

A better year for infrastructure?



Completion of Jakarta Outer Ring road and Trans Java will have an immense impact towards easing the flow of traffic around Jakarta

As we start a new year, it's fitting to look back and see what progress was made towards the building of Indonesia's much-needed infrastructure in the year just passed. On average Indonesia needs to spend at least \$30 billion every year for the foreseeable future, with some \$18-20 billion per annum coming from private sector sources.

While much of the government budget for infrastructure is essentially spent across the country, including that required for maintaining existing assets, precious little was achieved last year in the area of new construction. The pressure to bring new infrastructure onto the market increased.

However, looking through what has been prepared would suggest that 2012 will see the start of some key projects.

On toll roads, the end of the year

brought a surprise with the passage of the new legislation on land acquisition. The Public Works Ministry should now get down quickly to preparing the complementary implementing regulations, although this will take several months at best.

In terms of toll road build-out, there would seem to be progress towards construction starts during 2012. The short missing W2 section of the Jakarta Outer Ring Road and the lengthy and important Trans Java stretch between Cikampek and Palimanan, where it is reported that land acquisition is well-advanced, would seem to be welcome likely candidates.

Completion of both will have an immense impact towards easing the flow of traffic around Jakarta in the case of W2 and in traffic going and coming along the eastern part of the north corridor in West Java.

Work is under way on the E2 link aimed at providing Tanjung Priok with alternative toll road access, and perhaps there will be some start, if only land acquisition, on the long overdue link round Jababeka between Cibitung on the Cawang-Cikampek Toll Road, connecting at Cilincing with the E2 link. There is also much activity going on behind the scenes on some other key sections.

The six Jakarta city toll links were posted recently. However, at a cost of some \$4.5 billion the proposal that these should be let as one package is a tough one for most parties interested in investing in the toll road scene. There must be a strong case for presenting these links in at least two, if not three, packages. This would also introduce an element of competition.

Many mostly small- to medium-sized water investment projects have



been listed and a few of these are now appearing for tender, with the Lampung scheme receiving support from the Indonesia Guarantee Fund. Hence the year should see the implementation of some water projects, not to mention the long-overdue construction of the important large Umbulan project in East Java.

The main port project in the public eye is the desperately needed \$1.5 billion first-phase Kalibaru container port expansion at Tanjung Priok. At the time of writing a government decision on how this is to be progressed was awaited. A decision that allows as fast a start as possible would be welcome.

On railways, there has recently been renewed interest in progressing the proposed rail link to the airport from Jakarta. One hope is that whatever is decided - and several options have been considered in the past - the journey time is acceptable and the city center connections to road transport are efficient.

Double-tracking sections and station upgrading are ongoing, but much needs to be done to improve operations and the skills base of staff.

On the main commodity rail links planned for transporting coal from mines located well inland, the highlight of late last year was the signing of the contract for the funding from China of the proposed 274-km link from the South Sumatra Bukit Asam mine to port facilities in Lampung.

The rail links planned for Kalimantan remain some distance from achieving financial support, and the public sector element of the PPP approach ascribed to these projects is not yet sufficiently robust to provide adequate comfort against risk issues to seal private sector interest.

The airline sector is showing strong upward growth, such that the required airport support capacity is

falling behind. The private airlines of Lion Air and AirAsia with large fleet expansions are showing spectacular growth. Soekarno-Hatta, the country's main point of entry is now supporting passenger traffic levels well beyond design capacity.

The new proposed international airport in West Java to the east of Jakarta aims to support the fast-expanding industrial growth emanating the area. This project, which is to have larger capacity than Soekarno-Hatta, needs to be pushed ahead as soon as possible, especially since good land transport links will be in place before the airport is completed. The new airport for Bali, currently going through the early development phases, also needs to be pushed ahead quickly. Indonesians are on the move.

An interesting presentation at the ASEAN Summit in Bali late last month was given by the aircraft manufacturer, Embraer, which was fully privatized by the Brazilian government in 1991. The release of this public sector corporation to the private sector led to spectacular growth and the creation of the third largest aircraft manufacturer in the world. This should serve as a message to the legislature in Indonesia that holding onto state-owned enterprises acts as a brake to their potential for greater expansion.

In the area of power generation, the construction of one 2,000 MW coal-fired station is about to commence. It will be a welcome contribution to the critical undersupply to the Java network.

On the other hand, PLN has had to cancel four proposed gas-fired projects because of lack of gas. There is increasing interest in development of geothermal plants in Java and Sumatra since the gradual improvement in tariff structures: further contribution to the overall supply from this clean energy

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There remain a large number of hydro projects listed, and while a few developments are being or are about to be progressed, the rate needs to accelerate; a main handicap relates to the poor quality of the feasibility preparatory work for many projects.

There is increasing interest from overseas funding in Indonesian infrastructure. The big question is whether the rules of engagement have been sufficiently improved to maintain this level of interest and secure a percentage of it.

While this remains to be seen, there is an increasing air of optimism that infrastructure project development will move forward in 2012. It is anticipated that developments will gain pace as the year advances.

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