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INFRASTRUCTURE CRISIS - TIME FOR AN "IBRA-LIKE" AGENCY FOR INFRASTRUCTURE

Everyone is talking about the immediate need for better infrastructure. From the President and governors down to the private sector and bureaucrats, all have been consistently calling for the improvement of infrastructure as well as lower logistics costs and better connectivity. Even McKinsey, which usually shies away from subjects such as infrastructure, has jumped on the bandwagon. It recently invited key Indonesian government agencies to attend their inaugural Global Infrastructure Initiative, held in Turkey.

There was much enthusiasm in recent years for infrastructure investment both from foreign and local companies. But this has somewhat waned over one failure after another over delivery. Given the scarcity of bankable projects to set things in motion, we chose to work with the government to make infrastructure policies more market-friendly.

In that process we have been fortunate to be part of one of the most amazing government reform programs in institutional, regulatory and fiscal environment for infrastructure development. This process includes watershed works in helping the government establish the country's very first long term funder for infrastructure projects. During this period we also witnessed the creation of other institutions that are also part of the infrastructure delivery process such as the Public Private




Partnership Directorate, Risk Management Unit, Government Investment Agency and the Indonesia Infrastructure Guarantee Fund.

Despite these well-run and highly professional organizations in active duty, not many projects have actually reached completion or even started in the last five years. Indonesia is in the last mile of getting its act together to deliver its often promised infrastructure program. Alas, I now believe that we need a couple of additional key reforms to ensure we succeed in averting the infrastructure crisis that is facing Indonesia.

The first part of averting this crisis involves all parties accepting there is indeed an infrastructure crisis. The country needs a concrete action plan by setting up a new body such as the highly effective Indonesia Banking Reform Agency (IBRA) that dealt with the financial crisis of the late 1990s.

To implement the first part, this

entity should coordinate the delivery of key infrastructure projects with implementation powers backed by parliament. This entity should have a mandate of maybe five years to implement a handful of projects, say 15 to 20. The second part of averting this crisis is for the government to acknowledge it must pay for the infrastructure assets and not simply expect the private sector or State Owned Enterprises to take the risks. Most financially viable projects have already been completed and the new projects are generally sub-financial projects with high economic viability.

The private sector and the state owned enterprises remain Indonesia's engines of growth but they need support. I am advocating a new paradigm in infrastructure financing that acknowledges that the government must become the fuel that feeds these engines by paying for infrastructure provisions. I therefore recommend a financing concept called Performance Based Annuity Scheme or PBAS, under which the government will repay over an agreed period the cost of the capital expenditure, agreed return of investments and operations, and maintenance. It carries several caveats: payments are made only on completion of 100% of a project and in compliance with the concession agreements. It may sound ambitious but I remain an optimist. I am hopeful that the government and the parliament will resolve to avert the infrastructure crisis. 

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