by Scott Younger

Challenges to the delivery of the six-corridor development plan

It is the time for heavy seasonal rain and bigger traffic jams. This just means that some of us have to do more work in the car. But hats off to Jakarta drivers, who must rank high on the JPI (*Jakarta Perseverance Index; scale 1:6).*

A lot more is going to be heard in the days to come about the Master Plan for the Acceleration and Expansion of Indonesia's Economic Development, or MP3EI, the ambitious six-corridor plan of the government to try to accelerate the building of infrastructure and thus economic development in key targeted growth areas of Java, Sumatra, Kalimantan, Sulawesi, Bali-Nusa Tenggara and Papua-Maluku.

The plan will be a cornerstone of the next Asia Pacific Ministerial Conference on Infrastructure Development to be held in Jakarta, 2-5 May 2012. An additional new feature of the title of this conference this time is the additional words "Sustainable and Inclusive."

The driver for the policy is to underpin the expansion of the Indonesian economy to become the world's 10th largest by the early 2020s, from a current ranking of 16th, with GDP per capita increasing from today's $3,000 to over $10,000. The plan recognises the prime necessity to ensure the growth of and related benefits to the country as a whole, and not just limited to the industrial heartland of Java.

From the connectivity engendered within the archipelago it is intended that this extend to support further integration into the ASEAN and global markets.

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Realization of this "new" way of thinking is expected to be generated from increased collaboration between the various stakeholders in development, namely central and local governments, state-owned enterprises, the private sector and the people at large. The plan recognizes the limited ability of the government to provide more than about one third of the total funding required, once again stressing the key role that the private sector is targeted to play.

Initial steps towards implementation of the MP3EI were taken in the latter part of last year with the setting out of 91 infrastructure and development projects, although a number of the projects has been identified for some time.

Government budget allocations of $2.2 billion for 2011 and about $4 billion for 2012 are expected to be spent. However, recent press reports indicate that the government is struggling to meet its budget targets, which points again to inefficiencies in the bureaucratic process and the manner in which the projects are presented. The trend is unlikely to be reversed without some serious streamlining within the civil service.

PPP problems continue

While the six-corridor approach deserves everyone's attention, there are a few key matters that require urgent attention, the first being the ongoing efforts towards establishing sound enabling laws and regulations.

This has been a thorny issue for several years, and was acutely highlighted particularly during and following the major Infrastructure Summit of 2005 and again during the infrastructure events which followed. Good, if somewhat slow, progress has been made since in dealing with most of the issues that have had to be addressed.

However, implementation generally

remains elusive with the private sector reluctant to take up the level of participation anticipated from them as the perceived risk-reward ratio is still often insufficiently favourable to attract their investment.

Despite the December 2011 passage of the Land Acquisition Law, which led to an improvement in the country's investment rating, government officials know it will be realistically next year before the enabling regulations will become effective and their application is put to the test.

It is going to be important in each of the six corridors to decide at an early date in which way a given project is undertaken. While there is a tendency to see all projects in terms of Public-Private Participation (PPP), many projects are simply not best carried out in this way.

In each corridor there will be projects that should be simply completed by the public sector and others that should be logically designated for the private sector to handle. And then, of course, there are some that should be a partnership of the two.

Thus it should be an early task to decide which is the best means of project delivery in a given case. In addition, there needs to be a fair auditing mechanism to evaluate unsolicited bids that will encourage such interest, particularly in the remoter areas where bidding parties are likely to be rather few in number.

It has taken the government some time to try to refine a *modus operandi* for PPP that fits Indonesian conditions, even with reference to overseas experience, and this remains a "work in progress" for some cases.

Another very important point relates to the capacity of local governments, particularly those that are directly involved in the six-corridor plan in either simply an enabling function or more importantly in partnership as part of a PPP project. To date, PPP-designated projects have made almost no progress over the past two years and one may ask why.

Skill base lacking

Many proposed projects countrywide have lacked or still lack insuffecent knowledge or a skills base within local governments to implement identified projects within their particular jurisdictions. This is a recognized serious issue that needs speedy action, possibly with the engagement and help of the private sector or quickly arranged support through multilateral or bilateral aid.

Under the proposed terms of the MP3EI, it is said that "all existing regulatory frameworks must be evaluated, and strategic steps taken to revise and change regulations in order to attract the high level of support needed from investors."

In implementation, it may well be found that standard regulations may require supplementary local regulations, much as in the construction industry the general conditions of contract for a given project are most usually supplemented by special conditions specific to that project.

Another significant point says that "incentives will be provided on tariffs, taxes, import duties, labour regulations, licensing and permits and land procurement".

Those who struggle daily with just one of those issues will fully understand that realization will be very difficult. Furthermore, where cross-ministerial agreements and cooperation are required implementation difficulties can expect to be magnified by at least an order of magnitude.

At a recently held seminar on MP3EI, under the auspices of *Strategic Asia* and supported by the UK's Foreign and Commonwealth Office, it was interesting to hear the viewpoints being expressed by the different regional corridors. It became clear in discussion that each region is fully aware of the important differences in priorities and needs that exist between them.

Implementation generally remains elusive with the private sector reluctant to take up the level of participation anticipated.

For successful delivery these have to be taken into account. Responsibility for implementation must be clearly held at corridor level, with each corridor having its own small team of expertise to ensure that projects can be and are carried through professionally, whether through PPP or not, and with the support of the local population.

While the overall plan has very much to commend it as a key towards accelerating infrastructure development, realization of objectives cannot be held to a racy political timetable. The work should be sustained even though individual targets may take much longer to achieve and flexibility should be built in as changing conditions may dictate some necessary alterations to project details.

It must also not be forgotten that there are still many local government jurisdictions that lie outside the six corridors and they will also require well-supported growth targets.

Finally, delivery of this needed development in the six corridors is going to need much perseverance and strong-willed sustained direction from political and government leaders, often times acting without always first seeking consensus of opinion, and of course the active support of the private sector. The country cannot afford to wait.

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