
DHANA KENCANA/JG PHOTO

Build infrastructure, build the nation

By **Raj Kannan**

Just over four years ago the then governor of Indonesia's central bank (Bank Indonesia), Darmin Nasution, went against the grain and openly chided the government on the need for a 'breakthrough' in the government's efforts to deliver infrastructure to sustain and expand Indonesia's economic growth.

At a press conference in June 2011, he said "…we note that Indonesia's current infrastructure is almost operating at full capacity, so it's not easy to improve the existing growth. This is not just about supporting industries, but it is about basic infrastructure in particular," he said.

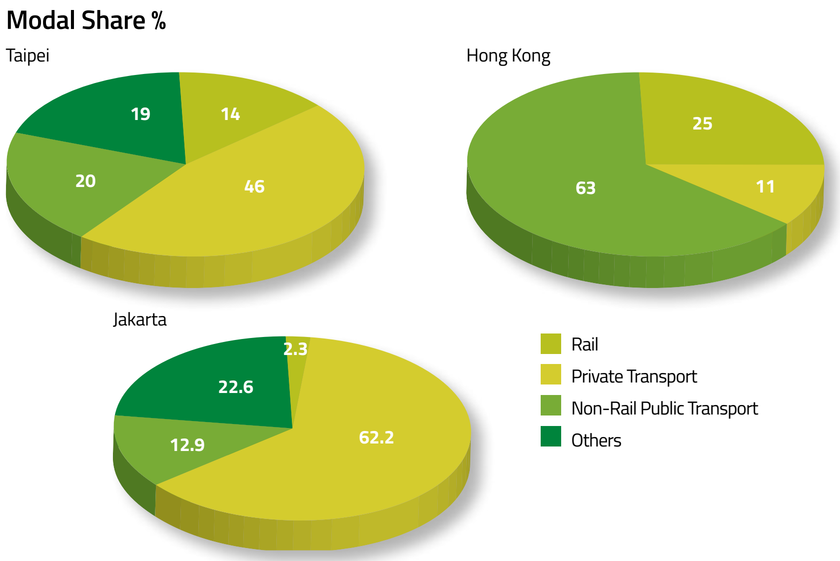
Fast forward to August 2015, the then governor of Bank Indonesia is now the Coordinating Minister of Economic Affairs with the mandate to find the breakthrough in infrastructure delivery to put the country's economic growth on a faster and upward trajectory.

Before we discuss how the honorable minister is fairing in kick-starting the economy, let's look at the current state of infrastructure in the country, starting with one of the most talked about infrastructure constraints in Indonesia - the logistics cost. As shown in the chart, Indonesia's logistics cost of 27% of GDP is more than double that of Malaysia, our closest neighbor.

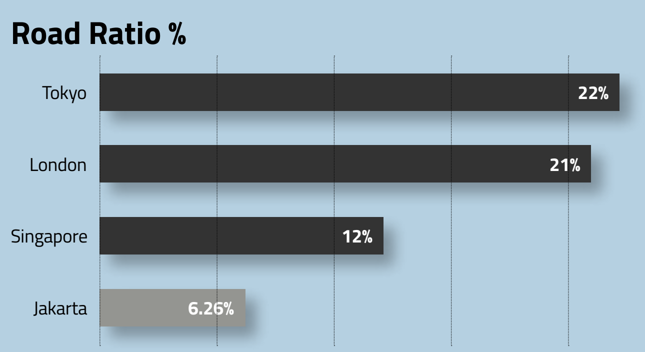
With the advent of the ASEAN Economic Community (AEC), the reduction of logistics costs is a key concern and to its credit the government of President Joko Widodo has targeted the reduction of logistics cost to 19% of GDP by 2019. Accordingly, the government has proposed major investments in the maritime sector. However, one needs to bear in mind that the maritime sector is only 22% of the logistics cost contributor, while the land transport sector remains dominant at 70% of the total cost. Yes, we need to increase maritime connectivity but we also need to drastically improve land connectivity.

The chart on percentage of road surface in capital cities is also very telling of the inadequacies of our roads in Jakarta. The global average

Caused by major infrastructure deficits in the transportation sectors...



Lack of government investments in public transport over the years has resulted in excessive use of private transport for commuting, thus causing major congestion in most cities.



Despite the general perception that Jakarta has sufficient roads, the reality is the opposite. General land acquisition problems combined with severe underinvestment in roads have caused this bottleneck.

for percentage of capital city area allocated for roads is around 18%, yet Jakarta only has 6% of its area allocated for roads. Combine this with the transport mode share of capital city commuters; where over 62% still travel by private transport, contributing to the infamous '*macet total*' in Jakarta.

The Jakarta City government quite rightly has invested in elevated roads as well as the now-under-construction MRT system to alleviate these bottlenecks, but more needs to be done in expanding the MRT system as well as increasing road space.

In the power sector, the chart on electrification ratio is another benchmark that needs immediate solutions, particularly in the rural electrification sector. Indonesia is an archipelagic country, thus the rural power solutions are not that simple. However, if we compare to the Philippines which is also an archipelagic country our rural electrification ratio of 32% compared to the Philippine's at 65% is indeed a concern. Again, the Jokowi Government has been proactive to prioritize the electrification of the country via its 35-gigawatt power generation program.

Coordinating minister's role

Let's now look at what the government and in particular the coordinating minister have been doing to gain traction in delivering infrastructure to ensure the economic growth of the country. The good news is that Minister Darmin Nasution hit the ground running from his installation with a series of economic reform programs (eight so far) to kick-start the economy from various angles.

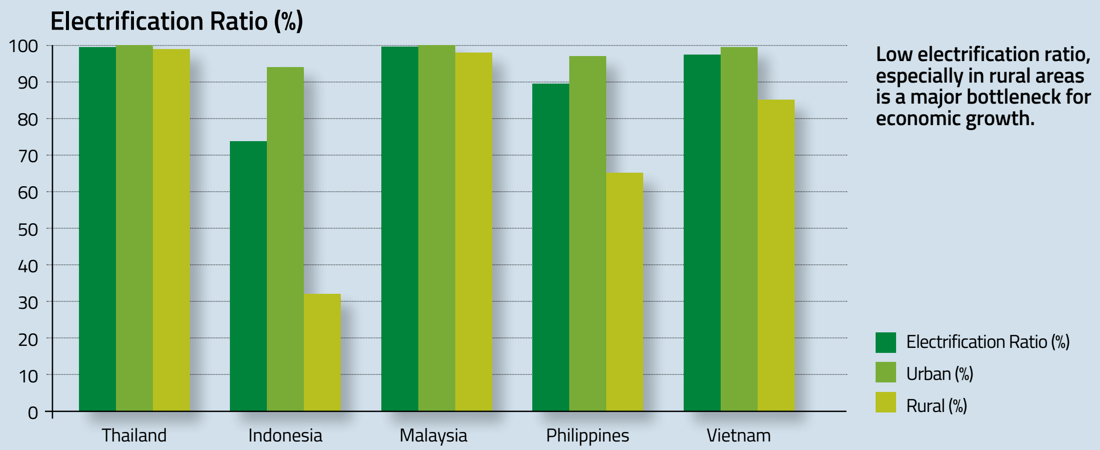
On the infrastructure front, he has empowered a newly established coordinating agency called KPPIP to oversee the implementation of the government's strategic and priority projects. KPPIP, though a government agency directly under the Coordinating Ministry, is headed by a private sector professional recruited directly from industry and it is funded directly by the government via the state budget.

KPPIP has been at the forefront of kick-starting some iconic projects including the Trans-Sumatra Highway, the feasibility of the Bontang refinery and the Jakarta sewerage project.

KPPIP is also designed to coordinate both with the Ministry of Finance (MOF) and the key line ministries that hold the responsibility for project delivery, such as the Ministry of Transportation, Ministry of Energy and Natural Resources and Ministry of Public Works and Housing.

KPPIP is also mandated to develop and recommend innovative financing schemes like the Availability Payment Schemes (APS) and Performance-Based Annuity Schemes (PBAS) for projects

Electrification ratios



Source: Tusk Advisory Analysis & World Bank Report

that are economically important but lack financial bankability. I am optimistic that under the leadership of the Coordinating Ministry, KPPIP will be successful in gaining MOF support to implement the innovative financing schemes like APS and PBAS.

The reality is that unless and until the government, especially the MOF, makes the mental shift to directly fund projects that are economically important but unbankable via government-led funding schemes like those discussed above or via government guaranteed project bonds or official development assistance loans (ODA), then infrastructure delivery will remain a hotly discussed topic with little to show for in terms of actual delivery on the ground.

A good example of the government not following through with funding of an important program is the new UP3KN unit under the Ministry of Energy and Natural resources. UP3KN was established to oversee the implementation of the government's 35 GW power program, with particular focus to unlock the delivery of the private-sector portion of this program. Sadly, this unit remains unfunded and thus not as active as it should be.

The government also commenced the process of providing capital injections to various state-owned enterprises to commence much-needed projects but these efforts have been stalled for various reasons. Capital injections are a start but this is not a sustainable option to fund the massive need for infrastructure in the country.

Funding alternatives

To attract the private sector to fund infrastructure, the government should also fast-track the implementation of the already approved schemes like APS and PBAS because these schemes would lessen the government's current fiscal burden since the payments under these schemes would be over long periods after the completion of the projects.

In addition, the use of ODA is also an effective mechanism that the government should selectively utilize since this is a proven funding mechanism for many countries, including China where ODA from Japan was used effectively to build its much-needed infrastructure to foster its economic growth in the late 1990s.

So rather then borrowing only for budget deficits as we do now, the government should also borrow for capital projects that have high economic impact, such as the Trans-Sumatra Highway and urban public transport projects.

To enable better traction in projects implementation, besides leading with innovative funding, the government also needs to drastically improve the issuance of permits and guarantee land acquisition. Here the government can adopt strategies implemented by other countries that in times of infrastructure crisis have introduced specific laws that enable smoother project delivery.

I believe 2016 will be a watershed year for putting the country back on its economic growth trajectory by building the myriad infrastructure projects. I am confident that the Coordinating Ministry under the able leadership of Darmin Nasution will be at the forefront of fostering this infrastructure-led economic growth.

I am hopeful that the other key government agencies like MOF and the line ministries responsible for the various projects will support this growth plan.

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