Promoting Public-Private Partnerships:
A Review of The Indonesian Infrastructure Guarantee Fund

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Bagus Kurniawan
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Members of the Examining Committee:

Dr. Sunil Tankha (Supervisor)
Dr. Joop de Wit (Reader)

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Inquiries:

Postal address:

Institute of Social Studies
P.O. Box 29776
2502 LT The Hague
The Netherlands

Location:

Kortenaerkade 12
2518 AX The Hague
The Netherlands

Telephone: +31 70 426 0460
Fax: +31 70 426 0799

Contents

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List of Tables

List of Figures

List of Appendices

List of Acronyms

ADB	Asian Development Bank
BAPPENAS	Ministry of National Development Planning
BKF	Fiscal Coordination Agency
BOT	Build, Operate and Transfer
CA	Contracting Agencies
CJPP	Central Java Power Plant
GAP	Guarantee Application Package
GDP	Gross Domestic Product
GMS	General Meeting of Shareholders
GOI	Government of Indonesia
IAD	Institutional Analysis and Development
ICIEC	Islamic Corporation for Insurance of Investment and Export Credits
IDB	Islamic Development Bank
IIGF	Indonesian Infrastructure Guarantee Fund
IIF	Indonesian Investment Fund
IRSDP	Infrastructure Reform Sector Development Program
KKPPI	National Committee for the Acceleration of Infrastructure Provision
MIGA	Multilateral Investment Guarantee Agency
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MP3EI	The Master Plan for the Acceleration and Expansion of Indonesia's Economic Development
NPM	New Public Management
OECD	Organization for Economic Cooperation and Development
P3CU	Public Private Partnership Central Unit
PGC	Project and Guarantee Consultation
PPIAF	Public-Private Infrastructure Advisory Facility
PPP	Public Private Partnership
PT	Perseroan Terbatas (Corporation/Enterprises)
RfP	Request for Proposal
Rp	Rupiah (National Currency)
SMI	Sarana Multi Infrastruktur

SOE	State-Owned Enterprise
UKP4	Presidential Task Unit in Monitoring and Evaluation

Abstract

Following the Asian Crisis in 1997-1998, the quantity and quality of infrastructures in Indonesia is deteriorating. Furthermore, there is a relatively big gap in the budget allocated and budget needed in the infrastructure development. Therefore, the government decided to use the Public Private Partnership (PPP) as an alternative for infrastructure financing.

However, there are challenges in the implementation of PPP. It needs certain requirements to ensure that there is a strong foundation on the ground for PPP to grow. This becomes the basic reason for the government to initiate the reform strategies, including regulatory and institutional reform. Moreover, as part of the reform, the government also established the Indonesian Infrastructure Guarantee Fund (IIGF) in order to make the infrastructure project more attractive to the investor.

The research paper examines the impact of the reform strategies taken by the government by looking at the performance of IIGF, whether it can fulfill its mandate to attract private sector be involved in the infrastructure development.

Relevance to Development Studies

Traditionally, the government is the main actor in the public service delivery, especially in the developing countries. However, current development shows that there is a shift, in which the private sector have a greater role in the public service delivery. The idea of Public-Private Partnership was introduced by the developed countries in order to stimulate the public entities to have the same performance level with the private entities. This paper tries to show the dynamic of this public and private relationship.

Keywords

PPP, Public Private Partnership, IIGF, Indonesian Infrastructure Guarantee Fund, capacity, coordination, institutions, infrastructure, risk.

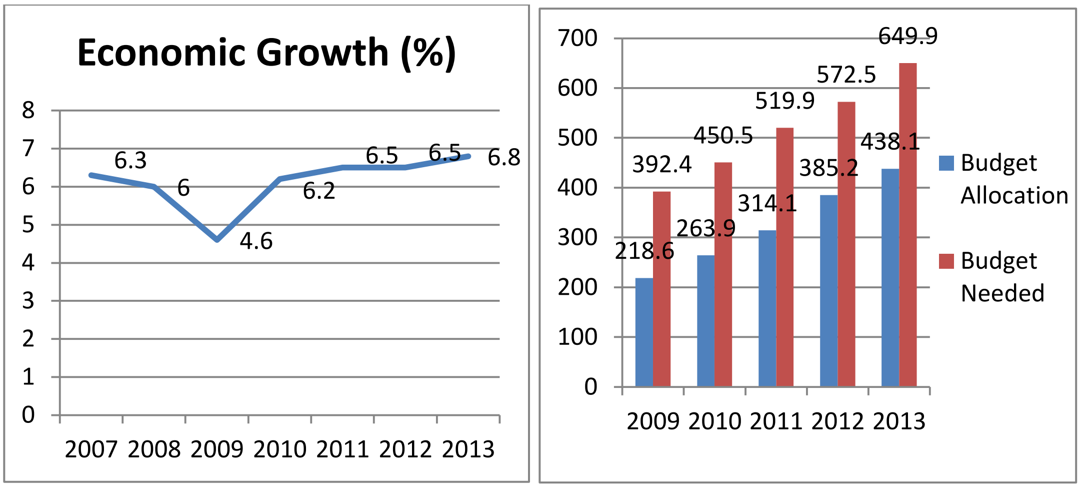
CHAPTER I
INTRODUCTION

A. Overview of the Implementation of PPP in Indonesia

Following the Asian Crisis in 1997-1998, the Indonesian economic situation was suffering due to the massive impact the crisis had on economic sectors such as banking, trading, manufacturing and infrastructure. In the context of infrastructure, the Government of Indonesia (GOI) was under financial constraints to deal with the growing demands of adequate investment in infrastructure, while the private sector was also re-considering their options because investing in infrastructure in Indonesia had now become more risky and expensive. During this period, infrastructure development was practically stagnant, in accordance with the Indonesian economic performance. This is because the state budget was mainly used to improve the economic condition rather than to allocate for the infrastructure development. As a consequence of the crisis, Sadli noted that there was an extreme depreciation of Rupiah, the national currency, and also a very high interest rate followed by increases in unemployment due to businesses collapses as their foreign debt suddenly soared. Hence, the government's priority is recovering the economy by helping business sector dealing with their debts as well as providing a social safety net for the people (1998: 277-278). Furthermore, the government also still has to work hard to restore investors' trust to the Indonesian economy. Thus, it is estimated that public and private contributions in infrastructure, decrease from 5-6% of GDP before the 1997-1998 crisis to around 1% of GDP in 2000 (Pisu 2010: 5). The implication of this low infrastructure investment was that there was an inadequate supply of infrastructure for current economic growth. As a result, the quantity and quality of infrastructures in Indonesia has been deteriorating. Based on The Global Competitiveness Report 2013-2014, while its economies ranked at 38th, Indonesian infrastructure still in the 61st position in the world, which indicates that it still need improvement (Schwab 2013).

In this regard, the GOI commits to fulfill the gap of infrastructure in order to support economic development. However, there is a relatively big gap in the budget allocated and budget needed for the infrastructure development. This gap is mainly due to resource limitation on the part of the government. Therefore, they need to find an alternative to close the gap. It is expected that the private sector through the Public Private Partnership (PPP) scheme can serve this purpose. The figure below shows a relatively stable economic growth in Indonesia. In accordance with that, the infrastructurale development is also growing from 2009-2013.

Figure 1. Indonesian Economic Growth (%) and Indonesian Budget for Infrastructure Development (in Trillions Rupiah)



Source: Ministry of Finance, 2013, BAPPENAS, 2012

In general, PPP can be defined as "agreements where public sector bodies enter into long term contractual agreements with private sector entities for the construction or management of public sector infrastructure facilities by the private sector entity, or the provision of services (using infrastructure facilities) by the private sector entity to the community on behalf of a public sector entity" (Grimsey and Lewis 2002: 108). Under a PPP scheme, the government still owns the project, even when they are not the one who built the project. As a compensation, the private sector, under contract arrangements, may take benefits from the infrastructure projects for a certain period of time. "In PPPs, while the public sector has ultimate responsibility for providing service, actual delivery becomes the responsibility of the private sector under contractual arrangements"(Awortwi 2004: 214). PPP may take the form of 'Greenfield' projects, in which private entities finance, build, and manage new public assets, or they can also be 'Brownfield' projects, where there is a transfer of responsibility for upgrading and managing existing assets to a private company (World Bank 2014: 18). The figure below shows several common PPP schemes and modalities:

Figure 2. PPP Schemes and Modalities

Schemes	Modalities
Build-own-operate (BOO) Build-develop-operate (BDO) Design-construct-manage-finance (DCMF)	The private sector designs, builds, owns, develops, operates, and manages an asset with no obligation to transfer ownership to the government. These are variants of design-build-finance-operate (DBFO) schemes.
Buy-build-operate (BBO) Lease-develop-operate (LDO) Wrap-around addition (WAA)	The private sector buys or leases an existing asset from the government; renovates, modernizes, and/or expands it; and then operates the asset, again with no obligation to transfer ownership back to the government.
Build-operate-transfer (BOT) Build-own-operate-transfer (BOOT) Build-rent-own-transfer (BROT) Build-lease-operate-transfer (BLOT) Build-transfer-operate (BTO)	The private sector designs and builds an asset, operates it, and then transfers it to the government when the operating contract ends, or at some other prespecified time. The private sector partner may subsequently rent or lease the asset from the government.

Source: Hemming, 2006

However, there are challenges in the implementation of PPP, especially in many developing countries, including Indonesia. "A PPP program should proceed with caution in the absence of an adequate institutional framework, which should be characterized by political commitment, good governance, government expertise, and effective project appraisal and selection" (Hemming 2006: 16). It is important to note that managing PPP is not the same as managing traditional bureaucracies, thus the government has to change its way of doing business. "Implementing successful PPPs require both sides to overcome traditional dogmas and paradigms. Simply transferring business practices to the public sector without changing the latter's inward-looking orientation will not be enough" (Hofmeister and Borchert 2004: 218). It is also argued that the implementation of NPM principles in the developing countries is often ineffective because the government functions remain executed through a top-down process of bureaucracies (Manning 2001).

In the context of PPP development in Indonesia, the private sector has been allowed to invest in toll road projects through a build, operate and transfer (BOT) scheme since the early 1990s, but, past experience shows that the cooperation between government and private sector was based on collusion and nepotism. "The majority of infrastructure projects have been delivered either under unsolicited projects or otherwise awarded to consortiums with "politically linked" local partners" (Handoko 2010: 56). According to Transparency International, "collusion between government officials and bidders can result in arrangements to inhibit competition by deceiving or depriving others of their rights in order to secure an unfair advantage" (Kühn and Sherman 2014: 7).

The condition has become even more problematic with the government's implementation of decentralization policy through the issuance of Law Number 22/1999 which was then replaced by Law Number 32/2004. Local politicians and local executives play a dominant role in the infrastructure development. In Medan, North Sumatra Province, for instance, local politicians are motivated in implementing new levies which will enable them to take control of several public infrastructures such as the local airport, the local harbour, and also the local water supply company, in order to gain authority over related levies and taxes (Hadiz 2004: 709-710). As a consequence, decentralization may also have contributed to the gap of infrastructure conditions between provinces. Currently the responsibility for the infrastructure provision such as roads, water and sanitation belongs to the local governments, thus it depends on financial or natural endowments, sound political leadership and administrative capacities of the particular local governments (Pisu 2010: 9) as well as developing the capacity needed to manage a PPP program (Hemming 2006: 19).

In addition, the infrastructure development in Indonesia involves several different agencies/institutions, making it hard to coordinate. "This arrangement is inefficient, as no agency provides the necessary degree of coordination, leadership and expertise to plan, execute and roll out infrastructure projects in a timely manner" (Pisu 2010: 10).

Learning from this, the GOI decided to implement a reform agenda which was assisted by the World Bank based on the international best practices. One of the reforms taken by the GOI is the promotion and strengthening of good governance practices through regulatory reform and institutional reform. In relation to infrastructure development, the reform was initiated in 2005, through the issuance of Presidential Regulation No. 67/2005, 13/2010 and 56/2011 which regulates Public Private Partnerships scheme comprehensively. Furthermore, in May 2011, the GOI launched The

Master Plan for the Acceleration and Expansion of Indonesia's Economic Development (MP3EI). Under the Master Plan, PPP is acknowledged as one of the alternative financing schemes for projects, therefore it is recommended for all the governments to implement the method.

Then, the reform process continued with the establishment of several new agencies related to infrastructure development. The establishment of the Indonesian Investment Fund (IIF) as an agency that is responsible for managing infrastructure and investment in the strategic sectors set by the central government, Sarana Multi Infrastruktur (SMI) as an agency that is responsible to promote PPP in financing various infrastructure projects in Indonesia, and also Indonesian Infrastructure Guarantee Fund (IIGF). Among these three institutions, IIGF is the only institution that was established mainly to serve PPP projects. The other institutions were originally established to serve infrastructure projects in general, then under the new regulation, have been invited to also participate in the PPP projects.

"As an enterprise 100%-owned by the GOI, IIGF is designed to be a credible guarantee provider. This will be ensured through a robust governance structure, minimizing any risk of political interference, very high standards of transparency and disclosure, total ring-fencing of the IIGF's assets, and a mechanism to ensure full operational independence of the IIGF" (IIGF. 2011). Since IIGF is based on the international best practices as their guideline in assessing the projects, their opinion is reliable and trustworthy, therefore, the investors are unlikely to enter a partnership if the projects do not acquire IIGF guarantee approval.

B. Justification and Relevance of the study

Normally, the government is the main actor in development projects, especially in the developing countries. One of the sectors that is important for development is infrastructure, like energy (power generation and supply), transport (toll roads, bridges and tunnels), water (sewerage, supply), telecommunications and social infrastructure (hospitals, prisons, courts, schools, museums and government accommodation) (Grimsey and Lewis 2002: 108). However, the government budget available is often not sufficient to finance the infrastructure development, and hence, they decided to invite the private sector into the field.

Privatization is one of the ideas introduced by the New Public Management (NPM) to improve economic performance of a country. "Privatization defined as the transfer of productive assets from the state sector to the private sector" (Kirkpatrick and Parker 2005: 514). It could be a partial transfer, in which the state still holds the majority and still has the control over it, or it could be a full transfer, where the state becomes the minority or even does not have shares anymore and no longer has significant control over the assets. It was aimed not only to provide money for the government, but also to improve financial performance through increasing output and cutting expenses, thus it could stimulate public enterprises to have the same performance level as private enterprises (Kirkpatrick and Parker 2005: 528, Cavaliere and Scabrosetti 2008: 685, Baer and Montes-Rojas 2008: 325). However, as explained further by Kirkpatrick and Parker, in the context of developing countries, privatization is less successful, partly because of poor institutional quality, poverty, inequality and resource limitations (Kirkpatrick and Parker 2005: 528). Additionally, Savas provides a list of the methods of privatization, such as: contracting out, franchising, deregulation, and public-private partnerships (Savas 2000). Hence, it can be said that PPP is a broader definition of privatization.

Nevertheless, Parr et al argue that although regulatory and institutional reform indeed plays an important role in promoting PPP, these reforms alone are not sufficient if there is no strong foundation on the ground. Therefore, the reform will only look good on paper, but not in reality. The reform itself was based on the idea introduced mainly by the donors in order to improve the recipient's performance, usually in the context of promoting good governance and combating corruption. Yet, the problem that was intended to be tackled by the reform still exists since the recipient (developing countries) does not have adequate capacity to make sure the reform is being implemented properly (Fukuda Parr et al. 2002: 8).

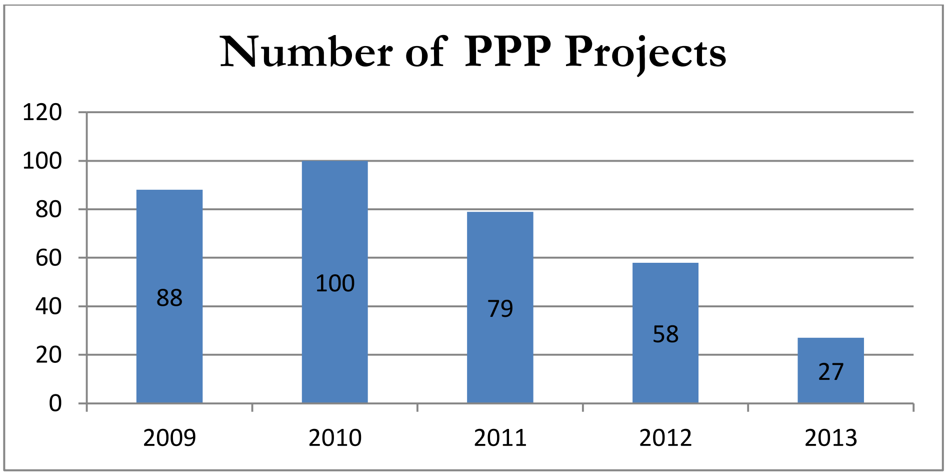
Hence, this study will try to analyze the impact and progress of the reform strategies implemented by the Government of Indonesia in relation to the challenges in the PPP implementation. The analysis will focus on the performance of the Indonesian Infrastructure Guarantee Fund (IIGF) as the newly established institution specifically for PPP projects in Indonesia.

C. Problem Statement

The progress of PPP in Indonesia was not optimal compared to the high expectation of it. For instance, during the Indonesian Infrastructure Summit I (2005) and II (2006), the government was putting nearly a hundred infrastructure projects on the table, but the response from the investors was low. The argument is that these projects were poorly prepared and low in quality (Handoko 2010: 63). This condition implies that there is a lack of capacity from the government to engage with the private sector. Another assumption is that there was possibly a low commitment from the project initiator (Ministries/SOEs/Local Governments) to be in a partnership or maintain a partnership because they are still preferred the regular procurement scheme rather than PPP, inadequate institutional capacity and also the old paradigm of the "business as usual" way of thinking of the government (Latif. 2012).

According to PPP Book 2013, there was a declining in the number of the proposed infrastructure project from 2009 to 2013, as shown by the figure below:

Figure 3. Number of PPP Projects 2009-2013



Source: PPP Book 2013 (BAPPENAS)

BAPPENAS argued that the decline was due to the more comprehensive and stricter screening processes put in place in order to get higher quality and more feasible projects and minimize project failures (Bappenas 2013). This also implicitly tells us that some projects were badly planned and structured. This condition happened mostly because the contracting agencies have to develop project proposals by themselves, with limited resources and knowledge. In line with that, a high ranked government officer from the President's Office (UKP4) stated that indeed there are many unsuccessful PPP projects due to the lack of preparation of the projects, especially regarding legal matters, land acquisition matter and conflict of interest among stakeholders, that make them unfeasible and unattractive to the investors (Suryowati 2014).

Additionally, from its establishment in 2009 until 2014, there is only one project from 21 ready to offer projects, that has been guaranteed by IIGF. It was for the Central Java Power Plant (CJPP) in 2011. The remaining projects considered as need for improvement, particularly because the projects are not well-planned or well-prepared thus cannot pass the IIGF's criteria. As a consequence, there is no revenue from guarantee provision since 2011. Although, they are able to derive revenues from their financial investment which is around Rp. 312,2 billion (20,1 million euros) in 2012 (IIGF 2013).

Furthermore, it is interesting that this decline occurred even after the government has been working hard in ensuring that it has the precondition for PPP to grow through regulatory and institutional reform. Hence, it is necessary to analyze further, whether the regulatory and institutional reform has the capacity to promote PPP, considering the current condition where PPP in attracting more investment projects on infrastructure?

D. Research Objective

The purpose of this research is to understand the dynamics in the implementation of the GOI's reform strategies in promoting PPP in Indonesia by looking at the performance of IIGF, whether it can fulfill its mandate to attract private sector be involved in infrastructure development by providing guarantees to the PPP projects. The assumption is that as a result of the reform, there will be a conducive PPP environment, hence, IIGF is expected to be performing well. Moreover, there will be less PPP projects being cancelled or under a distressed conditions, because the reform strategies are effectively coping with the capacity and coordination issues in PPP.

E. Research Questions

- How is the performance of IIGF in promoting PPPs and what have been its potential challenges?

Sub Questions:

- What is the mandate, structure, and finance of IIGF?
- Which are the key stakeholders and how does the coordination among them affecting IIGF?
- What are the general issues of capacity and how do these link to IIGF?

F. Methodology and Data Collection

The study will use primary and secondary data sources for answering the research questions. Data will be collected from the online sources and related agencies/ministries. This paper would be a qualitative research using literature review, secondary data collection and interviews. Regarding this, field work has been done in order to get the data and interview key persons in related agencies to know their perception on how this is working on the ground. Based on an initial analysis of the guarantee provision process, there are five main actors that may be considered as influential to the performance of IIGF. These include the Ministry of Finance as the policy maker as well as the owner of IIGF, BAPPENAS who determines which projects can be developed and assisted as PPP projects, IIGF as an agency that provides guarantee specifically for the PPP projects, Contracting Agencise (Ministries/Lcal Governments/State Owned Enterprises) and the Private Sector.

Hence, in depth interviews were carried out with the key people from these respective institutions in order to have an understanding of how things operate on the ground based on their experience in the guarantee service provision. This method enabled the author to get a rich sample of information from the respondents. In fact, some relevant information may not be available in any documents or reports, and may not also be gathered if using other data collection method. "Interview may provide data on understandings, opinions, what people remember doing, attitudes, feelings and the like that people have in common " to address the research problem in depth (Arksey and Knight 1999: 2). During the interviews, a main issue was introduced to the respondents, followed by some main questions. However, there were also flexibility provided to allow for time to be spent on issues emerging during the interviews. The interviews were conducted separately based on the availability of the respondents. The process was smooth and was recorded as well as using rapid note-taking with the permission of the respondents. The details of the respondents are provided in the Appendix IV.

Secondary data was also gathered from online sources as well as from the ministries/agencies themselves. This data, include the annual report, internal magazine, rules and regulations, articles and news from the newspaper.

G. Limitations of the Research

The limitations and challenges of the research was the availability of the key persons that need to be interviewed. This is partly due to the fact that most of the field work was conducted during Ramadhan and Eid Celebration, in which there were public holidays. Another challenge is that since most of the respondents are at the middle manager level plus one director, it took some time for them to respond and set up a meeting schedule. Therefore, of 3 respondents from the Ministry of Finance, the author was not able to set up a meeting with 1 of them, who is from the Fiscal Coordination Agency (BKF) due to the reason mentioned earlier. In this case, the author had to rely on secondary data such as their publications and reports which are available online.

H. Organization of the Research

The first chapter was dedicated to the introduction, including background overview, research justification, problem statement, research question, research methodology as well as risk and ethical challenges. The conceptual framework and analytical framework are emphasized in the second chapter. Then, the reform in the context of PPP implementation in Indonesia, past and present situation, challenges and opportunities, and ongoing reforms in promoting the PPP scheme will be elaborated in the third chapter, followed by an organizational assessment of the Indonesian Infrastructure Guarantee Fund (IIGF) in the fourth chapter. Next, chapter five will provide for the analysis and findings. This analysis was conducted to examine the impact of the reform strategies taken by the GOI to the performance of IIGF to promote PPP in Indonesia. Finally, chapter six is for conclusions and answering the research question and sub question as well as provide a summary of all chapters.

CHAPTER II
CONCEPTUAL AND ANALYTICAL FRAMEWORK

A. Public Private Partnership

According to Rhodes, "Governance signifies a change in the meaning of government, referring to a new process of governing; or changed conditions of ordering rule; or new methods by which society is governed" (1996: 652-653). Governance is no longer considered as 'the government', a self-oriented public institution, rather it is shifting into multi-stakeholder institutions by bringing notions from the private sphere into its operation (Gasper 2002, Kjær 2004). Apart from that, governance has also evolved. It is horizontally shifted when governance encourages opportunities for cooperation between state (central or local) and non-state actors and enabling them to be involved in service delivery (Swyngedouw 2005). This type of changes is widely known as New Public Management (NPM). As a part of New Public Management (NPM), Public Private Partnership (PPP) is one of the alternatives for the government to financing their development project, especially infrastructures. Through the PPP scheme, the government gives a larger role to the private sector to be involved in service delivery.

As mentioned earlier, PPP is a broader definition of privatization as described by (Kirkpatrick and Parker 2005: 528, Cavaliere and Scabrosetti 2008: 685, Baer and Montes-Rojas 2008: 325). According to Hernandez, privatization and PPPs are similar concepts, both rooted in the philosophy that private sector involvement in the delivery of public projects or services can result in operational and fiscal benefits for a public agency. They are different in three primary areas: ownership, structure, and risk. Ownership refers to the party that has and controls the rights or interests in an asset or service enterprise. Structure refers to the resulting contractual arrangements that are used to facilitate privatization or PPP. Risk refers to the responsibilities, financial or legal, that are undertaken by the appropriate party–public, private or shared as conditions of a contract (2007: 12). There are many definitions of PPP found in the literature, for instance definition provided by The World Bank, "PPP is a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance" (2014: 17-18). Additionally, PPP can also be defined as "agreements where public sector bodies enter into long term contractual agreements with private sector entities for the construction or management of public sector infrastructure facilities by the private sector entity, or the provision of services (using infrastructure facilities) by the private sector entity to the community on behalf of a public sector entity" (Grimsey and Lewis 2002: 108).

Nowadays, PPP is becoming widely used among governments in the world because of its benefits. It enables the governments to lessen debt and share the infrastructure risks and rewards with the private sector entities (Grimsey and Lewis 2002: 109). It is also can be an instrument for the governments to introduce investment and efficiency into the system while the government still retains ownership (Awortwi 2004: 214). However, there are also risks embedded in PPP projects. "Much of the risk of a PPP project comes from the complexity of the arrangement itself in terms of documentation, financing, taxation, technical details, sub agreement, etc involved in a major infrastructure venture…" (Grimsey and Lewis 2002: 109). Furthermore, Grimsey and Lewis also mention some risks that any infrastructure projects face, among them are: technical risk, construction risk, operating risk, financial risk, and political risk (2002: 109). For this reason, generally investors have to analyze to what extent the risks affecting their expected return on investment, and decided whether the project is worth the money. If the risks are considered as significant, the investors tend to ask for a high return also or they will turn away from the project. As a result, the project becomes expensive and may not be feasible anymore. In this case, the government may need to interfere in the form of risk sharing or performance guarantee (Grimsey and Lewis 2002: 111, Wibowo 2012: 3-4).

B. Institution

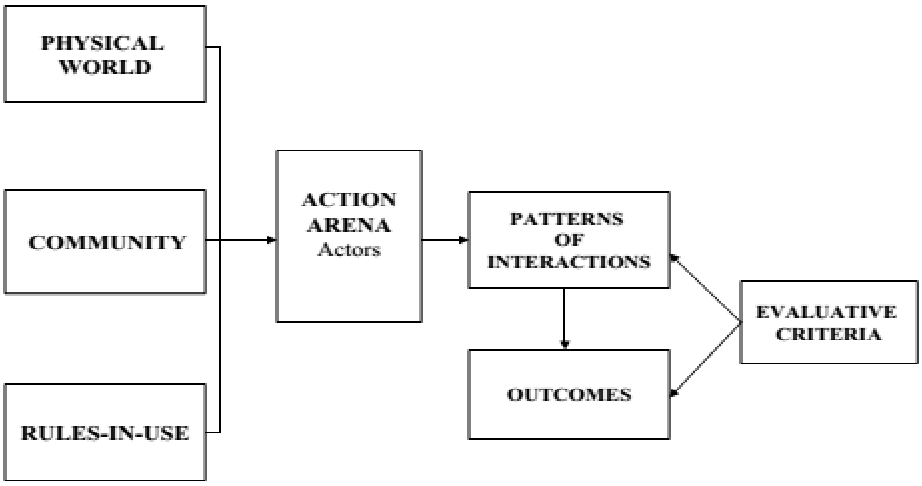
"Institutions are the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions and codes of conduct) and formal rules (constitutions, laws, property rights)" (North 1991: 97). Therefore, "even if good formal rules are borrowed from without, tension may be created since indigenous, informal rules are inert and difficult to change. As a result, a borrowed institution may be neither enforceable nor functional" (Aoki 2001: 1-2). "Institutions are the rules (formal and informal) of the game in society. As a consequence, they structure incentives in human exchange, whether political, social or economic" (North 1991, Herrera et al. 2005). In addition, North also pointed out that "if institutions are the rules of the game, organizations are the players. They are groups of individuals engaged in purposive activity. The constraints imposed by the institutional framework defines the opportunity set and therefore the kind of organizations that will come into existence" (1994: 3).

Nevertheless, there are challenges in analyzing institutionally-oriented policy as explained by (Polski and Ostrom 1999, Ostrom 2008). First, as mentioned earlier, there are various interpretations of the term "institutions", "… they are exist in the minds of participants and sometimes are shared as implicit knowledge rather than in an explicit and written form" (Ostrom 2008: 824). Some may define institution as an organizational entity such as government agencies, non governmental organizations, the parliament, political party, business firms and families. This is based on the argument that " an organization can be thought of as a set of institutional arrangements and participants who have a common set of goals and purposes and who must interact across multiple action situations at different levels of activity " (Polski and Ostrom 1999: 4). Others may also interpret institutions as accepted rules, norms and strategies adopted by individuals operating within or across organizational settings (Ostrom 2008: 824). Regarding this, therefore this paper will use the definition of institution as "a widely understood rule, norm or strategy that creates incentives for behavior in repetitive situations" (Crawford and Ostrom 1995, Polski and Ostrom 1999: 3). The second challenge relies on the complexity of analyzing institutionally-oriented policy. Policy is often not always simple. "Most involve knowledge from many different perspectives, activities are organized at multiple levels and any given policy situations overlaps with other policy situations so that activities in one situation affect activities in another" (Polski and Ostrom 1999: 4). Lastly, it is very challenging because a successful policy may not be that successful if it is being implemented in another policy situation and condition. As mentioned by Polski and Ostrom, there is no "blueprint approach" (1999: 4). This is to say that people may think that the easiest way to have a good policy is by adopting the well-established and well-performed policy design. An institutional setting that fits into policy situation A may or may not fit into policy situation B, C or D, *vice versa* (Polski and Ostrom 1999: 5).

C. Institutional Analysis and Development (IAD) Framework

"The IAD framework is best viewed as a systematic method for organizing policy analysis activities that are compatible with a wide variety of more specialized analytic techniques used in the physical and social sciences without replacing other techniques" (Polski and Ostrom 1999: 5-6). As a consequence, the IAD framework needs various ways of thinking from different subjects or courses. Consequently, it will provide a wider insight of social situations as well as a strong ground for a collective move (Polski and Ostrom 1999: 7). Below is the representation of the framework:

Figure 4. Institutional Analysis and Development Framework



Source: (Polski and Ostrom 1999, Ostrom 2008)

Based on the framework as presented in Figure 4, Polski and Ostrom explained that after describing a policy question or problem, the focal point of the investigation is on the interaction and activities in the action arena, which includes the action situation, and individuals and groups who are routinely involved in the situation (actors). The purpose of this investigation is to find certain aspects within the physical world, community (culture) and rules in use, that contribute to the dynamic of the interaction of actors in the policy situation. Additionally, this will also enable us to recognize and asses the forms of relationships between actors that eventually will determine how the games being played in the action arena and how this affects the outcomes (1999: 6).

D. Capacity Framework

As Parr et al argue, regulatory and institutional reform is indeed important in order to strengthen a country's capacity in implementing new policies. However, these reforms alone are not sufficient if there is no strong foundation on the ground. There are issues of capacity, especially in the developing countries which affecting the proper implementation of the reforms. He also added that since many development strategies are developed by the donors, it is possible that they are ignoring the existing capacities of the recipient countries and just replace them with strategies produced elsewhere, instead of a gradual transformation process (2002: 8). Furthermore, Parr et al defined "capacity as the ability to perform functions, solve problems and set and achieve objectives. Each society has the capacity that corresponds to its functions and objectives" (2002: 8-9).

In addition, Oballa and M. Halfani has also underlined that, "in practice the emphasis of an institutional approach has tended to focus on changing laws and reforming the civil service. These are undeniably valuable, but are not easily implemented, or specifically targeted… (2004: 15). Based on Grindle and Hildebrand, "capacity building refers to improvements in the ability of public sector organizations, either singly or in cooperation with other organizations, to perform appropriate tasks" (1995: 445). Therefore, they have identified five dimensions of analysis, that affect capacity and capacity-building interventions, including the action environment, the institutional context of the public sector, the task network, organization and human resources (Grindle and Hilderbrand 1995: 446-447). In view of this, Roche has provided an organization assessment as a tool to analyze on how an organization reflects on what it does, how does it and what its strengths and weaknesses, that may affect the outcomes of a policy implementation (1998: 183). This is important since each organization has their own mission. This mission is critical because it "…helps define an organization, expressing its values and envisioning its future, simply and clearly (Brown and Yoshioka 2003: 5). "In particular, it has been suggested that "the more engaging, attractive and worthwhile the mission is to people, the more the agency will be able to attract support from those people, to attract some of them to join the agency, and to motivate them to perform well in the agency" (Rainey and Steinbauer 1999: 16, Wright and Pandey 2011: 23).

E. Coordination

Another consideration is related to the organization structure. "The structure of an organization can be defined simply as the sum total of the ways in which it divides its labor into distinct tasks and then achieves coordination among them (Mintzberg 1979: 2). Therefore, it provides direction on how the organization's resources can be used in order to achieve their purposes (Egeberg 2003: 117). " However, in a hierarchy (horizontally or vertically), separation of issues at lower levels only means that coordination responsibility is moved up to higher echelons" (Egeberg 2003). Nevertheless, coordination is always a difficult task to perform. Furthermore, in a big organization like the government, "policy coordination involves many distinct government agencies and the job of binding them together within a framework of "general purpose government" is likely to involve messy, *ad hoc* and non-hierarchical forms of management" (Painter 1981: 276). In line with this, according to a study by Scharpf, "organizational boundaries may not prevent interaction, but they seem to create semi-permeable walls, which impede the flow of information (on the demand side as well as on the supply side) and which reduce the capacity for the conflict resolution in the case of substantive and jurisdictional conflict" (Egeberg 2003: 121). Hence, in order to understand how organizations harmonize their act together, Mintzberg has proposed five analytical tools including: mutual adjustment, direct supervision, standardization of work processes, standardization of work outputs, and standardization of worker skills (Mintzberg 1979: 3).

CHAPTER III
REGULATORY AND INSTITUTIONAL REFORM

A. General Condition of Indonesian Infrastructure

Even after the Asian Crisis in 1997-1998, the Indonesian infrastructure development is still in a slow progress as a consequence from the financial constraint faced by the Government of Indonesia (GOI). Infrastructure development was practically stagnant. "In real terms, the infrastructure stock grew by only 3 percent annually in 2001-11, against 5.3 percent for GDP growth" (World Bank, 2014: 82). The actual condition of Indonesian infrastructure can be illustrated through the table below:

Table 1. Selected Infrastructure Indicators

	Indonesia			Southeast Asia[1]	OECD[2]
	1995	2000	2008[3]	2008[3]	2008[3]
Water and sanitation					
Improved sanitation facilities (% of population with access)	51	52	52	83.3	99.9
Improved water source (% of population with access)	74	77	80	95.5	99.6
Energy and transport					
Electric power consumption (kWh per capita)	271.6	402.3	566.0	1759.2	9871.4
Electric power transmission and distribution losses (% of output)	11.7	10.9	10.6	7.9	5.9
Roads, paved (% of total roads)	52.4	57.1	55.4	79.8	79.0
Information and communication technologies					
Fixed broadband subscribers (per 100 people)	..	0.002	0.176	2.5	25.0
International Internet bandwidth (bits per person)	..	1.2	34.9	2375.5	19 342.6
Internet users (per 100 people)	0.03	0.93	7.9	27.5	71.1
Personal computers (per 100 people)	0.5	1.0	2.0	13.3	69.9
Fixed broadband Internet access tariff (USD per month)	..	..	21.7	19.7	30.4
Mobile and fixed-line telephone subscribers (per 100 people)	1.8	5.0	74.9	98.0	149.5
Mobile cellular subscriptions (per 100 people)	0.1	1.8	61.6	86.4	103.4

1. Unweighted average of Malaysia, Thailand, Philippines and Vietnam
2. OECD excludes Chile, Israel, Mexico, Poland, Slovenia and Turkey
3. 2008 or latest available year

Source: (Pisu 2010) based on World Bank report

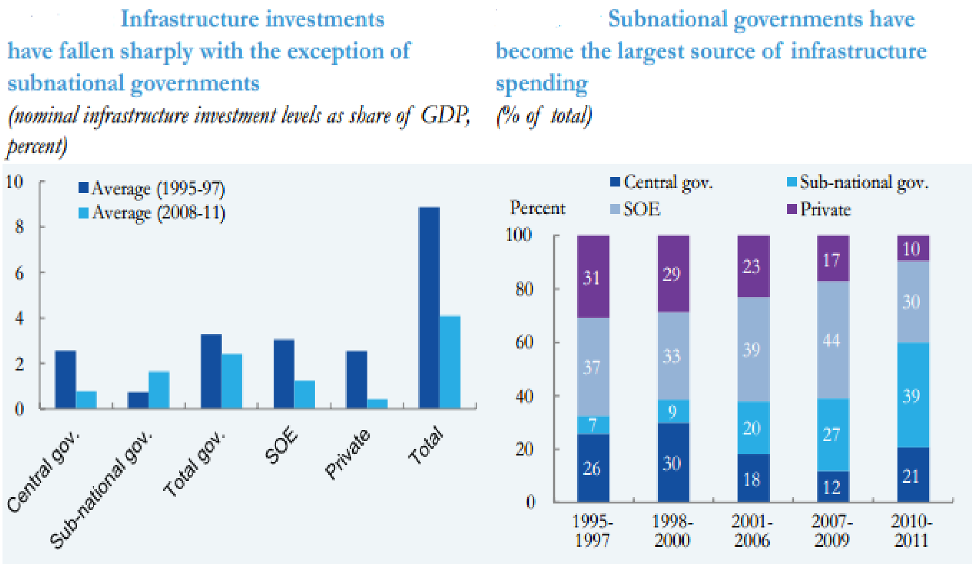
A recent report from the World Bank suggests that if the GOI want to improve their infrastructure development, they need to start allocating more money on it rather than to fuel subsidies. In addition, the World Bank also noticed that the challenges is not only about the money, there are also a complex institutional and regulatory issues, especially regarding land acquisition, coordination among government agencies and the guidelines of the government-private cooperation itself (World Bank, 2014: 91). Moreover, “lack of coordination and capacity is one of the reasons why the infrastructure budget is often under-spent, with spending concentrated at the end of the year” (Pisu 2010: 10).

For many years, under the old regime, the so called State Own Enterprises (SOE) were dominating the infrastructure provisions Indonesia (Purra et al. 2011: 237). They are enjoying this privilege under the justification of nationalism as these SOEs also representing the government. “According to the Indonesia’s basic constitution, all natural resources which dominate the life of citizens belong to the nation, thereby managed by the government” (Handoko 2010: 51). Thus, many infrastructure projects such as electricity, water, telecommunication will be managed by the government.

However, according to Handoko, many of these SOE’s are politically linked to the ruling party. As a result, many infrastructure procurements have not properly tendered, lack of transparency and surrounded by malicious practices. Moreover, the infrastructure provision under the old regime are mostly in the form of “Greenfield” projects which have less influence in empowering the government agencies and or SOE’s. Since there were also unclear regulations for procurement, “the majority of infrastructure projects has been delivered either under unsolicited projects or otherwise awarded to consortiums with "politically linked" local partners” (2010: 56).

As a matter of fact, Firman underlined that under the old regime, the GOI was associated with ‘bad governance’ in which corrupt behaviour was widely spread throughout public life. Then, in May 1999, in response to the reform initiative from the public, the Indonesian Parliament passed Legislation 22/1999 and 25/1999 regarding regional autonomy and fiscal decentralisation, which was not to be fully implemented until 2001. “These two laws are also intended to empower the local government and legislative council and the local communities and to bring government closer to the citizens. The other objectives are to make the disbursement of public funds more efficient and effective in responding to local development needs and to improve the quality of public service provision” (Firman 2003: 247-248). Furthermore, Firman has concluded, “in many ways, the reform and its implementation owe more to accident than to planning. Yet the basics of the reform were intentional, to enhance regional autonomy and fiscal decentralisation” (Firman 2003: 267). Figure 5 below shows that the infrastructure investments have fallen sharply in the period of 2008-2011 (after 1997/1998 crisis) compared to the period of 1995-1997 (before the crisis), except for the sub national governments. In the other hand, with regard to the fiscal decentralization, sub national governments have become the largest source of infrastructure spending (World Bank, 2014: 85).

Figure 5. Indonesian Infrastructure Spending



Source: World Bank 2014

However, as Devas argues, there are also potential challenges in the decentralization in Indonesia, including the lack of capacity of the local governments for administering and governing, and rent-seeking issues as well as paternalism/patronage issues (Devas 1997: 364-365). In fact, based on Hadiz (Hadiz 2004), the issue of the local capacity is still relevant to the current situation. Regarding this, the GOI need to incorporate this, as they may still be potential threats to the government's reform agenda.

B. Reform Strategies in Infrastructure Development

1. Regulatory Reform

Under President Susilo Bambang Yudhoyono era, the GOI is introducing Presidential Decree No. 67/2005, 13/2010 and 56/2011 regarding to the Cooperation between the Government and Enterprises in Infrastructure Provision. These regulations provide the legal framework for the GOI to formally engage with the private sector in the infrastructure development through a process that complies with the good governance principles as well as introducing options for government support to particular risks (Handoko 2010: 59-61).

In relation to the above regulation, there are other regulations that serve as a more technical regulation, including a regulation that provides guidelines about the type of risks that are allowed to be covered by the government. Under the Ministry of Finance Decree 38/PMK/2006 on Technical Directives for Controlling and Managing Risks of Infrastructure Development, government may cover infrastructure risks, including political risk, project performance risk, and demand risk (Handoko 2010: 60-61). In general, these regulations provide a new perspective as a new paradigm in the context of infrastructure procurement. Figure 6 shows the difference between the old situation and the new one.

Figure 6. Old Regime vs New Regime

Old Regime	New Regime
Centralized Approach	Local Government Involvement
State Owned Enterprises (SOEs) Domination in the Infrastructure Provision	Infrastructure Provision is Open for SOEs, Local SOEs, and Other Private Entities
Generally the SOEs Act as the Regulator and the Operator	Separation of the Regulator and Operator Function
No Regulation on Monopoly	Establishment of An Independent Regulatory Body
Integrated Services from Upstream to Downstream	Introducing Unbundling

Source: Handoko 2010 (modified)

Moreover, in May 2011, the GOI has launched The Master Plan for the Acceleration and Expansion of Indonesia's Economic Development (MP3EI). Under the Master Plan, PPP is accepted as one of the alternative financing schemes of the infrastructure projects. The MP3EI also promotes a new paradigm on the way of the government doing business; hence the private sector is encouraged to participate in the project.

2. Institutional Reform

In practice, a report from the OECD suggests that there are various institutions that are involved in the infrastructure project development. First, the Ministry of Finances who holds the national budget, distributes the budget needed for the infrastructure development to other ministries/agencies/local governments. They are also providing assistance in the project preparation, financing and guarantee provision needed for PPP. Second, the Contracting Agencies (Ministries/SOEs/Local Governments) are preparing and developing the infrastructure projects. Third, the Ministry of National Development and Planning (BAPPENAS) is in charge of developing a roadmap for the infrastructure development, designing policies and providing recommendations. They also have a PPP Central Unit (P3CU), which is supported by the Asian Development Bank, to identify and assist any potential infrastructure projects and creates the PPP Book (OECD 2012: 17). Meanwhile, The Co-ordinating Ministry for Economic Affairs is expected to play an important role to supervise and harmonize this inter-ministerial and inter-agencies interaction. However, lack of coordination of these institutions makes the GOI efforts to promote infrastructure development becoming less successful (Pisu 2010: 10). The lack of coordination may show a wrong impression to the public, in the sense that it shows the government still unprepared to have cooperation with the private sector (Handoko 2010: 63).

Realizing this, the GOI then established an inter-ministerial agency, the National Committee for the Acceleration of Infrastructure Provision (KKPPI) in 2001 and strengthened in 2005 (Handoko 2010: 63, Pisu 2010: 10). KKPPI is a high level agency that reports directly to the President. This institution is co-chaired by the Coordinating Minister of Economic Affairs and the State Minister of BAPPENAS. Whereas the member of KKPPI including Minister of Finance, Minister of Home Affairs, Minister of Energy and Mineral Resources, Minister of Public Works, Minister of Transportation, Minister of Communication and Information Technology, Minister of State Owned Enterprises and the Cabinet Secretary. The main tasks of KKPPI include:

- Formulate coordination strategies for accelerating infrastructure provision
- Supervise the implementation of infrastructure-related policy in the ministries/local governments
- Formulate an implementation policy of Public Service Obligation (PSO) on infrastructure
- Act as a problem solver for any difficulties/obstacles related to infrastructure provision

Additionally, the GOI has also established four financial instruments under MoF, to serve its function in the project preparation, financing and guarantee. These including: (1) the Indonesian Infrastructure Guarantee Fund (IIGF) which provides government guarantees or credit enhancements to PPP projects that are financially feasible; (2) Sarana Multi Infrastruktur (SMI) which acts as facilitator and catalyst for infrastructure development in Indonesia, including the promotion of public private partnership schemes and funding activities in various infrastructure-related sectors; (3) Indonesian Investment Fund (IIF), a non-bank financial institution that provides long-term funding for infrastructure projects in Indonesia; and (4) the Center for Government Investment (PIP) which is a public service agency that provides pre-financing arrangements for land acquisition (Bappenas 2013). From these four financial institutions, only IIGF that dedicated mainly for PPP projects. The others are originally serve infrastructure projects in general, then the GOI engaging them also in the PPP projects.

Finally, based on the explanation above, it seems that the GOI is already taking necessary actions to create a conducive environment for PPP. The problem with the capacity of the Contracting Agencies related to the rent-seeking issues are addressed by the regulation reform that aimed to promote good governance practices in the infrastructure development, while the problem related to the skill and knowledge is addressed through the institutional reform by establishing new institutions or functions that aimed to assist the PPP project development. Meanwhile, KKPPI is the solution to the coordination issues.

Figure 6. PPP Environment in Indonesia

Source: Bappenas 2011

CHAPTER IV
INDONESIAN INFRASTUCTURE GUARANTEE FUND

A. IIGF at A Glance

Among the institutional reform taken by the GOI was the establishment of IIGF on December 2009. "IIGF was established as the response of the GOI to the need for adequate assurance against the political risks inherent in infrastructure investments. This assurance is expected to increase the participation of private sector in developing infrastructure through Public-Private Partnership (PPP)" (IIGF. 2011). It is expected that with a lower level of risks will improve the credit rating of potential projects, thus it will also lower the costs of the projects as well as extending the funding period. Furthermore, low cost will lead to a lower tariff for the user. "Private financing depends on the credibility of the government that ensures the security of the investment… The establishment of an institutionalized guarantee could facilitate the government credibility or creditworthiness required for attracting financing as well as managing fiscal risk" (Rulliadi 2014: 2). In summary, as stated on their website, IIGF was established for the following purposes:

- *To improve the creditworthiness of the PPP infrastructure projects by giving guarantees against infrastructure risks.*

  There are several infrastructure risks that embedded in PPP project, such as technical risk, construction risk, operating risk, financial risk, political risk etc (Grimsey and Lewis 2002: 111). These risks will affect investors' decision to participate in a PPP project. All of these are contributing to their creditworthiness ratings (PPIAF. 2014). The lower the credit ratings the higher the cost to be borne and it will make the PPP project less attractive and feasible for the private sector. Hence, IIGF can help by providing guarantees for the risks. These guarantees will improve credit ratings to the proper level for investment.
- *To improve the governance and the transparency of the guarantee process to the infrastructure PPP Projects related to the government actions or inactions.*

  IIGF will provide guarantees to the private sector for various infrastructure risks, including political risk because of the government's actions or inactions, such as delays in the processing of permits and licenses, changes of rules and regulations and lack of tariff adjustment. This is another incentive from the GOI because they are offering broader political risk coverage than other guarantee agencies, such as the Multilateral Investment Guarantee Agency. MIGA does not cover political risk because of the government's actions or inactions.

- *To facilitate deal flow for Contracting Agencies (ministries, state-owned enterprises, local government) by providing guarantees to well-structured PPP projects.*

  Lack of capacity from the Ministries, State-Owned Enterprises and Local Government in the PPP contract preparation resulting in contract cancelation and distress. Therefore, it will affect the success rate of the PPP projects. Hence, IIGF has taken a strategic anticipatory initiative with the establishment of the Project & Guarantee Consultation (PGC) function in 2012. PGC plays a role in providing consultation and guidance to assist the Contracting Agencies with a variety of information needed in order to enable these CAs to prepare well structured PPP projects (IIGF. 2011). Ensuring the well-structured PPP contract will minimizing he possibility of contract cancellation and distress.
- *To ring-fence government contingent liability and minimize sudden shock to government budget.*

  Since IIGF takes the form of State-Owned Enterprises, they have a separate budget allocation from the state budget. Thus, it makes their responsibilities also limited. Before IIGF, any contingent liabilities (i.e: due to the crisis) will be tackled using state budget and makes the government's budget very vulnerable. Hence, IIGF will helps the government to minimize the impact of the contingent liabilities to the state budget.

B. Organizational Assessment

As explained by Polski and Ostrom, it is common that people refer the term "institution" as the same with the term "organization". In many cases, they are indeed interchangeable. In fact, "an organization can be thought of as a set of institutional arrangements and participants who have a common set of goals and purposes and who must interact across multiple action situations at different levels of activity" (1999: 4). Under this definition, we can say that IIGF also an organization. "The structures, processes, resources and management styles of organizations affect how they establish goals, structure work, define authority relations, and provide incentive structures. These factors promote or constrain performance because they affect organizational output and shape the behaviour of those who work within them" (Grindle and Hilderbrand 1995: 447). This paper is intended to analyze the performance of IIGF in the PPP development in Indonesia. At first, we need to gather some background analysis using literature and documents which are readily available to get hold of what an organization says about themselves (Roche 1998: 180). By doing this, we are also referring to the physical and material conditions as described by Polski and Ostrom (Polski and Ostrom 1999: 9). Hence, a guideline provided by Roche will help us to portrait IIGF as an organization.

1. History

Indonesian Infrastructure Guarantee Fund (IIGF) was established on December 2009 by the GOI to provide guarantee for certain risks in the infrastructure projects. What makes IIGF special is that at this point of time they only serve infrastructure projects under the Public Private Partnership (PPP) scheme. The existence of this guarantee agency was influenced by the Asian Financial Crisis that followed by the political crisis in Indonesia during 1997-1998. As a result of the crisis, investing in Indonesia, especially in the large project such as infrastructure is very risky and expensive. Thus, in order to attract investor, the GOI need to lowering the risks that eventually will also affect costs. In principal, this is the purpose of IIGF, as an incentive from the government. "It provides protection to the private sector against the risks involved in PPP contracts which mostly involve the provision of high-cost, single-use, long-lived assets" (Wibowo 2012: 6).

2. Identity, values and strategy

IIGF is an enterprise that under direct supervision of the Minister of Finance. As a state owned enterprise, there are several regulations for IIGF's legal foundation, including Presidential Regulation 67/2005, 13/2010 and 56/2011 regarding Public-Private Partnership in the Infrastructure Provision, and Presidential Regulation 78/2010 regarding the Infrastructure Guarantee for PPP Projects. "As an enterprise 100% owned by the GOI, IIGF is designed to be a credible guarantee provider. This will be ensured through a robust governance structure, minimizing any risk of political interference, very high standards of transparency and disclosure, total ring-fencing of the IIGF's assets, and a mechanism to ensure full operational independence of the IIGF" (IIGF. 2011). They are also promoting organization values, InTime, which is an abbreviation of Integrity, Team Work, Think Big, Mutual Trust and Excellence. Furthermore, in order to achieve its purposes, IIGF has formulated a strategy road map that defines IIGF's long term growth plans.

- Set Up Stage: 2010-2012

This is the initial stage of IIGF. It is important that IIGF gives a good impression by implementing best practices in the guarantee provision and maintain its independence and professionalism.

- Growing Stage: 2013-2015

Provided that IIGF is able to gain the public and private trust, and play an impressive role in the guarantee provision, then it is time for IIGF to make an expansion, for instance by adding more infrastructure risks that can be covered. Also, the GOI need also to consider to give more money to IIGF.

- Established Stage: 2016-2018

Assuming there are no major obstacles during previous stages, IIGF now already has a reputation. Then, it may be considered to expand its services by providing guarantees beyond PPP projects.

- Transformation Stage: >2018

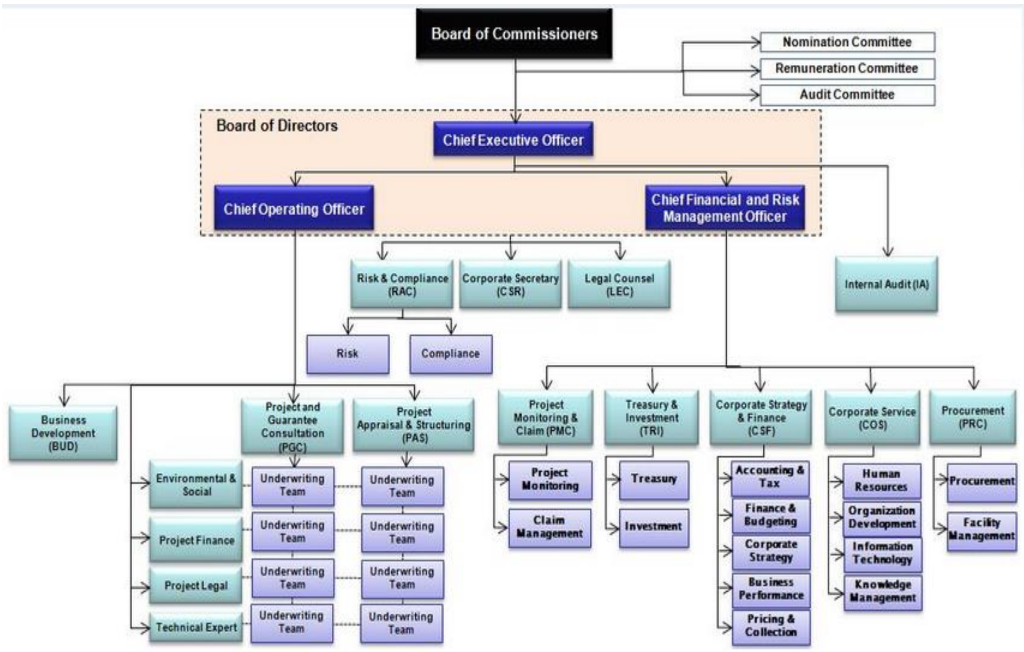
IIGF will expand its underwriting beyond economic infrastructure projects.

"As IIGF was established as a state-owned guarantee company, it has its own balance sheet, independent from the state budget cycle and is managed by professionals rather than bureaucrats" (Rulliadi 2014: 2). Regarding its non financial capacity, IIGF has developed a database of company competences as the basis of the corporate strategies of identifying their personal need as well as development programs from time to time. They are also implementing a job evaluation and employee remuneration that "internally fair and externally competitive" in order to get the best result from their employee while providing good incentives for them to maintain their motivation. Currently, IIGF has both permanent and also outsourced employees. By the end of 2012, the total permanent employees/professionals (other than Commissioners and Directors) and contract employees/administrative is 42 persons and vary in the terms of gender, race or ethnicity, and religion (IIGF 2013: 38). In some cases, when evaluating PPP projects, IIGF has also hired experts/consultants in the related field to ensure the quality of the project evaluation. Additionally, IIGF's office is located in the strategic business district in the heart of Jakarta. This enables them to get quick access to the potential investors.

"Another important matter is the implementation of a job evaluation and employee remuneration benchmarking exercise, which will form the basis for the development of an 'internally fair and externally competitive' employee remuneration system at IIGF. Remuneration system and policies provide a means of encouraging higher work productivity as well as employee motivation in striving for the best result in their respective jobs" (IIGF 2013: 38). In some cases, when evaluating PPP projects, IIGF has also hired experts/consultants in the related field to ensure the quality of the project evaluation. Additionally, IIGF's office is located in the strategic business district in the heart of Jakarta. This enables them to get quick access to the potential investors.

3. Systems and structure

Figure 8. IIGF's Organization Structure 2012



Source: www.iigf.co.id

Based on Law Number 19/2003 about State Owned Enterprise, the Board of Commissioners and the Board of Directors are selected and dismissed by the General Meeting of Shareholders (GMS). In the case when all the shares owned by the government, the Minister will act as GMS. In the context of IIGF, it would be Minister of Finance. The GMS will also supervise the works of the Board of Commissioners or the Board of Directors.

IIGF also support the information disclosure by providing access to the public through its website, www.iigf.co.id. There are various relevant information related to IIGF that available for public, including Company Profile and Annual Reports. The information also well updated.

4. Finance

The IIGF operational is still very much depends on the government's funding, which means from the State Budget. Until the end of 2012, IIGF has approximately capital of Rp 4.9 trillion (around 327 million euros). This amount of capital considered sufficient by the IIGF to provide guarantees for the projects currently in hand. However, IIGF is also allowed to find other financial sources, in the context of co-guarantee or re-insurance scheme, with the GOI as well as other multilateral development agencies or international financial institutions, such as MIGA, the World Bank, the Islamic Corporation for Insurance of Investment and Export Credits (ICIEC), Islamic Development Bank (IDB) and the Overseas Private Investment Corporation (IIGF 2013).

Under Law Number 19/2003, the main purpose of an SOE is to provide a quality of goods and services as well as generate profit. From 2005 until now, there is only one PPP project that has been guaranteed by IIGF which is for the Central Java Power Plant (CJPP) Project in 2011. This is so far the biggest infrastructure project in Indonesia. It is a 2x1000 MW power plant with Build, Operate, Transfer (BOT) structure. With only one project, the potential revenue resources from project underwriting (guarantee fees and processing fees) as well as guarantee-related fees and commissions (arranging fees, ceded commissions, and other fees and commissions) are not optimal. However, the company is able to gain revenues from fund management, that comes from a variety of financial investment instruments such as time deposit placements in banks and portfolio investment in bonds (IIGF 2013). In addition, IIGF expenses, including guarantee-related expenses, administrative expenses, development expenses and other general expenses. "The Company posted operating revenues of Rp 312.2 billion in 2012. The amount represents an increase of 36.7% over operating revenues of Rp 228.3 billion in 2011, and consists entirely of income from investments" (IIGF 2013). While the main purpose of IIGF is to provide guarantee provision for the PPP projects, its main revenues are mostly from fund management rather than from the guarantee provision services.

Table 2. IIGF's Financial Position in 2013

Financial Position	(in thousands Rupiah)	
	2012	2011
Cash and Cash Equivalent	2,746,643,432	2,632,388,309
Investment	2,142,262,853	1,078,119,828
Other Total Assets	77,931,051	28,122,990
Total Assets	4,966,837,336	3,738,631,127
Liabilities	49,720,071	34,842,648
Equity	4,917,117,265	3,703,788,479

Source: IIGF Annual Report 2012

5. Relationship

Ministry of Finance act as the government's representative to supervise IIGF. It is the MoF that can set up certain policies related to the operation of IIGF. Currently there is Minister of Finance Regulation 260/2010 regarding the Guideline of Infrastructure Guarantee Implementation under the PPP scheme, as the operational regulation for IIGF. "The Regulation of Ministry of Finance No.260/PMK.011/2010 also states that IIGF shall issues Risk Allocation Guideline which will be used as reference by the contracting agency in preparing the PPP contract or in preparing the Guarantee Proposal for the PPP project, or used as a reference by the investor for participating in PPP project" (Wibowo 2012: 34). Furthermore, IIGF also interact with other ministries/agencies in relation to infrastructure development, such as BAPPENAS, Coordinating Ministry of Economic Affairs, Ministry of Public Works, Ministry of Energy and Mineral Resources, Ministry of State Owned Enterprises and Ministry of Transportation. IIGF also build a close relationship with the (potential) Contracting Agencies, including the local governments. In fact, they have established Project & Guarantee Consultation (PGC) in 2012. "The PGC serves to ensure the execution of the screening process, and provides consultation to Contracting Agency (CA) in regards the preparation of the Request for Proposal (RfP) and the Guarantee Application Package (GAP) documents, and thus ensuring the adequacy of these documents in terms of established standards for the tender and underwriting of PPP infrastructure projects" (IIGF 2013).

During its operation over the recent years, it is evident that the contracting agencies still need to improve their capacity in preparing project proposals for PPP. This lack of capacity is affecting the PPP process as a whole. Thus, through PGC, IIGF is proactively 'moving upstream', facilitating CA in order to make their project proposal well-prepared and fully meet the requirements. However, IIGF also aware that there is a possibility of conflict interest by providing this kind of assistance, since IIGF also act as the guarantee appraisal that will screen the proposal from CA. Hence, IIGF will ensure that there is a clear and transparent separation between the PGC function and appraisal function (IIGF 2013).

Not only that, knowing that capacity is one of the main issues in the PPP development, IIGF has also established the IIGF Institute. "This initiative aims at improving the knowledge and capacity of stakeholders related to the development of public infrastructure by the private sector and especially through the PPP scheme, through education on aspects of funding risk management and credit enhancement" (IIGF 2013). Currently, the IIGF Institute works together with several well-known universities in Indonesia, including University of Indonesia, Institute of Technology Bandung and University of Gadjah Mada. Additionally, there is also Memorandum of Understandings between IIGF and the potential investors/contracting agencies.

6. Guarantee Provision Process

Polski and Ostrom have mentioned about rules in use, which are "necessary set of rules that are needed to explain policy-related actions, interactions and outcomes" (Polski and Ostrom 1999: 15). Moreover, Grindle and Hilderbrand stated that, "the institutional context of the public sector includes such factors as the rules and procedures set for government operations and public officials, the financial resources government has to carry out its activities, the responsibilities that government assumes for development initiatives, concurrent policies, and structures of formal and informal influence that affect how the public sector functions " (Grindle and Hilderbrand 1995: 445-447). In the guarantee provision policy, there are rules in the form of law and regulations (formal) as well as norms, values and beliefs (informal). IIGF was established under Government Regulation No. 35/2009. Then, through Presidential Regulation No.13/2010 and No.78/2010 its role as a guarantee provider in the PPP scheme for the infrastructure development has been clearly defined. Additionally, Minister of Finance Regulation No.260/2010 provides a guideline for guarantee provision mechanism, including the risk allocation. Hence, this paper will review the guarantee provision process based on a guideline provided by IIGF ('Guarantee Provision Guideline'2011).

Infrastructure guarantee is considered as a form of government support for infrastructure development, especially under a PPP scheme. As a guarantee provider, IIGF will make a guarantee agreement with the investor and Contracting Agencies (CAs), which will cover specific risks in the PPP project. When the CAs failed to fulfil their responsibilities in the PPP agreement, then IIGF will pay a compensation to the investor. Furthermore, Minister of Finance No.260/2010 requires IIGF to follow a Risk Allocation Guideline to help them identifying and allocating risks. In addition, Minister Regulation No. 260/2010 also allows a Single Window mechanism for guarantee provision through IIGF, including processing, appraising, structuring and guarantee claim. This is important to maintain consistency in the guarantee provision process.

Under its mandate, only infrastructure projects under the PPP scheme that can be guaranteed by IIGF. It comprises of 8 priority sectors as specified in Presidential Regulation No. 13/2010, including Transportation, Toll Road/Highway, Irrigation, Water, Waste, Telecommunication and Informatics, Electricity, and Transmission and/or Oil and Gas Distribution (IIGF. 2011). Every proposed PPP projects also need to meet certain criteria before they can get the guarantee. First, the project has to be a PPP project as mentioned by President Regulation No.13/2010. Secondly, the project based on a competitive and transparent tender process. Thirdly, the project needs to be technically, economically financially and environmentally feasible, and does not have negative impact socially. Fourthly, the PPP agreement needs to have an appropriate arbitrary arrangement. Moreover, there are four steps needed before IIGF a project can be covered by a guarantee:

1) Consultation and Guidance

   In this initial step, IIGF will provide detailed information related guarantee provision such as guarantee criteria and the process and documents needed
2) Screening

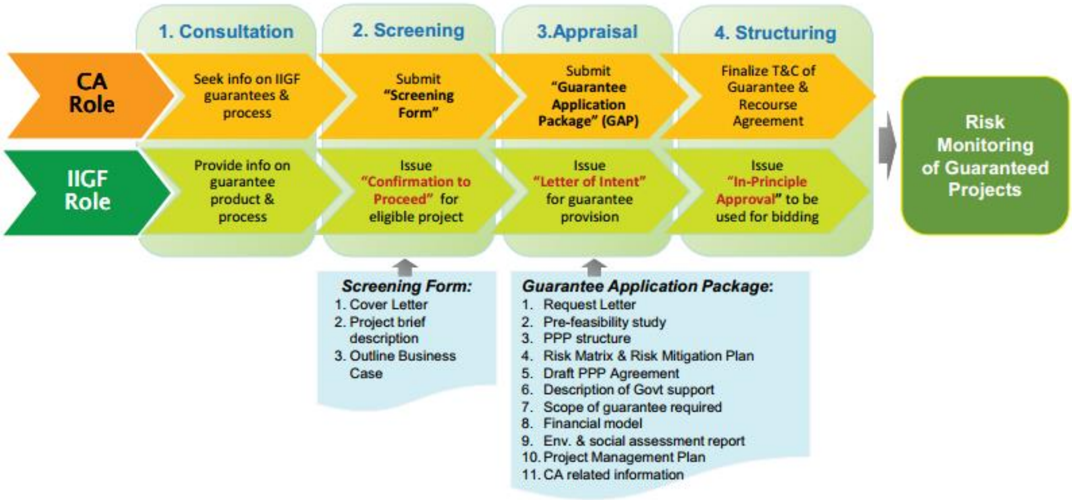
   In this step, IIGF will evaluate screening form from the Contracting Agencies, to determine the feasibility of the project in general
3) Appraisal

   In this step, IIGF will conduct a more detailed evaluation of the project. This includes its legal, technical, economical, financial, environmental and social aspect. Additionally, IIGF will also evaluate the Contracting Agencies capabilities in fulfilling their responsibilities in the PPP agreement.

4) Structuring

When IIGF satisfied with the project's evaluation, they will prepare a guarantee structure as well as the terms and conditions, including the period of guarantee, risk coverage and financial obligation, which is project specific.

Figure 9. Guarantee Provision Process



Source: IIGF ('Guarantee Provision Guideline'2011)

CHAPTER V
ANALYSIS AND FINDINGS

A. Overview

As an initial step before the PPP implementation, the government need to ensure that there is a good environment for PPP development. "A PPP program need to have an adequate institutional framework, which should be characterized by political commitment, good governance, government expertise, and effective project appraisal and selection" (Hemming 2006: 16). Looking at the context of Indonesia, there is a promising action taken by the GOI regarding this issue. First, the GOI shows their political commitment through the implementation of the reform strategies in the form of regulatory and institutional change. Second, as part of the reform, the GOI is promoting the good governance practices in the infrastructure development, such as a transparent procurement process, and information disclosure related to infrastructure development. Third, considering that PPP is a new thing and it also requires certain skills and knowledge, the GOI has started to provide assistance to the related parties, especially the local governments since they are becoming important actors in the infrastructure development. This assistance including project preparation, financing, and guarantee provision. In most cases, the GOI also supported by the donors such as the World Bank and the Asian Development Bank. This will enable the GOI to improve their expertise by adopting the international best practices. Fourth, having assisted by the donors, the GOI is expected to have the ability needed to perform an effective project appraisal and selection.

In earlier chapters, this paper have discussed some elements of the analytical framework, including the physical and material conditions, and organizational assessment of IIGF, as a newly established institution mainly for PPP projects. This analysis gives us an initial understanding about IIGF's capacity by assessing its strategies, systems and structure, finance, relationships, human resources and business process. Furthermore, previous chapters have also brought us the action situations or action environment where IIGF situated. As we can see, PPP seems to be a promising scheme since it enables the governments to lessen debt and share the infrastructure risks and rewards with the private sector entities (Grimsey and Lewis 2002: 109). It is also can be an instrument for the governments to introduce investment and efficiency into the system while the government still retains ownership (Awortwi 2004: 214). However, there are still potential threats and challenges that may hamper the efforts, including the issue of local governments' capacity as described by (Devas 1997, Awortwi 2004, Hadiz 2004) and the issue of coordination (Pisu 2010, World Bank, 2014). Likewise, "it is suggested that the policy environments within which privatisation programmes were implemented did not control rent-seeking and political interference, thereby dampening investor interest (Tankha 2008: 59).

As a consequence, after 5 years from its establishment, IIGF has only managed to provide guarantee for only one PPP project, which is for the Central Java Power Plant (CJPP) project. The guarantee provision was signed on October 2011. The 2x1000 MW electricity project with its value estimated US$ 4 billions, which is considered as the largest greenfield project in Indonesia.

B. Capacity

"Capacity is defined as the ability to perform functions, solve problems, and set and achieve objectives" (Fukuda Parr et al. 2002: 8). In regard to a policy that has been assisted by the donors, it is possible that the donors ignoring the existing capacities of the recipient countries and just replace them with knowledge and systems produced elsewhere, instead of a gradual transformation process (Fukuda Parr et al. 2002: 8). "The underlying assumption was that developing countries lacked important skills and abilities, and that outsiders could fill these gaps with quick injections of know-how" (Fukuda Parr et al. 2002: 2). Moreover, the recommendation related to PPP implementation has been implemented by the central government as a top-down process, regardless the actual condition of the local government. This is indeed problematic, since as a result of the fiscal decentralization in 2002, there are 490 local governments in Indonesia (provinces and cities/municipalities), each with its own capacity in terms of financial, skills and knowledge (OECD 2012: 13). Hence, their responds to the implementation of PPP for infrastructure development, as recommended by the central government, are also varied. Especially since PPP requires skills and knowledge that may not sufficient in some regions.

As explained earlier, the GOI began to officially implement PPP after the issuance of the Presidential Decree No. 67/2005, 13/2010, and 56/2011 regarding to the Cooperation between the Government and Enterprises in Infrastructure Provision. The implementation of PPP is supported by the Public-Private Infrastructure Advisory Facility (PPIAF), a multi donor technical assistance facility, financed by 17 multilateral and bilateral donors including the World Bank and the Asian Development Bank. This support aimed to help the GOI in preparing the necessary requirements for the PPP implementation, including the regulatory and institutional framework (PPIAF 2012).

The implementation of PPP by the GOI tends to be similar to the way the donors do, as explained by Parr et al. In other words, even though the GOI knew that many local governments still lacked important skills and abilities, they just simply install the know-how instead of helping them to build sustainable institutions and other capabilities. As a consequence, although the local governments seem to support the policy, on the ground they may not have the commitment needed to make such programs work. This is because there is no sense of ownership of the program among them (Fukuda Parr et al. 2002: 8). Moreover, there is an unwillingness of the local government to fully commit to the PPP scheme, said the respondent from the MoF. As long as they have the money, they are preferred to the traditional procurement instead of PPP, he also added. Meanwhile, the respondent from IIGF highlighted the fact that some elites in the local governments may have to be persuaded politically in order to implement the program. "There also appears to be a lack of interest and capacity to follow up on projects which have been designated as potential PPPs. The process thus becomes weak in terms of quality and slow in terms of time" (OECD 2012: 19).

In relation with the skills and knowledge required for PPP such as: contract preparation, risk allocation, project appraisal and structuring, the GOI has established the PPP Central Unit (P3CU) in BAPPENAS, which is tasked with assisting the Contracting Agencies (CAs), especially local governments in developing their PPP project proposals. However, as stated by the respondent from BAPPENAS, the P3CU has the resource limitation. They do not have enough personnel with the required skills to serve many CAs as well as enough fund. "Evidence also indicates that the procurement rules P3CU is subject to effectively bars it from hiring good advisors which impacts on project preparation" (OECD 2012: 20). Furthermore, even the P3CU itself is heavily supported by ADB through Infrastructure Reform Sector Development Program (IRSDP) (Handoko 2010: 65, OECD 2012: 17). Therefore, which is also underlined by Parr et al, "donors often require that projects purchase goods and hire experts from the donor country"(Fukuda Parr et al. 2002: 8), which is usually more expensive.

Considering at the condition above, this suggests that "donors prefer activities that display clear profiles and tangible outputs. Successful capacity development, on the other hand, is only intrinsically included" (Fukuda Parr et al. 2002: 8). The fact that the

GOI implement PPP as recommended by the donors, is clearly a tangible outputs, while the dimension of capacity of the GOI to implement it successfully is not.

All of these issues related to capacity are affecting the performance of IIGF as a whole. As a guarantee provider, no matter how powerful IIGF is, they still rely on the availability of the PPP project from the CAs. If there is no well-prepared projects, there is no project that can be assessed for guarantee by IIGF. This condition will eventually undermine the IIGF's capacity. "An illustration of this condition is like a relay race, in which we are the last runner who are waiting for the previous runner to approach us and handling the baton, except they are never coming" said the officer from IIGF.

C. Coordination

As we can see that several entities are involved in the PPP process, including in the guarantee provision process. Thus, it requires a good coordination or networking among them to ensure that the achievement of the purposes. "Performance is affected by the extent to which such networks encourage communication and coordination and the extent to which individual organizations within the network are able to carry out their responsibilities effectively" (Grindle and Hilderbrand 1995: 447). In addition, the issue of coordination among government agencies in Indonesia has also been raised by (Pisu 2010: 10, World Bank, 2014: 91).

First, it is important to identify the relevant concerned parties in the infrastructure development and in the guarantee provision. Understanding the role of each actor as well as their power and influence. "Actors' decision choices are often influenced by access to stocks of capital, labor, knowledge, technology, time and social influence" (Polski and Ostrom 1999: 22). After identifying the actors and their roles, then this paper will make use of the five coordinating mechanisms by Mintzberg (Mintzberg 1979: 3) to explain the ways in which these organizations coordinate.

- **Mutual adjustment**

"The coordination of work achieved by the simple process of informal communication… The success of the undertaking depends primarily on the ability of the specialists to adapt to each other along their uncharted route" (Mintzberg 1979: 3). PPP is relatively a new thing for most of the local governments in Indonesia. Even the central government may not have all the skills and knowledge required. Therefore, a mutual adjustment and understanding between the central and local government is important to carry out their responsibilities effectively.

The reality in the field is that the local governments are lack of skills and knowledge in the project development, thus, the P3CU in BAPPENAS supposed to provide assistance to them. However, since P3CU has limited resources, their work is not optimal. As a result, many projects are delayed, waiting for assistance. Yet, this condition can be avoided if there is a mutual adjustment between BAPPENAS and MoF. As explained earlier, to some extent MoF shares the responsibility in the project preparation through IIGF, IIF and SMI. Lack of communication between these institutions has led to the local governments preparing the project by themselves, using available resources. "This means that very often projects proposals and feasibility studies fall short of the requirements of the MoF/IIGF…" (OECD 2012: 20).

Nevertheless, looking at this situation, IIGF decided to proactively 'moving upstream', facilitating CAs in order to make their project proposal well-prepared and fully meet the guarantee requirements. Not only that, they are also established the IIGF Institute. "This initiative aims at improving the knowledge and capacity of stakeholders related to the development of public infrastructure by the private sector and especially through the PPP scheme, through education on aspects of funding risk management and credit enhancement" (IIGF 2013). This proactive action by IIGF is also making a competition, a rivalry between MoF/IIGF and BAPPENAS.

On the other hand, the local governments, due to their lack of ownership of the program, are hesitating to dedicate their resources, financially and non-financially, to be able to make a well-prepared project. As pointed out by respondent from BAPPENAS, it is often that the local government does not want to continue the project without the assistance. In an interview with the Jakarta Post, one director of IIGF said that it is also often that the local governments are lack of coordination in the implementation of a PPP scheme. "For example, if we set up a project that requires us to source water from Pasuruan to be distributed in Surabaya (both in East Java Province), the Pasuruan regent may refuse to allow that to happen because the regent feels that Pasuruan owns it" (The Jakarta Post 2013).

As for the private sector, this will discourage them joining the PPP projects. "The government still half-hearted in the PPP development", said the respondent from the private sector. As the director of the toll road company in Jakarta, he felt that IIGF gives little attention to the toll road sector. Looking at the IIGF's 2013 annual report, the toll road is not the priority project of IIGF. Moreover, he also said that, at the beginning, when IIGF was established, there was a huge expectation that IIGF will be the answer of the barriers in the infrastructure development in Indonesia. Unfortunately, turns out that they were overestimated. Although there is an MoU between IIGF and the Chambers of Commerce, as a representation of the private sector, the director himself has never been contacted by IIGF. Having an MoU is not enough. IIGF need to approach the potential investors and provide information about how they can help them, only after that IIGF may gain respect and trust from the private sector. "It is a matter of marketing. In my point of view, IIGF need to improve the way they market themselves. They need to get rid of that bureaucratic style and put on the innovative one" he also added.

- **Direct Supervision**

"The coordination achieved by having one individual take responsibility for the work of others, issuing instruction to them and monitoring their actions" (Mintzberg 1979: 4). This implies that when the mutual adjustment can not be achieved, then the option is to have a champion that has the authority to orchestrate all the works.

In regard to this, there is the National Committee for the Acceleration of Infrastructure Provision (KKPPI). It is an inter-ministerial committee chaired by the Coordinating Minister of Economy and co-chaired by Minister for National Development Planning/BAPENAS. Its members consist of the minister level from related ministries. "The main tasks of KKPPI are to formulate strategies and policies for the acceleration of infrastructure development, coordinate and supervise their implementation, and solve problems impeding infrastructure development" (Handoko 2010: 64).

However, as indicated by Pisu, "their lack of concrete powers to shape policies and make decisions, and their insufficient independence from line ministries, has jeopardized their effectiveness" (Pisu 2010: 10). In line with this, respondent from BAPPENAS said that KKPPI is ineffective since all of their members are Minister, which is very difficult to assemble in a meeting to solve any issues regarding infrastructure development. As a consequence, there is still coordination problems in the field.

- **Standardization of work processes**

When coordination mechanism through mutual adjustment and direct supervision is not working, then, there is coordination through standardization of work processes. "Work processes are standardized when the contents of the work are specified or programmed" (Mintzberg 1979: 5). Since the PPP was introduced by the central government, it is not surprising, that most institutions in this level are relatively well-equipped. The MoF has IIGF, IIF and SMI, and BAPPENAS have the P3CU. All of them are specified and programmed to support the PPP implementation. However, the situation is different at the local level. Most of them do not have a special unit or even personnel specified for PPP project. As stated by the respondent from MoF, it is common that the person in charge on the PPP project is on an *ad hoc* basis. This creates implication to the capacity building strategies provided by the MoF and BAPPENAS. Often the person that have been trained is no longer in charge on the PPP project and moved elsewhere. Hence, the standardization of the work processes is difficult to achieve.

- **Standardization of work outputs**

"Outputs are standardized when the results of the work, for example the dimensions of the product or the performance are specified… They were expected to produce certain profit and growth levels… how they did this was their own business" (Mintzberg 1979: 6). In view of this, in May 2011 the GOI launched The Master Plan for the Acceleration and Expansion of Indonesia's Economic Development (MP3EI). This is an integral part of the National Development Planning. The output of this Master Plan is to strengthen national connectivity through the development of infrastructure to achieve not only regional connectivity but also as global connectivity. Under the Master Plan, PPP is recognized as one of the strategies for the financing of the projects.

However, as quoted by the Indonesia Infrastructure Initiative, the Chairman of the Indonesian Employers Association, Sofyan Wanandi, said that the output of MP3EI was not convincing. "Not many have been running. How can we call it successful if only a few have progressed. There are meetings after meetings. Ministries and local governments are not interested in running it… This is because the government is not focused, there is no commitment" (Kompas 2014).

In addition, based on a study commissioned by the UK Foreign Commonwealth Office, "there is a disparity in awareness and knowledge of the MP3EI amongst government officials and members of the private sector and civil society organization. Furthermore, the central government officials had a better understanding than their regional counterpart" (Strategic Asia 2012: 17). Similarly, Latif argues that there is no strong mindset of the local governments (bureaucrat) regarding the benefit of PPP. Therefore, they may lack of motivation in preparing a good project for PPP (Latif. 2012). Both respondents from MoF and BAPPENAS also revealed the same thing, that the local governments are preferring the traditional procurement rather than PPP for the infrastructure development.

- **Standardization of worker skills**

"Skills (and knowledge) are standardized when the kind of training required to perform the work is specified" (Mintzberg 1979: 6). This kind of coordination is somehow also difficult to implement. The skills and knowledge of officials among institutions related to PPP are varied. The MoF probably the one who has a relatively better resource. Internally, they have a good quality of officials (civil servants) compare to other ministries. Not only that, they also have special units like IIGF, IIF and SMI to support PPP. These units are equipped with professionals, not civil servants, in their daily operation to ensure their performance. On the other hand, in BAPPENAS, the P3CU's personnel are mostly civil servants. Nonetheless, since it is one of the Directorate under the BAPPENAS, hence, they are in a premeditated and fixed position. Conversely, their counterparts in the local governments have a different situation. As explained earlier, the person in charge often has been assigned on an *ad hoc* basis. Moreover, as pointed out by (Devas 1997, Hadiz 2004), the civil servants recruitment in the local level also often based on patronage, relationship with the elites, therefore they may not as qualified as they should be.

Based on the analysis of the dimension of capacity and coordination above, it is evident that even though the GOI has implemented the reform strategies to boost the infrastructure development, there is still unfavorable environment for PPP to grow. As a consequence, many efforts in the PPP development show unsatisfactory result, this including IIGF's performance. Figure 10 below provides a summary of the actors and interaction in the PPP development.

Figure 10. Actors and Interaction in PPP Development

Institutions	Tasks	Result
Ministry Of Finance (including IIGF, IIF, SMI)	– Supervising IIGF/IIF/SMI – SMI and IIF assist in the preparation and provide financial assistance – IIGF assists in the guarantee provision – Coordinating with BAPPENAS in the project development	– MoF and BAPPENAS work separately in assisting CAs – Sense of rivalry – Thinks that PPP Book created by BAPPENAS is not reliable – IIGF also moving upstream to the project preparation – Only 1 guaranteed project from 2009-2014

Ministry of Development Planning/BAPPENAS	– Identifying potential project and creates PPP Book – Assist the CAs in the project preparation and development – Coordinating with the MoF in project development	– Limited resources, cannot cover many projects – Supposed to coordinate with the MoF in the project preparation – Projects delayed or abandoned – Thinks that MoF only creating longer bureaucracy by evaluating projects that have been assisted by BAPPENAS
Contracting Agencies/Local Governments	Responsible for project preparation and development	– Unmotivated in PPP – Often hesitate to provide resources needed for PPP development – Dependable to the assistance provided by BAPPENAS/MoF
National Committee for the Acceleration of Infrastructure Provision (KKPPI)	Harmonizing and coordinating all institutions involved in the infrastructure development	– Lack of concrete powers to shape policies and make decisions, – Ineffective since all of the members are Minister, which is very difficult to assemble in a meeting

D. Outcomes

"When analyzing outcomes, we are really analyzing the performance of a policy system" (Polski and Ostrom 1999: 25). Looking at IIGF's 2012 annual report, there are guarantee expenses around Rp. 13,70 billion (884,000 euros) while there is no revenue from the guarantee provision service, since the only guaranteed project was in 2011. However, under President Regulation No. 78/2010, as a business entity, aside from its core business as guarantee provider, IIGF may allocate certain amounts of their capital into the financial investment portfolio. Hence, IIGF is able to derive revenues from financial investment which around Rp. 312,2 billion (20,1 million euros) (IIGF 2013).

In addition, based on the data from The World Bank and the Public-Private Infrastructure Advisory Facility (PPIAF) from 2009-2013 there are 18 infrastructure projects that reached financial or contractual closure, where the private sector is participating. Most of them are Greenfield projects and only one project is a Browndfield project (concession). About 11 projects are using PPP scheme and 6 of them covered by payment guarantee. However, these guarantees are not provided by IIGF. One of the directors of IIGF in stated that this is because most of the project has already tendered before the establishment of IIGF. Thus, IIGF is not able to provide guarantees if they were not involved from the beginning of the process (Fahriyadi 2013).

Furthermore, there is a tendency of discouragement among the IIGF employees as consequence of IIGF's current performance in the guarantee provision. It seems like the organization becoming less attractive. According to both respondents from MoF and IIGF, the MoF is highlighting the IIGF's employee turnover, which is above 25%, which considered as significant.

CHAPTER VI
CONCLUSION

The analysis conducted in the previous chapter tried to show the impact of the reform strategies in the PPP development to the performance of IIGF. It is evident that, while the strategies intended to set up a foundation for PPP to grow, and therefore it will enable IIGF to achieve its optimal performance, the reality on the ground was the opposite. Despite of its adequate capacity, IIGF was never really at its best performance in the PPP development. This mainly because the problems regarding capacity and coordination issue, that supposed to be tackled by the reform strategies, are remain exist.

To begin with, for the past years, the GOI is the main actor in the infrastructure provision. However, it is evident that relying only on the government capacity is not enough. The government's budget available is not sufficient to finance all the infrastructure development. Therefore, they need an alternative scheme to fulfill the gap in the form of Public Private Partnership. Moreover, through PPP scheme, the government gives a larger role to the private sector to be involved in the public service delivery.

Nevertheless, implementing PPP in many developing countries is quite challenging. In the case of Indonesia, aside from common risks that embedded in the PPP project such as construction risk, financial risk, demand risk, operating risk and revenue risk (Grimsey and Lewis 2002: 111), there are also the issue of capacity (Devas 1997, Hadiz 2004) and issue of coordination among government agencies (Pisu 2010, World Bank, 2014). As the result of decentralization, currently there are hundreds of local governments, in which the central government has limited control over them. These local governments are the potential contracting agencies for infrastructure development, one of the main actors for PPP. Yet, it is evident that not many of them are willing to engage in PPP. Furthermore, often they do not have the capacity needed, in the form of financial, skills and knowledge, to ensure a robust implementation of PPP. In addition, since PPP development involves many government agencies, including the MoF, BAPPENAS, Ministries, SOEs and local governments, thus it needs a good coordination between them in order to be effectively fulfill their task. In view of this, the

GOI need to design a proper strategy in order to overcome these challenges and boost PPP implementation.

"A successful PPP is designed with careful attention to the context or the enabling environment within which the partnership will be implemented" (ADB 2008: 11). Therefore, the GOI decided to implement a reform strategy in the form of regulatory reform and institutional reform. The reform process was assisted by The World Bank based on the international best practices. The reform was initiated in 2005, through the issuance of Presidential Regulation No. 67/2005, 13/2010 and 56/2011 which regulate Public Private Partnerships scheme comprehensively. This implies that the GOI are fully committed to the PPP. In line with this, several actions are taken, including the establishment of P3CU to assist the local government in the project preparation and development; seminars, workshops and training to promote PPP and strengthening the capacity of the local governments as well as the establishment of KKPPI as a coordinating agency for infrastructure development. Meanwhile, as part of the institutional reform, the GOI has established the Indonesian Infrastructure Guarantee Fund (IIGF) as the response of the GOI to the need for adequate assurance against the political risks inherent in infrastructure investments. Its mandate is to provide guarantees for government contracting agencies' (CAs) financial obligations under PPP Agreement for infrastructure development. It has the financial capacity of approximately of Rp 4.9 trillion (around 327 million euros). Their management consists of professionals with a private sector background and best-in class appraisal consultants. Hence, IIGF is expected to play a role in providing incentives for CAs to make a well prepared contract that is accordance with market/international standard. This will attract private investors and financial institutions to participate in PPP projects and increase the success rate of project execution.

However, the actual condition in the field suggests that the reform strategies are still ineffective to improve the existing condition. The IIGF is not functioning very well in promoting PPP, since there is only 1 PPP project that has been guaranteed from 2009-2014. This unsatisfactory performance mainly due to the fact that most of the PPP projects prepared by the CAs are not meeting the requirement. Even though IIGF has the capacity to perform their task, lack of coordination among government agencies and lack of capacity and unmotivated CAs remain the potential problems.

First, the issue of capacity and unmotivated CAs. The CAs, mainly the local governments are less interested in the PPP. One possible reason is that because PPP is not their own program, it is the Central Government agenda through a top-down decision making process. Thus, there is no sense of ownership of the program among the local governments. As a consequence, during the project preparation, often there are no sufficient resources available. The result is many project proposals are rejected by MoF/IIGF and then either cancelled or postponed.

Second, lack of coordination among government agencies. Using the five coordination mechanisms by Mintzberg, it is evident that none of them show a positive result in explaining the coordination between agencies in the PPP development in Indonesia. Even though, through the reform strategies, the GOI has tried to make a standardization in term of work processes, outputs, and worker skills, the coordination is difficult to achieve. Moreover, instead of creating coordination through mutual adjustment, the result is the rivalry between institutions. Additionally, coordination through direct supervision is also failed, since KKPPI is not functioning.

In summarize, it is evident that IIGF has the capacity needed to perform its mandate. However, considering the current condition, having the capacity alone is not enough. The GOI need to provide a better PPP environment by strengthening the capacity and the coordination among related institutions. The government needs to reconsider the idea of an organization champion to orchestrate the PPP implementation, without repeating the same mistake with the previous attempt. Furthermore, the local governments have now become the important actor in the infrastructure development, therefore they need to change their way of thinking of the old paradigm of the "business as usual". Then, only after that, IIGF may be expected to play a greater role in optimizing PPP in Indonesia.

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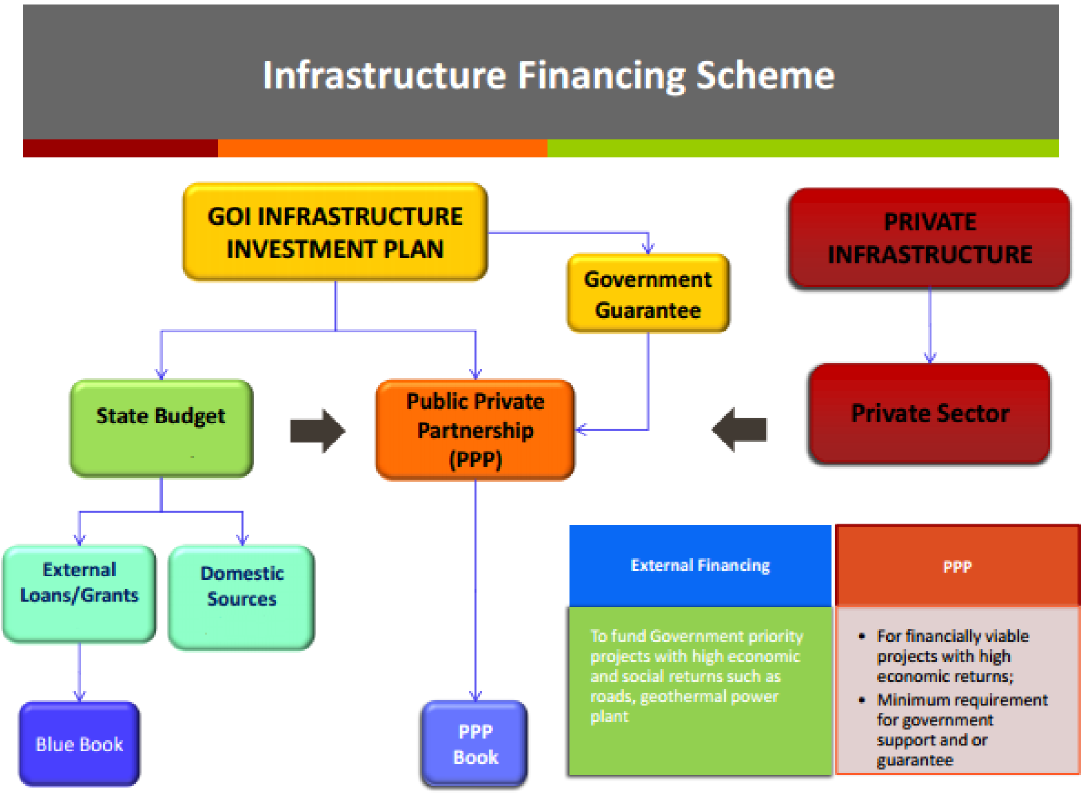
Appendix I

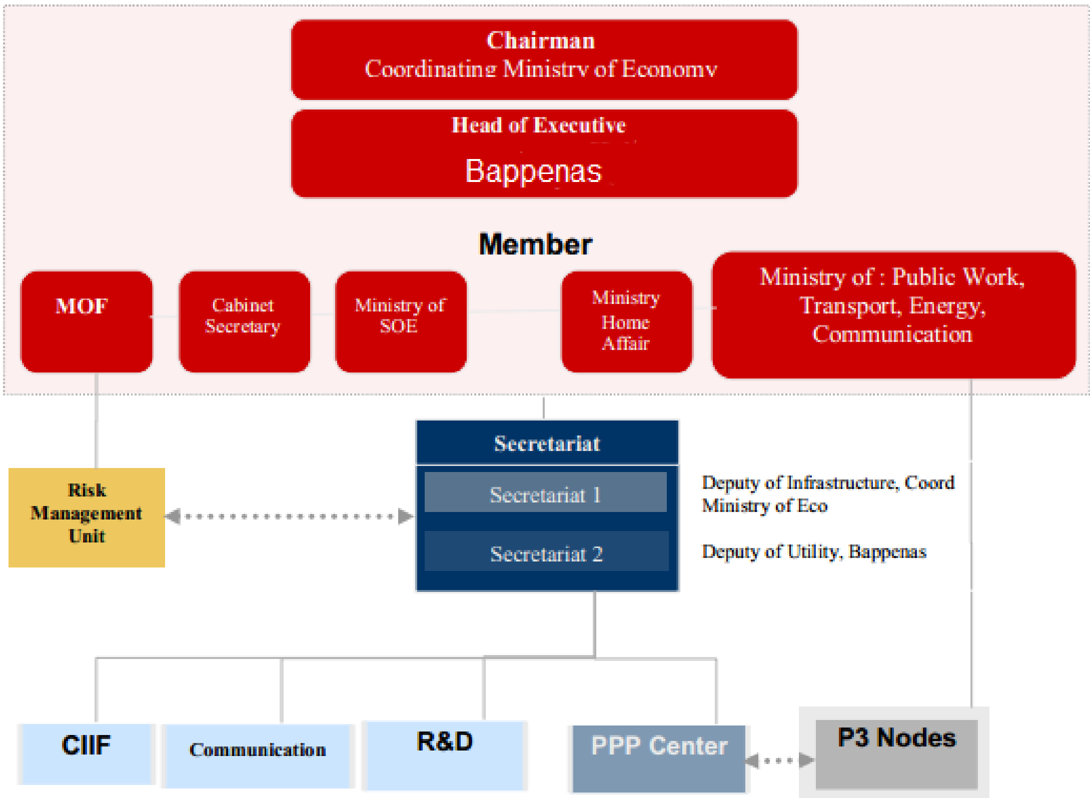
Infrastructure Financing Scheme



Source: BAPPENAS (Indra 2011)

Appendix II

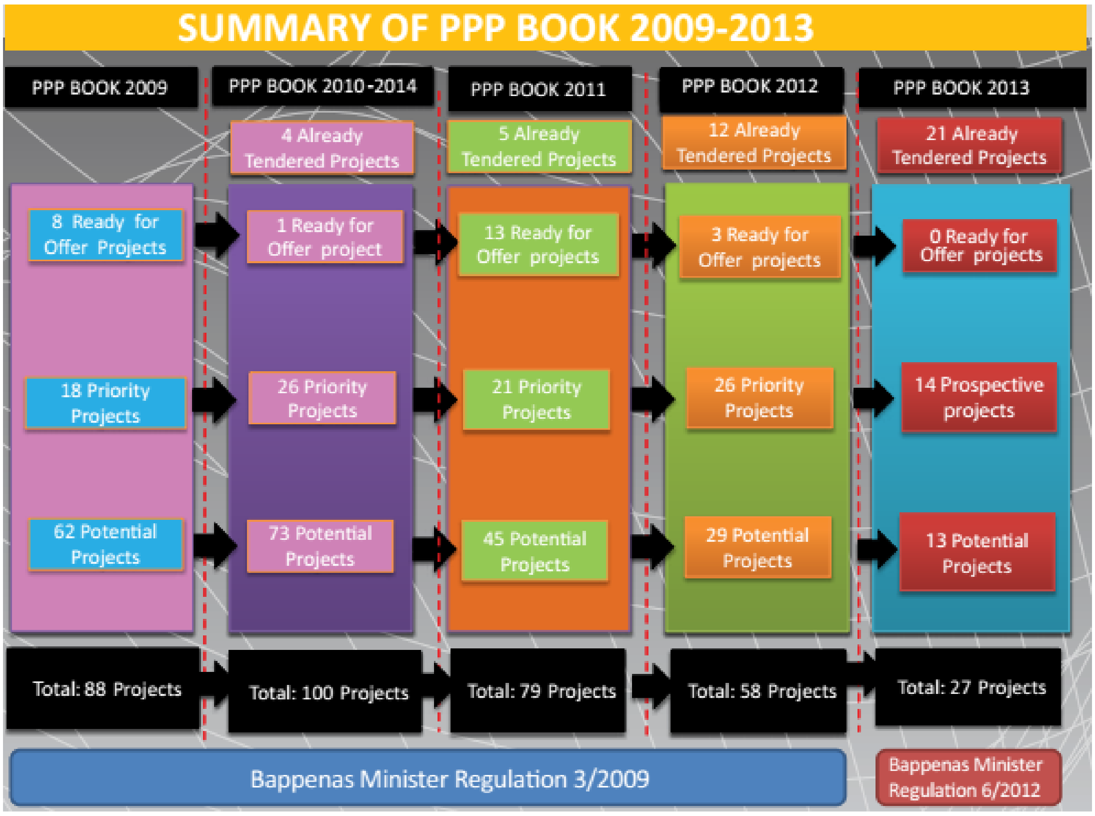
KKPPI Organization Structure



Source: (Handoko 2010: 64)

Appendix III

Summary of PPP Book 2009-2013



Source: PPP Book (Bappenas 2013)

Apppendix IV

List of the Respondents:

a. 3 respondents are the middle managers of the Ministry of Finance (2 from the Directorate General of State Asset Management and 1 from the Fiscal Coordination Agency)
b. 1 respondent is the middle manager of the State Ministry of National Development Planning (BAPPENAS)
c. 1 respondent is the middle manager of the Indonesian Infrastructure Guarantee Fund (IIGF)
d. 1 respondent is the director of the Jakarta Propertindo (private sector)

Appendix V

Summary of Interviews

Q: Question

A: Answer

- **BAPPENAS**

Q : There are several newly established institutions aimed to boost the PPP development, how is their role so far? Why the PPP trends is still declining?

A :

- Many of these institutions are not purely government, they are State-Owned Enterprises, therefore they also profit oriented. As a result, they were extra cautious in reviewing all the project proposals from CAs. This creates a bottleneck.
- In the process, IIGF also involves in the project development rather than focusing on its main function in the guarantee provision.
- Currently, most of the infrastructure projects are situated in the local level.

Q : Do you think that the reform strategies are discouraging the private to participate in the PPP?

A :

- A need to review again the rules and regulations
- Possibility of getting guarantees from other sources, rather than IIGF
- KKPPI is not functioning, they are difficult to set up a meeting, need to be revitalized

Q : How abut IIGF assisting CAs in the project development?

A :

- It does not matter who is behind the project, as long as the project is ready. However, they also have to consider their own function before decided to shift
- All projects in the PPP Book supposed to be guaranteed automatically when needed

- **The Ministry of Finance**

Q: The reform strategies intended to attract more investment, but the result in not as expected?

A :

- There are 3 newly established institutions aimed to accelerate the infrastructure development. Among them, only IIGF who is specifically designed for PPP. The others, IIF and SMI, are also engaged with infrastructure projects other than PPP

- PPP is not attractive to the local governments due to its rigid process
- There is an urgent need for capacity development for the CAs
- PPP is unsuccessful due to the issue of capacity of CAs, contradictory regulations and coordination among institutions
- The need of a champion institution since KKPPI has failed
- This is affecting IIGF's performance. Until its 5th year, its revenues mainly from the investment portfolio, rather than guarantee provision fee. Accordingly, IIGF tries to also promote PPP through disseminations, seminars, workshops etc

Q : IIGF creates more bureaucratic procedure?

A :

- IIGF is a guarantee provide, they have certain criteria in doing their tasks
- Regulations related to the guarantee provision based on the Minister Regulation formulated by the Fiscal Coordination Agency, thus IIGF is not in the position to determine how they are supposed to work
- 5 years learning curve is not enough

- **IIGF**

Q : What is the role of IIGF in PPP?

A :

- As a leverage, since private need assurance and confidence
- Gives added value through project structuring and determining project feasibility

Q : IIGF creating more bureaucratic process? discouraging CAs?

A :

- IIGS is the CA's sparring partner
- IIGF helps and back up CAs in the project preparation
- Therefore, the action taken need to be considered as a necessary action rather than bureaucratic process

Q : How abut IIGF assisting CAs in the project development?

A :

- It was a part of capacity building to encourage and gives understanding to the CAs about the benefit of using PPP
- The projects in the PPP Book may not as comprehensive as they look since many of the projects cannot directly be guaranteed

Q : How about the rivalry and coordination issue in PPP?

A :

- An illustration of this condition is like a relay race, in which we are the last runner who are waiting for the previous runner to approach us and handling the baton, except they are never coming

- **The Private**

Q : What is your comment regarding the reform strategies taken by the GOI in the infrastructure development?

A :

- The GOI still half-hearted in the PPP development
- IIGF's treatment to the various infrastructure sectors is unequal
- The way IIGF market themselves tends to be more focus on the foreign investors rather than national investors