The Jakarta Post

Leadership for infrastructure

Despite the repeated government pronouncement since 2005 of a strong commitment to accelerating the development of basic infrastructure to fix the country's acute shortage of power, frail power grids, congested roads, seaports and airports, no significant progress seems to have been made in this sector.

Major projects still face tremendous challenges in land acquisition, feasibility studies and snags in the bidding process. The government more than doubled state budget appropriations for infrastructure to Rp 290 trillion (US$22 billion) this year, but as long as those problems are not tackled, infrastructure development will remain very slow.

The main problem is not the lack of financing but rather the dearth of well-prepared projects, bureaucratic barriers in land acquisition and lack of professional management for big projects. There has always been an acute lack of competent bureaucrats who have the authority and skills to design a pipeline of viable infrastructure deals and the political clout to standardize procurement procedures and other practicalities of getting a road, seaport or airport built.

Support institutions for the development of basic infrastructure have been established: the public-private partnership (PPP) scheme, PT Sarana Multi Infrastruktur (PT SMI) and PT Indonesia Infrastructure Finance (PT IIF) for project financing, PT Penjamin Infrastruktur Indonesia (PT PII) for improving the creditworthiness of projects, the Government Investment Center for financing land acquisition and a viability gap fund at the Ministry of Finance to ensure the financial viability of projects.

But with so many government institutions involved as players in the infrastructure sector, coordination has become a big problem due to the absence of a PPP management center to drive projects with proper planning, reliable risk analysis and risk sharing, design, efficient and well-organized tendering process and construction management. Now, PPP projects are handled by the ministries of finance, public works and national development planning without a single leadership.

There is also an urgent need for capacity building at the sub-national levels of government, which often serve as the contracting authorities in PPP concession deeds and are responsible for their delivery.

The 2012 Land Acquisition Law has been fully effective since January, but its enforcement will not likely be smooth without the support and full participation of local governments, which play an important role in securing appropriate compensation for land owners through independent appraisal teams.

Chief Economics Minister Sofyan Djalil last week tossed the idea of hiring foreign engineering supervisors for major infrastructure projects worth over $10 million to ensure the quality and scheduled completion of construction. The formation of a PPP center and the recruitment of foreign engineers would go a long way in helping speed up project development.

We should not be allergic to the participation of major foreign construction companies. We should instead opti-

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Infrastructure — Jokowi's challenge

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JAKARTA

The new government, which is barely getting into its stride, very early established acceleration of the infrastructure requirement for the nation as a top priority, recognizing that tackling the fundamental issues of poverty and unemployment, the perennial bugbear of a developing country, greatly depended on providing good access, communications, power and water to its citizens. People's expectations have been raised.

A number of key projects, some outstanding for many years, have been once again emphasized for early attention and, for the long neglected maritime arena, a new strategy tabled. The acute power shortage is recognized in the need to push ahead with 35,000 MW of new coal-fired power station construction, especially to support the industrial heartland of Java and key industrial zones elsewhere, e.g. in Sumatra.

The 2012 Land Acquisition Law recognized the inability of the long-standing prevailing law to resolve land acquisition disputes to allow infrastructure projects to proceed. Too many key projects were being stalled due to land disputes.

However, the inability of the 2012 initiative to make a difference to this major obstacle in the infrastructure space has led to the recent land reform regulation, which is expected to at last allow a time limit to objections over land purchase for projects.

One major project, the important 2,000 MW coal-fired power plant at Batang, Central Java, is now expected to proceed to completion as quickly as possible through application of the new regulation to overcome a land dispute that has held up completion for many months. The regulation will be used to speed up land acquisition conflicts for other major projects.

For Jakarta, there are several obvious challenges on the transportation front not least the long overdue construction of the Soekarno-Hatta rail link and the monorail (first stage) in time for the 2018 Asian Games, particularly since it is unlikely that the important MRT project will be ready in time as a result of remaining land acquisition matters.

There are also the continuing issues of water supply, sanitation and flooding, exacerbated by a sinking city in the north. The revocation of the 2004 Water Law, not a good move by the new administration, will be a disaster unless a suitable replacement is effected quickly.

Water governance reform and the desperate need for investment will otherwise be brought to a halt and more people will suffer, especially the poor.

The challenge altogether is daunting and the question is how can it be done, at least in part, under current administrative structures and the insufficiency of properly trained human resources, both in terms of quantity and quality.

There is the additional challenge of how to successfully attract private sector interest and funding to top up the significant shortfall from government budgets, even following the significant first step towards removing fuel subsidies

It is to be admired that the government has set ambitious targets, even though these cannot be achieved in a 5-year time frame. Some suggestions are proposed, however, which could make a difference, provide tangible results and a foundation for continuing onto meeting targets that will obviously take longer to realize.

In macro-planning, divide the development needs for the Greater Jakarta conurbation from the rest of the country.

In other words, there should be two government teams to address the often quite different political and administrative requirements of what will be the world's outstanding meta-city from the sustainable economic development of the rest of the country. Both equally important, but offering different challenges.

Adopt a much more proactive approach to the education and training of the country's professionals and technical workforce. While this is also a serious worldwide issue, it is alarming that the country is currently short of over 100,000 professional engineers to address the needs of the huge infrastructure challenge.

We have to attract more young people to enter engineering and scientific subjects and stay with and develop successful careers while building and maintaining the country's foundations of growth, and being suitably rewarded such that the lures of the service industries do not take away the brightest and best. The challenge is only going to increase as we cope with the additional impact of the upcoming ASEAN Economic Community.

It is important that the private sector experience and funding sources, national and international, be fully engaged along with the government in dealing with this serious challenge and any impediments to private sector involvement eased and ultimately removed.

Improving the ease of company start-ups, often reflecting private individual initiative, through an one-stop facility at the Investment Coordinating Board (BKPM) is a step in the right direction, but more will need to be done.

While the principle of Public-Private Partnership (PPP) is well understood and has been emphasized for project delivery in Indonesia over the past decade, implementation of key projects under this model has been more than disappointing, effectively still waiting to occur to the frustration of both public and private sector parties.

When addressing the detail of preparing projects for PPP bid, it has gradually become clear that no one solution would fit all types of project and this was compounded by poor project preparation and inadequate regulatory and risk-reward structures.

There is little doubt that the principle of PPP is valid for a good number of projects, although not all, but a fresh approach is needed. One idea that has been circulating in the corridors of power for some time has been the establishment of a cross-sectoral/cross ministry PPP Center, answerable to the highest levels of government.

This should be able to work provided that the chief officers of the center espouse the right backgrounds and include experience from both public and private sectors and academia, where appropriate. Outputs must be clear, achievable and quickly implemented, with many of the technical and non-technical (e.g. legal) components of a given project dealt with in parallel to save time.

One of the most promising plans that came out of the last administration in 2011, in my opinion, was the MP3EI, the 6-Corridor Masterplan for the sustainable equitable development of the archipelago. The masterplan recognized the important differences that make up the different regions of the country while underlining the issues that are common to all areas, e.g. infrastructure and education.

It could also be used to stimulate provincial governments which, with regional implementation of development largely placed in the hands of district governments in 1998, largely left the provincial tier without an adequate mandate to raise the standards at regional provinces.

There is a realization that this must change and it is time for governors and provincial governments to lead the charge.

The MP3EI document made many good points and could well provide the framework for regional development without cutting across the strategies being laid out by the new government, e.g. maritime highway.

The writer is director of Nusantara Infrastructure Tbk. This is a personal view.

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Leveling the playing field

Few were surprised when the government's initiative to increase annual funding for political parties to Rp 1 trillion (US$75.70 million) was immediately met with opposition. Political parties and politicians have been held responsible for the systemic, structured and massive corruption that the nation has sought to uproot since 1998.

The fact is, however, the less the state supports political parties, the more tendency there is for them to seek funding through other means, such as corruption, or corporate donations that pave the way for collusion as the expected payback. The phenomenon of political corruption is clearly seen in the high number of politicians from various political parties at the national and regional levels that have been investigated or convicted of graft.

Recently, Indonesia Corruption Watch listed 47 directly elected regional leaders who were involved in graft cases in 2014, up from 35 in the previous year. It has been commonplace for regional leadership candidates to donate to political parties in exchange for endorsement, without facing bribery charges.

More worryingly, Indonesian democracy has crawled its way to what scholars like Marcus Mietzner dubs the "oligarchization" of political parties, in which business-people, along with their vested interests, control the parties and direct state policies in their favor. Oligarchs would be reluctant to let the state cover party financing, as they would lose their grip on parties and member loyalty.

It is perhaps in the spirit of anticorruption with an aim of stopping "oligarchization" that the government, through Home Minister Tjahjo Kumolo, has proposed a larger state budget for political parties.

Surely the country and its rich natural resources should not be entrusted to the oligarchs and their cronies. The fact that Indonesian democracy has developed alongside a growing income gap indicates that government policies have benefitted cronies much more than they have the public at large.

In many democracies, the state contributes to political parties financially, not only to cover electoral campaigns, but also operational expenditures, with clear reports and auditing mechanisms to avoid the misuse of taxpayer money.

Indonesia, the world's third-largest democracy, can follow suit, though doing so may only materialize after the 2019 elections, according to the minister. Public debate over the issue can begin now, but rather than focusing on the size of the allocation (Rp 1 trillion will not make ends meet for all parties anyway), the discourse should center on how to ensure transparency and accountability in party financing.

It is perhaps likely that political parties will fail to uphold transparency, especially because the prevailing law provides them with a loophole to avoid doing so. While individual and corporate donations for a political party are regulated, contributions to individual politicians are not.

Public funds for political parties will keep parties responsible for promoting and protecting the interests of not only their constituents, but more importantly, the public at large. The more a party serves the public interest, the more the people will support that party anyway.

Most of all, state financing will help generate a level play-

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The question of water supply and related environmental issues appears frequently in national and international media and in global discussions.

Access to fresh water is fundamental to the foundation of human habitations and endeavors and, thus, water is arguably the most important infrastructure matter to be faced in this century, especially since the population has expanded at an increasingly unsustainable rate since the 1970s.

In the case of Indonesia, which is well blessed with fresh water resources compared with many other parts of the world, it has not handled its water issues properly over the past 40 years, a period over which its population has doubled.

Three-quarters of its 131 water basins exhibit stress conditions, meaning that demand is dangerously close or exceeds supply, with those in high population density areas, quite severely.

While plans for much needed water storage have been made and some have been around for many years, there has been a continual postponement of the implementation of construction of key reservoirs for storage.

Today the availability of water per capita is one of the worst in the world, despite the resources. A decade ago, and little has been done since, Indonesia stood at 57 cubic meters per capita per annum, compared with Thailand with 1,200 cubic meters per capita per annum and the USA with 6,000 cubic meters per capita per annum.

The government estimated the funding required for water supply over the current five-year period to meet Millennium Development Goals (MDG) is $30 billion, with $35 billion the complementary figure for sanitation.

The government is expecting the private sector to come forward with about half this amount.

This means that the government — and it recognizes this — is going to have to move quickly to resolve the issues that affect private sector participation arising from the cancelation by the Constitutional Court of the 2004

based power stations must provide the base load for Java and other industrial centers, such as in Sumatra, there are many suitable opportunities for developing electric power from renewable sources.

Indonesia has some of the most plentiful coal resources in the world, but is also well-supplied with significant renewable resources — hydro (76 gigawatts) and geothermal (29 GW: 40 percent of world reserves).

While there has been a number of successful developments in both hydro and geothermal fields, the risk-reward ratio has not been previously conducive to investment, although tariff structures have recently been improving for mini-hydro schemes (less than 10 megawatts), an area where the private sector has been encouraged to invest.

There are some main hydro developments on the table but, although the government would like to see today's paltry geothermal output trebled over the next decade, many problems remain, not least concerning issues with local population sensitivities on top of the risks associated with exploration.

Work still has to be done to improve the enabling environment for private sector players.

The government has set a target for the development of 35 GW of coal-fired and geothermal power stations, a crisis call since supply is shortly to be outstripped by demand unless additional power is made available. This demand is particularly directed toward the industrial heartland of Java and locations in Sumatra.

It is unrealistic to expect this amount of new power to be added in the next five years and past experience with two 10 GW "crash" programs under the past administration, with neither completed, cannot be seen as encouraging.

However, design and construction must proceed as fast as possible

country is vital for sustainable economic growth. There is a vast volume of investment required and work to be done across all modes of transportation, whether sea, air or land.

The lack of good transportation communications, with Indonesia having arguably the highest logistics costs compared with other countries in Asia, is adversely affecting growth targets. Good efficient transportation nationally could easily add 2 to 3 percentage points to the gross domestic product (GDP) as set out in a 2011 McKinsey report.

Until about 2010, the investment in ports had been minimal over the preceding two decades. There was much catching up to do and the main ports of entry, in particular Jakarta's Tanjung Priok, were straining to cope with a steady and fast growth in sea trade. Waiting times for shipping were at an unacceptably high level.

The steps that have been taken by Pelindo II (now the Indonesian Ports Corporation) to increase berthing capacity in order to vastly increase the container handling capability at Jakarta and to take a major step in greatly reducing waiting times for container ships from more than six days to a current two to three days have to be commended (in Singapore, one day or less).

In aviation, the country has seen spectacular double-digit passenger growth over the past few years and Soekarno-Hatta International Airport is now the eighth busiest in the world with more than 60 million passengers annually.

A new runway and terminal are to be provided and Soekarno-Hatta will then be expecting to cope with at least a third more passengers and thus rank in the top three busiest globally.

In parallel with this physical expansion is the urgent need to upgrade the air traffic control systems, a matter that requires attention right across the country.

However, even with this undertaking, more airport capacity is going to be required in western Java to accommodate passenger growth and the expansion of Jakarta to a population of 50 million.

Plans to construct the 25-million-

road and, where appropriate, rail connections.

In the latter case the decade-long project of providing a rail link to the Soekarno-Hatta airport must be seen as an urgent priority, particularly with the large growth taking place at the airport, as discussed above.

The plan is to have this $2 billion project completed under a public-private partnership (PPP) scheme, but the problem has been that the return on investment for the private sector input has not been found to be adequately attractive and this has led, along with other PPP schemes, to the introduction of Viability Gap Funding support by government. The mechanism remains to be tested.

Looking at the country as a whole, however, it is the road infrastructure that provides the main basis of land connectivity.

Overall this is a big problem and much investment is required not only to upgrade, often poor standard, regional roads, but also provide for more.

The increase in budget allocation is going to require acceleration in the release of project's from the Public Works Public Housing Ministry, whether central or regional.

It should be remembered that some 90 percent of the national road network is in the hands of provincial or district governments, mostly the latter, which raises the other problem of the regional skills base to undertake the work properly and in a timely fashion. Too much of the national road system is in a substandard condition.

Considerable training and skills transfer is still required to ensure that value for money is produced in road expenditure.

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