Infrastructure

by Scott Younger

The monorail saga

PROBABLY THE MOST TALKED ABOUT UNFINISHED PROJECT in Jakarta is the Monorail. I am being continually asked "What's happening?" It may be at business meetings or come from interested citizens, both private and public servants. I was particularly struck recently when a senior civil servant bemoaned the fact that he had taken three hours to come in from East Jakarta on a particularly bad day of rain-induced traffic jams. "If only the monorail was working!" he added.

So I thought that surely the best way to answer this question was to talk to the persons who have lived closely with this project for the past six years, from its inception, and seen it so tantalizingly near to achievement on several occasions: Ruslan Diwirjo, Saiful Imam and Sukmawaty Syukur. Each of the team has an extensive track record in building the country's infrastructure. This is their story.

Early days

THE PROJECT BEGAN AS A PURELY PRIVATE SECTOR INITIATIVE with a proposal to government in 2002, and was greeted with some enthusiasm. It recognized that Jakarta was woefully short of and would never be able to provide enough space to meet the road transportation needs of a modern city.

The only solution was to build up or underground, at which point rail solutions have to be taken seriously. The attractiveness of a monorail option towards providing part of Jakarta's straining need for expanded fast transport services is the relative ease with which it can be fitted into the existing road network, with a small demand for land and easy integration with bus routes.

A contract was signed by PT Jakarta Monorail with DKI Jakarta, in which the right to develop the project was assigned to Jakarta Monorail under a concession arrangement, provided that Jakarta Monorail paid for the feasibility study, engineering design, construction, etc, without call on government funds.

The concession was for a period of 30 years, with a possible extension for a further 10 years. These conditions still hold. The concession arrangement, to which DKI agreed, included the provision of land to develop stations, and the rights for advertising, telecommunications and an assurance that an electronic road pricing (ERP) system would be in operation within the area encompassed by the monorail in order to boost the passenger numbers using the monorail.

The right to develop property at station sites is standard practice worldwide - Hong Kong is a good regional example - in order to ensure project viability, keep fares within acceptable bounds and ensure support for debt financing.

Following an initial flirtation with the developers of the small system put up in Kuala Lumpur, obviously inadequate for Jakarta's needs, PT Jakarta Monorail became a reality with original shareholders grouped under Indonesia Transit Central. This comprised a consortium of Adhi Karya, Radiant Utama and Global Profex Synergy with 55%, and Omnico, a Singapore registered company supported by key Singapore interests with 45%.

It was important for Indonesian interests to seek overseas expertise and, at the same time, be able to introduce foreign capital with it. Governor Sutiyoso supported a fast-track program for the monorail. The demand forecast study showed that the CBD would be totally jammed without a public transport system in place by 2014.

The governor very much wanted to see the monorail system in place well before then and his support created great optimism in those early days. A project office was set up on Jl Rasuna Said, local and international engineering consultants started working and an experienced international rail transport expert was appointed as project director. As part of the consortium, a feasibility study was undertaken by Singapore Technologies.

The project structure was finalized with the roles of each of the players, whether public or private sector, duly defined. The project was officially blessed in an opening ceremony with guest of honor President Megawati Sukarnoputri, who spoke encouragingly before starting the diesel hammer to put in the first symbolic pile.

Adhi Karya started work and the support pillars started going up for the support columns in Jl Rasuna Said and Jl Asia Africa, today's only sad monument to this stalled but still important transportation project. Then the problems began. The DKI was not keen to proceed with ERP and this made it difficult for funding, which was being arranged through the Hong Kong office of Banca Intesa; it was the first sign that there was going to be a problem with the concession.

The next issue concerned Hitachi, whose well-tried system was to be used. The company was able to obtain funding support from the Japan Bank for International Cooperation (JBIC), but it wanted a government guarantee, which was not forthcoming.

Omnico then started to look for an alternative and proposed the use of a relatively new low-speed Maglev system, promoted by a consortium of three South Korean chaebol.

Despite its strong backers, this was considered technologically too risky for its first major application in a busy, expanding but congested city such as Jakarta. In addition, the cost would be higher. These issues then led to the break-up of the Jakarta Monorail consortium.

The search for alternatives

ITC, THE INDONESIAN ELEMENT OF THE CONSORTIUM, THEN had to reconsider a new way forward. The first step was to raise the share capital of PT Jakarta Monorail from $1million to $20million, largely to recognize the work already undertaken as well as the large scale of the project.

This was disputed by Omnico. The issue was taken to court, but finally settled in ITC's favor in 2007. In the meantime Jakarta Monorail had been seeking alternative ways to proceed.

An attractive solution was tabled in late 2006, which involved a component of Bukaka group and other local companies under the umbrella of Siemens, together with an international element of the MTRC and funding support from the Dubai Islamic Bank, under a shariah arrangement.

The Dubai Islamic Bank submitted two requirements to the government. First, a minimum passenger guarantee for the early years of operation and, second, a regulation that permitted a shariah-compliant financing structure without tax disadvantages compared with conventional structures.

After six months, in April 2007, the Ministry of Finance agreed to guarantee a limited passenger undertaking by the provincial government, but this was never formalized. Worse, Dubai Islamic Bank was advised that removing the tax disadvantages to shariah financing would require a new law and implementing regulations, a process taking several years. The first step in the institutionalization of shariah-compliant financing techniques has just recently been achieved.

In the meantime, it was suggested that debt financing should be provided through a consortium of local banks, led by Bank Rakyat Indonesia (BRI), the only requirement being that the share structure of Jakarta Monorail should be changed so that 51% was held by public sector interests, and 49% by ITC, with a total equity requirement of about $142 million, 30% of the total project budget as of November 2007. It was a public-private partnership (PPP) arrangement.

The Jakarta regional assembly agreed in late 2007 that the equity should be divided 30% between the city, at $45million, 21% for Adhi Karya and 49% for the private sector interests.

In addition, the city would be allowed to meet its capital responsibility in three equal tranches over a three-year period. This would then allow release of local bank support.

However, while the old city administration was willing to proceed, the new administration has not followed up. Funding for the private sector element had been secured, but no commitment was seen from the city, which now wanted a redefinition to light rail of the cross-Jakarta blue line.

In early 2008, Dubai-based group ETHRAA offered to finance the whole project in a conventional manner, assuming that the original concession terms still held. ETHRAA was also willing to underwrite the study for a possible redefinition of the blue line.

However it had become clear over the intervening period that the local government had been backing off from the commitments of the original concession, especially the key element of land for station development, fundamental to success.

The Current impasse

THERE WERE THREE POSSIBLE OPTIONS ON THE TABLE A YEAR ago: the PPP arrangement, the Dubai offer, or a third in which the local administration took over the whole project with compensation to Jakarta Monorail for the work done, including lost opportunity cost. As usual, the result was a resort to the common retreat of indecision – a review.

Over most of the remainder of last year, with the assistance of the World Bank, a reluctant commentator where private sector interests are involved, and state auditor BPKP, the city administration carried out a review.

No clear decision has been made, much to the frustration of Jakarta Monorail, while there have been leakages to the press that it is in default and that compensation would be well under than that audited.

Jakarta Monorail feels it has been extremely accommodating in its dealings with the local administration, but is being reluctantly forced into a corner to take the local government to international arbitration. It resents strongly the way in which the matter is being handled.

The PPP option described above has merit, very much in line with the recent push by government to engage the private sector in infrastructure development.

If, as seems to be the current likely scenario, the city administration is going to assume total responsibility for the delivery of the monorail project, it will have to start from scratch and put together an expert team that certainly does not exist – nor should it – within its own set up.

This approach will inevitably lead to very significant delays. This year, next year? When? GA

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