Dealing with Informality in Water Supply Services in Indonesia

Communities demand that community-based water provider organizations (CBOs) be more professional in their delivery of water and provide the level of service they expect. This demand may be a challenge, not only in terms of the internal capacity of the CBO but also in terms of the uncertainty as to the legal status of the organization that performs the service function. A dearth of corporate practice, efforts toward formalization, accountability framework, and partnership definition are areas that policymakers and local authorities need to work on if they want CBOs to perform their role better in water supply, particularly in rural areas. This SmartLesson describes the Multi Village Pooling Project’s experience in generating lessons on the challenges and potential of CBOs formed under previous projects and identifies ways to help them improve, expand, and manage on a continuing basis.

Background

Indonesia’s more than 70,000 villages are spread across 491 districts and municipalities in 33 provinces. Fifty-six percent of the country is rural, and 52 percent of the population depends on shallow wells for their water. According to WHO-Unicef Joint Monitoring Program data (2008), overall access to water is 80 percent, but with a disparity between urban (90 percent access) and rural (70 percent access) areas.

To improve services, over the past two decades, with World Bank funds alone, the government has built no fewer than 10,000 water supply facilities in villages. These facilities are managed by CBOs. The figure is even greater if facilities built using national budget funds, other donor funds, and social funds from corporations are taken into account.

This increased investment in CBO-managed facilities is due not only to the internal benefits of a community-based approach, such as strong sense of ownership, community contribution to the project, involvement of the community in the operation and maintenance of facilities, and so on, but also to the poor performance of local water utilities.

Learning from the implementation of previous projects, the design of the implementation of community-based investment projects was improved to better ensure the sustainability of the facilities. Project preparation focused not only on achieving good quality construction, but also on social preparations in anticipation of changes in roles and functions in the existing community structure as the result of having a new institution.
manage the facilities. A demand-responsive approach was adopted to ensure that the project was targeting those who actually wanted water supply services. Cash and in-kind contributions from the community during the construction of the facility are required as an indicator of demand for the project.

As a result of the consistent adoption of this approach, and because of communities’ continued need for water supply services, the role of community groups in service provision is growing.

A study by the Water and Sanitation Program\(^1\) (WSP) in 2008–2009 in five districts in two provinces in Indonesia\(^2\) found that existing CBOs cater to an average of 1,200 users (260 connections), which means that the CBOs in these five districts are delivering water to an estimated 800,000 people (around 7 percent of the total population). Data from Blitar and Lamongan, two of the districts, show that CBOs provide between three and five times more household connections than do the local water utilities. Around 67 percent of the CBOs surveyed have operating ratios of less than 1, which means each has a borrowing capacity of between IDR 12 million ($1,100) and IDR 400 million ($44,000). CBOs also manage assets worth, on average, $50,000.

Focusing on users’ and potential users’ willingness to pay, it was found that those willing to pay more for services would be prepared to pay 30 to 300 percent more than the tariffs currently charged by the CBOs.\(^3\) This high willingness to pay is very likely driven by customers’ desire to have better water pressure and a reliable supply. More than 60 percent of respondents noted problems with their current service such as with water pressure or reliability, while the hypothetical willingness-to-pay scenario offered good pressure and reliability.

These two findings indicate that there is opportunity to expand the role of CBOs in delivery of water supply services. Although several experienced CBOs have expanded their services and operations since the initial investment was made, leveraging their role in community water supply presents even further challenges related to their internal institutional capacity and to external, structural issues like clarity on their mandate and relation with the government.

**Lessons Learned**

1) **Employ corporate practices.**

CBOs were originally designed as organizations “from the community, by the community, and for the community,” financed by a project. When projects ended, some performed poorly and folded; others managed to maintain improvements in both performance and services. For those, CBOs that were able to survive and expand their services, there has been a shift in their community-based nature and structure. For example, their customer base may now expand beyond those involved in setting up the CBO to include people who did not contribute in cash or in kind when the project was under way, and in some cases do not even live in the administrative territory of the village for which the service was originally intended. The implication of these developments is that not all users have the same rights and responsibilities. For example, the greater the number of users, the greater the delegation of functions from the community to the CBO. Although not officially documented, there is evidence that community participation in strategic decision making has been delegated to the CBO. Users are more concerned with getting a decent service at an affordable price. Over and above that, decisions lie with the CBO.

Unfortunately, the majority of CBOs do not adopt corporate practices. They do not have systems in place to plan and budget on an annual basis, are not externally controlled for performance, have no incentives for staff, and have no systems for financial reporting and asset recording. Public meetings to report on performance to the community are now rare. This leaves the door open for discord between users and the management board and results in a lack of protection instruments for all sides, including CBO control and accountability mechanisms.

Capacity-building programs need to be conducted to improve the CBOs’ current organizational charts on people, process, and practices. On people, one area to be improved by CBOs relates to how the committee is structured. CBOs should provide people with clarity as to their rights and obligations, agree on eligibility criteria to become a committee member, and agree on who makes what decisions. On process, the CBOs should define clear objectives for the organization, including its scope, values, and principles, and their governance over committee and community members, including financial policy on what is done with the profit. On practices, CBOs need to develop policies for customer relations tariff-setting mechanisms, and evaluation from external parties, including conflict resolution.

2) **Work toward formalization.**

In addition to empowering communities, the community-driven development approach also breaks through the bureaucracy that in the past has delayed and blocked the flow of assistance to communities. In adopting this approach, the functions and mechanisms of agencies of the bureaucracy, such as village and district government offices, tend to be sidestepped to some degree. Instead, technical assistance is provided by teams of consultants and facilitators for the operational functions of project implementation. Although this approach is good at quickly and effectively reaching the community with facilities, organizations formed when the project was under way become fragile when the project ends.

For project-formed organizations, which offer limited support when the project is ongoing, it takes time and adjustment to local challenges to evolve into established organizations. All too often, the fate of the organization

---

1 The Water and Sanitation Program (www.wsp.org) is a multi-donor partnership administered by the World Bank to support poor people in obtaining affordable, safe, and sustainable access to water and sanitation services.

2 Malang, Lamongan, and Blitar districts in East Java province, and Bandung and Cianjur districts in West Java province.

3 This study used a contingent valuation, with respondents being asked how much they would be willing to pay, contingent on specific hypothetical scenarios.
depends on a handful of individuals who enjoy very high social and economic standing in the village. This makes the foundation of the organization very fragile. For example, local political power can be so strong that CBO managers may be replaced (supplanted) for not doing as the local political power would like or, alternatively, can hold their positions “forever,” regardless of their performance in managing the facilities.

In addition, guidance from the local authority is very weak. In such cases, it is not clear who controls the managers’ performance or to whom they report. In the long run, it is the users—those who have made contributions and who want better services—who will lose out. And in an even worse case scenario, the system will fold, resulting in a loss on an investment that was financed by public and private funds.

Many CBOs are aware of the fragility of their position as organizations with no legal status. They expressed interest in becoming registered, legal entities. To do this, they had to revise their articles of association and bylaws and discuss with the community concerned what kind of legal entity they should become. Becoming legal entities separates the individual responsibilities of the managers from the responsibilities of the organization in formal dealings with other institutions. It is not uncommon for managers to borrow funds against personal collateral to keep operations going—for example, to replace a burned-out pump or to pay the electricity bill if there is not enough money collected from the customers in the pot. Not being a legal entity poses risks to the individual rather than to the organization.

Being a legal entity helps the community to appreciate and consistently apply the agreements made in the organization’s articles of association/bylaws that define the tasks/roles and responsibilities of each stakeholder group.

3) Develop an accountability framework between local government and CBOs.

Although in some districts, the number of piped water users catered to by CBOs exceeds the number of users served by local water utilities and, in general, the level of welfare of CBO customers is lower than that of local water utility customers, there is still very little district government support for CBOs. While local water utilities get additional investment funding every year, receive advice, and have the backing of public policy to run their operations going—for example, to replace a burned-out pump or to pay the electricity bill if there is not enough money collected from the customers in the pot. Not being a legal entity poses risks to the individual rather than to the organization.

In addition, guidance from the local authority is very weak. In such cases, it is not clear who controls the managers’ performance or to whom they report. In the long run, it is the users—those who have made contributions and who want better services—who will lose out. And in an even worse case scenario, the system will fold, resulting in a loss on an investment that was financed by public and private funds.

Many CBOs are aware of the fragility of their position as organizations with no legal status. They expressed interest in becoming registered, legal entities. To do this, they had to revise their articles of association and bylaws and discuss with the community concerned what kind of legal entity they should become. Becoming legal entities separates the individual responsibilities of the managers from the responsibilities of the organization in formal dealings with other institutions. It is not uncommon for managers to borrow funds against personal collateral to keep operations going—for example, to replace a burned-out pump or to pay the electricity bill if there is not enough money collected from the customers in the pot. Not being a legal entity poses risks to the individual rather than to the organization.

Being a legal entity helps the community to appreciate and consistently apply the agreements made in the organization’s articles of association/bylaws that define the tasks/roles and responsibilities of each stakeholder group.

4) Define a form of partnership between local government and the CBOs.

Generally, assets used for development of water supply infrastructure are recorded as capital expenditures in government accounting systems. Unlike social expenditures, where assets are transferred (such as contributions to disaster-struck communities), capital expenditures must be recorded as government-owned assets. This make the organization of assets complicated in practice. There are consequences not only for asset recording, but also when there are returns on government-owned assets that are managed by CBOs. Although there is no evidence of this happening, there are people in government who believe that revenues arising from the management of government assets belong to the government and belong in the state treasury. This problem is further complicated for the following reasons:

- The message given to communities at the time of the initial project investment is that the facilities built will belong to them and that they should be maintained and used accordingly.

- The community contributes to the construction of the facility, both in cash and in kind. So these assets are actually jointly owned, though not in equal proportion.

- When facilities are developed, beyond revenues arising from the management of the facilities, users often make additional contributions to get better service, such as purchasing pipes to get household connections, purchasing water meters, adding reservoirs, and purchasing higher capacity pumps.

- CBO personnel are not paid market wages. Most managers are volunteers who are paid below the regional minimum wage.
Although the assets initially invested through project funds will depreciate and at some point will cease to have any value, current assets (which have been replaced) are the result of the management of the CBO. In practice, this will be a concern for the CBO.

As an example of what happens as a result of this vague and impractical system of asset management, selling a burned-out, unusable pump (originally purchased with government funds) and replacing it with a new pump breaches audit regulations (because the broken pump should have been saved). Total compliance with audit principles is not only impractical, but also difficult for communities to understand.

Transferring government assets to CBOs is no easy option, either, given that approval must be obtained from numerous authorities (including regional government, the Ministry of Public Works, and the Ministry of Finance) and because of the questionable reliability of the process.

Considering that full privatization, where all right and authority of service is in private hands, is not possible by law, and full public management is not a wanted choice, some possible action to solve this problem might be through developing appropriate partnership forms between CBOs and local governments in water supply service.

Some possible forms in this delegated or partnership model are:

- a management contract where CBOs are only responsible for operation and maintenance of the system;
- a concession where CBOs also invest in expansion in addition to operation and maintenance; and
- a joint venture where CBOs also invest in equity in addition to their role in operating and maintaining the system. Hence, the CBOs act as a private entity.

In fact, these partnerships are happening, but there is a lack of formalization, so it is difficult to trace performance accountability for both sides. Formalization will educate both parties about how to bargain their role sharing in the partnership and how to achieve better planning for both sides, since CBOs will be aware of their obligations regarding incentives, and this will trigger the local government to better monitor the service performance.

**Conclusion**

Based on the lessons from our work with CBOs, although community-based water supply organizations are the preferred option, at a certain scale, managing water supply facilities solely on the principles of community-driven development is difficult, given the pragmatic nature of communities and their focus on service. The current trend is toward communities as paying consumers who demand affordable services, rather than communities who want to collectively think of ways to improve services. Greater value is placed on roles, and more is expected of those given roles within the community structure.