World Bank and ADB's Role in Privatizing Water in Asia

By P. Raja Siregar /KAU- Indonesia

Introduction

An estimated 1.1 billion people in the world do not have access to safe water; 2.4 billion in the world do not have access to adequate sanitation. The poor, especially in developing countries, have suffered most from water shortages.

In many developing countries, the majority of poor villages and urban slums are not yet served by the piped water system. Often, alternative water sources of the poor are polluted rivers, lakes and shallow hand-dug wells. Some are dependent on street vendors, which costs more than paying fees for piped water. Middle class consumers in many countries pay subsidized rates, becoming burdens to government and preventing the expansion of water infrastructure for the poor.

The World Bank and the Asian Development Bank (ADB) themselves recognized that the poor suffers most from water shortage. The Bank also agrees there is need to take urgent action to conserve water and meet the water needs of various users. Extending access to clean water for the poor and improving water management has, in fact, been used as the main campaign of the World Bank and as the basis for ADB's water policies. Unfortunately, these very water policies already spell more harm for the poor and forebode greater degradation of the world's diminishing water resources.

The World Bank's water privatization policy

The World Bank initiated water sector reforms aim primarily at privatizing water utilities and commercializing water resources. The water privatization policy of the World Bank articulated in a 1992 paper entitled "Improving Water Resources Management" proceeds from the belief that water availability at low or no cost is uneconomical and inefficient. Even the poor should pay. As pointed out in the "World Development Report 1992", the poor need a wider range of options so they can choose the level of water services for which they are willing to pay, thereby giving suppliers a financial stake in meeting their needs. (Sara Grusky, Bearing the Burden of IMF and World Bank Policies).

The Logic of Privatization

The World Bank argues that "Public sector providers waste water too much, typically losing 40 to 50 percent of their volumes through leaks and theft. Consequently, by the Bank's logic, this accounts for governments' inability to expand services to urban slums, small towns and villages. Moreover, governments commonly cite issues of corruption, inefficient water service, and inability to provide piped water access to the poor as reasons for inviting World Bank assistance.

As a solution to public delivery failure, the World Bank supports and vigorously pushes private participation. It asserts that increased cost recovery and privatization will actually expand access to clean water and sanitation, including for the poor. ""Effective water resource management requires that water be treated as an economic good," says the Bank, adding that "private participation in water and wastewater utilities has generally resulted in sharp efficiency gains, improved service, and faster investment in expanding service."

If one were to believe World Bank rhetoric, the poor's need for water is always its main concern. In connection, as stated in its urban water and sanitation policy, it has assumed the role of "…advis[ing] and assist[ing] countries in developing regulatory frameworks and in designing viable, clean transactions that reconcile the interests of investors and consumers, and recognize the needs of the poor."

Since the Bank views current water tariff rates in several developing countries as 'below the market rate', one advice appears to be charging higher rates which the Bank deems necessary to give private companies an incentive and sustainable profit, and allow them thereafter to extend piped water service to the poor. The privatization process would also benefit from commercializing operations at all levels, attracting private investments, substantially increasing water prices and agricultural power tariffs, and creating water markets.

Loan Conditionalities

Behind the pro-poor avowals of multilaterals, however, the standard policy advice of the International Monetary Fund (IMF) and the World Bank remains largely anchored on prioritizing debt payments by cutting government subsidies, increasing revenues, and shrinking the public sector through "privatization". More specifically, this means selling public enterprises such as the water, electricity and telecommunications sectors to private corporations. In effect, the Bank and Fund force borrowing countries to adopt free market policies, such as slashing government spending by privatizing public services towards removing "barriers to trade," and forcing nations into export orientation, in the belief that this would enable a quicker way of repaying their debts. The experience of developing countries that privatizing public service assets has increasingly reduced the poor's access to health care, water and power services, education, etc. continues to be ignored.

As always, the Bank's common argument is that private sector participation in infrastructure can improve the quality and quantity of infrastructure services while reducing the burden on constrained public budgets.

The World Bank argues that developing country governments are too poor and too indebted to subsidize water and sanitation services. Not surprisingly, the World Bank has included water privatization as one of many conditions that would allow developing countries to access the portfolio of loans in its Country Assistance Strategy (CAS). The Bank's structural adjustment loans and water and sanitation loans routinely include conditions requiring increased cost recovery, full cost recovery ["economic pricing"] for water services. This has been the experience of Indonesia, Philippines, Bolivia, Ghana, and Argentina in the privatization of their water sectors.

These requirements mean that user fees paid by water consumers must cover all water system costs, which usually include the costs of operation, maintenance and capital expenditure, and sometimes the cost of servicing past utility company debt. (Sara Grusky, in Bearing the Burden of IMF and World Bank Policies).

The ADB's new Water Policy

On 16 January 2001, eight years after the World Bank released its water policy, ADB's Board Directors approved a comprehensive water policy of its own. Among others, it recognized the Asia and Pacific region's need to formulate and implement integrated, cross-sectoral approaches to water management and development. Generally, ADB seeks to promote water as a socially vital economic good that needs increasingly careful management to sustain equitable economic growth and reduce poverty. ADB 'will advocate a participatory approach in meeting the challenges of water conservation and protection in the region' (ADB, 2002), with a national focus on water sector reform as one of the principal elements. All borrowing countries must formulate and implement integrated cross-sectoral approaches to water management and development.

Key Instruments

Water use efficiency, cost recovery, institutional strengthening and private sector participation are key instruments of the policy. From ADB's perspective, "Water must be utilized by those who render the most economic advantage." (ADB, 2001 cited in Chantawong, 2002, p.3) As a consequence, those who can afford the cost will be prioritized over the poor who have the least purchasing power. (Shiva, 2000, p.6 cited in Kijtiwatchakul, 2002)

Like the World Bank, the ADB points to global experience indicating that "...public responsibility and ownership are often best blended with private management". (ADB, 2000) Thus, "governments need to modify their role from one of service provider to regulator" (ADB, 2000b, p.13; (Kijtiwatchakul, 2002).

Ironically, the ADB Water Policy falls under its Poverty Reduction's Strategy, which can only redound to water commodification and privatization.

"Full cost recovery" has been proposed to conserve water and increase system efficiencies. The ADB claims that "the poor are increasingly willing to pay for water service that are predictable and effective" and "governments have been consistently mistaken in their assertion that charging farmers for irrigation service is not possible because of their inability to pay" (ADB, 2000b, p.14).

"Markets of transferable water rights" have been proposed to allocate and reallocate water to "high-value uses" including licenses, charges and tradable permits" (ADB, 1999, p.22). The ADB strongly believes that low-value users should trade their rights to high-value users.

"The Agricultural sector, whose contribution to national income is declining, is coming under increasing pressure to release water to meet other more productive needs" (ADB, 1999, p.20). Furthermore, under ADB's loan facility, "governments and regulatory agencies will be persuaded to eliminate direct subsidies to the poor for the access of basic water service in line with an increasing affordable level".

Does the new ADB's water policy contribute to poverty reduction?

Despite the recognition of the vulnerability of the poor to problems of water resources and access, improving performance and efficiency still remains abides by a market-oriented paradigm. State-owned has been replaced by "privatized". Those capable of paying higher prices now determine water allocation. As the experience of many countries already indicates, this water management paradigm cannot but lead to increased inequality between rich and poor, between the industrial and agricultural sector, and between urban and rural areas.

Not too much difference lies between the ADB and the World Bank policy. The ADB takes a step further by emphasizing "Tradable Water Rights" (Kijtiwatchakul, 2002). Nevertheless, even without highlighting the concept of "Tradable Water Rights", World Bank key policies, especially cost recovery and water pricing, do create an enabling condition for the institution and promotion of "Tradable Water Rights" or the commodification of water.

What does this mean for the poor? Definitely, not a reduction in water exploitation, but in sharp contrast, unlimited exploitation and degradation of water resources and an even graver worsening of poverty and injustice. (Shiva, 2000, p.8). The tradable water rights concept, meanwhile, will allow the rich greater control over water, to the detriment of the majority of poor people worldwide, even as international financial institutions publicly avow that water is essential for all human life.

Eating up a significant part of the poor's income, privatization of water utilities and increased water tariffs eventually bar access to water by the poor. In fact, privatization costs push the poor away from the piped water system and give them little choice but to depend on alternative water sources, which are potentially polluted.
Implementation of cost recovery, and market mechanisms for water allocation will also endanger food sovereignty. For instance, water consumption for paddy cultivation has been shown to be higher than for other cash crops and industrial use. Paddy cultivation, however, also turns out the smallest revenue among other cash crops and industrial uses. If water allocation follows the ADB's principle that "water must be utilized by those who render the most economic advantage", then paddy cultivation – a main Asian method of domestic food cultivation and an enduring symbol of food sovereignty – is being seriously threatened.

Privatization in the Asian region

ADB's loans and role

The ADB has a long history of involvement in the Asian water sector, mainly in terms of project investment loans. Its intervention in water policy reform is, however, more recent, following the World Bank's initiatives. As its water policy states, "we will advise to include cost recovery principles in national water policies and strategies". It has already pilot-tested several reforms in Sri Lanka, the Lao PDR, PRC, and Viet Nam.

Some ADB loans are contingent upon water policy reform. In other countries, increasing the role of Water Regulatory Body are common requirements. ADB also insists that governments secure greater private participation in projects. It comes as no surprise why direct loans have been extended to private companies. To cite several examples:

Sri Lanka

The government received a $10.7 million ADB loan to improve water resources management. This is a part of the World Bank's and ADB's efforts since 1996 to wean farmers away from growing non-export food crops and charging farming families for irrigation water. Farmers and the poor who have their own water rights will be forced to sell these rights to sectors that export food crops, industrial sectors or modern economic sectors in urban areas. (Perez-Perez-Corral, 2001b, p.4). As early as the 1980s, the previous government attempted to introduce a Water Tax to the farmers, but public pressure forced it withdrawal.. Pressure against the proposed policy is once again mounting.

The cabinet of Ministers on 28 April 2000 approved the 'National Water Resources Policy' proposed by the Water Resources Secretariat. The particular policy document is supposed to be an outcome of work done by a team of government and NGO of Sri Lanka and the World Bank. One World Bank staff has arrived in Sri Lanka in 1998 to advice the government on 'Tradable Water Rights'.

The major recommendation is that 'all the water resources shall vest with the government'. Once implemented every water user has to obtain water entitlement for a price. This is a step closer to transferring the ownership of the water resources to international companies making profits through distribution. In the history of Sri Lanka, water has always been regarded as the common property of the people. The State is only a custodian and has no authority to intervene or change the course of nature. Already, about 12 foreign companies have visited Sri Lanka and held international workshops to explore business opportunities in the water sector.

Agriculture, more particularly paddy cultivation, will be serious affected, if water becomes a commodity on the market. The World Bank, in a document 'Non-plantation Sector Alternatives' published in 1996, advised the government that paddy cultivation in Sri Lanka is a non-profitable venture and recommended the diversification of agriculture into cash crops instead of paddy cultivation. Making water a commodity and fixing a market price as proposed in the recommendations effectively amounts to taking away the life of the urban and rural poor, farmers, and animals and plants as well.

Thailand

Although ADB conditions and processes could be in violation of the Thai Constitution, ADB nonetheless demands a fundamental reform of national policy on water resource through its Agricultural Sector Program Loan or ASPL (Chantawong, 2002, p.1). In the Development Policy Letter and Policy Matrix, ADB required Thai government to reform water management structures in the country as a condition for the loan.

ADB also called for the formulation of a National Water Resources Policy, enactment of a Water Law and an application of policy on cost recovery in irrigation, an increase in the National Water Resource Committee's authority in managing water resources nationwide, and an appointment of river basin organizations in three pilot river basins. It also required privatization of an irrigation system by having a private company take care of the irrigation operation system and having farmers in the irrigated share the cost occurring from water management (Chantawong, 2002, pp.3-4 cited in Kannikar Kijtiwatchakul. "ADB's the New Water Policy ADB's the New Water Policy", 2002).

The $600 million ASPL also requires the Thai government to adopt a free market paradigm. Sectors or water user groups, who can make a high profit from water, are given priority in access to water resources. Farmers who do not produce much value added products are given the lowest priority in terms of water allocation. “The Thai Royal Irrigation Department would allocate water to urban and industrialized sectors at highest priority but to agricultural sector as the least.” (Chantawong, 2002, p.1).

In drafting the policy, the National Water Resources Committee obtained technical assistance from consultants hired by the ADB and committee members who had close relationships with these ADB-hired consultants. Put simply, the direction of the National Policy on Water Resources was determined by the ADB (Chantawong, 2002, pp.3-4).

Regarding water utilities, the World Bank's International Finance Corporation [IFC] in March 2001 was reportedly the major overseas investor in a large water services project being developed in Thailand by RWE's new subsidiary, Thames Water International. The value of the IFC's investment was estimated at Baht 10 billion (about US $225 million). Vivendi is also a member of a consortium in Thailand which will benefit from a US$230 million ADB loan announced in June 2001 for the Samut Prakarn Waste Management Project -- which has become the target of ongoing protests by local farmers and environmental groups. (Maude Barlow, The Financing Behind Corporate Water, 2001).

Pakistan

The Government of Pakistan, at the urgings of the ADB, instituted the Water Resources Strategy Study, which the Ministry of Water and Power, Office of the Chief Engineering Advisor / Chairman Federal Flood Commission had undertaken. The Study began in July 2001 with the main objective of preparing a road map for future development of the water sector toward more efficient service delivery and optimum utilization of resources to meet the competing demands of all water users in the future.

As 95 percent of Pakistan water resources are used for agricultural purposes, the role of the agriculture sector is also discussed extensively, with recommendations and a proposed strategy for a closer relationship with the water sector.
The Strategy and the Medium Term Investment Plan (MTIP) emphasize institutional, management and financial matters as well as infrastructure. It prioritizes equity in water allocation, improving and maintaining the quality of water, the conservation of the country's water resources and the need for efficiency and financial sustainability in water service delivery. This means privatization and full cost recovery of water utilities and water resources.

The consultants include The Consultant’s Consortium led by Halcrow Group Ltd. of the UK, in association with ARCADIS Euroconsult (AEC) of the Netherlands, Halcrow Pakistan (PVT) Ltd., Euroconsult Pakistan (PVT) Ltd., and Asianics, Pakistan. The Study was funded through the ADB’s Technical Assistance programme.

The privatization of Karachi’s water supply

A few years before, the World Bank and the government decided in favor of privatizing water as part of a larger push to privatize services. When the public found out the details and protested the scheme, the Bank and the government cancelled the plan. Very recently, a leaked memo by a visiting ADB mission called again for water privatization as a condition for extending further financial assistance to Pakistan, not just to its water sector.

The government points to the massive losses that the public sector makes; and the World Bank stresses quite correctly that it is the poor who bear the burden of these public sector losses because of Pakistan's very regressive taxation system. So far, so good. But the only thing that Government ended up doing was to bring in the private sector, and basically substitute private profit for public corruption. The World Bank proposed that the government guarantee a profit to a private company to do the job. The government of Pakistan agreed with the proposal.

Nepal

The ADB approved a US$1.4 million technical assistance (TA) grant to support water and sanitation sector reform in the Kathmandu Valley. It includes the establishment of the National Water Supply Regulatory Board (NWSRB) and the Kathmandu Valley Water Authority (KVWA), and private sector participation (PSP) scheme. It is linked to the enhanced bulk water supply under the Melamchi Water Supply Project.
According to the ADB Project Officer, Keiichi Tamaki, studies show "there is a clear consensus that private sector participation for managing and improving water distribution and sanitation services are essential to the sector's development".

The water supply utility, the Nepal Water Supply Corporation (NWSC), says the ADB, "failed to supply efficient and affordable services or significantly to expand its service coverage for residents of the Kathmandu Valley". An earlier water privatization scheme, supported by "another development bank" was deemed "unsuccessful because of difficulties in recruiting a private operator under the management lease contract model with a large capital investment funding requirement". The ADB project in Nepal is pushing for implementation of cost recovery, water costs and charges, and privatization (ADB: "Nepal: push for sector reform with private sector involvement".2003)

The Nepal Water Supply Corporation's management too is in the run-up to privatization - a basic condition of ADB loan around US$500 million to Melamchi Water Supply Project. The private management at the corporation would gradually escalate the price until it reaches at least five times the current rate by the time Melamchi water starts flowing through the pipelines in Kathmandu. (UNDP Nepal in the News, 2002).

Bangladesh

According to ADB's Country Strategy and Program in Bangladesh under the Poverty Reduction Partnership Agreement, "Achieving the poverty reduction targets requires strong and broad participation from the private sector in the development process. The environment is still somewhat restrictive and poses constraints to private sector development, although the private sector drives economic growth in the country.". It added, "Further policy reforms are needed to deepen the financial system so as to promote faster private sector-led economic growth" (ADB, Modeling the Macroeconomy of Bangladesh, 2002).

Water management is one of the sectoral priorities under the agriculture and natural resources sector, which need a strong private participation, according to their ADB poverty strategy. As a follow-up activity to the National Water Policy adopted in 1999 and the Guidelines for Participatory Water Management prepared in 2000, the Development Strategy for the Water Sector was prepared in June 2001.

It continued to state that “ADB's assistance program contains an advisory technical assistance (ADTA), which aims at improving the climate for private sector development and mobilizing private sector resources for faster economic growth. The Privatization Commission will be assisted to help implement and expedite the SOE privatization program”.

The World Bank’s loans and role

Philippines: Asia's Largest Water Privatization

In January 1997, Manila opened four bids in an international tender for the privatization of the city's Metropolitan Waterworks and Sewerage System (MWSS), Asia's largest and, by some measures, the world's biggest water sector privatization to date. The Corporate Finance Services Department of the World Bank’s International Finance Corporation advised.

MWSS, the government agency responsible for delivering water and sewerage services to Manila's 11 million residents, invited private water groups to bid for two 25-year concession contracts, one for the city's west side, the other for its east side. Currently, MWSS supplies water to only 67 percent of Manila's residents. Less than 10 percent of the city's residential dwellings are connected to the MWSS sewerage system. Furthermore, most of the water produced is never billed because of leakages, poor metering, and theft. (ADB, 2003)
Until its privatization in 1997, MWSS was tagged as corrupt and inefficient because of its unreliable service, aging infrastructure and inability to pay its creditors. For these reasons, the Philippine Congress passed the 1995 Water Crisis Act, which thereafter gave former President Fidel Ramos the power to fast track the privatization of MWSS.

Before the bidding, World Bank consultants divided the metropolitan service area into two: the East and the West zones. In a short time and without the benefit of public consultations, two influential families won the bid. Manila Water Co., won the eastern concession by promising a huge 74 percent cut in water rates. It is a consortium of Ayala Corporation, controlled by a leading family conglomerate of Spanish roots whose business empire spans property development, shopping malls, banks, food and beverage, as well as beer and telecommunications. Manila Water also linked up with UK's United Utilities Ltd. and the Bechtel Corporation of the US to carry out its operations.

On the other hand, the Maynilad Water Services Inc., won the West zone concession, promising to lower rates by 44 percent. It is a consortium of the group of companies owned by wealthy and politically powerful Lopez clan and Ondeo, a subsidiary of the French water company Suez. Similarly, the Lopez group of companies is a family-controlled business that covers shipping, the power sector, newspapers, television, telecommunication and cable television.

Both concessions would run for 25 years with the pledge that no rate increases will be implemented in the first 10 years of operation. Consequently, people welcomed the lowered rates and the prospects of better and cheaper services but some keen observers already warned of the entry of old oligarchs and foreign capital into vital public utilities of the country.

Six years after the Lopezes and the Ayalas took over, water fees have increased at least five times without corresponding improvements in water services and existing infrastructure. Water charges tripled in 2001 and in 2003; increases registered at 81 percent in the East zone and 36 percent in the West Zone.

As services become more expensive and inefficient under the privatized setup, so do they diminish access to water of poorer households, especially women and children. Similarly, millions of Filipinos remain unconnected to piped water system and almost 50 percent of water supply continues to be lost to leakage and theft. (FDC Water Campaign, 2002)

Water Districts Outside Metro Manila

The Local Water Utility Administration (LWUA) manages water systems outside Metro Manila and exercises the exclusive right to provide water and collect fees from around 500 water districts nationwide. LWUA funds the construction of all water facilities from consumers' fees, ADB and World Bank loans, and Official Development Assistance (ODA). Local government units at the provincial, city or municipal levels appoint LWUA Board Members for each water district. LWUA is not a profit-making agency but its mode of operation is commercialized in the sense that it is allowed to recover its investments at full cost. Consequently, LWUA only operates in urban areas where the population is huge and whose residents can afford to pay water services.

Monitoring the socio-economic impacts of privatized local water districts, the Freedom from Debt Coalition (FDC) found out that a number already suffer the fate of Metro Manila residents who are paying higher water fees in exchange of poorer service. (FDC, 2002)

Cambodia

Cambodia is remarkable for the number of private initiatives in water supply provision that have sprung up in urban and rural areas, encouraged by the weakness of public utilities and the absence of a regulatory regime. Outside Phnom Penh and Sihanoukville, almost all new investments in water supply networks have been made by local private investors, ranging from a few thousand dollars for villages of a few hundred families to $900,000 for the provincial town of Banteay Meanchey (population 100,000 in 2000). In 1997 and 1998, four private companies were granted concession rights for water supply in Banteay Meanchey, Kampong Speu, Kandal, and Takeo. The private sector manages water supply networks in these towns except in Kandal where the public utility supplies the core area of the town and the private sector is confined to peri-urban areas.

Concession rights were granted without appropriate bidding, resulting in varying privatization processes. The Government sees no need to add specific provisions to encourage service access for all because it assumes that the private sector automatically wants to sell water to the greatest number of people. Understandably, the private investors have established networks in the most densely populated urban and commercial neighborhoods, where the investment required is lowest and consumption is highest.

At the East Asian Journalists Workshop on Water Policy Issues in East Asia held 15 -18 Feb 2003 in Cambodia, the Ayala-led Manila Water Company in the Philippines in water distribution was presented as a model to follow and lauded as a boost to ADB's "water for all programme". . Wouter T. Licklaen Arriens, ADB lead water resources specialist, said the success of the Manila company shows how private participation in water resources management can succeed.

Is public or private sector provision of water more likely to succeed in urban areas of Cambodia?

Researches indicate that households served by private utilities are significantly more satisfied with the piped water than customers of public utilities. The daily availability and quality of piped water is better and service interruptions are less frequent. Private sector operators seem to face stronger incentives than public utilities to keep their customers satisfied. (Mike Garn, et. al). However, this improved service does not come free and, consequently, does not yet reach all households. Those served by private utilities pay significantly more for piped water services, and some lower-income households that are not served by private utilities are partially limited by the high connection fees (as opposed to the regular monthly payments

Indonesia

Privatization on Jakarta Water Utilities

World Bank involvement in water privatization in Jakarta started in June 1991, when it extended a $92 million loan to improve the infrastructure of Jakarta PAM Jaya. The loan was used to establish a new water purification installation at Pulogadung, Jakarta. Both the World Bank, and Japan OECF advised government to privatize Jakarta PAM Jaya water utilities. (Andreas Harsono, 2003). The Bank also appointed consultants to give inputs to the water utilities management how the privatization should be carried out. The World Bank loan opened opportunities for private investment to penetrate the Jakarta water service.

The privatization of Jakarta's water is the story of how powerful multinationals have deftly used the World Bank and a compliant dictatorship to grab control of a major city's waterworks. In alliance with the Suharto family and its cronies, Thames and Suez won favorable concessions without public consultation or bidding. When the anti-Suharto riots spread, the companies' executives fled, according to Indonesian waterworks officials, exposing millions of Jakarta residents to a potential catastrophe. Eventually they returned and renegotiated their contracts under somewhat less generous terms. As for the ostensible reason for privatization — bringing water to the poor and improving the finances of the waterworks — the companies' record is mixed.

Thames Water Overseas Ltd. was first on the scene in 1993. The London-based company formed an alliance with Suharto's son Sigit Harjojudanto, a notorious gambler with no experience in the water business. Thames then formed a local company and gave Sigit a 20-percent interest.
In Paris, Suez watched Thames' maneuvers with alarm. Suez had operated in Indonesia since the mid 1980s, building small water treatment plants. It was worried that Thames would snap up the entire water concession. Suez hired Bernard Lafrogne, a Vietnam-born French engineer who had worked for a World Bank project in Indonesia and as a consultant for PAM Jaya. Lafrogne became Suez's point man in the move to privatize Jakarta's water.

To pave its inside track, Suez selected Anthony Salim, a Suharto crony and CEO of one of Indonesia's largest companies, the Salim Group, whose interests include banking, food and cement. Salim had been a partner with Suez in the construction of a water treatment plant. "Jakarta is big enough for two companies," Lafrogne said, citing examples like Manila and Paris, whose water services also operate under two companies. Both companies regarded Jakarta as a lucrative prize, ripe for privatization.

Thames and Suez offered to modernize and expand the system. Their lobbying paid off on June 12, 1995, when President Suharto summoned Public Works Minister Mochtar and told him to set up a team to privatize Jakarta's water.

Indonesian law prohibits foreign companies from operating water systems in Indonesia. The home affairs minister, Mohamed Yogie S.M., got around that easily by issuing a ministerial instruction in July 1996 that removed water from the list of businesses in which foreigners are not allowed to invest.

Negotiations, however, dragged on for almost two years, involving three different ministries plus the Jakarta government. Sources said the bureaucrats, many of whom opposed the transfer of Jakarta's water to foreign companies, intentionally stalled.

The contracts were finally signed on June 6, 1997. Both Suez and Thames established Indonesian companies with their local partners. The contracts handed over the entire water system to the private companies — the raw water supply, the treatment plants, delivery system, metering and billing, and PAM Jaya's many office buildings.
PAM Jaya had no right to see the private companies' financial reports and there was no clear sanction if the private firms failed to meet targets specified in the contracts. Furthermore, it was not clear what authority PAM Jaya or any other government agency had to monitor the private firms.

PAM Jaya also agreed to force businesses and private homes to shut down private wells and buy their water from the consortia. At the time, about 70 percent of Jakarta's drinking water came from private wells. In exchange, the private companies agreed to pay PAM Jaya's foreign debts amounting to $231 million, from their revenues.

Rate increases had to be approved by the Jakarta parliament. But the contract required PAM Jaya to pay any shortfall arising from a delay in a rate increase caused by protracted debates in the local parliament.

World Bank official Alain Locussol, who was involved in financing the water system and wrote the 1997 report, issued a second report the following year stating that the $190 million World Bank loan (of which $92 million was for water infrastructure improvements) had "facilitated" the privatization and would "further achieve development objectives". The report predicted that the two companies would be "more successful" in lobbying for more money for management of the waterworks. (Andreas Harsono "Water and Politics in the Fall of Suharto", 2003)

WATSAL, WB Loan to Reform Water Policy

In 1998, World Bank approved a US$ 300 million to the Indonesia Government. The proposed three-tranche loan would provide balance of payments assistance to the Republic of Indonesia to support a structural adjustment program of policy, institutional, regulatory, legal, and organizational reforms in the management of the water resources and irrigation sector.

The first tranche of US$50 million was disbursed immediately upon the efffectivity of the loan facility. In return, government agreed to issue a new irrigation policy, requiring the decentralization of irrigation management to the farmers organization. Decentralization means the farmers will bear the cost of management and maintenance.

The second tranche of US$100 million was disbursed on December 31, 1999; and the third tranche of US$150 million upon completion of the sector reform program during the second or third quarter of 2000.

The output of the third tranche was a New Water Management Bill, which invited widespread protests from NGOs, farmers, urban poor groups, and academe. The new bill was to be approved on June 2003 (following the World Bank terms) but was postponed for December 2003.

The main issue arising from the draft bill includes the lack of protection of water rights of the communities. Instead of clearly recognizing and protecting water for people, it gives more access to private investment to have concessions over a whole range of water resources, from water ground to surface water. •

Sources:

-----------, (2002).Water Privatization Campaign. Info sheet. 2002

Harsono, Andreas (2003). Water and Politics in the Fall of Suharto. In Water Baron report. ICIJ.

Asian Development Bank. (1999). Water in the 21st Century: Annual Report 1999. Manila: ADB.

Asian Development Bank. (2000a). Development Best Practice for Promoting Private Sector Investment in Infrastructure. Manila: ADB.

Asian Development Bank. (2000b). Water for All: The Water Policy of The Asian Development Bank. Manila: ADB.

Asian Development Bank. (2002). About ADB's Water Policy. http://www.adb.org/Water/policy_highlights.asp

Bello, W. Klong Dan, Samut Prakarn, Wastewater Treatment Plant. Bangkok Post (2002, March 26). 4.

Bello, W. (2002) Why Reform of the ADB is the Wrong Agenda. http://www.focusweb.org.

Bretton Woods Project. (2002). Privatization of water not "pro-poor", NGOs warn. http://www.brettonwoodsproject.org.

Caplan, R. (2000). Don't Let the WTO Get Hold of Our Water. http://www.waterobservatory.org

Chantawong, M. (2002). Poverty Alleviation or Poverty Intensification? Thailand: Project for Ecological Recovery.

Freshwater Caucus. Proposal for Inclusion in the Chairman's Text. 27 March 2002.

Global Challenge Initiative. (2002). Reform Public Utilities: Issues for Analysis of Private Sector Participation. http://www.challengeglobalization.org.

Global Challenge Initiative. (2001). Water Privatization in Ghana? An Analysis of Government and World Bank Policies. http://www.challengeglobalization.org

Grusky, S. (2001). IMF Forces Water Privatization on Poor Countries. http://www.nadir.org.

Kijtiwatchakul, Kannikar (2002) "ADB's the New Water Policy". Bangkok. Foundation for Economic Recovery.

McIntosh, A.C. and Yniguez, C.E. (2000). Privatization of Water Supplies in Ten Asian Cities: A study for the Asian Development Bank. Manila: ADB.

Multinational Monitor.(2002) The Anatomy of a Deal A Close Look at the World Bank's Plans to Privatize Ghana's Water System.

Perez-Perez-Corral, V.C.& Nanri, T. (2001a) Have we made a Dent on the ADB? Manila: NGO Forum on ADB.

Sarni..Ryan. (2003). IMF, World Bank policies enslave Third World. The Transcript

Shiva, V. The World Bank's Role in India's Water Crisis. Paper submitted for the 4th P7 Summit, Brussels. 7-10 June 2000.

Shiva, V. (2001) Double Standards and The Boomerang Effect. India.

Structural Adjustment Participatory Review International Network, (SAPRIN). (2002a). Impact PSP. Infrastructure Journal. Issue of February/March.

Structural Adjustment Participatory Review International Network, (SAPRIN). (2002b). The Policy Roots of Economic Crisis and Poverty. USA: SAPRIN Secretariat.

World Bank.(2003). " 1993 Water Resource Management. World Bank website.

Source: http://www.jubileesouth.org/ 12/12/2003 PH

Accessed on 06/25/2005