



The Impact of Water Services Privatization in Jakarta

From Tap Outage to Corruption

Water not running from the tap is a frequent problem experienced by residents of Jakarta. In 2013 alone, Jakarta water utility PAM Jaya noted that there are nearly 40 thousand complaints regarding tap water deficiency.¹ In a city with dense population and limited clean water sources, troubled tap water is certainly a serious problem.

This high amount of tap water outage cases happen after fifteen years of Jakarta water privatization, and only one of numerous other problems. In 1998 PAM Jaya started a concession with two private operators, which are currently Palyja and Aetra. The reason for the privatization, which now becomes an irony, is to improve water services.

In fact, privatization of water services in most cases ends up in failure. Some of the reasons are because it makes water tariff high; lacks inclination to give the poor access to clean water; profit-oriented; lacks accountability; lacks inclination to develop pipe network that is costly; financing costs more; jobs reduction for efficiency that actually risks the quality of service; the pressure from foreign debts; and once the water is privatized, it will be very difficult to terminate despite all the failures.²

All of these failures have happened in Jakarta.

Water tariff skyrockets

During the privatization, water tariff has increased for ten times. At the beginning of the concession, the average water tariff in Jakarta is Rp1.700/m³, and then it continued to increase, which four of them occurred only from 2004 to 2007 through Automatic Tariff Adjustment policy. The government had to issue the policy because the private operators keep pushing series of increases in water charge. The government did not proceed with the policy because it considered the water tariff had already been high while the private operators'

performance was below the target from time to time.

Currently, the average water tariff in Jakarta is Rp7,020/m³, which is much higher compared to that of other big cities in Indonesia.

Table: Comparison of average water tariff in several big 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) Department of Public Works; (6) Okezone (10/05/2012)

The high water tariff is caused by the private operators' demand to frequently increase the costs included in water charge. In 2009, the Supreme Audit Agency (BPK) found that the private operators are inefficient in arranging the costs. In Palyja, for example, there are cost components for school fee for children, personal travel, rent house and flood insurance, and a number of other unreasonable fees for expatriate personnel, which are not related with water services. It costs up to Rp3.9 billion.³ Such costs are to be borne by PAM Jaya, and in turn the customers, who have to endure poor water services from the private operators.

The poor performance

Customers' complain about the water outage is the impact of the private operators' performance which continually fail to reach the target. One important target is service coverage area as much as 66.37%, but the private operators are only able to reach 59.01%.⁴ In other words, about half population of Jakarta do not have access to drinking water services. Their

Unaccounted for Water (UfW) level is 44 percent, higher than the average level of other drinking water companies nationally, which is 31 percent. The higher the UfW level, the more inefficient the water services are.

Customers receive poor water services. The most common case is water outage that can happen for hours and even days. Especially in areas whose majority residents are low-income groups in north Jakarta, residents have to buy water in jerry cans at a much higher price than the utility's water tariff. To use the jerry cans water, residents have to spend about Rp15,000/day, which is very expensive for those people who have daily income of less than Rp30,000.⁶

The poor water services occur because the private operators only attempt to pursue business profit without inclination to reinvest the profit to improve services.

The state's loss

Privatization makes PAM Jaya suffer massive financial losses. In 2011, when President Director of PAM Jaya proposed contract renegotiation, PAM Jaya's financial loss was revealed to include Rp610 billion of accumulated shortfall, Rp530 billion of arrears, minus Rp985.7 billion of equity, and a decrease of assets from Rp1.49 trillion before the privatization to now became Rp204.46 billion.⁷ Due to a letter of support issued by the provincial government of Jakarta, PAM Jaya's losses will be assumed by the state. According to the president director of PAM Jaya, if the cooperation agreement is continued until the end of its term, PAM Jaya is estimated to

accumulate financial losses as much as Rp18.2 trillion.

Those losses indicate that the privatization is designed to ensure the private operators' business profit, while the high costs have to be borne by the state, PAM Jaya, and customers.

Prone to corruption

One of the characteristics of privatization is a lack of transparency and accountability. Even the most important document, namely the cooperation agreement between PAM Jaya and the private operator, was never disclosed to the public until 2013 when the provincial government of Jakarta began to consider terminating the cooperation with the private operators. It was not disclosed even though it affects the water supply for millions of people in Jakarta.

Not surprisingly, the cases of corruption emerge. In January 2012 the Coalition of Jakarta Residents Opposed to Water Privatization (KMMSAJ) reported 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, allegedly involves Rp561 billion⁸ of money. Tempo Magazine, which investigated the case, found a link between this corruption case with Jakarta governor election in 2012.⁹

Privatization of water services in Jakarta began with the New Order's corrupt politics. But even when the regime has now long gone, the corrupt atmosphere in the water privatization persists.

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 Majalah Tempo 14-20 Juli 2014, hal. 67.