

# “Expand and Scale-Up the Safe Water Services for Rural Areas, through the Provision of Loan by Financial Institutions in Indonesia”

(A collaboration between Water.org and WASH-CSR Program of Danone AQUA on CBO<sup>1</sup> Strengthening & Financing Program)

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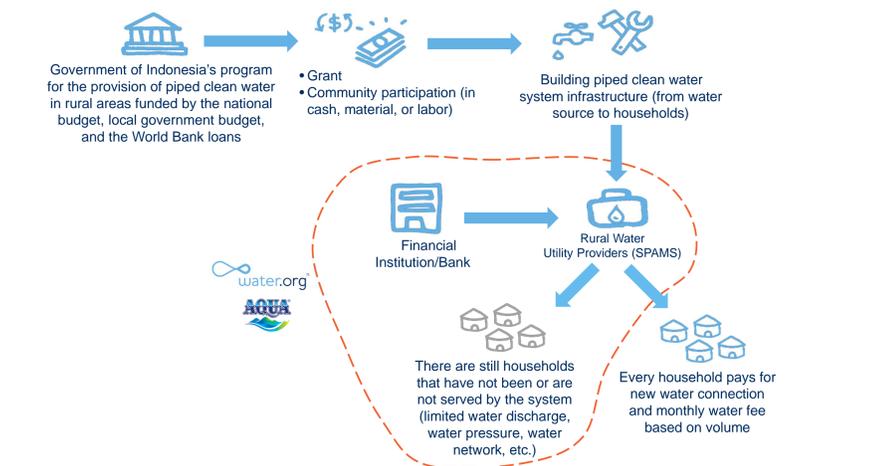
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## Introduction

The Indonesian Government has a National Program beginning with the Water Supply and Sanitation for Low Income Communities (WSSLIC) Program which is now known as the Community Based Drinking Water and Sanitation (PAMSIMAS) Program under the Ministry of Public Works and Housing. Through this Program, the Government provides stimulants to the community to develop water supply and sanitation systems in community-based rural areas by building initial infrastructure of clean water and piping systems. But most of these existing systems only serve less than 50% of the villagers and thus have development potential. In collaboration with the Indonesian Government, Danone AQUA and Water.org supports the continuity and development of CBOs to improve the provision of CBOs services. This program complements the Government's investment in the Water, Sanitation and Hygiene (WASH) sector by mobilizing CBOs Providers to be more sustainable and facilitate them to obtain commercial financing to expand services. In this program initiative, financial institutions/banks are enabled to develop and launch sustainable financial products for water and sanitation (or in existing products). Furthermore, financial institutions provide financing not only to CBOs Providers but also provide financing for construction of new network connections to the existing system. Financing obtained by CBOs is then used for system development and/or service improvement, such as drilling new wells, construction of main distribution pipelines and installation of new households' connections. The following is an illustration of SPAMS Providers and the potential role of Financial Institutions/Banks.

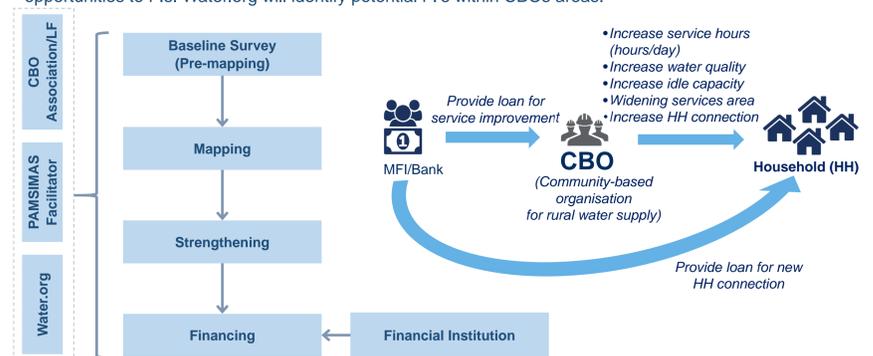


## Methodology

Assisting/strengthening CBOs Providers in this program focuses on completing the requirements of Financial Institutions that focus on the following 4 parameters: 1) Legal/institutional (Village Head Decree, BUMDes (Village own enterprise), Notarial Deed, etc.); 2) Tariffs and recording systems (village regulations on tariffs, water bill recording and collection); 3) Financial statements (last 3 months) and 4) Business plan (development plan, funding source, financial projection).

CBO Strengthening and Financing Program involve three primary approaches briefly described as follows:

- CBO Mapping**  
The program identifies and assesses CBOs, and continues to organize information into a database that can be used to manage CBO strengthening and financing efforts. The CBO database will contain essential information on CBO location, size, registration status and capacity in standard functional areas.
- CBO Strengthening**  
Strengthening conducted by the program is focused on four main CBO capacity areas: institutional, financial, technical, and operational. Identify potential CBO's by using some parameters such as legal aspect, water-tariff, and revenue and service improvement plan. The identified CBO's will be endorsed to take loan from Financial Institution (FI) / Bank for service improvement. The program will increase CBOs capacity in advance on how to develop CBO loan proposal by completing Financial Institution / Bank loan requirement.
- CBO Financing**  
The program implements a comprehensive approach to secure financing for CBOs by focusing on both sides of the equation – the CBOs and the investors. This includes assisting strengthened CBOs which have steady cash flow and proper book-keeping to prepare loan applications and presenting CBO investment opportunities to FIs. Water.org will identify potential FI's within CBOs areas.



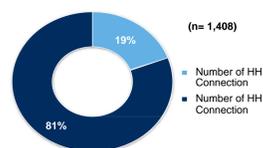
## Results & Discussion

### Data Collections

SPAMS Providers under the PAMSIMAS<sup>2</sup> Program are spread across 12,254 villages in 32 provinces in Indonesia. Water.org conducted a market survey (baseline survey) in 19 districts spread in 6 provinces, i.e. West Sumatra, South Sumatra, Banten, West Java, Central Java, and East Java from February to October 2017 with total respondents of 1,631 SPAMS Providers. The purpose is to find out the existing condition and interest of SPAMS Providers in accessing financing from Financial Institutions/Banks.

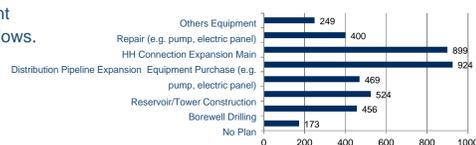
### Service Coverage

From 1,413,700 households at SPAMS Providers, 275,001 (19%) of them are already served by the SPAMS Providers to access clean water, and 1,138,699 (81%) of them still have no access to clean water from the SPAMS Providers system (assuming that 1 household is equal to 1 Household Connection).



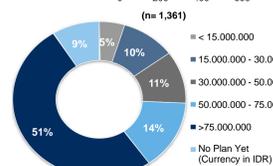
### Development Plan

The description of SPAMS Providers' development plan in Indonesia to develop its business is as follows.



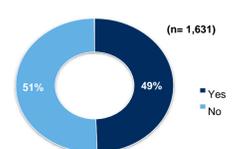
### Funding Needs for Development

The estimated funds needed to undertake the development plan of SPAMS Providers can be seen in the graph on the right (1 USD eq. to IDR 13,500).



### Interest of Accessing Financing from Financial Institutions

Funding for the development plan can come from various sources, one of which is financing from Financial Institutions/Banks. Of the total 1,631 SPAMS Providers, 807 (49%) are interested in accessing financing from Financial Institutions/Banks.



### Investment Analysis

Investment analysis data uses illustrations from one of the SPAMS Providers at Sambirejo Village, Wirosari Subdistrict, Grobogan District, Central Java Province, namely BPSPAMS Tirta Sambirejo. The details of the existing conditions and development plan of BPSPAMS Tirta Sambirejo are as follows:

Number of HH connections	: 353 HHs
Water tariff	: IDR 2,500 (eq. to USD 0.185)
Average water use	: 6 – 8 m <sup>3</sup> /HH/month
Average monthly fee	: IDR 17,000 per HH (eq. to USD 1,260 per HH)
Average gross income	: IDR 6,000,000 per month (eq. to USD 445 per month)
Investment fund requirement	: IDR 50,000,000 (eq. to USD 3704)
Development plan	: Purchase of distribution pipes, addition of HH connection network
Tenor	: 3 years

### Potential business for Financial Institution/sBanks

SPAMS Providers in Indonesia are spread over 12,254 villages in 32 provinces. Based on the baseline survey results in 19 districts with a total of 1,631 SPAMS Providers as respondents, 49% of them are interested in accessing financing from Financial Institutions/Banks. The illustration of potential financing based on the baseline survey results is as follows (using the assumption of IDR 50 million/USD 3,704 financing value with the consideration of repayment ability even though the survey results show 51% of SPAMS Providers wish to apply for financing above IDR 75 million).

From the illustration, it can be seen that financing SPAMS Providers at the national level has the potential for increasing the portfolio by approximately IDR 300 billion (eq. to USD 22.8 billion).

Since obtaining financing, BPSPAMS Tirta Sambirejo has been able to increase the number of customers/HHs by approximately 35 HHs per year on average so that the EBITDA projection during the tenor is known as follows (1 USD eq. to IDR 13,500).

	Financing	Year 1	Year 2	Year 3
Incomes		88,225,000	90,000,000	90,000,000
Expenses		57,600,000	67,600,000	67,600,000
EBITDA	50,000,000	30,625,000	22,400,000	22,400,000

### 1. Payback Period (PBP) Analysis

The simulation above shows that in less than 2 years the financing value has returned the principal, more precisely within a period of 1 year and 10 months.

### 2. Net Value (NPV) Analysis

Assuming a flat interest rate of 12% per year, the NPV method shows a positive amount of IDR 9,951,000 (eq. to USD 737).

### 3. Internal Rate of Return (IRR) Analysis

Investment analysis using the IRR method yields 25%. This figure is far above the 12% interest rate.

From the three methods of investment analysis above, it can be concluded that the investment is reasonable and profitable to be financed by Financial Institutions/Banks.

### Financial Institution / Bank with CBO WASH loan product

No	Financial Institution / Bank Name	Entity
1	PD BPR BKK Purwodadi	Rural Bank - district
2	PD BPR BKK Kendal	Rural Bank - district
3	PD BPR BKK Tamanggung	Rural Bank - district
4	PD BPR BKK Batang	Rural Bank - district
5	PD BPR BKK Pemalang	Rural Bank - district
6	PD BPR BKK Wonosobo	Rural Bank - district
7	PD BPR BKK Kab. Pekalongan	Rural Bank - district
8	BMT-BUS	Cooperative
9	Bank UMKM Jatim	Rural Bank - province
10	PD BPR BKK Karangmalang	Rural Bank - district
11	PD BPR Bank Boyolali	Rural Bank - district
12	HIK Group	Rural Bank - district

### CBO loan portfolio

SO far there are more than 90's CBO that has taking loan from FIs/Banks with total principal amount about IDR 2.7 billion (eq. USD 200,000).

About 3,500 new HH are having access in CBO water system, while 21,000 HH existing CBO customer are received services improvement.

## Conclusion

The feasibility analysis presented in this feasibility study shows that SPAMS Providers have good financial and institutional capacity to obtain financing from Financial Institutions/Banks. The investment analysis results also show that the investment is reasonable and profitable to be financed by Financial Institutions/Banks. Using the same assumption (as much as 49% are interested), the illustration of potential financing in 32 provinces across Indonesia is as follows.



<sup>1</sup> CBO: Community Based Organization

<sup>2</sup> Pamsimas: Community Based Water and Sanitation Program