

Examining Budget Credibility in Indonesia's Water and Sanitation Sector

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Introduction

Achieving access to adequate and equitable water, sanitation, and hygiene and ending open defecation are critical priorities for Indonesia as it works to achieve the Sustainable Development Goals (SDGs). Mainstreamed into Indonesia's National Development Plan and stipulated by Presidential Regulation Number 59/2017, the SDGs are integrated into the country's development agenda, including through its National Medium-Term Development Plan 2020-2024, which is regulated by Presidential Regulation Number 18/2020. Detailed in the Ministry of Public Works and Public Housing (MoPWP)H's Strategic Plan, these regulations name the MoPWP; the Ministry of Health (MoH); the Ministry of Home Affairs (MoHA); local government at the provincial, district, and village levels; State-Owned Enterprises (SOEs); and communities as responsible for improving access to clean water and sanitation. This brief will explore Indonesia's budget credibility issues in government spending related to SDG 6, which calls on governments to "ensure availability and sustainable management of water and sanitation for all."¹ The brief covers the budget period 2016-2021 and focuses on the two MoPWP sub-directorates responsible for clean drinking water and sanitation services.

At the national level, the MoPWP is responsible for setting regulations, drafting guidelines, and developing infrastructure to improve access to clean water and sanitation. In particular, these responsibilities fall to two directorates within the ministry – the Directorate of Drinking Water System Development (DDWSD) and the Directorate of Settlements, Environment, and Health Development (DSEHD). These directorates reside under the Directorate General of Cipta Karya (DGCK), a division in MoPWP.²

Indonesia has made progress toward achieving SDG 6 by increasing access to clean drinking water and improved sanitation services. However, according to a UNICEF study, 17 million people practice open defecation in Indonesia, and less than 10 percent of the total population has access to safely managed sanitation services.³ In addition, there are disparities in access to sanitation services between urban and

1 Budget credibility refers to government's ability to meet its revenue and expenditure targets during the fiscal year. A government's inability to meet its expenditure target leads to budget deviation. Deviation is defined as the difference between targeted and actual spending.

2 See Annex 2

3 <https://www.unicef.org/indonesia/reports/wash-acts-2021-edition#:~:text=Indonesia%20has%20made%20good%20progress,-public%20health%20and%20the%20environment>.

rural areas, with access to clean water especially limited in coastal areas.⁴ This brief found that these and other problems in Indonesia's water and sanitation sector are related to the financial, technical, and institutional aspects of water and sanitation sector governance. Financing gaps, inadequate cross-sector policy coordination, and limited capacity of subnational governments are some of the factors that impede progress on SDG 6. For example, local governments at the provincial, district, and village levels are responsible for obtaining funding for the investment, operation, and maintenance of the water, sanitation, and health (WASH) systems under their purview, but they have limited capacity to develop and manage these systems.⁵

As this brief will show, despite some progress, chronic budget underspending by these directorates has negatively affected progress toward SDG 6. This credibility analysis relied on approved budget and actual expenditure data from the annual government financial report published by the MoH, the MoPWP financial audit report, Indonesia's 2021 Voluntary National Review (VNR) report, the National Public Treasury Report (known as *Laporan Keuangan Bendahara Umum Negara*, or LKBUN), official data from the Indonesia Statistical Bureau on clean water and sanitation access, and a review of literature from open web sources, academic journals, and articles.⁶

4 Keisha Disa Putirama. "Interregional Disparity and Spatial Autocorrelation of Access to Water and Sanitation in Indonesia," *The Indonesian Journal of Development Planning*, Volume V, No. 3, December 2021, <https://journal.bappenas.go.id/index.php/jpp/article/download/233/132>.

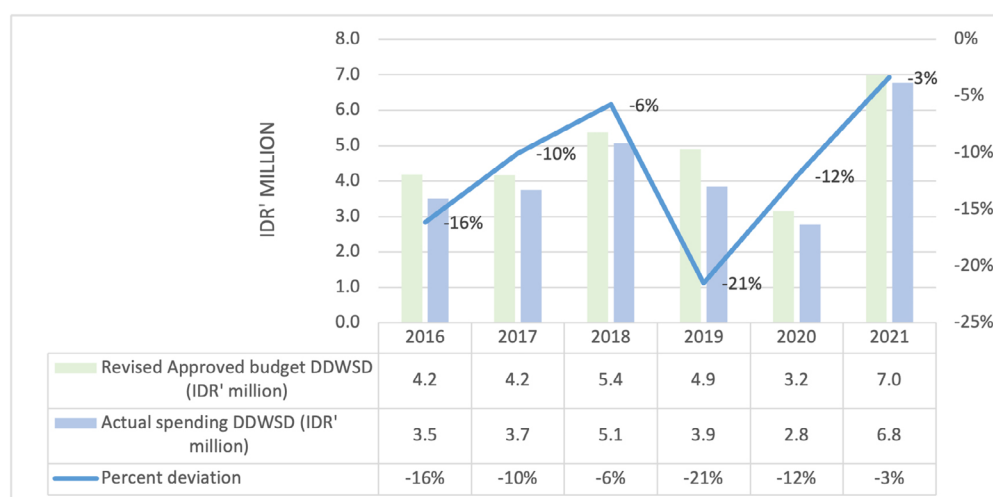
5 <https://www.unicef.org/indonesia/media/13196/file/WASH%20Acts%20Vol.%205%20Nov-Dec%202021.pdf>

6 VNR report 2021: <https://sdgs.bappenas.go.id/dashboard/>; LKBUN: <https://djpb.kemenkeu.go.id/direktorat/apk/id/data-publikasi/laporan/lkbun/311-lkbun.html>; Indonesia Statistical Bureau, accessed from <https://www.bps.go.id/>

Budget Credibility Trends in Indonesia's Water and Sanitation Sector

Between 2016 and 2021, Indonesia increased access to clean water and improved sanitation by 20 percent and 13 percent, respectively. In 2021, 80 percent of the population had access to improved sanitation while 91 percent had access to improved drinking water.⁷ In addition to having shortfalls in budget allocations compared with the estimated needs of the water and sanitation sector within the government's own medium-term plans, government expenditure data on our focused directorates (DDWSD and DSEHD) also shows underspending against the approved budget, which further deprived the sector from much needed funding. According to the 2016-2021 performance report published by DDWSD and DSEHD, these directorates underspent their budgets by an average of 11 and 15 percent, respectively, during this period.

Figure 1: Directorate of Drinking Water System Development (DDWSD) Budget Deviation Trends, 2016-2021

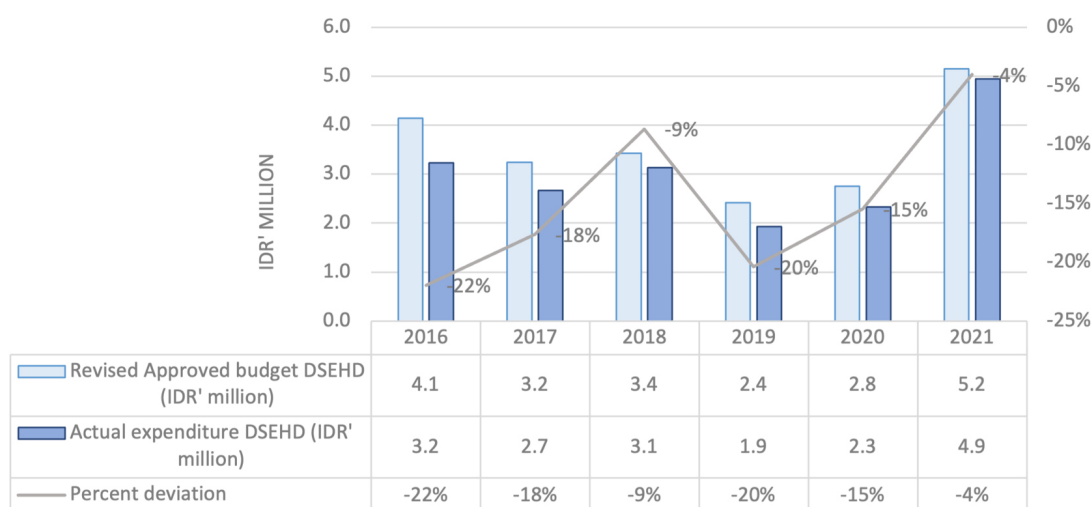


Source: Performance Report, Directorate of Settlement Environment Health Development (DSEHD), 2016-2021; Performance Report, Directorate General Cipta Karya, Indonesia Statistics Bureau.

7 VNR report 2021 <https://sdgs.bappenas.go.id/dokumen/>
www.internationalbudget.org

The Directorate of Drinking Water System Development (DDWSD) recorded a slightly higher average budget execution rate of 89 percent (an average underspend of 11 percent against the revised budget) compared to the 85 percent execution rate recorded by the Directorate of Settlement Environment Health Development (DSEHD). Both directorates appear to follow a similar budget implementation pattern in which deviations trended downwards between 2016 and 2018 before rising significantly in 2019. Spending deviations, however, declined substantially between 2020 and 2021 (see Figures 1 & 2).

Figure 2: Directorate Environment Health Development (DSEHD) Budget Deviation Trends, 2016–2021



Source: Performance Report, Directorate of Settlement Environment Health Development (DSEHD), 2016–2021; Performance Report, Directorate General Cipta Karya, Indonesia Statistics Bureau.

In 2021, the government made the highest budget allocation for water and sanitation services. The budget for DDWSD and DSEHD increased from the previous year by 64 percent and 40 percent, respectively. The same period saw marginal increases in progress on SDG 6, with a 0.8 percent rise in access to improved sanitation and one percent increase in access to improved drinking water. Budget execution rates also increased, with the revised budget underspent by 3 percent in DDWSD and 4 percent in DSEHD, a lower rate of underspending than in previous years.

Table 2: Top Five Activities with Largest Underspending in Sanitation Directorate, 2021 (Millions, IDR)

NO	Activities	Revised Approved Budget	Actual spending	Deviation (%)
1	Regional Scale Solid Waste Management System	76,691	37,349	-51%
2	City Scale Centralized Domestic Wastewater Management System (PEN)	66,961	53,003	-21%
3	Regional Scale Solid Waste Management System (PEN)	4,162	3,351	-19%
	Management of Implementation Residential Infrastructure Support			
4	Office Operational	8,159	6,548	-20%
5	Salaries/benefits	14,366	12,494	-13%

Source: Working Performance Report, DSEHD, 2021.

The five largest areas with underspending were projects and office operational items such as equipment and stationery. According to the Sanitation Directorate's performance report, unrealized targets owed to budget cuts that caused changes in project outputs.⁸ For example, these budget cuts reduced the number of sewage treatment plants and their geographic coverage and left drainage system infrastructure in disrepair. In addition to budget cuts, the government also overestimated project budget ceilings while failing to account for implementation gaps brought on by the exigencies of the Covid-19 pandemic.⁹

8 DDWSD and DSEHD are directorates under the sanitation directorate (directorate General Cipta Karya)

9 Working Performance Report, Directorate of Settlement Environment Health Development (DSEHD), 2021.

Effects of Budget Credibility Challenges on Water and Sanitation Outcomes in Indonesia

Budget execution by both directorates has been characterized by constant revisions in the last 6 years on account of additional foreign loans and grants inflows to fund new projects, variation in performance outputs and staff reorganization. For instance, the establishment of Regional Settlement Infrastructure Centers in 34 provinces (not captured in the initial budget) introduced changes to budget plans in 2019. In 2020, the appointment of a new Director General official at DGCK and the introduction of new output indicators for project activities as well as related revisions to the DGCK work plan, including reformulating project outputs and indicators, contributed to a significant reduction in the sanitation directorate's initial budget.

Table 2: Drinking Water Service System (SPAM) Working Unit (Satuan Kerja) Budget Deviation Trend

Year	Revised Approved Budget (IDR, billions)	Actual Spending (IDR, billions)	Deviation (%)
2016	140	129	-8%
2017	106	99	-6%
2018	184	154	-16%
2019	316	133	-58%

Source: Working Performance Report DDWSD, 2019

Low budget allocation by local governments seeking to improve access to sanitation services is a preexisting constraint to realizing SDG 6.¹⁰ To speed up progress towards achieving SDG 6, the government attempted to channel other sources of funding, such as foreign funds grants (FFGs), central government grants (CGGs), intergovernmental fiscal transfers, and village funds.

¹⁰ Chong, J., Abeyasuriya, K., Hidayat, L., Sulistio, H., & Willetts, J. (2016), "Strengthening Local Governance Arrangements for Sanitation: Case Studies of Small Cities in Indonesia," *Aquatic Procedia*, 6. (<https://doi.org/10.1016/j.aqpro.2016.06.008>)

Overall, there has been a steady increase in budget allocation for water and sanitation since 2016. Nevertheless, the Indonesian government has not been able to achieve the targets it set in its 2016-2021 strategic plan on improved access to drinking water and safely managed sanitation (see Table 3). The average deviation between the expenditures and revised approved budgets of directorates responsible for achieving water and sanitation targets points to persistent underspending.

Table 3: Government's Water and Sanitation Coverage Target and Budget Deviation by Ministry, Division and Two Sub-Directorates

Year	Improved Sanitation Access		Safely Managed Sanitation Access		Improved Drinking Water Access		Safely Managed Drinking Water Access		Revised Approved Budget Deviation (%)			
	Target*	SDGs**	Target	SDGs	Target	SDGs	Target	SDGs	MoPWPH	DGCK	DSEHD	DDWSD
2016	72%	67%	n/a***	n/a	82%	71%	n/a	n/a	-28%	n/a	-22%	-16%
2017	85%	68%	n/a	n/a	88%	72%	n/a	n/a	-13%	-11%	-18%	-10%
2018	92%	69%	n/a	n/a	94%	74%	n/a	n/a	-20%	-25%	-9%	-6%
2019	100%	77%	n/a	n/a	100%	89%	n/a	n/a	-29%	-53%	-20%	-21%
2020	78%	80%	7.90%	8%	92%	90%	24%	21%	-6%	-21%	-15%	-12%
2021	78%	80%	8.31%	7%	94%	91%	25%	22%	-6%	-12%	-4%	-3%
									-17%	-25%	-15%	-11%

Source: Five-Years Strategic Plan of MoPWPH; Performance Reports of DSEHD and DDWSD.

Note that * refers to Government target as stated in MoPWPH Strategic Plan, ** SDG 6 achievement rate as published by Indonesia Bureau of Statistics & *** Data not available. Also, the Red color means: SDG target not achieved whiles Green: SDG target achieved or exceeded.

Causes of the Budget Credibility Challenges in Indonesia's Water and Sanitation Sector

Indonesia's Supreme Audit Institution (SAI) audit of the MoPWP working performance report reveals several problems, including poor governance, improper planning, and weak monitoring and evaluation. Some projects on improving drinking water access were planned in areas that did not comply with the criteria set by the ministry. Hence, projects for the supply of drinking water were not implemented in target areas. In addition, project planning for community-based sanitation programs has not been designed in a comprehensive manner. In the audit, the SAI recommended that the MoPWP recalculate its working performance targets and budgets to ensure performance and funding.¹¹

11 Indonesia SAI, The Ministry of Public Works and Public Housing Working Performance Audit Report on Drinking Water Provision and Community-based Domestic Wastewater program year 2020- semester 1 of 2021

Conclusions and Recommendations

Indonesia has made progress in achieving SDG 6 by increasing access to improved water and sanitation services. Progress against these targets as of 2021 shows 91 percent of Indonesians have access to drinking water and 80 percent have access to basic sanitation. However, Indonesia is still struggling to improve access to safely managed drinking water and safely managed sanitation facilities for everyone.

This brief highlights several challenges faced by the Indonesian government between 2016 and 2021, including unrealistic budget planning and a lack of credible budget implementation. On average, consistent underspending against the revised approved budget was observed across the budgets of the sector ministry and departments that work on water and sanitation, ranging from 11 to 25 percent underspent. The causes of underspending varied each fiscal year, but these challenges in budget credibility are related to recurring factors associated with weak public finance management government capacity. These factors include delayed procurement, technical and administrative problems in projects (such as unused auction funds, project failures, unfulfilled readiness criteria, and ineffective project management), unrealistic budget ceilings, and overestimated reserve funds. However, assessing the government's stated national goals for SDG 6 attainment and its budgetary performance is challenging due to inconsistent data between government performance and financial reports, highlighting a lack of accountability in public finance reporting.

To improve transparency and budget accountability, the following recommendations are proposed:

1. DDWSD and DSEHD should publish their working performance documents on an open access platform.
2. MoPWP and its directorates (DGCK, DDWSD and DSEHD) should integrate working performance reports and financial reports in a single report document. These integrated reports should explain and provide justifications for budget credibility gaps in relation to activities or projects and improve planning and coordination at all government levels (central, provincial, city, village). The integration of reports is important for monitoring purposes and to fill current gaps in official data.
3. To ensure sustainability and connectivity of reports across directorates and the ministry, a section should be included to track progress made on previous challenges and gaps as well as the steps or actions taken for improvement.

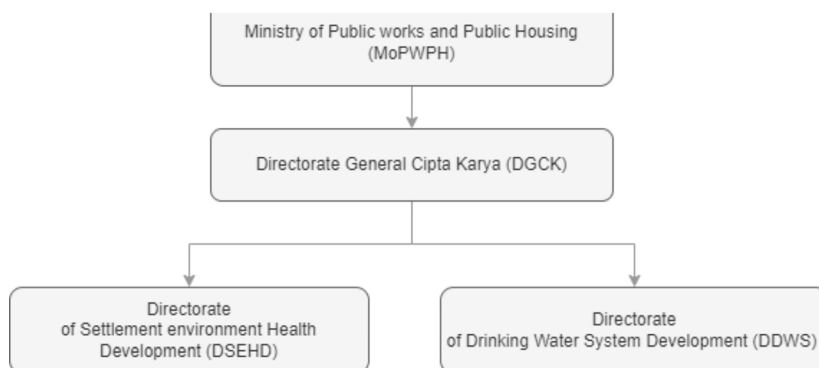
4. The national government, line ministry and directorates, should ensure consistent nominal budget figures across reports and make them publicly available.
5. The MoPWP should disclose its actions taken in response to the SAI's audit recommendations to improve budget execution and performance in the sector.

Annexes

Annex 1: The Government of Indonesia's Institutional Structure on the SDGs

Sector	Related SDG Goal(s)	Ministry, Program or Function (Ref: Annex: President Regulation No. 59 /2017 on SDGs)
Water and Sanitation	Goal 6	· Coordinating Ministry for Economic Affairs
		· National Development Planning Agency (BAPPENAS) Indonesia
		· Ministry of Finance (MoF)
		· Ministry of Public Works & Housing
		· Ministry of Health
		· Coordinating Ministry for Human Development and Culture
		· Ministry of Industry

Annex 2: The Ministry of Public Works and Public Housing Institutional Structure (Simplified)



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