Privatization in Water Resources Management: The Case of Indonesia

Edy Sriyono
Department of Civil Engineering, Janabadra University, Jalan Tentara Rakyat Mataram 55-57 Yogyakarta, Indonesia
edysriyono@janabadra.ac.id

Abstract. Privatization always raises the pros and cons, both in an academic context and in the context of public policy. This article examines the privatization of the management of water resources in Indonesia. The research method using case studies and analysis of primary sources and secondary. Research shows that the privatization of water resources in Indonesia is not as simple as discussed so far. Political pressure is an integral part of the privatization. This study offers a number of propositions and analytical framework that can be used for subsequent studies. This article also provides a number of recommendations theoretical and practice recommendations.

1. Introduction
Like air, water is a basic human right guaranteed by the Constitution of 1945. Therefore, clean water should be accessible to all walks of life to easily and inexpensively, and with guaranteed quality. Unfortunately, water has become a commodity that is of low quality but expensive. The price of water in Jakarta Rp 7,800 / m³, more expensive than Singapore, which is only Rp 3,500 / m³, but with better quality (Kartika Tarin, 2016). Besides having to wait for the water to flow at 3 am, the flowing water is very turbid. Funnily enough, Aetra and Palyja who controlled waters in Jakarta could pocket a profit to Rp 600 billion per year (Audit Report 2011).

The Constitutional Court has indeed been canceled the Law of Water Resources since February 18, 2014 (Berdikari Online, 2015) but in practice there are still omission. For example, through the Minister of Public Works and Public Housing No. 5 / PRT / M / 2015 on the Permit for Use of Water Resources, keep open the opportunity mastery of water resources as much as possible through the investment (Article 21, Paragraph (3) and (4)) (Daily Publishing, 2016). In addition to providing investment license, the regulation also ensures ease of licensing and control of up to five years duration and can be extended easily. As a result, if investors find investment returns take 30 years, during which the water resources can be controlled by investor-considering the easy acquisition and license renewal. Of course, this raises a number of questions. Is the privatization of water resources is necessary? Whether the government is no longer able to manage their own water resources and should involve the private sector? Where is the public interest and public service placed on water resources?

1 Koalisi Masyarakat Tolak Swastanisasi Air: Di Singapura Air Lebih Murah. Detik, Jum’at 3 Juni 2016.
2 Mengakhiri Privatisasi Air. Editorial. Berdikari Online, 23 Februari 2015.
3 http://harianterbit.com/hanterhumaniora/readAir-2016-Setop-Privatisasi-Air-di-Indonesia#.
This article aims to review the privatization of water resource management in Indonesia and its impact and consequences. This article is organized into five sections. This section, the first part is an introduction and background. The second part discusses the theoretical basis used in the study. The third section describes the research methods used. The fourth section describes a case study of water resources in Indonesia. The fifth section to review the study results and findings obtained in the research and then discuss it empirically. The last part is the conclusion and closing.

2. Literature Review

The term "privatization" was first coined by the conservative government of Margaret Thatcher in the United Kingdom (Veljanovski, 1987). The concept evolved broadly—especially in developing countries—and invite a variety of controversial reputation (Thiemeyer, 1986). For example, a World Bank study (1992) showed that the privatization program in a number of developing countries are often used as a tool of criticism to the government by the opposition.

This article borrows the definition of "privatization" of Paul Starr (1990) which states that the privatization of a specific policy related to the transfer of assets, either partially or entirely, from the public to the private sector. This view is based on the belief that the new entity will work under the influence of the market. In terms of provision (supply) goods or services, it is a shift from government to the private sector. But this does not mean that privatization automatically provides budget cuts, liberalization and deregulation, tax reduction, or policy reforms—except those regarding the transfer of the production process mentioned above.

Starr (1990) also distinguish between privatization and deregulation. Most forms of deregulation that exists today does not shift the production process of the public sector to the private sector, so it can not necessarily be considered as privatization in the context of limited. However, if deregulation is run on areas previously monopolized, then the number of the production process will move into private hands. In other words, the government will withdraw (withdrawal) of the public service; and this will encourage the intervention of the private sector (Savas, 1987).

Unfortunately, the scientific discussion and the discussion in the mass media, often confused with the term privatization of a number of other terms. Therefore, it is important to have made a clear boundary between privatization and economic deregulation or liberalization. Privatization always involves the transfer of ownership and responsibility of the public sector to the private sector under public scrutiny in the form of regulatory framework (regulatory framework). On the other hand, liberalization is usually more focused on public sector reform and increased competition in service to the public. This does not necessarily involve the transfer of supply of products or services, and therefore can not be categorized as privatization.

In addition, privatization is complex, because it concerns not only the economy, but also social, political, cultural, and natural sciences to engineering. Thus, privatization is not the independent variable (not an isolated variable). In the political context, privatization became a political resolution for many countries. He is regarded as a process that is inherently, or inherently political process (Adam et al., 1992).

Privatization also, although always political, government is a tool that has a non-economic objectives (Donaldson and Dileep, 1996). In addition, the privatization of social implications. The success or failure of the privatization process is generally attached to the interests and relationships internal and external actors involved in the process (Adam et al., 1992). Therefore, a thorough evaluation is needed to determine which approach is most feasible and acceptable to all the actors involved in it.

---

4 Discussion on private ownership and privatisation can be seen, for example, in: Milton Friedman, (1969). Capitalism and Freedom. Chicago: University of Chicago Press; Friederic, Von Hayek. (1986). The Use of Knowledge in Society, in L. Putterman, (ed.), The Nature of The Firm: A Reader. Cambridge: Cambridge University Press; J.E. Stigler. (1988). The Effect of Government on Economic Efficiency. Business Economics, January, dan lain-lain.

5 See, for instance, John, Kay A and D. J. Thompson. 1986. Privatisation: A Policy in Search of a Rationale. Economic Journal 96, 18-38; John Vickers and George Yarrow, G. 1985. Privatisation and The Natural Monopolies. London: Public Policy Centre; T. Thiemeyer and G. Quaden, G. (eds). 1986. The Privatisation of Public Enterprises: A European Debate. Liege: CIRIEC, dan lain-lain.
Privatization, in a larger scale, can change the distribution of power in a society that would alter the distribution of economic strength between the public sector and the private sector (Bos, 1991). This redistribution process can change the map of power between central government, local government, investors, trade unions / labor unions, industry associations, non-governmental organizations (NGOs), and many more.

Inevitably, privatization will impact and implications on the geographic location of strategic, industrial infrastructure is growing, economic growth, unemployment, salary levels and industry competition, social stability, national investment, stability of the laborers / workers, service availability of public infrastructure, etc. In different languages, Robert Robin, Director of Regulatory and Financial Industry in the UK Treasury (UK Treasury) said, "there is no such thing as a successful Privatisation. Privatisation is a political process." Although they are economic and affect many sectors, privatization is more influenced by the political actors involved in it, not by the economic mechanism. This view is also shared by the World Bank (1995) which states that the most important factor in public sector reform is political.

3. Methodology

This article focuses on specific empirical cases in the context of water resources in Indonesia. To test the hypothesis, the authors utilize a number of methodologies. First, this article uses the analysis of historical data and bibliographic literature. This methodology used to collect the material and narrowing the focus of discussion. This article is limited to the process of privatization of water resources in Indonesia, in the context of local and national. To refine the analysis, a number of cases are used to build the contrast between the theory and the reality on the ground.

Secondly, this article elaborates the findings obtained from the previous stage as a reference (frame of reference) to build a conceptual framework (conceptual framework) and hypothetical propositions (proposition). Expected from this methodology can be built discussions that could encourage further studies to provide a foothold (starting point) to test the proposition further.

This research using primary and secondary sources that provide materials or of data that are non-interpretive (Bell, 1987). Sources obtained derived from the rule of law, literature, media, newspapers and magazines, web sites, and other documents listed in the bibliography. From these sources, researchers built a historical and theoretical perspective by using cases of privatization of water resources in Indonesia.

4. Case Study: Water Resources In Indonesia

The first water privatization in Indonesia probably started from the mandate of the World Bank provided loans amounting to US $ 92 million in 1991 on condition that Jakarta should improve the water services infrastructure by involving the private sector. Foreign pressure continued not only through the World Bank, but also through the Asian Development Bank (ADB) through a number of projects that it carries. PAM Jaya privatization began in 1995, without competition. President Suharto was then handed over to the requesting PAM Lyonnaise Jaya des Eaux/Suez Environment (France) who teamed up with Salim Group that controls the west of Ciliwung River and Thames Water London teamed up with Sigit Hardjojudanto which controls the eastern side of Ciliwung River (Palyja, 2008). The concession is valid from June 6, 1997 for 25 years.

The consequences of privatization is great. First, the company charging for services that are called in return water (water charge) always go up every year. As a result, consumers saddled rates always rise. Secondly, the privatization of water emboldened the control of the water resources of other business interests, such as bottled water, tourism, industry, and so on. In addition to the people's access to clean water is limited, it triggers the onset of a clean water crisis.

---

6 This statement of Robert Robin was taken from Euromoney Magazine February 1996.
7 PT PAM Lyonnaise Jaya is now known as PT Palyja. As of 2008, Thames Water was acquired Singapore company named Acuatico, as well as change the name of PT Thames PAM Jaya to PT Aetra Air Jakarta.
Privatization of water continues through the program "Water Resources Sector Structural Adjustment Loan" or WATSAL launched by the World Bank in April 2008. The program provides a loan of US $300 million to Indonesia to hand over records of water to private parties. (Hertasning Ichlas, 2016). The World Bank argues we are threatened with a water crisis because it is too wasteful and inefficient use of water that needs to be educated by giving an economic price for water.

Since that time, the liberalization of the water matrix for mapping the restructuring of water resources and taps. A number of taps will be privatized or sold to the public-private partnership system. Irrigation agriculture is considered the most wasteful and free also privatized. For example, in the Citarum Tirta Company no longer serve the public but has been shaped full cost recovery in its operations.

Unfortunately, any public-private partnership contract is made such that the very pro-business. For example, there is no guarantee profits and guaranteed return of initial capital to investors. In contrast, the performance and the target of the form of public-private partnership tend elastic. When the event of default, the government is obliged to pay penalty plus potential future gains that should be enjoyed by investors.

Sadly, recent World Bank itself acknowledges that a number of privatization, including the privatization of water, a total failure. (Nuria Molina and Peter Chowla, 2008). World Bank vice president Kathy Sierra and senior officials Shekhar Shah asserted that privatization is not the only choice and the right not to hand over the water to the private sector. The reason is simple. On the one hand, water is a social good and an inclusive right on the water must not be restricted. While on the other hand, it is difficult projecting profit from managing the water.

Some countries do impose water privatization on the grounds they had spent a huge public spending so as to hand over to private water operators. Unfortunately, being unnatural when private companies argue that they are selling service and technology management, not water. More ridiculous is spending on advertising and marketing that can reach 75 percent of the allocation of corporate spending.

However, the privatization of water is also able to "eliminate" the responsibility of the state to provide and ensure clean water for its citizens. Privatization could be "excuse" for the performance of water management by the government is not good so try to release its obligation to the other party. This is what should be avoided. The government should not ignore the values of human rights.

For example, according to the PDAM Performance Audit Reports (BPKP 2011), there are only 103 or 37.45% taps whose performance in 2008 relatively healthy. The rest fall into the category of less healthy or sick. According to the Performance Audit Reports taps (BPKP 2009), taps in big cities such as Jakarta, Semarang and Bandung classified as sick. Only PDAM Surabaya are categorized as healthy.

5. Analysis and Discussion

The discussion of case studies in the fourth section above explicitly shows that the privatization of water resources in Indonesia is not as simple as transferring ownership (transfer of ownership) of the public sector to the private sector. In practice, the process of privatization has created controversy, both at the level of academic and practical level (Thiemeyer, 1986).

Secondly, there's also misguided and incorrect use of the term "privatization", "deregulation", or "liberalization." Unfortunately, this incident does not only happen in the popular media (the media) and the discussion among the public, but also pervaded academics and policy makers. Therefore, this ambiguity urgent to be resolved immediately.

Third, the process of privatization of water resources in Indonesia has important implications—not only politically, but also economically and socially. This is in line with the findings of Adam et al., (1992) and Donaldson and Dileep (1996). The case of water privatization in Indonesia also shows that the process of privatization itself is not driven by economic mechanisms, but rather on the political power of the actors involved in it. Internal actors instance, the President and the government of the day. As for the external actors for example is the World Bank which also adds to the process of privatization of water resources in Indonesia (see Figure 1).

---

8 Laporan Utama Majalah GeoTIMES No. 19, 21-27 Juli 2014.
9 Nuria Molina & Peter Chowla. The World Bank and Water Privatisation. September 2008.
Fourth, as shown in Figure 1 above shows that in the beginning of privatization driven by political pressures, both internal and external. This is similar to the phrase Robert Robin (1996) and World Bank (1995). However, to note is that the privatization process is not something that is linear to the output (output) is simplistic: failed or successful. Instead, privatization should be seen as a cyclical process in which there is a feedback mechanism provided by the actors involved in it.

In this context, the process of transfer of ownership is only the beginning of the privatization process. When the process is run, the impact and implications will arise—whether it's to be expected (intended consequences) or unexpected (unintended consequences). More holistic perspective required to jointly oversee and supervise the process of privatization. Impacts and unintended consequences (unintended consequences) is expected to be carried by the actors to give further political pressure, which in turn will affect the privatization process itself into a better direction.

Fifth, the needed regulatory framework (regulatory framework) clear as guidelines for the implementation of privatization as well as a tool that can be used by the actors to oversee the course of privatization and provide political pressure if there are unintended consequences (unintended consequences). The framework can be initiated from the quantitative and qualitative evaluation of the factors of political, economic, social, and environmental.

Table 1. Factors and the preamble as a tool of analysis and evaluation of the privatization of water resources

| Factors   | Contributing items                  |
|-----------|-------------------------------------|
| Political | Public intervention                 |
|           | Community collaboration             |
|           | Private parties concession          |
| Economic  | Direct contribution                |
|           | - Local community                  |
|           | - Surrounding areas                |

Figure 1. Cycle privatization of water resources in Indonesia
Table 1 above can be developed further as a framework that can be used by the actors to oversee and evaluate the process of privatization. The factors contained therein do not just dwell on political factors, but also economic, social, and environmental. These factors can be developed with a weighting mechanism (weighted average) to increase the representation of the events or cases that exist in the field. Meanwhile, in terms of practice, at least there are some things that need to be initiated to unravel in Indonesia's waters. First, exploitation of groundwater has been happening for a long time, in line with the growth of malls, apartments, hotels, industrial and shopping centers, especially in big cities. Thus the need for a good and thorough mapping of groundwater conditions and ground in Indonesia. This mapping will be the capital to oversee and evaluate the process of privatization.

Secondly, there should be the courage (political will) from the government to renew or terminate employment contracts at the same time the private company that operates on water in Indonesia and the World Bank. Even if private companies are forced to still be allowed to operate until the contract expires, the absolute improvement in terms of quality of service (service quality) and compensation. Existing contracts should not be securing private and weaken the government and state / local public enterprises.

6. Conclusion

Privatization does not mean that forbid private co-manage water at all. Countries could sell water to private companies with records of all rights of the people's basic needs are met over the water. The government should also include an additional clause, such as should be a process of technology transfer or the obligation to absorb the local labor force. Of course, from the consumer side, it remains necessary to have education that water is an economical items that need to be put to good use. Although water use is for the greater prosperity of the people, it still should not be any wastage in water use.

This paper contributes on the academic side (theory) and in terms of practice (policy-making). In terms of theory, proposition and framework proposed in this study is expected to open agenda and became the foundation for further research. In terms of practice, it is hoped this research can improve understanding and awareness (awareness) policy makers and actors involved in the privatization so that the privatization process can be for the benefit of the people as mandated by the Act of 1945.

Whatever it is, with privatization or no privatization, control of water must be returned to the state and used for the greatest prosperity. The management can be handed over to private enterprises / taps (especially in urban areas), as well as the communal society (especially in the area). In particular, taps should be encouraged to be more effective in improving operational performance. Local communities also need to be taught about water management not only meet the daily needs but also the optimization and organization forward. Finally, the government needs to involve many parties, especially among college / academics so that more parties are concerned about the issues raised.

References
[1] Berdikari Online. (2015). Mengakhiri Privatisasi Air. Retrieved February 23, 2015, from http://www.berdikarionline.com/mengakhiri-privatisasi-air/

[2] Cento Veljanovski. 1987. Selling the State: Privatisation in Britain. London: Weindfeld and Nicolson.

[3] Christopher Adam, William Cavendish and Percy. S. Mistry. 1992. Adjusting Privatisation: Case Studies from Developing Countries. London: Villiers.

[4] David Donaldson and Wagle Dileep. 1996. Privatisation: Principles and Practices. Washington: World Bank.

[5] Dieter, Bös. 1991. Privatisation: A Theoretical Treatment. Oxford: Oxford University Press.

[6] E.S. Savas. 1987. Privatisation: The Key to Better Government. Chatham, NJ: Chatham House Publishers.

[7] Harian Terbit. (2016). Hari Air 2016: Setop Privatisasi Air di Indonesia. Retrieved from http://www.harianterbit.com/hanterhumaniora/read/2016/03/23/58829/40/40/Hari-Air-2016-Setop-Privatisasi-Air-di-Indonesia.

[8] Hertasning Ichlas. (2016). Privatisasi Air Menyelinap di Balik Utang | GEOTIMES. Retrieved from http://geotimes.co.id/privatisasi-air-menyelinap-di-balik-utang/

[9] Judith Bell. 1987. Doing Your Research Project, Milton Keynes: Open University Press.

[10] Kartika Tarigan. (2016). Koalisi Masyarakat Tolak Swastanisasi Air: Di Singapura Air Lebih Murah. Retrieved June 3, 2016, from http://news.detik.com/berita/3224778/koalisi-masyarakat-tolak-swastanisasi-air-di-singapura-air-lebih-murah.

[11] Nuria Molina and Peter Chowla. (2008). The World Bank and water privatisation: public money down the drain - Bretton Woods Project. Retrieved from http://www.bretonwoodsproject.org/2008/09/art-562458/

[12] Paul Starr. 1990. The New Life of the Liberal State. Privatisation and the Restructuring of State-Society Relations. In John Waterbury and Ezra Suleiman, eds. 1990. Public Enterprise and Privatisation. Boulder, Co: Westview Press, pp.22-54.

[13] T, Thiemeyer. 1986. Privatisation: On the Many Senses in Which This Word is Used in An International Discussion on Economic Theory. In Thiemeyer and Quaden, G. (eds.), The Privatisation of Public Enterprises: A European Debate. Liege: CIRIEC, pp 7-10.

[14] World Bank. 1992. Privatisation: Eight Lessons of Experiences. Washington, DC: Country Economics Department. July. Outreach # 3.

[15] World Bank. 1995. Bureaucrats in Business. World Bank: Oxford University Press.

Acknowledgments
Further thanks to Nofie Iman Vidya Kemal, S.E., M.Sc., PhD., for suggestions in the discussion of privatization.