



The eve of de-privatization in Jakarta series 1

It Is Time to End Water Privatization

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Privatization of water services in Jakarta, in many ways, is the product of the New Order regime. The private sector got officially involved in Jakarta water services in 1997, when Suharto's dictatorial power was still solid in Indonesia. At the time, foreign water companies Thames (UK) and Suez (France) approached the government to establish a concession over water management, which eventually granted them the exclusive right to deliver water services in the capital city.

But water privatization had actually begun long before that. The World Bank extended loans for water infrastructure in Jakarta in the early 1990s, as part of a global agenda of privatization in the water and sanitation sector. The World Bank provided a \$92 million loan in 1991 and expected Jakarta to improve infrastructure in water and sewage through the involvement of the private sector. Furthermore, the World Bank appointed consultants to advise state-owned water company PAM Jaya on the privatization.¹

The global neoliberal agenda favourable to private management of services combined with the corrupt power of the New Order regime created a cooperation agreement that, in the words of Vice Governor of Jakarta Tjahaja Basuki Purnama's, was "crazy" because it guaranteed maximum profits for the private operators, while PAM Jaya would be trapped in losses and debt.²

Such inequitable arrangements have been brokered in many cities around the world, unleashing a global wave of resistance to water privatization. Today, previously privatized water services are being taken back into public management. Jakarta is currently striving to remunicipalize its water.

Privatization: A history of failure

Private sector involvement in Jakarta water services began in June 1991 through a water and sanitation infrastructure loan worth USD 92

million granted by the World Bank and Japan's International Cooperation Agency to PAM Jaya. These two institutions promoted privatization in water services, and then two foreign water companies stepped in. Thames Water Overseas Ltd. managed to secure a contract through Sigit Harjojudanto, Suharto's son, while Suez established a partnership with Anthony Salim, son of the leader of Suharto's business cronies.³

The cooperation agreement — concession contract between PAM Jaya and the two private operators was signed in 1997. Each operator was given control over half of the city: the western part was to be serviced by (Suez) Palyja, and the eastern part, by (Thames) Aetra.

In the years that followed, the contracts went through processes of amendment, restatement, and renegotiation. The first amendment was in 2001 to adjust to the new economic and political situation after the 1998 Asian financial crisis. It was later changed to adjust the five-year targets that had been set for the private operators for the periods 2003-2007 and 2008-2012; this process was particularly prone to corruption and PAM Jaya frequently agreed to lower the performance targets for private operators.⁴

It soon became clear that the cooperation agreement caused chronic business losses for PAM Jaya, and that the private operators' performance had not improved. In late 2011 PAM Jaya showed an inclination to renegotiate the contract. It began when the director of PAM Jaya Maurits Napitupulu voiced loudly that privatization had brought the public company into huge financial losses, evaluated at up to Rp18.2 trillion (US\$1.5 billion) if the cooperation agreement were to continued until its expiry date in 2022.⁵

In 2013, the Governor of Jakarta, Joko Widodo, also promised that he would put an end to the water privatization. A renegotiation process followed but it did not run smoothly. To this day Palyja refuses to modify the agreement, whereas

Aetra accepted a limited compromise and renegotiated items were inserted as an addendum into its cooperation agreement, in December 2012:

- lower the Internal Rate of Return (IRR), from 22% to 15.8%
- eliminate Rp330 billion (US\$26.5 million) of shortfall debt at PAM Jaya
- decrease Non-Revenue Water (NRW) from 29% to 25%.⁶

In the lead up to this process, civil society and the water trade union strongly opposed the privatization. Countless rallies and public discussions were organized to demand that water services be brought back into public hands. The resistance escalated until the Coalition of Jakarta Residents Opposed to Water Privatization (KMMSAJ), bringing together NGOs and residents reported on an alleged corruption case between PAM Jaya and the two private operators to the Corruption Eradication Commission (KPK) in January 2012;⁷ a citizen lawsuit on privatization of water services was presented before the Central Jakarta District Court in April 2013.⁸

Even the Governor of Jakarta Joko Widodo

first stated that he would end the water services privatization, in March 2013, during a meeting with the civil society.⁹

A global trend against privatization

Around the world, more than 150 cities have put an end to water privatization over the last 15 years.¹⁰ The trend continues to grow as other cities, including Jakarta, are in the process of taking over water from the private sector. This process known as remunicipalisation is returning utilities to public hands.

Remunicipalisation is even occurring in France, the country of origin of the largest private water companies that run concessions of water services, including Suez that operates in Jakarta through Palyja. In France alone, 49 cities have put an end to the privatization of water services, including Paris.¹¹ In the United States, the heartland of capitalism, there are 59 cities that have remunicipalised their water services.

Privatization of water services is increasingly challenged because it has caused problems such as high water tariffs, the low performance of the profit-oriented private water operators, and the lack of transparency. It is time for Jakarta to remunicipalise its water too.

Reasons to end privatization	Reasons for public water management
Expensive water tariffs	Water tariff will be more affordable as public management is more efficient (in Paris, the water tariff is 8% ¹² lower since the water utility became public)
The profit is collected by investors	Profits are reinvested into service improvement
The service is not delivered to the poor because it is not profitable for the private companies	The public utilities could offer more equal services because they would serve social goals, not profit-oriented ones
Private companies do not have any obligation to be transparent to the public, and feed corruption	Public institutions generally have a legal obligations to be transparent and accountable to the public
Expensive financing	Cheaper financing because public institutions have access to low interest funding
Casualized jobs of outsourced workers affect the quality of water services	Workers under public management have secure jobs, and tend to be more committed to public services

Endnotes

- 1 Harsono, Andreas. "Water and Politics in the Fall of Suharto." *The Water Barons: How a Few Powerful Companies Are Privatizing Your Water* : A Project of the Center for Public Integrity. Washington, D.C.: Public Integrity, 2003. 71. Print.
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