TAKING THE BULL BY THE HORNS

In Indonesia's realm of infrastructure, the role of the Ministry of Finance (MoF) in infrastructure delivery has remained somewhat ad hoc. For years, the market has been hoping for a more direct involvement from MoF in infrastructure delivery, in particular to increase the level of certainty of the government's contractual obligations under a concession agreement.

To its credit, the MoF in recent years had taken some concrete steps to improve the certainty of investment in infrastructure projects by creating institutions and products that included the establishment of Indonesia Infrastructure Guarantee Fund (IIGF), an agency to guarantee the government's contractual obligations under a concession agreement for public private partnership (PPPs) projects and the launch of viability gap funding (VGF) to improve projects' bankability.

While IIGF is doing a great job in its role as the extended arm of the MoF, the implementation of VGF has somewhat floundered since most projects seeking VGF have been poorly prepared and lacked a risk framework acceptable to the MoF. For these reasons, the MoF is finally taking the proverbial bull by the horns and decided to establish a public private partnership unit directly under its wings.

This new institutional framework enables the MoF to assess and vet the government's fiscal support much earlier in the project cycle, via its Risk Management Unit (RMU). This step negates the possibility of government agencies going through the tender process that effectively wastes the private

sector's time—now projects that would never qualify for government fiscal support will not reach tender stage.

Part of this new infrastructure delivery paradigm is also the increased recognition that the government must pay for strategic infrastructure projects that are not yet fully financially viable. In my previous column, I alluded to a newly proposed procurement concept called a Performance Based Annuity Scheme (PBAS) that could likely become a de facto procurement method for government funding of infrastructure. I am happy to say PBAS is getting a good hearing.

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PBAS, in simple terms, is a PPP scheme where a government contracting agency (GCA), say a toll road regulator, seeks proposals from a private consortium to design, build, finance and operate a toll road that is not financially viable but is needed for its economic importance. However, to avoid the past problem of the government receiving substandard projects, a PBAS concession agreement will stipulate that no payments will be made until and unless the private sector delivers the project as agreed.

Once achieved, the GCA will make annuity payments for the agreed period, say 10 years. During the concession period the project consortium will also be paid separate fees for operations and maintenance of the toll road, also subject to performance. No doubt, a PBAS scheme is a contingent liability on the government, which is why its usage must be controlled with the right risk level—something that should involve institutions such as the RMU and IIGF.

From the private sector, the key success factor for schemes like PBAS is their ability to convince investors that they can complete their projects. Accordingly, the completion guarantees from the consortium's contractors become important and the banks may require the contractors to joint venture with more capable partners. PBAS may also spur the introduction of new financing schemes such as project bonds tied to annuity payments.

In summary, the establishment of the new PPP unit directly under the MoF and government schemes like PBAS are positive news for fixing the infrastructure gap. I am hopeful that the new Minister of Finance will continue to spearhead these reforms. F

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