

Case Study— PDAM Intan Banjar, Indonesia

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Key Characteristics of Aggregation Case Study

	PDAM Intan Banjar, Indonesia
Context	<ul style="list-style-type: none"> • Low-income country • Aggregation covering urban areas • Low level of water performance
Purpose	Performance, professionalization
Scope	Water functions and services
Scale	<ul style="list-style-type: none"> • Administrative boundaries • Localities covered: 2 for water • Population covered: 284,072 inhabitants for water • Coverage: 56% for water • Connections: 71,019 for water • Network length: 1.05 km for water
Process	Bottom-up, voluntary, and incentivized
Governance	<ul style="list-style-type: none"> • Merger • Public company • Decision making: board of supervisors with representatives from local governments • Asset transfer: assets are the property of local governments • Liability: continuity of operation • Staff transfer: not applicable • No clear entry and exit rules
Outcome	Increased performance and costs
Findings	Creation of a new local jurisdiction within the perimeter of the existing water utility; water system already interconnected; structure of utility did not change after aggregation

Water provision in the Banjar Regency started in 1982, and in 1988 the water utility (PDAM) Intan Banjar was set up as a public company. Because of rapid urban population growth, the municipality of Banjarbaru was created in 1999 within the territory of Banjar Regency. Because Banjarbaru is a new city, its administration is entitled to establish institutions to provide local public services to its citizens. With respect to water supply, the city administration, however, decided to continue getting the water service from PDAM Intan Banjar, thus maintaining the water system and the operating area of the utility unchanged. Such a decision was taken to avoid diseconomies of scale. It was followed, a few years later, by a joint agreement between Banjar Regency, Banjarbaru Municipality, and South Kalimantan Province to fund important investments that would act as a Big Push, allowing the service to improve coverage and performance.

A Water Sector Undergoing Important Reforms in the 1990s

Before 1997, the provision of drinking water in Indonesia was a public duty supervised by the municipalities, whereas the central government’s main role was to establish a standard water sector policy and prepare technical assistance for the sector development. Because of economic turmoil in 1997, the government of Indonesia began to place a stronger emphasis on water, recognizing it as both a crucial economic good and a social good for society. As a result, the Indonesian water sector experienced major changes following important institutional, economic,

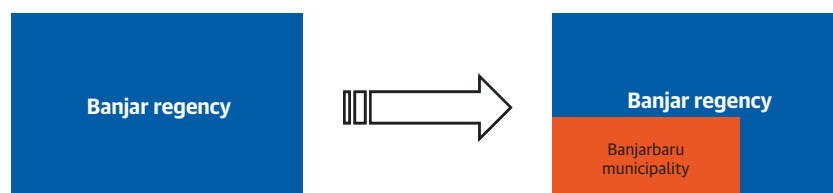
and political reforms that enabled private sector participation in the 1990s. In 2004, a regulation regarding water resources was enacted to promote integrated and sustainable water management and to decentralize further responsibilities from the national level to the provincial governments. Further regulations opened the possibility for the development of water provision through private sector participation, associations, or self-provision. A regulatory body was also established to promote good-quality service at a realistic price, to ensure a balance between consumers’ and providers’ interests, and to improve the efficiency of drinking water services.

The Creation of a New Municipality within Banjar Regency Boundaries

Banjar Regency, which was established in 1959, covers an area of 4,688 km² and is populated by 506,204 inhabitants.¹ It is part of the province of South Kalimantan, which is located in the territory of Borneo. Water provision in Banjar Regency started in 1982 through the Drinking Water Management Agency (BPAM),² which was established when the central government initiated a water supply project for Banjar. Operation and maintenance costs were borne by the project until BPAM was able to collect self-sustaining revenues. When BPAM could cover its operation and maintenance costs, it was transferred to the local government, which turned it into a public company. That company—the Water Supply Enterprise of Banjar Regency (PDAM Intan Banjar)—was established in 1988.³ Because of the rapid growth of this urban area, a new municipality, Banjarbaru, was declared in 1999.

It covers an area of 371 km² and has a population of 199,627 inhabitants.⁴ The separation process between Banjar Regency and Banjarbaru Municipality created a new administrative boundary, thereby dividing the operating area into two administrative entities (figure 1).

FIGURE 1. Separation Process between Banjar Regency and Banjarbaru Municipality



An Aggregation to Maintain the Water System and the Operating Area Unchanged

As a new city, Banjarbaru was entitled to establish institutions to provide local public services to its citizens. With respect to water supply, the city administration, however, decided to get the water service from PDAM Intan Banjar. Subsequently, to accommodate water service to both administrative areas, the local regulation was amended to establish PDAM Intan Banjar as the provider for both Banjar Regency and Banjarbaru Municipality. As a result, the administrative division did not affect nor modify the operation of the water service; the service area remained similar, and networks had been physically interconnected since the creation of the water system. The aggregation therefore covers all water functions and has not been followed by any major change in the structure of PDAM Intan Banjar. The service area remained divided into three subareas managed by branch offices, without any branch being specifically dedicated to Banjarbaru. The investment needs of PDAM Intan Banjar are fulfilled by Banjar Regency, Banjarbaru Municipality, and the provincial government. The PDAM Intan Banjar board of supervisors has five members: two representatives from Banjar Regency (one of whom is the board's chair), a representative from Banjarbaru (who serves as secretary), and two additional members representing professionals and consumers. The board of supervisors is in charge of (a) monitoring and controlling the management and operation of the water utility, (b) providing advice and recommendation to the head of the regency concerning utility, and (c) reviewing and conveying to the head of the regency the corporate and annual planning prepared by the utility's management, for the head's approval. To fulfill these tasks, the board evaluates the utility by reviewing its quarterly and annual reports. The main reason for the aggregation is to maintain the integrity of both the water system and its operation area (map 1). This is perceived as more

efficient than splitting the system and its operation into two smaller schemes, which would generate diseconomies of scale.

An Investment Program Targeting Performance Improvement and Coverage Increase

In 2010, the province of South Kalimantan and the governments of Banjar Regency and Banjarbaru Municipality agreed to commonly fund an investment program to further develop water services (table 1). This program seeks to improve the cooperation between provincial, regency, and municipal governments and thus to achieve national objectives in terms of water services coverage and performance. The investment program is prioritized according to economic and social benefits. Water investments are funded through local development budgets allocated annually for a maximum of five years.

As of this writing, the funds have been used to replace the old asbestos cement pipe (34 km long) and to build a new water treatment plant with a capacity of 250 liters per second, which has improved service to consumers. Any investment plan must receive the agreement of all parties to be implemented. A progress report is issued every year to account for the investment development and the asset management. Such investment programs act as a Big Push, which helps water services escape the low-level equilibrium trap. The water coverage rate increased by nearly 63 percent from 2012 to 2016, while nonrevenue water remained stable (table 2 and figure 2).

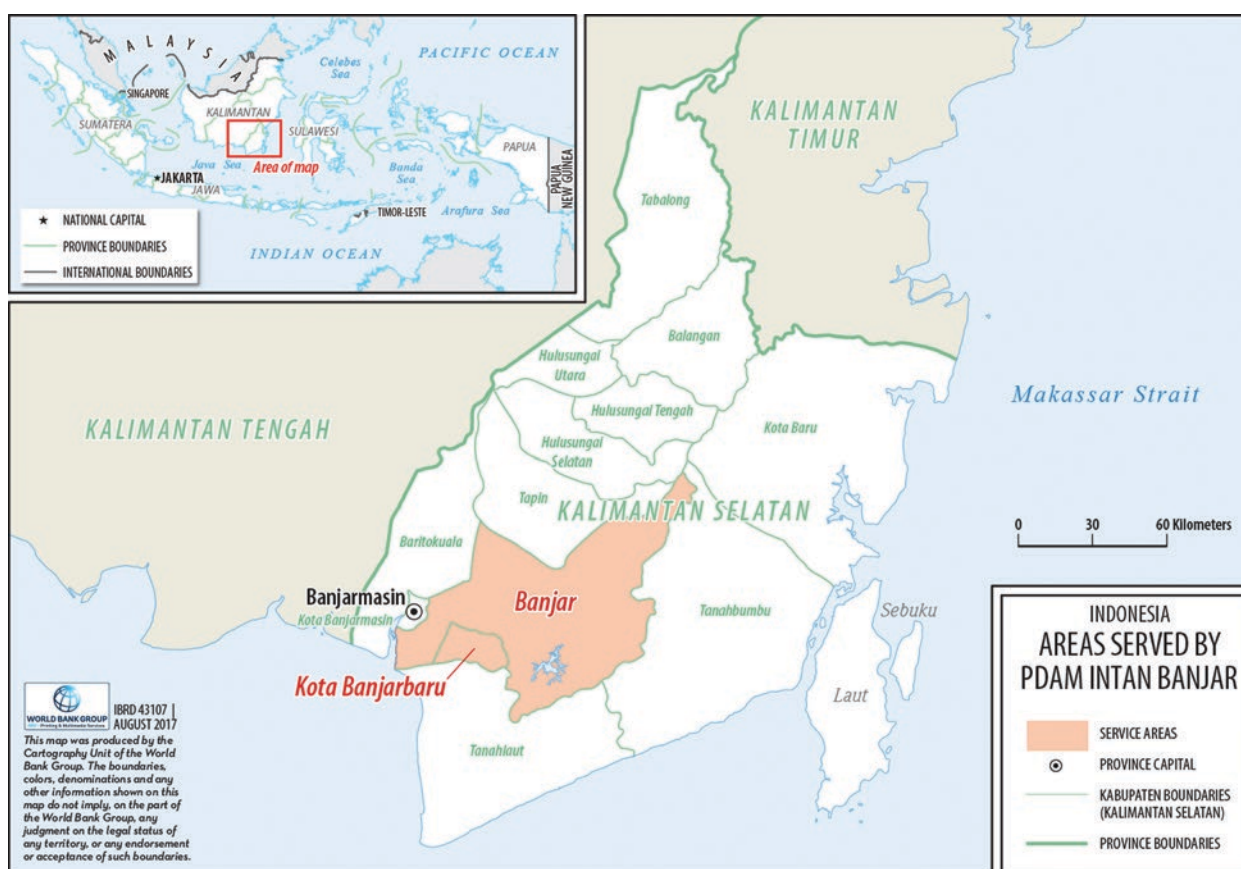
Aggregation Case Study at a Glance

Key Lessons Learned from the Aggregation Case Study

Lesson 1: Financial Support and Incentives (A Big Push) are Important to Help Services Escape the Low-Level Equilibrium Trap

To boost the success of an aggregation reform, national and external stakeholders can provide

MAP 1. Administrative Area of Banjar Regency and Banjarbaru Municipality



Source: World Bank.

TABLE 1. PDAM Intan Banjar Investment Funding, 2010

Government level	Investment amount (Rp million)
South Kalimantan Province	25
Banjar Regency	25
Banjarbaru Municipality	6

Source: Memorandum of Understanding between Banjar Regency, Banjarbaru Municipality, and South Kalimantan Province, 2010.

Note: Rp = rupiah.

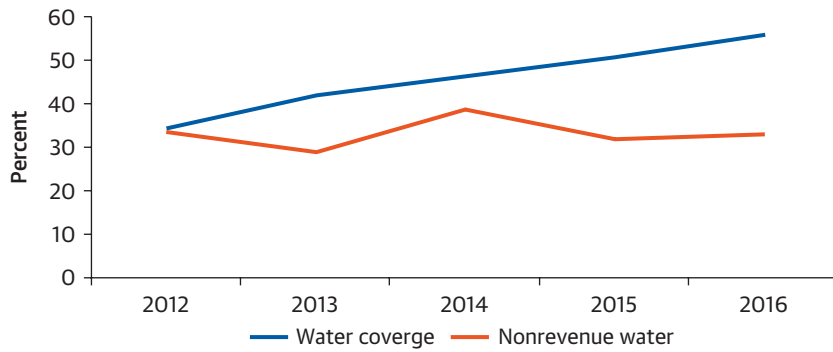
financial support to aggregating utilities to help them achieve the reform's goal. In most cases, those subsidies are used to fund investment programs, thus acting as a Big Push, which helps water supply and sanitation service providers escape the

TABLE 2. Performance of PDAM Intan Banjar, 2012-16

	2012	2013	2014	2015	2016
Number of house connections	41,925	46,964	54,923	63,613	71,019
Coverage (%)	34.72	42.57	47.00	51.34	56.43
Nonrevenue water (%)	33.03	28.49	38.31	31.58	32.54

low-level equilibrium trap. In PDAM Intan Banjar, the provincial government provided 45 percent of the funding for the investment program targeted toward coverage expansion and performance improvement.

FIGURE 2. Water Coverage and Nonrevenue Water Evolution



Source: Performance Report of Finance and Development Supervisory Agency (BPKP).

Notes

1. Indonesia 2010 census.
2. Decision letter of Director General of Human Settlements, Ministry of Public Works (No. 014/KPTS/CK/1982) concerning the establishment of drinking water management in Banjar Regency, dated February 8, 1982.
3. The agency was upgraded to Regional Water Company Banjar Regency (PDAM Kabupaten Banjar) by Local Regulation No. 5 of 1988.
4. Indonesia 2010 census.

Lesson 2: Asset Ownership, Development, and Management Depend on The Governance form of the Aggregation

In Indonesia, WSS assets belong to either the provincial governments or the local government, depending on the status of the utilities. Investments are funded through public funds coming from provinces, municipalities, and international aid.



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