GOOD GOVERNANCE ISSUES ON ROAD SECTOR IN INDONESIA

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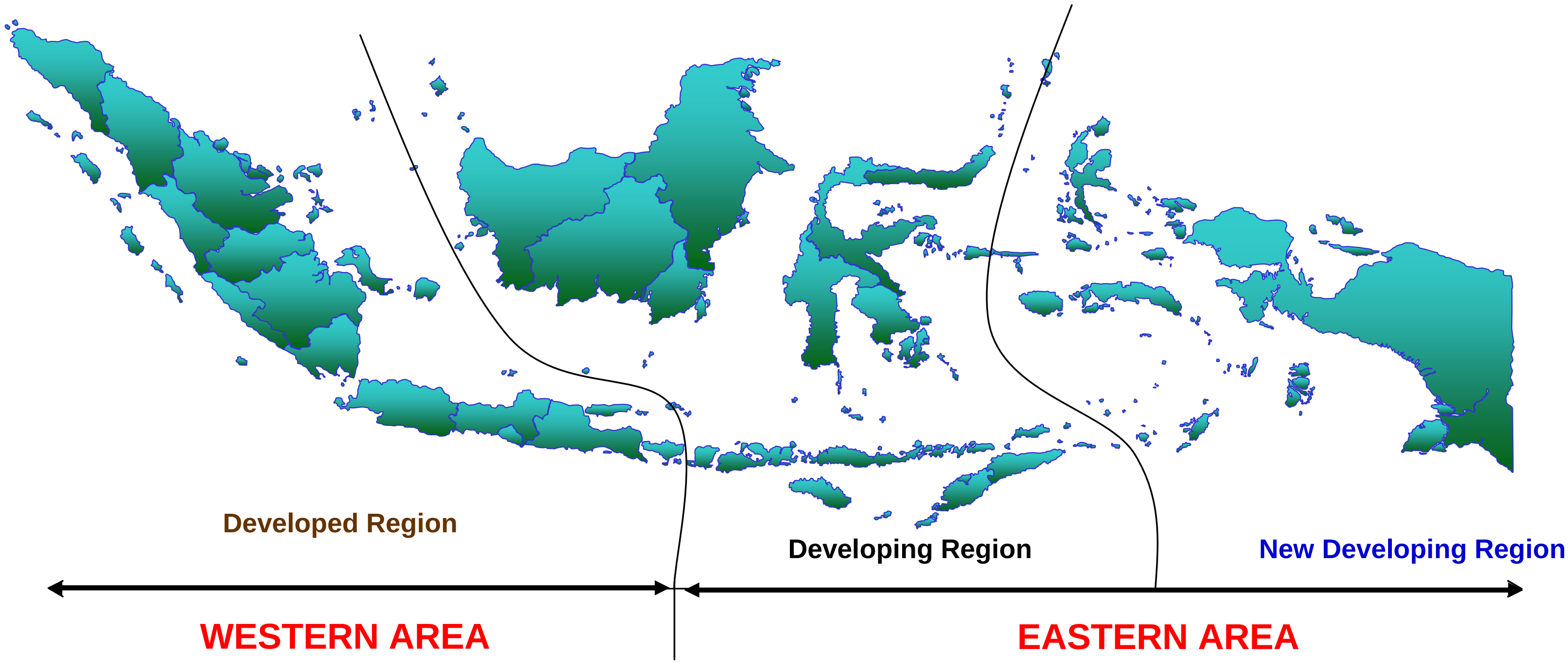
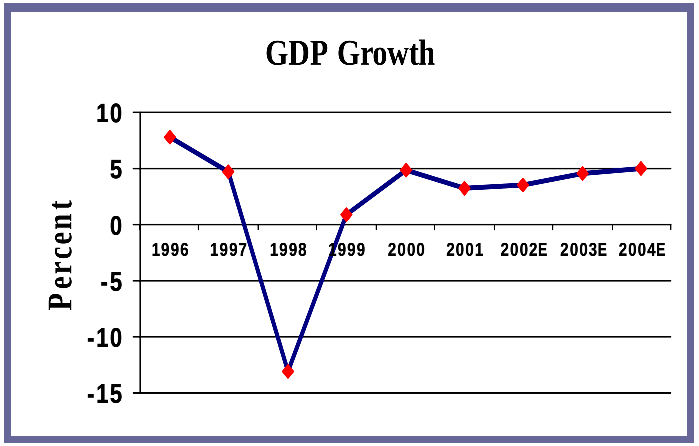
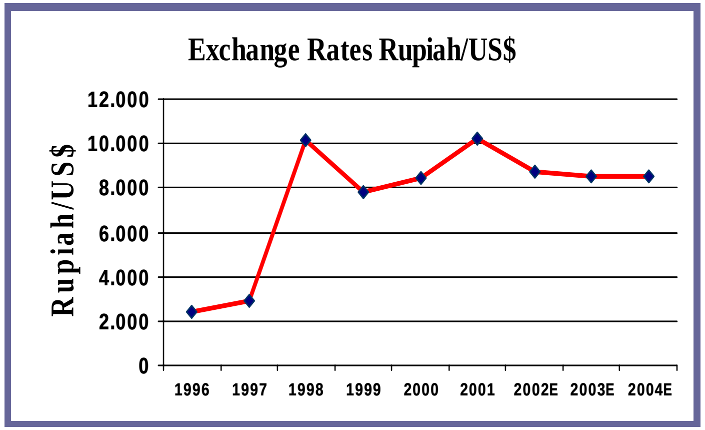
The Nature of Indonesia



- *Biggest Archipelago Country with 17.000 island*
- *Coastal line 81.000 km*
- *Population 220 million with 62% of population living in Java (7% area of the nation)*
- *Uneven population distribution and natural resources require regional approach in infrastructure development to ensure compatibility and compromise all sector and spatially.*

MACRO ECONOMY

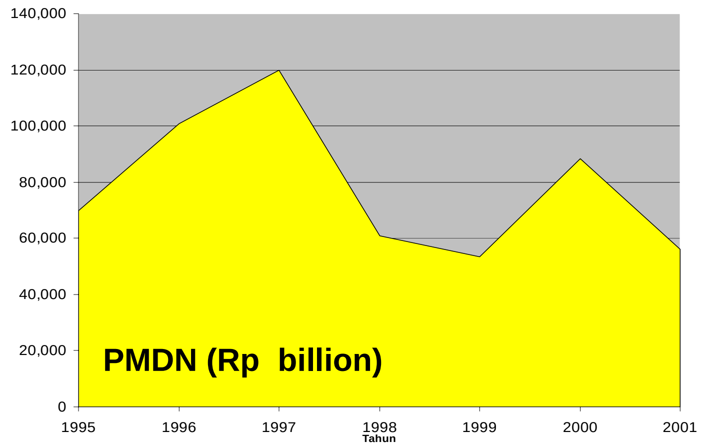




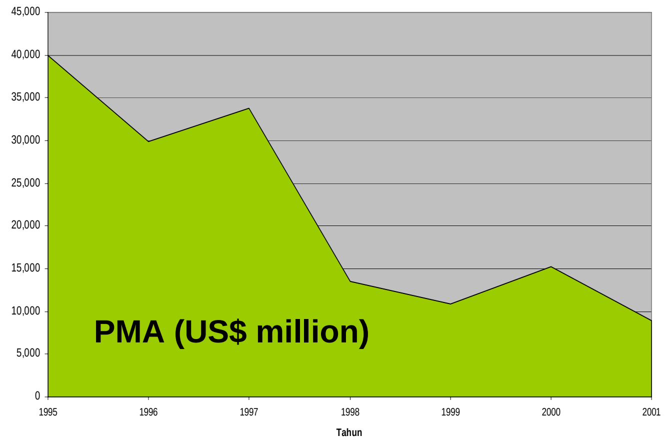
- Based on growth and exchange rates only, there are some indications that economy is going to the right direction.
- Growth, however, cannot be sustained on the consumption of public sector and consumers only.
- 7% economic growth as planned in Propenas in 2004 is difficult to achieve without increasing exports and investments, including infra-structure investments.

Likewise for foreign investment 1995-2001 (approved) from USD 34 billion in 1997 to USD 14 billion in 1998.

FDI in 2002 not better off

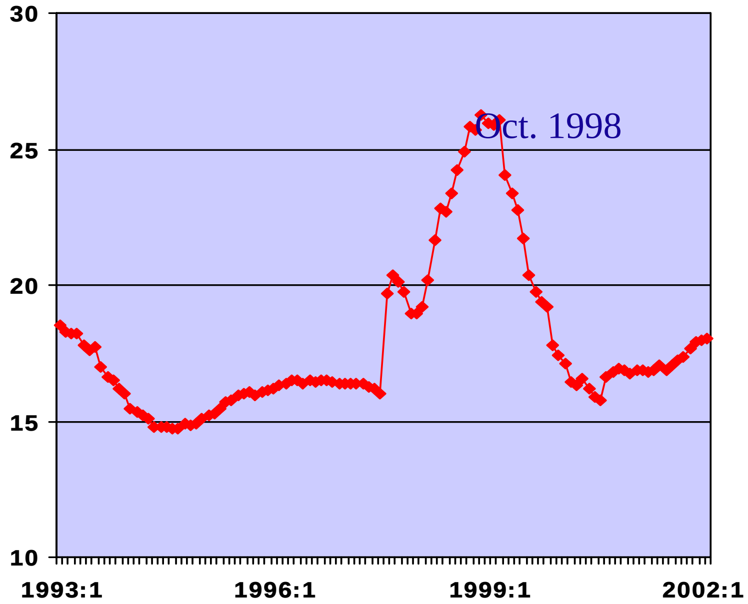


Domestic investment 1995-2001 (approved) declined over time, e.g. from Rp 120 trillion in 1997 to Rp 61 trillion in 1998



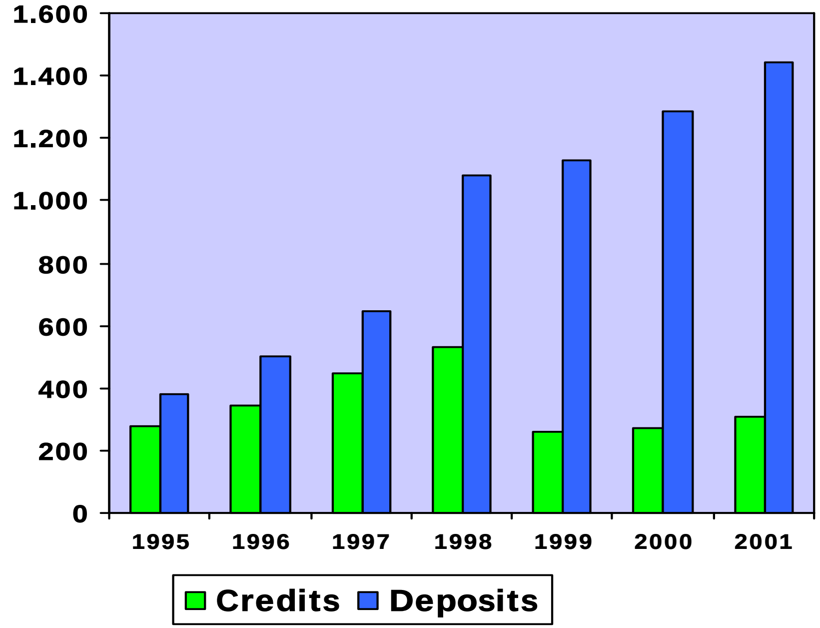
Saving - Investment Gap

Credit Interest Rates (%)



Eventhough fluctuation of credit interest rate has been somewhat depressed, intermediacy performance of banking sector is still slugish with a huge gap between saving and investment

Saving-Investment Gap (Rp. trillion)



Credit to deposit ratio declined significantly from about 114% in 1997 to 45% in 2001.

CHALLENGES

Internal:

- Unsustainable state budget (APBN)
- A full swing decentralization
- Rising unemployment
- Corruption

External:

- WTO, AFTA, and other trade liberalization and world market compliances
- Global and regional infrastructure ownership and compatibility

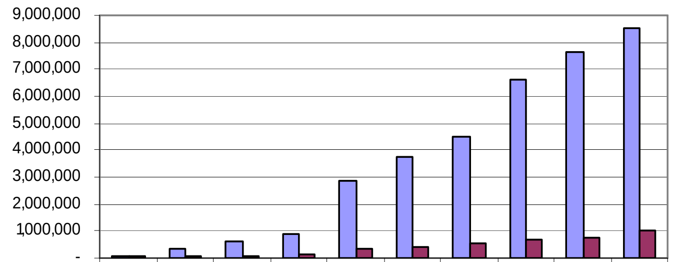
Response to Economic Crisis

- Economic crisis result to insufficient government funding for infrastructure
- Since 1999 consistent economic growth increasing demand
- Insufficient capacity and declining services quality of Infrastructure hindered economic development
- Infrastructure as social overhead capital is vital in speeding up economic development, so it should be prioritized
- However government could not secure financial resources for infrastructure development and even maintenance

Regional Infrastructure Gap

- **Western Region (KBI) consists of Java, Bali, and Sumatra while the rest of the archipelago constitutes the eastern part of Indonesia (KTI).**
- **Most development of infra-structure has been occurred in KBI, especially in Java.**

Telephone Development Progress

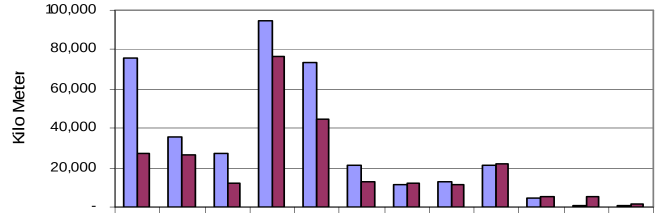


	Akhir Rep. I	Akhir Rep. II	Akhir Rep. III	Akhir Rep. IV	Akhir Rep. V	1994	1995	1996	1997	1998
KBI	78,596	358,465	588,470	897,896	2,835,64	3,781,228	4,466,90	6,624,70	7,667,54	8,556,54
KTI	37,442	47,676	87,544	111,540	373,867	423,509	576,121	680,590	746,887	1,035,892

Tahun

Telephone Lines

Road Infrastructure handling



	Akhir Rep. I	Akhir Rep. II	Akhir Rep. III	Akhir Rep. IV	Akhir Rep. V	1994	1995	1996	1997	1998	1999	2000
KBI	75,901	35,445	27,243	94,619	73,195	21,224	11,731	13,085	21,221	4,774	745	960
KTI	27,613	26,860	12,211	76,648	44,405	12,739	12,366	11,134	22,238	5,518	5,230	1,363

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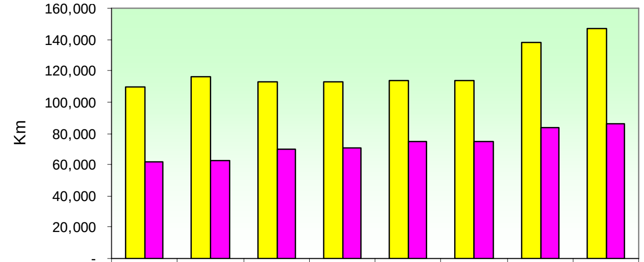
Roads

Length of District Road (1994 – 2000)



	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000
KBI	109,777.6	116,412.1	113,096.1	112,550.3	113,527.9	113,527.9	138,385.1	147,354.6
KTI	61,860.20	62,511.00	69,942.30	70,256.50	74,495.90	74,495.90	83,845.93	85,920.08

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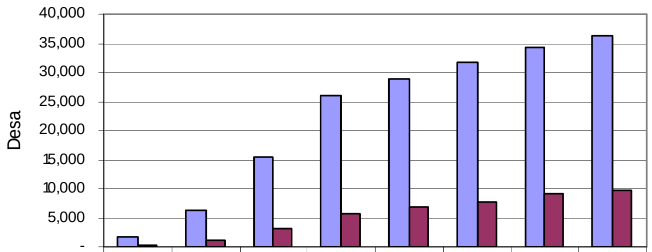
Rural Electricity Development



	1978	1983	1988	1993	1994	1995	1996	1997
KBI	1,855	6,372	15,548	25,862	28,815	31,746	34,414	36,312
KTI	389	1,264	3,246	5,827	6,843	7,695	9,272	9,629

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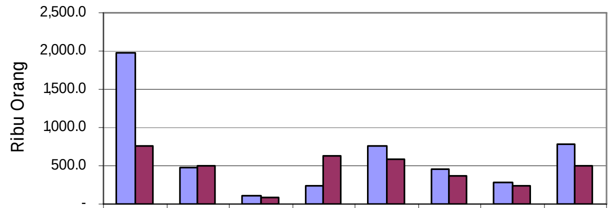
Number of population served by Rural Clean Water Service



	84/85-'88/89	89/90-'93/94	1994	1995	1996	1997	1998	1999
KBI	1,974.0	487.2	113.6	238.2	762.2	455.5	272.0	772.4
KTI	761.0	503.4	86.5	632.3	597.8	370.4	230.1	507.3

Tahun

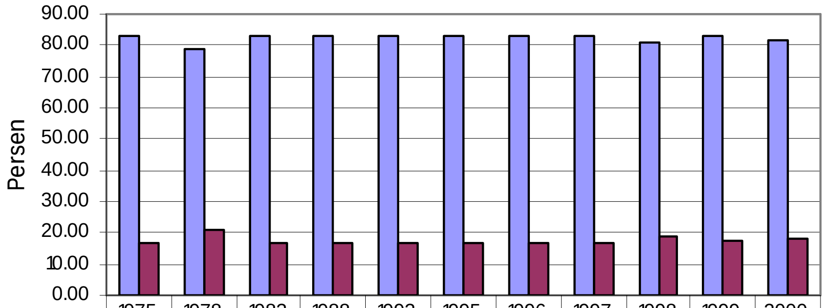
Rural Electricity

Clean Water

Regional Economic Disparity

- Government investment should be focused on the less developed regions since the developed economy has its own capability to finance its infrastructure development by presumably involving private sectors and by the users who have willingness to pay for good quality services. This concept of "Infrastructure for all" is crucial as infrastructure play an important role in creating social welfare

Local GDP Contribution Based on the Prevailing Price



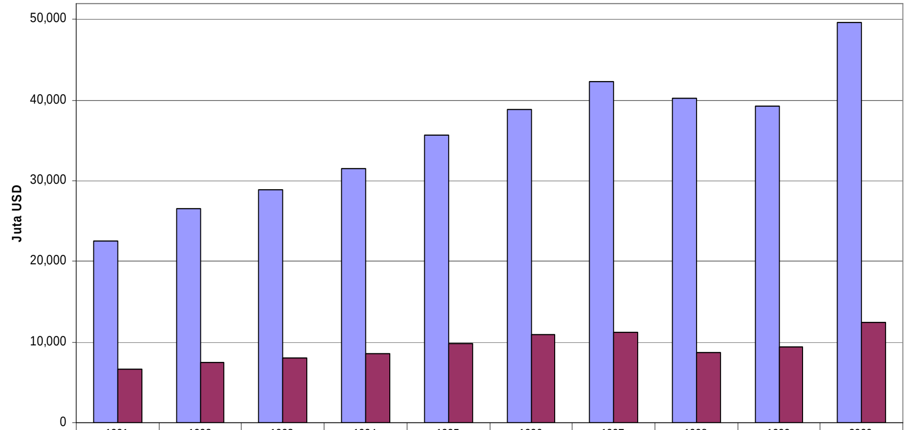
	1975	1978	1983	1988	1993	1995	1996	1997	1998	1999	2000
KBI	83.35	79.12	82.97	83.26	83.21	83.02	83.01	83.12	81.16	82.69	81.62
KTI	16.65	20.88	17.03	16.74	16.79	16.98	16.99	16.88	18.84	17.31	18.38

Tahun

- Infrastructure gap, has been one of the factors triggering the regional economic disparity. This is understandable because the more developed economy will require more infrastructure.

- Infrastructure, however, can also be used as an instrument for reducing poverty, breaking the isolation of a region, and narrowing the regional gap.

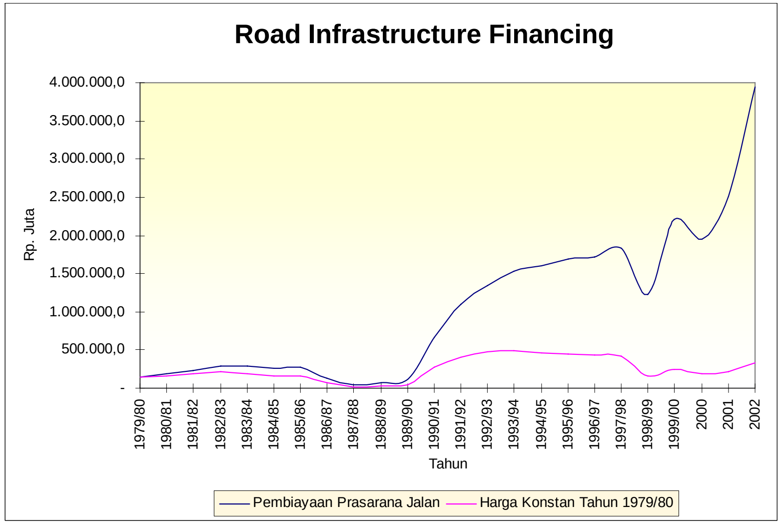
Development of Export Value (FOB)

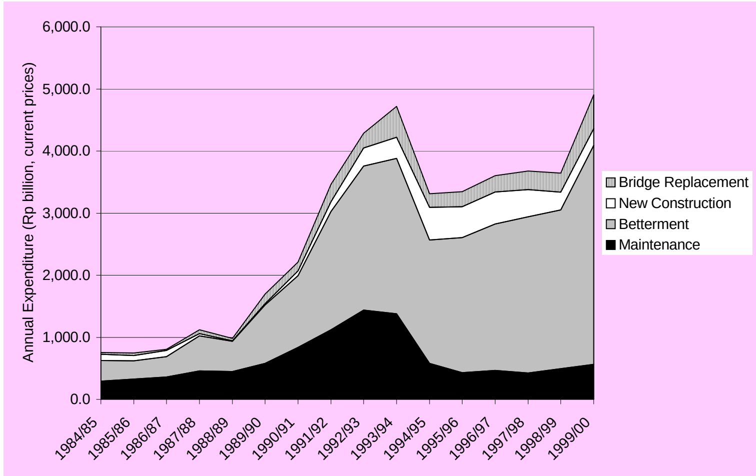


	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
KBI	22,552	26,557	28,870	31,535	35,636	38,892	42,299	40,176	39,309	49,700
KTI	6,591	7,410	7,953	8,518	9,782	10,886	11,144	8,671	9,357	12,425

Sumber: Statistik Indonesia beberapa edisi, Badan Pusat Statistik

Road Sector Budget and Road Condition





- **Road maintenance budget declined significantly since 1993/94; eventhough in nominal term road funding gradually increased after the crisis, but in purchasing power term, it actually decreasing due to the shrinkage of rupiah value.**
- **Consequently, road condition has deteriorated to the extent that they will require a huge amount of funding to be rehabilitated.**
- **Road user costs of using damaged roads had risen dramatically both for urban and interurban networks.**

Road Condition

Administration	Length (Km)	Good	fair	Poor	Very Poor
National Road	26,866	64.3 %	24.0 %	6.9 %	4.8 %
Provincial Road	37,164	34.1 %	32.1 %	16.9 %	16.9 %
District Road	240,946	19.0 %	34.0 %	28.5 %	18.5 %
City Road	25,518	9.0 %	87.0 %	4.0 %	0.0 %

- **In 2002, total length of national road network was 330,495 km, about 130,000 km (40%) of which was in poor condition, including about 15,700 km national and provincial roads and about 113,200 km district roads.**

The first Toll road in Indonesia Started operating in 1978. This road was built by the government using G to G loan. To manage and operate this Toll road, PT. Jasa Marga (Persero), a State Owned Company, was established.

Presently, some 521 km of Toll roads are operated in Indonesia, 356 km by Jasa Marga and 165 km by private investor

The economic crisis that hit Indonesia since mid 1997, practically brought the Economy to a stand still in 1998 – 2000. Toll road projects were postponed because of no availability of funding and, if available, sky rocketing interest rates made it impossible to build a toll road within its budget limits.

Since the economic situation becomes more stable and to urge industry of construction sector GOI resume toll road projects

Some of toll road projects of about 1200 km are being proposed to be constructed.

Opportunity for strategic partnering with existing investor open to about 340 km.

New toll road investments are also open for other routes that reach 3480 km. The issuance of the coming new Road Law will open up further opportunities for toll-road investment. For example, assurance of initial tariff and its adjustments, clear separation of regulator and operator as well as wider opportunity as operators.

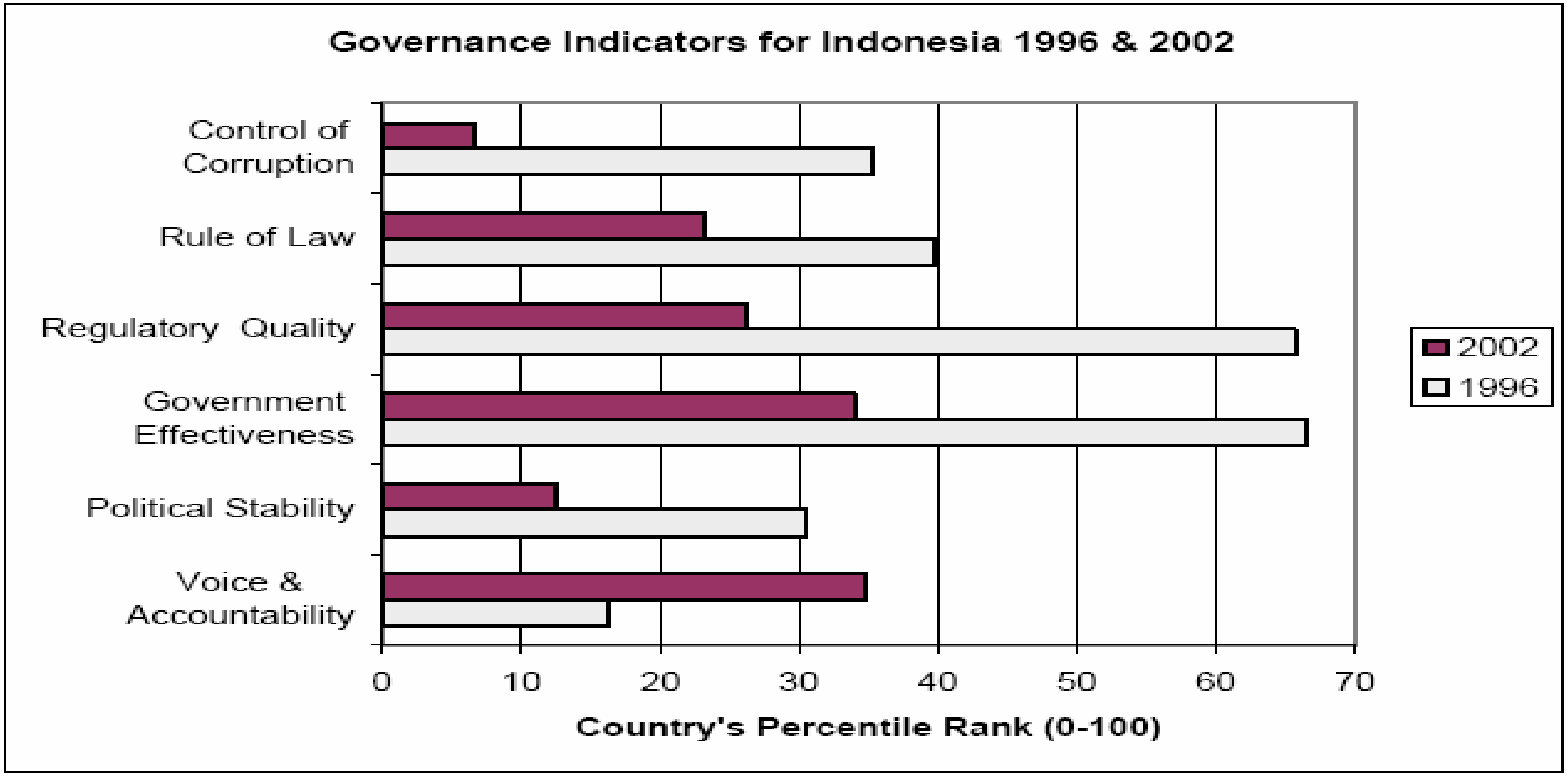
TOLL ROADS IN OPERATION

No.	Toll Roads/Bridge Segments	Length (Km)	Company
A. Toll Road managed by PT. Jasa Marga (Persero)			
1.	Jagorawi	50.00	-
2.	Jakarta – Tangerang Barat	27.00	-
3.	Jakarta – Cikampek	74.00	-
4.	Cawang – Tomang – Cengkareng	39.26	-
5.	Padalarang – Cileunyi	43.00	-
6.	Citarum Bridge	0.91	-
7.	Palimanan – Kanci – Plumbon	22.30	-
8.	Semarang Section A & B	14.75	-
9.	Semarang Section c	6.10	-
10.	Surabaya – Gempol	43.00	-
11.	Mojokerto Bridge	1.25	-
12.	Belmera	34.40	-
	Sub Total	***355.97***	
B. Toll Roads managed by Private Company			
1.	Cawang – Tj. Priok – Harbour Road	28.50	PT. Citra Marga Nusaphala Persada
2.	Tangerang Barat – Tanjung Gerem	72.45	PT. Marga Mandalasakti
3.	Dupak – Kebomas – Manyar	22.80	PT. Margabumi Matraraya
4.	Ujung Pandang (Tol Tallo Lama Toll Road and Bridge)	10.36	PT. Bosowa Marga Nusantara
5.	JORR Section S (Pd. Pinang – Kampung Rambutan	14.83	Handover to PT. Jasa Marga
6.	JORR Section E2	8.80	Handover to PT. Jasa Marga
7.	Pondok Aren – Serpong	7.25	PT. Bintaro Serpong Damai
	Sub Total	***164.99***	
	TOTAL	**520.96**	

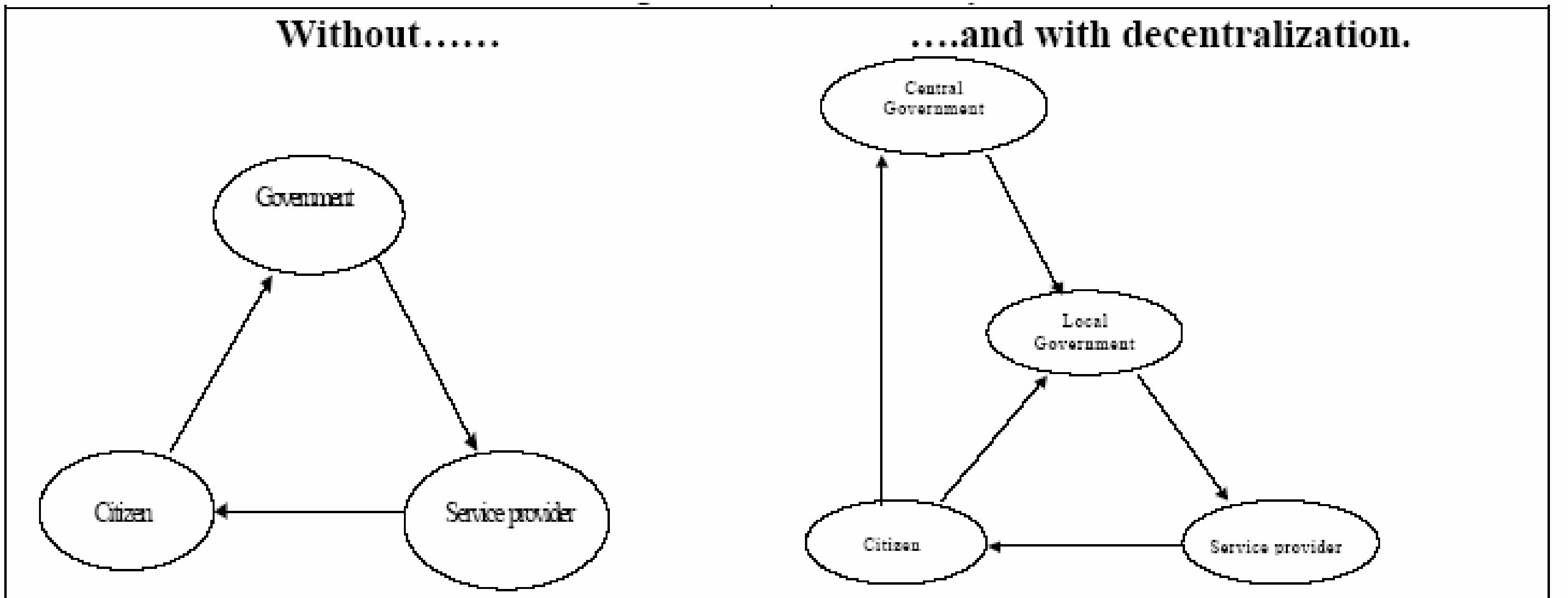
Indonesia : fight on corruption progress

- Establishment of State auxiliary bodies
  - National ombudsman commission (received complaints from the public, makes recommendation to agencies)
  - The commission to audit the wealth of state officials →KPK→ state officials have to report their own wealth periodically
  - Commission for the eradication of money laundring→PPATK → to monitor suspicious transactions relating to financial service providers)

Governance Indicators for Indonesia



The effect of Decentralization



Source: World Development Report 2004, World Bank, 2003, and Hofman, Kaiser, Schulze 2003.

Where we are in the Transparancy Reform?

Country income groups[2]	POLITICAL PARTIES identified as the sector most affected by corruption in the following countries/territories:
High-income countries	Austria, Canada, Finland, France, Germany, Greece, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Portugal, South Korea*, Spain, Switzerland, United Kingdom, USA
Upper-middle-income countries	Argentina, Chile, Costa Rica, Croatia, Czech Republic*, Lithuania, Mexico*, Panama*, Poland, South Africa*, Uruguay*, Venezuela*
Lower-middle-income countries	Bolivia, Bosnia and Herzegovina, Colombia, Dominican Republic*, Ecuador*, Guatemala*, Indonesia, Paraguay, Peru*, Philippines*, Romania*, Serbia*, Thailand
Low-income countries	India*, Nicaragua

Source: Transparency International Global Corruption Barometer 2005

How will corruption change in the next three years?

Based on TI survey 2005

The biggest pessimists: corruption will increase			
	2003	2004	2005
India	74%	80%	78%
Philippines	N/A*	70%	76%
Nicaragua	N/A*	N/A*	70%
Venezuela	N/A*	44%	62%
Sample average	41%	45%	44%

The biggest optimists: corruption will decrease			
	2003	2004	2005
Indonesia	55%	66%	81%
Uruguay	N/A*	28%	57%
Nigeria	39%	27%	51%
Kosovo	N/A*	52%	50%
Sample average	19%	17%	19%

Countries and the prevalence of bribery

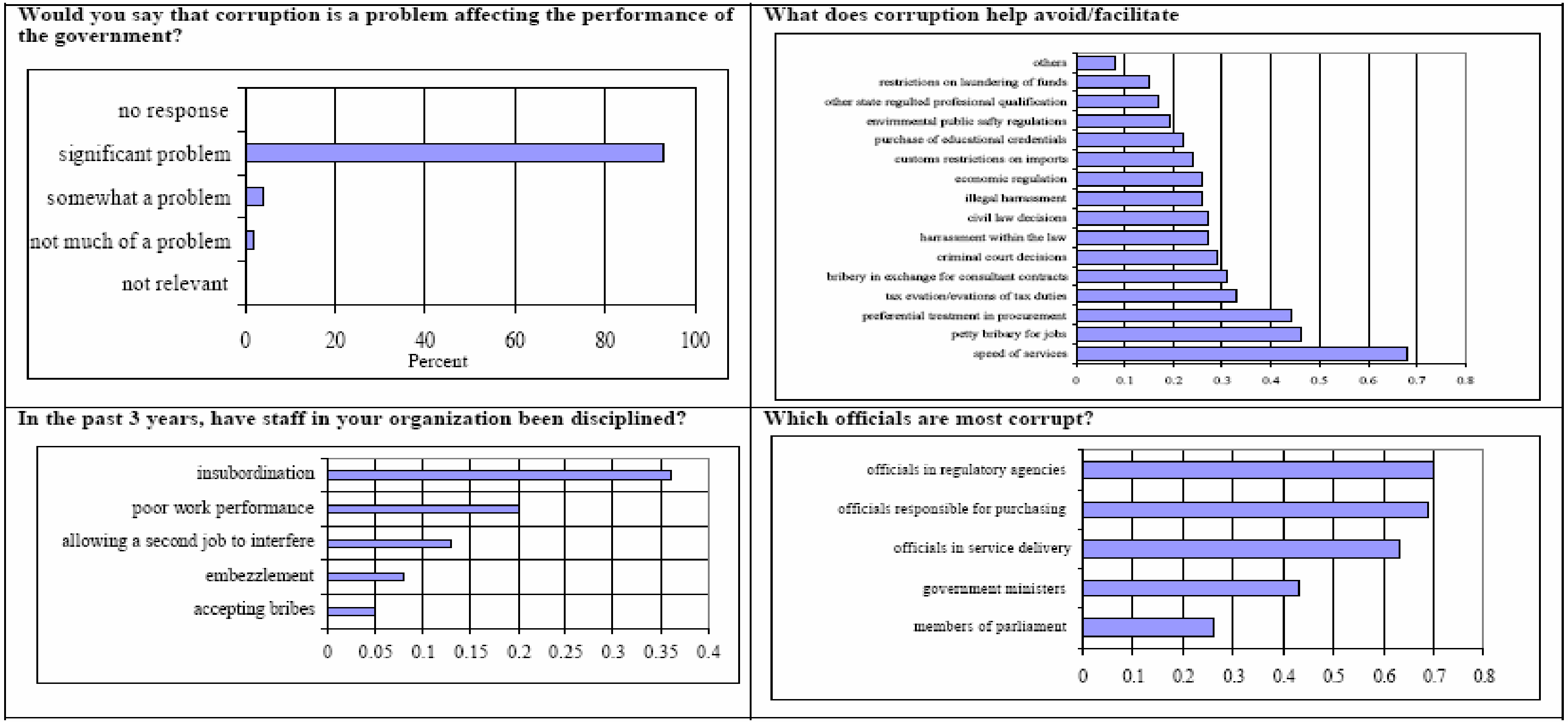
Question - In the past 12 months, have you or anyone living in your household paid a bribe in any form? Answer - Yes	31% - 45%	Cameroon, Paraguay, Cambodia, Mexico
	11% - 30%	Ethiopia, Ghana, Guatemala, Lithuania, Moldova, Nigeria, Romania, Togo Bolivia, Czech Republic, Dominican Republic, Ecuador, Greece, Indonesia, India, Kenya, Pakistan, Peru, Russia, Senegal, Serbia, Ukraine
	5% - 10%	Argentina, Bulgaria, Bosnia and Herzegovina, Colombia, Croatia, Kosovo, Luxembourg, Macedonia, Malaysia, Nicaragua, Panama, Philippines, Poland, South Africa, Thailand, Turkey, Venezuela
	Less than 5%	Austria, Canada, Costa Rica, Denmark, Spain, Finland, France, Germany, Hong Kong, Iceland, Ireland, Israel, Japan, South Korea, Netherlands, Norway, Portugal, Singapore, Switzerland, Taiwan, UK, Uruguay, USA

Source: Transparency International Global Corruption Barometer 2005

National institutions and sectors, corrupt or clean?

To what extent do you perceive the following sectors in this country/territory to be affected by corruption? (1: not at all corrupt, … 5: extremely corrupt)	Political parties	Parliament / Legislature	Police	Legal system / Judiciary	Tax revenue	Business / private sector	Customs	Medical services	Media	Education system	Utilities	Registry and permit services	The military	NGOs	Religious bodies
Cambodia	2.9	2.4	3.2	3.9	3.1	2.6	3.8	2.8	2.2	2.2	2.1	2.3	2.5	1.5	1.8
Hong Kong	3.1	2.5	2.9	2.4	2.1	3.2	2.6	2.2	3.0	2.3	2.1	1.9	2.3	2.4	2.0
India	4.7	4.4	4.7	4.3	3.8	3.4	4.1	3.8	2.7	3.8	3.7	4.0	2.1	3.0	2.9
Indonesia	4.2	4.0	4.0	3.8	3.8	3.5	4.0	2.7	2.4	3.0	3.0	3.5	2.9	2.4	2.1
Japan	4.2	3.7	3.8	3.0	3.5	3.3	2.9	3.6	3.4	3.1	3.2	2.7	3.0	3.0	3.8
Malaysia	3.7	3.1	4.0	2.9	2.8	3.1	3.4	2.3	2.4	2.3	2.4	3.2	2.4	2.5	1.9

Civil servant perception on corruption



Source: WB surveys in Indonesia

Issue on Good Governance of Road Sector

- Toll Road Sector (Issue on bundling toll Road Jakarta-Surabaya)
  - Reluctancy of Concessionaires to joint the Program, since the Construction activities can potentially open the opportunities of rent seeking behaviour
  - Political pressures against the Jakarta Surabaya Toll Road
- Road Sector (issue on Decentralization)
  - District road condition deteriorated due to lack of maintenance, low quality of road
  - When the district give up of their own road, request to increase the road status from distric road to National Road (Central government responsibilities)
  - Issue on Road condition is not the main issues of politician

What we have done so far to support Good Governance

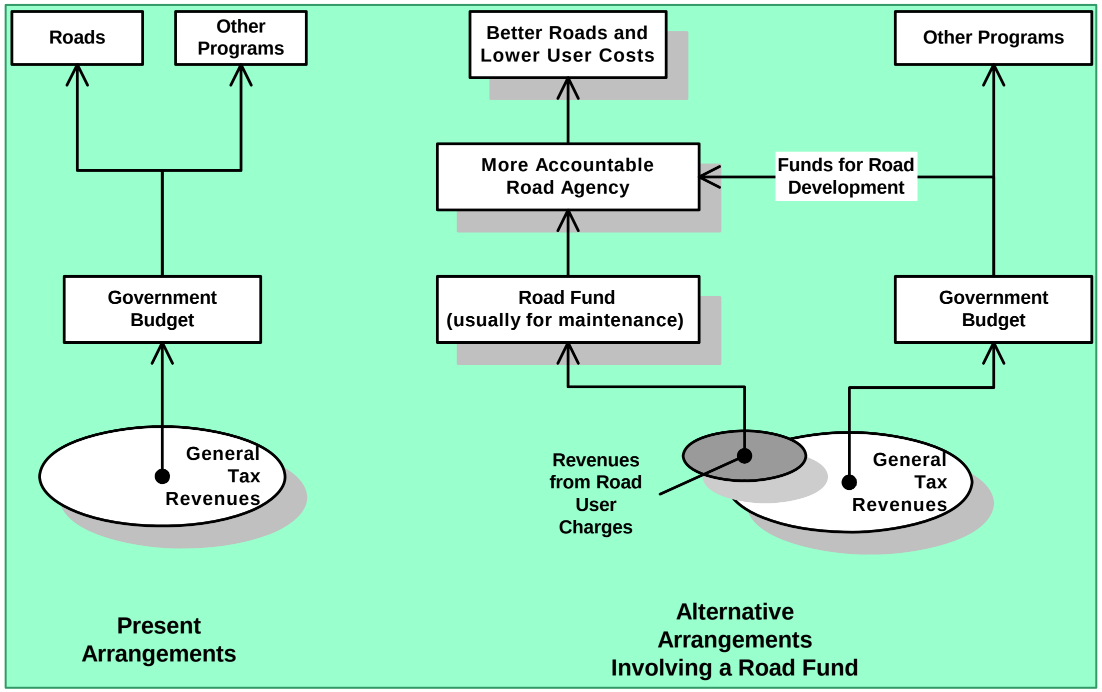
- Toll Road Sector: the main player/operator on toll road sector are the go public companies (pressures from share holders)
- Road Sectors:
  - Pilot Project of Performance based (2008) maintenance contract (Inovation, competition and good governance aspect of road business)
  - Road Fund concept to involve the road user on the road management as a pressures to the government to increase the transparancy

What we have done so far to support Good Governance? (2)

- Implementation of tender/procurement through E procurement
- Introducing the procurement agent on top of the procurement committee (pilot project on IBRD and ADB Road Sector Project)
- Empowering Local communities to take charge on their own fates bring high returns in terms of strengthening local ownership and social capital and reducing corruption

Support to the good Governance

- Road rehabilitation and maintenance programs seem to be an endless undertaking and reliance on APBN would go into nowhere. That is why we need alternative means for funding.
- The issuance of new Road Law will pave the way for the provision of legal framework for Road Fund.
- Road Fund requires a transparent, accountable, and professional road institution and therefore can be regarded as the beginning of Road Sector Reform in Indonesia.



Concluding remarks

- Partnership through empowerment of communities a good tool for fight against corruption
- Expand the Performance based Contract to performance appraisal of the civil servant
- There should be a better way to reduce political interference on toll road to reduce cost of corruption
- Take the road user into board through Road Fund mechanism will be a good start to fight against corruption

Thank You