

WATER PRIVATISATION IN INDONESIA

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JAKARTA WATER PRIVATISATION: SEVEN YEARS OF "DIRTY" WATER

Complaints about performance and various other problems are increasing more and more as the multinationals Suez-Ondeo and RWE-Thames continue to operate in Indonesia. Privatisation started in 1997 with Jakarta's water company PAM Jaya. Thames Water controls the water supply in the eastern part of Jakarta, and Suez-Ondeo runs the western part of the city. Even though there have been serious problems since the start of privatisation, the Indonesian government is planning further privatisation that will include up to 250 state-owned water companies.

The early part of privatisation of Jakarta's water was done through closed-door negotiations instead of an open bidding process involving interested companies. Unusually, this is legal under the Instruction of the Minister of State Affairs.¹ In fact, the government instruction was drafted so as to make the privatisation process as smooth as possible.² In mid 1995, President Soeharto instructed the Minister of Public Works to speed up the process and the minister responded by allowing the companies PT Kekar Thames Airindo (later named

¹ Instruction No. 21/1996 on Co-operation Guidelines Between Municipal Water Companies with the Private Sector.

² An interesting point is that it was the only regulation with an English translation. The instruction recommends all governors in Indonesia's water service co-operate with the private sector. The recommended process is through direct appointment; co-operation initiatives are supposed to be initiated by the private sector and the municipal water company chooses which private company to work with.

Thames PAM Jaya with some shares owned by Soeharto's son) and PT Garuda Dipta Semesta (later renamed PAM Lyonnaise Jaya) to handle water service delivery in Indonesia.

The privatisation contract between the two companies and PAM Jaya was signed in 1997 and renewed in 2001. The private companies have operational rights, from raw water supply to billing the customers. PAM Jaya supervises company performance and advises on tariff increases. The contract clearly defines issues like the profit-sharing model, termination conditions and asset ownership for the 25-years the contract will run. The actual privatisation model, however, remains vague. It is not clearly stated if the agreement is Build-Operate-Transfer (BOT), build-own-operate (BOO), a concession, or some other privatisation model. In a number of official documents, the regulatory body states that it is a concession contract. Also the World Bank, in documents related to Second Jabotabek Urban Development Project, states that the agreement to supply water for 10 million Jakartans is a concession contract. In any case, it is a very generous contract for the water corporations as the financial risks are covered by PAM Jaya. The contract specifies that if the contract is terminated by PAM Jaya, then the state-owned company has to pay RWE-Thames and Ondeo-Suez the following:

- 1: all investments made by the foreign companies;
- 2: insurance costs;
- 3: expected income before tax for half of the remaining years of the contract.

FAILING TARGETS, RAISING PRICES

The private sector's performance in the first seven years has been poor and most targets have not been met. Table 1 shows

that the coverage target for 1998 was 49%, but the result was only 43%. This pattern continued and in 2000 only 48% coverage was achieved, far below the 63% target.

The original target in the June 1997 contract was to supply 70% of Jakartans with continuous water supply by 2002. According to an employee, the coverage levels reported by the companies are flawed. On many occasions, the private companies have simply installed new pipes above functioning, older pipes but count the new pipes as an addition to the coverage level. The reality is that a lot of poor communities in Jakarta have not seen any improvements during the seven years of privatisation.

Table 1. Comparison between targets and realisations until end of concession period (revised from the original targets, as described in the Restated Co-operation Agreement)

	Total Connection		Service Coverage		NRW		Water Sold, Million	
	Target	Realisation	Target	Realisation	Target	Realisation	Target	Realisation
1993		324.433		38%		53%		158
1994		349.849		38%		52%		168
1995		362.618		39%		57%		165
1996		393.746		41%		57%		176
1997		428.764		42%		57%		191
1998	470.674	487.978	49%	43%	50%	58%	210	181
1999	571.776	541.630	57%	43%	47%	54%	244	208
2000	653.885	562.255	63%	48%	42%	48%	281	228
2001	597.174	610.806	50%	51%	47%	49%	236	237
2002	636.461	649.429	53%	52%	45%	47%	250	255
2003	675.534	690.456	54%	56%	43%	45%	258	274
2007	796.738		75%		31%		297	
2012	847.774		89%		26%		322	
2017	864.511		100%		26%		337	
2022	879.511		100%		26%		353	

Source: Jakarta Water Supply Regulatory Body, 2004

Since the beginning of privatisation, there has been an increasing deficit between the tariff collected from the costumers and the fees paid by PAM Jaya to RWE Thames and Ondeo for their operations in Jakarta. As illustrated in Table 2, the highest shortfall was in 2000. The companies used this to support tariff increases. The water tariff has now been increased three times since privatisation (35% in April 2001; another 40% in April 2003 and an additional 30% in January 2004). The total amount of shortfall until the first semester of 2004 is Rp 900 billion, and all this is regarded as PAM Jaya's debt to RWE Thames and Ondeo. Richard Gozney, the British Ambassador to Indonesia, even found it necessary inform vice president Hamzah Haz, at the end of 2003, that RWE Thames was losing US\$1,5 million per month, and that by November 2003 the loss amounted to US\$58 million. By mid-2004, the governor of Jakarta agreed to automatic tariff increases starting from 2005. With automatic tariff increase, permission from the governor and city council is no longer required. The increase would be applied every six months; if privatisation continues as scheduled for the next 18 years; Jakarta will be faced with 36 automatic tariff increases (the contract was signed in 1997 for 25 years period).

Table 2. The shortfall (in billion Rp)

Description	1998	1999	2000	2001	2002	2003	2004 1st semester	Total
Water charge	265,7	510,20	647,40	673,80	726,10			
Water tariff	264,5	380,30	405,90	529,10	605,80			
Deficit	1,20	129,90	241,50	144,70	120,30	175,00	87,50	900,10

Source: Association of Indonesia's Water Contractor, 2004

LABOUR IMPACTS

Lay-offs have been a common feature of privatisation around the world and this is no different in Jakarta. Until now, at least a thousand workers has been laid off with many people leaving voluntarily due to psychological stress caused by poor working conditions. "Prior to privatisation, employees received a lot more benefits than now," said Zaenal Abidin, a member of the PAM Jaya Labor Union. "Uniforms, paid leave and health facilities are the right of every employee. But privatisation erased all of our rights. In fact, we had to wait for four years just to get our uniforms, with a complicated and tiring process."

There are also serious problems with the early-retirement scheme offered by the two companies. Employees who have worked for ten years received pension funds of only Rp150 000 per month (approximately US\$16). An expatriate in the same company receives a salary of between Rp150 million and Rp200 million per month (US\$16,130 to US\$21,500). They also have other benefits which are not included in this salary. The pension of an Indonesian worker is only 0,001% of the monthly wage of an expatriate!

Poltak Situmorang, head of the Association of Indonesia's Drinking Water Contractor, Jakarta branch said: "These expatriates spend more than Rp 1 billion on security alone. All this money is used to keep them "safe", each one is guarded by five body guards on a daily basis."³ Security expenses are well beyond that allocated for the golden hand shake scheme of only Rp 221 million.

³ Presentation in *Drinking Water Service in Jakarta as a 477-Year Old Megapolitan City*, August 31, 2004.

250 STATE-OWNED WATER COMPANIES TO BE PRIVATISED?

Bad experiences with privatisation in Jakarta do not seem to deter the Indonesian government. Currently, hundreds of other state-owned water companies (PDAMs) around Indonesia (most in a poor condition due to debts and mismanagement) are earmarked for privatisation. Director of Cities and Villages, Department of Settlement and Regional Infrastructure, Totok Supriyanto, told the media in April 2004 that 90% of the “sick” PDAMs will be privatised soon. Since the “healthy” PDAMs account for only 10% (30 PDAMs), there are at least 250 PDAMs to be privatised (Indonesia has approximately 300 PDAMs).

The former Minister of Environment, Nabel Makarim, has said more than once that he supports plans for privatisation as it will lead to a more efficient water resources management. According to Nabel, there is not a single state-owned water company anywhere in the world that has managed water resources efficiently.⁴ So far, there are three cities in Indonesia whose water management is managed fully by the private sector: Jakarta, Batam by Biwater and Sidoarjo by a consortium of Vivendi and Thames.

Totok Supriyanto has said that, in the future, more and more PDAMs will be privatised. In the meantime, there are eight PDAMs currently in a special program to make them “healthier” through the “Urban Water and Sanitation Improvement” project (managed by the World Bank with funding from the Asian European Meeting - ASEM). It is very likely that the eight PDAMs will be privatised once the project is completed. A World Bank staff member in charge of urban

⁴Tempo Interaktif, 15 December 2003. Ministry of Environment Agrees to Water Privatisation.

water management said, however, that the goal of the project is not to privatise the PDAMs, but they would be a lot better healthier rather than sick. He added that for other “sick” PDAMs, the World Bank is preparing another programme through leasing. It should be clear, given the many definitions and explanation of privatisation, that leasing is another form of privatisation.

Jakarta’s experience is influenced by the World Bank through the Second Jabotabek Urban Development project. Through this project, PAM Jaya was given a loan of US\$ 93 million to increase its coverage to 70%. The target was not met and by the time the project was completed, PAM Jaya was privatised. The same project also funded PDAM Tangerang to build a water treatment plant to increase the raw water supply to the western part of Jakarta. The project was also partially funded by the French government and when the project was completed, water management in the western part of Jakarta was handed over to Suez Lyonnaise des Eaux, the French water giant.

WATER UTILITIES IN DEBT CRISIS

An important point is that the failure of hundreds of PDAMs around Indonesia is usually due to enormous debts they cannot pay. In 1996, for example, PDAM Kediri owed Rp 3,25 billion to the World Bank and it was due to start repayments in 2001 of Rp 15 million a month for 18 years. But PDAM Kediri only generates Rp 70 million a month and Rp 68 million of that is used for routine operational costs and employee payment. With Rp 2 million left, how could they pay their debts? A further burden is the donation of Rp 10 million per year to the local government’s income.⁵ There is nothing to do by

⁵Kompas, March 16, 2001. PDAM Could Not Pay the World Bank Rp 3,25 billion

PDAM Kediri but wait to fail. PDAM Semarang, Papua, and many others face similar problems, which is why debt-based programmes should no longer be an option for making PDAMs “healthier”.

In Table 3, we can see the results of Wijanto Hadipuro’s research in 2003 that shows the pattern of debts in PDAMs. The creditors are mostly international financial institutions who have agreed to give loans that are higher than the assets of the debtors. PDAM Tirta Nadi in Medan has assets worth of Rp 16 billion, but their debts are Rp 70 billion. PDAM Pematang Siantar’s assets are worth only Rp 1,8 billion, but it has debts Rp 3,5 billion. Wijanto suspects that the wrong pattern is not an accident, it is intended that way so the PDAMs will have no bargaining power over privatisation.

Table 3. PDAM Foreign Debt Vs Asset (in Rp)

No	Name & PDAM Location	Foreign Debt 1998	Foreign Debt 2000	Asset
1.	Kota Medan "Tirta Nadi"	0	70,359,805,198	16,547,760,477
2.	Kota Pematang Siantar "Tirta Uli"	0	3,557,460,654	1,852,476,409
3.	Kota Bukit Tinggi	2,129,581,730	1,789,631,128	665,453,020
4.	Kota Bandung	0	277,465,537,059	254,015,898,071
5.	Kabupaten Bandung	0	11,071,768,875	2,334,731,178
6.	Kabupaten Garut	-	3,770,872,565	3,585,294,565
7.	Kabupaten Wajo	-	15,000,000,000	1,709,266,103

Source: *Directory Indonesia Water Association 1998 and 2000*

RESISTANCE TO PRIVATISATION

Since the Law No 7/2004 was passed in March 2004, it is very likely that privatisation and commercialisation of Indonesia’s water resources is unpreventable. Only large-scale and persistent opposition from the population can slow it, and recently this has emerged in many forms. Academics, activists, employees of PDAMs, the public in general and even customers of RWE Thames and Ondeo, are trying different ways to prevent privatisation in Jakarta. Komparta (Jakarta’s Water Customer Community) has filed two cases against the two companies; the first against tariff increases and the second against poor service.

Meanwhile, there are five suits filed against the newly legalised Law on Water Resources. These suits have been brought by groups of NGOs and the community before the Constitutional Court on the grounds that the law violates Indonesia’s constitution. Our Constitution, article 33, states that all business entities essential for the lives of the people should be owned by the state. But the Water Law provides many opportunities for private-sector ownership in water management through applying water rights (water usage rights and water exploitation rights), allowing the export of water and allowing private companies and individuals to: 1) participate in drinking water service; 2) manage parts of rivers; and 3) conduct weather modifications.

Another case against TPJ and Palyja is also being prepared by a contractor organisation. The two companies are accused of violating the Anti-Monopoly Law by appointing only a handful of contractors for their outsourced works when there are hundreds of other, well-qualified and experienced contractors in Jakarta.

The anti-privatisation movement is starting to spread in cities like Jakarta, Bandung, Pati and Manado. Protests are usu-

ally about poor service issues or when the community refuses a privatisation plan such as in Manado, Pati and Bandung. Unfortunately, the movement has not yet evolved into a persistent, mass movement. The anti-water privatisation movement in Indonesia is still sporadic, reactive and not getting enough support from the general public.

This lack of support is because the public is not well informed and people don't comprehend the issues in water privatisation; issues, for example, such as what is the impact when water is privatised and what are the conditions which apply when privatisation is about to take place. In addition, operators of many public-owned water companies have been "influenced" to see privatisation as the best way to clear prolonged debt. They think that through privatisation, they will end debt and finally the company can run normally.

Most of Indonesia's PDAMs are in a complicated situation with regard to the huge debts they have. So, the first step to take if we want to maintain public ownership is to cut or cancel all debt, both to the central government and debt to the international financial institutions like the ADB and World Bank. Without this, it will be impossible for the PDAMs to run normally. They could then learn from healthy PDAMs how to manage efficiently and effectively. (Most of the healthy PDAMs in Indonesia are not burdened by foreign debts or their foreign debt is very small.)

EFFECTIVE PUBLIC WATER IS POSSIBLE

There are some PDAMs in Indonesia which are able to perform well, for example PDAM Solo. PDAM Solo, founded in 1929, has good financial management and is trying to conserve the environment surrounding the water source and neighbouring community. It has a coverage level of 56% which is very

high since, in general, PDAMs in Indonesia only have 18% coverage. Unlike other PDAMs, PDAM Solo already has an active and critical consumer group, and complaints and expectations are documented and handled well.

Even though there are only a few healthy PDAMs, in the future their operational methods and management should be taught so that other PDAMs, the government, and donors can learn and gain experience. The message from the healthy PDAMs should be to erase, step by step, the understanding that public management of water services is doomed to failure.

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