Sendang Village do not have access to clean and safe drinking water. KP-SPAM, which is a PAMSIMAS program from the Ministry of PUPR, seeks to solve this problem. Water.org collaborates with financial institutions to provide water facilities and access to KP-SPAMS for financing through water microcredit.

To obtain a water microcredit facility, an organization needs to provide a proposal which is then analyzed by the credit provider as a basis for granting a loan. This water microcredit can increase the empowerment of community-managed

KP-SPAM organizations and expand service coverage.

Community-based service providers need to develop healthy and sustainable businesses. The application of microfinancing, such as micro-credit, is something that can be a financing solution. The thing that needs to be considered is that, even though the service provider is informal, efforts are still needed to provide a formal basis or legal recognition.

Financial institutions need to recognize the legitimacy of community-based service providers to increase access to financing.

Apart from that, support is needed in the form of (i) coaching and training carried out in a structured top-to-bottom manner; and (ii) Legal status as a business entity so that community-based service providers are not completely 100% informal, legality is needed to be able to facilitate its development; and (iii) Development of a water sector financing ecosystem for project upscaling.

Water.org partners with the Ministry of Public Works & Housing (MPWH) to promote financial access for Rural Water Supply Providers under PAMSIMAS Program.

593

Loans disbursed for rural water supply providers

35 mio

Loan average (Rupiah)

21 bio

Principal amount disbursed (Rupiah)

32

Loan term average (Month)

V. Best Practices in Financing Water and Sanitation Sector in Urban and Small Scales

L. Bano Rangkuty, President Director of PT Air Bersih Jakarta

Several things that can be done to achieve the water coverage target in Jakarta are by developing the Jakarta bundling project pipeline which combines the PAM Jaya project and the PUPR national project in providing clean water in Jakarta. Currently, Jakarta's condition is still worrying, there are still several requirements to be able to access clean water investment within Jakarta itself and increase coverage from 35% to 100%.

The best business model that can currently be implemented is a combination

of the private sector and national strategic projects as well as a combination of the private sector and PUPR. with a cost of 8.8 trillion and a contract period of 25 years, 20% of the capital expenditure (capex) is required in the first 2 years, so the main focus in the initial stage is finance.

Institutional analysis is important as a basis for project development, apart from that it also considers the feasibility of water sector projects as seen from market analysis, ability to pay, and future income.

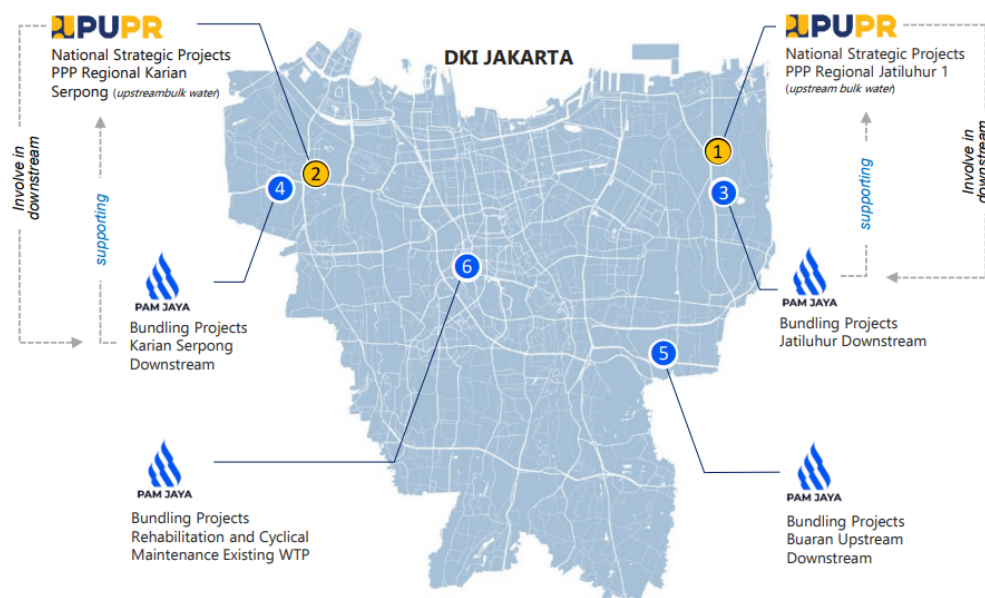


Figure 8. Water Coverage in Jakarta

Source: PT Air Bersih Jakarta, 2023

Key Takeaways



Innovative financing mechanisms can help bridge this funding gap by leveraging resources to facilitate the implementation of sustainable water practices, infrastructure development, and sanitation initiatives to address these challenges. Some key takeaways from the discussion are the following:

- Increase local government involvement as the main actor in the water and sanitation sector supported by the central government through monitoring, evaluation, and capacity building. Comprehensive planning for the water and sanitation sector is also needed.
- Public-private Partnership (PPP) arrangements should involve community-based service providers to reach segments not covered by formal providers.
- It is crucial to enhance the creditworthiness of supplementary service providers, similar to the Public-Private Partnership for Water Supply System (KP-DWSS), to access financing facilities such as microcredit for water. This can be achieved through (1) Policy frameworks and strategies accommodating supplementary service providers at all levels; (2) Institutional governance with clear delineation and guidelines; (3) Regulations on community-based water and sanitation provision, exemplified by Minimum Service Standards (SPM) establishment; and (4) Increased access to various funding sources through expanding service provision coverage.
- To address low bankability, conduct holistic market analysis, due diligence for private investments, and implement effective business models through project pipeline, bundling, and blended finance.
- Project structuring is essential for setting tariffs that meet operational needs while remaining affordable. Governments and private entities can negotiate tariffs, and subsidies can be provided if necessary.

Conclusion

The key challenges in securing and increasing funding for basic access to safe water and sanitation include limited funding, low priority given to the water and sanitation sector, insufficient engagement with private interest, complexity in tariff implementation, low willingness to pay of the community, high idle capacity and Non-Revenue

Water (NRW), and lack of utilization of supplementary service provider.

Several ways to address the challenges are improved PPP arrangements, enhancement of creditworthiness for supplementary service providers, better project structuring, and improved involvement of local governments as primary actors.

Leveraging access to funding and financing for the water and sanitation sector can be realized, with several key steps as follows:

- Ensuring alignment of political and commitment across hierarchies within government to effectively deliver water infrastructure.
- Increase local government commitment to providing clean water and sanitation, including strengthening the capacity of small-scale and household.
- Engaging coordination among relevant stakeholders, and communities involved in policy making processes in water and sanitation.
- Develop comprehensive water and sanitation plans that address infrastructure needs, service delivery, financing requirements, and environmental sustainability.
- Invest in capacity building for key stakeholders and communities including technical support and financial assistance.
- Develop robust financial strategies that explore a range of funding sources and prioritize on sustainable mechanisms that ensure long-term operation and maintenance of infrastructure.



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