

International Financial Institutions and Indonesia's Water Sector: Roles, Strategies and Future Direction

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Development projects are delivered through various institutions and organizations in different regions. The roles of the International Financial Institutions or Multi-lateral Development Banks are especially critical in filling the financial and technical resource gaps in development projects around the world. This paper examines the roles and strategies of the World Bank, the Asian Development Bank, and the Asian Infrastructure Investment Bank in improving the water sector in Indonesia by analyzing a case study of a water project by each bank. This paper particularly focuses on the water sector in Indonesia because it is one of the largest loan recipients by all three banks and it has experienced a severe water crisis. Additionally, the global water issue is recognized by the international community as a major health issue and the United Nations included "Clean Water and Sanitation" as Goal 6 of the 17 Sustainable Development Goals (SDG) in 2015. Therefore, it is important to look at how the banks' missions intertwine with the SDGs. The key findings conclude that all banks adopted people-oriented policies and country-specific strategies in implementing projects to maximize social and environmental protection, as well as capacity building programs for the government. Lastly, this study recommends an emphasis on an active partnership among the banks, promotion of private-public partnerships, and clear documentation of the banks' SDG contribution.

Keywords: The World Bank, The Asian Development Bank, The Asian Infrastructure Investment Bank, SDGs, Water, Indonesia

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Introduction

Nations around the world are facing daunting development problems including environmental, social, and economic issues. Achieving development goals requires multi-level interventions with institutional support, and the role of International Financial Institutions (IFI) can make a significant difference in the availability of financial resources in order to reduce the social gap. Among many important sectors, special attention should be given to water infrastructure development because building adequate infrastructure is critical to achieving sustainable development. Water issues impact a wide range of human life such as health, sanitation and agriculture. As a natural resource, water is also susceptible to climate change and natural disasters. However, well-connected and non-leaking water pipes in urban areas can efficiently deliver water to a large population. In rural areas, a well-built irrigation system can effectively supply a large amount of water to grow crops.

The international community also recognizes the importance of water sector development. Upon completion of the Millennium Development Goals (MDGs), the United Nations announced the new Sustainable Development Goals (SDGs) in 2015. SDGs were adopted by all United Nations member states to be accomplished by 2030, and the goals provide a shared blueprint for peace and prosperity for all people. Among the 17 goals, Goal 6 is “Clean Water and Sanitation: Ensure availability and sustainable management of water and sanitation for all.”² The difference between MDGs and SDGs is the comprehensiveness of the goals. SDGs look at overarching development of global society as a whole, while MDGs mostly focus on working in developing countries fighting to eradicate extreme poverty. SDGs’ biggest challenge is the short time frame because fifteen years (2015-2030) is not sufficient time to tackle all the problems in developing countries. In order to accelerate SDGs and make progress in as many regions as possible, continuous investment in SDGs is key. According to the UN Sustainable Development Group, between USD 3.3 to 4.5 trillion annual investments are needed to meet SDGs by 2030. However, developing countries face a funding gap of USD 2.5 trillion each year.³ Thus, IFI can help their members meet the

² “Goal 6: Sustainable Development Knowledge Platform,” United Nations, accessed February 3 2020, <https://sustainabledevelopment.un.org/sdg6>.

³ “Unlocking SDG Financing: Findings From Early Adopters,” United Nations Sustainable Development Group, accessed February 3, 2020, <https://undg.org/document/unlocking-sdg-financing-findings-from-early-adopters/>.

SDGs through lending operations, project implementation, technical assistance, and partnerships.

This paper will introduce and compare the World Bank, the Asian Development Bank (ADB), and the Asian Infrastructure Investment Bank's (AIIB) roles and strategies in improving the water system in Indonesia under the SDG scheme. Indonesia has achieved high levels of economic growth, but its water sector development lags behind its neighboring countries such as Singapore and Malaysia. Indonesia's total population is 238 million and only 18%, about 40 million people, are connected to a piped water supply. This limited access to safe water results in serious health problems such as diarrhea, which is the second largest cause of child death in the country.⁴ The water issue in Indonesia keeps growing, and both national and local governments recognize the negative impact of the lack of safe water supply on the population's basic needs. Therefore, there are two main rationales for choosing Indonesia as a target country. First, Indonesia has various water problems on multiple levels. Its water crisis includes drinking water contamination, water supply shortage, infrastructure rehabilitation, and irrigation problems. Second, Indonesia is one of the top five loan receivers from all three banks.

The three-main research questions are (1) What projects have the three banks implemented already to improve water infrastructure in Indonesia? (2) How are their projects similar and different from each other? (3) What are the optimal approaches for future projects? To answer these questions, this paper will analyze each bank individually, reviewing the core mission of the institution and one case study of their respective water management SDG engagement in Indonesia. The case study will demonstrate the banks' project operations and implementation in a country-specific context. Finally, a summary of key findings and recommendations will be made as conclusions.

The World Bank Group

The World Bank Group was established in 1944 at the Bretton Woods Conference and its headquarters is located in Washington D.C., the United States. The Group has five institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the

⁴ "46380-007: IKK Water Supply Sector Project," Asian Development Bank, last modified May 24, 2018, <https://www.adb.org/projects/46380-007/main#project-pds>.

Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). IBRD has 189 members with the United States, Japan, China, Germany, and France as top shareholders.⁵ Among the three IFIs, the World Bank has the largest capital: IBRD has USD 263.33 billion of subscribed capital and USD 15.82 billion of paid-in capital.⁶ The World Bank's overarching goal is to make the world free of poverty. This goal aligns with the United Nation's MDGs and SDGs, as well. In order to better support its member countries, the bank has implemented financial changes to enhance effectiveness. This effort is ongoing from the MDG era as the bank integrated MDG goals into its strategies at the country level and corporate level. The bank also provided analytical and advisory services that helped MDGs evolve into SDGs.⁷ The bank's SDG plan mainly focuses on helping member governments integrate SDG agendas into effective development programs that match country-level priorities. The World Bank stated that it will focus on its provision of long-term country-level strategies, integrated solutions, knowledge and financing services, and platforms for cross-border initiatives.⁸

The World Bank's "Water, Sanitation, and Hygiene" (WASH) sector is the fourth largest investment sector taking up 8% of IBRD's fund.⁹ The World Bank's investment activities in Indonesia and its WASH sector are significant. Among a total of 44 projects in Indonesia, 12 were water, sanitation and waste management projects. In the fiscal year of 2018, Indonesia was the top third borrower from the IBRD.¹⁰ Also, IBRD and IFC launched a pilot program called "Infrastructure Assessment Programs" in Indonesia and Vietnam in order to maximize finance for development efforts in the region.¹¹ The World Bank also highlights country-specific strategies in its project implementation. It publishes the "Country Partnership Framework Report" for the member

⁵ Engen and Prizzon, "A Guide to Multilateral Development Banks," 59.

⁶ Lars Engen and Annalisa Prizzon, "A Guide to Multilateral Development Banks," Overseas Development Institute, April, 2018, 59, <https://www.odi.org/sites/odi.org.uk/files/resource-documents/12274.pdf>.

⁷ World Bank, "Global Monitoring Report," *World Bank*, (2015/2016): 248, <https://www.worldbank.org/en/publication/global-monitoring-report>

⁸ *Ibid.*, 250.

⁹ Engen and Prizzon, "A Guide to Multilateral Development Banks," 59.

¹⁰ World Bank, "The World Bank Annual Report 2018," *World Bank*, September 28, 2018, 83, <http://documents.worldbank.org/curated/en/630671538158537244/The-World-Bank-Annual-Report-2018>.

¹¹ *Ibid.*, 51.

governments every five years. The report introduces how its projects work closely with a local government in a specific country context. For example, in Indonesia, the bank is preparing the “National Urban Water Supply Program” that seeks to increase water sources and encourage regional collaboration amongst local governments to provide economically viable services to the population. To do that, it will assist the Ministry of Public Works and Housing in designing platforms to strengthen local government capacity and build strong monitoring and evaluation mechanisms. The IFC is also planning to support private companies to provide water and sanitation services in select locations, and assist municipalities in bid-out waste-to-energy power projects for private sector participation.¹² This program illustrates that the bank is not working as a sole external actor in delivering a program, but rather actively collaborating and communicating with the country's authorities to build capacity and provide appropriate intervention.

Case Study: Water Resources and Irrigation Sector Management Program 2 - IBRD & IDA

The “Water Resources and Irrigation Sector Management Program 2” was initiated in November 2011 and closed in May 2018.¹³ The purpose of this project was to increase the capacity for water resources from river basins and irrigation systems in order to improve agricultural productivity. The scope of the project included four segments: (1) improvement of coordination and management capacity of river basin institution (2) improvement of district and province-level institutions in implementing participatory irrigation management (3) implementation of a pilot national strategic scheme (4) project management to support implementation. The total cost of the project was USD 202.56 million, and the bank's commitment amount was USD 150 million.¹⁴

The bank's “Implementation Completion and Results Report” included key factors that allowed success in implementation and out-

¹² World Bank, “Indonesia - Country Partnership Framework for the Period FY16 - 20,” *World Bank*, November 3, 2015, 23.

<http://documents.worldbank.org/curated/en/195141467986374707/Indonesia-Country-partnership-framework-for-the-period-FY16-20>.

¹³ World Bank, “Implementation Completion and Results Report (IBRD-80270),” *World Bank*, November 20, 2018, 2.

<http://documents.worldbank.org/curated/en/157511543873657724/pdf/icr00004544-11282018-636792121278103825.pdf>.

¹⁴ *Ibid*, 60.

come. The first factor was technical training with peer-to-peer learning. The bank worked not only with institutional and government officers, but also with farmer groups to provide technical trainings and a peer learning opportunity for innovative agricultural practices. The project had an expected impact on over 500,000 farmer households in 100 districts.¹⁵ The second factor was adequacy of risk assessment. The bank assessed risks related to corruption, procurement, financial management capacity, social safeguards management, and fund flow. Third, the monitoring and evaluation (M&E) team collected data to identify quality problems, incorporate better controls as the project progressed, and ensure transparency. Fourth, according to the investigation, there were no negative environmental and social issues during project implementation.¹⁶

In addition to highlighting key factors, the bank also included lessons learned and recommendations for future projects. One takeaway lesson was that the coordination between various local agencies was crucial for successful project implementation. Also, the bank found that investing in human resource capacity building activities had an important impact on the quality of facilitation. As a recommendation, the bank suggested using a holistic project concept to include all five pillars of irrigation system development: water, infrastructure, management, institutions and people. Furthermore, it recommended focusing on the income-generation for farmers by designing agricultural modernization and climate adaptation programs.¹⁷

Analysis of Case Study

“Water Resources and Irrigation Sector Management Program 2” not only ensured the building of irrigation infrastructure by filling the funding gap, but it also worked thoroughly to support farmers and local institutions. The bank provided various capacity building programs, training, and learning opportunities for direct beneficiaries. The Xinhua News Agency observed that the second phase of the project focused on a series of training exercises at all levels, as well as physical repairs of facilities and irrigation system.¹⁸ Working closely with municipal governments

¹⁵ "WB Continues Support for Implementation of Indonesia's Water Law.", *Xinhua News Agency - CEIS*, Mar 28, 2011, <https://search.proquest.com/docview/858923615?accountid=11752>.

¹⁶ *Ibid*, 27.

¹⁷ *Ibid*, 26.

¹⁸ "WB Continues Support for Implementation of Indonesia's Water Law.", *Xinhua News Agency - CEIS*, Mar 28, 2011, <https://search.proquest.com/docview/858923615?accountid=11752>.

and farmers, the bank tried to emphasize decentralization and sustainability of the project even after completion. When applying a bottom-up approach, it is important to understand the need and roles of the farmers and participants. The World Bank invested in communications and trainings both to the direct beneficiaries and government, so it served as a mediator between them to establish a relationship and improve the water management system. Moreover, by sharing the key factors of successful implementation and recommendations, it identified risks and strategies that can be adapted to similar projects. In sum, the World Bank project invested in people-centered outcomes and long-term impacts in Indonesia's water sector based on a national and local strategy.

Asian Development Bank (ADB)

The ADB was established in 1966 and is headquartered in Manila, Philippines. According to the ADB annual report in 2018, It has 68 members with the top shareholders being Japan, the United States, China, India and Australia.¹⁹ It has USD 142.7 billion of subscribed capital and USD 7.15 billion paid-in capital.²⁰ ADB's mandate is "promoting economic growth and cooperation in Asia and the Far East and contribution to the acceleration of the process of economic development of the developing member countries in the region, collectively and individually."²¹ ADB's mandate also aligns with the SDGs. Its midterm review of corporate strategy 2020 concluded that there are still many remaining development challenges post-2015 in the Asia Pacific region, so it listed ten strategic priorities responding to SDGs based on country-level implementation.²² More recently, ADB set up a new vision for prosperity, inclusiveness, resilience, and sustainability by 2030, naming poverty alleviation as the first operational priority.²³ To meet the financial obligations for achieving SDGs, ADB prioritizes direct resources to human needs, infrastructure, and inclusive public goods.²⁴ ADB has heavily supported Indonesia, and the country is the bank's fourth largest loan recipient.²⁵

¹⁹ Asian Development Bank. "Annual Report 2018." *Asian Development Bank*. December 2018. <https://data.adb.org/sites/default/files/ar2018-oi-appendix1.pdf>

²⁰ Engen and Prizzon, "A Guide to Multilateral Development Banks," 62.

²¹ *Ibid*, 62.

²² World Bank, "The Role of Multilateral Development Banks," 257.

²³ Bart Eades, "International Financial Institutions," Lecture at Johns Hopkins University - School of Advanced International Studies, Washington, D.C., October 29, 2018.

²⁴ World Bank, "The Role of Multilateral Development Banks," 258.

²⁵ Engen and Prizzon, "A Guide to Multilateral Development Banks," 34.

Case Study: IKK Water Supply Sector Project (46380-007)

The “IKK Water Supply Sector Project” was initiated in March 2014 and closed in December 2015. The project, funded with USD 715,000 from the government of Australia, was focused on providing technical assistance to project partners in Indonesia.²⁶ The project aligned with ADB’s Water Operational Plan, which recognizes accessibility to safe water and education about appropriate hygiene practices as key to improving general health in vulnerable communities. The project adopted a community-based approach, increasing investment to connect 200,000 poor people to a piped water supply, stimulated the sub-national political will to work on water services and facilities, and increased community awareness. Since the modality of the project was technical assistance, many experts were involved including resettlement experts, hydro-geologists, water supply specialists, finance and economic experts, and environmental experts.²⁷

ADB developed their strategy by conducting extensive research based on existing information called the “Initial Poverty and Social Analysis,” and asked some fundamental questions: “who are the potential primary beneficiaries of the project;” “how do the poor and the socially excluded benefit from this project;” “what are the potential constraints in accessing benefits and services;” “how will the project address them?”²⁸ Moreover, considering the poverty level in Indonesia, the bank linked the project to its National Poverty Reduction and Country Partnership Strategy in order to improve health and reduce poverty. ADB recognized access to a safe water supply as the main constraint of rapid poverty reduction progress.²⁹

This project also demonstrated how ADB applied the lessons learned from a previous project. The Independent Evaluation Department (IED), a department that systematically evaluates ADB policies and operations, provided the Project Performance Audit Report for the previous version of the IKK Water Supply Sector Project that was concluded in 1996. It studied the planning and implementation performance, the achievement of project purpose, overall assessment, and follow-up ac-

²⁶ Asian Development Bank, “46380-007: IKK Water Supply Sector Project.”

²⁷ Asian Development Bank, “46380-007: IKK Water Supply Sector Project.”

²⁸ Asian Development Bank, “IKK Water Supply Sector Project: Initial Poverty and Social Analysis,” *Asian Development Bank*, October 2016, 15, <https://www.adb.org/sites/default/files/project-document/200406/46380-007-ipsa.pdf>.

²⁹ *Ibid*, 15.

tions. IED identified four positive takeaways: community participation, targeting poor or specific income groups, adopting a sector-lending approach under decentralization, and information flows from central government to local governments. As follow-up actions, the report recommended that other ADB departments, such as Operations Evaluation Department and Social Sector Division, prepare advanced training of staff and develop a monitoring system for the project in the regional mission office.³⁰

Analysis of Case Study

The ADB is successful at aligning projects with its own agenda, guidelines, and priorities. The reports clearly show the rationale for the project through initial analysis and linkage to a bank-wide program. Documentation of the project at different levels showed how the ADB developed the project from the beginning to the end. The goals set in the IKK Water Supply Sector Project were very clear. The goals ranged from community awareness, to expert-led technical outcomes, to providing a wide range of intervention. In addition, the bank's effort to increase the political involvement of local governments was very creative and impactful. The local media also positively recognized the ADB's efforts to improve water-related issues and its long-term commitment to these projects. According to Jakarta Globe, the country still needs to improve household access to drinking water, increase urban water services, and protect natural water resources as the urban populations grow and climate change problems rise. It reported that the ADB's investment in hydropower generation, flood management, irrigation, water supply, and sanitation across the region will help meet the increasing demand on and sustainability of the water system.³¹ In sum, the ADB has shown continuous support and investment in the water system in Indonesia, utilizing country strategies, extensive initial research, and reliable evaluation systems.

Asian Infrastructure Investment Bank (AIIB)

The AIIB is a new international financial institution. It began operations in 2016 and is headquartered in Beijing, China. It has 102 members with

³⁰ Asian Development Bank. "Project Performance Audit Report on the Second IKK Water Supply Sector Project (Loan 1069-INO) in Indonesia." *Asian Development Bank*, November 2011, <https://www.adb.org/sites/default/files/project-document/71327/in278-01.pdf>.

³¹ Dion Bisara, "Indonesia to Enhance Water Security With ADB Investments," *Jakarta Globe*, May 3, 2017, <https://jakartaglobe.id/business/indonesia-enhance-water-security-adb-investments/>.

the top shareholders being China, India, Russia, Germany, and South Korea. It has around USD 90.33 billion of subscribed capital and USD 18.07 billion of paid-in capital.³² The AIIB's mandate is "sustainable economic development, wealth creation and improvement of infrastructure connectivity in Asia, and the promotion of regional cooperation and partnership in addressing development challenge."³³ The AIIB's mission directly aligns with SDGs, stating that it will help members to meet their environmental and development goals in relation to SDGs by providing sustainable infrastructure.³⁴ As the AIIB is at the foundational stage, the bank can make more of an effort to scale-up financing for development and capacity building for SDGs by leveraging and mobilizing resources at all levels including central and local governments, international bodies, businesses, and civil societies. To achieve its mission and support SDGs, AIIB is building public-private partnership instruments, structured finance, credit guarantee programs and equity exposure.³⁵

According to the AIIB Fact Sheet published in 2019, Indonesia receives 11% of AIIB's total funds, making it the third largest loan recipient. In terms of project operations, AIIB invested the most resources on the energy and transport sectors in their overall lending activities. The urban, water, and sanitation sector takes up 19% of the total investment, and it is the third largest sectoral investment.³⁶ One of the first projects approved by the AIIB board of directors included a water project in Indonesia.³⁷ Most of the projects the bank implements are co-financed with other international financial banks. Through co-financing, the AIIB aims to demonstrate the value of collaboration across the IFI community and the significance of learning from others.

³² Engen and Prizzon, "A Guide to Multilateral Development Banks," 63.

³³ Ibid, 16.

³⁴ "AIIB Fact Sheet," Asian Infrastructure Investment Bank, last modified November 2019, https://www.aiib.org/en/treasury/_common/_download/AIIB_FACT-SHEET_11252019.pdf.

³⁵ "Project Document - Strategic Irrigation Modernization and Urgent Rehabilitation Project," *Asian Infrastructure Investment Bank*, June 24, 2017, 5,

<https://www.aiib.org/en/projects/approved/2018/strategic-irrigation-modernization.html>.

³⁶ AIIB Fact Sheet, "Asian Infrastructure Investment Bank, last modified November 2019, https://www.aiib.org/en/treasury/_common/_download/AIIB_FACT-SHEET_11252019.pdf.

³⁷ "Financing Asia's Future - 2017 AIIB Annual Report and Financials," *Asian Infrastructure Investment Bank*, 2018, 11,

<https://www.aiib.org/en/news-events/news/2017/annual-report/common/pdf/AIIB-Annual-Report-2017.pdf>.

Case Study: Strategic Irrigation Modernization and Urgent Rehabilitation Project

The “Strategic Irrigation Modernization and Urgent Rehabilitation Project” was approved by the AIIB board on June 24, 2018. It was a co-financing project with the World Bank, so the AIIB received technical and financial support from the World Bank. The total cost was USD 578 million; USD 78 million from the borrower, USD 250 million from AIIB, and USD 250 million from the World Bank.³⁸ The project included five pillars: (1) improving water security and availability, (2) rehabilitation and upgrade of infrastructure, (3) improvement of the management system, (4) strengthening of institutions, and (5) strengthening of human resources.³⁹ The keyword for the project was “strategic fit”. The project proposal included research on country context and sectoral context to fit the project into the nation’s sectoral circumstances. For example, the project supported sectoral plans for irrigation and water resources initiated by the Ministry of Public Works and Housing (MPWH) that focused on modernization and rehabilitation. Moreover, the bank aligned its project goals to meet SDGs. Documentation showed how the project’s expected outcome would be related to “SDG 1: no poverty,” and “SDG 2: zero hunger.” The AIIB’s water sector analysis recently announced that it would pay particular attention to women and marginalized populations by promoting equal access to water, affordability for users, and quality of available water.⁴⁰ The reason for focusing on gender in the water sector is that in many developing countries and rural societies, women are responsible for collecting and using water for the household. Moreover, water is closely related to sanitation and toilet use, which are influenced by cultural and social aspects around gender. The AIIB has not fully developed a monitoring and evaluation system yet, so it will keep track of the environmental and social impact using the World Bank’s Environmental and Social Safeguard Policies.

Analysis of Case Study

Since the AIIB is a newly launched bank and the board recently approved

³⁸ "Project Document - Strategic Irrigation Modernization and Urgent Rehabilitation Project," *Asian Infrastructure Investment Bank*, June 2017, 3, <https://www.aiib.org/en/projects/approved/2018/strategic-irrigation-modernization.html>.

³⁹ *Ibid.*, 7.

⁴⁰ Elizabeth Summers, “How will AIIB promote sustainable social outcomes in the water sector?,” *Bank Information Center*, 2019, <https://bankinformationcenter.org/en-us/update/aiib-water-sector-strategy/>.

the project, there are insufficient human resources available at the moment to be loaned out to borrowers. However, by operating a co-financing project with the World Bank, the AIIB can adapt the World Bank's internal management strategies and policies into their own initiatives. Like the ADB and the World Bank, the AIIB is also working in the context of country specific plans and global development standard such as SDGs. Moreover, the bank increasingly emphasizes gender issues around the water sector, and it announced its intention to pay particular attention to the equality problem. In order to realize this vision, its priority should be development of a solid monitoring and evaluation system that can reach out to direct beneficiaries, women and girls, and collect accurate information and feedback. In summary, Indonesia sees the AIIB's projects as a fortunate opportunity to finance their water projects due to its abundant capital pool.⁴¹ The AIIB is more flexible in terms of innovative funding structures because it is a new player and has opportunities to learn from co-financing. However, it needs to build its own policies and characteristics in a timely manner, so it can identify projects that adhere to its own global development goals.

Key Findings: Similarities and Differences in Strengths

The World Bank, the Asian Development Bank, and the Asian Infrastructure Investment Bank all heavily support Indonesia, as the country is one of the top five loan receiving countries from all three banks. Indonesia faces severe water infrastructure problems, and therefore investment typically focuses on resolutions for water accessibility and sanitation problems. When designing a water program, all three banks adopted country-specific strategies, taking Indonesia's national goals and environmental factors into consideration. Additionally, the banks utilized community-based approaches by providing technical assistance and working with local governments. In order to prevent potential social and environment hazards, and to promote transparency, the banks emphasized accuracy in monitoring and evaluation through social and environmental safeguard policies and risk assessment tools. This role was fulfilled by the Independent Evaluation Group (IEG) and Independent Evaluation Department (IED) in the World Bank and the ADB, respectively. The AIIB initially applied the World Bank guidelines to evaluate projects but also es-

⁴¹"Indonesia to Propose 4 Projects for AIIB Financing," *Jakarta Globe*, January 23, 2016, <https://jakartaglobe.id/business/indonesia-propose-4-projects-aiib-financing/>.

tablished its own Environmental and Social Framework and Risk Management Framework to maximize positive impact.

The banks have different strengths. The World Bank is a leader in knowledge management. With their extensive experience operating water projects around the world, they have an enormous information database consisting of case studies, media, reports, libraries, and conferences. The World Bank's strong knowledge management enables governments, experts, and bank staff to easily access relevant knowledge that help them work more efficiently. The World Bank also promotes knowledge sharing between countries, and 230 knowledge exchanges have been completed between more than 100 countries.⁴² Meanwhile, the ADB's biggest strength is its articulation of clear objectives and linkage of a project goal to each respective nation's internal goal. In the case study used in this paper, the ADB applied the Initial Poverty and Social Analysis and the National Poverty Reduction and Country Partnership Strategy to link the project to an overarching goal of poverty reduction, which is the objective of both the bank and the Indonesian government. Lastly, the AIIB's strengths are its narrow focus on infrastructure development targeting developing countries, and strong capital structure to finance new projects. According to the *Financial Times*, the AIIB is seen as more flexible than other international financial institutions because its relatively small size allows it to be more open to innovative funding structures and enact a faster decision-making process.⁴³ Moreover, it can serve as a symbol of active regional cooperation, as it currently prioritizes co-financing projects to work with other banks. The AIIB has a lot of potential going forward in defining its unique role among the existing international financial institutions.

Recommendations & Conclusion

This paper presents three recommendations based on the key findings. First, an active partnership among the banks will be beneficial for all. The foremost important role of the banks should be the sustainable financing of a development project. In Indonesia, water projects serve basic needs, but require massive infrastructure investment since Indonesia lacks a major pipe connection to its population across regions. In or-

⁴² World Bank DECKM, "Managing Knowledge, Learning, and Data for Operations," 24, <http://pubdocs.worldbank.org/en/248681543420897102/DECKM-brochure.pdf>.

⁴³ Stefania Palma, "Indonesia eyes China-backed AIIB to fund new capital city," *Financial Times*, December 1, 2019, <https://www.ft.com/content/868ab026-10e9-11ea-a7e6-62bf4f9e548a>.

der to effectively finance water projects of this nature, banks can divide the lending responsibilities, collaborate to provide technical assistance in focused areas, and draw lessons from each other. However, they should note that it is important to communicate with the central government in matters of co-financing because they might not want to use available borrowing opportunities from all banks at the same time. Thus, well-managed coordination among the banks and government can reduce the financial risk and make greater synergy in water projects in Indonesia.

The second recommendation is to promote active private-public partnerships (PPP). In 2019, Indonesia's finance minister expressed that the central government's revenue is under high pressure to cover all the projects, and external financing is critical to relieve this burden.⁴⁴ Indonesia is currently receiving a lot of support from all three banks, but it is important for the country to have a self-capacity for the future. Therefore, all three banks are looking at improving local government's capacity building and community involvement in their projects. Public-private partnerships can reduce financial risks for the government and decentralize water management roles to local communities. For example, investment from the Indonesian private sector and participation of the local farmer associations in construction and water management can build operational and financial sustainability in the water service for the long-term. As Indonesian farmers are typically members of small water-user associations, known as WUA, their role in managing local water can be significant. With an increased number of members and capacity building programs through past bank projects, farmers can enhance their bargaining power in the market and have better access to finance.⁴⁵ The government could utilize the PPP mechanism in the form of a subsidy system. However, the banks need to consider the negative impacts of public-private partnerships such as corruption and rent-seeking opportunities. To combat this, close monitoring of how each authority perceives the system change, incentive structures, and needs of beneficiaries is necessary. Thus, it is important to provide solid public-private partnership training, including measurement tools to the Indonesian government in order for them to implement and monitor a project independently. This way, the banks can ensure the government will successfully mobilize financing

⁴⁴ Ibid.

⁴⁵ "WB Continues Support for Implementation of Indonesia's Water Law," *Xinhua News Agency - CEIS*, March 28, 2011, <https://search.proquest.com/docview/858923615?accountid=11752>.

and efficient management of the water system.

The last recommendation is to clearly document the SDG contributions made by each bank in their respective project reports. There are many outside reports available that show how each international financial bank promotes SDGs. However, most of the banks' internal project reports do not state how each project contributed to SDGs. As all seventeen goals have separate indicators, the banks can use their data to briefly report how the project outcome will satisfy SDGs. The benefits of SDG documentation include availability of reliable information to governments and other international organizations for reporting purposes, transparent and visible documentation of the banks contribution to SDGs for the benefit of the international community, and clearly documented alignment of an individual project with SDGs as well as each banks' mission and mandate.

In conclusion, the World Bank, the Asian Development Bank and the Asian Infrastructure Investment Bank have made notable development progress in the water sector in Indonesia. Although the AIIB has more room to develop internal policies and human resources, its efforts in working with other banks is making an impactful synergy among the banks and in loan receiving countries. Since the banks have different strengths and advantages in different areas, they can learn from each other to make more significant progress towards their respective and shared goals. Lastly, active cooperation between IFIs, promoting public-private partnerships, and sharing the values of SDGs will enhance not only Indonesia's capacity in the water sector, but also each banks' global standing and the shared prosperity of all global citizens.

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