Jakarta's MRT construction progress in Sudirman street.

COURTESY OF MRT JAKARTA

SHIFTING THE INFRASTRUCTURE FUNDING PARADIGM

BY RAJ KANNAN

THOSE OF US who have been banging our heads against the proverbial wall to get the government to build projects to alleviate Jakarta's massive traffic were elated when the governor of Jakarta officiated the ground-breaking of Phase 1 of the north-south stretch of the Jakarta MRT project. The company in charge of this project, PT Mass Rapid Transit Jakarta, has hit the ground running. Along with the winning consortium of contractors consisting of Japanese as well as local contractors, it has started work in earnest.

Now let's look at why this project took more then 15 years to commence construction and why Phase 2 of this project is still in discussion, and why the east-west phase is not yet resolved. The main reason is funding—not lack of it but more from where to borrow it. For reasons I cannot fathom, some key government agencies and personalities continue to believe that the MRT infrastructure can be magically funded by the private sector, taking both the completion risks as well as the revenue risks. This fallacy is troubling because almost all MRTs and other public transport services in neighboring cities like Singapore, Hong Kong and Kuala Lumpur have all been built with government funding. In fact the annual revenue of the MRT in Singapore is just enough to cover its operating costs, and the government absorbed all of the capital costs.

It took way too long to convince the decision makers that the government must indeed pay for the capital costs of Jakarta's MRT and it took even longer to convince them that the cheapest way for the government to fund these massive projects was via Official Development Assistance (ODA) loans. Japan stepped in with a highly affordable loan with interest rate nearing zero and a loan period nearing half a century. Almost every country, including China with its vast amount of internal funds, used ODA loans effectively to build its economic infrastructure assets. Now that the ODA loan for Phase 1 of MRT Jakarta has been agreed to and the construction has started, one would assume that Phase 2 loans would be signed as well since the terms are very attractive.

The Trans Sumatra Highway project is much needed to replace broken roads in Sumatra.

LET'S LOOK AT ANOTHER MAJOR economic infrastructure discussed in the media: the Trans Sumatra Highway. Sumatra is the second largest generator of Indonesia's GDP and it is in dire need of an infrastructure backbone that can cut the travel time between economic activity centres, reduce logistics costs for businesses and increase overall connectivity within this major island. The government has proposed to entrust the construction of this megaproject via a 50-year concession to a state-owned enterprise. It had in principle proposed to provide the state-owned enterprise with a capital injection, government fiscal support and presidential support to get the project moving. Alas, some learned decision-makers believe that this project should not be supported with government funding.

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The Trans Sumatra Highway, despite its high economic viability, has a very low financial viability. Thus the possibility of having the private sector fund the project and retrieve their investments from toll collection is extremely remote. It is also unimaginable for the SOE to borrow from commercial banks to fund this megaproject since its very low financial viability simply cannot sustain loans at commercial rates. This is precisely the type of project for which the ODA loans are designed: to develop projects with very low financial viability but very high economic viability.

The logical question, of course, is the government beggaring the future by assuming contingent liabilities today to build infrastructure assets? The answer quite simply is no, provided the government ensures that the projects it chooses to fund with ODA and other strategic financing schemes bearing contingent liabilities, such as Performance Based Annuity Schemes (PBAS) and Availability Payments Schemes (APS), are projects with proven high economic viability with high business and civil society support. In addition, the government can also work with state-owned companies to refinance the various government loans by selling or securitizing the future revenues of the projects once the projects' financial viability improves. F

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