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Implementing Public-Private Partnership in Indonesian Infrastructure Funding: Learning from Japan Experiences

Miming Miharja, Ph.D.

Urban and Regional Infrastructure System – Research Group
School of Architecture, Planning, and Policy Development
Bandung Institute of Technology

Abstract

Public-Private Partnership (PPP) is a new challenging funding concept to help Indonesian cope with a huge need of nationwide infrastructure development funding. Many issues of this concept application in Indonesia context, ranging from philosophical, financial, and technical aspects, need intense discussion in trying to identify potential failure. This paper discusses those issues by referring to Japan experiences. Japan Private Finance Initiatives (PFI) is in many ways represents similar concept with PPP, which has successfully helped this country to develop nationwide public infrastructures. The discussion shows that from the perspective of the three categories of issue, Indonesia has many difficulties in trying to replicate the success of Japan. Philosophically, strong Japanese working spirit for national solidarity is proved as fundamental factor for the success of PFI. From financial point of view, the fact that Indonesia has more limited budget as well as wider remote areas have become severe constraints compare to Japan. Meanwhile, from technical point of view, social benefit cost analysis, financial feasibility study, legal drafting, and monitoring-evaluation are some important factors that need to be improved in Indonesia PPP implementation.

Keywords: Public-Private partnership, Japan, Indonesia, comparison.

1. Introduction

Indonesian state budget for national infrastructure development is very limited compare to 2010-2014 funding need. State available budget takes only Rp. 451 triliun (around 31%) out of total required budget as much as Rp. 1.429 triliun. This means that the nation needs to seek for the rest of around 69% of the total required budget (Indra, 2010). Realizing that private sector is one potential source of fund to fulfill the need, Indonesian Government, through its National Development Planning Board (Bappenas, Badan Perencanaan Pembangunan Nasional) initiates a

national program of Public Private Partnership (PPP). Although this public-private financing collaboration is not really new in this country's development funding practice, the program clearly intends to put the PPP into a more consolidated and systematic financial scheme to accelerate nationwide infrastructure development.

Many issues of this concept application in Indonesia context, ranging from philosophical, financial, and technical aspects, need intense discussion in trying to identify potential failure. In fact, Japan is one country that has, to a great extent, successfully implemented the PPP scheme for its infrastructure development. This paper discusses PPP application in Indonesia from those issues point of view by referring to Japan experiences. The discussion would focus on the identification of any factors that potentially be the constraint for Indonesia in trying to replicate the success of Japan.

2. Philosophical aspect

Wide gap between the need for infrastructure development finance and state budget availability clearly justifies the importance of public private partnership (PPP) in Indonesian Infrastructure development strategy. However, its implementation in Indonesia case requires careful consideration even in philosophical level that would be a key point for the success of this scheme. Firstly, from public perspective, PPP is a strategy to deploy private capital in helping the government to finance public infrastructure development, with social benefit orientation. Secondly, from private sector perspective, PPP is an investment scheme with profit orientation. It is very important to understand the weaknesses of both sides which would be the threat to the success of PPP. From government side, limited experience, overlapping regulations and institutions, and opportunistic behavior, are some weakness elements. On the other hand, profit oriented strategy which tends to create negative externalities, is private sector basic characteristic that potentially be the disadvantage of PPP. The spirit of collaboration between the two sides, motivated by the vision of nation interest, would be the key point for the success of PPP.

Learning from Japan success in PPP, their Private Finance Initiative (PFI) is strongly based on their philosophical values which are: hito (human orientation), kokoro (working with heart), and dai (wisdom of leadership). These very basic values create the attitude of discipline and put public interest as the priority in every PFI implementation strategies.

The political leaders and government official moreover develop strategic coalition with few but powerful conglomerates, or former priyayi, to accumulate capital thus the system prone to corruption practices (Cowherd, 2005).

As Pompe (2005) stated, in Indonesia, corruption even becomes the necessary source of revenue within the system itself without which the system can not work at all.

3. Financial aspect

There are three types of PPP financial schemes in Japan. Type-I pure public funding, type-II public-private shared funding, and type-III pure private funding. In Indonesia context, it is very important to realize the government budget limitation in one hand, and the wide remote area that need public infrastructure services, on the other hand. These factors have been the obstacles to choose financial schemes that rely either on government funding (type-I and type-II) or on private funding (type-II and especially type-III, particularly for infrastructure development in remote areas where the affordability of the living people is low. In the remote areas, quite impossible for the private-involved scheme to get expected return from a costumer charged system, e.g. small scale infrastructure services with low income people services such as school, hospital, sport facilities, etc). On the other hand, PPP in Indonesia should be able to be an alternative financial strategy for infrastructure development in this country's remote areas, not only in urban areas. This fact leads to the need to develop a PPP scheme based on creative cross-subsidy mechanism. In other words, the bundelling concept should be developed to the strategy of incorporating a number of projects in one consolidated financial scheme, in which cross-subsidy among the project would be the mechanism to finance the unprofitable projects by the profitable ones.

4. Technical aspect

From Japan PFI experience, the most important lesson is that they develop the PFI concept to establish a systematic, transparent, accountable, and procedural public-private partnership. This clear and systematic arrangement has been the tool that support an efficient and effective PFI implementation. This has also successfully reduced the case of failures. In fact, the trial and error process of establishing the standard operating procedure is also experienced. During the trial and error process, Japanese spirit of learning and improving and focus to a positive final outcomes are other key factors for their success. In reflection to Indonesian case, it is urgently needed a clear but quite simple regulation (or standard operating procedure, to be more precise), which guide an efficient and effective process of:

- Social benefit cost analysis (SBCA)

A PPP project proposal needs a careful assessment whether such proposal fulfills the principle of providing a maximum social benefit. This analysis is important in Indonesia case since PPP is basically intended to help the government provide public infrastructure services for the people. Social benefit cost analysis involves a series of identification, valuation, net present value calculation, and interpretation. The most crucial part is when the method comes to the step of analyzing intangible, indirect, and cross-jurisdictional benefit and cost created by one particular project. This certainly requires professional work, but on the other hand not too complicated.

Finally, as a criticism to decentralization, the “neo-progressive” centralization argues that consolidation of existing government units with significant powers to control land use and development can better promote economic development, reduce inequality, and address social, economic, and environmental externalities (Lowery, 2000).

- Financial feasibility analysis

This analysis usually conducted by financial consultant. However, some financial variables are usually assumptive and may create miscalculation both overestimation and underestimation. Therefore, counter checking is needed by the government. For that purpose, it is very important to have professional government officers who can handle the effective counter checking.

- Legal drafting

In every PPP scheme, there is always a risk of future legal dispute. To minimize both public and private sector risk in time of dispute, it is urgently required to prepare a clear legal document before the agreement is signed. To cope with this, the government should be supported by professional lawyer. In many cases, private sector has already equipped by professional legal office to secure their business, but not much in the case of public sector. Therefore, strengthening public sector legal office is one important agenda in PPP.

- Monitoring and evaluation

Our monitoring and evaluation objective should be reoriented from “seeking the mistakes”, which lead to a foul played compensation, to “correcting the mistakes”, which lead to improving the standard operating procedure. The correcting spirit refers to Japanese spirit to always seek for the most efficient way in implementing the PFI rather than blaming somebody to take advantages.

5. Some actual reflections

- Public participation

From several Japanese PFI cases, it is quite clear that Japanese hierarchical system is a fundamental factor that supports an efficient and effective process of their PFI implementation. In the case of land readjustment Hanagashima and project of Miyazaki Art

Center, for examples, the top-down approach is quite effective. Despite a dynamic public aspiration during the planning process, the conflict can be managed to gain collective agreement. In Indonesian case, it seems that gaining a collective agreement through a top-down approach would not be the easy job in many PPP proposal due to this country dynamic democracy nowadays. Public participation approach would certainly need serious attention, particularly in PPP projects which are concerning people.

After 1997 economic crisis which was followed by national reformation, this country has been experiencing fundamental socio-political changes toward more real democratization (van Dijk, 2001; Kirana Jaya and Dick, 2001).

- Board of judgment

In Japanese PFI system, board of judgment, consist of some trusted people, is functioning to judge the PPP proposals. This board is fully trusted to objectively judge and decide which proposal offer the most efficient and effective plan to do the project. The judgment of this board is attach in every PFI project steps, including planning, implementing, monitoring and evaluation. This system is proved to be effective in conducting an objective, accountable, and transparent PFI project by minimizing opportunistic and vested interest. This system could be applied in Indonesian PPP in which applying institutional setting in its current judgment system. The weakness of the institutional setting is many blurred areas in the responsibilities. It is because the decision is made collectively not personally.

- Long term commitment

Many PPP project, particularly “mega-infrastructure project” take a long run of implementation period (e.g. decade). This type of PPP project requires a long term commitment between the private sector and the authority that represent the government. In fact, Indonesian government system is not really support this condition due to a short term local leader term (5 years). Many local leader try to gain maximum benefit during their term and tend to avoid the long term commitment. This leadership character threat the sustainability of the project, in which the built and operate stages are not followed by consistent maintenance agenda. It very much requires a long term legal binding to cope with this problem.

This perspective views fragmented local governments in developing countries decentralization which seems to be poorly positioned in providing services that require inter local government collaboration to achieve efficiencies to address the economic development, affordable housing, environmental problems or urban sprawl, metropolitan level transport planning and development, etc. (see Rusk, 1993; Downs, 1994).

6. Conclusions

From Japan PFI concept and implementation, we learn that the key factor for their success is the spirit to gain as much as possible public benefit. Japanese successfully establishes strong national orientation to maximum public benefit through hito, kokoro, and dai spirit. Beside the support of these cultural values, Japan PFI success is also supported by the fact that they has a strong national budget, relatively high people affordability, and less remote area. The third essential factor is that Japan has already established a clear, systematic, accountable, and transparent standard operating procedure for PFI implementation. In comparison to Indonesia, the three factors are not in Japan condition. Indonesian must put attention on these three aspects in trying to replicate the Japan PFI success. Cultural aspect and wide serving area are not easy to be handled. However, limited budget to cover the infrastructure funding need for the whole range of social group can be handled by setting the cross-subsidy financial strategy. Also, developing clear, systematic, transparent, and accountable standard operating procedure for PPP implementation is an aspect that could be improved to minimize the risk of failure.

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