## On all levels: OBG talks to Arsjad Rasjid, President Director and Group Co-CEO, Indika Energy; Sinthya Roesly, CEO, Indonesia Infrastructure Guarantee Fund; and Raj Kannan, Managing Director, Tusk Advisory

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How should coordination amongst ministries, central and regional governments be improved?

ARSJAD: Overall I think we are moving in the right direction, although much remains to be done. Indonesia needs alignment and a sense of "project ownership" across all levels of the government, from central to regional, in order to improve the sector's attractiveness. Such alignment becomes difficult to reach in a decentralised democratic country like Indonesia where different political views collide at all levels of government.

Once general alignment is reached we must make the whole process more pragmatic. We should shift to a business approach that puts less emphasis on formalities and focuses on execution. This type of model assures all stakeholders get benefits from a project.

Finally there need to be supporting regulations. If there is alignment and a business approach suitable to all stakeholders, regulations shouldn't be a hurdle. The problem comes when one starts with the regulations before previous steps have been taken.

ROESLY: The political framework creates a lack of coordination, particularly with regard to regional autonomy and the way different governments are elected. Provincial and regency governments often come from different political parties, which each have their own unique interests. This is a challenge for the country, especially with regards to coordination. Then there is the central government, which often has different interests than the regional governments, creating an even bigger challenge. Communicating and demonstrating that our interests are aligned is the key to getting the projects under way. Coordination is not only an issue vertically (i.e., between the central government and regional governments) but also horizontally. Within the central government there are different stakeholders, primarily ministries, each with their own agendas and their own interests in particular sectors. If a firm engages the various stakeholders directly and works with them with the same interest in a project, then the project is something that can be both feasible and workable.

KANNAN: Whether in infrastructure or private investment, the biggest challenge is the lack of commitment that regional governments have to the execution of investment. This became clear during the negotiations to develop the Sei Mangkei special economic zone in North Sumatra. Two firms are willing to contribute approximately $1bn-worth of investments, but regional leaders have not facilitated the process. The concern is, if a project has been declared a priority by the central government but cannot be executed accordingly, then there is a coordination problem. However, coordination is not easy in a decentralised country like Indonesia. This is why the Committee for the Acceleration and Expansion of Indonesia's Economic Development

(KP3EI) was created. The KP3EI de-bottlenecks infrastructure and private sector projects with a framework for the process. This framework serves as an example whenever similar problems arise. One way to improve coordination is to further empower the KP3EI and let it compel regional governments to comply with project delivery schedules, enforce land acquisition matters and generally coordinate project delivery. This will also give investors confidence that the government stakeholders are working toward the same goal and have a clear understanding of what needs to be done. This will create a more favourable investment climate in this sector. I am happy to say, in the case of Sei Mangke, KP3EI's involvement solved the problem.

Does the current public-private partnership (PPP) model need further modification in order to encourage more involvement from the private sector?

ROESLY: Certain aspects need to be better provided for to create both well-structured projects and the environment to execute them. This includes the process, the procurement executions, the commitments from the owner of the project and the government's contracting agencies, as well as the support from the authorities, in terms of direct fiscal aid or contingent support. Most PPP projects require some official aid, because they are actually government projects that are seeking private sector participation through funding, expertise, or technology to develop a public infrastructure project. The right regulatory framework must support the whole process, because what investors need is the certainty and clarity of their investment.

The current model does not need any modification as we have the standard PPP model. The exact risk profile for each project is very different, but the model is in place for how the private and the public sector will interact, the contract regime, the rights and obligations, the risk allocation and what can we guarantee and how to execute it through a transparent process. The key for PPPs is all about the detailed risk allocation and risk profile for each project – they have to be fine tuned on the basis of each individual case.

KANNAN: The main change that needs to be made now is to remove the PPP centre from the government's planning agency and put it under the government's fiscal agency, as can be seen in places like South Africa, India, Australia or the UK. In these countries, the fiscal agency is directly involved in making the investment decisions at key stages of all PPP projects. The government contracting agency, which is always part of the selection process, takes over the implementation and monitoring of delivery. The Indonesian PPP model is evolving and is exploring improvements. For instance the government is exploring a performance-based annuity scheme (PBAS), which is an interesting alternative to the traditional build-operate-transfer model, since there are few projects for which full-cost recovery is possible. Under this model, private firms design, finance and build the infrastructure project. In return, the companies receive annual payments after the project is delivered over an agreed period of time, totalling the cost of infrastructure plus a mutually-agreed upon profit. Companies will be also contracted to operate and maintain the asset and receive annual payments, again based on performance. I feel that PBAS will become a key feature for developing infrastructure in Indonesia.

ARSJAD: I am a believer in the PPP model as an effective mechanism to deploy infrastructure in the country. But again, I think that most of the problems faced by the model go back to the lack of general alignment among stakeholders. I believe that government contracting agencies and private companies are often not succeeding in engaging the population and making them part of the project. These problems mainly come from a failure to explain the benefits of a project. Having people on board and making sure they understand a project's benefits is fundamental to PPP success.

What is the role of domestic and international financial institutions in supporting new developments in the country's infrastructure?

KANNAN: Indonesia has historically lacked banking partners for infrastructure development, mainly because they do not generally do project finance. This is now changing, following the creation of Sarana Multi Infrastruktur (SMI) and Indonesia Infrastructure Finance (IIF), which have a mandate to provide project finance in collaboration with other commercial banks. Most local banks are not used to long-term funding, but both IIF and SMI can provide long-term loans – say, for 15 years – and they can step in and buy back the loans from commercial banks after about eight years, if the banks want to exit. This is creating a market for long-term debt. Other alternatives to fund infrastructure development could be the utilisation of project bonds as it is done in Malaysia, where the entire cost of the project is structured as an Islamic bond – basically, a zero coupon bond with an 18-year tenure. Jamsostek is one entity that would be enticed to invest in such bonds.

ARSJAD: Infrastructure development greatly depends on the availability of funds from both local and foreign credit suppliers. More problematic sometimes is getting the funds for long-term infrastructure projects, which financial institutions are not always prepared to support. Indonesia needs to have a proper project financing structure. Project finance is a business about managing risks, and as long as the project is adequately structured and provides an optimum risk structure, financial institutions will be willing to take on a part of the project and share the risk as part of their mix of long- and short-term investment strategies. Funding infrastructure normally presents a great opportunity for financial institutions to earn profits over a long period of time. If they are not looking into this sector in Indonesia, we should find the cause of the problem. We should assess if the offers that are currently being presented to these firms are attractive and provide the necessary guarantees to financial institutions.

ROESLY: The challenge now is that most of the infrastructure projects in Indonesia are built through corporate financing, so they tend to look at who's doing the project. If the company appears to be reputable then the banks are more likely to decide to go ahead and help finance the project. In order to encourage further support from financial institutions, the projects need to be structured correctly. If the project is prepared with a proper structure then people will want to support it. The challenge in what is missing is that the banks have concerns because they see the amount of risk associated with infrastructure projects as long-term commitments and this sometimes does not match with their overall strategy to get money in the short term.

There is the benefit of a fixed return with infrastructure projects similar to a fixed-income investment, but they do not view this as something that is encouraging. But with commitment from the government and with the willingness to prepare a good project, the banks will come. The private sector has already seen how power purchase agreements with PLN have been done in the energy sector and that they are workable and up to market standards so this appears to be an area that investors globally can continue to look into.

How is capacity being built among stakeholders?

ARSJAD: Both central and regional governments in Indonesia agree that capacity building is fundamental to ensure the correct development and success of infrastructure development. The question is how this capacity is going to be built. In my opinion it is wrong to build capacity in every area of expertise in every province at the same time. We should create some sort of centres of expertise in each of the corridors and then invest in universities or training centres according to the skills that we aim to develop. It is basically about mapping the kind of industry that we want to grow in each area with the skills needed and then investing in education in each specific sector to create regional champions that can later share the acquired knowledge and act as consultative centres.

ROESLY: Capacity needs to be built through execution. We have several workshops and capacity-building programmes but you cannot expect much from these initiatives unless they are done properly and directly. Currently, we are focusing heavily on ensuring this model is in place, not only on the documentation and the project preparation, but also in project executions. Hopefully, these successful projects can act as examples for future endeavours.

KANNAN: The capacity to deliver any project comes from both direct experience and theoretical learning. In regards to the former, government officials and civil servants need to thoroughly understand the fundamentals of the projects that they are assigned. This can only be achieved when they have a hands-on approach on the project. As for the theoretical learning, the private sector is getting involved in capacity building for the public sector. This is being done through the creation of institutions that will be able to help officials successfully deliver projects. Recently, a private firm sponsored several senior public servants to be trained at Harvard University's Kennedy School of Government. This is a positive development. Most public servants at senior level we deal with in Indonesia are all well educated, doctorates or masters degrees from top universities. What they lack is direct project experience, as there have been few successful projects recently.

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