Can Public-Private Partnerships Still be Expected?

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The policy environment of infrastructure business throughout the world is now increasingly exposed to the economic elements of competition, private ownership and or tendering for operation and maintenance contract. By doing so government is aiming at improving the efficiency of public sector delivery and reduce amount of state subsidies. Although the recent infrastructure laws intended to end public monopolies and open the infrastructure market to private entities, only certain market such as telecommunication grew rather rapidly, then power and waters. Toll roads seem to develop very slowly, all too often are hampered by land acquisition, while other sectors such as ports, airports and railways are even slower. To appreciate the current debate on the issue and in order to safeguard the interests of public at large, the elements and the nature of infrastructure market should first be addressed.

More than two decades Public-Private Partnership (PPP) has been a very fashionable concept in infrastructure discourse in Indonesia. In 1991 the World Bank began offering loan TAP4I (Technical Assistance Project for Public & Private Provision of Infrastructure) to the Government of Indonesia, then continues with various ADB loans such as PPITA (Private Provision of Infrastructure Technical Assistance) and recently IRSDP (Infrastructure Reform Sector Development Project) through the ADB loan. Total financing of hundreds of millions of dollars has been absorbed, but the realization of PPP is still nowhere. Having hit twice by financial crises in 1998 and 2008, infrastructure investment has not recovered to pre-crisis levels, though the nominal has been increasing up to 3.2% GDP: compared with China 8.5% and India 4.7%, Vietnam 10%. The recent Master Plan for the Acceleration and Expansion of Indonesia's Economic Development (MP3EI) and the technocratic draft of upcoming Five Year Development Plan (RPJMN 2015-2019) provide huge infrastructure pipelines, and they still heavily rely on private participation to fill the funding gap.

Until now bilateral and multilateral supports for the PPP continues to flow, however, the process moves very slowly and when PPP project lists were brought to the market, transaction is hardly occurred. But many still believe that PPP will accelerate infrastructure provision, ease fiscal constraint and spur economic growth. In the local PPP market, there remains a missing link between the huge demands and the huge availability of capital market. The slow progress is due to some fundamental reasons, predominantly bad project planning and preparation, more specifically unsatisfying risk-reward ratio to investors. What went wrong and lacking? This article is an academic view resulting from a series of discussions with the actors: public, bureaucrats, private and knowledge institution.

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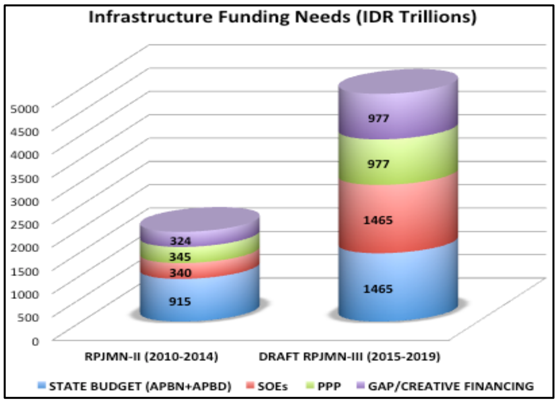

From a recent round table discussion on Medium Term Development Plan (RPJMN-III) 2015-2019 it was estimated that infrastructure funding needs would be around US$ 489 billions (IDR 4886 trillions), which is more than double the previous RPJMN-II 2010-2014 i.e. US$ 213 billions (IDR 1924 trillions), and yet government budget can only cover around 30% (IDR 1465 trillions). Another 30% estimated is expected to be covered from the state-owned enterprises (SOE) funds, and the remaining 40% was expected to be met by PPP and creative financing sources, 20% each i.e. IDR 977 trillions. Given the past unsatisfactory PPP achievement, of course, these will pose questions and challenges to all of infrastructure players in the country. Understandbly PPP target in RPJMN 2015-2019 draft was set as a necessary milestone in achieving MP3EI 2025, however, it should be set as realistic as possible, taking into account past experience and above all affordability test should be part of the assessment process. A better target and only priority PPP projects should be listed in the future PPP book, together it must be accompanied by a fundamental change in the PPP procedures, legal and institutional arrangements, otherwise, unsatisfactory past achievements will hold.

PPP Controversies

Through PPP government and private entities marry for a long period of time to build and operate public infrastructure with a lower cost than if it would have been funded merely by the government. More succinctly, PPP projects are aimed at providing more efficient public services delivered by private sector actors through an optimal risk-sharing arrangement. PPP should provide added value and efficiency gains -- value for money (VfM) -- as a result of innovation and productivity brought by the private partner. However, the PPP market has not yet developed in emerging economies like Indonesia, so qualified bidders are lacking and competition is simply not in place. Basically, the market is not really contestable, and when innovations and efficiencies are rare, these factual economic trends then pose a very fundamental question: whether PPP can still demonstrate value for money compared to the pure public funding or deliveries?

In the emerging countries like Indonesia efficiency gains as the basic argument in PPP application seems to be less important, so value assessment is usually ignored. All too often governments pursue PPPs for reasons to relax the fiscal gap or to substitute the necessary funding needs for public infrastructure. Therefore priority to obtain private capital, in some cases, is pursued whatever the cost borne to the customers. The prolonged brouhaha on monorails development in Jakarta, which is solely funded by private capital, exemplifies the case. Similar monorails enthusiasm now spread to other cities in the country. Nevertheless, if succeeded, it is a kind of future investment, whereby the resulting debts were all passed and coped by the project finance, but with higher user fees, as private finance initiatives are exempted from any kind of subsidies.

Government herself already understands why PPP process has been too slow and transaction is rare, if not any at all. The government underestimates the process and procedures. Visible tip of the iceberg that is the funding gap issue is over emphasized, so in the minds of policy-makers the solution is how immediately to meet the needs and fill the fiscal gap i.e. the substitute, rather than a complementary to the real demands. The section beneath which are massive and unseen, among others, the purpose of PPP is still not clear, the project planning and preparation are bad, low institutional capacity at central and sub-national levels, the practice of good public and corporate governance is weak, inter-agency coordination, widespread corruptions, unfair competition climate, qualified private operators and construction industries are rare, etc. all of which have not been touched to be resolved seriously.

Despite all the past efforts that have been made through a bunch of business forums, conferences and exhibitions, setting up committees, the memorandums of understanding (MoU) amongst the Finance Ministry, the National Development Planning Agency (Bappenas) and the Investment Coordinating Board (BKPM) on PPP inter-agency coordination also streamlining the legal and regulatory framework post Presidential Regulation number 56/2011, and lastly establishing institutions for infrastructure financing and guarantee scheme, nevertheless there is still much work to fix the PPP procedure ahead.

Some suggest that PPP should be prepared and managed in accordance with the international PPP best practice. Is there any unique PPP procedure or standard applicable worldwide, anyway? Despite the abundance PPP reports made by a number international organizations, consultants, research institutes and financial institutions, a thorough review that relied more on evidence and submissions from a broad range of stakeholders are yet now under investigation, such as, in the UK being regarded as leading PPP market and implementer. Private Finance Initiative (PFI) has been challenged as providing government's giant credit card to the private entities. Having published "A New Approach to Public-Private Partnerships" (HM Treasury, 2012), son of PFI (dubbed PF2) has recently been introduced. PF2 aims to reinvigorate the infrastructure sector while addressing criticisms on the ground that the previous scheme (PFI) did not deliver value for money in some projects, it involved a slow and expensive procurement process and employed insufficiently flexible contracts. This forward-looking PPP undertaking will most likely provide inspiration for other PPP units around the world in the coming years.

Can PPP still be expected?

The answer is yes it can. Firstly, current PPP procedure, which is governed by Presidential Regulation number 56/2011 is no longer convincing, therefore needs to be upgraded. To ensure consistency of policies and to convince the potential private partners, it is desirable to bring the hierarchy up to a Law or Act level. Cycle of PPP projects from planning to operation and until the assets are handed back to the state may effectively exceeds the period of one or two governments or presidential office terms. Neighboring countries such as the Philippines and Thailand continue to improve the legal and institutional framework of their PPP undertaking. Malaysia is far ahead in front other ASEAN countries. This is a very tough job for the upcoming new government to accomplish, because there are a lot of overlapping legal and regulations that need to be amended.

Secondly, the ambivalence whether to go for public spending, PPP funding and or SOE funding as witnessed repeatedly needs to be ended by establishing a dedicated PPP Center, professionally run and separated from routine administration, whereby PPP projects cycles are properly managed starting from the planning, preparation to market and closing. The PPP Center conducts a proper value assessment during the PPP preparatory stage prior to tendering stage. The center should conduct the PPP process in transparent, competitive and equitable manner to reach the right and best price of infrastructure services to the communities. The Center is best placed directly under the office of the President or Vice President, alternatively it may be placed closer to the office of the Ministry of Finance, where fiscal policies are taken care of, rather than in Bappenas as currently applies. In the Center PPP experts are pooled, the PPP nodes in the ministries and sub-national governments can access them for advice.

Indeed, there is still much work to be done before PPP can be fruitful. A competitive neutrality concept so far has not been introduced towards public sectors or SOE's proposal, for example. When they are competing with private capitals, distorted incentives and facilities enjoyed by public sectors need to be corrected to ensure competitive neutrality. Learning from the countries where PPP market is already mature like in UK, Australia or Canada, efficiency gains can only be realized by setting fair competition and fostering local industries and service providers.

Closing remarks

Having managed PPP for more than twenty years with all that unsatisfactory progress and achievement, in the upcoming new term of government all remaining regulatory, institutional and inter-agency obstacles should be resolved to speed up PPP projects implementation. Apparently, PPP discourse has still to pass a nurturing stage at all level of government administration, particularly on how to improve the institutional capacities of local government in dealing with PPP. The role of central government nevertheless is very crucial to carry on completing and enforcing PPP governance and international best practice. The missing link between the huge PPP demand and the availability of capital in the market is obviously hampered by improper value assessment starting from the very beginning of PPP projects preparation.

Many parties most likely misunderstand the PPP requirements. List of PPP projects offered so far, the resulting assessment has not shown any efficiency gain or value for money, so naturally PPP transaction is hardly realized. The danger, if there is qualifying transaction, it does not give the best and the right price to the costumers. In the absence of PPP championship and policy direction from the top level, maintaining PPP governance is simply impossible. Partnership can only be successful if there is strong political leadership, aided by entrepreneurial bureaucrats. Because PPP schemes demand a totally different set of mind. In traditional public funding, administration is buying the services from private entities, while in PPPs arrangement administrations are to sell the economic opportunities of public sector provision and operations through fair risk sharing and reward with private entities.

Finally, a few words on scope of PPP infrastructure and financing are worth noting. Until now social infrastructure such as hospital and medical care equipment, schools or campus and the facilities also government complex all have not been included in the PPP scope. These types of infrastructures, particularly health services and medical equipment are urgently needed by the mass population, and are suitably financed through availability or annuity payments with or without subsidized user charges.

As for academic communities, challenges in PPP implementation require them to develop the core competence in infrastructure planning and management, also legal and finance. Moreover, the faculties need to work interdisciplinary in conducting research on this challenging issues in order to accumulate empirical knowledge of certain elements in the PPP project management and offer courses and trainings to help spread and disseminate the knowhow widely. For private investors, PPP opportunities in Indonesia remain attractive, though often frustrating, but be patient and wait for the situation to improve.