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**„From the Thames to the Ciliwung“
RWE - Thames Water in Jakarta**

Andreas Harsono



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Asienstiftung für das Asienhaus Essen, Bullmannau 11, 45327 Essen

Telefon: +49 . 201 . 830 38-38; Fax: +49 . 201 . 830 38-30;

asienstiftung@asienhaus.de

<http://www.asienhaus.de>

From the Thames to the Ciliwung

By ANDREAS HARSONO

Andreas Harsono is a journalist based in Jakarta who currently writes his book on identities in Indonesia. He used to be a reporter for the Bangkok-based Nation daily (1996-2002). He wrote the Indonesian chapter of "Water Barons," a book on water privatization, published by the International Consortium of Investigative Journalists. He is also the chairman of the Pantau Foundation whose works are aimed to elevate the standards of journalism especially in the less-developed eastern Indonesia.

I

INDONESIAN Vice President Hamzah Haz is a seasoned politician who knows how to use the media to send his message and, more importantly, to reach his political goal. He showed this skill once again on November 3, 2003, when he had a meeting with British ambassador to Indonesia, Richard Gozney. It was a closed door meeting. But when it was over, Hamzah noticeably escorted his guest to an awaiting limousine and let himself being approached by journalists.

They asked him what the meeting was about. Hamzah said that they had just discussed the problem of PT Thames PAM Jaya, a subsidiary of Britain's Thames Water. He said that Gozney had asked him to help raise Jakarta's water tariff in a bid to save PT Thames PAM Jaya which had suffered US\$58 million in financial losses in the last three years. It was losing an average of \$1.5m per month. It might even withdraw from Jakarta. "They are asking the Jakarta government to look for a way out to overcome this problem and particularly to find a way to raise water prices by about 20 percent," said Hamzah.

M. Taufiqurrahman, a reporter of *The Jakarta Post* daily, who was there with the other journalists, said that the mood of the meeting was plain and business-like.¹

That evening, while Gozney was driven home, the evening television news programs were already broadcasting his meeting. The next morning Hamzah's statement was headlined on many Jakarta newspapers. *The Jakarta Post* read, "Gozney Wants Water Rates Hiked." The meeting also reached London, where Thames Water has its headquarters, and the *Guardian* splashed the story, but from a different angle, "Jakarta Unit Drains Thames Cash."

Thames Water is one of the largest water operators in the world. Its history began in London of the 17th century. But its modern form was established in 1989, during the Margaret Thatcher administration, when she split and privatized many state-owned companies including the Water Authority.² The privatized Thames Water expanded and worked in other parts of the world. In 2001 Thames Water was acquired by the Essen-based RWE Group in Germany. Its name was later changed into RWE Thames Water.

In June 1997 or four years prior to the German-British merger, Thames Water won a 25-year contract to form a joint venture with Jakarta's state-owned water company, *Perusahaan Air Minum Jakarta Raya* (PAM Jaya). Thames Water teamed up with Sigit Harjojudanto, the eldest son of the then Indonesian dictator General Suharto.

But Jakarta was too big for a single company. General Suharto divided the city into two parts separated by the Ciliwung River. Thames Water got the eastern part. French Suez's

¹ Interview with Taufiqurrahman on December 30, 2003

² Historical background about RWE Thames Water comes from <http://www.thames-water.com/>

Lyonnaise des Eaux (later it changed name into Ondo) got the western side. Suez cooperated with the Salim Group, then the largest business conglomerate in Indonesia. The consortia began their work in February 1998.

But alas, three months later, Suharto fell from power on May 21, 1998 at the height of the Asian economic crisis. Riots broke up in many places in Indonesia. Many political organizations demanded Suharto to be tried for corruption. Many people believed that the Suharto children and cronies were involved in dirty business deals. As a result, both Thames Water and Suez, considered to be Suharto-related businesses, were forced to renegotiate their contracts. Indonesia also suffered badly from the economic crisis. The rupiah was devalued from 2,300 to the American greenback in July 1997 to more than 10,000 in mid 1998.

The consortia managed to renegotiate and to keep their operations although they did not expect such a huge devaluation. Inflation rates were just going crazy. The Jakarta government and its City Council were continuously involved in negotiations with the consortia on the water hikes. There have been three tariff rises since the consortia began to work in February 1998. The first raise was in February 1998 by 18 percent, the second was in April 2001 by 35 percent, and the third was in April 2003 by 40 percent. But the tariffs were still lower, on average, than the water charge that PAM Jaya has to pay to the international operators.

When Richard Gozney came to visit Vice President Hamzah Haz, the idea of another price hike was strongly opposed by consumer protection activists, nongovernmental organizations, and a number of political parties. They argued that both RWE Thames Water and Suez had failed to improve services and efficiency, with frequently disrupted water supply, poor water quality and a 45 percent water leakage rate. A water consumer group, Komparta, even filed a law suit, saying that service provided by the consortia was not satisfactory.

How such a tricky situation involved Gozney? Is it because of his friendships with many members of Jakarta's elite circle? How much does his proficiency in the Indonesian language, which he speaks with a slight Jakarta accent, help him to penetrate the complex power structure in Jakarta?

Said Budairy, a spokesman for Hamzah Haz, recalled that Gozney had initially talked with Jakarta Governor Sutiyoso. Gozney asked the Governor to raise the water tariff. Sutiyoso, however, told Gozney that he needed a strong back up to raise the tariff, saying that the back up should come from "someone at the top."³

Gozney, who has a friendship with John Trew, the president of PT Thames PAM Jaya, initially tried to approach President Megawati Sukarnoputri. But her schedule was rather hectic. "Sometimes she also doesn't move that quick," said Budairy. Gozney finally decided to approach Hamzah and asked for a meeting.

According to Budairy, Hamzah agreed to support the price increase but asked the British company to implement a cross subsidy mechanism between the poor and the rich. Hamzah was worried that without such an increase, RWE Thames Water was to pull out of Indonesia that would not only cause a problem in water supply but also scare other foreign investors off Indonesia.

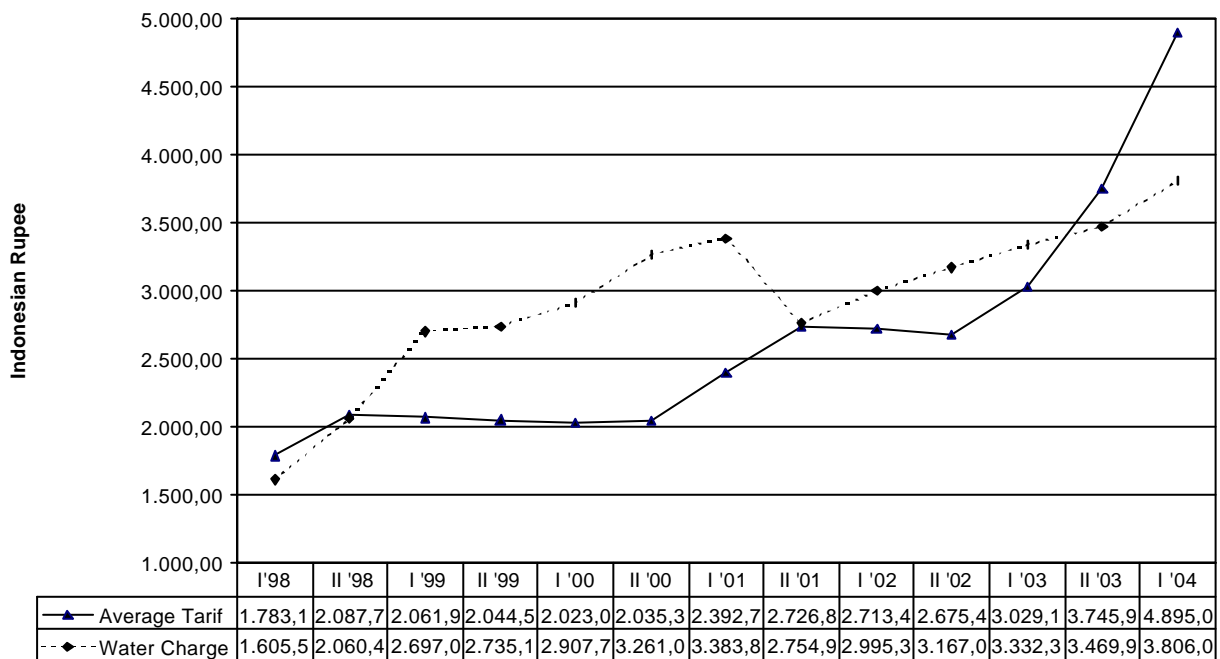
³ Interview with Said Budairy on December 28, 2003 and January 8, 2004

But such a request did not come only from the German-British corner. Suez sent Eric de Muyinck, the Ondeo president for international affairs, to have a meeting with Governor Sutiyoso. De Muyinck and Michele Tay, Ondeo president for Asia, visited Sutiyoso office on October 21. According to Bernard Lafrogne, the Ondeo representative in Jakarta, their message was pretty simple but bold: Increase the tariff or see Ondeo to the pull out of Jakarta!⁴

Such double pressures obviously worked. Governor Sutiyoso got the green light from Hamzah Haz. He submitted a proposal to the City Council on November 10 or one week after the Gozney-Hamzah meeting, saying that the two water operators needed such a hike to keep the water distribution in Jakarta. He suggested an increase of 30 percent --ten percent higher than the Gozney proposal.

The proposal explains that 17 percent of the increase would be used to pay off PAM Jaya's Rp 900 billion (\$105.88 million) debt to the water operators and the remaining 13 percent to cover inflation and the two firms' operational costs. The debt was a cumulative result of the differences between water fees paid by customers and water charge paid by PAM Jaya to the international water companies since February 1998.

Water Charge vs. Tariff Jakarta 1998-2004



Without much a do, the City Council, whose members were partly dominated by Hamzah's men, approved the proposal in December 2003, saying that the new tariff would be increased 30 percent by January 1, 2004. Gozney did indeed have the applause. When he finished his term in January 2004, he got impressive farewell parties! He managed not only in explaining the Iraq war to the Indonesian public but also to defend the British business interest in Indonesia.

⁴ Interview with Bernard Lafrogne 31 December 2003.

II

ACHMAD Lanti is a bureaucrat who is well versed when talking about his works, peppering his conversations with regulations, numbers, dates, names, and other data. He is dark skinned and dressed modestly. When I visited him last December, Lanti seemed relaxed and eager to describe many issues on water operation in Jakarta. Like usual, he provided me with charts, data, and numbers, taken from some shelves in his rather small office on a two-story building in the Pejompongan area in central Jakarta.

Lanti is the head of the Jakarta Water Supply Provision Regulatory Body whose main duty is simply to be an “umpire” between the private water consortia and the government-owned PAM Jaya water company. He got that job in November 2001, a few months after his retirement at the Ministry of Public Works.

The Regulatory Body is a newly-established organization. Lanti needs to balance the public interest, which needs clean water at fair price, and the private consortia, which needs financial gain over their investment. “The Indonesians sometimes accused me of being a coward, not courageous enough to counter the international operators. But the foreigners themselves accused me of being too nationalist. It is not easy to build trust here,” he said.

Lanti is not a new face in the water business. He came to Jakarta in 1968, after graduating from the Bandung Institute of Technology, one of Indonesia’s oldest universities, to build his career as a civil servant in the Ministry of Public Works.

“Initially I stayed in my brother’s house on Jalan Benda in Kebayoran Baru in southern Jakarta. Only later I have my own house. But I’m fortunate because I always have clean, very clean, ground water from our wells even in my house now in Radio Dalam. I never used the piped water,” said Lanti.

Lanti is one among very few Jakartans who have access to clean water. But many don’t. The Dutch colonial government built Jakarta’s first potable water supply system with the capacity of 600 liters per second in 1928. It was intended to serve 300,000 populations living in the elite circle of the city in northern and central Jakarta. When Indonesia gained independence in 1945, the system was gradually expanded but not to face the rapid post-independence expansion. Water quality declined rapidly in the 1970s due to massive industrialization, urbanization and a lack of regulations to control water pollution.

According to the Indonesian national statistic, in 1991 Jakarta’s population was nearly seven million but only 45 percent had piped water. It built many skyscrapers but many Jakartans found their tap water working only at night. Many also dug out wells, like the Lantis, and used high-powered water pumps in the leafy areas of southern Jakarta, which was only expanded since the late 1970s.

Lanti’s love affairs with water, especially piped water, began rather unexpectedly. Back in mid-1995 he was asked to represent his boss to attend a meeting with Public Works Minister Radinal Mochtar during which Mochtar briefed him about the government intention to privatize PAM Jaya.

The briefing did not come out of the blue. On June 12, 1995, President Suharto brought up the issue of the privatization with Radinal Mochtar. Suharto instructed Mochtar to set up a team to prepare the privatization and to include private investors. Suharto explicitly told Mochtar to contact his son, Sigit Harjojudanto’s PT Kekarpola Airindo as well as Salim Group with their respective international partners, Thames Water and Lyonnaise des Eaux.

That instruction sped up the work. Suharto enjoyed immense power and Radinal Moochtar knew that. Three days later, Moochtar held a meeting at his ministry in which he told his colleagues Suharto's instruction. The meeting decided to divide Jakarta into two water zones. The separating line is Ciliwung River. Its western part will be given to Salim Group while the eastern one will be Sigit's firm. They agreed to set up two teams to work on the privatization. The first team was to deal with national regulations, which include issuing new ministerial decrees on water privatization. The second team was to negotiate with the private investors. Lanti joined the second team.

Sigit Harjojudanto was known as a rather infamous gambler. His works were mostly to broker deals, using the influence of his father to entice multinational companies which were to operate in Indonesia. He also sits on the board of some Suharto-controlled "charity foundations." These foundations were later in the post-Suharto period found out to be the money-making machinery to oil Suharto's political manouvers.

But the idea to privatize PAM Jaya was not Sigit's original idea, nor his father. This idea probably started in the early 1990s. Jakarta was then growing into one of the most expansive cities in Asia's emerging economies. In June 1991, the Indonesian government signed a US\$92 million loan agreement with the World Bank to finance the PAM Jaya System Improvement Project for 20 years at 9.5 percent per annum interest. The loan coupled another loan from the Japan-based Overseas Economic Cooperation Fund to build a water installation in Pulogadung in eastern Jakarta.

In 1993 Thames Water decided that it should work with Sigit Harjojudanto in water business. Sigit asked his close associate, Fachry Thaib, a businessman from Aceh, in the northern tip of Sumatra, to deal with Thames Water.

In Paris, Thames Water's operation in Jakarta prompted Suez's Lyonnaise des Eaux, the world largest water operator, to move fast. Lyonnaise des Eaux asked Bernard Lafrogne, a French national who works in Jakarta, to open a representative office. Lafrogne is a Vietnam-born engineer and got his engineering degree in Toulouse in southern France. He first arrived in Indonesia in 1977 during which he worked in a World Bank-financed project. He speaks Indonesian fluently and married to an Indonesian woman. He knows PAM Jaya as he used to work as a consultant there. "I was born in water and will die in the water," he once told me.

Lyonnaise des Eaux approached Salim Group CEO Anthony Salim. Salim was interested but wanted to know how to deal with Sigit and Thames Water. Lafrogne suggested dividing the business pie. "Jakarta is big enough for two companies," he said, adding that Manila and Paris' water services were also operated by two companies. Salim agreed and appointed one of his colleagues, Iwa Kartiwa, to head the negotiation.

The British and the French expected the Suharto instruction would clear their way. It turned out to be the beginning of a complicated negotiation between the private consortia and PAM Jaya.

PAM Jaya is technically under the Ministry of Public Works. But PAM Jaya is officially owned by the Jakarta government and its directors must answer to the governor.

Surjadi Soedirdja, the then governor of Jakarta, was widely known among his subordinates to be a strict bureaucrat with a clean record. He never publicly said whether he agree or not with the privatization. But he obviously questioned Suharto's decision and wanted to obey rules to make the privatization as sound as possible.

But Surjadi also had to answer to his boss, Home Affairs Minister Moh. Yogie S.M., who is a protégé to Suharto. To make matters more complicated, PAM Jaya's foreign loans, mostly arranged by the World Bank, were officially signed by the Ministry of Finance. PAM Jaya had to report to the Ministry of Finance as well.

The World Bank, supported, if not pushed for, the privatization. But Akira Nishigaki, the president of the Overseas Economic Cooperation Fund, once privately told Rama Boedi, the then president of PAM Jaya, that the privatization was "too early."

Many PAM Jaya managers, which include Rama, were also reluctant. PAM Jaya had around 3,000 employees who were well unionized. They pressured the consortia to give them at least the same amount of benefit that they got from PAM Jaya. It was a tough negotiation indeed.

"I joined their first meeting at Hotel Sahid Jaya," said Lanti, referring to a meeting between the consortia and the government team. The meeting took place on 12-15 June 1996 at Sahid Jaya Hotel in Jakarta. Each delegate had five members. The PAM Jaya-Jakarta government team included bureaucrats like Prawoto Danoemihardjo, A. Lanti and Rama Boedi. PT Garuda Dipta Semesta team included Iwa Kartiwa as well as Christian Michelon and Bernard Lafrogne of Lyonnaise des Eaux. PT Kekarpola Airindo team included Fachry Thaib as well as John Blair, Lindsey Dawes, and Les Crowther of Thames Water.

PT Garuda Dipta Semesta was 60 percent owned by Salim Group and 40 percent by Suez. PT Kekar Thames Airindo, the former name of PT Thames PAM Jaya, was 80 percent owned by Thames Water Overseas Ltd. and 20 percent by Sigit's PT Kekarpola Airindo. The meeting concluded:

- They agreed that the private investors would be responsible for providing funding and meeting the technical targets;
- PAM Jaya would monitor the achievement of the technical targets, objectives, and service standards, and to make recommendation to the setting of the tariff;
- PAM Jaya would discuss with relevant government agencies the enforcement of regulations for the closure of deep water wells where pipe water is available;
- They will use a profit sharing arrangement;
- The investors would use existing assets of PAM Jaya but further discussion is needed as to the ownership of new assets etc;
- The investors agreed that 100 percent of PAM Jaya's operational employees would be transferred to the investors, and by the end of the first year, at least 80 percent of the investor's employees would be such transferred employees. PAM Jaya then had 3,053 employees of which only 250 were working in the head office (not operational staff);
- PAM Jaya would provide a list of its existing inventory of supplies and materials for the investors to consider;
- They still disagreed where to settle their dispute. PAM Jaya preferred to have it in Jakarta while the investors chose a neutral jurisdiction in a third country;⁵

The two sides spent more than one year to negotiate. The Jakarta government assigned many officials, which include Lanti, Danoemihardjo, as well as Rama Boedi, to be involved

⁵ Four-page minute of the 12-15 June 1996 meeting

in the negotiation. Lawyers, accountants, consultants, engineers, managers and bureaucrats were involved in the negotiation. "We have many meetings until we cannot count. We moved from hotel to hotel," said Lanti.

The contracts were finally signed on June 6, 1997. Each side signed a thick document around 600 pages with many charts, calculation formulas and tables. Governor Surjadi Soedirdja authorized the contracts himself. Sigit Harjojudanto also attended the signing ceremony. According to Bernard Lafrogne and Iwa Kartiwa, it was the only time they saw Sigit during the many years of this privatization process.

The concession is basically a 25-year profit sharing arrangement, authorizing the private consortia to work on many sectors, from cleaning raw water supply to collecting money from consumers. The private companies would use PAM Jaya's assets, from water installations to office buildings. But the private consortia need to pay PAM Jaya's foreign debts. They must also employ PAM Jaya's 3,000 employees.

PAM Jaya's main responsibility is to monitor the private consortia's performance. PAM Jaya would monitor the technical targets, objectives, and service standards, and make recommendation to the setting of the water tariff. Disputes should be brought to a third-country court in the neighboring Singapore.

The contract stipulated the first five years are the most crucial period. The contracts might be reviewed if the private consortia do not meet especially the technical requirements in the first five years. In 1997 PAM Jaya had 428,764 water connections and sold 191 million cubic meter of water. It served around 43 percent of Jakarta's population but 57 percent of the water was considered non-revenue water (leakage).

The contracts said in the first five years, the private consortia should be able to have 757,129 connections and to sell 342 million cubic of water. Its scope of water service should be 70 percent and the non-revenue water should decrease down to 35 percent.

Technical Targets in the 1997 Contract

	1998	1999	2000	2001	2002
Total connections	470,674	571,776	653,885	711,003	757,129
Scope of water service	49%	57%	63%	67%	70%
Non Revenue Water	50%	47%	42%	38%	35%
Sold volume (million m3)	210	244	281	317	342

Source: contract signed between PAM Jaya and the private consortia

The contracts said the private investment during the first five years should be 732 billion rupiah (US\$318 million, exchange rate 2,300 rupiah to one dollar). Water tariff should be determined by the Jakarta City Council. But automatic tariff adjustment might take place every six-months based on a complex calculation formula if the City Council does need more time to increase the tariff.

Nila Ardhianie of the Indonesian Forum on Globalization wrote in a paper presented at the World Water Forum in Japan in March 2003 that the privatization was made with an arm

twisting method and accused the World Bank to play the pivotal role. She argued that the World Bank had provided various loans on water works to Indonesia since 1968, including the \$92 million loan for PAM Jaya in 1991, but ironically, when the project was finished in 1998, privatization took place. Asset management and operational management were all transferred to the two companies. "This meant that PAM Jaya was not given the chance to use the assets built with the loan," she said.⁶

Nila got the point. In October 1997 a World Bank team headed by economist Alain Locussol published a report entitled *Indonesia Urban Water Supply Sector Policy Framework*. Locussol recommended some policies to privatize most of around 300 water companies throughout Indonesia. He suggested the Indonesian government to separate "ownership of assets from their management," meaning that the local administrations might own the water assets but not to manage the water distribution.

He argued that the separation could limit "ad-hoc local political interference" in the water management. It might also facilitate implementation of "performance contracts" and the involvement of private companies in the delivery of water supply service. It would also allow "managing companies" to group themselves to more efficiently address issues common to adjacent water supply systems

It drew criticism from Stephanie Fried of the Washington-based Environmental Defense Fund. Fried wrote a paper in which she questioned Locussol's report. "At no point in the 54-page analysis is there mention of the names of the owners of the 'two private consortia,'" Fried wrote.

Locussol did not mention the fact that PAM Jaya had been handed over to Sigit and Salim. "Who owned the two private consortia referred to throughout the Bank's report?" Fried questioned.

Fried described that PAM Jaya had received the \$92 million loan for six years from the World Bank but Locussol did not mention the financial and legal consequences of the privatization. "Given the Bank's anti-corruption efforts in Indonesia, why was no detailed analysis of the implications of the takeover of the Jakarta water supply provided in the Bank's *Implementation Completion Report* –other than statements to the effect that that the 'privatization' was facilitated by the Bank project, was likely to further development objectives, and that the private companies might be successful in lobbying?"

Many PAM Jaya negotiators agreed with Nila's and Fried's argument, saying that the private consortia had asked either Sigit Harjojudanto or Anthony Salim to intervene when they found difficulties. The management of the escrow account, for instance, theoretically was owned by both the consortia and PAM Jaya, but were made under the private consortia control only. The private companies controlled the bank accounts.

Achmad Lanti said the pressures were obvious when they were stumbling at difficult chapters. He said Governor Surjadi had even threatened to resign if the foreign companies insist to charge PAM Jaya in American dollars, instead of Indonesian rupiah. But the private consortia bowed to the pressure and agreed to settle in rupiah.

⁶ Nila Ardhanie, "The Role of International Financial Institutions in PAM Jaya Privatization, Indonesia" in *Truth behind Water Privatization* published during the third World Water Forum in Kyoto, Shiga and Osaka, 16-23 March 2003.

But Surjadi agreed to have a clause that says if a shortfall takes place between what the consumers pay and the private consortia spend, and the City Council still need time to discuss the new water tariff, the tariff is to increase automatically.

Nila wrote that the privatization brought many problems, ranging from the labor issues to ownership, "It is worried that when the concession term is over, PAM Jaya will no longer have assets since it will be used to pay these debts."

When I asked Lanti about the activists' view, he just smiled, a bitter smile.

III

SUHARTO was born in June 1921 in the small village of Kemusuk on the Indonesian main island of Java. He grew up in a peasant family and lived an ordinary life. In the early 1940s he joined a Japan-sponsored militia organization. But Japan lost the World War II and Suharto became a freedom fighter. He fought against the Dutch colonial army, whose government was trying to retake the Dutch Indie. In 1949 freedom fighters in the Dutch colony gained the international recognition as an independent state and declared the establishment of the Republic of Indonesia under the charismatic leadership of President Sukarno.⁷

But Sukarno was not an efficient manager. He united the culturally-diversed country but failed to sustain enough economic growth to feed his people. Sukarno also tend to give way to the left leaning movement in this world's largest Muslim country. It was a risky position indeed. In 1965, at the height of the Cold War, Major General Suharto grabbed power from Sukarno. Suharto's military regime killed more than 500,000 Sukarno supporters. Suharto concentrated power into his own hands. He invited the World Bank to help direct Indonesia's development and opening Indonesia's huge markets and vast natural resources to foreign companies.

In the 1970s Suharto appointed his cronies, mostly Chinese-Indonesian businessmen like Sudono Salim, the founder of the Salim Group, to spearhead Indonesia's economic development. Their businesses boomed along with the exploitation of Indonesia's oil reserve. Indonesian economy grew about seven till eight percent annually that decade.

In the late 1980s, as the six Suharto children were already grown up, he began to put much of Indonesia's big businesses in the hands of his children that include Sigit Harjojudanto. When he was younger, Suharto asked business tycoon Sudono Salim to train Sigit and his siblings to become business people. Salim simply gave them shares in some of his companies.

In Suharto's Indonesia, foreign companies usually found difficulties to make major investment without first building partnership with the Suharto cronies. It was needed to overcome bureaucratic hurdles. The Suhartos were sleeping partners. They just rented their influence. But Suharto kept an efficient government. Opposition parties were repressed and the press was censored. Nobody could challenge Suharto for nearly three decades. Critics said Suharto ruled Indonesia like a Javanese sultan.

But in July 1997, or one month after the consortia signed the contract, currency speculators attacked Thailand's bath and later the Indonesian rupiah. The Asian crisis began and a political crisis appeared in Suharto's Indonesia. Riots broke up in many places over price increases of rice, cooking oil, sugar, milk et cetera. Some months later, knowing that he needed an international back up, Suharto invited the International Monetary Fund to help

⁷ "Otobiografi Soeharto: Pikiran, Ucapan dan Tindakan Saya" as told to G. Dwipayana and Ramadhan K.H, PT Citra Lamtoro Gung Persada (1988)

his government. But his children and relatives, however, resisted many IMF recommendations, which include closing down their unhealthy banks. It deepened the crisis.

In October 1997, Suharto appointed Sutiyoso, a former Jakarta military commander, to replace Governor Surjadi Soedirdja. It produced a new atmosphere in the water circle. Unlike the cautious Surjadi, the less experienced Sutiyoso did not hesitate to look after the Suhartos' interest to get his own advantages. Home Affairs Minister Yogie S.M. soon authorized the contract. It was only a matter of time prior to the starting of the privatization.

In the wee hour of February 1, 1998, amidst the heightened political tension, the water contract became effective. Fifteen PT Kekar Thames Airindo executives, both expatriate and local, immediately visited PAM Jaya offices and water installations throughout eastern Jakarta that they were to control. "I was very happy. John Hurcom did the touring until morning," said Rhamses Simanjuntak, a PT Kekar Thames Airindo executive, referring to his British boss.

Meanwhile the Asian economic crisis became more and more difficult. Suharto tried every move to defend his power. His adventurous son in law, Lt. Gen. Prabowo Subianto, ordered his men to kidnap, torture, and allegedly killed many activists. Suharto's children increased the media campaign. In early May 1998, four students were shot death in a Jakarta rally. It provoked a nationwide campaign against Suharto.

Students began to occupy the parliament building. More politicians opposed Suharto. Journalists also took side. Many television executives ignored their censorship instruction. PAM Jaya employees joined the protest. The parliament finally asked Suharto to step down. Suharto was cornered.

Finally, on Thursday May 21, 1998, in the Merdeka palace in the heart of Jakarta, Suharto read a short statement in front of TV cameras. He said he was turning over his presidential power to his protégé and vice president, B.J. Habibie. In a somber tone, the ashen-faced leader said, "I have decided to hereby declare that I withdraw from my position as the leader of this Republic of Indonesia effective immediately."

Many Indonesians were stunned watching that nationally-broadcasted speech. The then 78-year-old Suharto had ruled this world's fourth most populated country for 33 years. B.J. Habibie, a German-educated airplane engineer, was immediately sworn in and Suharto quietly withdrew into an awaiting limousine.

Outside euphoria began to come into sight. Thousands of student protesters, who were occupying the parliament building some kilometers away from the Merdeka palace, wept into tears. The more energetic students cheerfully jumped into a large fountain pond, celebrating their triumph, crying, laughing, and crying again. It reverberated throughout the archipelago.

The atmosphere was slightly different across the parliament. In the PAM Jaya head office, its managers were jubilant but worried about something else. Fire razed many Jakarta buildings. Thousands of shopping centers, houses, and office buildings, especially those belong to Chinese-descent Indonesians, who are widely discriminated against in Indonesia, were looted and burned. More than 2,500 people died, mostly looters trapped in burned structures. Rumors spread that Chinese women were molested and even raped. Jakarta became a war zone.

"What will happen if the riots went on? Could we imagine Jakarta without water?" recalled PAM Jaya president Rama Boedi, who slept in his office during the preceding one-week riots.

Rama is an environmental engineer by training. He is also a muscular martial art lover and got the nickname “Rambo” –after Sylvester Stallone’s Hollywood movie character and also the abbreviation of his name’s first two syllables. This Rambo received many phone calls from several PAM Jaya managers, asking him what they should do.

“I have only three days of chemical stocks (to purify water). Should I stop the water supply?” asked one water installation manager.

“Sir what should I do?” asked another.

It was not easy for Rama to answer. His hands were tied. Just three months earlier, PAM Jaya’s operation was handed over to the consortia.

PAM Jaya managers were worried because the French and British executives had all escaped Jakarta. Many western embassies, including the French and the British, have earlier urged their citizens to leave Jakarta. Lyonnaise des Eaux and Thames Water executives also rushed to flee Jakarta, believing their local partners would be able to manage operation in their absence. “They even did not telephone me,” said Rama.

Rama decided to send a report to his boss, Governor Sutiyoso, on Friday. Sutiyoso right away issued a written instruction, asking Rama Boedi to take steps to secure water services and “if necessary to fully take over the operation to fill in the vacuum.”

The following day Rama invited Iwa Kartiwa and Fachry Thaib, respectively the presidents of PT Garuda Dipta Semesta and PT Kekar Thames Airindo, with their executives, to come to the PAM Jaya headquarters.

The meeting started at about 10 am and held around a round-table. More than a dozen PAM Jaya executives and managers attended the meeting. Outside the meeting room, PAM Jaya employees were staging a rally. “The situation was very tense,” recalled Efendy Napitupulu, a PAM Jaya manager, saying that he saw some men inside and outside the meeting room with pistols inside their jackets.

Rama recalled that he began by briefing Iwa and Fachry about Sutiyoso’s instruction and asked them to sign a document handing over the water operation back to PAM Jaya. He cannot hide his disappointment toward the British and French executives. A debate took place between Rama and Fachry Thaib.

“Are you crazy? Where are your men?” shouted Rama.

“In Singapore.”

Iwa and Fachry tried their best to be calm. Fachry already moved into a five-star hotel to avoid looting in his housing area. Anti-Suharto euphoria was running high. Iwa and Fachry apparently realized their new positions. They were the hunted Suharto cronies.

Rama Boedi took the initiative to ease the tension by bringing Iwa and Fachry into his office adjacent to the meeting room. Some key staffers accompanied Rama. Fachry and Iwa finally agreed to sign a prepared draft, officially handing over the water operation back to PAM Jaya.

At 3:05 pm they left the room. Iwa, Fachry and their peers used a back door to avoid the protesting employees.

“By Saturday the operation was already in my hands,” recalled Rama Boedi.

The next Monday more than 3,000 PAM Jaya employees gathered in their head office, praising Rama Boedi and chanting, “Long live Rambo, long live Rambo.”

Rama delivered a speech in front of the employees, "It is better for us to end the collaboration with our private investors as it does not utilize the employees of PAM Jaya. I hereby declare that I cancelled the collaboration."

"Long live Rambo, long live Rambo," chanted the employees who put him on their shoulders.

It did not last long. The British and the French expatriates considered the take over illegal. Lyonnaise des Eaux called it "coup d'Etat" in an internal report. As soon as the foreign expatriates returned to Jakarta, they demanded PAM Jaya to honor the contract.

John Hurcom and Bernard Lafrogne considered the signing was made under pressure. It was not valid. Hurcom and Lafrogne, however, realized that they should be more realistic. They saw the rising anti-Suharto sentiment everywhere. People raced to take off anything that signed their once cherished link to the Suhartos. Governor Sutiyoso himself made a drastic U-turn, trying to get rid of his Suharto connection. During the Suharto period, the Suharto connection was considered to be an asset. Now the connection became a liability. Sutiyoso said that the foreign companies might retain their contracts if only they were to abandon Salim Group and Sigit Harjojudanto.

Rambo was sandwiched between his boss and the two foreign giants. On June 1, 1998, exactly one week after his triumphant speech, Rambo helplessly signed another document that stipulates the two foreign companies will buy the shares of the Suharto cronies. The two foreign companies would leave Salim Group and PT Kekarpola Airindo. But they agreed to renegotiate the contract, admitting that the first contract was unfairly made. Rambo was helpless.

Zainal Abidin, a union leader in PAM Jaya, said the workers lost their trust in Rama that day, "Last week we thought he is a hero. He made a fiery speech, saying that we must defend PAM Jaya. We have to do this, we have to do that. Many of us put him on our shoulders. Now he is returning the company back to the foreigners. What the hell he is doing."

"Rama Boedi must be highly frustrated. He is a PAM Jaya official since his graduation day. His dream was to become its president. He thought that he could develop PAM Jaya and make PAM Jaya into a better company. When he finally became president, the company was privatized. Psychologically he is not happy," said Lafrogne.

Lafrogne personally felt sorry for his Indonesian partner. He considered Iwa Kartiwa an honest man, humble and very professional. "He was really sad when his pet project was taken away," Lafrogne recalled, adding that Salim Group initially wanted, on top of all their highly profitable companies, to contribute something to the people of Jakarta. Anthony Salim thought the water service was an ideal choice. But Suharto was gone and life must go on without him ... and his cronies.

IV

DRIVING along on one of Jakarta's roads toward its eastern border, you have to struggle with reckless bus drivers, noisy minibuses, traffic jam, careless motorists, and chaotic intersections, to reach a long road which runs the length of the small Kali Malang river in eastern Jakarta. This drive takes you straight into one of the three largest water installations in Jakarta. It is locally known as the Buaran water station which is basically a huge complex with many military-like buildings, large water tanks, various sizes of pipes, and full security. I went there one early morning last December to meet Taufik Sandjaja, a leader of the Indonesian Drinking Water Labor Union (SPAI), along with some of his colleagues.

SPAI is the largest of four unions that operate in PAM Jaya. They gathered in a tiny two-room office next to a small kiosk which sold soft drinks, snacks, aspirins, and cigarettes. A lady who takes care of the kiosk served me a cold bottle of jasmine tea. Meanwhile, these activists chain-smoked during our interview. "I'm more and more dependent on the cigarettes. You know I have so many problems," complained Efendy Napitupulu, another SPAI leader.

Napitupulu and four other SPAI activists were earlier fired by the management of PT Thames PAM Jaya, the new name of PT Kekar Thames Airindo, without clear reasons but apparently because of their activism. But the five workers, some of whom were highly educated, Napitupulu himself is an MBA, challenged the decision at a labor arbitration court and won. Napitupulu and the others were now "transferred" from PT Thames PAM Jaya back to PAM Jaya for a "re-education program" but without any specific job to do. The five were not the only ones. Many other activists also saw their monthly pay delayed. In one case, a unionist had his wage delayed for 16 months. Another leader did not attend the meeting as he had just got a stroke.

Activists like Napitupulu and Taufik were the ones who organized most of the union activities since the fall of President Suharto in May 1998. They organized street rallies, sometimes even welding the gates of PAM Jaya's storage houses, to protest the private consortia. They also pushed PAM Jaya management to get tough with the consortia. Last year more than 1,000 PAM Jaya employees even filed a law suit against PAM Jaya, for putting their job in jeopardy, as well as the two private companies. The case is still being heard at the Central Jakarta court.

"We lost counts on the number of the rallies," said Taufik. Their actions obviously attracted media attention. Taufik usually fed background information to reporters. He also visited media offices to brief their editors about the PAM Jaya saga.

An angry union leader even threatened Lafrogne with a knife. Lafrogne reported this to the police. Idris Mansuri of another union denied that he was serious in that incident, saying that it is a "normal practice" among Jakartans to bring knives. Police closed the case after Idris had apologized to Lafrogne.

This was the new unfriendly environment that RWE Thames Water and Suez's Ondeo must face in the post-Suharto period. Indonesia was no longer an authoritarian country. Anthony Salim and Sigit Harjojudanto were gone and the unions became much muscled. They had to renegotiate their 1997 contract.

President B.J. Habibie himself did not take much attention into the PAM Jaya privatization process. Habibie was occupied with many more critical issues which include the East Timor question and the Indonesian first post-Suharto election. In 1999 Habibie permitted the United Nations to conduct a referendum in the former Portuguese colony occupied by the Suharto regime since 1975. The East Timorese voted for independence. Meanwhile, Aceh in the northern tip of Sumatra opened a serious armed rebellion. The Papuan people in the easternmost province of Indonesia also demanded independence. Habibie had also to tackle allegations that he was a Suharto protégé who refused to bring Suharto to justice.

In October 1999 Habibie lost the presidential race to Muslim cleric Abdurrahman Wahid. Indonesia entered a much more complex democratization period. Wahid is a liberal intellectual and pro-democracy activist but not a good manager. Wahid ordered much democratization drives. He fired hard-line generals and even promised referendum in Aceh. He talked with rebels over the phone and listened to their needs. Wahid survived 20 months in

office prior to an impeachment that unseated his presidency in July 2001. His deputy, Megawati Sukarnoputri, took over the executive seat. Hamzah Haz, then a minister, became the vice president.

What began as a protest against the privatization has later focused on wage issue. President Wahid issued a wage increase among civil servants during his rule. PAM Jaya employees considered themselves “civil servants.” Now that they worked for RWE Thames Water and Ondeo, they found out that their incomes were 30 percent lower than their colleagues’ paycheck who still worked for PAM Jaya. “We realized that those 200 who were at PAM Jaya were given better benefit,” said Napitupulu.

Continued rallies disrupted the new management. Governor Sutiyoso fired Rama “Rambo” Budi, who was thought to support the protests. The new democratically elected parliament also threw their support to the workers.

In December 1999, Edy Waluyo, the speaker of the Jakarta parliament, sent a letter to Sutiyoso, saying that the renegotiation with the foreign consortia should be conducted until February 2000, “If the negotiation cannot be settle by February 1, 2000, the cooperation should be cancelled.”

Sutiyoso hurriedly asked his men to speed up the renegotiation. The new team managed to move faster, persuading the reckless parliament to tone down their demand. Sutiyoso also refused to increase the water tariff. Water is a sensitive political issue. Sutiyoso dare not to provoke public anger when his own existence, as a former Suharto protégé, was widely questioned.

On February 28, 2000, when it was already clear that the negotiation couldn’t be finalized, Edy Waluyo sent another letter, giving Sutiyoso two more months to negotiate. Sutiyoso also agreed to a water tariff increase by 35 percent in April 2001. The second negotiation became as long as the first one. Only on October 22, 2001 that the second, arguably much better contract, was signed between PAM Jaya and the consortia.

The two foreign companies changed their names. Both PT Thames PAM Jaya and PT PAM Lyonnaise Jaya were 95 percent owned respectively by their parent companies in London and Paris. Indonesian companies, respectively PT Terra Metta Phora and PT Bangun Cipta Sarana, owned only five percent shares. The two Indonesian minority shareholders are sub-contractors of the two consortia.

The second contract included 13 major changes. Initially the private consortia controlled the joint bank account themselves. The private firms could retrieve money from the joint account without PAM Jaya’s approval. Priority of the account usage is for the operational costs of the private firms. PAM Jaya cannot inspect their financial report. It was changed. A regulatory body was also set up. Its first head is no one but Achmad Lanti, the retired civil servant, who used to be involved in the first negotiation.

Differences between 1997 and 2001 contracts

	June 1997	October 2001
	PAM Jaya is responsible to close deep wells widely used in Jakarta among hotels and factories	Consortia should close the wells with the Ministry of Mine and Energy
Procurement	Open tender for the procurement above US\$5 million. Small PAM Jaya contractors protested this	Open tender above 500 million rupiah (around \$50,000 with current rate)

	clause.	
Raw water supply	PAM Jaya acted as the raw water supplier to the private companies, if PAM Jaya cannot meet the requirement, the private companies could get raw water from others and PAM Jaya has to pay the difference.	The private companies deal directly with the state-owned Perum Jasa Tirta, PDAM Tangerang, and PDAM Bogor, raw water supplier around Jakarta. The private consortia will pay PAM Jaya for the differences that PAM Jaya had to pay the private firms between February 1, 1998, and the signing of the new contract.
Employees	PAM Jaya employees remained working under PAM Jaya status (civil servants) but seconded to the private firms.	PAM Jaya employees will be the private firms' employees. A panel to mediate labor dispute will be set up. Massive dismissal is likely to take place.
Supervision	PAM Jaya cannot retrieve data from the private firms, no clear sanction if the private firms do not meet the targets, not clear who supervises the private firms, only independent auditors could audit the private firms.	A new independent regulatory body, along with PAM Jaya, could audit the private firms, there are sanctions and penalties if the private firms do not meet or late in meeting the requirement.
Escrow account	The private firms could retrieve money from the joint account without PAM Jaya's approval. Priority of the escrow account usage is for the private firms (operational costs).	The private firms could retrieve money only with PAM Jaya approval and the priority is to pay PAM Jaya debts.
Water charge	Water charge increase automatically every six months with the approval of the Jakarta parliament and if there is a delay, the short fall will be paid by PAM Jaya, no early warning system to remind PAM Jaya that there is a short fall.	New tariff is to be recommended by both PAM Jaya and the private firms to the new Regulatory Body. The body will deal with the parliament in increasing the new water charge. The previous short fall will be audited by the state BPKP auditing company and the private firms will pay.
Dispute	Three level mechanism: seeking compromise, mediating by experts, and international court in Singapore	Four level mechanism: seeking compromise, mediating by the Regulatory Body, mediating by experts, and court settlements both in Jakarta and Singapore
Regulatory Body	PAM Jaya supervise the private firms	PAM Jaya and Regulatory Body supervise the foreign consortia.

Source: Contracts 1997 and 2001 between PAM Jaya and private consortia.

PAM Jaya employees, however, were hit the hardest in the second agreement. The contract stipulated that the private consortia would use a “single status,” meaning that PAM Jaya’s employees have to choose: either to be employed by the consortia or to have “golden shake hand” –an euphemism for dismissal. In another word, they were very likely to have big dismissal. “I began suspicious after knowing our working status,” said Efendy Napitupulu.

Bernard Lafrogne said in 1998 they began to work with the ratio of 7.72 workers per 1.000 water connections. By 2001 the ratio was already down to 4.71 workers. “If we take a look at Malaysia or Manila, around three is enough, to make the company more efficient.”

Taufik Sandjaja told me that as of December 2003, the number of employees have decreased from 3,000 to 2,200, adding that most of those who left PAM Jaya had agreed to take the severance pay. But 1,110 of the remaining 2,200 filed a law suit against PAM Jaya and the consortia at the Central Jakarta district court.

While meeting the activists in their tiny office in Buaran, I kept on asking them which one of the two operators is better. It was a difficult question indeed as the two companies work pretty closely and communicate periodically. But the activists in average said that Suez’s Ondeo understands the local people and the local culture better than RWE Thames Water.

I asked them what the different between the old Thames Water and the new RWE Thames Water managements. “There are some progresses after the RWE take over. They still use the old policy but they try to set up a community within the employees. They try to build a better working atmosphere although finally it is still the golden shake hand policy,” said Taufik, himself is a marketing official at Suez’s PT PAM Lyonnaise des Eaux.

Ponimin, another SPAI activist, said that the policy did not change much, “We filed a law suit over their manpower policy. It was purely our idea. We have been through with all proper arbitration procedures, including the Ministry of Labor, the Governor office, the City Council, the Regulatory Body, but no results. So the law suit is the answer.”

In an apparent bid to overcome their activism, Taufik offered another example. He was once “offered” to head the “industrial relations department” at PT Thames PAM Jaya. “I declined of course,” he said, “Should I betray my own colleagues?”

He answered that question himself, “I think I should not.”

V

RHAMSES Simanjuntak works in a spacious room on the 29th floor of Danamon Aetna building in Jakarta’s most expensive business area. He is a well build middle-age man with greyish hair. When I met him last December, he was working on a small laptop next to his neatly-organized working desk. “Please take a sit and let me finish my work,” he said, excusing himself for about 10 minutes while I sat there looking at his back and at a water distribution map on the wall.

Simanjuntak is one of the most influential water figures in Jakarta. He is a director of PT Thames PAM Jaya in charge of “external relations and communication,” meaning that he deals with government officials, water regulators, the NGOs, as well as journalists like me. He was the only Indonesian who sat on the boards of directors at the consortia.

Simanjuntak is an accountant by training but in August 1996 he made a big switch that would change the rest of his life. He then decided to join PT Kekarpola Thames Airindo, the joint venture which was 80 percent owned by Thames Water and 20 percent controlled by Sigit Harjojudanto.

"I just tried to find work and I joined this project. That's simple," said Simanjuntak, adding that his entry into the firm had immediately brought him into preparing the privatization of PAM Jaya, making him to deal with many Jakarta administration officials. Simanjuntak also helped Fachry Thaib, Sigit's point man, in working on the calculation of the privatization.

He witnessed the takeover of water operation in Jakarta in February 1998 as well as the ensuing crisis that climaxed with the fall of President Suharto. The soft-spoken Simanjuntak always survived. He maintained his position at PT Thames PAM Jaya when other Indonesian executives, including Fachry and Iwa Kartiwa, had left the water business.

Efendy Napitupulu said Simanjuntak had begun this rise by "riding Mikrolet" and now he drives an expensive "Land Cruiser," as if trying to say that Simanjuntak's social status had increased impressively since moving into water business. Mikrolet is Jakarta's cheapest public transport vehicle.

According to Budi Saroso, an associate to Fachry at PT Kekar Thames Airindo, "Rham-ses did not join (the project) since the beginning. He joined us in the middle of the negotiation. His expertise is finance. But he answered to Thames Water, not to us, because finance was controlled by the Thames people."⁸

Simanjuntak stressed that RWE Thames Water has a long commitment in Indonesia, saying that the Jakarta water is their only and biggest project in Indonesia. They want to be focused, "Even during the economic crisis and political instability, Thames Water's commitment was tenaciously maintained." He told me that his company tried to maintain their commitment since signing the contract in 1997.

RWE Thames Water also indirectly invest in PT Ballast Indonesia Constructions, an Indonesian company jointly owned by Ballast Nedam International BV of the Netherlands, Hochtief AG of Essen, Germany, and PT Pana Perma of Jakarta. It works on some construction projects throughout Indonesia.

Thames Australia, the Australian arm of RWE Thames Water, is also involved in the construction and maintenance of a waste water treatment plan for copper mine Batu Hijau in eastern Indonesia. A similar project took place in the Paiton power plant in eastern Java, about 800 kilometers east of Jakarta, where Thames Australia constructed a seawater desalination plant for the power station.

Rham-ses Simanjuntak said that RWE Thames Water have other businesses in the region, directed either from Singapore or Australia but those businesses were relatively small to be compared with the investment at PT Thames PAM Jaya.

According to Simanjuntak, PT Thames PAM Jaya has invested 590 billion rupiah (around US\$60 million in July 2004) since its first operation in 1998 to the first quarter of 2004, saying that it plans to invest 140 billion in the financial year of 2004 or more than one trillion rupiah by 2007. In Indonesian rupiah, it was more than what the 1997 contract demanded which was half of 732 billion rupiah in the first five years. But it was less if counted in US dollar which was half of the US\$318 million at the exchange rate of 2,300 rupiah to one dollar in 1997.

When I asked Simanjuntak about why Thames Water should cooperate with Sigit Harjoju-danto in the first place and use Sigit's influence in the negotiation, he quickly rejected the

⁸ Interview on January 18, 2004 by phone

arm-twisting notion. He said the negotiations were just tough, “If there was such a privilege, why should we negotiate for one full year?”

By December 2003 or the end of their first five of 25-year contract, the private firms have consolidated much of their operation. They began to increase the working spirits in many former PAM Jaya offices. They drastically reduced the number of their employees. They also cooperate with BCA, Indonesia’s largest private bank, to enable their customers pay their water bill through ATMs.

RWE Thames Water faced an embarrassing problem when their World Bank-financed project in the slum area, Marunda, in northern Jakarta, had gone disorder. The company initially claimed that it had served the people living in the Marunda area with “clean, affordable water supply.” Its website claimed, “Our project to supply the community of Marunda has been used by the United Nations Economic and Social Commission for Asia and Pacific as a case study for research into water provision for the poor.”

RWE Thames Water built distribution pipes into Marunda. The residents paid the installation fees on subsidized prices. Jakarta media quoted residents as saying that middlemen also appeared in the water distribution in which they have to pay higher water prices. But low water pressures prompted the residents to protest. In July and August 2003 many Marunda residents held street protests over their poor water services. The residents went to the Jakarta parliament and complained about poor water pressure. The frequent protests finally prompted the Jakarta government to order PAM Jaya and PT Thames PAM Jaya to deliver water with trucks –despite the construction of water pipes. RWE Thames Water built the pipes without calculating the lack of water pumps.

According to data from the Regulatory Body, both RWE Thames Water and Odeco had increased the water connection from around 428,764 in 1997 to almost 650,000 in December 2003. The scope of water service has also increased from 43 percent in 1997 to 53 percent in 2003. Its sales increased from 191 million to 255 million cubic meter.

Simanjuntak said PT Thames PAM Jaya had particularly increased the connection in eastern Jakarta from 268,000 in 1997 to 320,000 in 2001 and later 336,550 in 2003. It meant that it had increased 26 percent in five years.

In general the service is better, especially in middle-class and elite neighborhoods in Jakarta such as Pondok Indah and Kemang. By the end of 2002, the consortia has more or less reached their respective target in Jakarta based on the new contract signed in 2001. Suez performed a little bit better than RWE Thames Water in terms of having more new water connections, reducing non revenue water, as well as selling more water. Officials from PAM Jaya and the Regulatory Body said that the 2001 contract is “more realistic” than the 1997 contract, adding that both companies could deliver what they had signed in the 2001 contract.

Comparison between the 2002 water target in the 2001 contract and the consortia’s achievement at the end of 2002

	Total target of the 2001 contract for 2002		Total achievement of the consortia in 2002	
	Thames Water	Suez	Thames Water	Suez
Total connections	335,413	301,048	336,550	312,879

Scope of water service	62%	45%	62.17%	44.17%
Non Revenue Water	43.03%	47.72%	48.28%	45.3%
Sold volume (million m3)	131.32	118.73	128.96	255.16

Source: Contract in 2001 and data from Regulatory Body in 2003

But the consortia did not meet the technical targets if their 2002 performance is to be compared with the initial 1997 contract. They did not meet targets such as total connection, scope of water service, non revenue water, and sold volume. The sold volume by December 2003 was 255 million cubic meter of water. It was under the 1997 target of 342 million. They managed to service 53 percent of Jakarta's population when the target was 70 percent. They managed to push the level of non revenue water down to 47 percent but the target was 35 percent.

Achmad Lanti of the Regulatory Body said around 40,000 until 45,000 of the total 623,000 connections have poor services, ranging from no water at all to low water pressures like Marunda. "In many cases the water was available only two until three hours per day," Lanti said. In short, in terms of quality and quantity, the consortia did not meet the targets. "I told them so but they argued back to the extend that now we are inviting international experts to come here and to evaluate their performance."

Comparison between the 2002 water target in the 1997 contract and the consortia's achievement at the end of 2002

	Total target of the 1997 contract for 2002	RWE Thames Water	Suez	Total achievement of the consortia in 2002
Total connections	757,129	336,550	312,879	649,429
Scope of water service	70%	62.17%	44.17%	53.17%
Non Revenue Water	35%	48.28%	45.3%	46.79%
Sold volume (million m3)	342	128.96	126.2	255.16

Source: Contract in 1997 and data from Regulatory Body in 2003

Their spending also raised criticism. Atjeng Sastrawidjaja of Jakarta's audit agency wrote in a May 2000 report that the operational costs of the consortia were just too high. They rented new offices in two buildings in Jakarta's business district areas, which include Simanjuntak's office, rather than using PAM Jaya existing assets. The salaries of the foreign executives are relatively high for expatriate standard.

Some of the expatriates were paid around US\$100,000 annually excluding their fringe benefit which includes cars and family support. They live luxurious life in Jakarta's elite areas with big houses, servants, and expensive school fees for their kids, reminding some PAM Jaya people to the old Dutch colonialism in this archipelago. "It's impossible to men-

tion names but the number \$100,000 could be seen in their budget proposal,” said Alizar Anwar, the executive director of the Regulatory Body.

Simanjuntak defended such policies, saying that the rent of the buildings is relatively cheap because of the devalued rupiah, “People say that we pay too high or we have luxurious cars. But we have to realize that they’re expatriates. It is normal to provide them with the facilities that they have back in their home countries.”

The cross subsidy policy also does not help much on the grounds that the biggest percentage of water consumers are those which are categorized to be “ordinary households” –in average 30 percent throughout Jakarta. The biggest consumer group in Suez’s area is a category which include star-hotels, motels, nightclubs, cafés, banks, service stations, high-rise buildings, condominiums, chemical industries, warehouses, entertainment centers, and factories (25 percent). But the biggest group in RWE Thames Water’s area was ordinary households (42 percent). PAM Jaya officials understand why RWE Thames Water’s performance is relatively weaker than their French colleagues.

Water Tariff in Jakarta (in Indonesian rupiah)

Group	Less than 10 meter cubic	Between 10 and 20 meter cubic	More than 20 meter cubic
Group 1	500	500	500
Group 2	500	500	900
Group 3-A	2250	3000	3500
Group 3-B	3250	4000	5000
Group 4-A	4750	5750	6750
Group 4-B	9100	9100	9100
Group 5 Special	11000	11000	11000

Group 1 includes houses of worships, orphanages, social dormitories, public hidrance

Group 2 includes public hospitals, poor households, water trucks

Group 3-A includes ordinary households

Group 3-B includes middle households, kiosk, small workshops, nonprofit organization, home industries

Group 4A includes upscale households, embassies, government offices, business companies, military facilities, restaurants, service offices, medical facilities, privately-owned hospitals, small industries, non-star hotels

Group 4B includes star-hotels, motel, nightclub, café, banks, service stations, high-rise buildings, condominiums, ice industries, chemical industries, warehouses, textile, entertainment centers, factories

Group 5 Special – Tanjung Priok seaport

When I asked him about the meeting that Ambassador Richard Gozney had with Vice President Hamzah Haz, Simanjuntak said that he had no prior knowledge about it, adding that it should be the idea of his boss John Trew. But Simanjuntak stressed the logic for an increase, “The adjustment to the water price is needed to cover inflation, which has caused increases in electricity, chemicals and manpower, as well as investment costs.”

Lanti also supported the price hike on the grounds that the consumer price index (CPI) had increased 156 percent from February 1998 to January 2004. Meanwhile, the previous price hikes, 18, 35, and 40 percent, were still lower than the index. The CPI index measures the prices of consumer goods and services. It is a measure of the pace of inflation.⁹

⁹ Interview with Achmad Lanti 30 December 2003.

But Lanti questioned the operational expenses of the consortia whether they are really reasonable, saying that it is extremely difficult to build trust in the ongoing cooperation. Both PAM Jaya and the consortia officials distrust each other even on basic data. Worse than that, the two parties, especially the consortia, also distrust the Regulatory Body to the extent that the two of them had agreed to invite a third party, a team of "international experts" to come to Indonesia and to calculate everything.

One of the disputes was mathematics. PAM Jaya stated that its total debts to the consortia were around 600 billion rupiah (around US\$70 million with the January 2004 rate) while Thames Water and Ondeo claimed the debt to total Rp 990 billion (around US\$116 million with the January 2004 exchange rate).

"An audit report by the Development Finance Comptroller (BPKP) stated that the operator's debt was smaller than what has been claimed by the two foreign partners," said Lanti.

In the 2001 contract, the two parties agreed that if they have a dispute, they would have a four level mechanism: seeking compromise, mediating by the Regulatory Body, mediating by international experts, and court settlements both in Jakarta and Singapore. The Regulatory Body issued reports on operational expenses in 2001 and 2002 but always being challenged by the consortia. "It's okay right to argue? We have our own reasons," said Si-manjuntak.

It prompted the two parties to seek the third mechanism: international experts. "We are now introducing a system, a public service, water in a website, so that the public could see whether there are better services or worse. We would update the database on the Internet," said Lanti.

Sutiyoso rarely speaks his opinion on the controversy but once he told journalists that he had hired consultants from Singapore to study the contract. The consultants reportedly showed that eleven points of the 2001 contract had clearly benefited the consortia, "One of the points was that the water charges should be increased in every six months."

Rama Boedi said he did not oppose privatization. But it should be better planned. He thought President Suharto was moving in a hurry. In hindsight, Rama felt sorry that the two giant firms which had decided to take the narrow-minded approach by collaborating with Suharto cronies. "They are already big companies, they need not to do that to twist our arms in the first negotiation," Rama said.

But executives like Bernard Lafrogne are not villains as well. Lafrogne is familiar with Indonesia. He believes that local involvement is an important method for combining water business. Ondeo brought in its know-how and the Indonesians have the local touch. RWE Thames Water also has difficulties to keep maintaining its presence in Jakarta. It is like jumping from a frying pan to the fire, from an authoritarian regime of Suharto, in which it had to cooperate with notorious business dealer like Sigit, to a democratic but entirely chaotic government of Indonesia, in which it must deal with not only various government agencies but also labor unions, political parties, and other pressure groups. The consortia do not only invest in money but also a huge of their worldwide reputation. A failure in Jakarta might create a domino effect in other parts of the world where they also have their water investments.

Is it possible to end this controversial "profit sharing" agreement? Lanti explained that the Jakarta government might have to pay three trillion rupiah (around US\$352 million in the January 2004 exchange rate) to reimburse the investors' total investment costs and losses, as well as to pay 50 percent of projected profits for the remainder of the contractual term.

"The penalty figure is only estimation. The actual figure must be agreed upon by both parties, if and when a party decides to end the agreement," he said. But a legal dispute might also cost so much money.

Prior to leaving his office, I asked Simanjuntak what he likes about this water business. "Everybody needs water. This is my commitment. I want to retire here. The working situation is so diverse. You deal with private companies, the parliament, and the executives. It is an interesting business."