

DFAT Management Response to the Independent Review of the Performance Based Grants for Water Utilities.

The Performance-Based Grants (PBG) demonstration activity (AUD15 million, 2020–2024) aimed to improve local water utilities (PDAMs) in Indonesia through targeted technical assistance and grant funding. Building on the Water Hibah initiative, it encouraged local government investment by requiring co-investment averaging AUD 1 million over two years. PBG focused on improving PDAMs' performance in four areas: continuity of water supply, water quality, billing and collection and corporate governance. Supported by Australia, the program worked with 17 PDAMs across Western and Central Indonesia to enhance service performance. DFAT commissioned an Independent Review (IR) of the Performance-based Grants for Water Utilities demonstration activity from June to December 2024 with in-country mission in July to August 2024. The review assessed the performance of the performance-based grants for water utilities against intended outcomes and provided recommendations to inform future water and sanitation programming.

The IR concluded that the PBG demonstration activity provided valuable insights for improving water utilities' performance, but modifications are needed to create a more sustainable, scalable model for sector-wide impact. Future initiatives should build on lessons learned while addressing identified limitations to support broader improvements across Indonesia's water utility sector. Key findings from the PBG independent review include:

1. The PBG demonstration activity was **moderately effective in improving participating utilities' performance**. The results varied across participants due to diverse local circumstances such as political priorities, financial capacity, and development initiatives. Broader outcomes were shaped by program design limitations, contextual challenges and shifting national priorities. At the program level, considerable progress was achieved against most performance indicators. The integration of technical assistance across the pilot and installation of specific water control infrastructure played a crucial role in enabling improvements. A notable result was **local government investment in utilities exceeded grant allocations by 24 per cent**. However, the review points out that this also partly reflected pre-existing plans and diverse other local influences.
2. As a demonstration activity, the PBG involved a **complex implementation mechanism requiring significant resources**. Being focused on performance improvement meant robust baselines for each indicator were needed to measure performance changes. Setting baselines and conducting verifications in 17 participating utilities was more extensive than anticipated, necessitating additional resources. The verification process was particularly resource-intensive, requiring extensive paperwork and compliance with the national Finance and Development Supervisory Board (BPKP) review and audit processes. This led to a time lag between performance achievements and grant disbursement. The pilot demonstrated that these relatively well-established utilities required considerable technical assistance support to participate effectively, suggesting that less developed utilities would need equal or greater support.

3. The PBG demonstration brought about **significant improvements through enhanced understanding and support for gender equality, disability and social inclusion (GEDSI)** among utility directors, managers and staff. However, there were limited achievements against actual GEDSI program targets over the life of the pilot due to: time constraints and varying leadership commitment to GEDSI (at local government and utility level); resource requirements; and the limited sphere of program influence given behaviour change takes time and must reach a broad audience.
4. At the time of the review, it was **too early to determine the sustainability** of performance improvements made by the utilities through the pilot. The level of influence the PBG demonstration had or will have on informing policy and practice to invest in and improve water supply service is likely complicated by the change of government at both national and local levels in 2024 and 2025.

Review recommendations and DFAT management response

DFAT accepts the Independent Review's findings. DFAT agrees in-principle with all recommendations.

Recommendation	Response	DFAT Management Response	Timeframe
1. Support sector-wide capacity building and leverage existing initiatives for sustainable, industry-wide improvements.	Agree in-principle	DFAT is designing a future phase of support for infrastructure development in Indonesia, which is likely to continue engagement in the water sector. These recommendations will be considered by DFAT and implementing partner/s in the inception phase of the new program (expected March - December 2026) as part of the development of sector engagement plans. In the interim, DFAT will continue to engage with relevant Government of Indonesia (GOI) officials so that learnings from this independent review can inform GOI policies and programs.	March – December 2026, during the inception phase of the proposed new bilateral climate, infrastructure and financing program.

Recommendation	Response	DFAT Management Response	Timeframe
2. Consider a program that helps water utilities conduct comprehensive initial diagnostic assessments to prioritise interventions effectively.	Agree in-principle	DFAT is designing a future phase of support for infrastructure development in Indonesia, which is likely to continue engagement in the water sector. These recommendations will be considered by DFAT and implementing partner/s in the inception phase of the new program (expected March - December 2026) as part of the development of sector engagement plans. In the interim, DFAT will continue to engage with relevant Government of Indonesia (GOI) officials so that learnings from this independent review can inform GOI policies and programs.	March – December 2026, during the inception phase of the proposed new bilateral climate, infrastructure and financing program.
3. Prioritise development of strong water utility business plans that integrate GEDSI and climate resilience.	Agree in-principle	DFAT is designing a future phase of support for infrastructure development in Indonesia, which is likely to continue engagement in the water sector. These recommendations will be considered by DFAT and implementing partner/s in the inception phase of the new program (expected March - December 2026) as part of the development of sector engagement plans. In the interim, DFAT will continue to engage with relevant Government of Indonesia (GOI) officials so that learnings from this independent review can inform GOI policies and programs.	March – December 2026, during the inception phase of the proposed new bilateral climate, infrastructure and financing program.

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4. Simplify and refine performance indicators for grant funding, focusing on overall performance measures like non-revenue water that reflect holistic improvements.	Agree in-principle	DFAT is designing a future phase of support for infrastructure development in Indonesia, which is likely to continue engagement in the water sector. These recommendations will be considered by DFAT and implementing partner/s in the inception phase of the new program (expected March - December 2026) as part of the development of sector engagement plans. In the interim, DFAT will continue to engage with relevant Government of Indonesia (GOI) officials so that learnings from this independent review can inform GOI policies and programs.	March – December 2026, during the inception phase of the proposed new bilateral climate, infrastructure and financing program.
5. Mainstream GEDSI principles throughout all activities rather than as standalone initiatives.	Agree in-principle	DFAT agrees that GEDSI principles should be mainstreamed throughout future performance-based activities, including with PDAMs, to ensure adequate consideration across the breadth of the engagement. Consistent with Australia’s <i>International Disability Equity and Rights Strategy</i> and Australia’s <i>International Gender Equality Strategy</i>, DFAT promotes a twin-track approach that sees GEDSI principles addressed through both mainstreaming and targeted approaches.	March – December 2026, during the inception phase of the proposed new bilateral climate, infrastructure and financing program.

Recommendation	Response	DFAT Management Response	Timeframe
		This recommendation will be considered in developing a future phase of support in infrastructure development in Indonesia.	
6. Enhance water utility performance monitoring systems and capabilities through targeted readiness support and equipment investments.	Agree in-principle	DFAT is designing a future phase of support for infrastructure development in Indonesia, which is likely to continue engagement in the water sector. These recommendations will be considered by DFAT and implementing partner/s in the inception phase of the new program (expected March-December 2026) as part of the development of sector engagement plans.	March – December 2026, during the inception phase of the proposed new bilateral climate, infrastructure and financing program.