I FOR INNOVATION

INNOVATIONS are everywhere in Indonesia and I am pleased to report even in infrastructure, major disruptions are in play to innovate, not only in infrastructure funding, but also project delivery. These recent innovations emanate from a mindset change, as key government technocrats are now putting muscle to the often used but rarely practiced maxim of "business not as usual." Recent announcements on the Indonesia Development Bank to be established via the merger of government's existing infrastructure funders, and with a fresh injection of capital and provisions of automatic capital increase in the event of debt obligations, is a bold move by the country's lead fiscal agency. Plans are also underway for issuing pioneering project bonds in Indonesia as well as issuing zero coupon and perpetual bonds for infrastructure financing. To be sure, not innovative ideas elsewhere, but in Indonesia seminal.

In addition, the State Owned Enterprises Ministry is also spearheading innovation by proposing the merger of key SOEs to create mega-SOEs. While complex M&As with teething problems, in principle these strategic mergers are a way to create stronger and more versatile companies to achieve key government mandates.

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For example, government has proposed a three-way merger, with the transfer of all its shares of two firms, toll road operator Jasa Marga and civil contractor Waskita Karya, to Hutama Karya, the SOE that has been mandated to deliver the Trans-Sumatra Highway (TSH). This move will create an infrastructure behemoth that could build the TSH as well as own and operate most of the country's toll roads.

The creation of mega SOEs may not sound innovative, but for Indonesia, where SOEs are sacred cows, the proposed reforms of SOEs are indeed bold, disruptive and innovative. To state the obvious, these innovations can only be sustained by SOE leadership if they embrace reforms. The government must ensure that post-merger the mega-SOEs come out stronger not only in asset values, but also in management, technology and delivery capability. To raise performance, the SOEs must forgo insular organic growth and partner with both local and foreign private sector companies to quantum leap their own rapid growth as mega-SOEs.

China's mega-SOEs are a good paradigm. The China State Construction Engineering Corporation (CSCEC), started out as a general contractor in late 1950s, and, through mergers and acquisitions, is today the world's largest construction company with over $120 billion revenues. A key success factor for CSCEC is its proactive JVs with foreign companies. It also recruited the best and brightest irrespective of nationality—and as a result is now ranked number 37 in the Fortune 500 global companies.

In my last column, I predicted a watershed year for infrastructure delivery and I am thankful that the collective effort of reform-minded professionals in infrastructure delivery is bearing fruit with infrastructure innovators poised to crowd-out the traditionalists—indeed great news for the country's growth. F

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