SOEKARNO-HATTA INTERNATIONAL AIRPORT: TIME FOR LCS

LIMITED CONCESSION Schemes (LCS) for airports are one of the most effective ways for governments to monetize existing airports that are cash positive but in need of upgrading and expansion. LCS is not privatization since the government remains the owner. LCS is also not a securitization, which is a fancy word for borrowing money today by mortgaging an asset's future revenues.

In fact, LCS is a direct investment by the private sector to operate, upgrade, expand and maintain an existing asset for a limited concession period, say between 15 to 25 years. During the concession period, the asset's owner is not required to invest anything. The best part of the LCS is that the private sector will pay upfront to the government for the concession.

Infrastructure projects can be double wins, first from employment and economic input, and second from the long-term economic benefit from utilizing the asset. For an LCS, however, there's a third win—upfront cash to the government.

It's easy to ask—so why hasn't Indonesia done it already? It's a complex answer. To be fair, the government recognizes the benefits and value of LCS; however, there's caution over a prime asset such as Soekarno-Hatta International Airport (SHIA). Instead, some suggest large and risky greenfield projects like Karawang Airport or smaller airports like Wakatobi.

The private sector recently convened a conference with key airport sector stakeholders to discuss the optimal way to encourage private sector participation in the airport sector. That event featured some case studies of successful LCS for other airports. Turkey is a good example—the LCS of Istanbul's main Ataturk Airport raised $3 billion in upfront fees to the government for a concession of 17.5 years. This pilot project was followed by eight airport LCS, raising an additional $2.8 billion. Turkey also saw $16 billion in private sector investments in ports, roads, metro and even PPP hospitals—for a total infrastructure investment of $22 billion over a decade.

Thus, some government agencies are championing LCS for SHIA—estimates say it would raise at least $2 billion in upfront payments for a concession of 20 plus years. As an originator of the LCS concept for Indonesia, we suggest keeping the existing airport operators as minority shareholders to ensure technology and management knowledge transfer at the end of the concession period.

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In addition, at least 10 to 15% of the upfront cash received by the government should be injected as fresh capital into the current airport operators. Thus key assets can be monetized without cannibalizing existing SOEs. The government and SOEs need the confidence to make the right decision. In sum, we can LCS Soekarno-Hatta International Airport; all we need is courage. Ⓕ

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