Jokowi's risky politics of infrastructure

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When he took the oath as president in October 2014, President Joko "Jokowi" Widodo promised to provide more opportunities for the private sector to participate in his massive infrastructure projects. However, he has thus far taken an interesting approach by utilizing state-owned enterprises (SOEs) to spearhead infrastructure development.

The decision has turned heads and raised questiones over the SOEs capabilities and efficiency — an issue raised by the World Bank at the Indonesia Finance Infrastructure Forum in October 2017. A deeper look into this matter, however, shows that Jokowi's puzzling decision is not without reason and may prove to be the most viable option considering his bid to amass political capital for the upcoming presidential election.

As a politician, Jokowi is certainly aware that the success or failure of his infrastructure projects will significantly affect his approval rating and electability. He needs to utilize everything at his disposal to complete the projects to reap the rewards.

This renders political consideration as the underlying motivation for the project completion. In this regard, there are two major advantages that the SOEs can offer in line with Jokowi's considerations.

First, Jokowi has direct control over the SOEs. Although the private sector notably develops the projects more efficiently than the SOEs, Jokowi does not have any control over it. He cannot simply order the private sector to develop infrastructure projects and control the outcome of the projects.

In comparison, the government, as a major shareholder of the SOEs, can supervise, support and directly order the SOEs to develop a project. This kind of control is needed by Jokowi to ensure that the projects can be completed on schedule. The success of the projects is essential to boosting his approval ratings and electability.

Moreover, investors, particularly foreign investors, are waiting for economic reform packages to materialize. As infrastructure projects are long-term and risky investments, investors need support and guarantees from the government. Although the business climate in Indonesia has shown improvement, such as an upgrade on the ease of doing business and global competitiveness index, investors are still concerned about red tape and policy inconsistency in Indonesia.

There are several strategic projects where investors are reluctant to participate due to the lack of guarantee from the government or simply because the projects are considered to be unprofitable. Case in point, the development of the Jakarta-Bandung high-speed railway with China, Patimban Port with Japan and electricity purchasing with independent power producers have been delayed due to the lack of a regulatory framework.

This situation challenges the government to meet the project's deadline, and as such may impose the risk of tainting Jokowi's political credentials.

To overcome such reluctance from the private sector, Jokowi, through the public works and housing minister has appointed some SOEs such as PT Hutama Karya, PT Wijaya Karya, PT PP and PT Waskita Karya to develop high profile infrastructure projects, including the Trans-Sumatra and Trans-Java highway. The two highways, located on the two most populated islands in the country, are sure to raise Jokowi's profile with the public.

Despite the two advantages, Jokowi's strategy to appoint the SOEs for infrastructure development is also not without financial risk. As the state budget can only cover one-third of the much needed funding to support infrastructure development, SOEs find themselves under pressure to finance infrastructure projects of an unprecedented scale. SOEs need to amass massive capital to win and develop the projects by taking on debt and thus harming its cash flow. The SOEs have reportedly taken more debt to finance the new projects and keep their businesses afloat.

Finance Minister Sri Mulyani sent PLN a written warning that a further decline in financial performance would affect the stability of the state budget. PLN has experienced a significant increase in debt in financing power plant construction as part of the 35,000 megawatt electricity plant development plan.

Aware of these financial risks, the government has devised several solutions. First, it has now provided financial support for the SOEs to expedite its projects by providing a capital injection (PMN).

For instance, the government agreed to disburse Rp 7.6 trilion of PMN to PT KAI after the state-owned railway company was appointed as an investor for the light rapid transit project.

Furthermore, the government has encouraged the SOEs to securitize their assets and issue rupiah-denominated global bonds to tap into the wider capital market. Toll road operator Jasa Marga issued a Komodo bond to raise Rp 4 trillion, which has been oversubsribed by almost four times. Other SOEs such as Wika followed suit by issuing a similar rupiah denominated global bond on Jan. 29.

By managing this kind of risk, Jokowi has gained a foothold in pushing his infrastruture development program. His administration has built 568 kilometers of toll road from the target of 1,000 km by 2019, especially in Sumatra and Java. More than 2,263 km of national road from approximately 3,500 km of his target in 2019 has also been completed, along with the long-awaited Soekarno-Hatta Airport train and Soekarno-Hatta terminal skytrain.

These successes have contributed positively to his political capital.

Thanks to strong performance of infrastructure development, recent surveys show that his approval rating has now reached 68 percent. It gives him a robust political standing as the incumbent in the 2019 presidential election.

While the government's inclination to the SOEs appears puzzling to some, this strategy has arguably helped Jokowi address the need for better infrastructure, which in turn has built good rapport with his constituents and the public. Moreover, in spite of public criticism over Jokowi's heavy reliance on the SOEs, the President has demonstrated his ability to control financial risk, one prevalent criticism that has bombarded him.

This proves a decision that is driven by political considerations is not necessarily poor groundwork, as long as the government is prepared and committed to mitigating the resulting risks.

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