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Regional Autonomy – Good From Far But Far From Good?

In late August, the three-day combined Regional Governors Forum and the Indonesia International Infrastructure Conference and Exhibition 2012 featured investment opportunities from regional governments as well as from the central government. As the chairman of one of the plenary sessions on infrastructure funding, I must admit the mood was somewhat more upbeat from the last few of these conferences. And to its credit, the government presented a number of "wins" in its effort to fast track infrastructure delivery in the country.

It was music to my ears and investors to hear the Ministry of Finance (MoF) finally and most eloquently acknowledge that the key enabler for infrastructure delivery is not simply money but the bankability of the "offer" from the government.

In plain terms, the government's sole fiscal agency underscored its central and significant role to make concession agreements (CA) for infrastructure projects bankable. It does so by ensuring the CAs are guaranteed by the MoF via its wholly owned subsidiary, Indonesia Infrastructure Guarantee Fund (IIGF). The MoF also stated that for projects that can't be funded entirely by the market, it will provide direct fiscal support via a new scheme called Viability Gap Funding.

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In India, Australia, South Africa and other countries, Public Private Partnership (PPP) schemes have been implemented successfully thanks to direct involvement of either the MoF or the treasury. I was therefore hopeful that with IIGF's maturity and increasing financial strength we will see an increased impetus to deliver more infrastructure projects thus leading to increased private sector investments and economic growth across the archipelago.

Sadly though, in the ensuing days it became painfully clear that some key government projects have been stuck due to inactivity at the regional level. One such example was the newly established Special Economic Zone (SEZ) called Sei Mangke in North Sumatra. This SEZ has been earmarked as the center for palm oil-based industries and has been promoted as the government's crown jewel within the MP3EI, the government's master plan aimed at accelerating development in six economic corridors.

Leading multinational companies have submitted plans to establish production facilities within the SEZ to the tune of nearly $1 billion. To support the Sei Mangke SEZ, the government plans to build a highway, a railway and a seaport. Alas, the SEZ is not able to provide the land for the investors because the head of the district (*bupati*), who is empowered under regional autonomy laws, still has not approved the land transfers.

This regulatory fiasco made me wonder if the regional autonomy law is becoming a case of "good from far but far from good"? If private sector investors planning to establish value-adding industries within SEZs prioritized by the government cannot obtain the required land, then what chance do the other investors have in obtaining the required land for their investments? The regional autonomy law of 1999 aimed to share the prosperity and economic growth across the whole country via decentralization of the economy and empowering the provincial and local governments.

Regional autonomy is meant to create competition at the local level by empowering local governments to attract investments to their regions by enabling swifter approval processes and by providing localized incentives. But sadly in Indonesia it has remained ineffective and often rife with inefficiencies and waste. According to the World Bank, a whopping Rp 479 trillion, representing 35% of the state budget, has been allocated for the decentralization fun in 2012. Historically, over 70% of this decentralization fund is spent on salaries and benefits and not much on infrastruture or community services.

While I remain a believer in the benefits of regional autonomy, the glaring failures in the delivery of key private sector investments and major infrastructure projects caused by continuing inaction at the regional level is very disheartening. Perhaps it is time to consider selectively amending the local governments' powers in projects that are declared as national importance such as the Sei Mangkei SEZ. F

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