

## INDONESIA

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## Infrastructure projects on offer



By Eugene V Flynn

Infrastructure projects valued at over US\$50 billion will be put on offer at the Indonesian Infrastructure Summit scheduled for 1 – 3 November in Jakarta.

Hoping to attract both domestic and foreign investors, the government has prepared a list of over 100 investment opportunities, including projects in toll roads (50), water (27), electrical power (14), gas pipelines (7), ports (4), railway (1), ferry terminal (1) and telecommunications (1).

Indonesia is fighting an uphill battle to attract the sorely needed investment in its deteriorating infrastructure due largely to the well-known hazards of legal uncertainty, regulatory deficiencies, tariff-setting mechanisms, corruption, labour concerns and other risks of doing business that continue to plague the country. A recent report by the Asian Development Bank noted that a similar "summit" held in 2005 at which 91 projects were unveiled resulted in only seven contracts being awarded.

All is not doom and gloom. Encouraging signals have been received from several quarters, including the International Finance Corporation (IFC), the private lending arm of the World Bank. A senior official of the IFC announced at a press conference in mid-September that the IFC has a distinct interest in both the transportation and electricity sectors. He explained that IFC-funded infrastructure projects, if successful, could serve as a template to entice similar investment from other sources.

Separately, Qatar has become the most recent Middle Eastern country positioning itself to invest in Indonesian infrastructure projects. In late September, the Qatar Investment Board and an Indonesian state-owned investment bank, PT Danareksa (Persero), signed a memorandum of understanding on the establishment of a joint venture to participate in infrastructure projects in both toll road and power projects.

Investment banks from other Middle Eastern countries have also been exploring possibilities in Indonesia, with a particular interest in organising Islamic financing structures in the world's largest Muslim country.

For its part, the government of President Susilo Bambang Yudoyono has done what it could in the last year to put in place the necessary legal and regulatory framework to promote infrastructure investment, including issuing a new and controversial regulation on acquisitions of private land rights for public projects. Political wrangling, however, has stymied the President's more ambitious plans for legal and regulatory reform.

There is universal agreement that Indonesia badly needs to develop its infrastructure in order to maintain some semblance of reasonable economic growth. It remains to be seen whether the Infrastructure Summit will provide the requisite impetus.

**Insurance mediation body established**

In late September, a broad consortium of some 150 insurance companies joined with Indonesia's three insurance associations (covering the life, social security and general insurance sectors), to establish the Indonesian Insurance Mediation Body (BMAI).

Responding to the unsatisfactory experience of attempting to resolve disputes through the Indonesian court system, the industry as a whole saw the advantage in establishing its own mediation board.

BMAI will offer the services of mediators to help resolve certain categories of disputes between insurance companies and their policyholders. A nine-member monitoring board, consisting of five association officials and four academics, will oversee the operations of BMAI.

For the moment, at least, participation in BMAI is voluntary, although the organisation has strong support from both the industry and the government, including the Capital Market Supervisory Board (Bapepam).

Cases eligible for mediation include those involving policy premiums, underwriting decisions, actuary rules and standards and others. Claims exceeding 500 million rupiah (US\$55,000) in the case of general insurance, and 300 million rupiah (US\$33,000) in the case of life and social security insurance, are beyond the jurisdiction of BMAI. Disputes outside BMAI's authority would need to be resolved through the traditional avenues of litigation or arbitration.

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