

TRANSPORT & INFRASTRUCTURE

INFRASTRUCTURE OPENS FOR BUSINESS

CREDIT: MISTRI / PUBLIC WORKS

Indonesia is seeking billions of dollars of private investment in infrastructure projects across the archipelago.

Infrastructure has been the subject of two major national summits in the past three years in Indonesia, and it's clear why it is seen as such a high priority. Indonesia currently lags behind most of its Asia neighbours in the provision of essential infrastructure such as water, sanitation, roads, ports, power and telecommunications. In many sectors, poor infrastructure is acting as a brake on much-needed economic growth.

It was estimated in 2007 that the country would require a massive US\$145 billion to finance critical infrastructure projects over the following five years. Yet even with Indonesia planning to spend 7% of its GDP on infrastructure, estimates from the country's Investment Coordinating Board, the BKPM, indicate that only about 17% of this amount is likely to be available from public coffers.

Thus, the Indonesian Government and its provincial counterparts are turning to the private sector—both inside and outside the country—to provide an estimated US\$120 billion in infrastructure investment. In effect, this means conducting many infrastructure projects under public-private partnership (PPP) arrangements (toll roads, for example) and encouraging private investment with incentives and guarantees.

BANKABILITY THE KEY

The over-riding concern, as identified by several business people *Business Advantage* spoke to for this edition, is ensuring that the projects offer bankability—a guarantee of profitability that can be used to raise funds from financiers—to potential investors. While some infrastructure projects are being completed, many others are being stalled due to tenders falling short of international standards. While this remains a challenge, the number of projects on offer, especially in regional Indonesia, continues to grow. As provincial governments develop more expertise in project scoping and tendering processes, we can expect faster growth in infrastructure areas such as the ones listed below.

(For a summary of infrastructure projects currently on offer from Indonesia's provincial governments, see page 29.)

POWER

Power generation continues to lag behind the country's needs (only two-thirds of the population have access to electricity), while power cuts are frequent enough to have business groups complaining vociferously. With the Government committed to providing 100% access to power by 2020, there are many opportunities for independent power producers to get involved in this critical sector. (See section on mining and energy on pages 15 to 17 for more).

PORTS & SEA TRANSPORTATION

Sea freight is vital not only to Indonesia's international trade, but also to trade within the Indonesian archipelago, with its 81,000 kilometres of coastline. There are over 2100 ports in Indonesia. The Indonesian Government has moved to end the monopoly of state-owned ports operator Pelindo (which operates 111 main ports), opening the market for private port builders and operators, and separating the dual functions of regulating and operating ports.

The three ports of Jakarta (Tanjung Priok), Surabaya (Tanjung Perak) and Bitung in North Sulawesi are considered to have the potential to be major regional hubs. Opportunities also exist to upgrade Indonesia's ageing shipping fleet.

ROADS

'We have about 237 million people and we only have 335,000 kilometres of road,' notes Muhammad Lutfi, Chairman of the BKPM, Indonesia's Investment Coordinating Board. 'We have tripled what we had in 1968, but by now we should have at least a million kilometres of road. That is something we are going to look at.'

Two major national arterials earmarked for investment are the 1316 km North Java Coastal Highway (Pantura) and the 5276 km Trans-East Sumatra Highway. Both are major routes of road haulage, the Pantura carrying between 20,000 and 70,000 vehicles a day, but are currently plagued by congestion and flooding. The Java Ring Highway System is also a priority for upgrading.

The toll road model is an accepted model for financing new roads and upgrades in Indonesia. In June 2008 alone, 10 toll roads worth 3800 billion rupiah (US\$414 million) went up for tender.

RAIL

On the rail side, the main driver for growth is freight demand. The government is planning to substitute the use of costly imported oil in electricity generation with coal sourced domestically. That coal still has to be moved from where it is mined (Sumatra and Kalimantan) to where it is required (Java in particular), via a combination of rail and sea.



TOLL ROADS ARE AN ESTABLISHED MODE OF FAST-TRACKING TRANSPORT INFRASTRUCTURE

The challenge is not only to add new infrastructure but also to upgrade the decaying existing network operated by under-funded state railway company Kereta Api Indonesia.

Indonesia's Parliament recently revised the 1992 railway law, which should pave the way for some form of privatisation and, at some stage, the involvement of foreign players.

AVIATION

Of about 230 airports throughout the country, only about 35 can currently accommodate planes of the size of a Boeing 737 or larger. While national carrier Garuda Indonesia is pushing for further airport upgrades (see interview on page 14), PT Angkasa Pura II has already commenced work on a new terminal at Jakarta's Soekarno-Hatta Airport. This will not only enable the airport to accommodate the new Airbus 380, but will also add four million passengers to its annual capacity.

Post 1999, the number of aircraft and airlines operating in Indonesia has increased and there has been free competition. The sector's expansion has not come without its problems, however. Safety—actual and perceived—remains an issue.

TELECOMMUNICATIONS

Indonesia's telecommunications industry is in good shape. That may seem like an optimistic statement, given that only 4% of the population have fixed-line telephones, but the rapid growth in mobile telephony and the emergence of new technologies is rendering that statistic increasingly irrelevant.

Indonesia's archipelagic geography makes the provision of new fixed-line infrastructure very costly (a hefty US\$500 to set up each subscriber). In this environment, the country's carriers are embracing 'fixed wireless' as a more feasible solution (at around 10% of the cost). This involves a traditional phone being provided via a wireless local hub.

The total number of mobile—or 'handphone'—subscribers is predicted to rise to around 140 million by 2011, from 60 million in 2007. Mobile call costs are falling sharply and service levels are respectable.

The healthy state of Indonesia's telecommunications industry is in one sense a case study on the benefits of deregulation. In 2001, the Indonesian Government opened up the sector to competition and now there are 10 mobile players—compared to just three in China and India—although state-owned Telkomsel (which recently announced a 16% rise in profits for 2007) still dominates, with 50% market share. Telkomsel has also recently affirmed its strategic intention to spread its business outside Indonesia.

WATER SUPPLY

Indonesia has set itself a target of reaching 60% coverage of piped water supply in urban areas by 2015 (it is currently around 50%), and 40% coverage in rural areas in the same timeframe.

The Water Supply Development Supporting Agency (BPP SPAM) oversees the water supply at a national level, acting as a promoter and mediator in the PPP process. ■



JAKARTA'S NEW MASS TRANSIT BUS SYSTEM HAS GREATLY IMPROVED THE DAILY TRAVEL TIMES OF THOUSANDS OF CITY WORKERS

CONSTRUCTION: PACIFIC PLACE PROVIDES DEVELOPMENT BENCHMARK

Any visitor to Jakarta over the past few years could hardly have failed to notice the city's building boom. A surge of investment in construction projects has seen the creation of many new prestige retail developments, office towers and residential apartments. The demand for building materials, especially concrete and steel, as well as construction equipment, continues to rise.

While some commentators have expressed concern that the capital being ploughed into the retail sector might be better invested elsewhere, the relative ease with which finance can be obtained for major retail projects has led to the creation of some extraordinary, world-class developments. Undoubtedly the most architecturally interesting and impressive of these is the new Pacific Place, situated in Jakarta's Sudirman Central Business District.

Pacific Place confirms Indonesia's construction sector is capable of developments of the highest quality and complexity. It is effectively a city within a city: not only home to hundreds of premium shops, a 10-storey office tower, and 76 cafes and eateries, but also the site of Jakarta's newest five-star hotel, the Ritz-Carlton Pacific Place (Ritz-Carlton's second five-star hotel in Jakarta.)

As well as a traditional hotel, with one of Jakarta's best

restaurants and a state-of-the-art health and fitness centre, the Ritz-Carlton Pacific Place also includes premium longer-stay executive apartments. The hotel faces two residential apartment blocks across a striking roof garden (pictured), built around the giant glass dome that sits atop the shopping centre below.

The Ritz-Carlton Pacific Place also has a massive convention space, featuring a 3600 square metre ballroom—the largest hotel ballroom in Asia. The ability to host conventions, concerts and corporate events in world-class facilities is undoubtedly helping to reaffirm Jakarta's standing as a location for major events.



INTERVIEW: GARUDA LOOKS FORWARD TO IPO

A poor recent safety record has hampered national airline Garuda in its efforts to develop Indonesia's aviation industry and promote Indonesia as a business and tourism destination. The airline is turning its fortunes around, however, as *Business Advantage* discovered when we spoke with Garuda President Director Emirsyah Satar.

Garuda recently successfully completed the International Air Transport Association's Operational Safety Audit (IOSA). What are the implications of this and when do you expect to be able to recommence flights to Europe?

We achieved our IOSA registration in May. This is a very rigorous process, featuring some 900 different standards that an airline must be audited for.

Not only is this achievement a testimony to our commitment to safety, but it also makes cooperation with other airlines much easier. In the last couple of months we have signed agreements with both Singapore Airlines and Korean Air, which not only bring considerable commercial benefits but can also act as a stepping stone to becoming part of an alliance. For instance, Korean Air is a member of the Skyteam alliance that also includes members such as KLM, Air France, Delta and Northwest Airlines.

The ban on flying to the European Union (EU)—we hope it can be lifted as early as October or by the end of 2008 at the latest. Although Garuda itself is in direct communication with the EU, the fact that there is currently a blanket ban in place on all Indonesian airlines essentially makes it a government-to-government issue.

Although the global airline industry appears to be entering a challenging period, the outlook for Garuda appears positive, especially given the Indonesian economy is likely to continue to grow strongly. Where does Garuda go from here?

We are currently preparing the company for an IPO sometime next year. We will finalise our debt restructuring this year to provide a solid foundation going forward. I am happy to report that we made a profit in 2007 and expect to do likewise in 2008. Over the next five years we anticipate our fleet growing from its current size of 54 aircraft to about 130 aircraft.

What developments will be required in Indonesia's airport infrastructure to achieve such high growth?

We expect to have the new terminal at Jakarta airport completed by the end of the year. A major new international airport is due for completion at the end of 2009 in Medan, in the province of North Sumatra, and a new airport at Makassar (South Sulawesi) is opening this month (August 2008).

It is not just about new airports, however. We need to upgrade most existing airports—for instance, by extending runways to cater to larger aircraft, and upgrade equipment and facilities.

From Garuda's point of view, we also need most airports in the provincial capitals to remain open later at night in order to optimise our aircraft utilisation.

Of course, Garuda is also a key stakeholder in Indonesia's tourism industry. What do you see as the key to developing this sector?

You can sense strong growth in the tourism sector at present and this should be maintained, on the proviso that we continue to have political stability. There is no doubt that Bali is the gateway to Indonesia in terms of tourism, but the country has so many potential destinations. I believe we have a comparative advantage in eco-tourism, with the opportunity to provide new experiences to markets such as Japan and Korea.



GARUDA'S EMIRSYAH SATAR ACCEPTS THE AIRLINE'S IOSA REGISTRATION FROM IATA