

INFRASTRUCTURE

Toll Roads – Railways – Ports – Airports – Water

Introduction

The development of Indonesia's infrastructure was a key feature of the current government's mandate, and remains so. However, realization has been markedly poor, with only a fraction of the infrastructure identified as urgent having shown visible progress.

Infrastructure development remains beset by outdated or incomplete regulations that fall far short of attracting private investment into the sector. Of the approximately US\$140bn (excluding the power sector) level of investment estimated as required across all areas of infrastructure, two-thirds of the amount was expected to come from private sources. In addition, the disbursement of both government and multi 0 or bilateral funds from the main lending agencies is slow, beset by bureaucratic procedures.

The government has achieved a GDP level of 6.3%, which is expected to rise to about 6.8% in the current year, assuming that no further unknown volatilities appear. Most of this can be attributed to prudent fiscal measures and continuing strong consumer demand. However, higher levels could be easily achieved with improved investment and increasing employment, also key elements of the government's mandate; there are some 3m new employees entering the job market every year.

In the brief review of the elements of the infrastructure sector, which follows, one common theme across all is the lack of skills base right across the country. Considerable attention has to be paid to capacity building, particularly since many aspects of infrastructure O&M are the responsibility of regional government. This are of many challenges should offer a number opportunities.

Toll Roads

After a very long period of internal discussion, the government is reaching a conclusion for a revolving fund mechanism that will assist in land acquisition and give clarity to the investment required for this key element of a private sector concession. This is essential if the government is to attract serious private sector support. A long stalled toll road, the Kalimalang project to the east of Jakarta, recently managed to secure support from a syndication of local banks. The interesting feature of this was the acceptance of a 10-year tenor, beyond the usual 5-7 year terms that banks usually offered and which was essential for this project.

The construction of some concessions, e.g. Makassar Sec IV, has started. It is expected that a few more sections will get underway within the next year. The key link, the Trans Java highway remains a top priority. However, many sections will require investment from public sector entities, either as equity or subsidy in order to establish the overall funding required, since initial traffic revenues will be insufficient to provide an acceptable financial rate of return for private funds. Most of the financing for the sector is expected to come from domestic sources, although a few offshore banks are now examining the sector seriously.

Railways

Most railway development in Indonesia is JBIC funded and is often tied to Japanese contractors with a minimum 51% Japanese content. This obviously restricts the involvement of European companies, and even Chinese efforts to enter the sector have failed. Key problems in this sector are land acquisition to open up rail corridors sufficient to support commuter expansion

programmes around greater Jakarta, where significant investment in suburban retail is very much required. Some unused or underused corridors are now receiving attention, but development is very urgent.

Commercial freight rail in Kalimantan and Sumatra is once more being considered on the back of coal mine developments, although rail is unlikely to be competitive if river transportation alternatives are viable.

The government has embarked on replacing the railway line from Banda Aceh to the port of Lhokseumawe, about 250km, closed down over 30 years ago. This is to be at standard gauge and financed through government budget, spread over a few years. For the link from Lhokseumawe to Medan, the government is seeking outside assistance, probably from Japan.

Ports

Jakarta's Tanjung Priok is estimated to reach its maximum capacity in 2009, 3.7m TEU. It and other existing ports can improve efficiencies, however, within present locations with reforms in processes and relatively minor investments, thus covering foreseen capacity need for the coming 5-10 years. Accordingly, plans are now underway, whereas the development of the new port at Bojonegara (Banten province) requires a much longer time-frame with significant investment and interdependence on connecting development of land based infrastructure-road, rail and power. While the area between Bojonegara and Jakarta is the fastest growing in Indonesia, with burgeoning industrial expansion, a degree of uncertainty remains over the government's plan for developing port infrastructure, including the entity that is responsible for ports, and the requirement to separate the regulatory body from the operator, both of which fall under the national port authority, Pelindo. The slow rate of progress is why some of the more important provinces are looking to build their own ports, independent of Pelindo.

Other major ports are attracting international investor interest, particularly where usage can be linked to natural resources development.

Airports

There has been little progress in this sector, with both the Jakarta Terminal 3 expansion and construction of the long overdue new airport at Medan subject to further delay. Ground-breaking for a new airport on the island of Lombok has taken place and this new airport is expected to proceed, particularly since considerable new large investment from the Middle East is expected to be put in for tourism development.

The airport authority, Angkasa Pura, is to be reorganised into two separate divisions, airport operations and air services, in an effort to build back credibility with the EU over the ban of Indonesian aircraft at most European airports. Strong representations are underway to have the ban lifted in stages to allow the main carriers to be readmitted first, at an early date.

Both national and regional air travel is expanding rapidly, with significant double digit growth.

Water

The planning requirement for expenditure in this sector in the period to 2014 has been assessed at US\$20bn, with about 50% coming from government sources, 18% from international and bilateral aid sources, and the balance from private sources. By the end of this 5-year period to 2009, the investment shortfall is expected to be in the order of US\$3bn from lack of disbursement in aid fund and very little from the private sector. The assessment of required investment in the

next 7 year period is US\$ 6bn. A key area for the direction of private sector funding would be in long overdue projects dealing with waste and wastewater, which will require the addressing of tariff structures, and certain water supply projects.

However, while the Law for the water sector has been available since 2004, the government has been slow in establishing the implementing regulations, and most of these remain to be issued. Obviously, this is a discouragement to private sources of funding.

On a more strategic level, the government has to address the rapidly expanding problems of urbanization and population growth with a consequent significant impact on water supply. This particularly holds for Java, which hosts 83% of the country's industry and also provides 60% of the annual rice crop, cultivated in 37% of the area allocated to this. Urbanisation is encroaching on paddy areas, at a rapid rate, with an annual lost of 37,000ha, which means that early attention has to be paid to improving the output in off Java locations, particularly Sumatra, and rehabilitate deteriorating irrigation schemes that have had little or no attention over the past decade and sometimes more. There also needs to be a more practical strategic investment on integrated water resources management and attention to key river basins, some of which are showing signs of major distress, particularly in Java.

Recommendations

- Continue engagement with government to ensure that laws and regulations are encouraging to private investor.
- Examine and engage in the huge requirement for capacity building right across the sector.