



The eve of de-privatization in Jakarta series 2

The Impact of Water Privatization in Jakarta

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Water service interruptions are a frequent problem for residents of Jakarta. In 2013 alone, the city's water utility PAM Jaya reported nearly 40,000 complaints regarding tap water outages.¹ This high number of cases comes after 15 years of deficient private water management. In 1998, PAM Jaya granted a concession to two private operators to operate Palyja and Aetra. Ironically, the reason for the privatization was to improve water services.

International experience demonstrated that privatization of water services generally ends up in failure. Some of the reasons are that it increases water tariffs; lacks accountability; leaves the poor with no access to clean water; pursues profit-oriented goals that do not encourage costly development of the piped network; leads to job reductions for efficiency that puts at risk the quality of service. Despite all the failures, once water is privatized it becomes very difficult to terminate contracts.² This is exactly what happened in Jakarta.

Water tariffs skyrocket

Since the privatization, water tariffs have increased on ten occasions. At the beginning of the concession, the average water tariff in Jakarta was Rp1,700/m³; currently, it is Rp7,020/m³, which is much higher than in other big cities in Indonesia. Four price hikes occurred between 2004 and 2007 through the Automatic Tariff Adjustment policy. The government had to approve the increase by issuing the policy because the private operators kept pushing unjustified increases

in their water charge. After 2007, the government rejected further increases because it considered the water tariff had already been too high while the private operators' performance was below the target.

Table 1: Comparison of average water tariffs in several Indonesian cities (2012)

	Cities	Tariff (per m ³)
1	Jakarta	Rp7,020
2	Surabaya	Rp2,600
3	Medan	Rp2,294
4	Bekasi	Rp2,300
5	Makassar	Rp2,000
6	Semarang	Rp2,600

Source: (1), (2), (4) *TribunNews* (31/01/2012); (3) *Bisnis Indonesia* (24/09/2012); (5) *RakyatSulsel* (13/07/2013); (6) *Okezone* (10/05/2012)

The high water tariff was caused by the private operators' demand to frequently increase the costs included in the water charge. In 2009, the Supreme Audit Agency (BPK) found inefficiencies in the private operators' costs. In Palyja, for example, there were cost components to cover school fees for children, personal travel, house rental and flood insurance, and a number of other unreasonable fees for expatriate personnel, which should not have been considered as part of water service costs. It costs up to Rp3.9 billion (US\$313,000).³ Such costs were imposed upon PAM Jaya, and in turn passed on to the families who pay more but continue to endure poor water services from the private operators.

Poor performance

Families' complaints about the water outage are the result of the dismal

performance of the private operators, which continually fail to reach set targets. One important target is the service coverage area that is established at 66.37%, but on which the private operators only reach 59.01%.⁴ In other words, about half of the population of Jakarta does not have access to drinking water services. In addition, services are so inefficient that unaccounted-for water stands at 44 per cent of water produced, much higher than the 31 per cent national average of other, mainly public drinking water utilities.⁵

Residents receive poor water services. The most common problem is water outage that can happen for hours and even days. Especially in low-income areas in north Jakarta, residents have to compensate by buying water in jerry cans at a much higher price than the utility's water tariff (Rp15,000/day in a setting where daily income is less than Rp30,000).⁶

The private operators are in it to maximize profits and have no inclination to reinvest in improving services.

The state's loss

Privatization makes PAM Jaya suffer massive financial losses. In 2011, when the President Director of PAM Jaya proposed a contract renegotiation, losses were revealed to represent Rp610 billion in accumulated shortfall, Rp530 billion in arrears, Rp985.7 billion in equity, and a decrease of assets from Rp1.49 trillion before the privatization to Rp204.46 billion.⁷ A letter of support issued by the provincial government of

Jakarta has since confirmed that PAM Jaya's losses will be assumed by the state. According to its President Director, if the cooperation agreement is continued until the end of its term, PAM Jaya could accumulate financial losses as high as Rp18.2 trillion.

These losses indicate that the privatization is designed to ensure the private operators' profits, while high costs have to be borne by the state, PAM Jaya, and residents.

Prone to corruption

One of the characteristics of privatization is the general lack of transparency and accountability. Even the most important document, namely the cooperation agreement between PAM Jaya and the private operators, was never disclosed to the public until 2013 when the provincial government of Jakarta began to consider terminating the contract with the private operators.

Unsurprisingly, cases of corruption have emerged. In January 2012 the Coalition of Jakarta Residents Opposed to Water Privatization (KMMSAJ) reported on an alleged corruption case that involves PAM Jaya and the two private operators to the Corruption Eradication Commission (KPK). This corruption case, currently being investigated by KPK, involves Rp561 billion⁸ of misappropriated funds that Tempo Magazine has linked with the Jakarta governor election in 2012.⁹

Privatization of water services in Jakarta began with the New Order's corrupt politics; this situation persists now that the regime has long gone.

Endnotes

- 1 <http://www.jpnn.com/read/2013/12/30/208221/Hampir-40-Ribu-Warga-Jakarta-Keluhkan-Air-Mati>
- 2 <http://www.waterjustice.org/uploads/attachments/whywaterprivatisationfails.pdf.pdf>
- 3 Laporan Hasil Pemeriksaan atas Pendapatan dan Biaya (Operasional dan Non-Operasional) Tahun Buku 2007 dan 2008 pada PAM Jaya
- 4 <http://www.jpnn.com/read/2013/12/30/208221/Hampir-40-Ribu-Warga-Jakarta-Keluhkan-Air-Mati>
- 5 "PDAM Jakarta Kehilangan 7.500 Meter Kubik Air Per Detik", Tempo, 16 Maret 2013, (<http://www.tempo.co/read/news/2013/03/16/090467457/PDAM-Jakarta-Kehilangan-7500-Meter-Kubik-Air-Per-Detik>)
- 6 <http://www.tribunnews.com/metropolitan/2012/06/28/faisal-berharap-pengelolaan-air-bersih-kembali-ke-warga>
- 7 <http://m.bisnis.com/industri/read/20111222/45/57497/pdam-jaya-klaim-terancam-merugi-rp18-2-triliun>
- 8 <http://www.tempo.co/read/news/2012/01/31/063380816/Diduga-Korupsi-Rp-561-Miliar-PAM-Jaya-Dilaporkan-ke-KPK>
- 9 Tempo Magazine 14-20 Juli 2014, hal. 67.