
# Lessons learned from the Indonesia Infrastructure Initiative

By Danielle Hay
5 May 2011

Indonesia has the potential to achieve an 8 percent growth rate, yet the country is constrained by inadequate infrastructure.   A key issue for policy makers is how to deal with this infrastructure problem, especially given urbanisation pressures.

David Ray, Director of Indonesia Infrastructure Initiative (IndII), an AusAID-funded facility to promote economic growth through improved infrastructure, gave a public seminar last month highlighting the role that results based financing can play in driving change in infrastructure investment.

**Infrastructural failure in Indonesia**

Indonesia's infrastructural problems are widespread. Some examples are: traffic congestion and typical 30km/h intercity road speeds; major airport terminals running at 200-300 percent capacity; a 10-14 days turn-around at major ports; piped sewage connection in only 1 percent of households.  Infrastructure investment is required, yet the expenditure efficiency is poor.  An increasing budget commitment has not translated into improved infrastructure outcomes. Ray suggests that Institutional problems, rather than resource constraints, are the primary reason for infrastructure failures.

In particular, the water sector experiences poor institutional coordination, capacity and commitment, which has undermined water service delivery at the local level. Some issues have been:

- The traditional top down approach by the government has provided little incentive for local governments to maintain assets or invest funds.
- Since decentralization local governments have not kept up with urban growth and investment.
- Local governments do not see themselves as responsible for providing adequate water services despite official mandate.
- Local governments regulate water prices well below cost-recovery level.

- There is an institutional disconnect between PDAMs and local governments.

**What can be done from a donor perspective?**

David suggests a new aid modality is needed. The innovative and promising mechanism for donors in the infrastructure sector is results-based financing, which links payments with performance, as opposed to inputs-based payment.

**AusAID Water Hibah program: results-based financing**


As part of a broader initiative to address a decaying water sector, IndII initiated AusAID's Water Hibah program. The program was designed to pilot the implementation of a new output-based incentive grants scheme aimed at promoting increased and sustainable local government investment in expanding water connections. The program provides grants to local governments that have agreed to invest funds in the local water companies, which are used to expand the service provision to poor households. The grants are paid upon verification of properly functioning new water connections. As a result, so far 52, 531 water connections have been installed for poor households.

**Lessons learned from Hibah**

*Outcome not just output related:*

- The ultimate objective should be government related. It is important to mainstream new government attitudes.
- Outputs will give photo opportunities for public popularity, but it is the outcome that will have greater long-term development impact.

*Additionality not redundancy:*

- Grants should have transformational and catalytic qualities. Government investment should be stimulated.

**Ray's concluding 5 C's of Effective Grant Programming**

*Conditionality:*

- To ensure maximum impact from investment, grants should have entry requirements that are aligned with developmental, institutional and governance policy objectives.

*Consolidation:*

- Working with less not more local governments.

*Contestability:*

- Local governments competing for grants by demonstrating capacity, commitment, and fitness to execute the grant programs.

*Consistency:*

- Multi-period grants to ensure longer run incentives.

*Communications:*

- Building constituency for improved service delivery.

IndII's results-based financing initiative has driven change in the water coverage. The question is: how can we expand on this success?

*Danielle Hay is a Research Assistant with the Development Policy Centre.*

**About the author/s**

**Danielle Hay**
Danielle Hay is a Research Officer at the Development Policy Centre.