



Identifying Tensions in Infrastructure Development using Public-Private Partnership (PPP) Mechanism

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ABSTRACT

This research aims to identify tensions in infrastructure development using public-private partnership (PPP) mechanism. The tensions in infrastructure development are identified using a qualitative research methodology, in particular a questionnaire survey to fathom the perceived risks by associated actors and institutions, economic and financial condition, procurement processes, and the relationship between the public and private sectors. This study highlights the role of intermediate agency connecting the role of the government and the private sector. By identifying the potential and the capacity of intermediate agency to connect infrastructure development across different development agenda, the local government should be able to improve the mechanism for PPP infrastructure development scheme.

Keywords: public-private partnership, tensions in infrastructure development, intermediate agency

SARI PATI

Artikel ini membahas identifikasi ketegangan dalam pembangunan infrastruktur melalui mekanisme kerja sama pemerintah dan swasta (public-private partnership/PPP). Identifikasi dilakukan menggunakan metodologi penelitian kualitatif, khususnya survei kuesioner untuk memahami risiko yang dirasakan oleh pihak dan lembaga terkait, kondisi ekonomi dan keuangan, proses pengadaan, dan hubungan antara sektor publik dan swasta. Artikel ini juga menyoroti peran lembaga perantara yang menghubungkan pemerintah dan sektor swasta. Dengan mengidentifikasi potensi dan kapasitas lembaga perantara yang menghubungkan pembangunan infrastruktur di berbagai agenda pembangunan, pemerintah daerah dapat memperbaiki mekanisme skema pembangunan infrastruktur PPP.

Kata Kunci: kerja sama pemerintah-swasta, ketegangan dalam pembangunan infrastruktur, lembaga perantara

CHALLENGES

Infrastructure development is an essential part to support green, inclusive and sustainable development, mainly to recover from the Covid-19 pandemic in the global world. Public-Private Partnership (PPP) serves as an alternative financing mechanism for infrastructure development. However, the emerging tensions during the process of PPP for infrastructure development can hinder the acceleration of infrastructure development. PPP has many challenges related to building trust between government authorities and the private sector, the approach in assessing value for money, the appropriate PPP schemes, management and processes during the procurement, the structure of the long-term payment methods, and unmanaged risks as a consequence of long-term contract for infrastructure development. Castalia (2014) argued that barriers to infrastructure service delivery in Sub-Saharan Africa and South Asia are related to inadequate resources and excessive costs, barriers to private investments, governance barriers, funding availability, and others. These barriers have impacted upon the efforts to scaling up of infrastructure services. In India, for example, it is the case of urban transport. Private operators are facing problems in providing transport services and profit gains. There are also bus transport authority problems for financing, and the consumer problems against the quality and quantity of the transport services (Mehta, 2010). These complexities are in need for a proposed integration of public-private partnership in services.

PROPOSAL

This research aims to identify tensions in infrastructure development using public-private partnership (PPP) mechanism. The urgency of identifying tensions in infrastructure development especially through such mechanism is based on the government's inability to provide the needed infrastructure to improve

public services. The private sector has the ability to provide financial resources, technical expertise, risk management, and skilled labors to manage PPP projects for infrastructure. The tensions can hinder the optimized functions of infrastructure to achieve social, economic, political, and environmental goals. The tensions in infrastructure development are identified using a qualitative research methodology, in particular a questionnaire survey to comprehend the perceived risks by associated actors and institutions, economic and financial condition, procurement processes, and the relationship between the public and private sectors. Using the lens of multi-level governance, particularly, this study highlights the role of intermediate agency connecting the role of the government and the private sector.

At the national level, the intermediate agency (in the case of Indonesian PPP context) is seen as the role of state-owned enterprise dealing with both the government and the private sectors. This agency builds communications with the central and local government institutions aspiring to pursue PPP projects for the infrastructure development. However, at the local level, the knowledge about PPP mechanism is lacking, due to limited networks, knowledge sharing, and dialogues on the importance of PPP mechanism to reduce the backlog in infrastructure. The qualitative research approach methodology is used to analyze the role of intermediate agency in reducing tensions in infrastructure development. It was a questionnaire survey to understand the perceived risks by associated actors and institutions, economic and financial condition, procurement processes, and the relationship between the public and private sectors. And by using the lens of multi-level governance, in particular, this study highlights the role of intermediate agency connecting the role of the government and the private sector. Analyzing the role of intermediate agency as technical and political advisers for both the government and

the private sector sides will help reducing the tensions in infrastructure development. The local government will be able to improve the mechanism for PPP infrastructure development scheme by identifying the potential and capacity of intermediate agency to connect infrastructure development across different development agenda. However, there is no specific unit of PPP office at the local-government level to support the implementation of PPP projects initiatives. Therefore, the role of the intermediate agency will help examining the institutional reformulation at national, provincial, and local government level, to formulate applicable PPP regulations, and increase private sectors' involvement in PPP projects. Further, PPP environments are influenced by the policy formulation, regulatory/legal framework, institutional capacity, and financial support (Verougstraete, 2014). All these elements are associated with economic and business climate, which influence the percentage of PPP mechanism for infrastructure development. Factors to increase the use of PPP need to take into account regulatory framework, institutional arrangements for PPP, preparation, procurement, PPP contract management, and proposals for initial infrastructure development. Assessments are essential to analyze the existence of the specific PPP laws and regulations, role of the the PPP units, the preparatory activities taking place prior to the procurement process that need a comprehensive planning. The selection process to access the private partners is undertaken with required terms and activities. In addition, PPP contract management is also essential to analyze as the activities and contractual provisions will become liabilities and therefore will have an impact on the implementation of PPP projects after the contract awards have been signed by all involved parties. In the PPP contract management, perceived risks and risk management are outlined as part of legal frameworks that bound all parties together.

In the uncertain circumstances, due to natural and non-natural disasters, such as earthquakes, flooding, Covid-19 pandemic, and others, perceived risk and risk management can put some pressures on budgets and financial calculations for the PPP Projects. More systematic methods to calculate the financial elements of the PPP Projects are needed more than ever.

RELEVANCE TO THE NEXT G20

This study will be benefits for G20 in achieving the goals of three pillars for global health architecture, digital transformation and sustainable energy transition. The development of these three pillars is based on the availability of physical infrastructure that accelerates the development of Sustainable Development Goals (SDG).

G20 platform plays a significant role in formulating benchmarking government's capability for PPP projects during the planning, implementation, and performance of the infrastructure delivery. The main goal of infrastructure provision is to enhance the quality of public services in terms of economic, social, and environmental aspects. Building benchmarks among the G20 governments will help developing standardized mechanisms for PPP Projects, allowing them to share knowledge, as well as allowing the private sectors to develop their capacities and capabilities to adjust with the existing development challenges. In conclusion, PPP is significant to infrastructure development in many countries, as it can help both the government and the private sectors to work together to improve the quality of public services. An active role of the government is essential since PPP is complex in itself due to requirements for political support and specific expertise and capacity in undertaking the PPP projects. Legal and regulatory framework is developed by the government, which has impacts on the active involvement of the private sectors

in infrastructure development. Government's resources are contributing to the successful implementation of the PPP Projects. For projects to gain attraction for investments from the private sectors' side, the perceived risks and risk management are outlined clearly to ensure that the economic benefits are still reasonable. The G20 has a strategic role in connecting both the major developed and emerging economies to secure future global economic growth and prosperity for all, with no one left behind to achieve 17 goals of SDG. This role is supported by the fact that the G20 members represent more than 80% of the world GDP, 75% of international trade and 60% of the world population. The vision of "recover together recover stronger" shows a strong commitment of all to change the future together with joint forces in collective ability to create an inclusive and sustainable foundation for growth.

Focusing on the three main pillars for G20 Presidency, Indonesia aims to accelerate the global health architecture, sustainable energy transition, and digital transformation. All these three main pillars need support of infrastructure development to ensure the achievements of SDG. The deepening of infrastructure financing is one of the main efforts to support infrastructure development. Sharing knowledge, experiences, technologies, methods, systems and best practices are essential to create benchmarks for PPP projects in planning, implementation, and monitoring performance for sustainable infrastructure development. Countries with less capabilities and capacities in undertaking PPP Projects, particularly perceived risks and managing risks, can speed up and learn from other countries. This way, all nations can have the same power to deal with the existing global problems of poverty, Covid-19 pandemic, and global crises as well.

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