

Natural monopoly and its implications for service delivery: Evidence from PDAM Surya Sembada Surabaya

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Abstract

Natural monopolies, particularly in the provision of clean water by Regional Drinking Water Companies (PDAM), have deep historical roots in Indonesia's post-independence development. The damage to infrastructure caused by colonialism and the war of independence compelled the government to take direct responsibility for basic public services, including clean water, in order to safeguard public welfare. In this context, PDAM Surya Sembada Surabaya has become the main provider of drinking water, serving over half a million household connections. However, the monopolistic nature of this service raises various concerns, such as potential abuse of power, perceived unfair pricing policies, limited consumer choice, and uneven service quality. Although PDAM's status is protected by Article 33 of the 1945 Constitution, its monopolistic practices continue to invite debate from legal, economic, and social perspectives. This study employs a qualitative, library-based research method to analyze the impact of PDAM's monopoly on consumers, the quality of public services, and the effectiveness of existing legal regulations. The findings reveal that while PDAM plays a vital role in meeting public needs, there remain challenges related to governance, transparency, and equitable service provision. Strengthening oversight and promoting Good Corporate Governance (GCG) are crucial for ensuring fair and sustainable clean water services in the future.

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1. Introduction

Natural monopoly occupies a special place in the historical journey of the nation and the development of Indonesia's economy. After independence, Indonesia faced the impacts of Dutch military aggressions I and II, which severely damaged various infrastructures such as communication and transportation facilities, installations, plantations, and industrial companies (Anggoro, 2023). Additionally, Indonesia had to bear the burden of debt through the Round Table Conference (RTC) agreement.

Water is a vital human need that must be properly managed and protected to avoid prolonged crises. In daily life, water cannot be separated from people's activities, making it essential to provide safe and clean water for consumption (Hanifah, 2019).

PDAM Surya Sembada Surabaya is a government-owned enterprise that supplies clean water through various drinking water treatment installations. Currently, PDAM's service coverage includes 536,983 household connections out of Surabaya's total population of 2,962,700 (Afandy, 2019).

Article 33 paragraph (3) of the 1945 Constitution of the Republic of Indonesia states that "The land, water, and natural resources contained therein shall be controlled by the state and used to the greatest benefit of the people." This philosophical foundation serves as a basis for managing water resources by PDAMs in

various regions (Aprilian, 2016).

Although Law No. 5 of 1999 concerning the Prohibition of Monopolistic Practices and Unfair Business Competition has been enforced, monopolistic practices still exist and have complex impacts on the national economy. In economic theory, monopolies are often associated with inefficiencies in resource allocation and loss of public welfare (Larassati et al., 2024).

PDAM is often positioned as a monopoly entity aimed at providing public services, but its existence also sparks debates about its impact on consumers and industrial sectors dependent on clean water supply, such as the food and beverage industry (Thoriq, 2024).

In the 1990s, the government granted exclusive rights to PDAM as the sole drinking water provider. This created monopolistic market conditions, leading society to become highly dependent on PDAM products for consumption, bathing, washing clothes, and household needs.

PDAM Surabaya faces a major challenge in its old pipeline infrastructure, much of which dates back to the Dutch colonial era. In response, PDAM implemented a pipe rejuvenation policy targeting 150 km of pipe replacement per year to last until 2059 (Faith Supriyono, 2019).

As a public service provider, PDAM seeks to improve service quality and build public trust. However, there is still a perception that PDAM operates solely for profit, which calls for public education to enhance understanding of PDAM's actual challenges (Syah, 2019).

The purpose of this study is to analyze the impact of the monopoly conducted by PDAM Surya Sembada Surabaya on consumers, public service quality, and the relevance of this monopolistic practice from legal and economic perspectives in Indonesia. This research also aims to illustrate how a public monopoly entity can operate efficiently while prioritizing public interests.

2. Research Design and Method

This study adopts a qualitative research design using the library research method. This approach is chosen to explore and analyze the phenomenon of natural monopoly in public services, particularly focusing on the operations and impacts of PDAM Surya Sembada Surabaya. Library research is suitable for this type of study as it enables the researcher to gain comprehensive theoretical and contextual insights by examining existing literature and secondary data.

The research primarily relies on secondary data obtained from various credible and relevant sources. These include scientific journals, academic books, legal documents and regulations, undergraduate and postgraduate theses, institutional reports, and other published studies that discuss monopoly practices, public service provision, clean water management, and regulatory frameworks in Indonesia.

The data collection process involves identifying, reviewing, and synthesizing key literature that supports the conceptual and empirical understanding of monopoly in the context of public utilities. The analysis is conducted by critically interpreting the literature to identify patterns, debates, and implications related to the role of PDAM as a public service provider operating under monopoly conditions.

In addition to descriptive analysis, the study also applies a normative approach by examining applicable legal frameworks, such as Law No. 5 of 1999 on the Prohibition of Monopolistic Practices and Unfair Business Competition, and Article 33 of the 1945 Constitution of the Republic of Indonesia. This normative perspective helps assess the compatibility between PDAM's monopoly status and national competition law and policy.

Furthermore, the study incorporates a conceptual framework that includes key elements such as natural monopoly theory, public goods theory, and market failure theory to better understand the rationale and consequences of monopoly in the public water sector. The comparison between theoretical expectations and empirical findings from PDAM Surya Sembada Surabaya will serve as a basis for evaluating the effectiveness and efficiency of monopoly practices in achieving public welfare goals.

The overall purpose of this methodological approach is to provide a structured and evidence-based analysis that reflects both theoretical grounding and practical realities. By using library research, the study aims to construct a coherent narrative on how PDAM functions as a public monopoly entity and the implications it has for consumers, legal systems, and economic fairness.

3. Results and Discussion

Monopolistic Characteristics of PDAM Surya Sembada Surabaya

In a monopoly market, the price is determined by a single seller known as a monopolist. This type of market typically consists of only one firm that sells a product without close substitutes, enabling the firm to set prices and generate high profits. However, achieving a pure monopoly is difficult due to the presence of other producers that may offer alternatives, even if not identical. A government-regulated monopoly, such as PDAM, demonstrates this condition by managing clean water distribution without direct competitors. Although no other companies currently rival PDAM in many regions, government authority significantly influences the operational dynamics of such monopolies (Zikra, 2021).

Legal Provisions on Monopolistic Practices

Law No. 5 of 1999 was established to prevent unfair market practices and protect healthy business competition. One of the practices prohibited by this law is price discrimination—the application of different prices for the same goods or services by a single producer based on certain criteria. This includes charging different prices to different consumers through non-linear pricing strategies, often implemented to capture more consumer surplus (Irwan Sugiarto, 2015).

Potential Misuse of Monopoly Rights

The government grants natural monopoly rights to PDAM with the expectation that these rights will be used responsibly. However, abuse of these rights may result in negative consequences (Sandi Ma'ruf, 2025), including:

Exploitation of labor

Monopolistic firms may exploit workers by continuing to produce while offering lower wages compared to the selling price of the product. In Surabaya, PDAM workers went on strike, demanding the resignation of President Director Sukendro Basuki in favor of Biempi Harbimaharani. The protest emerged after Sukendro was dismissed by Mayor Bambang Dwi Hartono but refused to vacate his position. Workers accused the management of declining performance, neglect of employee welfare, and corruption, resulting in losses of up to IDR 31 billion. Sukendro and the board threatened to sue the mayor, claiming the dismissal was illegitimate (Hassan Sentot, 2002).

Harm to consumers

Monopoly markets present several issues that negatively impact consumer welfare (Wisnu Prasetyo Aji, 2025), including: 1) High Prices: The absence of competitors allows monopolistic firms to set higher prices, 2) Poor Product Quality: Lack of competition reduces incentives to improve product quality, 3) Limited Innovation: Monopolists may lack motivation to innovate due to the absence of competitive pressure, and 4) Limited Consumer Choices: Consumers have few or no alternatives aside from the monopolist's products.

Barriers to market entry

Monopolists may create barriers to entry, hindering new competitors from entering the market. Such

barriers disrupt market equilibrium and harm consumer interests by reducing available product choices and weakening buyer power. Barriers to entry also restrict market efficiency and prevent fair competition, ultimately supporting monopolistic practices that violate the rights of other business actors (Nadzar Ageng Pratiwi, 2018).

Issues in Clean Water Management

The Surabaya City DPRD's Commission A held a meeting to discuss allegations of misconduct in clean water management in upscale areas of West Surabaya. The meeting, attended by representatives from developers, BPSDA, PDAM Surya Sembada, and the media, was prompted by a report from Surabaya Corruption Watch Indonesia (SCWI), which highlighted potential abuse of power by private developers in water distribution.

Yona Bagus Widyatmoko, Chair of Commission A, emphasized that clean water is a public right and must be accessible to all residents through PDAM. He announced plans for a field inspection in June 2025 to expedite the transfer of water management to PDAM. SCWI Chairman Hari Cipto Wiyono expressed concerns about deviations in water management practices by developers, which could harm the public interest.

Developers stated they were merely facilitating water supply due to insufficient PDAM coverage in the region. In response, PDAM affirmed its readiness to take over water management in accordance with applicable legal procedures. This meeting reinforced the principle that clean water is a fundamental human right and must remain under government control. Commission A and SCWI expressed hope that the transfer process would begin by June 2025 (Rudi, 2025).

Benefits of PDAM Surya Sembada's Monopoly

Despite criticisms, there are certain advantages associated with PDAM's monopolistic structure (Khmadin, 2021): 1) in Indonesia, government-regulated monopolies in vital sectors—such as rail transport, urban public transport, electricity, and water—have generated considerable benefits for the general public; and, 2) the granting of patents and exclusive sales rights can encourage innovation by incentivizing companies to develop new products that meet public needs.

Good Corporate Governance (GCG) in PDAM Surya Sembada Surabaya

PDAM Surya Sembada applies the principles of Good Corporate Governance (GCG) to ensure responsible management and accountability. GCG includes policies, regulations, values, visions, and missions that influence how the company is run. It involves stakeholders such as the government, supervisory boards, and directors to enhance organizational credibility and performance.

The implementation of GCG aims to strengthen corporate functions, promote responsible risk management, improve corporate value, and maintain the organization's national reputation. PDAM Surya Sembada's GCG framework aligns with five core principles, summarized by the acronym TARIFF (Sembada, 2024): transparency, accountability, responsibility, independence, and fairness. These principles serve as a guide for all employees in upholding professional and ethical conduct in the delivery of public water services.

4. Conclusions

The monopoly conducted by the Regional Drinking Water Company (PDAM), such as PDAM Surya Sembada in Surabaya, is rooted in historical developments and represents a form of government intervention to fulfill basic public needs following Indonesia's independence. In the face of limited infrastructure and urgent demand for clean water, this monopoly was implemented as a strategy to address

market failure and to ensure public access to adequate water services. Although protected under Article 33 of the 1945 Constitution and intended to promote public welfare, the monopoly practice also presents several challenges.

From the consumer perspective, PDAM's monopoly often leads to complaints regarding high tariffs, uneven service quality, and fines perceived as unfair. Economically, the absence of competition can result in inefficiency, reduced innovation, and limited consumer choice. Legally, while Indonesia enforces Law No. 5 of 1999 prohibiting monopolistic practices, PDAM's status as a state-owned enterprise frequently places it in a debated exemption, especially in cases of power abuse or mismanagement of resources.

Nonetheless, PDAM's monopoly also offers clear advantages, particularly in ensuring the equitable distribution of clean water in areas underserved by the private sector and in maintaining affordable prices through regulatory oversight. Strengthening the implementation of Good Corporate Governance (GCG) principles is expected to improve transparency, accountability, and public trust in PDAM's performance and services.

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